

March 7th, 1918.

Dear Blackett:

Many thanks for yours of the 3rd.

I am just leaving for a ten days' golf trip
and will read the enclosure with a great deal of inter-
est on my holiday.

Faithfully yours,

Basil P. Blackett, Esq.,
British Embassy,
Connecticut Avenue,
Washington, D. C.

BS*VCM

LIBRARY

MAY 10 1919

FEDERAL RESERVE BANK

May 9, 1919.

My dear Blackett:

As you know, some of us are interested in a plan to promote legislation by our Congress so that we may have some sort of a definite system of budget for our Federal Government. We are trying to stimulate public interest by newspaper and magazine articles and by other methods and I am wondering whether you would be willing to write an article for one of our best magazines on this subject. We would like, if possible, to have about 1500 words, dealing particularly with the working of the budget system in England, emphasizing how it has saved money, also, historically, how it came to be adopted, and that under your system no restraint is to be imposed in the development of progressive legislation such as old age pension, health insurance, and similar measures which have already been adopted in England under the system of executive budget. It would be of great advantage to us to have something in the article to indicate how the operation of the budget, readjusted to meet war conditions, has been of assistance to Great Britain's financial program.

If this is asking too much of you, please don't hesitate to say so, but I know the article would be of value and am confident that if you can spare the time you will be glad to help us out.

Sincerely yours,

Basil P. Blackett, Esq.,
23 Wall Street, New York.

BS/MSB

LIBRARY
MAY 23 1919
FEDERAL RESERVE BANK
May 22, 1919.

My dear Blackett;

I was greatly disappointed in not having opportunity to have a little visit with you before your sailing for home, but I was playing golf diligently and recovering from the loan effort.

You are most kind to be willing to prepare that article. (Budget Book here)
We shall value it highly, and it will be of real service to this country, where you have been a sojourner for so long. It looks as though we were making good progress toward budget legislation, and I know you will be glad to feel that you have had a share in bringing it about. Whenever the article is ready, send it along to me and I will see that you are supplied with copies after publication.

With kindest regards, I am,

Sincerely yours,

Basil P. Blackett, Esq.,
Treasury Chambers,
Whitehall, London S.W.1,
England.

F 10466

London, September 16, 1919.

Dear Sir:

Please accept my thanks for your letter of the 15th instant enclosing copy of Annual Report of the Indian Paper Currency Department for 1916-17.

Very truly yours,

The Under Secretary of State for India,
Financial Department,
India Office, S. W. 1,
London.

V

June 3, 1921

My dear Blackett:

I have yours of May 19, with the questionnaires on statistical information.

- To Mr. Gilbert 6/6/21 - No copy sent to Files
I have forwarded your note to Washington and will advise you of any reply they may wish to make.

But I will draw your attention to the fact that practically every item about which you inquire is published every month regularly in the Federal Reserve Bulletin. And I should say that this information was as official as anything you could get. It would be no different if it came through the State Department or any other.

The only item I note which is not given exactly as you wish it is the monthly statement of tonnage of foreign trade. This, in this country, is given only for a certain number of items, where the quantities are given as well as the values.

From these quantity figures the Federal Reserve Board makes up an estimate of the relative quantity each month, which is also published in the Federal Reserve Bulletin.

As you probably know, Mr. Hoover is endeavoring to improve the statistics we have as to domestic trade and production, and the Federal Reserve Board and the individual banks have been working along the same line, so that you could easily have not only all you ask for but a great deal more.

Kindly advise me in what further way we may serve you, and believe that it will always be a pleasure.

Sincerely yours,

BENJAMIN STRONG,
Governor

Hon. Basil P. Blackett,
Treasury Chambers,
Whitehall, London, England.

June 29, 1921.

Dear Sir:

✓
Your favor of May 31, with the accompanying
LOOSE IN FILE
documents, reached me sometime ago, and I regret the delay
in acknowledging them, due to my repeated absence from
New York.

Will you not accept my thanks for this courtesy,
and convey the same to Sir Basil Blackett?

Yours very truly,

✗ Arthur Sweetser, Esq.,
c/o Office of the League of Nations,
London, England.

BS:MM

June 29, 1921.

My dear Blackett:

About five years ago I purchased £500 of War Savings Certificates. It seems astonishing how fast time flies, when I find that these certificates fall due on August 4, 1921. Can you tell me if they are still being issued, and if so at what price, and whether I should send them over to be collected, or whether on the contrary it would be better to purchase some new ones in their place?

I take this opportunity also to thank you for asking Mr. Sweetser to send me the interesting report of the committee which investigated the Austrian problem. I have not yet had time to finish its reading, but hope to do so shortly.

Trusting that you keep well, and with kindest regards,
I am,

Faithfully yours,

Sir Basil Blackett,
The Treasury,
London, England.

BS:MM

FEDERAL RESERVE BANK
OF NEW YORK

Sent by

(SEND TO FILE)

TELEGRAPHED IN CIPHER

RA

NIXON, Economic Section, League of Nations,
Paris

August 17, 1941.

ENYDEE NOT YET RETURNED STOP GOVERNOR STRONG IS MAILING UNOFFICIAL
AND PERSONAL REPLY TO SIR BASIL BLACKETT.

BURGESS,
FEDERAL RESERVE BANK

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 2, 1921TO Snyder

SUBJECT: _____

FROM Governor Strong

I agree with you that it is desirable not to turn down Mr. Blackett's request, but at the same time we must regard the views of the Department of State. Mr. Gilbert will be here to-day and I shall have a word with him before deciding what to do.

GENERAL FILES
SEP 2 1921
FEDERAL RESERVE BANK
NEW YORK

B. P. Blackett

September 13, 1921.

My dear Blackett:

Owing to continued absence from the office I failed to acknowledge your kind letter of July 12 with regard to the War Savings Certificates which I wrote to you about. I have decided to allow them to run for another five years with the expectation as you say of having them repaid at £26 for each £15/6 originally invested. It was very good of you to look into this matter for me and to give me the necessary information concerning these certificates.

With my best wishes and kind personal regards,
believe me,

Yours sincerely,

Sir Basil P. Blackett, Esq.,
The Treasury,
London, England.

GB:MM

January 8, 1923.

Dear Blackett:

This is my first opportunity to send you a personal line since learning of your acceptance of the finance membership in the Viceroy's Council. It certainly is a most interesting work. Of course, I have known something of it since visiting Hailey, and frankly can well understand the lure to one of your active mind and disposition which such an opportunity will afford.

Since I was in India in 1920, your predecessor has been good enough to keep up a correspondence with me which has been most interesting, and given me such a good picture of India and what was going on there that I hope you will be willing to do the same.

Last Thursday your former chief Mr. Stanley Baldwin and Norman arrived on the Majestic. Wadsworth and I met them down the Bay, where they were honored by a visit from more newspaper representatives and camera men than I have ever seen on shipboard. To-day they start negotiating the funding of the debt. We are all hopeful of the results. While the temper of public opinion in this country would not yet support anything like intervention on the part of our Government in political matters in Europe, there nevertheless has been a strong swing in favor of a more constructive policy in economic matters than at any time since the war ended, which is a helpful background for such a difficult transaction as they now have to conduct. I am afraid, however, that the decision of the French Government to occupy the Ruhr has chilled public opinion a good deal as to conditions on the Continent, and I think solidified public opinion that anything in the nature of political obligations in Europe are not to be thought of. One of the strongest influences upon public opinion just now has been the growing realization by our farmers that we produce 10 or 15 per cent. more farm products than our own people can consume; that Europe is the principal market for them, and unless that market is capable of taking what we produce at fair prices, the farmers have got to curtail production. This applies especially to cereals and meats, as cotton exports have been pretty well maintained, and prices have been good.

I must take this opportunity to express the appreciation I have felt for the many kindnesses that you have shown my boy Ben in London. I hear frequently from him and he has more than once mentioned being with you and Lady Blackett, and of the hospitality you have been good enough to show him.

While a cold has kept me away from business recently, I have otherwise been pretty well and sincerely hope that you have been.

Wishing you the greatest possible success in your new work, and a very Happy New Year, I am,

Yours sincerely,

Sir Basil P. Blackett,
Delhi, India.

BS.MM

June 16, 1924.

My dear Blakett:

You will doubtless recall that I have been engaged for some years in building up a collection of literature and publications bearing on finance and economics for Princeton University. I have been anxious so far as possible to get documents which would constitute original sources of information, and one of the most important sources of production of that sort of literature is, as you know, the various government offices throughout the world. During my visit to India in 1920, I was much impressed with the value of material of that sort and had hoped through the kindness of Mr. Rushbrook Williams, whom I had the pleasure of meeting there, that something could be done towards collecting it together.

Inquiries made by the Librarian of Princeton University resulted in correspondence, of which I am enclosing copy to you. It seemed to me that this was proving to be a pretty expensive affair, and if the collection were to run into similar figures elsewhere throughout the world, it would grow to proportions very much beyond my capacity to finance it.

This letter is not inspired by a desire to get something for nothing, but I am writing to ask your best opinion as to whether there is not some method by which the material that is of real value and importance, such as is referred to in this correspondence, might not be obtained by some other means at less cost. Please do not hesitate to write me with the utmost frankness and to command my services in any similar or other way here.

One of the reasons for my suggesting India for the Library, I think you may understand when I say that no experience in the East so impressed me as did the Indian Government. I was disappointed that my stay there was so much shortened that I really could not learn more about it. The Indian Government is little understood in this country and frequently is the subject of much misrepresentation, sometimes by agitators who are seeking to stir up trouble. Our Universities have a system of exchanging lists of accessions, and students in any University are made welcome to use the libraries of any other University. A collection of documents of the character indicated which could be kept up-to-date would, in my opinion, be the only adequate source of original information in regard to the affairs of India and its Government that would exist in this country, and it would in fact be accessible to all American students who were interested in making a study of Indian affairs.

June 16, 1924.

Therefore, it seemed to me that it was worth some effort and expense to get it started. I would much appreciate your writing me as soon as your many duties may happen to leave you a few spare minutes to do so.

With many good wishes to you and to my other friends in India,
I am, as always,

Sincerely yours,

Sir Basil P. Blackett,
Delhi, India.

BS.MM

Blackett

July 10, 1924.

My dear Blakett:

Today I had the pleasure of a call from Mr. Denning and his wife . Unfortunately, they came just before I was obliged to keep an engagement for luncheon and just before a week-end which I am planning to spend in the country. As they are sailing next Tuesday - and this is Thursday - very much to my regret it will not be possible for me to show them any courtesies during their stay in New York. This I greatly regret on your account and especially on my own as I should like to have the time to learn more about my good friends in India and how things are going with them. They happened here in a very hot season and I fear their impression of New York will be one of discomfort. It is good of you to send them to me, and I only regret my inability to show them something in the way of hospitality.

With kindest regards, believe me.

Yours sincerely,

Sir Basil P. Blakett,
Delhi, India.

P. S. I had a fine letter today from Hailey, and am proposing to write to him as well as to you in the near future and give you something of an account of what is going on over here.

Blackett

July 14, 1924.

My dear Blackett:

Your letter of March 24 reached New York while I was in Europe. I was expected to make a very short visit, but illness delayed my return until May, and this is my first opportunity to reply.

I did read your speech on the Indian Exchange and Currency with a great deal of interest. And now I am wondering what will happen if efforts are made to restore sterling to par and resume gold payments. With some prospect of debt adjustments now developing, it seems to me that this may become more a possibility. Of course sterling will be in an uncomfortable position if the so-called Dawes Plan results in a stabilized mark which they are able to maintain at par with gold. And, frankly, the outlook is that that is exactly what will happen. There really are but four major obstacles to the resumption of gold payments in England, as we view it here. One is the debts; the second is the need for a higher bank rate and higher interest levels than ours in the face of a million unemployed people receiving government aid; the third is the unsatisfactory position of the currency notes; and the fourth is the disparity in price levels between Great Britain and America which must in some way or other be readjusted if London is to avoid a drain of gold. But of course if this country becomes the lending market of the world for a period it will take quite a burden off of the English exchange and I should hope to see some price readjustments follow, which would reduce that menace considerably.

Our own situation has undergone considerable change recently. In the first place, the Treasury closed this fiscal year, - June 30 - with a surplus of \$505,000,000, unexpectedly large because of greater revenues than anticipated and greater success in the reduction of government expenditures. This means a considerable reduction in the government debt, as most of the surplus revenues are applied to debt reduction. On top of that, we are receiving gold this year at the rate of about \$1,000,000 a day. And we have had some little recession of business. All of this has contributed to make very easy money. In fact, money is lending on call in New York at 2% and less. The banks are carrying prime commercial bills as low as 1-1/2%. Time money is listed at 3%. And the short-time government obligations, - depending upon maturity - are selling at from 2% to 3%. This has had the effect of developing a splendid bond market and many of the railroads, public utilities and industrial corporations are funding floating debt and raising money for plant improvement, etc. This period of easy money will put the country in healthy shape, and will be particularly helpful in the west, where a good deal of hardship resulted from the low prices received for the last two or three years crops, especially wheat.

7.14.24.

The Democratic national convention resulted in a deadlock between McAdoo and Governor Smith of New York. The real issue developed to be one of great bitterness, - a supposed discrimination against the Roman Catholic religion, for which Governor Smith was the standard bearer. And only after two weeks of exhausting effort in a very hot convention hall both parties withdrew and John W. Davis was nominated by a land slide. It's the best nomination they could have made. He is a fine, able man, and the general feeling is that whether he or Coolidge becomes President for the next four years, the country will be in safe hands. From now on interest will center upon the primaries, where about one-third of the senators, and all of the representatives are nominated preparatory to the November election. It looks as though the general dissatisfaction throughout the country with the performances of Congress during the past few years will result in a turn over, and it may be that we shall see a radical Congress. We certainly will see many new faces there.

I am sorry to learn by your letter that you have had a really serious illness, but I am reassured by what you write that you are all well again.

I have a long letter from Hailey, and I hope he will be happy in his new appointment as Governor of the Punjab. He is a splendid fellow, and I am very fond of him.

Won't you remember me to any of my friends with whom you are associated when you see them, and give my warmest regards to Lord Reading. The same to your good self.

Faithfully yours,

Sir Basil Blackett,
Delhi, India.

BS.MSB

Blackett

August 20, 1924.

My dear Blackett:

You are certainly very considerate and helpful in connection with that literature, and it would be a real contribution if you are able to make it possible for me to get just the documents which you have in mind. I am acknowledging your letter at once so as to make sure that you understand my appreciation.

My son Ben is very happily married, and after a year's experience with Schroeder's in London, he is now in New York banging away at the banking business.

I hope you keep well and happy and that all of your plans and affairs are meeting with the success which they surely deserve.

Sincerely,

Sir Basil P. Blackett,
Simla, India.

BS.MM

Blackett

September 11, 1924.

My dear Blakett:

It was very good of you indeed to take an interest in the books on Indian finance, etc. I think it will be a good plan to have some such repository of information on India as we shall then have in Princeton. It will be known to other Universities throughout the country and students will undoubtedly avail of it. I am most grateful to you for your help.

Possibly Mr. Denning explained to you that he and his wife happened in on me just as I was leaving the city and only a few days before they were sailing. I was so disappointed not to be able to entertain them, show them something of New York, and make some contribution to the enjoyment of their visit. Next time you send folks to me with a letter of introduction I surely hope to have better luck.

I seem to be in first rate health and am just about to leave for a month's holiday in Colorado which this time will be spent entirely in loafing.

With many good wishes, I am,

Yours sincerely,

Sir Basil P. Blakett,
Simla, India.

Blackett

RECEIVED
FEDERAL RESERVE BANK
NEW YORK
MAY 26 1925
FILES DIVISION

My dear Blackett:

sent to library
5/25/25

It was only yesterday that I was able to read the Budget Speech that you were good enough to send me, and I did so with great admiration and appreciation of the work which it represents; but more especially, my dear Blackett, for the fine spirit in which you approach a very knotty problem. How much I would enjoy a visit with you and learn something of your work!

I enjoyed a visit from your friend, Mr. Shirras, and hope that he derived some benefit from his trip. So far as I could tell, everyone gave him the needed time for discussion and investigation, and we were glad to do so as we all found him a most likeable fellow, indeed.

The last few months, as you may surmise, have been much devoted to the subject of gold. From here it looks as though the transition from a closed to an open market has been accomplished with little friction and hardship, and probably with success beyond Norman's expectations.

I shall hope to be over there in July and learn more on the ground.

With every good wish to you, believe me,

Sincerely yours,

Sir Baail P. Blackett,
Finance Member of the Council,
Simla, India.

BS.LS

Blackett

September 17, 1925.

My dear Blackett:

My very enterprising friend, the librarian at Princeton University, has written to remind me that I was undertaking some time ago to get a collection of Indian official documents for the Princeton library, which resulted in my bothering you.

It seems that when your friend, Dr. Shirras, was here, he visited Princeton and as a result of conferences there, they have something under way which will necessitate reference to a number of these documents, and they have asked me whether there is a chance of their being obtained.

I hate to bother a busy fellow like you, but it seems that I cannot well avoid it. You must not hesitate to let me know if this is going to be an inconvenience or expense, which I am not justified in asking.

I just got off the steamer last night after two months spent abroad, much of the time with our old friend Norman; and I wish my desk were not so occupied with matters needing attention as to prevent my writing you something of my trip. But I shall try to do so later.

With many kind wishes, believe me,

Sincerely yours,

Sir Basil P. Elckett,
Finance Member of the Council,
Simla, India.

BS.LS

PERSONAL

January 21, 1926.

My dear Blackett:

Your letter of December 3 fortunately arrived while Norman was here, so we had opportunity to discuss it together, and it resulted after considerable deliberation in our sending you jointly a confidential cable via London, confirmation of which is enclosed herewith.

I have written Professor Coyajee, but did not send him 120 Rupees, as I gathered from your letter and his that the amount of the expense incurred was still uncertain, and he would let me know the amount later. I shall send him whatever is needed when I hear the amount.

Now about your gold standard program. If you will accept the following comments in the very humble spirit in which they are offered, and understand them to come from one who pretends to have no expert knowledge of Indian monetary affairs, I shall regard them as containing the possibility of help with the minimum possibility of harm.

First let me say that I have always had a feeling that the Indian sterling exchange standard with the use of silver as the monetary unit of India, had clearly disclosed the weakness that it could be made to protect India against either a rise or a fall in the price of silver, but it was not successful in its ability to do both. In fact, I have always felt that the Indian position would be in some peril until the time came to get squarely on the gold standard. All of the arguments are clearer to you than they are to me, with the intimate experience you have now had with the Indian currency, and I only wish to pass on to you a few reflections on the difficulties of the program.

For years, centuries almost, the 300 million people of India have been accumulating silver. In recent years, I gather that the annual net importation may run around 75 million ounces, at times reaching 100 millions or even more; and during the extraordinary war period, India took practically the entire world's production of 200 million ounces a year, either directly as new production or indirectly through the Pittman Act silver, which has later been replaced by the United States Government in its purchase of new production silver. This great hoard of silver, partly in ornaments, partly in rupees, is the savings bank of India. In a general way, I suppose when the price of silver declines, the Indian people buy more silver. When it advances in relation to gold, they sometimes dispose of some of their silver and buy gold; but there is, nevertheless, a constant addition to the total fund.

Your program will contemplate making known to the world that India will no longer continue to take from 75 to 100 million ounces a year, but, in fact, in course of time will dispose of some 600 million ounces, which is equal to three years' world production. One need only go back to the days when Germany abandoned

bi-metallism to realize that this will cut the value of silver down tremendously in world markets. So the first query which occurs to me is as to the effect upon the minds of the Indian population of having the intrinsic purchasing power of their silver so reduced in value. How much coined silver will be tendered to the Government? How much silver metal will be offered for sale? That feature of the program is all a mystery to me; it depends much upon the psychology of the Indian people, as well as upon the ability of the Indian Government to actually deal with the problem of marketing a vast store of silver which it now has on hand or which is held by the public.

Of course, the impact upon price as a result of this move might be somewhat lessened if some very considerable part of the store of silver can be coined into a token coin at so low an intrinsic value, that it would not be exported. But the question is, how much currency of that character can India absorb, and would it absorb any considerable amount with the intrinsic value so reduced? It must also be borne in mind that the use of silver for subsidiary coinage has been very much reduced throughout the world, in fact, almost universally throughout Europe, and the British shilling has been reduced from 925 to 500 fine. This has all thrown a greater burden upon silver producers by restricting their market. In fact, the East and principally India, is now almost the only considerable market for monetary silver.

Of course, it at once occurs to me on reading your letter to estimate the possible reaction in this country. In order to somewhat inform myself and to give Norman a first-hand picture, I took the liberty of asking Mr. John D. Ryan and Mr. Cornelius Kelly of the Anaconda Copper Company to discuss the matter very confidentially with us. Mr. Kelly is now president of the Silver Producers Association of this country. What he tells us is most disconcerting as to your program. In the first place, the silver produced from the purely silver mines of this country can only be treated in conjunction with those mixed ores which contain other non-ferrous metals. The other metals principally associated with silver are copper, lead and zinc - lead and zinc being the most important. The effect of losing the Indian market for silver would be to add roughly 2 cents a pound to the cost of copper for those mines which have silver production as well. Some of them would be obliged to close. For the lead and zinc industry it would be a calamity. But it would really extend beyond that. The refining is largely conducted by refineries in New York, New Jersey, Maryland and along the Atlantic seaboard. These industries would be also seriously affected. The loss of the Indian market, they believe, would close the silver mines of Canada, United States and Mexico (except the most profitable) would close some copper mines, and would greatly increase the cost of lead and zinc, and affect the tributary industries, particularly refining. It would raise a political question of the first order.

All of this is leading up to the question which you frankly and necessarily raise as to assistance in carrying out a program of adopting the gold standard. You estimate that it would require 100 millions sterling of gold, which you naturally feel would need to be furnished by London and New York. Over a period, I have no doubt that this could be arranged, so far as necessary financial arrangements go, but I fear the consequences of a program calling upon the Federal Reserve System or American bankers to join in financing a monetary reorganization in India, the effect of which would be to throw tens of thousands, possibly hundreds of thousands of people out of employment and seriously cripple or destroy two or three important industries in this country.

Then there is another difficulty. Of course, India all these years has had favorable balances of payments and has been a steady accumulator of the precious metals in payment for exports. We might assume that a program could be laid out for adoption of the gold standard based upon the ability of the Indian Government regularly to acquire the South African production. But even if that were done, I think Norman feels that other demands for gold arising from all quarters of the world, which is liable to be of unusual extent in connection with plans for the resumption of gold payment, would have to be met by drafts on London, and it might indeed be too severe a strain upon his reserve.

On the whole, my conclusion is that however desirable your program may be, strictly from the standpoint of India and its monetary affairs and its gradual up-building economically, there are dangers of raising issues with a strong political quality and causing antagonisms which cannot be overlooked, and which indeed might defeat the program entirely if it depended upon assistance from us.

I am firmly convinced that the gold standard program is the best yet devised, and that it is the one to work to ultimately, but I do not yet believe that it can be successfully carried out at present in India without reactions in England and America, which might have far-reaching, even disastrous, consequences.

I have arranged to get some figures from Mr. Kelly, which should have been in my hands today, but not being received and as I am leaving for a month's absence on Friday, I shall prepare this letter in the hope that I can include the figures separately later.

You say you will be interested to hear what I think of you, and I can honestly say, my dear Blackett, that I think as much of you as ever - rather more, in fact, for writing me so fully and frankly about your proposals. Indeed, I might equally reply that I shall be greatly interested in hearing what you think of me after reading this rather hastily prepared reply.

With warmest regards, I beg to remain,

Sincerely yours,

Sir Basil P. Blackett,
Financial Member of Council,
Delhi, India.

BS.LS

Blackett

June 27, 1927.

Dear Blackett:

It is a long time since I have either heard from you or written you. The excuse on my part is a long illness after returning from Europe last September which put me on the shelf for about seven months. I surmise that the excuse on your part is the enormous amount of work with which I know you are confronted just now, and so I do not complain. But I would greatly appreciate hearing from you directly something of the progress you are making in organizing, under the terms of the Hilton Young's Commission report, and especially something of the difficulties which you appear to be experiencing over the declining value of the rupee.

In a way you were responsible for that visit of mine to London, and I must tell you one or two amusing incidents in connection with my appearance before the Commission.

My old friend, Sir Noroot Warren, referred to our correspondence prior to the Commission hearings in London in which he said that you had told him of your long letter to me, and that he had made a comment that doubtless you had your tongue in your cheek when you wrote it. He said your retort was that you had a very nice letter from me in reply, whereupon his comment was that if he knew anything about Strong probably Strong also had his tongue in his cheek when he wrote the answer. The fact is, my old friend, the whole enterprise as originally laid out gave me quite a bad turn. The reasons for the way I felt were so fully set out in my statement and those of Sprague and Hollander, that further comment is unnecessary. After the hearings one day your friend, Sir Purshotendras asked me if I would be interested to know what impression my statement had made upon the Indian members of the Commission,

which he explained by handing me a slip of paper which he had passed to Warren at the hearing and on which he had written the following: "Tell your friend, Blackett, that his friend, Strong, has buried his gold standard scheme with international honors." At the foot of the slip Warren had written, "And a damn good job too."

I had some very interesting experiences with the members of the Commission, none more illuminating than a long talk with Sir Purshotandas. He apparently was dead set against the 1s. 6d. valuation, confessed to me quite frankly that he thought the Indian exchange had been manipulated, that 1s. 6s. was an artificial value, and if they could adopt 1s 4d. it would restore to employers in India some part of the extraordinary wage increases which had been more or less forced upon them by the Government and which they could not readjust by any other method than the one suggested. I took the position consistently, (and without the slightest knowledge of what Norman had testified) that the adoption of any value for the rupee must be based upon the facts, that is, whether India had adjusted to the value of 1s 6d. which had prevailed for some eighteen months, or whether it was, in fact, a value which had any artificial element in it. On that subject we had no information and could make no statement except in general terms, that arbitrary readjustments of the value of the currency were undesirable if they could be avoided. I never expected Sir Purshotandas to write a minority report, but I had expected that Sir M. D. Dadabhoy might possibly do so. Imagine my astonishment, then, when Sir Purshotandas produced such an extensive and almost violent objection.

Of course, you know that I merely stated my convictions to the Commission with a desire to be helpful, and I hope in the long run that proves

to be the outcome. You will find the record of my statement filled with warnings against attempting to apply a banking system which is suitable to the United States, where conditions differ so materially as they do in India. The South African reserve bank is suffering now from the consequences of an attempt to do that very thing.

If I were a free lance it would be tremendously interesting to me to visit you in India and talk over some of these things. The next best is to hear from you about them by letter, so please write me if you have time.

It is a long time since I have heard from Halley, but let me know how he is and, if you think he would be interested, pass this letter along to him. I hope he keeps well. I hope also that you and Mrs. Blackett are well and prosperous and happy.

Ben, as you know, is married, has a lovely wife and a boy, also Ben, over two years old.

Things here rock along about as usual. The country is waxing fat and prosperous. Our Treasury this year has a surplus revenue of about \$600,000,000 and will reduce the funded debt by over a billion dollars. It is mighty interesting to me to watch this situation develop. Of the five big war loans of which, roughly, something over one half was sold by our organization in New York, the fifth has been entirely retired, another, the second, is in course of retirement and will be fully repaid or refunded at the end of this year, and another, the third Liberty Loan, falls due and will be partly paid off and the balance refunded by September of next year. It has been an extraordinary record. The wealth of the country and the industry and savings of the people have done most of it, but we have had a very wise secretary of the treasury who is entitled to much credit.

