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A STUDY OF INDIAN ECONOMICS



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A STUDY OF INDIAN ECONOMICS

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पितृदेवेर श्रीचरणे

PREFACE TO THE FIRST EDITION

THIS book is intended to be an introductory manual for those who wish to make a serious study of Indian Economics. It has been written from the standpoint of the scientific inquirer, and is, the author believes, free from political bias. An attempt has been made throughout the book to present the different sides to every question in the fairest possible manner. The author has deliberately refrained from discussing some important practical problems which he intends to deal with in a second volume.

The author has tried to avail himself of the best available sources of information in respect of the various subjects dealt with in the book. He takes this opportunity to express his gratitude to the authors, editors, or publishers of all publications from which he has gathered any information. He is especially grateful to Mr. J. M. Keynes, M.A. of Cambridge, for many valuable suggestions relating to Indian Currency.

The book is being published in a hurry, and some

typographical errors will perhaps be found in it, for which the author craves the indulgence of the reader.

LONDON, *June*, 1911.

PREFACE TO THE SECOND EDITION.

IN this edition the book has been thoroughly revised and considerably enlarged. A number of appendices has also been added.

LONDON, *May*, 1915.

PREFACE TO THE THIRD EDITION.

THE book has been revised and brought up to date. In the preparation of the third edition of the book the author has received invaluable assistance from Mr. Hirendralal Dey, M.A., Lecturer, Lucknow University, and Mr. Rohini Mohan Chaudhuri, M.A., Lecturer, Calcutta University. He desires to express his sincere thankfulness to these two gentlemen, without whose help it would have been exceedingly difficult for him to prepare this edition. He is also thankful to Mr. Prafulla Chandra Ghosh, M.A., Lecturer, Calcutta University, and Mr. Binay Kumar Chaudhuri, M.A., Professor, Bethune College, for suggestions, and to Mr. Sudhir Kumar Lahiri for reading the proofs.

CALCUTTA, *June*, 1927.

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APPENDIX A

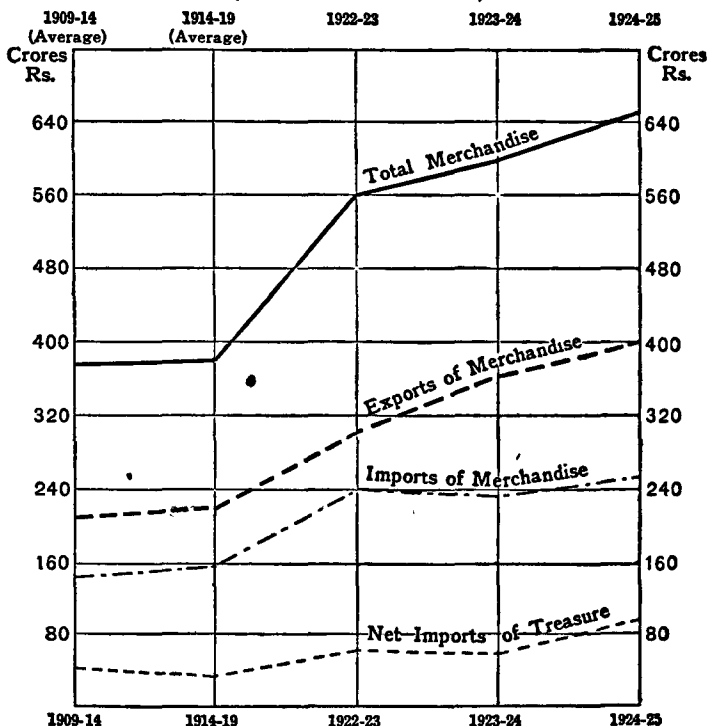
INDIAN CURRENCY

1 Pie	= $\frac{1}{16}$ anna.
4 Pice	= 1 anna.
1 Rupee (16 annas)	= 1s. 6d.
	= 0.324 dollar.
	= 0.65 yen.

A lakh (lac) is 100,000 Rupees, and a crore is 100 lakhs.

APPENDIX B

**THE FOREIGN SEA-BORNE TRADE OF BRITISH INDIA
DURING THE LAST THREE YEARS AS COMPARED WITH AVERAGES OF THE PRE-WAR
AND WAR PERIODS
(PRIVATE AND GOVERNMENT)**

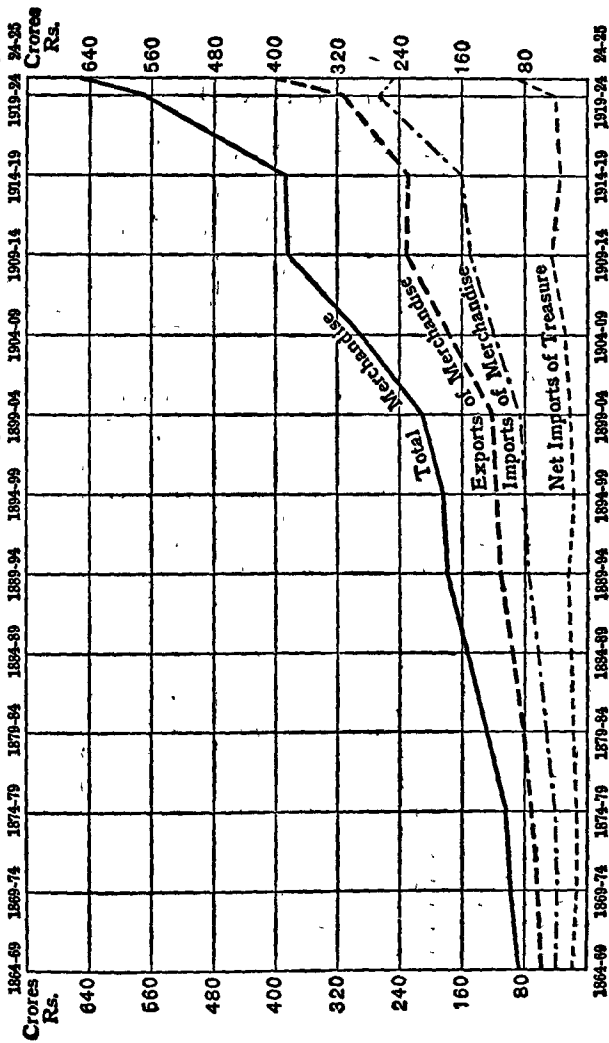


- Note.*—1. In Appendix B the curves are based on averages of 5 years.
 2. Total merchandise includes Imports and Exports, both private and Government.
 3. Imports of merchandise are inclusive of Government Stores.
 4. Exports of merchandise are inclusive of re-exports and Government Stores.
 5. Net imports of treasure are the imports minus the exports of gold and silver, both private and Government, and also of currency notes from 1922-23. The exports of treasure are ordinarily very much less than the imports. From the *Review of the Trade of India, 1924-25.*

APPENDIX C

THE FOREIGN SEA-BORNE TRADE OF BRITISH INDIA

DURING THE LAST 61 YEARS, 1864-69 TO 1924-25. QUINQUENNIAL AVERAGES (PRIVATE AND GOVERNMENT)



From the *Review of the Trade of India, 1924-25.*

APPENDIX D

DENSITY, WATER-SUPPLY, AND CROPS¹

PROVINCE, STATE OR AGENCY	Mean density per square mile of total area.	PERCENTAGE OF TOTAL AREA.		PERCENTAGE OF CULTIVABLE AREA.		Percentage of gross cultivated area which is irrigated.	Normal rainfall in inches.
		Cultivable.	Net cultivated.	Net cultivated.	Double cropped		
1	2	3	4	5	6	7	8
INDIA.	175	64	38	59	8	17	—
			(a) By	Provinces.			
Ajmer-Merwara - - -	185	—	—	—	—	—	19
Assam - - - - -	115	76	18	24	2	1	116
Baluchistan - - -	6	—	—	—	—	—	8
Bengal - - - - -	551	70	50	71	17	4	70
Bihar and Orissa -	344	73	52	71	13	12	53
Bombay - - - - -	145	63	38	61	2	14	46
Burma - - - - -	53	42	13	32	1	7	95
Central Provinces and							
Berar - - - - -	122	65	39	60	4	3	48
Coorg - - - - -	111	30	14	45	4	3	127
Madras - - - - -	291	58	38	65	9	30	43
North-West Frontier							
Province - - - -	164	55	31	56	8	23	21
Punjab - - - - -	177	57	33	58	10	32	31
United Provinces -	427	72	53	74	15	28	42
Baroda State - - -	248	83	73	87	4	5	—
Central India Agency -	121	47	25	53	3	5	32
Cochin State - - -	675	57	56	97	17	4	103
Hyderabad State - -	162	60	54	89	—	6	30
Kashmir State - - -	37	5	4	84	17	24	24
Mysore State - - -	197	45	33	72	3	15	38
Rajputana Agency -	82	—	—	—	—	—	22
Travancore State -	452	61	45	74	7	18	85

¹ From the *Census of India, 1911.*

APPENDIX E

AREA (ACRES) OF IMPORTANT CROPS

From Estimates of Area and Yield of Principal Crops in India, 1924-25.

Crops.	Average 1895-96 to 1899-1900	Average 1900-01 to 1904-05	Average 1905-06 to 1909-10	Average 1910-11 to 1914-15	Average 1915-16 to 1919-20	- 1924-25
Rice - -	50,855,000	50,067,000	56,051,000	70,252,000	79,519,000	81,328,000
Wheat - -	22,649,000	25,518,000	26,565,000	30,550,000	30,499,000	31,788,000
Sugarcane - -	(a)	2,258,000	2,302,000	2,383,000	2,656,000	2,580,000
Tea - -	467,000	525,000	540,000	593,000	664,000	716,200
Cotton - -	13,866,000	16,652,000	21,321,000	23,221,000	21,861,000	26,465,000
Jute - -	2,035,000	2,335,000	3,264,000	3,058,000	2,631,000	2,770,000
Linseed - -	2,869,000	3,547,000	3,061,000	3,852,000	3,157,000	3,695,000
Rape and Mustard - -	4,541,000	5,598,000	6,056,000	6,416,000	6,169,000	6,376,000
Sesamum - -	4,019,000	4,903,000	5,016,000	5,177,000	4,450,000	5,167,000
Groundnut - -	(a)	431,000	827,000	1,610,000	1,785,000	2,838,000
Indigo - -	1,280,000	722,000	354,000	216,000	475,000	111,900
Coffee - -	..	..	..	..	..	(b) 135,600
Rubber - -	...	...	...	...	...	129,500

(a) Not available.

(b) Excluding certain tracts in Madras for which figures are not available.

APPENDIX F

YIELD OF IMPORTANT CROPS

From Estimates of Area and Yield of Principal Crops in India, 1924-25.

Crops	Average 1895-96 to 1899-1900	Average 1900-01 to 1904-05	Average 1905-06 to 1909-10	Average 1910-11 to 1914-15	Average 1915-16 to 1919-20	1919-20	1920-21	1921-22	1922-23	1923-24	1924-25
Rice - tons	21,486,000	21,550,000	22,291,000	28,389,000	32,017,000	32,024,000	27,856,000	33,145,000	33,703,000	28,198,000	31,097,000
Wheat - "	6,029,000	7,676,000	8,092,000	9,663,000	9,298,000	10,122,000	6,706,000	9,830,000	9,974,000	9,860,000	8,702,000
Sugarcane "	(a)	2,049,000	2,030,000	2,411,000	2,864,000	3,089,000	2,522,000	2,614,000	3,045,000	3,317,000	2,537,000
Tea - lbs.	158,375,000	201,399,000	242,386,000	290,060,000	374,265,000	377,055,600	345,339,600	274,969,800	311,638,900	375,855,700	375,255,900
Cotton (b) bales	3,303,000	3,203,000	3,996,000	4,370,000	4,412,000	5,799,000	3,800,000	4,468,000	5,073,000	5,161,000	6,070,000
Jute - "	5,771,000	7,036,000	9,068,000	9,068,000	7,992,000	8,461,300	5,915,000	3,985,000	5,408,000	8,401,000	8,062,000
Linseed - tons	352,000	416,000	333,000	508,000	484,000	419,000	270,000	436,000	533,000	463,000	541,000
Rape and Mustard "	915,000	1,011,000	992,000	1,226,000	1,072,000	1,153,000	859,000	1,108,000	1,209,000	1,149,000	1,172,000
Seamum "	848,000	465,000	458,000	471,000	421,000	449,000	382,000	518,000	482,000	441,000	504,000
Groundnut "	(a)	(a)	358,000	695,000	982,000	822,000	1,022,000	969,000	1,236,000	1,084,000	1,450,000
Indigo - cwts	156,000	100,000	49,000	37,000	74,000	43,300	43,700	67,300	52,100	34,800	21,700
Coffee - lbs	..	..	..	..	..	21,325,000	22,453,700	20,487,900	25,459,400	22,716,500	29,313,900
Rubber - "	..	..	..	..	..	13,615,000	13,788,900	9,056,400	11,912,900	14,462,500	15,801,300

(a) Not available.

(b) A bale contains 400 lbs.

(c) Excluding certain tracts in Madras for which figures are not available.

Note.—Figures for 1924-25 are subject to revision.

APPENDIX G

WAGES¹

A scheme was recently introduced for quinquennial wage-census to be taken in the various provinces, and the results of such censuses taken in 1911 are now available; in some cases a preliminary census was taken at an earlier date, and the comparison is instructive. The results obtained are stated to be more reliable than the wage statistics hitherto available.

Bengal (as it stood in 1911).—A preliminary census was taken in 1908 and a regular census in 1911; but the exceptional conditions in the former year, which was a time of great scarcity, makes comparison difficult. The usual daily wage of an unskilled agricultural labourer in 1911 varied from 2d. in Chota Nagpur to 4d. in the Burdwan and Presidency divisions. Urban unskilled labour receives from 2½d. to 5d.; rates for skilled labour are so varied that no general statement is possible. Masons get from 6d. to 8d., and in Calcutta up to 11d. In Calcutta a blacksmith or carpenter can get as much as 1s. 4d. a day.

Eastern Bengal and Assam.—In Eastern Bengal the average daily wage of an agricultural labourer varies from 6d. in Dacca to 11d. in the Chittagong Hill tracts (the latter figure, however, is a temporary figure due to seasonal migrations). In Assam they run from 5d. to 8d.

United Provinces.—A census was taken in 1906 and again in 1911. Unskilled agricultural labour shows an all-round rise in the Western districts, while in the Eastern districts the rise is less apparent and in

¹ Taken from the *Moral and Material Condition of India*, 1914.

Bundelkhand there has been little change. The daily rates vary from about 1½d. in the East to about 4d. in the Hill tracts. These rates, however, are probably abnormally low, owing to a bad autumn harvest. Urban wages ranged from 3d. to 6d. for unskilled, and 6d. to 2s. for skilled labour. The rise of urban wages is almost universal.

Punjab.—A preliminary census was held in 1909 and a regular census in 1912. Rural wages rose in the interval in almost every district. The old customary rate of 2d. a day survives only in Gurgaon; elsewhere the most common rates range from 4d. to 8d., being lowest in the East.

North-West Frontier Province.—The rates are, on the whole, higher than for the nearest districts in the Punjab, probably owing to the demand for labour due to the extension and improvement of cultivation.

Central Provinces.—For the three agricultural years 1910-11 to 1912-13 fairly reliable figures have been returned. They show a slight but continuous rise both in urban and rural wages. The latter range from about 3d. a day in Chhattisgarh to 4d. a day in Berar and Nagpur. The considerable irrigation and railway programmes, and the gradual improvement of agriculture, account for these rises, which, however, are partly counteracted by the rise in prices since 1911.