Norman arrives here next week with Schacht, and we are also to have the new vice governor of the Bank of France, Dr. Rist, here at the same time. So possibly I had better save my breath for many long talks now in prospect and close this long letter.

Many good wishes to you, old friend, and success to your efforts.

Very sincerely yours,

Sir Basil Elackett,
Simla, India.

Blackett

January 25, 1928.

Dear Sir:

Your letter of December 21 has arrived during Mr. Strong's illness. He has asked me to write you and to tell you that he is looking forward with pleasure to reading it, but that probably he will not be able to reply to it for some time.

After nine months of continuous good health and unbroken business activity Mr. Strong has had a recurrence of his old trouble. However, this has been very slight - not comparable to his last attack - and we have every reason to believe that he will be back in the office as fit as ever in a couple of weeks.

I am enclosing a copy of your letter, and have retained a copy for Mr. Strong.

Very truly yours,

Secretary to Mr. Strong.

Sir Easil P. Blackett,
New Delhi, India.

Blackett

August 10, 1928.

My dear Basil:

It seems most ungrateful that I should have so long delayed a suitable answer to your fine letter of December 21. It arrived at a time when I was seriously ill, and from that time until the present I have been obliged to neglect a great many matters, including much of my mail. I am not even certain at the moment whether you are in India or have returned to England, so am sending this to the India Office where they will know your address.

Even now I cannot send you much of a reply, as I am only a few days back from Europe and must skimp my working time still for the benefit of health.

What I especially wish to convey in this letter is the hope that your work in India has given you a great deal of satisfaction. I know that you have worked much in the face of opposition and obstacles of a very stubborn and difficult character but, after all, that lends interest to the work and creates the incentive for its accomplishment.

Had I been able to go to England on this trip I would have looked you up, were you there. If and when you receive this letter I hope you will write me something of your plans, and whatever they may be I sincerely hope that it means prosperity and happiness for you.

Sincerely yours,

Hon. Basil P. Blackett,
C/o The India Office,
Downing Street,
London, England.

British Embassy

Washington D.C.

5/3/18

Dear Stamp,

The enclosed - which was prepared in the
Treasury, London, + is presumably not for publication
may interest you.

Yours sincerely
Barth Blackett

THE SEVENTH GERMAN WAR LOAN.

On 19th September the lists of the Seventh German War Loan were opened for subscription and remained open till 18th October. The prospectus was almost identical with that of the Sixth German War Loan. The Loan consisted of 5% Stock irredeemable before 1924 and also of $4\frac{1}{2}$ Imperial Exchequer Bonds redeemable, as in the case of the Sixth Loan, at 110%, 115% and 120% according to the date of drawing. Drawings of the Bonds of the Seventh Loan begin in 1918 at 110%. In July 1927 the Empire has the right to repay the Bonds outstanding at par giving the holders the option of conversion into 4% Bonds. Drawings of these Bonds continue annually at 115%. Ten years after the conversion the Empire has once more the right to repay the Bonds at par giving the alternative of conversion into a $3\frac{1}{2}$ % security redeemable by annual drawings at 120%. In 1967 any bonds outstanding must be redeemed at the premium at that time obtaining i.e. 110% or 115% or 120%. Both the Stock and the Bonds were issued at 98. 5% of the nominal amount of the Stock and of the Bonds is to be set aside, in the first case for the payment of interest and in the second case for interest and redemption. Payment could be made either in full between 29th September and 18th October, or by instalments, the last of which must be paid on 6th February 1918. Holders of the stock or bonds of any of the first five War Loans were permitted to convert their holdings into $4\frac{1}{2}$ bonds of the Seventh Loan provided that for each amount thus converted be

subscribed as much as one half in new money.

After a month of very vigorous propaganda the subscription lists of the 7th German War Loan closed on October 18th. A few days later the provisional results were published showing that a total of £622,900,000 had been obtained, apart from subscriptions from over-seas and from armies in the field, for which the lists remained open till November 20th 1917. These will no doubt bring the total up to £625,000,000 as compared with a final result for the Sixth War Loan of £656,100,000. The total sum raised by the seven war loans amounts to £3,639,800,000 with an annual interest charge of £182,000,000. The following table shows the results of the war loans to date.

First Loan (September 1914) (final figures)	[£] <u>224,050,000</u>
Second Loan (March 1915) (final figures)	455,300,000
Third Loan (September 1915) " "	<u>608,150,000</u>
In 1915	1,063,450,000
Fourth Loan (March 1916) (final figures)	538,400,000
Fifth Loan (September 1916) " "	<u>534,900,000</u>
In 1916	1,073,300,000
Sixth Loan (March 1917) (final figures)	656,100,000
Seventh Loan (September 1917) (provisional figures)	<u>622,900,000</u>
In 1917	<u>1,279,000,000</u>
Grand Total	<u>3,639,800,000</u>

Thus the Seventh Loan falls rather more than £30,000,000 short of the Sixth Loan, but is about £15,000,000 larger than the

Third Loan. The German papers have regarded it as a great success, and have emphasized with considerable justification the fact that the low internal condition of the country, owing to the Chancellor crisis, could hardly be considered favourable for the floating of a big loan.

To date Germany has covered out of her total Vote of Credit expenditure of £4,700,000,000 by means of funded war loans £3,639,800,000 or 77.44%. It must be remembered, however, that her war costs are continually swelling and that her last two Votes of Credit have each been for £750,000,000. There is a growing surplus of expenditure which cannot be met by means of war loans. It is not known what total has been reached of Treasury bills outstanding but there is every reason to believe that it is well over £1,000,000,000. The inflation of the note issue is also increasing very rapidly.

The subscriptions to the complicated $4\frac{1}{2}\%$ Treasury Bonds have once again kept within very modest proportions, as can be seen from the comparison with previous loans :-

	Fourth Loan £1,000	Fifth Loan £1,000	Sixth Loan £1,000.	Seventh Loan £1,000.
5 per cent Loan	457,150	478,925	587,896	557,865
$4\frac{1}{2}$ per cent. Treasury Bills	78,450	53,660	68,207	65,032

Further, not more than £5,770,000 of old war loan stock was offered for conversion into the new $4\frac{1}{2}$ per cent. security.

It is evident that these Bonds, which the Germans claim "carry their own redemption within them" are by no means popular and will not do much to lessen the anxieties of the financial authorities as to the future.

The following table shows for the seventh and earlier loans the distribution of subscriptions received through the various subscribing agencies :-

	1st Loan	3rd Loan	5th Loan	6th Loan	7th Loan
chsbank	23,950	28,450	34,245	31,200	37,600
ks and Bankers	144,750	369,550	304,075	377,450	347,300
ings Banks	44,150	143,850	128,375	160,200	159,900
e Insurance ompanies	10,150	20,850	16,870	19,300	19,100
perative redit Associations	----	34,000	42,330	55,150	54,600
t Office	----	8,350	6,690	5,800	4,700
Total	223,000	605,050	532,600	648,900	623,200
ised Total including subscriptions from oad and from armies the field	224,050	608,150	534,950	656,100	-----

The above table can be expressed more clearly in the form of percentages:

Distribution of Subscriptions.
(Percentages)

Agenies.	1st Loan	3rd Loan	5th Loan	6th Loan	7th Loan
	%	%	%	%	%
chsbank	10.7	6.7	6.4	4.9	6.0
ks and Bankers	64.9	61.1	57.1	58.2	55.8
ings Banks	19.8	23.8	24.1	24.7	25.6
e Insurance Companies	4.6	3.4	3.2	2.9	3.1
operative Credit Ass&ns	-	5.6	7.9	8.4	8.8

There is a decline in the actual amounts received through all the agencies with the exception of the Reichsbank, where there is an increase of £6,400,000. It is most surprising, in view of the increase by as much as £48,000,000, in large subscriptions of over £25,000 (shown in the table immediately below), to note that both the actual amounts and the proportion of the total collected through Banks and Bankers should show a fall, as compared with the Sixth Loan, while small subscriptions through Savings Banks, Life Insurance Companies and Co-operative Credit Associations show a small absolute decline but a relative increase. The total amount of the Seventh Loan is about £30,000,000 less than the Sixth Loan, the subscriptions over £25,000, are £48,000,000 more than in Sixth Loan and yet the subscriptions through Banks and Bankers are £30,000,000 less than in the Sixth Loan. The increase of £6,400,000 subscribed through the Reichsbank accounts for only a small part of the extra £48,000,000 of very large subscriptions. The only conclusion to be drawn from the figures as they stand is that there has been a falling off in the subscriptions made through Banks and Bankers in amounts of less than £25,000 of nearly £40,000,000.

The two following tables enable a comparison to be made of the amounts received from the different classes of subscribers in the Seventh and earlier War Loans:

AMOUNTS SUBSCRIBED
(In thousands of pounds).

Subscriptions.			First Loan.	Third Loan.	Fifth Loan.	Sixth Loan.	Seventh Loan.
	£	£	£	£	£	£	£
to	10		1,800	6,500	7,700	14,320	10,400
m	15-	25	5,550	18,450	14,650	21,860	14,740
	30-	50	29,350	42,200	27,600	40,050	26,540
	55-	100	29,350	46,400	26,000	35,090	23,060
	105-	250	28,950	78,150	45,550	58,470	43,380
	255-	500	22,500	60,100	38,400	49,440	40,890
	505-	1,000	15,350	42,900	32,550	40,650	34,870
	1,005-	2,500	20,500	58,350	49,100	64,850	59,450
	2,505-	5,000	15,750	42,500	40,500	53,140	51,190
	5,005-	25,000	26,450	88,300	85,500	105,530	104,600
	25,000-	50,000	14,350	34,750	42,650	48,080	56,500
r	50,000		43,450	86,450	122,400	117,410	157,280
Total			223,000	605,050	532,500	648,900	622,900

PERCENTAGE OF AMOUNT SUBSCRIBED.

Subscriptions.			First Loan.	Third Loan.	Fifth Loan.	Sixth Loan.	Seventh Loan.
	£	£	Per cent.	Per cent.	Per cent.	Per cent.	Percent.
to	10		0.8	1.1	1.4	2.2	1.7
m	15-	25	2.5	3.2	2.7	3.4	2.4
	30-	50	13.2	6.9	5.2	6.2	4.3
	55-	100	13.2	7.7	4.9	5.4	3.7
	105-	250	13.0	12.9	8.6	9.0	7.0
	255-	500	10.1	9.9	7.2	7.6	6.6
	505-	1,000	6.9	7.1	6.1	6.2	5.6
	1,005-	2,500	9.2	9.6	9.2	10.0	9.5
	2,505-	5,000	7.0	7.0	7.6	8.2	8.2
	5,005-	25,000	11.4	14.6	16.1	16.3	16.8
	25,005-	50,000	6.4	5.7	8.0	7.5	9.0
r	50,000		19.5	14.3	23.0	18.0	25.2
Total			100.0	100.0	100.0	100.0	100.0

It will appear from these tables that the distribution of subscriptions in the Seventh Loan presents a remarkable contrast with the preceding loan. The proportion of large subscriptions is far greater in the present loan, and there is an actual increase in the largest subscriptions - those over £50,000 - of nearly £40,000,000 in spite of the fact that the total subscriptions are smaller than in the Sixth Loan. Actually more than one quarter of the whole of the Seventh Loan was provided by 1032 subscribers of over £50,000. Small subscriptions up to £50 represent only 8.4% of the total as compared with 11.8% in the Sixth Loan, 9.3% in the Fifth Loan and 11.2% in the Third Loan. The increasing hardships suffered by those with small incomes would normally result in a diminution in their capacity to subscribe to new War Loan issues.

The apparent reversal of this tendency in the Sixth Loan was due in part to unprecedented propaganda which undoubtedly tapped new resources, and partly, perhaps, to manipulation of the figures.

The above figures showing the distribution of subscriptions are borne out by the following tables in which the number and percentage of subscribers in the different classes is given:-

NUMBER OF SUBSCRIBERS.

Subscriptions.			First Loan.	Third Loan.	Fifth Loan.	Sixth Loan.	Seventh Loan.
to	£	£					
	10		231,112	984,358	1,794,084	3,844,834	3,233,472
from	15-	25	241,804	858,259	681,027	1,058,861	693,729
	30-	50	453,143	918,595	605,494	893,611	586,623
	55-	100	453,143	530,176	301,563	407,538	264,871
	105-	250	157,591	422,626	245,873	320,762	233,542
	255-	500	56,438	147,593	93,189	122,514	100,781
	505-	1,000	19,313	54,445	40,571	51,659	42,732
	1,005-	2,500	11,584	32,840	28,500	40,463	33,914
	2,505-	5,000	3,829	10,090	9,748	13,564	12,169
	5,005-	25,000	2,050	7,074	7,870	12,322	9,145
	25,005-	50,000	361	832	1,032	1,184	1,363
over	50,000		210	530	725	770	1,032
Total			1,177,235	3,966,418	3,809,976	6,768,082	5,213,373

The great increase in the numbers of the very small subscribers in the last two war loans is due to the intensive circulation of War Savings cards in the Army and the Schools. Subscriptions of only one mark can thus be made to the loan, and each such subscription if counted goes to swell the total number of subscribers.

In the Seventh Loan the number of small subscribers has fallen off considerably in comparison with the Sixth Loan - a fact which is explained by German newspapers as being partly due to the decline in country subscriptions owing to the

proceeds of the harvest having not yet come in. The Frankfurter Zeitung admits quite openly that the country dwellers have not done as much as they ought in the way of contributions to the War Loan. It is interesting to note that subscribers of between £15 and £100 are fewer than in the Third, Fourth, Fifth and Sixth Loans.

On the other hand large subscribers of over £25,000 are considerably more numerous than in the Sixth Loan; the great increase in subscribers of over £50,000 is specially remarkable. A table of the percentage of subscribers of different amounts shows an increase in the percentage of very small subscribers, due to the savings card system, but a considerable decrease in the relative numbers of subscribers of amounts between £15 and £250. The tables indicate clearly that the capacity of the middle classes to subscribe is becoming exhausted. The percentage of subscribers of over £50,000 is exactly the same as in the First Loan.

PERCENTAGE OF SUBSCRIBERS.

Descriptions.		First Loan.	Third Loan.	Fifth Loan.	Sixth Loan.	Seventh Loan.
£	£	%	%	%	%	%
to 10	10	19.6	24.8	47.1	56.8	62.02
m 15-	25	20.5	21.6	17.9	15.7	13.31
30-	50)	38.5	23.2	15.9	13.2	11.25
55-	100)		13.4	7.9	6.0	5.08
105-	250	13.4	10.7	6.45	4.7	4.48
255-	500	4.8	3.7	2.44	1.8	1.93
505-	1,000	1.6	1.35	1.06	.74	.82
1,005-	2,500	1.0	.83	.75	.60	.65
2,505-	5,000	.3	.25	.26	.20	.23
5,005-	25,000	.2	.18	.207	.18	.18
25,005-	50,000	.03	.02	.027	.017	.03
er 50,000		.02	.014	.019	.012	.02
		100.00	100.00	100.00	100.00	100.00

The average amount contributed by each subscriber is greater in the Seventh than in the Sixth Loan owing chiefly to the diminution in the number of small subscribers and the increase in the very large subscriptions in the case of the seventh loan. The following table shows the average subscription in the Seventh and earlier loans :

			AVERAGE SUBSCRIPTIONS.				
Subscriptions.			First	Third	Fifth	Sixth	Seventh
£			Loan.	Loan.	Loan.	Loan.	Loan.
£			£	£	£	£	£
to	10		7.79	6.63	4.29	4.6	3.22
from	15-	25)	22.95	21.50	21.51	21.10	21.25
	30-	50)	64.77	45.94	45.58	45.11	46.24
	55-	100)		87.52	86.22	86.4	87.06
	105-	250	183.66	184.92	185.26	185.8	185.75
	255-	500	398.67	407.20	412.07	412	405.73
	505-	1,000	794.80	787.95	802.30	802	816.02
	1,005-	2,500	1,769.68	1,776.80	1,722.81	1,723	1,752.96
	2,505-	5,000	4,113.08	4,212.09	4,154.70	4,159	4,206.59
	5,005-	25,000	12,902.44	12,482.47	10,864.04	10,860	11,437.94
	25,005-	50,000	39,750.69	41,766.83	41,327.52	41,260	41,452.68
over	50,000		206,904.76	163,113.21	168,827.59	168,800	152,403.10
Average per subscriber			189.43	152.54	139.79	96.0	119.48

The average subscriptions in the different classes has remained remarkably constant during the last three loans, alterations in the volume of subscription being approximately compensated by corresponding alterations in the number of subscribers.

The great increase in the number of subscribers of over £50,000 has reduced the average amount subscribed in that class to £152,403.

The following list shows the amounts subscribed by certain of the larger German towns. No figures are again available for Berlin and Düsseldorf which in the third loan headed the list with £105,000,000 and £23,400,000 respectively.

SUBSCRIPTIONS BY TOWNS.

Towns	Popula- tion 1910	1st Loan £1000	3rd Loan £1000	5th Loan £1000	6th Loan £1000	7th Loan £1000
Frankfurt	415,000	7,400	22,750	19,750	24,800	22,000
Stuttgart	286,000	3,700	13,000	14,950	21,450	?
Hannover	302,000	3,750	14,800	18,000	19,800	?
Leipzig	931,000	12,500	23,000	17,500	19,775	18,200
Munich	596,000	5,600	13,550	11,315	15,165	14,000
Breslau	512,000	6,800	13,250	13,785	14,350	13,000
Lyon	516,527	?	?	10,400	12,750	?
London	548,000	4,200	12,750	10,525	10,150	10,500
Berlin	294,635	3,455	7,352	8,200	9,400	10,050
Dresden	590,000	3,600	11,100	6,900	9,050	8,450
Frankfurt	236,113	2,190	7,412	6,918	8,770	8,000
Magdeburg	279,629	?	?	?	?	7,980
Stuttgart	98,656	?	?	6,050	7,800	6,750
Leipzig	180,843	?	?	7,460	9,600	6,700
Stettin	194,000	2,850	6,200	6,025	7,500	6,500

The only town in the above list which shows an increase over the Sixth Loan in Essen, and amongst the smaller towns also it is mainly the munition centres, which have increased their subscriptions. In the majority of cases the subscriptions are smaller in the Seventh than in the Third Loan.

The results of the Seventh War Loan are significant as affording proof of the determination of the German people to carry on the war and as showing that the internal credit of the German Empire is as yet not seriously impaired. The position after the war is undoubtedly causing a great deal of anxiety, but so long as the army is still able to keep victories up its sleeve and produce them when wanted, and so long as it suffers no very disastrous defeat in the field, it does not seem likely that it will be unable to obtain the funds necessary for the prosecution of the war.

The facility with which Germany is able to raise these great loans every six months is certainly remarkable, but it must be remembered (a) that the currency is very rapidly being inflated; more than £250,000,000 of notes have been put into circulation since the beginning of 1917, and the total circulation now stands above £800,000,000. (b) that the funds invested in the war loans are largely the proceeds of the process of liquidation of much of his national wealth during the war. Her stocks of raw materials and manufactures have been used up and have not been replaced, her reserves of food

stuffs have been consumed, her soil exhausted, her machinery and plant worn out. The sole opportunity for the investment of much of the liquid capital thus created has been the War Loans, in which is now locked up a very large part of the "replacement fund" which will be required by German industry and commerce after the war. The making of these funds available after the war is one of the most urgent of the problems which the German Government will have to face after the war. It has announced that it proposes to retain the existing Loan Offices for a considerable period after the war, and to enable them, with the aid of the Reichsbank and the whole banking system to grant loans against war loan stock, to an almost unlimited extent, at a low rate of interest. It is true that it is quite possible that this could be done, but it involves an enormous inflation of the already inflated German currency with a corresponding effect in depreciating its value both at home and abroad.

The actual amount of new money received is appreciably less than appears from the official figures. The Savings banks contribute large sums to the loans but before each new loan their clients are the largest sellers of old loan even at a loss. It falls on the Reichsbank to maintain the market for War Loan, and it is the sole buyer on a large scale. It accepts the stock of old loans at $\frac{1}{2}\%$ below issue price, and it buys officially as much as £50,000 daily at the Berlin Stock Exchange. However, when the sales are more abundant, especially, for the account of the Savings Banks, it does not hesitate to absorb an even greater quantity in order to prevent too much

being offered on the market. Every obstacle is thrown in the way of the public, if it wishes to dispose of War Loan. If anyone is in absolute necessity for money he is sent to the War Offices to borrow on his War Loan; if he is determined to sell, his orders are executed slowly and only for very small quantities. Hence in time of war, at least, the possession of War Loan stock is by no means free from disadvantages; while on the other side, the Reichsbank is compelled to have ever increasing recourse to its note issue in order to maintain the market for old war loans.

12th September, 1919.

My dear Strong,

I have pleasure in enclosing a copy of the statement relative to loans advanced by the Allies to one another, about which you spoke to the Governor of the Bank a few days ago. I am sending you this copy at his request. The figures in the statement were got together in February 1919, so are not quite up to date.

Yours truly,

Basil Blackett

Benjamin Strong, Esq.

Special
ON HIS MAJESTY'S SERVICE.

NATIONAL ECONOMY. FASTEN Envelope by gumming this Label across Flap.
OPEN by cutting Label instead of tearing Envelope.

Benjamin Strong, Esq.,

Ritz Hotel,

PICCADILLY,

W. 1.

of Feb 19

(Blackett)

CONFIDENTIAL.

The loans advanced by the Allies* to one another are approximately as follows :-

Loans to.	By United States.	By United Kingdom.	By France.	Total.
	£	£	£	£
United Kingdom	800,000,000	-	-	800,000,000
France	485,000,000	390,000,000/	-	875,000,000
Italy	275,000,000	390,000,000/	35,000,000	700,000,000
Russia	38,000,000	520,000,000/+	160,000,000	718,000,000
Belgium	56,000,000	90,000,000\$	90,000,000	236,000,000
Serbia	4,000,000	20,000,000\$	30,000,000	54,000,000
Roumania	2,000,000	16,000,000	35,000,000	53,000,000
Greece	8,000,000	15,000,000	15,000,000	38,000,000
Portugal	-	10,000,000	-	10,000,000
Total ...	1,668,000,000	1,451,000,000	365,000,000	3,484,000,000

* Excluding loans raised by the United Kingdom on the market in the United States, and loans raised by France on the market in the United Kingdom or from the Bank of England.

/ After deducting loans of gold to the United Kingdom, from France £50,000,000, from Italy £22,000,000, and from Russia £60,000,000, which are returnable when the counter loans are repaid.

‡ This allows nothing for interest on the debt since the Bolshevik Revolution.

§ No interest has been charged on the advances made to these countries.

MEMORANDUM RECEIVED FROM BRITISH BOARD OF TRADE

COPY

COTTON.

July 16th, 1919

Bales

Estimated year's consumption of American cotton
in mills of United Kingdom under pre-war conditions 4,270,000

Deduct one-eighth for reduced consumption owing
to shorter hours of working, say 530,000

Leaving estimated year's requirements
for 1919-20 3,740,000

Notes.

1. The indications are that the year 1919-20 will be a period of active trade for the cotton industry; and no reduction in consumption is to be expected on account of lack of demand. The figure of 4,270,000 bales above represents approximately the consumption during 1912-13, which was likewise a period of active trade. There has been no appreciable change since then in the spindleage consuming American cotton.

2. Working hours have been recently reduced from $55\frac{1}{2}$ to 48. It is improbable that the output of the mills will be diminished by quite as much proportionately, but for the first year, certainly, the reduction will be nearly proportionate. A decline of one-eighth has accordingly been assumed under this head.

4,270,000
15
600,000,000

15
4,270,000
600,000,000

*Any further communication on this subject
should be addressed to—*

*The Under Secretary of State for India,
Financial Department,
India Office, S.W.1,
and the following reference quoted :—*

F 10466

Tele. Nos. { VICTORIA 8920 } Ext.
 { TREASURY 4 }

INDIA OFFICE,

WHITEHALL. S.W.1.

15th September 1919.

Sir,

I send you the enclosed copy of the
annual report of the Indian Paper Currency
Department for 1916-17 at the suggestion of
Mr. Blackett of His Majesty's Treasury.

It is regretted that no copy is
available of the 1917-18 report, i.e. of the
latest issue.

I am, Sir,

Your obedient Servant,

J. P. Martin

For Financial Secretary.

Benjamin Strong Esq.,
Ritz Hotel,
Piccadilly,
W.

C O P Y

File after showing to Chr. Jay. I have replied BS

Treasury Chambers,
Whitehall, S.W.1

23/12/19

My dear Strong,

This will be too late to do more than hope you have had a Merry Xmas, but here are my best wishes to you for the New Year 1920. It will start with the world in a less hopeful mood than 1919, but I trust sincerely that it will be a less disappointing time for us all.

We have been watching your efforts to check inflation in the U.S.A with interest + admiration. We have just taken a very bold step here in fixing a maximum for the fiduciary issue of Currency Notes in 1920. It seemed a good move not because in itself it can do any good but because it improves public confidence in its belief that the Government has a definite policy + if it is to be carried through the decision commits the authorities to a deflationist policy. I believe we are at last at the peak of our National Debt + in a position to begin shortly some debt reduction, though pending is still in the future. The Government has a reasonably economical frame of mind for the present + can probably be kept up to the mark, as public opinion demands economy.

I am a little afraid that the U. S. A. will not give us proper time to effect the improvements in exchange which I aim at. It seems to me not impossible if only American prices could be allowed to rise a little more that we might get ours down a trifle so that the two would meet on a proportion similar to the pre-war proportion + so allow us to get near to reestablishing the gold standard, with gold purchasing about 45% what it did before the war. But if you deflate too fast + your prices go down, we cannot face, socially or politically, the big drop in prices which would be necessary here. I am not sure that it would not pay the U.S.A. to let our rates remain, as they are at least now, well above New York, and then when we have got back to the gold standard come in as partners with us in providing Europe + elsewhere with capital. But perhaps I am over sanguine as to the prospects of restoring the gold standard.

Best wishes to Jay + Curtis

Yours very sincerely

[signed] Basil P. Blackett

File
SOCIÉTÉ DES NATIONS.

LEAGUE OF NATIONS.

London.

May 31, 1921.

Dear Sir,

[See 1010]
Sir Basil Blackett of the Financial Commission of the League of Nations has asked me to send on to you as a matter of possible interest the enclosed Report of the Sub-Committee which went to Vienna to investigate the Austrian problem, and the Report of the full Financial Commission of the League on all the measures which should be taken both by the Allied Governments and by Austria herself, to put Austria back on her feet. Sir Basil feels very optimistic as to the general outcome of the work and feels that already the Austrian situation has been improved by removing it from the political to the technical field.

Yours very truly,

Arthur Sweetser

Governor Strong,
Federal Reserve Bank,
NEW YORK CITY.
U.S.A.



In reply
please quote Regd. No.



ACKNOWLEDGED

SEP 13 1921

R S.

TREASURY CHAMBERS,
WHITEHALL.

12th July, 1921.