Burma.—In the rapidly developing districts of Lower Burma (except the Arakan littoral), and in the north of Upper Burma, where conditions are backward and labour difficult to maintain, wages are high, rising to as much as 1s. 4d. a day for agricultural labour. On the Arakan littoral, and in the Upper Burma dry zone, the wages are lower, though considerably higher than in most parts of India proper, the minimum being 4d. a day. Daily wages are only paid for minor agricultural operations, the majority of agricultural labourers being paid by the season. An extraordinary amount of the field work is done by women.

Madras.—There was a general rise of wages between 1908 and 1911. The minimum daily rate for rural

unskilled labour ranges from 1½d. in the Deccan to 2 annas in all other wage-tracts; the maximum from 4d. in the Deccan to 8d. in the South. During 1912-13 the price of labour rose with the price of food grains.

Bombay.—Only one census has been taken—in 1911. Plague has decreased the available supply of labour, and the existence of a mill industry, together with the progress of large schemes of dock and railway extension, the Tata Hydro-Electric Works, etc., has a beneficial effect on agricultural wages, which in most districts average about 4d. a day, except where the presence of primitive tribes results in lower rates. In Sind wages are higher.

AVERAGE RATES OF WAGES PAID IN SELECTED
INDUSTRIES IN 1913.¹

		£	s.	d.	
Cotton	- - - - -	Month	1	0	8½
Wool	- - - - -	"	1	2	1½
Paper	- - - - -	"	1	6	4
Rice	- - - - -	"	3	10	10
Brewing	- - - - -	"	1	0	1½
Jute	- - - - -	Week	0	5	0½
Mining (coal)	- - - - -	Day	0	0	6½
Tea	{ Act coolies - - - - -	Month	0	6	4½
	{ Non-act coolies - - - - -	"	0	5	5½
	{ General average - - - - -	"	0	5	9½

¹ *Review of the Trade of India, 1913-14, p. 84.*

APPENDIX H

AVERAGE MONTHLY WAGES (IN RUPEES) IN THE DIFFERENT PROVINCES IN 1873 AND 1909¹

	1873			1909		
	Able-bodied agricultural labourer.	Menial (eyeo).	Common Mason, Carpenter, or Blacksmith.	Able-bodied agricultural labourer.	Menial (eyeo).	Common Mason, Carpenter, or Blacksmith.
Burma, -	13·5 to 14·3	13 to 14·1	26·5 to 30·7	13·9 to 15·6	12·36 to 14·2	26·6 to 33·5
Ebessam, -	6·5 to 6·6	5·8 to 6·3	9·6 to 14·6	9·61 to 10·9	8·3 to 9·3	15·6 to 24·3
Bengal, -	4·2 to 4·33	4·72 to 4·83	7·53 to 9·83	6·8 to 7·3	6·2 to 6·8	11·9 to 15·2
United Provinces, -	3·8	4·4	9·5	Not given	Not given	Not given
Oudh, -	3·5	4·5	7·4	"	"	"
Rajputana, -	5	5·5 to 5·8	10·2 to 12·8	3·52 to 4·5	4·7 to 7	11·7 to 21
Central India, -	4·5 to 5	5·5 to 6	12 to 12·5	7·5	5·5 to 6·5	18·8 to 19·7
Punjab and N.-W. F. Province, -	5·2	5·6	12·8	10·8	7·8	25
Sind, -	10 to 12·5	8 to 10	22·5 to 25	12·5	12·5	23·5 to 30
Bombay, -	7·3	8·5	18·3 to 24·2	9	9	19·5 to 24·1
Central Provinces, -	4	5·3	12·6	5·7	7 to 7·7	22·5 to 26·7
Barar, -	5	7	19·5	10	10	22·5 to 30
Hyderabad, -	5·1 to 8	6 to 7	12·8 to 15	8 to 11	8 to 12	20 to 25
Madras, -	3·9	5·7	12·7	4·5	6·3	13·8 to 15·5
Mysore, -	5·8 to 7·8	5·1 to 6·1	14 to 18·8	9·5	9	17·5 to 22·5
Coorg, -	7·5	8	22·5	7 to 9	8 to 10	19 to 30

¹ Wide Prices and Wages in India, 1910. The wage statistics are unsatisfactory and not wholly reliable.

APPENDIX I

JOINT-STOCK COMPANIES IN 1914-15 AND 1923-24.¹

	1914-15. Number.	1923-24. Number.	Paid-up Capital (in lakhs of rupees).
Banking and loan - - -	436	809	13,41
Insurance - - -	182	63	3,16
Navigation - - -	24	25	3,72
Railways and tramways -	44	47	14,85
Other transit and transport	—	144	3,47
Trading and manufacturing companies - - -	754	1959	76,91
Tea - - -	208	384	8,38
Other planting companies -	29	69	1,12
Coal mining - - -	140	254	11,60
Gold mining - - -	8	4	8,21
Other mining and quarrying companies - - -	57	96	29,44
Cotton mills - - -	205	262	36,77
Jute mills - - -	34	54	17,31
Mills for wool, silk, hemp, etc.	13	23	3,32
Cotton ginning, pressing and baling - - -	—	120	2,58
Jute presses, etc. - - -	139	28	1,69
Flour mills - - -	30	28	99
Estate, land and building -	32	98	6,18
Sugar - - -	22	39	1,91
Other companies - - -	123	324	17,56
Total - - -	2480	4821	2,54,56

¹ *Statistical Abstract for British India, 1914 to 1923-24.*

APPENDIX J

CAPITAL AND RESERVE AND DEPOSITS OF THE IMPERIAL BANK OF INDIA, EXCHANGE BANKS, AND INDIAN JOINT-STOCK BANKS, IN EACH YEAR FROM 1916 TO 1925.

YEAR.	IMPERIAL BANK OF INDIA.				EXCHANGE BANKS.		JOINT-STOCK BANKS.		TOTAL OF ALL BANKS.	
	Capital and Reserve.	Deposits.	Capital and Reserve.	Deposits (in India)	Capital and Reserve.	Deposits.	Capital and Reserve.	Deposits.	Capital and Reserve.	Deposits.
	R(1,000)	R(1,000)	R(1,000)	R(1,000)	R(1,000)	R(1,000)	R(1,000)	R(1,000)	R(1,000)	R(1,000)
1916	7,95,99	49,91,45	37,93,10	38,03,88	5,24,29	25,72,23	50,53,38	1,13,67,61	56,77,67	26,85,81
1917	7,42,52	75,43,02	32,98,20	53,37,53	5,21,09	32,16,21	45,31,81	1,60,96,76	50,52,90	27,02,77
1918	7,19,58	59,62,03	39,44,90	61,26,33	6,65,12	42,14,83	53,29,60	1,63,03,19	59,94,72	28,14,83
1919	7,32,81	75,93,61	53,07,00	74,35,90	8,38,31	61,27,96	68,78,12	2,11,57,47	76,66,13	30,27,96
1920	7,52,79	87,04,53	90,21,70	74,80,71	11,73,85	73,48,10	1,09,48,34	2,35,33,34	1,11,21,70	32,07,81
1921	9,76,78	72,58,00	1,11,63,20	75,19,61	13,39,89	80,15,65	1,34,79,87	2,27,93,26	1,16,63,20	33,27,96
1922	9,96,57	71,16,30	1,12,22,06	73,39,44	11,74,54	65,01,75	1,33,92,17	2,09,56,49	1,12,22,06	34,79,87
1923	10,17,71	82,76,45	1,40,10,30	68,44,28	10,84,78	47,69,32	1,61,12,79	1,98,90,05	1,40,10,30	36,27,96
1924	10,42,58	84,21,48	1,30,46,40	70,63,48	11,77,80	55,17,05	1,52,66,78	2,10,02,01	1,30,46,40	38,07,81
1925	10,55,23	83,29,77	1,38,31,10	70,54,57	11,78,13	57,90,76	1,60,64,46	2,11,75,10	1,38,31,10	39,27,96

APPENDIX K

SUMMARY OF CONCLUSIONS OF THE REPORT OF THE ROYAL COMMISSION ON INDIAN CURRENCY AND FINANCE, 1913.

“For convenience of reference we summarise our conclusions as follows :—

(i) The establishment of the exchange value of the rupee on a stable basis has been and is of the first importance to India. (Para. 8.)

(ii) The measures adopted for the maintenance of the exchange value of the rupee have been necessarily and rightly rather supplementary to, than in all respects directly in pursuance of, the recommendations of the Committee of 1898. (Paras. 7 and 44 to 46.)

(iii) These measures worked well in the crisis of 1907-8, the only occasion upon which they have been severely tested hitherto. (Paras. 48, 49.)

(iv) The time has now arrived for a reconsideration of the ultimate goal of the Indian Currency system. The belief of the Committee of 1898 was that a Gold Currency in active circulation is an essential condition of the maintenance of the Gold Standard in India, but the history of the last 15 years shows that the Gold Standard has been firmly secured without this condition. (Paras. 47, 50.)

(v) It would not be to India's advantage to encourage an increased use of gold in the internal circulation. (Para. 64.)

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

needs of India consists of rupees and notes. (Paras. 55, 76.)

(vii) A mint for the coinage of gold is not needed for purposes of currency or exchange, but if Indian sentiment genuinely demands it and the Government of India are prepared to incur the expense, there is no objection in principle to its establishment either from the Indian or from the Imperial standpoint: provided that the coin minted is the sovereign (or the half-sovereign); and it is pre-eminently a question in which Indian sentiment should prevail. (Paras. 69-73.)

(viii) If a mint for the coinage of gold is not established, refined gold should be received at the Bombay Mint in exchange for currency. (Para. 73.)

(ix) The Government should continue to aim at giving the people the form of currency which they demand, whether rupees, notes, or gold, but the use of notes should be encouraged. (Para. 76.)

(x) The essential point is that this internal currency should be supported for exchange purposes by a thoroughly adequate reserve of gold and sterling. (Para. 76.)

(xi) No limit can at present be fixed to the amount up to which the Gold Standard Reserve should be accumulated. (Para. 86.)

(xii) The profits on coinage of rupees should for the present continue to be credited exclusively to the Reserve. (Para. 89.)

(xiii) A much larger proportion of the Reserve should be held in actual gold. By an exchange of assets between this Reserve and the Paper Currency Reserve, a total of about £10,000,000 in gold can be at once secured. This total should be raised as opportunity offers to £15,000,000, and thereafter the authorities should aim at keeping one-half of the total Reserve in actual gold. (Paras. 93 to 100.)

(xiv) The Indian branch of the Gold Standard Reserve in which rupees are now held should be abolished, the rupees being handed over to the Paper Currency Reserve in exchange for gold. (Para. 98.)

(xv) The proper place for the location of the whole of the Gold Standard Reserve is London. (Paras. 90 and 100.)

(xvi) The Government should definitely undertake to sell bills in India on London at the rate of 1s. $3\frac{2}{3}$ d. per rupee whenever called upon to do so. (Para. 101.)

(xvii) The Paper Currency system of India should be made more elastic. The fiduciary portion of the note issue should be increased at once from 14 crores to 20 crores, and thereafter fixed at a maximum of the amount of notes held by Government in the Reserve Treasuries plus one-third of the net circulation, and the Government should take power to make temporary investments or loans from the fiduciary portion within this maximum in India and in London, as an alternative to investment in permanent securities. (Paras. 112 and 113.)

(xviii) We recommend the immediate universalisation of the 500-rupee note and the increase of the facilities for the encashment of notes. (Para. 115.)

(xix) The aggregate balances in India and London in recent years have been unusually large. This has been due mainly, though not entirely, to accidental causes and to the exceptional prosperity of India. (Paras. 125, 126.)

(xx) Caution is justifiable in framing Budgets in India, but has been carried rather further than was necessary in recent years. (Paras. 126 and 128.)

(xxi) A change in the date of the commencement of the financial year from the 1st April to the 1st November or the 1st January would probably enable the Government of India to frame more accurate Budgets. Such a change would also enable the India Office to fix the amount of their borrowings in London with closer regard to immediate needs. We commend this proposal for favourable consideration. (Paras. 128 and 190.)

(xxii) The practice of transferring revenue surpluses to London to be used in avoiding or reducing fresh borrowings for capital expenditure has been thoroughly justified in the interests of India, and the Secretary of State has made good use, for this purpose or for actual

reduction of debt, of the balances from time to time accumulated in his hands. (Paras. 130 to 133 and 179.)

(xxiii) But the recommendations which we make as regards loans by Government in India may lead to a revision of the occasions, though not of the extent, of transfers of money to London. (Para: 133.)

(xxiv) The independent Treasury system of the Indian Government is not an ideal one. It is partly responsible for the stringency which recurs annually in the Indian money markets. (Paras. 137 to 143.)

(xxv) We recommend that the Government of India should make a regular practice of granting loans to the Presidency Banks from their surplus balances in India against security on terms to be negotiated with the Presidency Banks. (Paras. 150, 163, 164.)

(xxvi) In deciding upon the location of surplus balances, the Government of India and the Secretary of State should act in consultation, and, while the transmission of the necessary funds to London at favourable rates of exchange is the first consideration, the authorities should have regard to all the factors including the possibility of utilising surplus balances for loans in India. (Paras. 159 to 161.)

(xxvii) In carrying out these recommendations, the authorities should proceed tentatively and with caution. (Para. 165.)

(xxviii) We recommend that the amount of the annual rupee loans in India should be increased as much as possible. The figures of recent loans appear to have been somewhat over cautious. We call attention to the questions of relaxing present regulations in regard to endorsements on rupee paper and of creating new forms of securities. (Paras. 167 to 169.)

(xxix) The Secretary of State sells Council Drafts, not for the convenience of trade, but to provide the funds needed in London to meet the requirements of the Secretary of State on India's behalf. (Para. 186)

(xxx) The India Office perhaps sold Council Drafts unnecessarily at very low rates on occasions when the

London balance was in no need of replenishment, but we do not recommend any restrictions upon the absolute discretion of the Secretary of State as to the amount of drafts sold or the rate at which they are sold, provided that it is within the gold points. The amount and occasion of sales should be fixed with reference to the urgency of the Government's requirements and the rate of exchange obtainable, whether the drafts are against Treasury balances or against the Reserves. (Paras. 181 to 185.)

(xxxi) There has been some excess of caution in the renewal of debt by the India Office during recent years. (Para. 192.)

(xxxii) The system of placing portions of the India Office balance out on short loan with approved borrowers in the City of London is on the whole well managed, but we draw attention to—

(a) The term for which loans are made.

(b) The desirability of giving greater publicity to the methods by which admission is gained to the list of approved borrowers.

(c) Some defects in the list of approved securities and especially its narrow range. (Paras. 196 to 200.)

(xxxiii) There is no ground for the suggestion that the City members of the Secretary of State's Council showed any kind of favouritism in placing on deposit with certain banks, with the directorates of which they were connected, a part of the India Office balance at a time when it was too large to be placed entirely with the approved borrowers. But we call the attention of the Secretary of State to the desirability of avoiding as far as possible all occasion for such criticism, though it may be founded on prejudice and ignorance of the facts. (Para. 202.)

(xxxiv) We observe that in our opinion the time has come for a general review of the relations of the India Office to the Bank of England. (Para. 203.)

(xxxv) The working of the present arrangements for the remuneration of the Secretary of State's broker

should be watched, and if necessary they should be revised. (Para. 204.)

(xxxvi) We record our high opinion of the way in which the permanent staff, both in India and in London, have performed the complicated and difficult financial duties placed upon them. (Para. 7.)