My dear Strong,

In reply to your letter of the 29th ultimo about your holding of War Certificates; you may make application (on a form which I enclose) for repayment of the certificates at par on their due date or you may allow them to run on for another five years at the end of which they will be repayable at 26/- for each 15/6 originally invested and therefore for each 20/- due on the 4th August 1921. You will see that the form of application for repayment allows you to be repaid by a warrant payable to any bank you may name; the actual certificates should accompany the form of application.

We are still issuing new certificates at a price of 15/6, repayable after 5 years at 20/- or after 10 years at 26/-; compound interest at approximately 5½% per annum is thus payable throughout the
currency



Sen Basil B. L. L. L.

Delhi,

the 13th February 1923.

My dear Strong,

I was very glad to get your letter of January 8th. Many thanks for your good wishes. Your picture of the arrival of Stanley Baldwin and Norman gave me just the touch which I have been wanting. Personally, I am well satisfied with the settlement between the British and American Governments in the matter of the Debt (so far as I can understand it from the insufficient reports in the newspapers here). Of course one recognises that from one point of view it simply means that we are paying a war indemnity, but I think it is better so than that matters should be left unsettled to cause irritation between our two countries.

I arrived here on January 8th, the anniversary of my first arrival in India, i.e. the date of my birth. So far I am thoroughly disappointed with the conditions of work. Instead of being able to get ahead and do things which need doing, one has to waste one's time ^(+ failing) trying to obtain authority from the India Office for doing things which are obviously proper and right and obviously ought to be done by the people on the spot without reference Home. The only thing wrong with India at the present moment is the India Office.



However we may be able to change all that.

Yours sincerely,

Janet W. Mackay

Benjamin Strong, Esquire,

Federal Reserve Bank of New York,

New York.

*P.S. Write as often as you can. We are isolated
here. I will write again soon after my husband
is introduced on Mar. 1st.*

Speech of the Finance Member

INTRODUCING THE

BUDGET FOR 1923-24.

INTRODUCTORY.

MR. PRESIDENT,

In rising to-day to present the budget statement for 1923-24, I claim, and I know I shall receive, the privileges of a new-comer and a new Member. It is a great privilege for me thus to be able to fulfil an old dream of returning to the land of my birth to serve India as so many of my ancestors have done. But two months is a very insufficient time for the task of preparing to present a budget to this House. I am, however, in many ways fortunate. First and foremost, I have the devoted services of the Finance Department under the Hon'ble Mr. Cook. Without their help there would have been no budget. I am the inheritor of the fruits of three years of hard labour of my friend Sir Malcolm Hailey. If there is a gleam of light in the budget which I am about to present, it is his doing. The fruit is the fruit of seed which he had sown, and I am reaping where he has ploughed. I am afraid that he had to put up with much inclement weather, with storms and rumours of storms, but if there is promise of harvest to-day, the credit is to him. For nothing perhaps am I more indebted to him than for his share in the credit of securing the appointment of the strong and able Retrenchment Committee, which has been so well presided over by Lord Inchcape. Possibly the most interesting part of the papers which I am laying on the table to-day and in the next few days in connection with the budget will be the report of the Inchcape Committee. Lord Inchcape shocked my modesty a few days ago by describing himself as my forerunner. He and his colleagues can perhaps be more aptly compared to the burly forwards in the American game of football on whom falls the duty of charging ahead of the man with the ball and beating down, with all permissible violence, any opponent who threatens to check his progress. Whatever views individual Members may take of this or that recommendation for retrenchment made by the Committee,—and I never heard any recommendation for retrenchment anywhere, except the stopping of the salary of the Finance Member, which was really popular,—I know the whole House will be unanimous in joining with me in expressing our heartfelt gratitude to the Committee for their devoted work, and, as I think I may promise, for their remarkable success in what is the most ungrateful of all ungrateful tasks.

2. Mr. President, my first duty to-day is to lay before this House the figures of the outturn, or rather the probable outturn, of the year 1922-23. Since I came to India, I have much envied the position of the British Chancellor of the Exchequer who, in presenting his budget, is always able to give accurate figures for the year which, under the British system, has just closed and not, as under the Indian system, is about to close. He is not confronted, as I am, with the necessity of making what is after all only a second guess on the basis of the first nine or ten months' experience of what the real figures are for the year preceding the year to which the budget which he is presenting relates. When I have laid before the House the figures for 1922-23, I hope to make a short review of the general financial position of India at the close of 1922-23, that is, the position as it presented itself to a new-comer as I am. It will then be my task to proceed with my proper function to-day—the presentation of the budget for 1923-24.

II.—REVIEW OF THE YEAR 1922-23.

Deficit as now
estimated.

3. The budget estimates of the current year as finally passed provided for a deficit of 9·16 crores, the estimated revenue (including new taxation and increased postage and railway rates expected to yield $18\frac{3}{4}$ crores), being 133·23 crores, and the expenditure 142·39 crores. There is a saving of 4·14 crores on expenditure, but revenue will be 12·48 crores less than the estimate, so that as now revised the estimates point to a deficit this year of $17\frac{1}{2}$ crores.

Revenue.

Trade conditions.

4. Our revenue estimates were not based on a hope of any marked or striking revival in trade, although we certainly expected some slight improvement on the general trade conditions of the previous year. On the whole, this anticipation has been justified. There was considerable stagnation during the earlier part of the summer, but, except perhaps in the cotton mill industry in Bombay, the general feeling prevailing in the business community has for some months been one of mild optimism. Considering the impoverishment of many of our former customers, our exports have undoubtedly shown a promising recovery, and, so far as merchandise alone is concerned, the balance of trade in favour of India during the first ten months of the financial year has been 62 crores which contrasts with an adverse balance of $29\frac{1}{2}$ crores in the corresponding ten months of the preceding year. As against this, there has been a substantial net import of bullion in the current year, but after including the bullion figures there still remains a net balance of 20 crores in favour of India instead of an adverse balance of 33 crores in the first ten months of last year.

Customs.

5. Under Customs we budgeted for a total net revenue of $45\frac{1}{2}$ crores, of which 9 crores was expected to accrue from the enhancement of duties imposed in the Finance Act of March last. We now expect a Customs revenue which will be some 3 crores short of the figure budgeted for. The most uncertain, and at the same time one of the most important factors affecting our revenue is the import of sugar, which in the previous year had yielded us the unprecedentedly large figure of $6\frac{1}{2}$ crores at the old rate of duty of 15 per cent. For the current year we did not anticipate the continuance of such abnormally large imports, but expected, on the increased duty of 25 per cent., to realise about $6\frac{1}{4}$ crores. The figures of imports vary in a very erratic way from month to month which makes estimating difficult; recently, owing to a large drop in prices, imports were held up in order to get the benefit of the revised tariff valuation which came into force from the 1st January. We expect, therefore, large imports in the last 3 months of the year though the effect of this will be counterbalanced by the duty being calculated on a lower valuation. On the whole, we expect that the revenue from sugar will be less by $1\frac{1}{2}$ crores than the budget figure. The excise duty on cotton manufactures will also bring us in substantially less than we expected; owing to the high price of cotton and a fall in the price of cotton cloth in the internal markets, there has recently been a reduced output from the mills, and we expect to be about 60 lakhs down under this head. As regards the other tariff heads, it is probable that there will be some deficiency in the revenue from liquors, matches, machinery, cutlery and other manufactured articles, but any losses here should be nearly counterbalanced by increased revenue from import duties on cotton piece-goods (which may give us 96 lakhs more than our estimated revenue of 5,60 lakhs), iron and steel and other metals, while the new excise duty on kerosene is likely to bring us in 89 lakhs as against 40 lakhs budgeted for.

6. Before leaving the subject of Customs, I must refer briefly to a matter which has attracted some public attention during the year, namely, our revenue from the so-called "luxury" articles, which are assessed to duty at 30 per cent. Hon'ble Members will have seen from time to time various articles in the press, the object of which was to show that this high rate of duty has very seriously affected the trades concerned, and it was implied, if it was not asserted, that a lower rate of duty would have brought in more revenue. These contentions are scarcely borne out by the facts. In the current year we budgeted for a return of 2,84 lakhs from the 30 per cent. duty; we actually expect to receive only 11 lakhs less in spite of a considerable fall in prices. The principal articles included in the 30 per cent. schedule are motor

cars, silk manufactures, glass bangles and beads, and tyres and tubes. Except in the case of silk manufactures, the quantities imported during the first nine months of the current year have been in excess of those imported in the corresponding period of the preceding year. Nearly twice as many motor cars have been imported; and if the value of the cars imported has fallen considerably, this is due partly to the general fall in world prices and partly to the fact that people have been importing the cheaper American car in preference to the more expensive English car. I doubt very much if the duty has had much to do with this substitution. The conclusion is that there is certainly no case at present for any alteration of the schedule.

7. As Hon'ble Members will have seen from the published returns, our traffic receipts from railways have been disappointing. The increase in passenger fares was expected to add some 6 crores to the receipts. Traffic, both passenger and goods, especially the latter, has, however, fallen off, and as against the estimated gross traffic receipts of $99\frac{1}{2}$ crores, we do not expect to get more than 92, the small improvement over the gross earnings of last year being mainly due to the increased passenger fares. On the other hand, we expect a saving of $2\frac{1}{4}$ crores on that portion of the expenditure on replacements and renewals which is debitable to revenue, counterbalanced by an excess of about 1 crore in ordinary working expenses. Altogether our net railway revenue is likely to be down by $5\frac{3}{4}$ crores. Taking into account interest charges, I am sorry to say that the final result for the general tax-payer will be that there will again be no profit from railways, but a loss of about a crore. Railways.

8. The effect of the new postal rates, during the first few months of the financial year, was to reduce correspondence, but there have since been signs of recovery, and the public are now gradually getting used to the higher postal charges. For the present, however, I think we must anticipate a diminution of 1,06 lakhs in our anticipated receipts in 1922-23. There is a small saving in working expenses, and after debiting interest, the department will probably prove to have been running at a profit of about 24 lakhs. Posts and
Telegraphs.

9. We expected large arrear income-tax collections, but after the beginning of the year it became evident, not only that the allowances that we should have to make for bad debts, etc., would be large, but also that our revenue was to be seriously affected by heavy refunds which have had to be made in Calcutta as a result of the adjustment system in force under the former Act; fortunately this will, under the new Act, not disturb our estimates again. I understand that in Calcutta companies have in many cases actually received a cheque from the income-tax authorities instead of paying any tax to Government, and the net receipts in Bengal are not expected to be more than $3\frac{1}{4}$ crores. The collections have been good in the other provinces, particularly in Bombay, though the lower profits which the cotton mills have recently been making will, I fear, affect our revenue from that city in 1923-24. Altogether, we expect a total deterioration of $3\frac{1}{2}$ crores. Income-tax.

10. As regards other heads, I need only say that we expect to get 89 lakhs more from opium than we anticipated, and there will probably be some slight improvement —7 lakhs or so—under salt. Opium and Salt.

Expenditure.

11. On the expenditure side, there will be a substantial saving of about 1,86 lakhs in our budget provision for interest on debt. Our rupee and sterling borrowings have been larger than we budgeted for, but a full half year's interest in respect of the greater part of these does not fall due till next year; the success of our borrowings has, moreover, enabled us to fund a substantial portion of our floating debt, and the payment of interest made for short periods this year on our new loans is less than that which would have been payable for the replacement of the treasury bills discharged. Interest.

The House will recollect that a special provision of 60 lakhs was entered in the Civil estimates as part of the expenditure in Waziristan (under the head "Political"). We now anticipate that there will be a saving of nearly 35 lakhs therein, owing to a part of the expenditure being thrown forward to next year. There will also be a saving of $\frac{3}{4}$ crore in other civil expenditure, mainly as the result of retrenchments carried out during the year. Other Civil
expenditure.

Exchange.

The average rate of Exchange for which we budgeted was 1s. 4d. We expect no appreciable deviation from the budget under this head.

Change in method of accounting.

12. Before dealing with military expenditure, I must explain briefly a change which has been made in the method of showing the figures; it affects all the non-commercial heads but is most marked in the case of the military portion of the accounts. Our practice in the last two years in distributing exchange adjustments has been to show them against the individual heads of account in so far as the commercial services were concerned, and to lump the entries under one head "Exchange" in respect of the remaining heads. This method would answer well enough if the difference between the statutory rate (2 shillings to the rupee) and the actual rate was fairly small; but it gives our figures a misleading appearance when the difference between the two rates is as large as has been the case during the past two years. It was not at all surprising, therefore, that serious objection was taken to this procedure in the course of the discussion of the budget in both Houses last year, on the ground that it had the effect, on the surface, of largely understating the actual expenditure incurred on military services. It has now been decided to distribute the exchange adjustments between the individual heads in all future accounts and estimates. The figures of military expenditure which I shall give this morning have accordingly been arrived at after converting sterling into rupees at the rate of 1s. 4d.

Military expenditure.

13. The Budget provided 65·10 crores for the established charges of the Army, 2·13 crores for Waziristan expenditure and 52 lakhs for demobilisation charges, making a total of 67·75 crores. In regard to the Waziristan expenditure my predecessor stated that the figure could be regarded as tentative only, since it is always difficult to forecast the exact effect of military operations of this nature. His apprehension has unhappily proved correct and Waziristan expenditure in 1922-23 is now estimated at 3·85 crores. Demobilisation charges will amount to 2·8 crores owing to unexpected progress with the discharge of surplus officers and to a claim from the War Office for the cost of demobilisation of British troops which had become surplus on the reduction of Indian establishments. On the other hand, the established charges will now amount to only 60½ crores, owing to a continued shortage of British troops, fall in prices and a variety of other causes. A careful control has been maintained over these charges; and savings in Budget grants have not been allowed to be re-appropriated for new measures involving a permanent liability of any considerable magnitude, though a small portion had to be made available to meet initial expenditure on equipment the purchase of which could not be further postponed. In spite therefore of the excess expenditure of 1,72 lakhs in Waziristan, we have been able to effect a saving of 46 lakhs in the budget grant for Military expenditure.

Summary of variations.

14. These variations in revenue and expenditure are summarised below:—

		(In lakhs of rupees)	
		(+ better,	—worse).
(i) Customs revenue, less	...	...	3,12
(ii) Income-tax revenue, less	...	...	3,42
(iii) Opium and salt revenue, more	96	...	...
(iv) Net revenue from Railways, less	...	...	5,86
(v) Net revenue from Posts and Telegraphs, less	...	...	94
(vi) Interest and Currency receipts, more	51	...	...
(vii) Saving in provision for interest on debt	1,86	...	...
(viii) Saving in Military expenditure (net)	46	...	...
(ix) Saving in civil expenditure (including Political expenditure in Waziristan) and other items	1,21	...	...
		5,00	13,34
		—8,34	
Deficit as budgeted for	...	—9,16	
		—17,50	
Deficit according to present estimate	...		

III.—POSITION OF INDIAN FINANCES AT THE CLOSE OF 1922-23.

Succession of Deficits.

15. Before I proceed to present the budget for 1923-24, I should like, with the permission of the House, to make a short survey of the financial position of India at the present time, and to attempt to give the House a new-comer's first impressions, or as

Mr. Punch would say, first depressions. I am afraid that much of what I say may sound rather superficial, and that I shall be open to the charge of doing what has been done before by more than one globe trotter who, after spending a few weeks in the country, sets to and writes a book about India. One of the many books about India which I brought with me to read on boardship on my way out was a volume entitled "The Moral and Material Progress Report". I was rather shocked by the odd assumption in the title that there had necessarily been progress. When I came to look into the finances of India for the last few years, I was tempted to wonder whether it was not rather a rake's progress. For five years in succession, India has had a deficit. The accumulated total of these deficits amounts to no less than 100 crores, and this in spite of the fact that in the last two budgets additional taxation has been imposed estimated to bring in about 28 crores during the year 1922-23. Even this is not the whole story. Apart from our revenue deficits, we have spent many crores on unproductive purposes, the expenditure on which is classed as capital expenditure. New Delhi is the most obvious example. I can see no justification, other than sheer necessity, for not treating this expenditure as chargeable against revenue, and in any case it ought to be repaid out of revenue at an early date. Moreover, besides the deficit of the Central Government, the recurring deficits of the provincial Governments and of many local bodies throughout India must not be forgotten.

16. I ask the House to pause a moment and consider what these deficits mean. Their Danger. Unfortunately, we are accustomed in these days all over the world to budget deficits, and familiarity breeds contempt in spite of the fact that more than one awful example is before us among the nations of Europe of the chaos which continued budget deficits inevitably induce. The individual who lives beyond his income year by year does not escape the penalty and the same is true of a State. The individual who makes this mistake quickly finds himself compelled to consent to a ruthless cutting down of his expenditure or is driven either to sell or to mortgage a part or the whole of his possessions; or, in the worst event, to cheat his creditors. A State is in the same position, but the position is frequently obscured by the fact that the State's creditors are in another capacity the citizens of the State and its taxpayers. And the State which is driven to cheat its creditors does not always realise what it is doing although its unsound methods are adopted at the expense not only of the wealth and happiness of its own citizens, but also at considerable risk to social order within its borders. Much of the present unrest in the world is due to the way in which States in all parts of the world have cheated their creditors by unsound currency manipulation and the creation of paper money with no real assets behind it.

17. India has not entirely escaped the evils of taxation through inflation, but as compared with many other countries she has come off well. Inflation and Floating Debt. Out of the total deficit of 100 crores during the last five years, it is estimated that 31 crores have been covered by the creation of paper money, representing nothing but the I. O. U.'s of the Government of India. The remainder amounting to 69 crores has been raised by borrowing. Moreover to the extent of 22 crores the borrowing has thus far taken the form of issues of Treasury Bills to the public. It is true that, owing to special conditions during 1922-23, we were able to reduce our Treasury Bills by 32 crores, in spite of the deficit, out of the proceeds of long term loans. Still, 22 crores of Treasury Bills in a country like India is far too large an amount to have outstanding. A large volume of Treasury Bills is an evil even in England, where the condition of the money market is such that it is always possible to renew maturing bills by offering a competitive rate, but in India conditions might easily arise under which even an impossibly high rate would be insufficient, and in that case the Government of India would be driven back to replacing the Treasury Bills by paper currency, *i.e.*, would be driven to taxation by inflation.

18. In this connection, a word may be said about our early maturing debt. We Maturing Debt. have to find the means of meeting bonds during the next three or four years to the extent of $5\frac{1}{2}$ crores in 1923, $3\frac{3}{4}$ crores in 1925, and nearly 38 crores in 1926. These amounts, too, have to be competed for against other demands on the market, and may be said, in part at any rate, to be one of the outcomes of the deficits for the last few years.

Increased Interest charge.

19. But the deficits of 100 crores can be looked at from another point of view, when again their evil effects are prominent. In the budget for 1923-24, the charge for interest would be at least $5\frac{1}{2}$ crores less had it not been for these accumulated deficits. This extra $5\frac{1}{2}$ crores has to be met either by reducing expenditure, possibly by reducing desirable expenditure, or by raising new taxation, or at best by maintaining existing taxes which could otherwise be reduced.

Effect on India's credit and handicap to her development.

20. Moreover the continued deficits are threatening to impair India's credit in the market both at home and abroad, and increasing the cost of borrowing whether for covering the deficits or for new capital expenditure. India is a country where, as it seems to me, there is an almost unlimited field for new capital expenditure on new development. At the last Assembly of the League of Nations at Geneva, India established her claim to be one of the eight premier industrial States of the world. Every one admits, however, that India is only at the beginning of her industrial development, and it is out of her capital resources, *i.e.*, out of her accumulated savings and her new savings, that the capital to develop India industrially must be found. We have borrowed all that we could borrow in India and in England during the last few years for capital expenditure purposes, and we have undertaken a minimum programme of 30 crores a year for capital expenditure on Railways. I wish it could be more. So far as I can judge at the present time, the amount which might usefully be spent on profitable development of transportation in India is limited mainly by the possibilities of finding capital resources. Yet we have spent 100 crores out of capital in the last five years in financing deficits, thereby diminishing to a corresponding extent the resources available for developing India. Let us make no mistake about it. If recourse to inflation is ruled out, if it is agreed that the concealed method of taxation by inflation is the worst of all methods, the money to meet the annual expenditure of India, whether on capital or on revenue account, must come out of the savings of the country. The only exception, which is not a real exception, to this statement is that some of the capital may be borrowed abroad, and it has of course been a commonplace of the history of the last century that capital has been found by the older industrial countries of the world for the development of new-comers in the field, to the great advantage both of the borrower and of the lender. But the amount that India can borrow abroad is limited both by the amount available abroad, which in the present condition of the world may prove a comparatively small amount for some time to come, and by the capacity of the borrower to meet the annual charges for interest. These annual charges for interest are in effect a claim on the future resources of India and ultimately come out of the same pocket as the money required to meet the rest of India's expenditure, *i.e.*, out of the savings of the people. To sum up, the deficits of the last few years have brought in their train a certain amount of taxation by inflation, a heavy annual charge on the present and future budgets of India, a deterioration in India's credit, an increase in the cost of borrowing, and a depletion of the resources available for desirable capital development.

Necessity for stimulating habit of Investment.

21. Perhaps I may be allowed to digress at this moment to touch on a subject in which I have always taken very great interest. Every one who has studied the subject agrees that a wonderful era of prosperity would be ahead of India if the habit of investment could be stimulated, if investment in India became anything like as general a practice as it is in such countries as England and France. It is true that much has been done in recent years. The rupee loans of the last few years have been unprecedented in amount. But much remains to be done if the Indian people are to form the habit of investing their talents in reproductive enterprises rather than wrapping them up in a napkin, and perhaps I should also add, if some of them could learn to be content with sound and steady returns on the money they invest instead of looking for impossibly high dividends.

22. I have been making some inquiries as to the progress of the Post Office Cash Certificates. I was an original member of the National Savings Committee appointed in England at the beginning of 1916 largely through the efforts of Mr. Montagu, and was privileged to take a part in what is widely regarded in England as a most extraordinarily successful movement. The change from thriftlessness to thrifty habits which has taken place among many sections of the English people has been described as a revolution. National Savings Certificates to the value of nearly £360 millions are now held by the small investor in the United Kingdom. When I contrast the

sales of the Post Office Cash Certificates, which were not inconsiderable during the war when they were first started but have since declined, I cannot help thinking that there must be great possibilities of development in this system. What a great improvement in our financial outlook would result if by development of the Post Office Cash Certificate system a considerable part, if not the whole, of the money required for provincial capital expenditure could be found out of the proceeds of Cash Certificates! It is my earnest hope that before long means may be found for taking up this subject in earnest. It is a subject in which, above all others, if we are to succeed, non-official effort must be enlisted to second governmental action.

23. As the results of the deficits of the last few years and of the war, India's debt has grown from a total of 4,11 crores on the 31st March 1914 to an estimated total of 7,81 crores on the 31st March 1923. This figure includes the floating debt and the early maturing debt of which I have already spoken, but it excludes no less than 63 crores of obligations which it is I find the practice to treat separately from the debt of India, though as far as I can see these obligations are just as much a part of India's debt as the rest. Taking, however, the figure of 7,81 crores which I have given of the total debt of India on the 31st March 1923, we find that 5,57 crores is classed as productive and 2,24 crores as ordinary or unproductive debt. The proportion of productive to unproductive debt is one which naturally looks strikingly good to any one who thinks of Great Britain's figure of £7,500 millions of debt, all of which has gone in powder and shot. But this comparison must not blind us to the fact that since the 31st March 1914 the total debt has increased by 3,70 crores and the unproductive debt by 2,27 crores, and we must not forget that the yield on that part of our productive debt which is invested in railways has not been sufficient in the last two years to meet the interest charges.

24. The debt, again, has to be divided between rupee debt and sterling debt. The rupee debt has risen since the 31st March 1914 from 1,46 crores to 4,21 crores and the sterling debt has risen from £177 millions to £240 millions in the same period. The sterling debt of £240 millions represents a claim on India's production of goods and services in the future up to the value of the principal together with a further claim on those goods and services for interest during the interval until the principal is paid off.

25. This question of the sterling debt brings me by a natural transition to a new subject, which is certainly not the last one to be brought to the attention of an incoming Finance Member—I mean the question of currency and exchange. Now, it is no good crying over spilt milk, and I do not think the House will expect me to delve deeply into the history of Indian currency during recent years. It is easy to be wise after the event. There were some wise men, however, even in 1919-20, who held that the right course at that time would have been to adopt a waiting policy, and I am convinced that, for the moment at any rate, a waiting policy is still the right policy. What was it that upset the equilibrium of the rupee-sterling exchange which had been so painfully stabilised at 1s. 4d. at about the end of the 19th century? Primarily of course it was the Great War and the adoption of inflationary methods by all the belligerent countries. Whatever system of currency had been in force in India during the Great War, it would have been profoundly disturbed by the events of 1914-18. In so far as India had a choice and was not swept along in the maelstrom of world events, India's choice was necessarily between an attempt to keep the exchange value of the rupee more or less stable and an attempt to keep rupee prices more or less stable. As a matter of fact, India's first choice was the former, and for some time the rupee remained at or about 1s. 4d., but then the rise in the price of silver, which occurred as the natural consequence of the fall in the purchasing power of gold, introduced a new complication. It is impossible over a long period to keep a coin in circulation which is worth more as bullion than it is as current coin. Once the traditional figure of 1s. 4d. for the rupee was departed from, nothing remained stable, though in comparison with the rest of the world Indian prices up till 1920 remained relatively stable in terms of gold. Thus, it was essentially the rise in the price of silver which upset the Indian currency system. I need say no more of the attempt that was made to stabilise the rupee at a new, or rather at the old, fixed rate of 2 shillings gold in 1920 except that it failed. Looking back, we are able to say that the attempt was an almost impossible one with all the exchanges of the world out of gear, with world prices moving up and then down

with unexampled rapidity, and with relative prices as between one commodity and another fluctuating in an unheard-of manner. Can we say that the position to-day is such that an attempt to give the rupee a fixed value, whether at 1s. 4d. or any other rate, in terms of gold, or in terms of some other currency, is much more likely to succeed than it was in 1920? I think not. The French are in the Ruhr; the whole of Continental Europe is faced with the threat of impending chaos; throughout the world prices are unstable; sterling has approached close to par with gold but it is not yet at par; and even if it were at par, it is too soon to say whether political and monetary conditions in the United States may not lead to a fresh cycle of rising prices in terms of dollars which would almost necessarily have to be followed by a rise in sterling prices. For the moment, therefore, I repeat that the time has not yet come for a new attempt to fix the rupee, whether at 1s. 4d., 1s. 6d., or any other figure.

Strength of Indian
Currency Reserves.

26. Subject, however, to one essential condition, namely, that the era of unbalanced budgets, central, provincial and local, in India is succeeded by an era of balanced budgets, there is, I think, reason to regard the currency position of India with some satisfaction. We had a good monsoon last year and India's export trade has taken a turn for the better. For internal purposes the metallic reserve of silver seems to be fully ample to maintain the convertibility of the paper currency. In addition to the reserve of silver rupees, there is in the Paper Currency Reserve a sum of £24 millions in gold, and in sterling securities, easily convertible into foreign exchange, a total of £5,800,000 sterling. Over and above and outside these Reserves, we have £40 millions in the Gold Standard Reserve. In spite of the separation between the two Reserves, if we are looking at the resources available for maintaining the rate of exchange of the rupee, the sterling securities in the Paper Currency Reserve and the Gold Standard Reserve all serve the same purpose.

Movements in
Exchange.

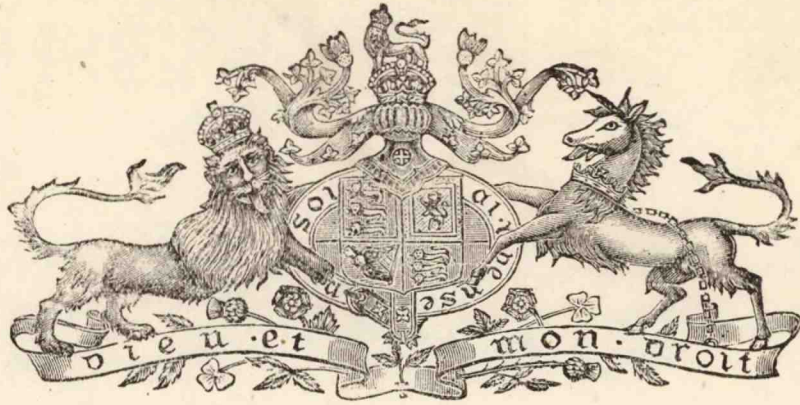
27. The movements of the rupee-sterling exchange during the past year reflect a clear improvement in the position of the rupee. A year ago, in February 1922, the telegraphic transfer rate in Calcutta on London had fallen as low as 1s. 2½d., and it was not till the end of December that it reached 1s. 4d. Since then, after a rather rapid rise to over 1s. 5d., followed by a sharp re-action, it is for the moment fairly steady at between 1s. 4d. and 1s. 4½d. This improvement in terms of sterling reflects an even greater improvement in terms of gold owing to the rise which has taken place during the year in the value of sterling in terms of gold, and the improvement is reflected also in prices. The Bombay Labour Office figure for Indian wholesale prices for December 1921 was 190. For December 1922 the corresponding figure was 173. There has been a still more striking fall in retail prices of food grains. This fall in Indian prices has been taking place during a period in which there has been an actual rise in dollar prices and sterling prices have remained approximately stationary.

General observations
on Exchange.

28. I have said that I do not think the time has come for fixing on a new policy in regard to exchange. I do, however, want to make one or two general observations. There is no sanctity in this era of instability about any particular rate of exchange, whether 1s. 4d. or 2s. or anything else; it is simply a question of what rate of exchange best suits India's needs. Ultimately India's payments outside India are, and must be, made in the form of exports of Indian goods and services. But, if we look at the matter from the narrow point of view of the budget, the following statistical data are of interest. The Government of India's sterling debt of £240 millions sterling at 1s. 4d. amounts to 360 crores, at 1s. 5d. it amounts to 339 crores, at 1s. 6d. it amounts to 320 crores, while at 2s. it amounts to 240 crores. Of the deficit for 1922-23, 5½ crores would have been saved had exchange been at 1s. 6d. and 9½ crores if it had been at 1s. 8d. Statistics proverbially can be made to prove anything. Nevertheless, these figures are striking and it must be remembered that, apart from the sterling indebtedness of the Government of India, there are large sterling debts owed by municipalities, port trusts, and many other Indian borrowers, who would all be individually benefited by a higher exchange so far as their sterling indebtedness is concerned. Then, again, although since 1920 the tendency of rupee prices to remain relatively more stable than world prices, or rather to follow changes in world prices rather slowly, has to a large extent ceased to operate, it is very doubtful, I think, whether internal prices in India have yet adjusted themselves to a level corresponding to a 1s. 4d. exchange, so that were exchange stabilised now at 1s. 4d., internal prices would have to go

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GOVERNMENT OF INDIA.

FINANCE DEPARTMENT.

**SPEECH OF THE FINANCE MEMBER INTRODUCING THE
BUDGET FOR 1923-24.**

up, and certainly there are various kinds of Government expenditure which would have to go up considerably in terms of rupees. Finally, we do not want ever again to find the rupee more valuable as bullion than as currency. That is one side of the picture. There is, of course, another side. An attempt to force up exchange violently would at once cause stringency. Severe stringency in the money market is never desirable for its own sake, is always bad for trade for the time being, and is most inconvenient from the point of view of a government which is engaged on a programme of capital expenditure, involving considerable capital borrowings. Any policy which threatened seriously to restrict India's exports is also to be deprecated, and trade above all desires stability of exchange, perhaps even more than stability of prices. I myself had some part in the International Conference at Genoa last April and May, and the first recommendation of that Conference was that "an essential requisite of the economic reconstruction of Europe is the achievement by each country of stability in the value of its currency." If, therefore, the time has not yet come for an attempt finally to stabilise the currency of India, stability is our goal and we mean to achieve it at the first opportunity.

IV.—BUDGET FOR 1923-24.

Expenditure.

29. While drawing attention to the above recommendation of the Genoa Conference, I am naturally led to quote another of its most important recommendations, which reads :

"In each country, the first step towards re-establishing a gold standard would be the balancing of the annual expenditure of the State without the creation of fresh credit unrepresented by new assets. The balancing of the budget is the first consideration."

What then about the budget for 1923-24? Is it going to be balanced? The Members of the Legislature are not the only people in India who are taking an interest in this question. Only a few days ago, I received the following postcard :—

"Sir, kindly let us know by wire at our expense whether the customs duty will be decreased or increased on foreign imported wines and spirits. Awaiting your favourable reply by wire".

30. At the outset of my statement of the figures for 1923-24, I must explain what action the Government of India propose to adopt in order to be able to show the results of the report of the Retrenchment Committee in the budget figures. The first part of the report of the Inchcape Committee came into the hands of the Government little more than a fortnight ago, while the second part of the report reached us only on Saturday last and the third part yesterday. The complete and final report has not yet been signed. It has been a difficult problem to decide how to fit the proposals of the Retrenchment Committee into the budget. A report of this importance obviously requires careful and detailed examination by the Government of India in consultation with the Secretary of State, and the House will naturally desire an opportunity of studying the proposals on their merits. There has not been time, therefore, for final conclusions to be arrived at in regard to a great many of the Committee's recommendations. On the other hand, it was obviously necessary to frame a budget in which allowance would be made for the reductions in expenditure which we all expect to result from the Committee's work. In any circumstances, it would, of course, have been impossible, and it is clearly recognised by the Retrenchment Committee itself that it would be impossible, to obtain the full value of the cuts which are to be made in the first year of operation. Some of the retrenchments proposed can only be introduced gradually so that allowance has to be made for what I may call the "lag", while in many cases allowance has to be made for extra expenditure on what I may call the "terminal charges", i.e., special charges which have to be incurred in closing down establishments and getting rid of the staff. Throughout its report, the Committee's recommendations are given in the form of reductions on the budget figures for 1922-23, which are of course quite different from the budget figures for 1923-24 as they appear before allowance is made for special cuts based on the Committee's recommendations. A fair

Retrenchment
Committee.

proportion of the total reductions recommended by the Committee are either automatic reductions on the 1922-23 figures or actual retrenchments which we ourselves have been able to effect in the budget for 1923-24 in advance of the receipt of the Committee's recommendations. The activities of the Committee cast their shadow before, and estimates prepared in the atmosphere of economy which they created naturally reflected part of that atmosphere.

31. In the Military budget, we have been able to take credit for the reductions which, subject to final agreement with the authorities in London, we propose to effect as the outcome of the Retrenchment Committee's recommendations. This we were able to do because we had advance knowledge of the reductions which were going to be proposed, and His Excellency the Commander-in-Chief, working in close co-operation with the Retrenchment Committee and with his Colleagues in the Government, had arrived at a general agreement in regard to the total. In the case of the Posts and Telegraphs budget, we have been able to present figures showing the effect for 1923-24 of some though not all of the reductions which we propose to effect in consequence of the recommendations of the Retrenchment Committee. Our preparations could not be so far advanced in regard to the other Civil Departments. It was necessary to prepare, for the purpose of presentation to this House, the estimates for the Demands for Grants before we had sufficient knowledge of the proposals which were going to be made by the Retrenchment Committee. The estimates for the Demands for Grants, which are about to be presented, accordingly show the figures of civil expenditure before allowance is made for special retrenchments consequent on the report of the Committee. As I have already explained, this does not mean that none of the results of what the Committee recommends appear in those estimates, but simply that the final retrenchments are not included in the figures.

32. Our problem therefore has been how to include in the budget statement the additional reductions which we hope to effect after studying the report of the Committee, and how to place the House in a position to examine and vote on the Demands for Grants in proper form. The Government are not yet in a position to announce definitely which of the particular recommendations of the Committee will be adopted; nor has it been possible to frame an accurate forecast of the allowance to be made for the fact that particular retrenchments cannot come into full effect as early as the 1st April 1923. But after giving careful consideration to the report, the Government of India have decided that they will be justified in taking the responsibility of saying that they believe that a reduction of 4 crores can be effected, over and above what has already been done, either in the ways proposed by the Retrenchment Committee or by some modification of them. A further paper will be circulated as soon as possible showing how this lump sum reduction of 4 crores is proposed to be spread over the various heads, and when the time comes for voting upon the Demands for Grants, the House will be asked to vote not the original total of each head but only the total as reduced in each case by the special cut made in the light of the Retrenchment Committee's recommendations. In the non-military portion of the Budget excluding interest, the Committee recommend reductions of about $8\frac{1}{2}$ crores on a total Budget estimate in 1922-23 of 103.9 crores. The corresponding figure in our detailed Budget statements for 1923-24 is 101.3 crores, a reduction of 2.6 crores. The House will see that our cut of 4 crores, together with the amount of 2.6 crores which represents retrenchments proposed by the Committee already taken account of in the estimates, makes a total of 6.6 crores. The difference between these two figures, amounting to less than 2 crores, represents the allowance which it is thought necessary to make for the fact that many of the recommendations, even if accepted, cannot be in full operation during 1923-24. This allowance is not a large one. The Government of India will do their utmost to make sure of converting their hopes into accomplished facts and will leave no stone unturned in their endeavour to make actual reductions to the full extent of the 4 crores. We must cut our coat according to our cloth, and where necessity drives, we must be content to forgo even desirable outlays. But I cannot conceal from the House that it will task all our ingenuity to give full effect to the 4 crores reduction within the year 1923-24, and that some risks are being taken in assuming that figure for Budget purposes.

Extent to which credit has been taken in Budget for retrenchment proposals.

Civil expenditure.

33. Some risks are also being taken in regard to our Military expenditure, risks of the same financial kind as in the case of Civil expenditure owing to the uncertainties caused by the circumstances in which our estimates have had to be framed, and risks of a military nature as well. In the case of Military expenditure the total for which the House will be asked to provide funds in 1923-24 is 62 crores. This figure represents, as I have already explained, the total required after taking into consideration the recommendations of the Retrenchment Committee. This total, which includes 1·69 crores for expenditure in Waziristan, compares with the total of 67 $\frac{3}{4}$ crores for 1922-23, a reduction of 5 $\frac{3}{4}$ crores. Military expenditure.

34. Opportunity will arise in the ordinary course for a general discussion by this House of the Army expenditure, but I may say that in the forefront of these reductions and forming the pivot on which the other reductions depend is a substantial reduction in the strength of British and Indian forces.

I am not in a position to-day to give details of the reductions in troops which it is proposed to effect. These reductions are being discussed between the Government of India and His Majesty's Government. The form which the reductions should take is necessarily a matter of some intricacy and complication as it is desirable to impair as little as possible the essential structure and organisation of the Army and so to retain after the reductions the maximum degree of efficiency. The decision, as the House will understand, is also a very responsible one and the difficulties being what they are, there simply has not been time to arrive at final decisions. In any case the full financial effect of these reductions and of other proposals in regard to the military expenditure cannot for practical reasons be expected in the coming year. If these reductions and the others which have been agreed upon could have been fully and effectively in operation by the 1st of April 1923, the net Military budget for 1923-24 would be 57·75 crores, but a sum of 4·25 crores has to be allowed for special expenditure in Waziristan and for the fact that the reductions cannot be in full force throughout the year. Reduction of troops.

35. It is not my intention to-day to go through the expenditure for 1923-24 in detail. Full statements under the various heads will be circulated, and I think it will be for the convenience of the House that I should leave Hon'ble Members to study these for themselves. It will be enough for me to say now, therefore, that, as compared with the original Budget Estimate of expenditure for 1922-23 of 2,15·27 crores inclusive of the working expenses of commercial departments, our total expenditure for 1923-24, taking sterling expenditure at the rate of exchange of 1s. 4d. per rupee, is estimated to be 2,04·37 crores, a reduction of 11 crores in spite of an increase of 1 $\frac{3}{4}$ crores for interest. Total expenditure, 1923-24.

Revenue, 1923-24.

36. I turn now to the Revenue. In framing our revenue forecast, we have assumed that trade conditions will continue much as they are at present. We have allowed, that is, for a small growth in revenue such as may normally be expected from year to year; we have not counted upon any early boom in foreign trade.

37. Under Customs, I do not think we can prudently anticipate for next year imports of sugar on anything like the same scale as in 1921-22, and allowing for the new tariff valuation we estimate a revenue from sugar of 5 crores as against 4 $\frac{3}{4}$ crores for the current year. As regards the other tariff heads, we have either repeated the figure which we anticipate for the current year, or have provided for a small increase where an expansion seems probable. Altogether we assume a total gross revenue of 45·99 crores, or, allowing for refunds, a net revenue of 45·09 crores, which is 2,79 lakhs more than what we now expect to collect in the current year. This figure is arrived at after allowing for a reduction to 5 per cent all round of the export duty on hides and skins, a reduction necessitated by the state of the trade. Customs.

38. As regards Income Tax, we shall not again have to make the heavy refunds to which I have already referred; on the other hand, there is fairly certain to be a falling off of revenue in Bombay, while the collection of arrears will also be less; these may be expected to balance each other, and we have entered a revenue of 19 crores, which is roughly the same as we expect to raise this year. Income Tax.

39. I come now to the Railway budget. There is no doubt that as soon as any marked revival in internal trade takes place, Railway earnings ought to show a considerable rise; the autumn harvest has been so good and the promises for the Railways.

spring crop are so favourable that it is not unreasonable to expect a revival before long. The difficulty is to say how soon this revival will occur. Traffic receipts suffered a check in 1922-23, and on the whole I do not think it is safe to budget on the assumption that there will be a very rapid revival in 1923-24. Our estimate for gross traffic receipts is accordingly put at 95½ crores. It is 3½ crores higher than the revised estimate for 1922-23. Two factors account in the main for this increase of 3½ crores. The first is that in the earlier months of 1922-23 there was a considerable loss of revenue due to the strike on the East Indian Railway and the second is that the present increased rates did not come fully into effect on all Railways until about the 1st of July 1922.

Working expenses and interest and other charges, without allowing for the share attributable to this head of the Inchcape Committee's cuts, amount to nearly the same figure, leaving a net profit for the year of 35 lakhs which compares with the net loss on the current year's budget as now revised of R92,60,000.

Posts and
Telegraphs.

40. In the case of Posts and Telegraphs, we are able to estimate for a net receipt of 147 lakhs as compared with the net receipt of 24 lakhs in the 1922-23 budget as revised. This improvement is due in part to expected recovery in revenue and in part to reductions in working expenses made in anticipation of, or in consequence of, the recommendations of the Retrenchment Committee.

Total revenue.

41. We thus arrive at the following budget position on the basis of existing taxation. As against an expenditure of 2,04·37 crores, we have an expected revenue of 1,98·52 crores, leaving a deficit of 5·85 crores. Before I proceed to explain to the House what we propose to do in regard to this deficit, I must turn for a moment to our ways and means position.

V.—WAYS AND MEANS.

42. Public attention is usually concentrated on the annual budget of revenue and expenditure, but the Ways and Means budget is of equal importance, for after all it is the Ways and Means budget which shows the sums which the Government has to pay out under one head or another during the year and the sums which it has to get in from the public. Whether it is a provincial overdraft or an advance on capital account, or whether it is a revenue deficit, the money to meet the outgoing has to be got in before it can go out. The Ways and Means budget is, however, one which it is difficult to present in a clear and easily intelligible form. It is never possible to adhere to a strict programme in regard to Ways and Means operations. In financing the country's various liabilities and in finding cash for our own and the provinces' day to day disbursements, we have to be guided very largely by the changing conditions of the money market both here and in London.

Funding of
Floating Debt.

43. During the current year we expect to meet liabilities, over and above what has been met from revenue, amounting to 106 crores. These will have been financed mainly out of the proceeds of our rupee and sterling loans which have been on an unprecedentedly large scale. Our rupee loan realised nearly 47 crores and £31½ millions was borrowed in London during the year. One satisfactory feature of the year, to which I have already referred, is that out of these borrowings we have been able to reduce our floating debt by 40·6 crores, of which 32·4 crores consists of a net discharge of Treasury Bills held by the public and 8·2 crores of a cancellation of Treasury Bills held in the Currency Reserve. We cannot hope to continue the reduction of floating debt on the same scale over a long period, but I feel sure that the House will agree with me that it must be our constant policy to secure the early extinction of the floating debt by its conversion into securities of longer term.

Remittances to
London, 1922-23.

44. Our sterling borrowings have facilitated the provision in London of the sums required to meet our sterling obligations during the year. But advantage has been taken of the strengthening of exchange which occurred at the New Year to effect remittance by the method of selling Council Bills. Weekly sales have been taking place of moderate amounts since the beginning of January, and we have thereby been placing funds in London at a moment which, although somewhat in advance of actual requirements, is nevertheless convenient to the market. We anticipate that our balance in London will be about £8 millions on the 31st March 1923 as against a normal minimum balance of £4 millions, but the surplus will be required early in the new financial year.

45. The following statement summarises the Ways and Means operations for Summary India and England together during 1922-23 and 1923-24 : —

<i>Liabilities.</i>	(Crores of rupees.)	
	Revised.	Budget.
Railway capital outlay	21.4	38.6
Delhi, Irrigation and Telegraph capital outlay	3.0	2.9
Discharge of funded debts, etc.	12.4	5.2
Discharge of Treasury Bills—		
With the public	32.4	5.5
In the Paper Currency Reserve	8.2	
Loans to Provincial Governments	11.4	13.5
Central Government's revenue deficit	17.3	...
Drawings of Provincial Governments . . . . .	...	1.3
	<hr/> 1,06.1	<hr/> 67.0

Met as follows :—

Central Government's revenue surplus . . . . .	...	.2
Surplus revenue of Provincial Governments	1.0	...
Rupee loans	46.9	25.0
Sterling loans (converted at 1s. 4d.)	47.3	22.7
Net receipts from Savings Bank deposits, etc.	3.1	5.0
Miscellaneous items	2.5	2.2
Reduction of cash balances	5.3	11.9
	<hr/> 1,06.1	<hr/> 67.0

46. In 1923-24, if the measures which I propose are adopted, we shall not again have to face the necessity of financing a large revenue deficit. Our largest liability will be for Railway Capital outlay. During 1922-23, it has not been possible to spend the full 30 crores allotted under the 5-year programme; there will be a large carry forward. We are adding this to the 30 crores for next year, making a total of 38.6 crores to be provided for capital expenditure on Railways in 1923-24. We have about 5½ crores of maturing bonds to meet, and our other Capital outlay is expected to reach about 3 crores. Loans or overdrafts to the Provincial Governments will absorb 13½ crores, the greater part of which will go to the Bombay Government for expenditure on their Development scheme. Forecast for 1923-24.

47. We expect to start the year, as I have already said, with a cash balance of £8 millions in London. We are assuming, for the purpose of the Ways and Means estimate, that we shall be able to raise £15 millions by new sterling borrowings. We are assuming for budget purposes also that we shall be able to secure a rupee loan of 25 crores. With these resources, we hope to meet the liabilities I have mentioned, and in addition to effect a further reduction of five or six crores in our floating debt. In addition to the new sterling borrowings of £15 millions we estimate that we shall require to remit £27 millions to London from India during 1923-24. It is unnecessary, I think, for me to discuss at the present moment the various alternative methods of effecting this remittance. In addition to the ordinary method of purchase of exchange, the £5¼ millions in the Paper Currency Reserve in London, and after that the Gold Standard Reserve of £40 millions, can be drawn upon against an equivalent earmarking of rupees for those Reserves in India. Which particular combination of the various methods available will be adopted is a matter upon which it is impossible for Government to commit themselves in advance, since much must depend upon exchange conditions during the year. Remittances to London, 1923-24.

VI.—PROVINCIAL CONTRIBUTIONS.

48. There is another subject on which I should like to say a word owing to its close connection with the problem of covering our deficit, and that is the vexed question of the provincial contributions. I do not think that any one considering Indian finances at the present time can fail to be impressed by the undesirability of a long continuance of the present unsatisfactory position in regard to the provincial contributions. The Government of India have stated plainly that, as soon as they are able to do so, they

intend to reduce, and eventually extinguish, these contributions. I am aware that this is not the solution which finds universal favour, though I think this is what the majority of the Provincial Governments desire. But so long as we have a deficit in the Central budget, it is obviously impossible for us to make a beginning with the reduction of provincial contributions. Meanwhile, every Provincial Government, without exception, is finding very great difficulty in balancing its budget. The majority, I am afraid, did not succeed in doing so in 1922-23, though they are doing better I am glad to see for 1923-24. It has been suggested to me by more than one spokesman for the provinces that there is a feeling in the minds of the Provincial Governments and of their Legislatures that it would be unwise for them to show balanced budgets. They are, it is hinted, taking a leaf out of the book of some charitable and religious bodies which make a habit of showing an annual deficit in order to make a striking appeal to their supporters to come to their rescue. The Provincial Governments think, it is said, that they will get more sympathy from the Central Government and get rid of their provincial contributions quicker if they can show a handsome deficit and appeal to the charity of the Central Government. I should like to say for my part that the strongest appeal that the Provincial Governments can make to me in this matter of the Provincial contributions is to show themselves worthy of assistance from the Central Government by strenuous and successful endeavours to make both ends meet for themselves. Much, therefore, as we should have liked to be able to make a beginning of the reduction of the provincial contributions, it is obvious that this year we must confine ourselves to an attempt to deal with our own deficit. I would, however, add this appeal to all who are interested in a reduction in the provincial contributions. Let them give us their full support in any measures we propose for securing a balanced Central budget in the certainty that by so doing they are hastening the day when the contributions can begin to be released.

VII.—PROPOSALS FOR DEALING WITH THE DEFICIT.

Interest on Gold
Standard Reserve.

49. What then is to be done about the deficit of 5·85 crores? First of all, we propose to make an adjustment which, though little more than a change in methods of book-keeping, has the effect of reducing the apparent figure of the deficit by 1·59 crores. It is proposed to ask the House to continue during 1923-24 the arrangement made a year ago for crediting to revenue the interest on the securities in the Paper Currency Reserve. There is a similar source of income in the interest on the £40,000,000 in the Gold Standard Reserve, which is expected to amount to 1·59 crores in 1923-24. This is, in essence, of the same nature as the interest on the Paper Currency Reserve's investments, and we propose for 1923-24 to treat it in the same way. This change does not really add anything to our available resources or alter our Ways and Means position, but I think it is justified on merits.

Deficit cannot be
left uncovered.

50. We are thus left with a deficit of 4·26 crores, and the only way left for meeting it is by additional taxation. If the House will turn its mind back for a moment to what I said about the accrued deficits of the last five years, it will recognise that it cannot leave the deficit of $4\frac{1}{4}$ crores untouched. It will perhaps be asked whether the fact that several crores in the military expenditure and a considerable additional amount in the non-military expenditure represents non-recurrent expenditure due to "lag" and "terminal charges" would not justify the deficit being allowed to continue for one more year. This argument unfortunately does not represent the full facts. If some crores in the military budget represent non-recurrent expenditure, on the other hand over 2 crores of the cuts made in the military budget represent non-recurrent savings, being arrived at simply by a reduction in stores. Similar considerations apply to some of the other cuts both in the military and the non-military budgets, in particular in the railway budget. Moreover, some terminal charges will still have to be met in 1924-25. Whatever our hopes may be, we have no reasonable certainty that the budget for 1924-25 would balance on the basis of present taxation. Moreover we have not yet begun to provide anything towards making good past deficits. If 1924-25 were to turn out much better than it is possible to promise at this moment, we can, if we have got through 1923-24 without a deficit, turn our thoughts to reduction of the provincial contributions.

51. Our conclusion, therefore, is that we must ask for some increase in taxation. ^{New taxation necessary.} No one likes new taxation. It is a disappointment to the House, and it was a great disappointment to me, that new taxation is needed at all. If he is wise, a Finance member dislikes new expenditure and dislikes new taxation even more. But most of all, he loathes and abhors a deficit. I hope the House will agree that I have demonstrated to the full the absolute impossibility of its leaving a sixth year's deficit of $4\frac{1}{4}$ crores to be added to the appalling aggregate of 100 crores of the deficits of the last five years. The House would be false to its trust if it allowed the Government to adopt so pusillanimous and mischievous a course. The credit of India is in jeopardy. It is already under the cloud of the deficits of the last five years. But India's financial record has been so good for decades preceding those five years that hitherto the damage is not irreparable. The world has trust in India's record and has felt sure that the era of deficits could only be a passing phase. It is our duty to-day to justify that trust. We have made drastic cuts in our expenditure, but we have not achieved a balance. New taxation is, therefore, inevitable.

52. What form then is the new taxation to take? We have carefully reviewed the ^{Increase in Salt duty.} existing taxes. In particular, we have examined those taxes which were proposed last year and not accepted. One after another we have had to reject promising expedients, and finally we have come to the conclusion that the right course is to ask the House to agree to an increase in the salt tax to Rs 2-8 a maund. In a full year, this increase is estimated to yield 6 crores, but we cannot count on its bringing in more than $4\frac{1}{2}$ crores in 1923-24. The House will see that this additional revenue is just sufficient to cover the deficit of $4\frac{1}{4}$ crores, to give us a balanced budget, and to leave us a small surplus of 24 lakhs. In view of the uncertainties of our estimates of expenditure, this House will agree that this is not an undue margin to leave over for contingencies.

CONCLUSION.

53. My allotted task is finished. I have laid before the House the Government of India's account of their stewardship for the year that is passing and their proposals for the year 1923-24. I am painfully conscious of the responsibility which attaches to the Member introducing the budget. He cannot hope that his proposals will receive universal approbation. I have no doubt that when the details of our proposed expenditure come up for discussion, some Members will criticise this or that retrenchment as iniquitous and the retention of this or that item of expenditure as outrageous. Some other Members will disagree entirely with them on one or other or both of these criticisms. But all will manage to disagree with me on some point or other. I hope none the less that the Government of India will receive the credit which I claim is their due for courageously shouldering their burden and boldly coming forward with a budget which, at one and the same time, effects drastic reductions in expenditure and calls for a further sacrifice in the form of new taxation. I appeal to the House for one last long and strong pull, all of us pulling together, in the confident assurance that so doing we shall quickly get the boat out of the vicious current which is threatening to drag India down on to the rocks of insolvency. Once back in safe waters, I have every hope that in a surprisingly short time we shall find ourselves on the flood tide of prosperity, and shall be able to turn our minds to pleasant thoughts of reduced provincial contributions, reduced taxation, and increased devotion of our resources to the development of India. I was struck a little more than a week ago by a remark that fell from Sir Deva Prasad Sarvadhikari when, speaking on the Racial Distinctions Bill, he said that the House had had three red letter days in succession. Let us crown our successes by a fourth red letter day, and end our session with a balanced budget.