(xxxvii) We recommend a continuance of a Finance Committee of Council as providing the machinery most suitable for the work required. (Para. 208.)

(xxxviii) The Finance Committee should, if possible, contain three members with financial experience, representing—

- (a) Indian Official Finance.
- (b) Indian Banking and Commerce.
- (c) The London Money Market.

In any case there should be at least one member with Indian financial experience. The absence of any representative of Indian finance on the Committee since 1911 has resulted in giving undue prominence to the representation of London City experience. (Para. 210.)

(xxxix) While we suggest that the changes recently proposed and now under discussion in the constitution of the India Council may require some modification in order to provide for the continuance of a Finance Committee of Council, we are in sympathy with the desire for expediting financial business, which is one of the objects in view. (Para. 214.)

(xi) The present arrangement under which the Assistant Under Secretary of State, having financial experience, is able to share with the Financial Secretary the responsibility for financial business in the India Office has many advantages. For the future we recommend that either (1) the Under Secretary or Assistant Under Secretary of State should have financial experience as at present, or (2) there should be two Assistant Under Secretaries, of whom one should have financial experience. (Para. 216.)

(xli) We are not in a position to report either for or against the establishment of a State or Central Bank, but we regard the subject as one which deserves early

and careful consideration, and suggest the appointment of a small expert committee to examine the whole question in India, and either to pronounce against the proposal or to work out in full detail a concrete scheme capable of immediate adoption. (Paras. 221, 222.)”

APPENDIX I

COMMITTEE ON INDIAN EXCHANGE AND CURRENCY (1920). SUMMARY OF CONCLUSIONS

87. We now proceed to summarise the main conclusions at which we have arrived.

(i) It is desirable to restore stability to the rupee and to re-establish the automatic working of the Indian currency system. (Para. 36.)

(ii) The reduction of the fineness or weight of the rupee (Para. 38), the issue of 2 or 3 rupee coins of lower proportional silver content than the present rupee (Para. 39), or the issue of a nickel rupee (Para. 40) are expedients that cannot be recommended.

If the legal tender limit of one rupee for the 8 anna nickel coin should prove an obstacle to its free circulation the question of raising the limit to R.5 or R.10 should be considered. (Para. 40.)

(iii) The maintenance of the convertibility of the note-issue is essential, and proposals that do not adequately protect the Indian Paper Currency from the risk of becoming inconvertible cannot be entertained. (Para. 41.)

(iv) The rise in exchange, in so far as it has checked and mitigated the rise in Indian prices, has been to the advantage of the country as a whole, and it is desirable to secure the continuance of this benefit. (Para. 50.)

(v) Indian trade is not likely to suffer any permanent injury from the fixing of exchange at a high level.

If, contrary to expectation, a great and rapid fall in world prices were to take place, and if the costs of

production in India fail to adjust themselves with equal rapidity to the lower level of prices, then it might be necessary to consider the problem afresh. (Para. 51.)

(vi) The development of Indian industry would not be seriously hampered by a high rate of exchange. (Para. 52.)

(vii) The gain to India of a high rate of exchange for meeting the Home charges is an incidental advantage that must be taken into consideration. (Para. 53.)

(viii) To postpone fixing a stable rate of exchange would be open to serious criticism and entail prolongation of Government control. (Para. 58.)

(ix) The balance of advantage is decidedly on the side of fixing the exchange value of the rupee in terms of gold rather than in terms of sterling. (Paras. 56-7.)

(x) The stable relation to be established between the rupee and gold should be at the rate of R.10 to one sovereign, or, in other words, at the rate of one rupee for 11.30016 grains of fine gold, both for foreign exchange and for internal circulation. (Para. 59.)

(xi) If silver rises for more than a brief period above the parity of 2s. (gold) the situation should be met by all other available means rather than by impairing the convertibility of the note-issue. Such measures might be (a) reduction of sale of Council bills; (b) abstention from purchase of silver; (c) use of gold to meet demands for metallic currency. If it should be absolutely necessary to purchase silver, the Government should be prepared to purchase even at a price such that rupees would be coined at a loss. (Para. 59.)

(xii) Council drafts are primarily sold not for the convenience of trade, but to provide for the Home charges in the widest sense of the term. There is no obligation to sell drafts to meet all trade demands; but, if without inconvenience or with advantage the Secretary of State is in a position to sell drafts in excess of his immediate needs, when a trade demand for them exists, there is no objection to his doing so, subject to due regard being paid to the principles governing the location of the reserves.

Council drafts should be sold, as now, by open tender at competitive rates, a minimum rate being fixed from time to time on the basis of the sterling cost of shipping gold to India. At present this rate will vary; but when sterling is again equivalent to gold, it will remain uniform. (Para. 61.)

(xiii) The Government of India should be authorised to announce, without previous reference to the Secretary of State on each occasion, their readiness to sell weekly a stated amount of Reserve Councils (including telegraphic transfers) during periods of exchange weakness at a price based on the cost of shipping gold from India to the United Kingdom. (Para. 62.)

(xiv) The quantity of gold taken by India for all purposes in the period before the war was not disproportionately large having regard to her social customs and economic position; but more productive methods for employing wealth should be encouraged. (Paras. 63-4.)

(xv) The import and export of gold to and from India should be free from Government control. (Para. 65.)

(xvi) The Government should continue to aim at giving the people the form of currency which they demand, whether rupees, notes, or gold; but gold can be employed to the best advantage in the Government reserves, where it is available for meeting the demand for foreign remittance.

It would not be to India's advantage actively to encourage the increased use of gold in the internal circulation, but it may for some time be difficult to meet all demands for metallic currency in rupees, and a more extensive use of gold may be necessary. In order that confidence may not be disturbed by exceptional issues, the issue of gold coin in moderate quantities should be one of the normal methods of meeting demands for currency. (Para. 66.)

(xvii) The Bombay branch of the Royal Mint should be re-opened for the coinage of sovereigns and half-sovereigns and facilities should be afforded to the

public for the coinage of gold bullion and for the refining of gold. (Para. 67.)

(xviii) The obligation of the Government to give rupees for sovereigns should be withdrawn. (Para. 68.)

(xix) Opportunities should be afforded to the public to exchange sovereigns in their possession at the rate of 15 rupees per sovereign at the time of the introduction of the new ratio. Similar opportunities should be given to holders of the gold mohur which should eventually be demonetised. (Para. 69.)

(xx) The prohibition on the import of silver should be removed as soon as is convenient. (Para. 70.)

(xxi) When the prohibition on the import of silver is removed the import duty should also be removed, unless the fiscal position demands its retention. (Para. 71.)

(xxii) The prohibition on the export of silver should be retained for the present with a view to the protection of the silver currency from depletion by export.

If the silver mined in India should cease to be purchased by the Government, its export should be permitted under licence. (Para. 72.)

(xxiii) Improved banking facilities and increased opportunities for the investment of savings should be afforded. (Para. 73.)

(xxiv) No recommendation is made for modifying the present practice regulating the purchase of silver for coinage. (Para. 74.)

(xxv) The statutory minimum for the metallic portion of the Paper Currency Reserve should be 40 per cent. of the gross circulation.

As regards the fiduciary portion of the reserve, the holding of securities issued by the Government of India should be limited to 20 crores. The balance should be held in securities of other Governments comprised within the British Empire, and of the amount so held not more than 10 crores should have more than one year's maturity, and all should be redeemable at a fixed date. The balance of the invested portion above

these 30 crores should be held in short-dated securities, with not more than one year's maturity, issued by Governments within the British Empire.

The existing permissive maximum of 120 crores should be retained for a limited period.

The sterling investments and gold in the Paper Currency Reserve should be re-valued at 2s. to the rupee. The depreciation which will result from this re-valuation cannot be made good at once, but any savings resulting from the rise in exchange will afford a suitable means for discharging this liability in a limited number of years. (Paras. 78-79.)