BASIL P. BLACKETT.

The 1st March 1923.

Printed and Published for the GOVT. OF INDIA, by the SUPERINTENDENT GOVERNMENT PRINTING, INDIA, Delhi.

necessary here. I am not sure
that it would not pay the U.S.A.
to let our rates remain, as they
are at least now, well above
New York, & then when we have
got back to the gold standard
comes in as partners with us
in providing Europe & elsewhere
with capital. But perhaps I
am over sanguine as to the prospects
of restoring the gold standard.

Best wishes to Jay & Curtis

Yours very sincerely
Baillie Mackenzie

File after
showing to Mr.
Joy. I have replied,
B.S.

Treasury Chambers,
Whitehall, S.W.

23/12/19

My dear Strong,

This note is too late to do more
than hope you have had a merry
Xmas, but here are my best
wishes to you for the New Year
1920. It will start into the world
in a less hopeful mood than
1919, but I trust sincerely that
it will be a less disappointing
time for us all.

We have been watching your efforts to
check inflation in the U.S.A. with
interest & admiration. We have just
taken a very bold step here in
fixing a maximum for the fiduciary

issue of currency notes in 1920. It
seemed a good move not because in
itself it can do any good but
because it improves public confidence
in its belief that the government has
a definite policy & if it is to be
carried through the decision commits
the authorities to a deflationist
policy. I believe we are at last
at the peak of our National
Debt & in a position to begin shortly
some debt reduction, though funding
is still in the future. The government
has a reasonably economical frame
of mind for the present & can probably
be kept up to the mark, as

public opinion demands economy.
I am a little afraid that the
U.S.A. will not give us proper
time to effect the improvements
in exchange which I aim at. It
seems to me not impossible if
only American prices could be allowed
to rise a little more than we might
get ourselves a trifle so that the
two would meet on a proportion
similar to the pre-war proportion
& so allow us to get near to reestablishing
the gold standard, with gold purchasing
about 45% what it did before the
war. But if you deflate too fast or
your prices go down, we cannot
face, socially or politically, the
big drop in prices which would be

however was not this, but the absurd
action that was to be
joined by formally rejecting the
Finance Bill & at the same time
definitely rejecting the Government
to see that no harm came of it.

It has been an interesting year for
me. My two main tasks are, I
think, first to give India the
makings of a modern financial
system based on broad principles
& not merely a hand-to-mouth affair
year by year, & second to try &
educate both the bureaucracy &
the legislators in the meaning
& methods of Parliamentary control
of finance & expenditure. The
bureaucrats find it very difficult



ACKNOWLEDGED

JUL 14 1924

R.S. 29/3/24

My dear Strong

I have owed you a letter for
nearly as long as you owed
me one like you last wrote. So
I seize the moment when our
numerous retinue has carted all
our baggage off to the station en
route from Delhi to Simla, either
direct as most of it will go, or to
accompany us on a three weeks
trip to Kashmir & back to Simla.
We are off to-night & are in fact

Mood as this is our first real holiday
in India. We have done quite a
reasonable amount of travelling
+ sight seeing but always on more
or less official business. So we
are in good spirits. We had planned
a trip in the Simla hills last
October but I went to bed with
dysentery instead.

My second budget is over & launched.
The political ones which buffeted it
were violent & unreasoning, but it
has escaped most of the damage thanks
to the renewed powers of the Government.
May it has had to be shown of its much
constructive feature, the proposal to

begin to relieve the Provincial Gov^{ts}
from the burden of giving Subventions
to the Central Government. The problem
of making India into a real Federal
State is one of the most important
financial problems here unsolved.
But it is one which must often
wait for long on political devel-
opments. The political stupidity of
our Indian revolutionaries too,
if I may coin the word, is incredible.
They really rather liked the Budget
& have honoured me with quite a
little special confidence as being
a broad-minded who wishes of
India & no bureaucrat. But they
rejected my budget without its even
occurring to them that this was
unkind to their friend. Their stupidity

Now is to reduce the currency again to normal in what ought to be the slack season. We are far too little developed both socially & in the banking line for the ordinary economic doctrines to be applicable without all sorts of reservations, & prices respond hardly at all & very slowly.

I should love to get home & to visit America for a spell to be able to look on from outside at what is really going on here & form a more dispassionate judgment. But even the hope of a few months a year hence is an uncertain & dim one. I hope all is well with you.

Yours ever

David P. Mackay



to believe that they can rightly be asked to explain their actions to a set of incompetent legislators, & the latter are continually wanting to control the minutest details of the executive's actions & cannot see that the task of an executive is to execute. Moreover they are mostly mind-rate lawyers with no grasp of principles & finding how soon they get lost in big questions they love to worry over tiny questions of Rupees 100 here & there.

I wonder if you saw a speech I made in Bombay in December about Indian Exchange & currency. It

was quite a big effort for this
backwater & has had good
educative results. Our currency
position is now thoroughly sound
but we are waiting anxiously
for other parts of the world to
settle down to a gold standard
& are forced meanwhile to wait on
events. I am disappointed at the
slow return of sterling to parity
& don't altogether acquit you of
blame, but I can understand your
fears. But is the Federal Reserve
system making any profits
for its shareholders?

The currency problem here which
puzzles me most is however the
problem of excessively dear money
in the winter. Currency goes up
country to pay for the crops, & it
comes back only slowly & partially.
It needs a good "marriage season"
which depends on astrological obser-
vations to bring currency back in a
good year. Otherwise only a bad
monsoon helps, & that is very
objectionable in other ways. I tried
expanding the currency against internal
bills of exchange this winter besides
the ordinary method of expansion against
sterling securities, but in spite of a
special addition of 24 crores we
have had very dear money all
since December & our problem

FINANCIAL MEMBER OF COUNCIL

March 29, 1924

My dear Strong

I have owed you a letter for nearly as long as you owed me one till you last wrote. So I seize the moment when our numerous retinue has carted all our baggage off to the station en route from Delhi to Simla, either direct as most of it will go, as to accompany us on a three weeks trip to Kashmir + back to Simla. We are off tonight + are in gay mood as this is our first real holiday in India. We have done quite a reasonable amount of travelling + sight seeing but always in more or less official business. So we are in great spirits. We had planned a trip in the Simla lakes last October but I went to bed with diptheria instead.

My second budget is over + launched. The political seas which buffeted it were violent + unreasoning, but it has escaped most of the damage thanks to the renewed powers of the Government. Only it has had to be shorn of its most constructive feature, the proposal to begin to relieve the Provincial Govts. from the burden of giving subventions to the Central Government. The problem of making India into a real Federal State is one of the most important financial problems here unsolved. But it is one which must I fear wait for long on political developments. The political stupidity of our Indian revolutionaristasters, if I may coin the word, is incredible. They really rather liked the Budget + have _____ me with quite a little special confidence as being a broad-minded well-wisher of India + no bureaucrat. But they rejected my budget without its even occurring to them that this was unkind to their friend. Their stupidity however was not _____, but the absurd notion that something was to be gained by formally rejecting the Finance Bill + at the same moment definitely requesting the Government to see that no harm came of it.

It has been an interesting year for me. My two main tasks are, I think, first to give India the makings of a modern financial system based on broad principles + not merely a hand-to-mouth affair year by year, + second to try + educate both the bureaucracy + the legislators in the meaning + methods of Parliamentary control of finance + expenditure. The bureaucrats find it very difficult to believe that they can seriously be asked to explain their actions to a set of incompetent legislators, + the latter are continually wanting to control the minutest details of the executive's actions + cannot see that the task of an executive is to execute. Moreover they are mostly third-rate lawyers with no grasp of principles + finding how soon they get lost in big questions they love to worry over tiny questions of rupees 100 here + there.

I wonder if you saw a speech I made in Bombay in December about Indian Exchange + Currency. It was quite a big effort for this backwater + has had good educative results. Our currency position is now thoroughly sound but we are waiting anxiously for other parts of the world to settle down to a gold standard + are forced meanwhile to wait on events. I am disappointed at the slow return of sterling to parity + don't altogether acquit you of blame, but I can understand your fears. But is the Federal Reserve system making any profits for its shareholders?

The currency problem here which puzzles me most is however the problem of excessively dear money in the winter. Currency goes up country to pay for the crops, + it comes back only slowly + partially. It needs a "good marriage season" which depends on astrological observations to bring currency back in a good year. Otherwise only a bad monsoon helps, + that is very objectionable in other ways. I tried expanding the currency against internal bills of exchange this winter besides the ordinary method of expansion against sterling securities, but in spite of a special addition of 24 crores we have had very dear money ever since December + our problem now is to reduce the currency again to normal in what ought to be the slack season. We are far too little

C O P Y

[Blackett to Strong, Mar. 29, 1924]

developed both socially + in the banking line for the ordinary economic doctrines to be applicable without all sorts of reservations, + prices respond hardly at all + very slowly.

I should love to get home + to visit America for a spell to be able to look on from outside at what is really going on here + form a more dispassionate judgment. But even the hope of a few months a year hence is an uncertain + dim one.

I hope all is well with you

Yours ever

[signed] Basil P. Blackett

[Writing very difficult to read; think I have guessed the right words.EMK]



ACKNOWLEDGED

JUL 10 1924

R S

Delhi, the 12th March 1924.

My dear Strong,

This letter will introduce my friend Mr. H. Denning, Controller of the Currency in India, who is passing through the United States on his honeymoon trip. Any kindness that you may be in a position to show him will be greatly appreciated by

Yours sincerely,

Paul R. Markey

Benjamin Strong, Esquire,
Federal Reserve Bank of New York,
New York.



ACKNOWLEDGED

AUG 20 1924

Simla, the 18th July 1924.

My dear Strong,

Many thanks for your letter of June 16th. I am disgusted to see how Stanley Jevons has been trying to hold you up. I have talked the matter over with Rushbrook Williams, and I feel sure that we can make arrangements for getting the documents etc. which you require on more reasonable terms. There may be a question of out of pocket expenses, but there ought certainly to be nothing more. I take it that what you want is a collection of the more important official documents dealing with Indian finance and economics together with copies of the more valuable private productions on these subjects. I imagine that you would like, in the case of the official documents, to go back, at any rate, to the Currency Committee of 1893. In regard to the privately - produced books etc., the vast majority of these are absolutely valueless, and it ought not to be difficult to make a representative selection which would not run to a great size. I will write to you further as soon as I have more information.

With best wishes,

Yours sincerely,

Benjamin Strong, Esq.,
Fifteen Nassau Street, New York.

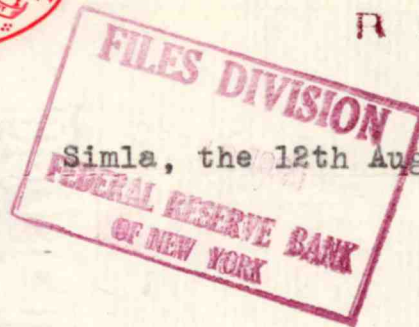
P.S. Congratulations on the marriage of your son.



Blackett
ACKNOWLEDGED

SEP 11 1924

R S.



Simla, the 12th August 1924.

My dear Strong,

Rushbrook Williams has now heard from Professor Coyajee, who expresses himself willing and anxious to help you in getting your collection of books on Indian finance etc. together. I hope, therefore, that we shall be able to do what you want in a more gentlemanly way than under the previous arrangement.

Denning and his wife had a great time in New York. They saw something of my wife's people and Leffingwell was very kind to them. We have had letters from them both on board ship speaking enthusiastically of their time in America. I am glad they managed to see you for a moment.

I hope that all is well with you. With best wishes,

Yours sincerely,

Benjamin Blackett

Benjamin Strong, Esquire,

Federal Reserve Bank of New York,

New York. (U.S.A.).



ACKNOWLEDGED
JAN 21 1926

B. S.

Delhi, the 3rd December 1925.

FEDERAL RESERVE BANK
OF INDIA

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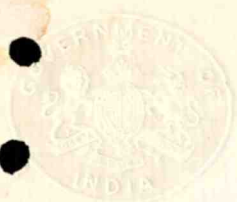
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GOVERNOR'S OFFICE

X Princeton

My dear Strong,

I am sorry that the question of material for the Princeton Library on Indian Finance has got hung up. I have spoken to Professor Coyajee, the man who undertook to assist us in the matter, and he is, I understand, writing to you. I have arranged with him to get a catalogue made of the books in the Calcutta library as a start, and guaranteed payment of the expense up to Rs.120. I hope that direct correspondence between you and him will now proceed vigorously and result in a settlement to your satisfaction.

I am having a great time here with the Royal Commission on Indian Currency under Hilton Young as Chairman. I doubt if I ever enjoyed myself quite so much as during the two-and-a-half days on end when I was giving evidence. The line I have taken has staggered some people, and as it ultimately depends on co-operation from Montagu Norman and yourself, unless the Commission turn me down as is possible, I may as well tell you what I am up to. The views I have arrived at have not been reached without a struggle, but they represent my honest convictions.



The gist of them is this. India got on well enough before the War with a Sterling Exchange standard, though she was always encouraged to believe that it was a stepping stone only to a Gold Standard with a Gold Currency in circulation. She could get on quite well with an improved system on similar lines, the main addition to the pre-war arrangements being the transfer of the control of the Paper Currency from the Government to the Imperial Bank of India, and the undertaking of a statutory obligation to give sterling for rupees and rupees for sterling at the gold points, instead of leaving this vital matter at the discretion of the authorities as it was before the War. This would be a Sterling Exchange standard. You could make it into a Gold Exchange standard, though rather cumbrously, by substituting an obligation to give foreign exchange for rupees and rupees for foreign exchange at the gold points for the obligation to give and take sterling. Both the Sterling Exchange standard and the Gold Exchange standard involve rather cumbrous arrangements so long as the silver rupee is unlimited legal tender and the note is convertible into the silver rupee. Both systems, however, would work reasonably well subject to two conditions, which are (1) that sterling and gold may be regarded as equivalent in all but the most abnormal circumstances, and (2) that the silver bullion in the rupee will not, except in the most abnormal circumstances, become more valuable as bullion than as coin. With the rupee at 1s.6d, this means that the price

of silver in London must not rise above 48d.

Both these systems are therefore always in danger of being completely destroyed as soon as silver rises above 48d. The only means of remedying this defect is to take away the unlimited legal tender character from the rupee with a view ultimately to recoinng it with a smaller silver content after it has become a subsidiary coin only. But you cannot, India being what it is, take away the unlimited legal tender character of the silver rupee unless and until you offer the people of India some other metallic form of currency. If you offer them full value gold coin and make the rupee and the note absolutely convertible into gold coin, you will ^{not} risk any important addition of gold currency to the circulation since a 20-rupee gold coin will not in fact circulate to more than a trifling extent, and at the same time you will give a powerful stimulus to the growth of the banking and investment habit in India. This habit has been growing but only slowly and the only solution of the problem of India's poverty to my mind is to teach the people of India to use as capital for their own development the immense sums which they at present hoard in the form of the precious metals. I believe therefore that it is worth while giving the people of India convertibility of the rupee into gold provided that it will not cost the Indian Budget too much, and provided that the transition can be effected without completely upsetting the gold and silver markets of the world.

\$6.063^m
\$3.675^m


After a very careful examination we have come to the conclusion that the cost to the Budget will not be serious. At a maximum it will cost us, compared with present arrangements, something like Rs.165 lakhs a year for the first 5 years and about Rs.1 crore a year thereafter. These are maximum figures and would I believe be found to be unnecessarily high estimates.

It remains to consider the effect on the world's Gold and silver markets. We calculate that the immediate effect of the introduction of the new system would be to make all those who are hoarding silver rupees in India turn out their silver rupees and demand gold in their place. The maximum demand for gold which we can foresee is £ 100 million sterling, again a very high estimate, possibly twice as much as would really be required. This demand would come quickly in the course of a very few years, but once it was satisfied, the Indian Currency system would cease to be in danger from the hoarding of over-valued rupees, and I have no doubt that the annual demand of India for gold thereafter would be progressively reduced. One might put it that over the next 30 years, in spite of the excess initial demand, India would not take more gold under the new system than under the old, and thereafter she would take very much less. One would hope that in 50 years India would be very much nearer western conditions in the matter of banking and investment; she would be a far better customer for the world

with her standard of living improved as it would be, and might even at a fairly early date become a lender of capital abroad instead of a borrower and hoarder.


The crux of the matter is the effect on the gold market of a sudden demand for gold amounting to a maximum of £ 100 million sterling, and the effect on the silver market of an addition to the surplus silver of the world amounting to a maximum of about 600 million ounces, between two and three times the world's annual production of silver. So far as gold is concerned, I have not the least hesitation in saying boldly that you and Norman between you could let us have £ 100 millions of gold out of the available reserves without making the slightest impression on the world's gold prices or on the maintenance of the Gold Standard in Europe and America. But you and Norman would I am sure, while saying that you agree with this, go on to say that you will have enormous difficulty in persuading the man in the street whether in London, New York or Washington to believe you. However, I do not despair.

But the threat of letting loose 600 million ounces of silver on the world undoubtedly adds to the problem. I cannot think that it would make India popular with the silver producers of the United States or that these latter gentlemen would encourage the Federal Reserve authorities to facilitate India's operations of substituting gold for silver. My idea is that we might minimise the



the trouble by putting a special import duty on silver imported into India, the effect of which would be to cut India off from among the countries seeking to satisfy their silver requirements out of the world's silver supply, and confine the Indian market for a period of 10 years or so to purchases of silver from the Government of India.

There are our problems for you. You will recognise that they are not without a world interest. It may seem rather a bold demand on the part of India that you should assist her in satisfying her wishes, but I firmly believe that if a long view is taken, the world has an immense amount to gain by assisting the process. India as a real partner in the gold standard countries of the world will be far more valuable than as a continual sink of gold which she will certainly remain as long as you refuse her gold in circulation. India as a country with a big investment market and widespread banking facilities will mean an enormous addition to the world's wealth and to her value as a market for the products of the world, particularly of the manufacturing countries of the world. I do not say that the Commission will unanimously recommend the adoption of my proposals, but I feel fairly sure that an important minority at the minimum will favour them. I ought to say of course that we should desire to make the process of change as gradual and easy a one as possible in order to facilitate the transition both for India and for the world, though the difficulty is that an announcement



of policy may unavoidably lead to an immediate demand
for gold in place of silver rupees in hoards. I shall
be interested to hear what you think of me.

With best wishes for the New Year,

Yours very sincerely,

Paul H. Munk

Benjamin Strong, Esq.,

Federal Reserve Bank of New York,

New York, U.S.A.

the moment of the crucial votes in the legislature.
To explain the position in April to June 1927
it is necessary to go back at least to March 1926.
For a year & a half previous to March 1926 prices
& currency conditions were accommodating themselves
comfortably to the $1/6$ ratio, & little if any occasion
had arisen for intervention by the Government to
prevent a fall in the rate. By the Government & even
all the authorities concerned i.e. the Imperial Bank, the
Govt. of India & the India Office. In March 1926 a
poor wheat harvest & various other circumstances brought
about a change. It became important to take currency off
the market & of course we had good reason to do so as
we had increased the issue against sterling to the tune
of nearly 30 crores in the previous three years. But
it was not only a slackening off in exports that we
had to deal with. The velocity of circulation had
been (& still is) increasing very rapidly in India owing
to various factors of which the most important are
the rapid increase in the habit of banking & investment
which was rendering silver superfluous as they
came out of hoards - I do not stop to define hoards - the



New Delhi, the 21st December 1927

My dear Strong,

This paper was intended to be used before New
Delhi existed & when the currency was in its teens,
but it has lived to be useful for wishing you
all good things for 1928 & for providing a very
belated answer to your much appreciated letter of
June 27th. It was just because I appreciated it so
much that it has remained so long - too long -
unanswered. I wanted to be free enough & buoyant
enough to send a full letter in reply, & it is only
now in a short interval between a busy & hurried
part which lies behind & a busy future which lies
ahead that I can sit down to it. I expect that
the invigorating effects of seven weeks out of India, &
which twenty days were in London & the rest on the voyage,
are largely responsible for my feeling energetic

enough to get going. You must forgive me for setting
you the task of reading this in manuscript
& not in type, but I have not the habit of
putting intimate or freely flowing thoughts into a
letter which I dictate.

There's really an amazingly large amount of
interesting things to relate of the history of Indian
finance in the last year. January to March were
devoted to a titanic of filibusterian struggle to
get the ratio of $1/6$ per rupee on to the Statute
Book, much assisted by the production by me
like a conjurer's rabbit out of a hat of a
startlingly popular budget, whose beauties such
as they were really reflected the position of much
hard labour & thinking over several years of which

I am, I hope justifiably, proud. But one's merits
seldom choose so conveniently exact & bright-moment
to display themselves in practical form to the public
gay as did mine with my budget for 1927/8.

The next few months were travels. Apart from
the exasperating political misadventures of the
Reserve Bank Bill, I found myself up against
an extremely tough problem in maintaining in
real life the stability so painfully won, so far
as legislation could give stability, on the floor of
the assembly. The paper refused to be written $1/6$,
& you ask me for some explanation of the difficulties.
The first was the dead set against the rupee of the
politico-speculator group in Bombay, who fought
hard to make the big profits which they had counted
on obtaining by fixing the rupee at $1/4$ by legislation.
They went to unexpected lengths & showed more
backbone than I credited them with having. And of
course they could not have done much if the facts
had not been partly on their side. The clear recognition
of this in my own mind did not lessen my anxiety at

was that I never did quite enough to keep the rupee stable & never did it quite soon enough. The only valid reason for this failure was the political necessity of not antagonising opinion against the Currency Commission's report. However I did just enough to maintain the rupee within the gold points.

Meanwhile the Report was issued, but for political reasons we had to postpone legislation fixing the rupee at 1/6 from August 1926 to March 1927. We did however get out a square-footed announcement that we should maintain the value all steps necessary to maintain exchange. Armed with this I defied the India Office in October 1926 & contracted against

rupee securities of the Govt of India & was not far from being recalled for insubordination. In December 1926 I contracted again in the same form with the blessing of the India Office, it is only the power to do this freely which eventually saved us.

By December 1926 the political & financial campaign to reduce the rupee to 5/4 was in full swing, but it was the busy season (not a very good one however - a late one) & we were all right by now till April, & by April the Bill to fix 1/6 was the order.



Delhi, the 191

Replacement of silver rupees in hoards by gold & silver bullion, & the fall in world prices was also proving to make rupees redundant. It is extremely difficult to arrive at the exact degree of its importance to such facts, but the increase in the banking & investment habit is a very real phenomenon. It has a close connection with the next stage of our difficulties. The surplus cash was finding its way steadily into foreign securities for want of confidence in any others, & the rise in foreign securities was accentuated by all the reasons by the Bombay speculator, who saw the rise coming & was sitting himself. Taken in he was taking in others for his own purposes by the confident assertion that Sir Basil Blackett means to push 3 1/2% up to par. (They were below 60 when I came out & were over 70 by March 1926, & the confidence in my financial capacity was then & is still more now pathetic.)

What was to be done in these circumstances? The Currency Commission was sitting & it was supposed to be an open question at what rate the rupee was to be stabilised. If therefore we stopped in to take the action necessary to maintain stability at 1/6 we should be open to the charge of manipulating not only the currency but also the Commission's report. Yet it was clear enough that stability could very easily be maintained by simple enough action of value in good time & steadily followed through. What actually happened was that after finding divided councils in the India Office (& much ignorance - on friend's part) in the chair of the Finance Committee, & unwillingness to proper advice or help in the Imperial Bank, I took the bit between my teeth, & took as much action as I could without being dismissed for insubordination. I had the loyal, but entirely uninstructed, support of the Govt. of India in all I did, but had to fight the India Office at every turn, not because they had a different

policy but because they had none. I contracted currency policy heavily against sterling, but was held up from June to October by the India Office when I tried to contract currency against the cancellation of Govt. of India securities in the Reserve. The reason given me for this a few weeks ago - I had never been given a reason up to then - I only got this in conversation in London - was that the India Office were anxious lest my available rupee resources should run short if I used them up in cancelling Treasury bills in the Reserve. This is illuminating for at almost the same moment I was trying to get agreement out of the India Office to an issue of a Rupee loan for a larger amount than I needed for my immediate capital programme in order to stem the rise in Govt. securities which was getting out of control (3 1/2% up to 78) & to take money off the market, & the India Office were objecting on the ground that it was wrong to build up too large balances. I had to acquiesce because I needed India Office support in carrying out & India Office good-will in getting sanction for the acceptance of the Currency Commission's report which was just about to be published. The upshot

should have avoided if we'd reached equilibrium
three months earlier, & we're thinking of converting
these bills now in to a long term sterling loan, an
operation which is however not absolutely necessary
at the moment but will improve our sterling
resources for purposes of the inauguration of the
new bank & for certain capital expenditure
purposes which we foresee, & we've been rather up
against it in India for ways & means during the
loan year of the financial year just ending.

But with this & it is not impossible to at least
gold point may be reached in a month or so, when
don't much want but may be unable to prevent,
& any doubt as to my capacity to maintain
1/6 is at an end, though I am told that some
optimists in Bombay still hope to bring exchange
down to 1/4 when I'm out of the way.

I've been much interested of course meanwhile in
your doing. The failure of the Bank of England
rate to go to 4% after dropping to $4\frac{1}{2}\%$ in
the spring was a bitter disappointment, for which
I don't lose the touch. It would have raised



Delhi, the 191

But our troubles were not over. The big rise in price
of India rupee securities had made them out of
relation to gilt-edged securities in London. $3\frac{1}{2}\%$
Rupee loan stood at 78 to 80, while $3\frac{1}{2}\%$ sterling
loan of the Govt. of India was at about 69, &
even the British Govt.'s Conversion Loan was only
about 75 or 76. The natural result was a steady
flow of British capital back from India to London,
& a considerable, largely speculative, flow of Indian
capital in the same direction. This was a heavy
burden on exchange, & of course a good send to
speculators like Barroon who were anyhow
getting a better yield on their money in London than
in India even if their gamble for the fall in
exchange did not come off. To make matters worse the
Imperial Bank were doing a large line of business

in lending rupees to Sarcom & others below bank rate against sterling & dollar securities, & when it came to a question of raising the bank rate in February 1947 to 7%, they insisted on my taking the public responsibility, not because they were against raising it but because they feared to be accused of taking sides in the rate controversy. That is your friend Horat Warren. Thank goodness he has gone now & O.C. Smith is a man of strength in his stead.