(xxvi) With a view to meeting the seasonal demand for additional currency provision should be made for the issue of notes up to five crores over and above the normal fiduciary issue as loans to the Presidency Banks on the security of export bills of exchange. (Para. 80.)

(xxvii) The silver and gold in the Paper Currency Reserve should be held in India except for transitory purposes. (Para. 81.)

(xxviii) As soon as circumstances permit, free facilities for the encashment of notes should be given, and the restrictions imposed during the war should be withdrawn. The Government should have the option of redeeming its notes in full legal tender gold or silver coin. (Para. 82.)

(xxix) No limit can yet be fixed to the amount up to which the Gold Standard Reserve should be accumulated, and when profits again accrue on the coinage of rupees they should be credited in their entirety to the reserve. (Para. 83.)

(xxx) Under present conditions Government should hold such gold as they obtain in the Paper Currency Reserve rather than in the Gold Standard Reserve. The Gold Standard Reserve should when practicable contain a considerable proportion of gold; but the most satisfactory course at present lies in keeping the reserve as liquid as possible by the holding of securities with early dates of maturity.

The amount of securities in the reserve with a maturity

exceeding three years should not be increased, and the aim should be to hold all the invested portion of the reserve in securities issued by Governments within the British Empire (other than the Government of India) and having a fixed date of maturity of not more than 12 months. (Para. 84.)

(xxx) A portion of the gold in the Gold Standard Reserve, not exceeding one half, should be held in India; the sterling investments should continue to be held in London.

APPENDIX M

ROYAL COMMISSION ON INDIAN CURRENCY AND FINANCE,
1926.

SUMMARY OF RECOMMENDATIONS.

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

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

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

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

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

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

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

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

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

(x) The conditions which are to govern the sale of gold by the Bank should be so framed as to free it in normal circumstances from the task of supplying gold for non-monetary purposes. The method by which this may be secured is suggested. (Paras. 64, 150.)

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

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

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

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

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

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

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

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

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

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

(xxi) A figure of Rs. 50 crores has been fixed as the liability in respect of the contractibility of the rupee circulation. Recommendations are made to secure that an amount equal to one-fifth of the face value of any increase or decrease in the number of silver rupees in issue shall be added to or subtracted from this liability, and the balance of profit or loss shall accrue to or be borne by the Government revenues. (Paras. 82, 120-123, 146-148.)

(xxii) The Issue Department of the Reserve Bank should be kept wholly distinct from its Banking Department. (Paras. 137, 143.)

(xxiii) The Reserve Bank should be entrusted with all the remittance operations of the Government. The Secretary of State should furnish in advance periodical information as to his requirements. The Bank should be left free, at its discretion, to employ such method or methods of remittance as it may find conducive to smooth working. (Paras. 103-109, 111, 140.)

(xxiv) During the transition period the Government should publish a weekly return of remittances made. A trial should be made of the system of purchase by public tender in India. (Para. 110.)

(xxv) The cash balances of the Government (including any balances of the Government of India and of the Secretary of State outside India), as well as the banking reserves in India of all banks operating in India, should be centralised in the hands of the Reserve Bank. Section 23 of the Government of India Act should be amended accordingly. (Paras. 111, 112, 140, 161, 162.)

(xxvi) The transfer of Reserve assets should take place not later than 1st January, 1929, and the Bank's obligation to buy and sell gold should come into operation not later than 1st January, 1931. (Para. 165.)

(xxvii) During the transition period the currency authority (*i.e.* the Government until the transfer of Reserve assets and the Bank thereafter) should be under an obligation to buy gold and to sell gold or gold exchange at its option at the gold points of the exchange. This obligation should be embodied in statutory form, of which the outline is suggested. (Para. 166.)

(xxviii) Stabilisation of the rupee should be effected forthwith at a rate corresponding to an exchange rate of 1s. 6d. (Paras. 168-213.)

(xxix) The stamp duty on bills of exchange and cheques should be abolished. Bill forms, in the English language and the vernacular in parallel, should be on sale at post offices. (Paras. 116, 216.)

(xxx) Measures should be taken to promote the development of banking in India. (Para. 214.)

(xxxi) Every effort should be made to remedy the deficiencies in the existing body of statistical data. (Para. 217.)

APPENDIX N

A BILL TO ESTABLISH A GOLD STANDARD CURRENCY FOR BRITISH INDIA AND CONSTITUTE A RESERVE BANK OF INDIA

Establishment
and
incorporation
of Reserve
Bank.

3. (1) A Bank to be called the Reserve Bank of India shall be constituted for the purpose of taking over the management of the currency from the Governor General in Council and of carrying on the business of banking in accordance with the provisions of this Act.

(2) The Bank shall be a body corporate by the name of the Reserve Bank of India, having perpetual succession and a common seal, and shall by the said name sue and be sued.

SHARE CAPITAL

Share capital.

4. (1) The original share capital of the Bank shall be fifty million rupees divided into shares of five hundred rupees each, which shall be fully paid up.

(2) Of the original share capital of the Bank the Imperial Bank of India shall be given the option of subscribing three-tenths and the remainder, together with any shares not taken up by the Imperial Bank of India under this option, shall be offered for public subscription.

(3) If the full amount of the share capital is not so subscribed, the Governor General in Council shall take up the remainder of the shares at par, and shall subsequently dispose of the same by sale to the public within three years.

Increase and
reduction of
share capital

5. (1) The share capital of the Bank may be increased by the Board with the previous sanction of the Governor General in Council.

(2) Every such increase shall be fully paid up, and the price at which such further shares may be issued shall be fixed by the Board with the like sanction.

(4) The share capital of the Bank may be reduced by the Board, with the previous sanction of the Governor General in Council, to such extent and in such manner as may be determined by the Bank in general meeting.

HEAD OFFICE, BRANCHES AND AGENCIES

6. The Head Office of the Bank shall be established in Bombay, and the Bank shall have branches in Calcutta, Madras and London and may establish branches or agencies in any other places, whether in India or elsewhere.

Branches and agencies

MANAGEMENT OF THE BANK

7. The general superintendence of the affairs and business of the Bank shall be entrusted to a Board of Directors which may exercise all powers and do all such acts and things as may be exercised or done by the Bank and are not by this Act expressly directed or required to be done by the Bank in general meeting.

Management.

8. Save as expressly provided in this Act, no person may be a Director who is an officer of Government or a member of the Indian or a local Legislature or is a director, officer or employee of any other bank.

Certain persons disqualified for directorships.

9. (1) The Board shall consist of the following Directors, namely :

Composition of Board.

- (a) a Governor and a Deputy Governor, who shall be appointed by the Governor General in Council for a period of five years and shall devote their whole time to the affairs of the Bank and shall receive such salaries and allowances respectively as may be determined by the Board ;
- (b) nine Directors elected by the shareholders, each of whom shall be the registered holder in his own right of not less than twenty unincumbered shares of the Bank, and of whom two shall be elected to represent business interests in

Calcutta, two to represent business interests in Bombay, one to represent business interests in Madras, and two to represent business interests in British India exclusive of Calcutta, Bombay and Madras,

- (c) three Directors nominated by the Governor General in Council to represent the interests of commerce, industry and agriculture, respectively; and
- (d) an officer of Government appointed by the Governor General in Council.

(2) The Directors nominated by the Governor General in Council under clause (c) of sub-section (1) shall hold office for such terms respectively, not exceeding three years in any case, as he may direct at the time of nomination, but any such Director whose term of office has expired may be re-nominated.

(3) The Director appointed under clause (d) of sub-section (1) may attend any meeting of the Board and take part in its deliberations, but shall not be entitled to vote on any question arising at any such meeting.

(4) Of the nine Directors elected under clause (b) of sub-section (1), three shall retire annually by rotation, but shall be eligible for re-election; the order of the retirement of the nine Directors first elected shall be determined by lot.

(5) Any casual vacancy in the office of a Director elected under clause (b) of sub-section (1), shall be filled by the Board, but all such appointments shall be subject to confirmation at the next general meeting. A person appointed to fill a casual vacancy shall hold office for the unexpired portion of the term of office of his predecessor.

BUSINESS OF THE BANK

Business which
the Bank may
transact.

14. The Bank shall be authorised to carry on and transact the several kinds of business hereinafter specified, namely:

- (1) the accepting of money on deposit without interest

from, and the collection of money for, the Secretary of State in Council, the Governor General in Council, Local Governments, banks and other persons ;

(2) (a) the purchase, sale and rediscount of bills of exchange and promissory notes, payable in India and arising out of *bonâ fide* commercial or trade transactions, bearing two or more good signatures, one of which shall be that of a bank, and maturing within ninety days from the date of such purchase or rediscount ;

(b) the purchase, sale and rediscount of bills of exchange and promissory notes, bearing two or more good signatures, one of which shall be that of a bank, drawn or issued for the purpose of financing seasonal agricultural operations or the marketing of crops, and maturing within six months from the date of such purchase or rediscount : provided that the face value of bills or notes so purchased or rediscounted shall not at any time exceed one-fifth of the total face value of all bills and notes purchased or rediscounted by the Bank ;

(c) the purchase, sale and rediscount of bills of exchange and promissory notes, bearing the signature of a bank, and issued or drawn for the purpose of holding or trading in Government securities, and maturing within ninety days from the date of such purchase or rediscount ;

(3) the purchase from and sale to banks and persons approved by the Board, in amounts of not less than the equivalent of one hundred thousand rupees, of the currencies of gold standard countries, and of bills of exchange (including treasury bills) drawn in or on any place in a gold standard country, and maturing within ninety days from the date of such purchase ; and the keeping of balances with banks in such countries ;

(4) the making of loans and advances for fixed periods not exceeding ninety days against the security of—

(a) stocks, funds and securities (other than immove-

- able property) in which a trustee is authorised to invest trust money by any Act of Parliament or by any Act of the Governor General in Council or the Indian Legislature ;
- (b) gold coin and bullion or documents of title to the same ;
- (c) such bills of exchange and promissory notes as are eligible for purchase or rediscount by the Bank : provided that loans and advances against such securities as are referred to in sub-clause (b) of clause (2) shall not exceed one-fifth of the total loans and advances made by the Bank ;
- (d) such bills of exchange as are eligible for purchase by the Bank under clause (3) ;
- (e) promissory notes of any bank mentioned in the First Schedule, supported by documents giving title to goods which have been transferred, assigned or hypothecated to any such bank as security for a cash credit granted for *bonâ fide* commercial or trade transactions, or for the purpose of financing seasonal agricultural operations or the marketing of crops : provided that no loan or advance shall be made on the security of any promissory note such as is referred to in this sub-clause after the expiry of five years from the date on which this section comes into force :
- (5) the making of advances to the Governor General in Council repayable in each case not later than three months after the close of the financial year in respect of which the advance has been made ;
- (6) the issue of demand drafts and the making, issue and circulation of bank post bills made payable on its own branches ;
- (7) the purchase and sale of securities, maturing within five years from the date of such purchase, of the Government of any gold standard country ;
- (8) the purchase and sale of securities of the Government of India of any maturity for the purpose of holding

the same in the Reserve or for the purpose of the investment of the staff or superannuation funds ;

(9) the purchase and sale of securities of the Government of India of any maturity or of securities of a Local Government maturing within five years from the date of their purchase, for the purpose of investment of the share capital of the Bank or of the Reserve Fund ;

(10) the purchase and sale of securities of the Government of India or of Local Governments or of local authorities in British India for any purpose other than those referred to in clauses (8) and (9) :

Provided that the total value of such securities so purchased shall not at any time exceed two-fifths of the liabilities for the time being of the Banking Department in respect of deposits, and of such total value an amount not exceeding one-fifth of such liabilities may be represented by securities maturing after six months and within ten years from the date of their purchase (of which, however, securities representing at least half that proportion shall be securities maturing within one year from the date of their purchase) and the remainder shall be represented by securities maturing within six months from the date of their purchase ;

(11) the custody of monies, securities and other articles of value, and the collection of the proceeds, whether principal, interest or dividends, of any such securities ;

(12) the sale and realisation of all property, whether moveable or immoveable, which may in any way come into the possession of the Bank in satisfaction, or part satisfaction, of any of its claims ;

(13) the acting as agent for the Secretary of State in Council, the Governor General in Council or any Local Government in the transaction of any of the following kinds of business, namely :

(a) the purchase and sale of gold or silver ;

(b) the purchase, sale, transfer and custody of bills of exchange, securities or shares in any company ;

- (c) the collection of the proceeds, whether principal, interest or dividends, of any securities or shares ;
- (d) the remittance of such proceeds, at the risk of the principal, by bills of exchange payable either in India or elsewhere ;
- (e) the management of public debt ;
- (14) the purchase and sale of gold coin and bullion ;
- (15) the opening of an account with, and the acting as agent or correspondent of, any other bank ;
- (16) the making and issue of bank notes subject to the provisions of this Act ; and
- (17) generally, the doing of all such matters and things as may be incidental or subsidiary to the transaction of the various kinds of business hereinbefore specified.

Power of
direct discount

15. After such date as the Governor General in Council may fix in this behalf, the Bank may, notwithstanding any limitation contained in sub-clauses (a) and (b) of clause (2) of section 14, purchase, sell or discount any bills of exchange or promissory notes arising out of *bond fide* commercial or trade transactions, bearing two or more good signatures and maturing within ninety days from the date of such purchase or discount.

Business which
the Bank may
not transact.

16. Save as otherwise provided in sections 14 and 15, the Bank may not—

(1) engage in trade or otherwise have a direct interest in any commercial, industrial, or other undertaking, except such interest as it may in any way acquire in the course of the satisfaction of any of its claims : provided that all such interests shall be disposed of at the earliest possible moment ;

(2) purchase its own shares or the shares of any other bank or of any company, or grant loans upon the security of any such shares ;

(3) advance money on mortgage of, or otherwise on the security of, immoveable property or documents of title relating thereto, or become the owner of immoveable

property, except so far as is necessary for its own business premises and residences for its officers and servants ;

(4) make unsecured loans or advances ;

(5) draw or accept bills payable otherwise than on demand ;

(6) allow interest on deposits.

CENTRAL BANKING FUNCTIONS

RELATIONS OF THE BANK WITH THE SECRETARY OF STATE IN COUNCIL AND THE GOVERNOR GENERAL IN COUNCIL

17. The Bank shall undertake to accept monies for account of the Secretary of State in Council and the Governor General in Council and to make payments up to the amount standing to the credit of their accounts respectively, and to carry out their exchange, remittance and other banking operations, including the management of the Government of India Debt, on such conditions as may be agreed upon.

Obligation of
Bank to
transact
Government
business

18. (1) The Governor General in Council shall undertake to entrust the Bank, on such conditions as may be agreed upon, with all his money, remittance, exchange and banking transactions in India and elsewhere and, in particular, to deposit free of interest all his cash balances with the Bank :

Bank to have
the right to
transact
Government
business.

Provided that nothing in this sub-section shall prevent the Governor General in Council from carrying on money transactions at Government treasuries or sub-treasuries at places where the Bank has no branches or agencies, and the Governor General in Council may hold at such treasuries and sub-treasuries such balances as he may require.

(2) The Governor General in Council shall undertake to entrust the Bank, on such conditions as may be agreed upon, with the management of the Government of India Debt and with the issue of any new loans.

NOTE ISSUE

Right to issue
bank notes.

19. (1) The Bank shall have the sole right to issue bank notes in British India, and may, for a period of one year from the date on which this Chapter comes into force, issue currency notes of the Government of India supplied to it by the Governor General in Council, and the provisions of this Act applicable to bank notes shall, unless a contrary intention appears, apply to all currency notes of the Government of India issued either by the Governor General in Council or by the Bank in like manner as if such currency notes were bank notes, and references in this Act to bank notes shall be construed accordingly.