Such was the position in April 1947. The rupee was still weakening & silver rupees were still coming out of hoards & flooding the circulation & money was still being remitted steadily out of India for long & short investment abroad, & 3½% Rupee loan looked like going well over 80, & our sterling resources

were beginning to run short (assuming that we could not sell gold), & our rupee resources were now too plentiful because we could not obviously raise a large rupee loan at the fantastically ~~low~~ low yield corresponding to present market prices of Govt. stocks in India & equally we should merely break the market & get no money at all if we offered a much higher rate of interest. So I set to work & not only contracted currency against Govt. of India Treasury bills held in the Reserve, but also against Govt. of India 3½% stock held in the Reserve & then instead of cancelling it sold it (at a very high price) in the market. This did the trick. It was an ordinary "Central Bank" operation but was unheard of in India. 3½% loan came down to 76½ (it has since gone to below 75), the flow of capital to London became less pronounced, we issued a short term loan in India at a moderate price & got more than I expected, & the contraction of currency at last caught up the surplus of silver rupees. Since then all has been comparatively simple & a small sale of silver has both increased our resources & given the speculators a lesson. But we had to borrow £5,000,000 in London in six months bills, which we almost avoided &

4
favour (1) as offering an alluring if indefinite prospect
of fat jobs for Indians & their sons & nephews &
(2) from my description of it as a big step
towards Financial Swaraj. But there were always
big lurking dangers. The ratio fight made Purshottam
das & others so mad that they were ready to do
anything to spite me, & vested interests, exchange
banks & Indian joint stock banks, disliked the
idea of a Reserve Bank. I kept Purshottamdas in
check by winning over the Swarajists to my side in
support of the principle of the Bill, & they were also
very useful allies, first against Purshottamdas & then
against the exchange banks & finally even against
the Indian banks, representing as the Swarajists in the
whole do the agricultural & up country intelligentsia
against the Bombay capitalist. I cut much ice too
by leaving the delights of winter & going down to
Bombay & Calcutta in the height of the hot
weather to hold meetings of the Joint Committee
of the Legislature. This was not a calculated gain
as I really delight in getting out of winter whenever
I can.



Delhi, the 191

4
fitted securities in London just enough to
make the gap between them & our rupee prices
of Govt. Stocks in India unimportant. Equally
you helped us materially by lowering the Federal
Reserve Banks' rates in July. July was a
good month for me, as it relieved me of some
of my fears such as a 5% rate in London &
brought me a good monsoon without which
we should have been once again in trouble.

I've written at enormous length & hope you're
not bored. It is really a great pleasure to me
to set out the story at length to a comprehending
listener, & as a matter of fact I've never done so
before, & the story has taken much more concrete
shape in my own mind as I've written it. I hope

too that it doesn't read too egotistically. I've some
useful - very good - subordinates, but with the exception
of O. A. Smith (whose health placed him hors de
combat for the whole period March to July 1927) I've
no one at all to advise me, & no one at all
to share the responsibility with except the Sec'y of
India none of whom understood the first thing
about it all & all of whom rely implicitly on
me & are in the soup with me if I take them there.
So it really has been a one-man job for me, &
as I have said made more difficult by the necessity
of carrying old fogies at the India Office with me
& of compromising at every turn with them & with
our tangled & inextricable politics. (Of course I in
July have had the job of leader of the
Assembly as an extra for my spare moments)

On the whole I'm rather proud of having worn through,
even if it is a tale of too late at every step.
If we had been able to do the right thing in March
to July 1926, we'd have been up to date all
though & our troubles would have been much less.
On the other hand I'm bound to say thank you for
a very fair season in 1926 & a really good one
in 1927.

I've gone to such lengths over this story that I've
not checked enough ^{to write} & you would not have patience
enough to listen to the full story of the Reserve
Bank Bill. Brevity it is not though yet, & it is
so much more political than financial that it
has not the same real interest for you as the story
of the ratio. I'll try & tell a brief story however. The
India Office swallowed the bill rather reluctantly,
but with good grace. We drafted the bill in a
month, a great feat for which Dr. Dunning & the
draftsman deserve great credit. The ratio contro-
versy fortunately kept the Reserve Bank out of
politics for some months, & it was considerable

which eventually created a Federal Reserve Board
under Governmental (or political) influence, & 12
Federal Reserve Banks instead of one. The
principles for which I fought were (1) that the Bank
must be absolutely free from Govt. control (2) that there
must be no control by the Legislature, & no
political influence on the Board & no members of
the Legislature on the Board & (3) that the Directors
must be responsible experienced men. Subject to this I
was willing to do without shareholders. And I'd just
got an almost unanimous Assembly behind me for
a very workable scheme substituting "stockholders"
for "shareholders", & the non-cooperators were co-oper-
ating. & Purshottamdas was side-stepping hard, when
bang! the India Office said they would not have a
bank without shareholders. This was the reflection of
the alarm (& intrigue) in Calcutta of a week earlier
which I had by that time largely allayed, & of the
real alarm in London. What whatever the merits,
it was a shameful betrayal of the Viceroy &
myself by the India Office. They'd let me negotiate
for a fortnight with the Assembly & know of all my
moves day by day, & then at the end would back me



Delhi, the 191

But at the very first meeting at Bombay & combina-
tion of Swarajists & the Bombay capitalists gave me
one in the eye by voting for a State Bank - not
a shareholders' bank. They really meant a Bank
run by & for the benefit of Legislators, but when
they realised that they had killed the Reserve
Bank right off, the Swarajists came right round &
said they quite agreed that the Bank should be
free from Government control & free from
political influence, but it must not be in the
hands of capitalists, European or Indian. And
they asked very pertinently why they should pay
the shareholders 8% for money which the Govt.
could borrow at less than 5% & saying that the
shareholders were not really risking an anna, as
their dividend was covered five times over by the
profits on the note issue which belonged to the Govt. anyway.

This was a real weakness in our life & I didn't
see then how to get over it. So I compromised at
Bombay & got through a large part of the
technical clauses of the Bill unscathed. This
process was repeated at Calcutta, & the Bill
emerged with all the technical part in fine
shape, subject to one clause about the gold token.
But owing to an accident (the Swarajists had
counted heads & thought I had a majority, so
voted happily against me & were horrified to
find by one vote) the Committee voted down the
provision excluding members of the legislature
from being directors, & then went on to make some
of the directors elected by the Assembly. They put
the Federal Reserve Board precedent into some
effect on this. So the compromise which I'd got
leave from the India Office to accept fell
through, & the whole fight about the constitution of

the Bank & the composition of the Board had to
begin again in the Assembly at Simla in August.
When we got to Simla all sorts of rubbish was
talked in the Assembly & when it got to Calcutta
& London it frightened people. Indeed I think it
was only then that Calcutta & London realised that
the Reserve Bank Bill was a mile to hand over
control of Indian currency & banking to a Board
containing an Indian majority. And Calcutta to
some extent honestly & in part egged on by the
Exchange Banks took the rubbish talked in the
Assembly seriously, while London took it at face value.
Meanwhile after various vicissitudes I'd got the
upper hand at Simla. I'd discovered that the
real fear of the large majority of the Indians
was that the Bank should be controlled by the
Bombay Indian capitalist. Provincial jealousy
of Bombay & Calcutta, agriculturalists' fears
of the industrialist & financial crowd, & up
country fear of the big cities were the moving motives.
It was a position extraordinarily like that in the U.S.A.

I was really grateful to you for the trouble you took in
coming & bringing your experts, & not specially surprised
at your evidence. I was fairly sure from the first that
"my gold standard scheme would be buried with in-
national honour". Not that I did not believe in it
myself. I did & do. But I felt fairly sure that, even
if you & Norman were willing to confess that you &
he & all the rest of you (& us) keep needlessly
large gold reserves & could do with far less if you
would only face honestly the question - what are gold
reserves for & what is the true criterion of their adequacy? -
even then you & he would be much too frightened &
the unenlightened multitude to risk saying so in
public. I suppose the fact is that a good deal of gold
is needed so long as the public's confidence in the
currency is dependent on the mistaken notion that it is
as good as gold "only if there's a large heap of gold to
look at. But even so you & Norman have more gold than
you need, & could do far more than you do to educate
your public to do with less, whereas I must begin
by giving my Indians gold before they can begin to realize
that it is not needed. And you are not in the end (or



Delhi, the 19th

There was an outbreak of political vituperation
in India, but for the moment I was an Indian
here, & the curious result of it all was that
once it was realised that the Bill was nearly dead
& that there would be no Reserve Bank after all, &
was employed to save the situation at all costs
& they would accept almost any Reserve Bank
I could give them. For six weeks I was resigning
& should certainly have gone if my going had
not meant (1) a nearly mess for the Viceroy who
constitutionally was the one to resign first (2) no
Reserve Bank for India (3) a first class political
row which would have damaged the British position
in India, & though it might have gone far to finish
the India Office would have been begun in rather
unpropitious circumstances & some little good to say for me.

Eventually I forced everyone to agree to my going home for 20 days & I've come back with a scheme which is practically the stockholders' scheme only on a shareholders' basis, & I've discovered I hope a way of making the shareholders take a real risk or at least a live interest in the Bank by making any dividend over 5% (up to a 7% maximum) dependent on the profits being more than 4 crows. It's a better scheme than the stockholders' one, & I've never departed from the view that it's better to have shareholders than not. My only point was that they were not absolutely essential. But the problem now is how to get the Bill safely through the Legislature. It could have been done in September easily, but the announcement on Nov. 8th of the Statutory Commission with Sir John Simon as Chairman & no Indians in it has altered the whole perspective.

I'm inclined to think that the Assembly won't throw away financial savings, will be even less willing to risk losing it in view of their disenchantment with the Commission: but you now can tell how foolish they will be.

I've left the gold mohur out of the story. It was (in my view) a perfectly harmless provision giving the Govt. the right to coin gold mohurs if they wished, with the addition that the Govt. had no intention of doing so for 2 years & 2 years at any rate, if ever. It had the advantage that it made the Indian believe that at least the rupee was a real gold rupee, the standard a real gold standard, which is true. And it had the further advantage that if it had been accepted by London this provision would have enabled me to get a completely satisfactory Bill through in Calcutta, & saved all the bother in Simla. But the gold mohur was turned down with horror, & had lost all importance long before we got to Simla, & the assembly was quite prepared to forget it if the stockholders' scheme had come through.

So that's the whole story. I can pass from the gold mohur back to your witness before the Currency Commission.



Delhi, the 191

even for many years) sending less gold to India by
registering my plan. ^{on the contrary you increase the foreign in the end.} However I've got as much as I
expected out of Hilton Young's Commission, & don't
complain.

The situation in England as I saw it in my
20 days does not give me much satisfaction. There
is some gradual improvement going on in the
line in the tranquilisation of Europe, the rationalis-
ation of industry, social services, the relations of
capital & labour, & so on. But it would not take
much to upset Europe again, and in England the gov.
& everyone else is spending recklessly when they
ought to be saving. They'll never get the burden of the
interest on the internal debt reduced, & will lose markets
in the Empire outside if they don't add very appreciably
to their annual savings. They've got to lend to

Europe if Europe is to recover & they've got to lend
to the Empire if it's to remain the British Empire
(unless of course the U.S.A. takes the whole show
over as the American Empire which is nonsense),
& they can't do it unless they save money &
create a much larger capital fund. So one
day England & Europe will repudiate their debts
of all kinds to the U.S.A. not intentionally, so
far as England is concerned, but for lack of money to pay.
But I hope they'll get tired of spending & then
all will be well.

Spending is the wrong word. There's a host of things
they ought to be spending money on, but they're
chucking it all away in search of distraction
& to avoid boredom. And "the world is not clever
enough to manage the machine it's created."
I heard with great respect of the illness which

incapacitated you & do hope you are fitter. You'll be
none the healthier for reading this I fear if you try
to wade through it in manuscript, & it'll be 1929
before you get to the end. Best wishes

Yours ever

Basil Blackett

P.S. I never meant to inflict this
all on you. I suggest that you should
first of all have it typed. I would
do it myself if it didn't mean
losing a mail. And if you do
have it typed, I'd be grateful if
you would have two copies made &
send me one, as it would be
useful to have one for my own
use, though I write it all
with no such idea in my mind.

B.T.B.

Strong Blackett
[Typed Copy] handwritten letter

New Delhi, the 21st December, 1927.

My dear Strong:

This paper was intended to be used before New Delhi existed, and when the century was in its teens, but it has lived to be useful for wishing you all good things for 1928 and for providing a very belated answer to your much appreciated letter of June 27. It was just because I appreciated it so much that it has remained so long - too long - unanswered. I wanted to be free enough and buoyant enough to send a full letter in reply, and it is only now in a short interval between a busy and hurried past which lies behind and a busy future which lies ahead that I can sit down to it. I expect that the invigorating effects of seven weeks out of India, of which twenty days were in London and the rest on the voyage, are largely responsible for my feeling energetic enough to get going. You must forgive me for setting you the task of reading this in manuscript and not in type, but I have not the habit of putting intimate or freely flowing thoughts into a letter which I dictate.

There's really an amazingly large amount of interesting things to relate of the history of Indian finance in the last year. January to March were devoted to a titanic if Gilbertian struggle to get the ratio of 1s. 6d. per rupee on to the statute book, much assisted by the production by me, like a conjuror's rabbit out of a hat, of a startlingly popular budget, whose beauties, such as they were, really reflected the fruition of much hard labour and thinking over several years, of which I am, I hope justifiably, proud. But one's merits seldom choose so conveniently exactly the right moment to display themselves in practical form to the public gaze as did mine with my budget for 1927/28.

The next few months were teasers. Apart from the exasperating political misadventures of the Reserve bank bill, I found myself up against an extremely tough problem in maintaining in real life the stability so painfully won, so far

as legislation could give stability, on the floor of the assembly. The rupee refused to be worth ls. 6d., and you ask me for some explanation of the difficulties. The first was the dead set against the rupee of the politico-speculator group in Bombay, who fought hard to make the big profits which they had counted on obtaining by fixing the rupee at ls. 4d. by legislation. They went to unexpected lengths and showed more backbone than I credited them with having. But, of course, they could not have done much if the facts had not been partly on their side. The clear recognition of this in my own mind did not lessen my anxieties at the moment of the crucial debates in the legislature.

To explain the position in April to June, 1927, it is necessary to go back at least to March, 1926. For a year and a half previous to March, 1926, prices and currency conditions were accommodating themselves comfortably to the ls 6d. ratio, and little if any occasion had arisen for intervention by the Government to prevent a fall in the rate. By the Government I mean all the authorities concerned, i. e., the Imperial Bank, the Government of India and the India Office. In March, 1926, a poor wheat harvest and various other circumstances brought about a change. It became important to take currency off the market and, of course, we had good reason to do so as we had increased the issue against sterling to the tune of nearly 30 crores in the previous three years. But it was not only a slackening off in exports that we had to deal with. The velocity of circulation had been (and still is) increasing very rapidly in India owing to various factors of which the most important are the rapid increase in the habit of banking and investment which was rendering silver rupees redundant as they came out of hoards. I do not stop to define hoards, - and the replacement of silver rupees in hoards by gold and silver bullion, and the fall in world prices was also operating to make rupees redundant. It is extremely difficult to assign the exact degree of its importance to such factor, but the increase in the banking and investment habit is a very real phen-

on. It has a close connection with the next stage of our difficulties. The surplus cash was finding its way steadily into Government securities for want of confidence in any others, and the rise in Government securities was accentuated beyond all reason by the Bombay speculator, who saw the rise ^{coming} and was either himself taken in or was taking in others for his own purposes by the confident assertion that Sir Basil Blackett means to push 3 1/2% up to par. (They were below 60 when I came out and were over 70 by March, 1926, and the confidence in my financial capacity was then and is still more now pathetic.)

What was to be done in these circumstances? The Currency Commission was sitting and it was supposed to be an open question at what rate the rupee was to be stabilized. If, therefore, we stepped in to take the action necessary to maintain stability at 1/6 we should be open to the charge of manipulating not only the currency but also the Commission's report. Yet it was clear enough that stability could very easily be maintained by simple enough action if taken in good time and steadily followed through. What actually happened was that after finding divided councils in the India Office (and much ignorance - our friend Goodenough in the chair of the Finance Committee!), and unwillingness to proffer advice or help in the Imperial Bank, I took the bit between my teeth, and took as much action as I could without being dismissed for insubordination. I had the loyal, but entirely uninstructed, support of the Government of India in all I did, but had to fight the India Office at every turn, not because they had a different policy but because they had none. I contracted currency fairly heavily against sterling, but was held up from June to October by the India Office when I tried to contract currency against the cancelation of Government of India securities in the reserve. The reason given me for this a few weeks ago - I had never been given a reason up to then, and only got this in conversation in London - was that the India Office were anxious lest my available rupee reserves should run short if I used them up in can-

calling Treasury bills in the reserve. This is illuminating, for at almost the same moment I was trying to get agreement out of the India Office to an issue of a rupee loan for a larger amount than I needed for my immediate capital programme in order to stem the rise in Government securities which was getting out of control. (3 1/2s up to 78) and to take money off the market, and the India Office were objecting on the ground that it was wrong to build up too large balances. I had to acquiesce because I needed India Office support in carrying out and India Office good-will in getting sanction for the acceptance of the Currency Commission's report which was just about to be published. The upshot was that I never did quite enough to keep rupee stable and never did it quite soon enough. The only valid reason for this failure was the political necessity of not antagonizing opinion against the Currency Commission's report. However, I did just enough to maintain the rupee within the gold points.

Meanwhile the Report was issued, but for political reasons we had to postpone legislation fixing the rupee at 1/6 from August 1926 to March, 1927. We did, however, get out a square-footed announcement that we should meanwhile take all steps necessary to maintain exchange. Armed with this I defied the India Office in October, 1926, and contracted against rupee securities of the Government of India and was not far from being recalled for insubordination. In December, 1926, I contracted again in the same form with the blessing of the India Office, and it is only the power to do this freely which eventually saved us.

By December, 1926, the political and financial campaigns to reduce the rupee is 1s. 4d. was in full swing, but it was the busy season (not a very good one however and a late one) and we were all right by now till April, and by April the bill to fix 1/6 was through.

But our troubles were not over. The big rise in Government of India Rupee securities had made them out of relation to gilt-edged securities in London. 3 1/2 per cent. Rupee Loan stood at 78 to 80, while 3 1/2 per cent Sterling Loan of the Government of India was at about 69, and even the British Government's Conversion Loan was only about 75 or 76. The natural result was a steady flow of British capital back from India to London, and a considerable, largely speculative, flow of Indian capital in the same direction. This was a heavy burden on exchange, and of course a God-send to speculators like Sassoon who were anyhow getting a better yield on their money in London than in India even if their gamble for the fall in exchange did not come off. To make matters worse the Imperial Bank was doing a large line of business in lending rupees to Sassoon and others below bank rate against sterling and dollar securities, and when it came to a question of raising the bank rate in February 1927 to 7 per cent. they insisted on my taking the public responsibility, not because they were against raising it but because they feared to be accused of taking sides in the ratio controversy. That is your friend Norcot Warren. Thank goodness he has gone now and O. A. Smith is a tower of strength in his stead.

Such was the position in April 1927 and the rupee was still weakening and silver rupees were still coming out of hoards and flooding the circulation and money was still being remitted steadily out of India for long and short investment abroad, and 3 1/2 per cent Rupee Loan looked like going well over 80, and our sterling resources were beginning to run short (assuming that we could not sell gold), and our rupee resources were none too plentiful because we could not obviously raise a large rupee loan at the fantastically low yield corresponding to present market prices of Government stocks in India and equally we should merely break the market and get no money at all if we offered a much higher rate of interest. So I set to work and not only contracted currency against Government

of India Treasury Bills held in the reserve, but also against Government of India 3 1/2 per cent stock held in the reserve and then instead of canceling it sold it (at a very high price) in the market. This did the trick. It was an ordinary "Central Bank" operation but was unheard of in India. 3 1/2 per cent loan came down to 76 1/2 (and has since gone to below 75), the flow of capital to London became less pronounced, we issued a short-term loan in India at a moderate price and got more than I expected, and the contraction of currency at last caught up the surplus of silver rupees. Since then all has been comparatively simple and a small sale of silver has both increased our resources and given the speculators a lesson. But we had to borrow £5,000,000 in London in six-months bills, which we almost avoided and should have avoided if we'd reached equilibrium three months earlier, and we're thinking of converting these bills now into a long-term sterling loan, an operation which is however not absolutely necessary at the moment but will improve our sterling resources for purposes of the inauguration of the Reserve Bank and for certain capital expenditure purposes which we foresee, and we've been rather up against it in India for ways and means during the lean quarter of the financial year just ending.

But we're through and it is not impossible that import gold point may be reached in a month or so, which I don't much want but may be unable to prevent, and any doubt as to my capacity to maintain 1/6 is at an end, though I am told that some optimists in Bombay still hope to bring exchange down to 1/4 when I'm out of the way.

I've been much interested of course meanwhile in your doings. The failure of the Bank of England rate to go to 4 per cent after dropping to 4 1/2 per cent in the spring was a bitter disappointment, for which I don't love the French. It would have raised gilt-edged securities in London just enough to make the gap between them and our rupee prices of Government stocks in India unimportant.

Finally you helped us materially by lowering the Federal Reserve Bank's rates in July. July was a good month for me, as it relieved me of some of my fears such as a 5 per cent rate in London and brought me a good monsoon without which we should have been once again in trouble.

I've written at enormous length and hope you're not bored. It is really a great pleasure to me to set out the story at length to a comprehending listener, and as a matter of fact I've never done so before, and the story has taken much more concrete shape in my own mind as I've written it. I hope too that it doesn't read too egotistically. I've some useful - very good - subordinates, but with the exception of O. A. Smith (whose health placed him hors de combat for the whole period March to July 1927) I've no one at all to advise me, and no one at all to share the responsibility with except the Government of India, none of whom understand the first thing about it all and all of whom rely implicitly on me and are in the soup with me if I take them there. So it really has been a one-man job for me, and as I have said made more difficult by the necessity of carrying old fogies at the India Office with me and of compromising at every turn with them and with our tangled and incredible politics. (Of course I'm deep in the said politics most of the time and since July have had the job of Leader of the Assembly as an extra for my spare moments.)

On the whole I'm rather proud of having won through, even if it is a tale of too late at every step. If we had been able to do the right thing in March to July 1926, we'd have been up to date all through and our troubles would have been much less. On the other hand I'm bound to say thank you for a very fair monsoon in 1926 and a really good one in 1927.

I've gone to such lengths over this story that I've not cheek enough to write and you wouldn't have patience enough to listen to the full story of the Reserve Bank Bill. Besides it isn't through yet, and it is so much more political

than financial that it hasn't the same real interest for you as the story of the ratio. I'll try and tell a brief story however. The India Office swallowed the pill rather reluctantly, but with good grace. We drafted the bill in a month, a great feat for which Denning and the Draughtsman deserve great credit. The ratio controversy fortunately kept the Reserve Bank out of politics for some months, and it won considerable favor (1) as offering an alluring if indefinite prospect of fat jobs for Indians and their sons and nephews and (2) from my description of it as a big step towards Financial Swaraj. But there were always big lurking dangers. The ratio fight made Purshotamdas and others so mad that they were ready to do anything to spite me, and vested interests, exchange banks and Indian joint stock banks, disliked the idea of a Reserve bank. I kept Purshotamdas in check by winning over the Swarajists to my side in support of the principle of the bill, and they were also very useful allies, first against Purshotamdas and then against the exchange banks and finally even against the Indian banks, representing as the Swarajists on the whole do the agricultural and up-country intelligentsia against the Bombay capitalist. I cut much ice too by leaving the delights of Simla and going down to Bombay and Calcutta in the height of the hot weather to hold meetings of the Joint Committee of the Legislature. This was not a calculated gain as I really delight in getting out of Simla whenever I can.

But at the very first meeting at Bombay a combination of Swarajists and the Bombay capitalists gave me one in the eyes by voting for a State Bank and not a shareholders' bank. They really meant a bank run by and for the benefit of legislature, but when they realized that they had liked the Reserve Bank right off, the Swarajists came right round and said they quite agreed that the bank should be free from Government control and free from political influence, but it must not be in the hands of capitalists, European or Indian. And they asked very pertinently why they should pay the shareholders 8 per cent for money which the Government could

could borrow at less than 5 per cent seeing that the shareholders were not really risking an anna as their dividend was covered ten times over by the profits in the note issue which belonged to the Government anyhow. This was a real weakness in our bill and I didn't see then how to get over it. So I temporized at Bombay and got through a large part of the technical clauses of the Bill unscathed. This process was repeated at Calcutta, and the Bill emerged with all the technical part in fine shape, subject to one clause about the gold mohur. But owing to an accident (the Swarajists had counted heads and thought I had a majority, so voted happily against me and were horrified to win by one vote) the Committee voted down the provision excluding members of the legislature from being directors, and then went on to make some of the directors elected by the Assembly. They quoted the Federal Reserve Board precedent with some effect on this. So the compromise which I'd got leave from the India Office to accept fell through, and the whole fight about the constitution of the bank and the composition of the Board had to begin again in the Assembly at Simla in August. When we got to Simla all sorts of rubbish was talked in the Assembly and when it got to Calcutta and London it frightened people. Indeed I think it was only then that Calcutta and London realized that the Reserve Bank Bill was a Bill to hand over control of Indian currency and banking to a Board containing an Indian majority. And Calcutta to some extent honestly and in part egged on by the exchange banks took the rubbish talked in the Assembly seriously, while London took it at face value. Meanwhile, after various vicissitudes I'd got the upper hand at Simla. I'd discovered that the real fear of the large majority of the Indians was lest the Bank should be controlled by the Bombay Indian capitalist. Provincial jealousy of Bombay and Calcutta, agriculturalists' fears of the industrialist and financial crowd, and up country fear of the big cities were the moving motives. It was a position extraordinarily like that in the U. S. A. which eventually created a Federal Reserve Board under Governmental (and political) influences, and twelve Federal Reserve Banks

instead of one. The principles for which I fought were (1) that the bank must be absolutely free from Governmental control (2) that there must be no control by the legislature, and no political influence on the Board and no members of the Legislature on the Board and (3) that the directors must be responsible experienced men. Subject to this I was willing to do without shareholders. And I'd just got an almost unanimous assembly behind me for a very workable scheme substituting "stockholders" for "shareholders," and the non-cooperators were cooperating and Purshotamdas was side-stepping hard, when bang! The India Office said they wouldn't have a bank without shareholders. This was the reflection of the alarm (and intrigue) in Calcutta of a week earlier which I had by that time largely allayed, and of the real alarm in London. But whatever the merits it was a shameful betrayal of the Viceroy and myself by the India office. They'd let me negotiate for a fortnight with the Assembly and knew of all my moves day by day, and then at the end went back on me. There was an outburst of political vituperation in India, but for the moment I was an Indian hero, and the curious result of it all was that once it was realized that the bill was nearly dead and that there would be no reserve bank after all, I was implored to save the situation at all costs and they would accept almost any reserve bank I could give them. For six weeks I was resigning and should certainly have gone if my going had not meant (1) a nasty mess for the Viceroy who constitutionally was the one to resign first (2) no Reserve bank for India (3) a first class political row which would have damaged the British position in India, and though it might have gone far to finish the India Office would have been begun in rather unpropitious circumstances and done little good to any one. Eventually I forced everyone to agree to my going home for twenty days and I've come back with a scheme which is practically the stockholders' scheme only on a shareholders' basis, and I've discovered, I hope, a way of making the shareholders take a real risk or at least a live interest in the

by making any dividend over 5% (up to a 7% maximum) dependent on the profits being more than 4 crores. It's a better scheme than the stockholders' one, and I've never departed from the view that it's better to have shareholders than not. My only point was that they were not absolutely essential. But the problem now is how to get the bill safely through the legislature. It could have been done in September easily, but the announcement on November 8 of the statutory commission with Sir John Smith as Chairman and no Indians on it has altered the whole perspective. I'm inclined to think that the Assembly won't throw away financial Swaraj, will be even less willing to risk losing it in view of their disenchantment over the Commission: but you never can tell how foolish they will be.

I've left the gold mohur out of the story. It was (in my view) a perfectly harmless provision giving the Government the right to coin gold mohurs if they wished, with the public addition that the Government had no intention of doing so for years and years at any rate, if ever. It had this advantage, that it made the Indian believe that at last the rupee was a real gold rupee and the standard a real gold standard, which is true. And it had the further advantage that if it had been accepted by London this provision would have enabled me to get a completely satisfactory bill through in Calcutta, and saved all the bother in Simla. But the gold mohur was turned down with honor and had lost all importance long before we got to Simla, and the Assembly was quite prepared to forget it if the stockholders' scheme had gone through.

So that's the whole story. I can pass from the gold mohur back to your evidence before the Currency Commission. I was really grateful to you for the trouble you took in coming and bringing your experts, and not greatly surprised at your evidence. I was fairly sure from the first that "my gold standard scheme would be buried with international honour." Not that I did not believe in it myself. I did and do. But I felt fairly sure that, even if you and Norman were

B.P. Blackett to Secretary
Dec 26, 1927

willing to confess that you and he and all the rest of you (and us) keep needlessly large gold reserves and could do with far less if you would only face honestly the question - what are gold reserves for and what is the true criterion of their adequacy? - even then you and he would be much too frightened of the unenlightened multitude to risk saying so in public. I suppose the fact is that a good deal of gold is needed so long as the public's confidence in the currency is dependent on the mistaken notion that it is "as good as gold" only if there's a large heap of gold to look at. But even so you and Norman have more gold than you need, and could do far more than you do to educate your public to do with less, whereas I must begin by giving my Indians gold before they can begin to realize that it is not needed. And you are not in the end (or even for many years) sending less gold to India by rejecting my plan. On the contrary you increase the strain in the end. However, I've got as much as I expected out of Hilton Young's Commission, and don't complain.

The situation in England, as I saw it in my 20 days, does not give me much satisfaction. There is some gradual improvement going on all the time in the tranquilization of Europe, the rationalization of industry, social services, the relations of capital and labor, and so on. But it wouldn't take much to upset Europe again, and in England the Government and everyone else is spending recklessly when they ought to be saving. They'll never get the burden of the interest on the internal debt reduced, and will lose markets in the Empire and outside if they don't add very appreciably to their annual savings. They've got to lend to Europe if Europe is to recover and they've got to lend to the Empire if it's to remain the British Empire (unless, of course, the U. S. A. takes the whole show over as the American Empire, which is nonsense), and they can't do it unless they save money and create a much larger capital fund. So one day England and Europe will repudiate their debts of all kinds to the U. S. A., not intentionally so far as England is concerned, but for lack of money to pay.

But I hope they'll get tired of spending and then all will be well.

Spending is the wrong word. There's a host of things they ought to be spending money on, but they're chucking it all away in search of distraction and to avoid boredom. And "the world is not clever enough to manage the machine it's created."

I heard with great regret of the illness which incapacitated you and do hope you are fitter. You'll be none the healthier for reading this, I fear, if you try to wade through it in manuscript, and it'll be 1929 before you get to the end.

Best wishes.

Yours ever,

(Signed) Basil P. Blackett.

P. S. I never meant to inflict this all on you. I suggest that you should first of all have it typed. I would do it myself if it didn't mean losing a mail. And if you do have it typed, I'd be grateful if you would have two copies made and send me one, as it would be useful to have one for my own use, though I wrote it all with no such idea in my mind.

(Signed) B. P. B.

With the compliments
of the Hon'ble Sir Basil
Blackett, K.C.B., K.C.S.I.

Letter of 12/21/27

THE GOLD STANDARD AND RESERVE BANK OF INDIA BILL,
1928.

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THE SCHEDULES.

BILL

TO

Establish a gold standard currency for British India and constitute a Reserve Bank of India.

WHEREAS it is expedient to provide for the establishment of a gold standard currency for British India; to constitute a Reserve Bank of India to control the working of that standard and regulate the issue of bank notes and the keeping of reserves with a view to securing stability in the monetary system of British India; and generally to make provisions for matters incidental thereto; It is hereby enacted as follows :—

CHAPTER I.

PRELIMINARY.

1. (1) This Act may be called the Gold Standard and Reserve Bank of India Act, 1928.

Short title, extent, commencement and duration.

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

(3) This section shall come into force at once, and the remaining provisions of this Act shall come into force on such date or dates, not later than the 1st day of July, 1929, as the Governor General in Council may, by notification in the Gazette of India, appoint :

Provided that the Governor General in Council may, by notification in the Gazette of India stating his reasons for such action, substitute for the year 1929 in this section the year 1930; and may, by like notifications, make two further successive substitutions of the years 1931 and 1932.

(4) Chapter III shall be in force for a period of twenty-five years and its operation may thereafter be extended for such further period or periods as the Governor General in Council may, by notification in the Gazette of India, direct.

2. In this Act, unless there is anything repugnant in the subject or context,—

Definitions.

- (a) "the Bank" means the Reserve Bank of India constituted by this Act;
- (b) "the Banking Department" means and includes all departments of the Bank other than the Issue Department;
- (c) "bank rate" means the rate published by the Bank under section 47;
- (d) "bank note" means paper money issued by the Bank;
- (e) "the Board" means the Board of Directors constituted in accordance with section 9;

the registered shareholders of the Bank ;

- (g) "gold standard country" means any country, other than British India, from which any person is at liberty to export gold and in which any person may obtain gold on demand from the principal currency authority on payment of the equivalent thereof, as prescribed by law, in legal tender currency ;
- (h) "Issue Department" means that department of the Bank which is charged by section 23 with the conduct and management of the note issue ;
- (i) "provincial co-operative bank" means any society which is registered or deemed to be registered under the Co-operative Societies Act, 1912, or any other law for the time being in force in British India relating to co-operative societies and the sole business and object of which is the financing of the other societies in a province which are or are deemed to be so registered ;
- (j) "the Reserve" means the assets of the Issue Department as specified in section 31 ;
- (k) "the Reserve Fund" means the Reserve Fund referred to in section 46 ;
- (l) "rupee coin" means silver rupees which are legal tender under the provisions of the Indian Coinage Act, 1906 ; and
- (m) "scheduled bank" means a bank included in the First Schedule.

II of 1912.

III of 1906.

CHAPTER II.

INCORPORATION, SHARE CAPITAL, MANAGEMENT AND BUSINESS.

Establishment and incorporation of the Reserve Bank of India.

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.

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

(2) No amount in excess of twenty thousand rupees shall be issued to any one person or to any two or more persons jointly, and no person shall be allowed to acquire an interest in the share capital of the Bank, whether held in his own right, or held jointly with others, or held partly in his

own right and partly jointly with others, to a nominal value in excess of twenty thousand rupees.

(3) Separate registers of shareholders shall be maintained at Bombay, Calcutta, Madras, Rangoon and Delhi, and a separate issue of shares shall be made in each of the areas served by those registers, as hereinafter defined, and shares shall not be transferable from one register to another save in accordance with conditions to be prescribed by the Governor General in Council.

(4) A shareholder shall be qualified to be registered as such in any area in which he is ordinarily resident or has his principal place of business in India, but no person shall be registered as a shareholder in more than one register or as a holder of an interest in the share capital of a total nominal value exceeding twenty thousand rupees; and no person who is not—

(a) domiciled in India, or

(b) a British subject ordinarily resident in India, or

(c) a company registered under the Indian Companies Act, 1913, or a society VII of 1913. registered under the Co-operative Societies Act, 1912, or a scheduled II of 1912. bank, or a corporation or company incorporated by or under an Act of Parliament or any law for the time being in force in any of His Majesty's dominions and having a branch in British India,

shall be registered as a shareholder or be entitled to payment of any dividend on any share.

(5) The Board may, at its discretion, without giving any reason, decline to allot shares to any applicant or to register any transfer of shares.

(6) The areas served by the various registers mentioned in sub-section (3) shall be as follows, namely :—

(a) by the Bombay register—the Presidency of Bombay (including Sind), and the Central Provinces;

(b) by the Calcutta register—the Presidency of Bengal and the provinces of Bihar and Orissa and Assam;

(c) by the Madras register—the Presidency of Madras and the province of Coorg;

(d) by the Rangoon register—the province of Burma, and the Andaman and Nicobar Islands;

(e) by the Delhi register—the remainder of India, including the territories of Indian Princes and Rulers in India.

(7) The nominal value of the shares originally assigned to the various registers shall be as follows, namely :—

(a) to the Bombay register—one hundred and fifty lakhs of rupees;

(b) to the Calcutta register—one hundred and fifty lakhs of rupees;

(c) to the Madras register—forty lakhs of rupees;

(d) to the Rangoon register—forty lakhs of rupees;

(e) to the Delhi register—one hundred and twenty lakhs of rupees:

Provided that, in the event of the shares assigned to any register not being fully taken up at the first allotment, the Board may, with the previous sanction of the Governor General in Council, transfer a portion of such shares from that register to another.

(8) In allotting the shares assigned to a register, the Board shall, in the first instance, allot one share to each applicant qualified under sub-section (4) to be registered as a shareholder on that register; and, if the number of such applicants is greater than the total number of shares assigned to the register, shall determine by lot the applicants to whom the shares shall be allotted.

If the number of applicants is less than the number of shares assigned to the register, the Board shall allot the remaining shares to applicants who have applied for more shares than one; and if the number of extra shares so applied for exceeds the number of shares so to be allotted, the Board shall allot them among the various applicants in such manner as it may deem fair and equitable:

Provided that such allotments shall in all cases be subject to the restrictions contained in sub-section (2).

If, after all applications have been met in accordance with the provisions of this sub-section, any shares remain unallotted, they shall, notwithstanding anything contained in this section, be allotted to Government, and shall be sold by the Governor General in Council, at not less than par, as soon as may be.

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

Increase, reduction and transfer of share capital.

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

(3) The Board may determine the manner in which any increase of share capital shall be effected.

(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.

Offices and Branches.

6. The Head Office of the Bank shall be established in Bombay, and the Bank shall, as soon as may be, establish branches in Calcutta, Madras, Rangoon, Delhi and London, and may establish branches or agencies in any other place in India or, with the previous sanction of the Governor General in Council, elsewhere.

Head office, 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. (1) Save as expressly provided in this Act—

Qualifications and dis-qualifications for Directorships.

(a) no person may be a Director who is not or has not at some time been—

(i) actively engaged in agriculture, commerce, finance or industry, or

(ii) a director of any company as defined in clause (2) of section 2 of the Indian Companies Act, 1913, or of a corporation or company incorporated by or under any law for the time being in force in any place outside British India; and VII of 1913

(b) no person may be a Director who is—

(i) a government official, or

(ii) an officer or employee of any bank, or

(iii) a director of any bank, other than a registered society as defined in clause (e) of section 2 of the Co-operative Societies Act, 1912. II of 1912.

(2) The election or appointment as Director of any person who is a member of the Indian Legislature or of a local Legislature shall be void, unless within one month of the date of his election or appointment he ceases to be such member, and if any Director is elected or nominated as member of any such Legislature he shall cease to be a Director as from the date of such election or nomination, as the case may be.

9. (1) The Board shall consist of the following

Composition of the Directors, namely :—
Board, and term of
office of Directors.

(a) a Governor and two Deputy Governors to be appointed by the Governor General in Council after consideration of any recommendation made by the Board in that behalf ;

(b) four Directors to be nominated by the Governor General in Council ;

(c) two Directors to be elected by the Associated Chambers of Commerce ;

(d) two Directors to be elected by the Federation of the Indian Chambers of Commerce ;

(e) one Director, representing the interests of agriculture, to be elected by provincial co-operative banks holding shares to the nominal value of not less than five thousand rupees ;

(f) eleven Directors to be elected on behalf of the shareholders on the various registers, in the manner provided in section 10 and in the following numbers, namely :—

(i) for the Bombay register—three Directors ;

(ii) for the Calcutta register—three Directors ;

(iii) for the Madras register—one Director ;

(iv) for the Rangoon register—one Director ;

(v) for the Delhi register—three Directors ; and

(g) one government official to be nominated by the Governor General in Council.

(2) The Governor and Deputy Governors shall devote their whole time to the affairs of the Bank, and shall receive such salaries and allowances as may be determined by the Board, subject to any minimum prescribed by the Governor General in Council.

(3) The Governor, a Deputy Governor and a Director nominated or elected under clause (b), (c), (d), (e) or (f) shall hold office for five years, or thereafter until his successor shall have been duly appointed, nominated or elected, and, subject to the provisions of section 8, shall be eligible for re-appointment, re-nomination or re-election, as the case may be.

The Director nominated under clause (g) shall hold office during the pleasure of the Governor General in Council. He may attend any meeting of the Board and take part in its deliberations, but shall not be entitled to vote.

(4) No act or proceeding of the Board shall be questioned on the ground merely of the existence of any vacancy in, or any defect in the constitution of, the Board.

10. (1) The shareholders registered on the Election of Directors various registers shall elect representing share-delegates for the purpose of holders. electing Directors to represent them on the Board, and the numbers of delegates shall be as follows, namely :—

- (a) for the Bombay register—twenty-four members ;
- (b) for the Calcutta register—twenty-four members ;
- (c) for the Madras register—ten members ;
- (d) for the Rangoon register—ten members ;
- (e) for the Delhi register—twenty-four members.

(2) Every shareholder who has been registered on a register for not less than six months immediately preceding the election shall be entitled to vote at the election of delegates for the shareholders on that register ; and no shareholder shall have more than one vote.

(3) The delegates for the shareholders on a register shall be elected from among those who are shown on that register as having held, for a period of not less than six months immediately preceding the election, unencumbered shares of the Bank of a nominal value of not less than five thousand rupees :

Provided that no person shall be elected as a delegate who is a government official or an officer or servant of the Bank :

Provided further that no candidate may stand for election, unless he has been nominated by not less than twenty of the shareholders entitled to vote at the election.

(4) The election of delegates for the shareholders on a register shall be held once in every five years, at a convenient time before the expiry of the term of office of the retiring Directors for the election of whose successors the delegates are to be elected.

(5) Delegates shall hold office for a period of five years :

Provided that, if a delegate ceases to be qualified for election under sub-section (3), he shall forthwith cease to hold office as a delegate.

(6) A casual vacancy in the office of delegate, in whatsoever manner arising, may be filled by the Board from among the shareholders for the time

being qualified for election to that office under sub-section (3).

(7) The delegates for the shareholders on a register shall elect, from among those shareholders, the Directors to represent them on the Board, in accordance with this Act and the rules made under section 13.

11. (1) The Governor General in Council may
 Removal of Direc- remove from office the
 tors. Governor, a Deputy Governor, or any Director nominated or elected under clause (b), (c), (d), (e) or (f) of sub-section (1) of section 9, on a resolution passed by the Board in that behalf by a majority consisting of not less than fifteen Directors :

Provided that, in the case of a Director elected under clause (c), (d), (e) or (f), such resolution shall have been confirmed by a majority of not less than two-thirds of the persons present and voting at a general meeting expressly called for that purpose.

(2) A Director nominated or elected under clause (b), (c), (d), (e) or (f) of sub-section (1) of section 9 shall cease to hold office if, at any time after the expiry of one month from the date of his nomination or election or of eighteen months from the date on which this Act comes into force, whichever is later, he is not registered as a holder of unencumbered shares of the Bank of a nominal value of not less than ten thousand rupees, or if he ceases to hold unencumbered shares of that value.

12. (1) If the Governor or a Deputy Governor
 Casual vacancies. by infirmity or otherwise is rendered incapable of executing his duties or is absent on leave or otherwise in circumstances not involving the vacation of his appointment, the Governor General in Council may appoint another person to officiate for him, and such person may, notwithstanding anything contained in clause (b) of sub-section (1) of section 8, be an officer of the Bank.

(2) A casual vacancy in the office of a Director, other than the vacancies provided for in sub-section (1), shall be filled in the manner in which, and by the authority by whom, the nomination or election of the Director vacating office was made; and the Director so nominated or elected shall hold office for the unexpired portion of the term of his predecessor.

13. The Governor General in Council may,
 Power to make after previous publication, election rules. make rules to provide for all matters for which provision is in his opinion necessary or expedient for the holding and conduct of elections under this Act, and in particular and without prejudice to the generality of the foregoing power, may by such rules provide—

(a) for the holding of elections according to the principle of proportional representation by means of the single transferable vote or otherwise as he thinks fit in any case, and

(b) for the final decision of doubts or disputes regarding the qualifications of any candidate for election or regarding the validity of elections.

14. Meetings of the Board shall be convened by the Governor at least six times in each year and at least once in each quarter. Meetings shall ordinarily be held in Bombay, but at least two meetings of the Board shall be held in Calcutta in each year.

15. (1) A general meeting (hereinafter in this Act referred to as the annual general meeting) shall be held annually at Bombay within six weeks from the date on which the annual accounts of the Bank are closed, and a general meeting may be convened by the Board at any other time.

(2) Any shareholder shall be entitled to attend and vote at any general meeting, and no shareholder, whether present in person or voting through another shareholder as proxy, shall have more than one vote.

16. (1) The following provisions shall apply to the first constitution of the Board, and, notwithstanding anything contained in section 9, the Board as constituted in accordance therewith shall be deemed to be duly constituted in accordance with this Act.

(2) The first Governor and first Deputy Governors shall be appointed by the Governor General in Council on his own initiative, and shall receive such salaries and allowances as he may determine.

(3) The first four Directors nominated under clause (b) of sub-section (1) of section 9 shall hold office for three years.

(4) The first four Directors elected under clauses (c) and (d) of that sub-section shall hold office for four years.

(5) The first Director elected under clause (e) of that sub-section may be elected by all provincial co-operative banks notwithstanding that shares have not been allotted, and shall hold office for four years.

(6) The first eleven Directors representing the shareholders shall be nominated by the Governor General in Council after consultation with the Local Governments, and shall hold office for two years.

(7) The first elections of Directors under section 10 shall be held before the expiry of the term of office of the Directors nominated under sub-section (6), and the Directors so elected shall hold office as follows, namely :—

(a) the Directors elected on behalf of the shareholders on the Bombay register—for four years ;

(b) the Directors elected on behalf of the shareholders on the Calcutta register—for three years ;

(c) the Director elected on behalf of the shareholders on the Madras register—for five years ;

(d) the Director elected on behalf of the shareholders on the Rangoon register—for five years ;

(e) the Directors elected on behalf of the shareholders on the Delhi register—for two years.

Business of the Bank.

17. The Bank shall be authorised to carry on Business which the and transact the several Bank may transact. kinds of business herein-after 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 any other persons ;
- (2) (a) the purchase, sale and rediscount of bills of exchange and promissory notes, drawn and payable in India and arising out of *bona fide* commercial or trade transactions, bearing two or more good signatures, one of which shall be that of a scheduled bank, and maturing within ninety days from the date of such purchase or rediscount, exclusive of days of grace ;
- (b) the purchase, sale and rediscount of bills of exchange and promissory notes, drawn and payable in India and bearing two or more good signatures, one of which shall be that of a scheduled bank, or a provincial co-operative bank, and 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, exclusive of days of grace : provided that the total face value of bills or notes so purchased or rediscounted shall not at any time exceed one-fourth of the total face value of all bills and notes purchased or rediscounted by the Bank up to that time ;
- (c) the purchase, sale and rediscount of bills of exchange and promissory notes, drawn and payable in India and bearing the signature of a scheduled bank, and issued or drawn for the purpose of holding or trading in securities of the Government of India or a Local Government, and maturing within ninety days from the date of such purchase or rediscount, exclusive of days of grace ;
- (3) the purchase from and sale to scheduled banks and persons approved by the Board, in amounts of not less than the equivalent of one lakh of rupees, of the currencies of such gold standard countries as may be specified in this behalf by the Governor General in Council by notification in the Gazette of India, and of bills of exchange (including treasury bills) drawn in or on any place in any such country, and maturing within ninety days from the date of such purchase, exclusive of days of grace ; and the keeping of balances with banks in such countries ;

- (4) the making of loans and advances, repayable on demand or on the expiry of fixed periods not exceeding ninety days against the security of—
- (a) stocks, funds and securities (other than immoveable property) in which a trustee is authorised to invest trust money by any Act of Parliament or by any law for the time being in force in British India ;
 - (b) gold coin or 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 the total of the loans and advances against such securities as are referred to in sub-clause (b) of clause (2) shall not at any time exceed one-fourth of the total loans and advances made by the Bank up to that time ;
 - (d) such bills of exchange as are eligible for purchase by the Bank under clause (3) ;
 - (e) promissory notes of any scheduled bank or a provincial co-operative bank, supported by documents evidencing title to goods which have been transferred, assigned, hypothecated or pledged to any such bank as security for a cash credit granted for *bona 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 specified in this behalf by the Governor General in Council by notification in the Gazette of India ;
- (8) the purchase and sale of securities of the Government of India of any maturity, or of a Local Government or of a local authority in British India maturing within ten years from the date of purchase : provided that the amount of such securities held at any time in the Banking Department shall be so regulated that—
- (a) the total value of such securities shall not exceed the aggregate amount of the share capital of the Bank, the Reserve Fund and two-fifths of the liabilities of the Banking Department in respect of deposits ;

- (b) the value of such securities maturing after six months shall not exceed the aggregate amount of the share capital of the Bank, the Reserve Fund and one-fifth of the liabilities of the Banking Department in respect of deposits ;
- (c) the value of such securities maturing after one year shall not exceed the aggregate amount of the share capital of the Bank, the Reserve Fund and one-tenth of the liabilities of the Banking Department in respect of deposits ; and
- (d) the value of such securities maturing after ten years shall not exceed the aggregate amount of the share capital of the Bank and the Reserve Fund ;
- (9) 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 ;
- (10) 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 ;
- (11) 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 ;
- (12) the purchase and sale of gold coin and bullion ;
- (13) the opening of an account with, and the acting as agent or correspondent of, any other bank which is the principal currency authority of a gold standard country under the law for the time being in force in that country or any of the Federal Reserve Banks in the United States of America ;
- (14) the borrowing of money for a period not exceeding one month for the purposes of the business of the Bank, and the giving of security for money so borrowed :

Provided that the total amount of such borrowings shall not at any time exceed the amount of the share capital of the Bank :

Provided, further, that no money shall be borrowed under this clause from any person in British India other than a scheduled bank ;

- (15) the making and issue of bank notes subject to the provisions of this Act; and
- (16) 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.

18. When, in the opinion of the Board, it is necessary or expedient that Power of direct dis- necessary, or expedient that count. action should be taken under this section in the interests of Indian trade or commerce, or for the purpose of enabling the Bank to perform any of its functions under this Act, the Bank may, notwithstanding any limitation contained in sub-clauses (a) and (b) of clause (2) of section 17, purchase, sell or discount any bills of exchange or promissory notes drawn and payable in India and 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, exclusive of days of grace.

19. Save as otherwise provided in sections 17, Business which the 18 and 45, the Bank may Bank may not transact. 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 or current accounts.

CHAPTER III.

CENTRAL BANKING FUNCTIONS.

Relations of the Bank with the Secretary of State in Council, the Governor General in Council and Local Governments.

20. The Bank shall undertake to accept monies for account of the Secretary of State in Council and the Governor General in Council and such Local Governments as may have the custody and management of their own provincial revenues, 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 public debt, on such conditions as may be agreed upon.

21. (1) The Governor General in Council and Bank to have the such Local Governments as right to transact Gov- may have the custody and ernment business. management of their own provincial revenues shall undertake to entrust the Bank, on such conditions as may be agreed upon, with all their money, remittance, exchange and banking transactions in India and elsewhere and, in particular, to deposit free of interest all their cash balances with the Bank:

Provided that nothing in this sub-section shall prevent the Governor General in Council or any Local Government 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 and Local Governments may hold at such treasuries and sub-treasuries such balances as they may require.

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

Note Issue.

22. (1) The Bank shall have the sole right to Right to issue bank issue paper money in British notes. 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.

23. (1) The issue of bank notes shall be conducted by the Bank in an Issue Department. 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 32.

(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.

24. Bank notes shall be of the denominational Denominations of notes. values of five rupees, ten rupees, fifty rupees, one hundred rupees, five hundred rupees, one thousand rupees and ten thousand rupees, and of such other denominational values, if any, as may be directed by the Governor General in Council.

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

26. (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.

27. Any bank note re-issued from any office of the Bank shall be sterilized and disinfected before re-issue, and the bank shall not re-issue bank notes which are torn, defaced or excessively soiled.

28. Notwithstanding anything contained in any enactment or rule of law to the contrary, no person shall of right be entitled to recover from the Governor General in Council or the Bank the value of any lost, stolen, mutilated or imperfect currency note of the Government of India or bank note :

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 currency notes or bank notes may be refunded as of grace.

Prohibition of issue of private bills or notes payable to bearer on demand.

29. 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 :

Provided that cheques or drafts payable to bearer on demand or otherwise may be drawn on a person's account with a banker, shroff or agent.

30. (1) Any person contravening the provisions of section 29 shall, on conviction by a Presidency Magistrate or a Magistrate of the first class, be punishable with fine equal to the amount of the bill, hundi, note or engagement in respect whereof the offence is committed.

(2) No prosecution under this section shall be instituted except on complaint made by the Bank.

Assets of the Issue Department.

31. (1) The Reserve shall consist of gold coin, gold bullion, gold securities, rupee coin and rupee securities to such aggregate amount as is not less than the total of the liabilities of the Issue Department as hereinafter defined.

(2) Of the total amount of the Reserve, not less than two-fifths shall consist of gold coin, gold bullion or gold securities :

Provided that the amount of gold coin and gold bullion shall not at any time be less than thirty crores of rupees in value, and shall not be less than one-fifth of the total amount of the Reserve after the end of the fifth year, or than one-quarter of the total amount of the Reserve after the end of the tenth year, from the date on which this Chapter comes into force.

(3) The remainder of the Reserve shall be held in rupee coin, Government of India rupee securities of any maturity and such bills of exchange and promissory notes drawn and payable in British India as are eligible for purchase by the Bank under sub-clause (a) or sub-clause (b) of clause (2) of section 17 or under section 18 :

Provided that the amount held in rupee coin shall not exceed—

- (a) during the three years after the date on which this Chapter comes into force, ninety-five crores of rupees,
- (b) during the next three years, seventy-five crores of rupees,
- (c) during the next four years, sixty crores of rupees, and
- (d) fifty crores of rupees thereafter,

or one-tenth of the total amount of the Reserve, whichever amount is greater :

Provided further that the amount held in Government of India rupee securities shall not at any time exceed one-fourth of the total amount of the Reserve or fifty crores of rupees, whichever amount is less.

(4) For the purposes of this section, gold coin and gold bullion shall be valued at 8·47512 grains of fine gold per rupee, rupee coin shall be valued at its face value, and gold and rupee securities shall be valued at the market rate for the time being obtaining.

(5) Of the gold coin and gold bullion held in the Reserve, not less than seventeen-twentieths shall be held in British India, and all gold coin and gold bullion forming part of the Reserve shall be held in the custody of the Bank or its agencies :

Provided that gold belonging to the Bank which is in any other bank or in any mint or treasury or in transit may be reckoned as part of the Reserve.