(2) On and from the aforesaid date the Governor General in Council shall not issue any currency notes or any other kind of paper money.

Issue
Department

20. (1) The issue of bank notes shall be conducted by the Bank in an Issue Department which shall be separated and kept wholly distinct from the Banking Department, and the assets of the Issue Department shall not be subject to any liability other than the liabilities of the Issue Department as hereinafter defined in section 29.

(2) The Issue Department shall not issue bank notes to the Banking Department or to any other person except in exchange for other bank notes or for such coin, bullion or securities as are permitted by this Act to form part of the Reserve.

Denominations
of notes.

21. Bank notes shall be of the denominational values of 5, 10, 50, 100, 500, 1000 and 10,000 rupees, and of such other denominational values, if any, as may be directed by the Governor General in Council.

Form of
bank notes.

22. The design, form and material of bank notes shall be such as may be approved by the Governor General in Council.

Legal tender
character of
notes.

23. (1) Subject to the provisions of sub-section (2), every bank note shall be legal tender at any place in British India in payment or on account for the amount

expressed therein, and shall be guaranteed by the Governor General in Council.

(2) The Governor General in Council may, by notification in the Gazette of India, declare that, with effect from such date as may be specified in the notification, any series of bank notes of any denomination shall cease to be legal tender save at an office or agency of the Bank.

24. The Bank shall not re-issue bank notes which are torn, defaced or excessively soiled, and any bank note re-issued from any office of the Bank shall be sterilized and disinfected before re-issue. ^{Re-issue of notes.}

25. Notwithstanding anything contained in any enactment or rule of law to the contrary, no person shall be entitled to recover from the Bank the value of any lost, stolen, mutilated or imperfect bank note : ^{Recovery on notes lost, stolen, mutilated or imperfect.}

Provided that the Bank may, with the previous sanction of the Governor General in Council, prescribe the circumstances in and the conditions and limitations subject to which the value of such bank notes may be refunded as of grace.

PROHIBITION OF ISSUE OF PRIVATE BILLS OR NOTES PAYABLE TO BEARER ON DEMAND

26. No person in British India other than the Bank or, as expressly authorised by this Act, the Governor General in Council shall draw, accept, make or issue any bill of exchange, hundi, promissory note or engagement for the payment of money payable to bearer on demand, or borrow, owe or take up any sum or sums of money on the bills, hundis or notes payable to bearer on demand of any such person : ^{Issue of demand bills and notes.}

Provided that cheques or drafts payable to bearer on demand or otherwise may be drawn on bankers, shroffs or agents by their customers or constituents in respect of deposits of money in the hands of those bankers, shroffs or agents and held by them at the credit and disposal of the persons drawing such cheques or drafts.

**SUPPLY OF COIN, AND OF DIFFERENT FORMS OF
LEGAL TENDER CURRENCY**

- Delivery to Government of surplus rupee coin** 31. The Bank may deliver to the Governor General in Council all rupee coin held by it in excess of the amount which the Issue Department is permitted to hold as part of the Reserve under section 28, against payment of four rupees in bank notes, gold or gold securities for every five rupees so delivered.
- Purchase of rupee coin.** 32. When the amount of rupee coin for the time being held in the Reserve does not exceed two hundred and fifty millions or one-tenth of the total amount of the Reserve, whichever is greater, the Bank may demand delivery of rupee coin from the Governor General in Council, on payment of four rupees in bank notes, gold or gold securities for every five rupees so delivered.
- Obligations of Government and Bank in respect of rupee coin.** 33. The Governor General in Council shall undertake not to re-issue any rupee coin delivered under section 31 nor to put into circulation any new rupees, except through the Bank and on the Bank's demand; and the Bank shall undertake not to dispose of rupee coin otherwise than for the purposes of circulation or by delivery to the Governor General in Council under that section.
- Obligation to supply different forms of currency.** 34. The Bank shall issue rupee coin on demand in exchange for currency notes of the Government of India, and shall issue currency notes or bank notes on demand in exchange for rupee coin, and it shall, in exchange for currency notes or bank notes of five rupees or upwards, supply currency notes or bank notes of lower value or rupees or other coins which are legal tender under the Indian Coinage Act, 1906, in such quantities as may, in the opinion of the Bank, be required for circulation; and the Governor General in Council shall, subject to the provisions of section 32, supply such rupees or other coins to the Bank on demand. If the Governor General in Council at any time fails to discharge this duty, the Bank shall be released from its obligation to supply such coins to the public.

OBLIGATION TO SELL GOLD

35. (1) The provisions of this section shall have effect ^{Sale of gold} from such date, not later than the 1st day of January, 1931, as the Governor General in Council may, by notification in the Gazette of India, appoint.

(2) The Bank shall sell, to any person who makes a demand in that behalf at its office at Bombay, Calcutta or Madras and pays in legal tender currency the purchase price as determined under the provisions of this section, gold bullion for delivery, at the option of the purchaser, either in Bombay or at such place in a gold standard country as may be notified in this behalf by the Governor General in Council :

Provided that no person shall be entitled to demand an amount of gold bullion containing less than 1065 tolas of fine gold.

(3) The price of gold bullion for delivery at the notified place shall be twenty-one rupees, three annas and ten pies per tola of fine gold with the addition of an amount representing the normal cost per tola of transferring gold bullion in bulk from Bombay to that place, including interest on its value during transit.

(4) The price of gold bullion for delivery in Bombay shall be twenty-one rupees, three annas and ten pies per tola of fine gold with an addition representing twice the normal cost per tola of transferring gold bullion in bulk from Bombay to the notified place, including interest on its value during transit :

Provided that no such addition shall be made when the rate at which the currency of the country in which the notified place is situate can be purchased in Bombay for immediate delivery at that place is such that the equivalent of the price at which the principal currency authority of that country is bound by law to give gold in exchange for currency is equal to or less than twenty-one rupees, three annas and ten pies per tola of fine gold after deduction of the normal cost per tola of transferring

gold bullion in bulk from Bombay to the notified place, including interest on its value during transit.

(5) The Governor General in Council shall from time to time determine in accordance with the provisions of sub-sections (3) and (4) the prices at which the Bank shall sell gold bullion for delivery in Bombay and the notified place respectively, and shall notify the prices so determined in the Gazette of India. Such notification shall be conclusive as between the Bank and any other person as to the price which the Bank shall be entitled to charge in respect of any sale of gold bullion.

Interim
provisions.

36 (1) The provisions of this section shall cease to have effect on the date appointed by the Governor General in Council under sub-section (1) of section 35.

(2) The Bank shall sell, to any person who makes a demand in that behalf at its office at Bombay, Calcutta or Madras and pays the purchase price in legal tender currency, at a rate equivalent to twenty-one rupees, three annas and ten pies per tola of fine gold, the currency of such gold standard country as may be notified in this behalf by the Governor General in Council in the Gazette of India, for immediate delivery in that country :

Provided that no person shall be entitled to demand an amount of currency of less value than that of 1065 tolas of fine gold.

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

(4) The Governor General in Council shall from time to time determine the equivalent rate in accordance with

the provisions of sub-section (3), and shall notify the rate so determined in the Gazette of India.

OBIGATION TO BUY GOLD

37. The Bank shall buy, from any person who makes a demand in that behalf at its office in Bombay, Calcutta or Madras, gold bullion for delivery in Bombay at the rate of twenty-one rupees, three annas and ten pies per tola of fine gold, if such gold is tendered in the form of bars containing not less than 1065 tolas of fine gold :

Obligation of
Bank to buy
gold.

Provided that the Bank shall be entitled to require such gold bullion to be melted and assayed, by persons approved by the Bank, at the expense of the person tendering the bullion.

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