(6) For the purposes of this section, the gold securities which may be held as part of the Reserve shall be securities of any of the following kinds payable in the currency of any of such gold standard countries as may be specified in this behalf by the Governor General in Council by notification in the Gazette of India, namely :—

- (a) balances at the credit of the Issue Department with a bank which is the principal currency authority under the law for the time being in force of such country, or with any of the Federal Reserve Banks in the United States of America ;
- (b) bills of exchange bearing two or more good signatures and drawn on and payable at a place in any such country and having a maturity not exceeding ninety days ;

- (c) securities maturing within five years of the Government of any part of His Majesty's dominions which is a gold standard country or of any other gold standard country specified in this behalf by the Governor General in Council by notification in the Gazette of India:

Provided that, for a period of two years from the date on which this Chapter comes into force,—

- (i) any of such last-mentioned securities may be securities maturing after five years, and the Bank may, at any time before the expiry of that period, dispose of such securities notwithstanding anything contained in section 17, and
- (ii) sterling securities of the Government of India may be held as part of the Reserve.

Liabilities of the Issue Department.

32. (1) The liabilities of the Issue Department shall be an amount equal to the total of the amount of the currency notes of the Government of India and bank notes for the time being in circulation and of an initial amount of forty crores of rupees for the purpose of providing for rupee redemption, which last-mentioned amount shall be reduced by one rupee for every five rupees delivered to the Governor General in Council under the provisions of section 34, and shall be increased by one rupee for every five rupees received from him under section 35.

(2) For the purposes of this section, any currency note of the Government of India or bank note which has not been presented for payment within forty years from the 1st day of April following the date of its issue shall be deemed not to be in circulation, and the value thereof shall, notwithstanding anything contained in sub-section 2 of section 23, be paid by the Issue Department to the Governor General in Council or the Banking Department, as the case may be; but any such note, if subsequently presented for payment, shall be paid by the Banking Department, and any such payment in the case of a currency note of the Government of India shall be debited to the Governor General in Council.

Initial Assets and Liabilities.

33. On the date on which this Chapter comes into force, the Issue Department shall take over from the Governor General in Council the liability for all the currency notes of the Government of India for the time being in circulation, and the Governor General in Council shall transfer to the Issue Department gold coin, gold bullion, gold securities, rupee coin and rupee securities to such aggregate amount as is equal to the total of the amount of the liability so transferred and of a sum of forty crores of rupees. The coin, bullion and securities shall be transferred in such proportion as to comply with the requirements of section 31:

Provided that the total amount of the gold coin, gold bullion and gold securities so transferred shall not be less than one-half of the whole amount transferred.

Supply of coin, and of different forms of legal tender currency.

34. 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 31, against payment of four rupees in bank notes, gold or gold securities for every five rupees so delivered.

35. When the amount of rupee coin for the time being held in the Reserve does not exceed twenty-five crores of rupees, 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.

36. The Governor General in Council shall undertake not to re-issue any rupee coin delivered under section 34 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.

37. 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 coin which is legal tender under the Indian Coinage Act, 1906, 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 35, 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 obligations to supply such coins to the public.

Obligation to sell gold and gold exchange.

38. (1) The provisions of this section shall have effect from such date, not later than the 1st day of July, 1931, as the Governor General in Council may, by notification in the Gazette of India, appoint:

Provided that the Governor General in Council may, by notification in the Gazette of India stating his reasons for such action, substitute for the year 1931 in this section the year 1932; and

may, by like notifications, make two further successive substitutions of the years 1933 and 1934.

(2) The Bank shall sell gold bullion for delivery in Bombay to any person who makes a demand in that behalf at its office at Bombay, Calcutta, Madras, Rangoon or Delhi and pays in legal tender currency the purchase price as determined under the provisions of this section:

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

(3) 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 such place in a gold standard country as may be specified in this behalf by the Governor General in Council by notification in the Gazette of India, 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 place so specified 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 less than twenty-one rupees, three annas and ten pies per tola of fine gold by an amount equal to or greater than the normal cost per tola of transferring gold bullion in bulk from the specified place to Bombay, including interest on its value during transit.

(4) The Governor General in Council shall, from time to time, determine in accordance with the provisions of sub-section (3) the price at which the Bank shall sell gold bullion for delivery in Bombay, and shall notify the price 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.

39. (1) The Bank shall sell, to any person who makes a demand in that behalf at its office at Bombay, Calcutta, Madras, Rangoon or Delhi 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 two hundred and fifty tolas of fine gold.

(2) 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 currency in exchange for gold, after deduction

therefrom of an amount representing the normal cost per tola of transferring gold bullion in bulk from Bombay to that country, including interest on its value during transit.

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

Obligation to buy gold.

40. The Bank shall buy, from any person who makes a demand in that behalf at its office in Bombay, Calcutta, Madras, Rangoon or Delhi, 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 two hundred and fifty tolas of fine gold :

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

Suspension of Reserve requirements and tax on note issue.

41. (1) The Bank may, with the previous sanction of the Governor General in Council, for periods not exceeding thirty days in the first instance, which may, with the like sanction, be extended from time to time by periods not exceeding fifteen days, hold in the Reserve gold coin, gold bullion or gold securities of less aggregate amount than that required by sub-section (2) of section 31 and, whilst the holding is so reduced, the proviso to that sub-section shall cease to be operative.

(2) In respect of any period during which the holding of gold coin, gold bullion and gold securities is reduced under sub-section (1), the Bank shall pay to the Governor General in Council a tax upon the amount by which such holding is reduced below the minimum prescribed by sub-section (2) of section 31; such tax shall be payable at the bank rate for the time being in force, with an addition of one per cent. per annum when such holding exceeds thirty-two and a half per cent. of the total amount of the Reserve and of a further one and a half per cent. per annum in respect of every further decrease of two and a half per cent. or part of such decrease :

Provided that the tax shall not in any event be payable at a rate less than six per cent. per annum.

42. The Bank shall not be liable to the payment of any stamp duty under the Indian Stamp Act, 1899, in respect of bank notes issued by it.

Duration of the privilege of note issue.

43. If at any time the Bank fails to comply with any provision of this Chapter or with any other provision of this Act, the Governor General in Council may, by notification

Powers of Government in respect of note issue and assets of the Bank in certain circumstances.

in the Gazette of India, declare that the Bank has forfeited the right of note issue, and shall thereupon take over the liabilities of the Issue Department, together with such portion of the assets of the Bank as is required to meet such liabilities, and thereafter the business of the Issue Department shall be carried on in the manner prescribed by this Act by such agency as the Governor General in Council may determine.

Cash reserves to be maintained by banks.

4. (1) Every scheduled bank shall maintain a balance with the Reserve Bank the amount of which shall at no time be less than seven and one-half per cent. of the daily average of the demand, and two and one-half per cent. of the daily average of the time liabilities of such bank in India.

(2) For the purposes of sub-section (1), the daily average of the amounts of the demand and time liabilities of each scheduled bank shall be computed in respect of each period ending on the fifteenth and on the last day of each month.

(3) Every such bank shall send to the Governor General in Council and to the Bank a monthly return, signed by two responsible officers of such bank, showing—

- (a) the amounts of its demand and time liabilities respectively in India,
- (b) the total amount held in India in currency notes of the Government of India and bank notes,
- (c) the amounts held in India in rupee coin and subsidiary coin respectively,
- (d) the amounts of advances made and of bills discounted in India respectively, and
- (e) the balance held at the Bank,

at the close of the month to which the return relates.

(4) Every such return shall be sent not later than fourteen days after the close of the month to which it relates, and shall state whether the bank has during that month maintained with the Reserve Bank the minimum balance required by sub-section (1).

(5) Any bank failing to comply with the provisions of sub-section (3) or sub-section (4) shall be liable, on application made by or on behalf of the Governor General in Council to the principal Civil Court having jurisdiction in a place where an office of the bank is situated, to a penalty of one hundred rupees for each day during which the failure continues.

(6) When it appears from any such monthly return or from a report of the Board that any scheduled bank has failed to maintain the minimum balance required by sub-section (1), the Governor General in Council may call for such further return, or make such inspection of the books and accounts of that bank, as may be

necessary to ascertain the amount of the deficiency, if any, and the period during which it has continued; and a bank so in default shall be liable, on application made by or on behalf of the Governor General in Council to the principal Civil Court having jurisdiction in a place where an office of the bank is situated, to a penalty at a rate per annum which shall be three per cent. above the bank rate on the amount of the deficiency for each day during which the default has continued, and shall be raised to five per cent. above the bank rate after the first seven days of the deficiency.

(7) The Governor General in Council shall, by notification in the Gazette of India, direct the inclusion in the First Schedule of any company, not already so included, which carries on the business of banking in British India and which—

- (a) is a company as defined in clause (2) of section 2 of the Indian Companies Act, 1913, or a corporation or company **VII of 1913.** incorporated by or under any law in force in any place outside British India, and
- (b) has a paid-up capital and reserves of an aggregate value of not less than three lakhs of rupees;

and shall, by a like notification, direct the exclusion from that Schedule of any scheduled bank the aggregate value of whose paid-up capital and reserves at any time becomes less than three lakhs of rupees, or which goes into liquidation or otherwise ceases to carry on banking business.

Agreement with the Imperial Bank of India.

45. The Bank shall enter into an agreement with the Imperial Bank of India which shall be subject to the approval of the Governor General in Council, and shall be expressed to come into force on the date on which this Chapter comes into force and to remain in force for twenty-five years, and shall further contain the provisions set forth in the Second Schedule.

CHAPTER IV.

GENERAL PROVISIONS.

Reserve Fund and allocation of Surplus.

46. After making provision for bad and doubtful debts, depreciation in assets, contributions to staff and superannuation funds, and such other contingencies as are usually provided for by bankers, and after payment out of the net annual profits of a cumulative dividend at the rate of five per cent. per annum on the share capital, the surplus shall be allocated as follows:—

- (a) one-half to a Reserve Fund, until such Reserve Fund is equal to one-half of the share capital, and the remaining one-half to the Governor General in Council;
- (b) thereafter, until the Reserve Fund is equal to the share capital, one-tenth to the Reserve Fund, and the balance to the Governor General in Council, and

- (c) when and for so long as the Reserve Fund is not less than the share capital, a portion to an additional dividend to the shareholders calculated on the scale set forth in the Third Schedule, and the balance to the Governor General in Council:

Provided that, so long as the Reserve Fund is less than the share capital, not less than fifty lakhs of rupees of the surplus, or the whole of the surplus if less than that amount, shall be allocated to the Reserve Fund.

Bank rate.

47. The Bank shall make public from time to time the minimum rate at which it is prepared to buy or rediscount bills of exchange or other commercial paper eligible for purchase under this Act.

Audit.

48. (1) Not less than two auditors shall be elected and their remuneration fixed at the annual general meeting. The auditors may be shareholders, but no Director or other officer of the Bank shall be eligible during his continuance in office. Any auditor shall be eligible for re-election on quitting office.

(2) The first auditors of the Bank may be appointed by the Board before the first annual general meeting and, if so appointed, shall hold office only until that meeting. All auditors elected under this section shall severally be, and continue to act as, auditors until the first annual general meeting after their respective elections:

Provided that any casual vacancy in the office of any auditor elected under this section may be filled by the Board.

49. Without prejudice to anything contained in section 48, the Governor General in Council may at any time appoint such auditors as he thinks fit to examine and report upon the accounts of the Bank.

50. (1) Every auditor shall be supplied with a copy of the annual balance-sheet, and it shall be his duty to examine the same, together with the accounts and vouchers relating thereto; and every auditor shall have a list delivered to him of all books kept by the Bank, and shall at all reasonable times have access to the books, accounts and other documents of the Bank, and may, at the expense of the Bank if appointed by it or at the expense of the Governor General in Council if appointed by him, employ accountants or other persons to assist him in investigating such accounts, and may, in relation to such accounts, examine any Director or officer of the Bank.

(2) The auditors shall make a report to the shareholders or to the Governor General in Council, as the case may be, upon the annual balance-sheet and accounts, and in every such report they shall state whether, in their opinion, the balance-sheet is a full and fair balance-sheet containing all necessary particulars and properly drawn up so as to exhibit a true and correct view of the state of the Bank's affairs, and, in case

they have called for any explanation or information from the Board, whether it has been given and whether it is satisfactory. Any such report made to the shareholders shall be read, together with the report of the Board, at the annual general meeting.

Returns.

51. (1) The Bank shall prepare and transmit to the Governor General in Council a weekly account of the Issue Department and of the Banking Department in the form set out in the Fourth Schedule or in such other form as the Governor General in Council may, by notification in the Gazette of India, prescribe. The Governor General in Council shall cause these accounts to be published weekly in the Gazette of India.

(2) The Bank shall also, within two months from the date on which the annual accounts of the Bank are closed, transmit to the Governor General in Council a copy of the annual accounts signed by the Governor, the Deputy Governors and the Chief Accounting Officer of the Bank, and certified by the auditors, and the Governor General in Council shall cause such accounts to be published in the Gazette of India.

(3) The Bank shall also, within two months from the date on which the annual accounts of the Bank are closed, transmit to the Governor General in Council a statement showing the name, address and occupation of, and the number of shares held by, each shareholder of the Bank.

Liquidation.

52. (1) Nothing in the Indian Companies Act, 1913, shall apply to the Bank, and the Bank shall not be placed in voluntary or compulsory liquidation save with the sanction of the Governor General in Council and in such manner as he may direct.

(2) In such event the Reserve Fund and surplus assets, if any, of the Bank shall be divided between the Governor General in Council and the shareholders in the proportion of seventy-five per cent. and twenty-five per cent., respectively.

Regulations.

53. (1) The Board may, with the previous sanction of the Governor General in Council, make regulations consistent with this Act to provide for all matters for which provision is necessary or convenient for the purpose of giving effect to the provisions of this Act.

(2) In particular and without prejudice to the generality of the foregoing provision, such regulations may provide for all or any of the following matters, namely:—

- (a) the maintenance of the share register, the manner in which and the conditions subject to which shares may be held and transferred, and, generally,

all matters relating to the rights and duties of shareholders ;

- (b) the manner in which general meetings shall be convened and the procedure to be followed thereat ;
- (c) the manner in which notices may be served on behalf of the Bank upon shareholders or other persons ;
- (d) the manner in which the business of the Board shall be transacted, and the procedure to be followed at meetings thereof ;
- (e) the establishment of Local Boards and the delegation to such Boards of powers and functions ;
- (f) the constitution and management of staff and superannuation funds for the officers and servants of the Bank ;
- (g) the manner and form in which contracts binding on the Bank may be executed ;
- (h) the provision of an official seal of the Bank and the manner and effect of its use ;
- (i) the manner and form in which the balance-sheet of the Bank shall be drawn up, and in which the accounts shall be maintained ;
- (j) the circumstances in which, and the conditions and limitations subject to which, the value of any lost, stolen, mutilated or imperfect currency note of the Government of India or bank note may be refunded ; and
- (k) generally, for the efficient conduct of the business of the Bank.

Amendments and Repeal.

54. In the Indian Coinage Act, 1906, for section III of 1906. Amendment of Act III of 1906. tion 11 the following section shall be substituted, namely :—

“11. Gold coins, coined at His Majesty's Royal Mint in England or at any mint established in pursuance of a proclamation of His Majesty as a branch of His Majesty's Royal Mint, shall not be legal tender in British India in payment or on account, but such coins shall be received by the Reserve Bank of India at its offices and agencies in India at the bullion value of such coins calculated at the rate of 8·47512 grains troy of fine gold per rupee.”

55. The Indian Paper Currency Act, 1923, and the Currency Act, 1927, are hereby repealed. X of 1923. IV of 1927.

THE FIRST SCHEDULE.

[See section 2 (m).]

SCHEDULE OF BANKS.

Ajodhia Bank, Fyzabad.	Industrial Bank of Western India.
Allahabad Bank.	Jalpaiguri Banking and Trading Corporation.
American Express Company Incorporated.	Karachi Bank, Karachi.
Banco Nacional Ultramarino.	Karnani Industrial Bank.
Bangalore Bank.	Lloyds Bank.
Bank of Baroda.	Lyallpur Bank.
Bank of Behar.	Mercantile Bank of India.
Bank of India, Bombay.	Mitsui Bank.
Bank of Morvi.	Muffassil Bank, Gorakhpur.
Bank of Mysore.	Mysore Industrial Bank.
Bank of Taiwan.	Namboodiri Bank, Pallippuram.
Bari Doab Bank, Lahore.	National Bank of India.
Benares Bank.	National City Bank of New York.
Bhargava Commercial Bank.	Nederlandsche Indische Handels-bank.
Bhowanipore Banking Corporation, Calcutta.	Nederlandsche Handel-Maatschappij.
Bombay Merchants' Bank, Bombay.	Nedungadi Bank, Calicut.
Byopar Sahayak Bank, Meerut.	Oudh Commercial Bank.
Canara Bank.	P. and O. Banking Corporation.
Central Bank of India.	People's Bank of Northern India.
Chartered Bank of India, Australia and China.	Punjab and Kashmir Bank, Rawalpindi.
Chota Nagpur Banking Association.	Punjab and Sind Bank, Amritsar.
Coimbatore Town Bank.	Punjab Co-operative Bank.
Comptoir National d'Escompte de Paris.	Punjab National Bank.
Dawsons Bank, Pyapon.	Shiloh Bank, Bombay.
Eastern Bank.	Simla Banking and Industrial Company.
Equitable Eastern Banking Corporation.	South India Bank, Tinnevely.
Grindlay and Company.	Sumitomo Bank.
Hongkong and Shanghai Banking Corporation.	Thomas Cook & Sons.
Imperial Bank of India.	Union Bank of India.
Imperial Bank of Persia.	U. Rai Gyaw Thoo and Co., Akyab.
Indian Bank.	Yokohama Specie Bank.

THE SECOND SCHEDULE.

(See section 45.)

Provisions to be contained in the agreement between the Reserve Bank of India and the Imperial Bank of India.

1. The Imperial Bank of India shall be the sole agent of the Reserve Bank of India at all places in British India where there is a branch of the Imperial Bank of India and no branch of the Banking Department of the Reserve Bank of India.

2. In consideration of the performance by the Imperial Bank of India on behalf of the Reserve Bank of India of the functions which the Imperial Bank of India was performing on behalf of the Governor General in Council at the places referred to in clause 1 before the coming into force of the Reserve Bank of India Act, 1928, the Reserve Bank of India shall pay to the Imperial Bank of India a commission calculated on the total of the receipts and disbursements dealt with annually on account of Government by the Imperial Bank of India on behalf of the Reserve Bank of India. Such commission shall be one-sixteenth of one per cent. on the first 250 crores of such total and one-thirty-second of one per cent. on the remainder.

3. Subject to the condition that the Imperial Bank of India shall keep open branches not less in number than those existing at the time of the coming into force of the Reserve Bank of India Act, 1928, the Reserve Bank of India shall allow the following balances to the Imperial Bank of India at the interest rates hereinafter specified, namely :—

- (a) during the first five years from that time—3 crores free of interest ;
- (b) during the next five years—2 crores free of interest and, at the option of the Imperial Bank of India, an amount not exceeding 1 crore at 2 per cent. per annum ;
- (c) during the next five years—1 crore free of interest and, at the option of the Imperial Bank of India, an amount not exceeding 2 crores at 2 per cent. per annum ; and
- (d) during the next five years—at the option of the Imperial Bank of India, an amount not exceeding 3 crores at 2 per cent. per annum.

4. The Imperial Bank of India shall not without the approval of the Reserve Bank of India open any branch in substitution for a branch existing at the time this agreement comes into force.

THE THIRD SCHEDULE.

(See section 46.)

Scale of additional dividend payable to shareholders.

A. So long as the share capital of the Bank is five crores of rupees—

(1) if the surplus does not exceed four crores of rupees—*Nil*;

(2) if the surplus exceeds four crores of rupees—

(a) out of such excess up to the first one and a half crores of rupees—a fraction of one-thirtieth;

(b) out of each successive additional excess up to one and a half crores of rupees—one-half of the fraction payable out of the next previous one and a half crores of excess:

Provided that the additional dividend shall be a multiple of one-eighth of one per cent. on the share capital, the amount of the surplus allocated thereto being rounded up or down to the nearest one-eighth of one per cent. on the share capital.

B. When the original share capital of the Bank has been increased or reduced, the additional dividend shall be calculated in the manner provided in clauses (1) and (2) above, but the fraction of one-thirtieth mentioned in sub-clause (a) of clause (2) shall be increased or diminished in proportion to the increase or reduction of the share capital.

THE FOURTH SCHEDULE.

(See section 51.)

RESERVE BANK OF INDIA.

An Account pursuant to the Gold Standard and Reserve Bank of India Act, 1928, for the week ending on the day of .

Issue Department.

<i>Liabilities.</i>	<i>Rs.</i>	<i>Assets.</i>	<i>Rs.</i>
Bank Notes held in the Banking Department		Rupee coin	
Bank Notes in circulation		Government of India rupee securities	
Total Bank Notes issued		Internal Bills of Exchange and other commercial paper	
Government of India Notes in circulation		Gold securities	
Rupee redemption		Gold coin or bullion—	
		(a) held in India	
		(b) held outside India	

Ratio of gold and gold securities to liabilities, per cent.

Dated the day of 19 .

Banking Department.

<i>Liabilities.</i>	<i>Rs.</i>	<i>Assets.</i>	<i>Rs.</i>
Capital paid up		Notes	
Reserve Fund		Rupee coin	
Deposits—		Subsidiary coin	
(a) Government		Bills discounted—	
(b) Banks		(a) Internal	
(c) Others		(b) External	
Bills payable		(c) Government of India Treasury Bills	
Other liabilities		Balances held abroad	
		Loans and advances to the Government	
		Other loans and advances	
		Investments	
		Other assets	

Dated the day of 19

STATEMENT OF OBJECTS AND REASONS.

PART I.

A Bill to give effect to the recommendations of the Royal Commission on Indian Currency and Finance, 1926, proposing the establishment of a Gold Standard for India and the constitution of a Reserve Bank of India to control the operation of the Gold Standard was introduced in the Legislative Assembly on the 25th January, 1927. The initiation of this measure by the Government of India and the discussions which followed both inside and outside the Legislature revealed a general consensus of opinion that the establishment of a Central Bank is desirable in order to secure for India independent control, conducted with reference only to correct banking and commercial principles, of her financial and monetary policy, and revealed at the same time wide divergence of views as to the best means by which, in removing the present governmental control, the risk of domination by sectional interests of one kind or another may be avoided.

The consideration of the aforesaid Bill clause by clause was entered upon during the last session of the Legislative Assembly in Simla. After the House had considered the first few clauses, the Government of India decided, for the reasons given by the Finance Member on the 8th September 1927, not to proceed with the further consideration of the Bill during that session. The Finance Member stated that the Government had from the first held the opinion that the soundest arrangement would be that the constitution of the Bank should be founded upon the subscription of capital by shareholders and the consequent interest of shareholders to see that the affairs of the Bank are conducted in accordance with strict business principles and not otherwise. This is the one plan which has been found to be wholly satisfactory by practical experience of central banking in other countries: and the Finance Member further indicated that the alternative methods of constituting the Reserve Bank of India and forming its directorate which had been proposed during the discussions on the Bill had raised difficult and controversial questions which required time for further careful examination of the whole issue.

During the interval that has since elapsed the Government of India, in consultation with the Secretary of State, have carried out the further review for which postponement of the discussion of the Bill was found to be necessary: and in doing so, they have given full weight to the practical considerations which had been urged against the adoption of their own initial plan and to the alternative suggestions which had been made. In the end while they have come to the conclusion that share capital affords the only satisfactory basis for the constitution of a Reserve Bank for India, at the same time, they have found it possible to embody in the fabric of a shareholders bank the essence of the arrangements which opinion in the Legislative Assembly had claimed to be necessary in order to make it certain, so far as this is possible, that the Reserve Bank should ensue the interests of India as a

whole and not the interests of one or other section of the community. The manner in which these requirements have been provided for is explained in the Notes on Clauses given in the second part of this statement.

Apart from the new dispositions referred to in the preceding recital, the revised Bill follows generally the provisions of the previous Bill as amended by the Joint Committee of the Legislature.

The new proposals are inconsistent with Clause 4 of the previous Bill which was actually passed by the Legislative Assembly, and it is therefore necessary to propound an entirely new Bill instead of proceeding with the previous Bill.

In view of the great importance attaching to the constitution of a central banking system in India—a point on which the Secretary of State, the Government of India and public opinion are agreed—and in view of the history of the legislation hitherto attempted, the Government of India consider it desirable to ensure that ample opportunity is given for study of their present proposals with a view to their being passed into law in the approaching session of the Legislature. For these reasons the Government of India have decided to publish the revised Bill before the commencement of the session and they will take the first opportunity of bringing it formally before the Legislative Assembly.

PART II.

Clause 1.—It is proposed to give the Bank the sole right of note issue for a period of twenty-five years in the first instance and to provide for renewal as recommended in paragraph 141 of the Royal Commission's report. The provision that the Act shall come into force not later than 1st January, 1929, in the Bill circulated in January, 1927, was based upon the time-table recommended by the Commission in paragraph 165 of the report. The Bill as amended by the Joint Committee advanced the date for starting the Bank by six months. It has now for various reasons become impracticable to prescribe a fixed date and a proviso has been added to the effect that it should be open to the Governor General in Council, for reasons to be stated, to postpone the operation of this clause for a year at a time subject to a maximum postponement of three years.

Clause 2.—The definition of Provincial Co-operative Bank in the Bill as amended by the Joint Committee included companies registered under the Indian Companies Act, 1913, under a misapprehension that the Punjab Co-operative Bank registered under that Act was connected with the Co-operative credit system. In the new definition such companies have been excluded and additional provision has been made to include provincial banks registered under Provincial Co-operative Acts.

Clause 3.—The name, the Reserve Bank of India, is that suggested in paragraph 92 of the Royal Commission's report.

Clause 4.—The Royal Commission recommended that the capital of the Bank should be rupees five crores fully paid up, and that the Imperial Bank's shareholders should be given the first opportunity of subscribing for the capital stock of the Bank as consideration for foregoing important privileges which the Imperial Bank now enjoys. A clear-cut division of functions between the Reserve Bank of India and the Imperial Bank of India is the essence of the proposal creating a Reserve Bank and it is undesirable to give the shareholders of the Imperial Bank of India a preponderant voice in deciding the currency policy of the Reserve Bank. It is, therefore, proposed, for this reason and in view also of the agreement contemplated by the Second Schedule, not to give the Imperial Bank of India the option of subscribing thirty per cent. of the capital. Sub-clauses (2), (3), (6), (7) and (8) provide for a broadbased distribution of the share capital both at the time of original allotment and subsequently, and is intended to be a safeguard against the control of the Bank by sectional interests of any kind. Sub-clause (4) is intended to meet the objection that the utility to India of a share capital bank might be endangered by a possible conflict of interest, within the management of the bank, between Indian and external capital. Provision has also been made for the transfer of portions of the share capital from one area to another in the event of the shares assigned to any area not being fully taken up at the time of original allotment.

It is necessary that the Government should be prepared to take up any unallotted shares, but it is not desirable that these should continue to be held permanently by Government. It is, therefore, proposed that the Governor General in Council should dispose of such shares as soon as possible.

Clause 5.—This is based on paragraph 101 of the Royal Commission's report. It is necessary to make provision for the contingent necessity of reducing the share capital and for the regional distribution of any increase in share capital, in regard to which the Commission have made no recommendation.

Clause 6.—The Head Office of the Bank will be located in Bombay as recommended by the Commission in paragraph 97 of the report. Delhi has been added to the list of places where the Bank may establish branches in view of the proposed creation of the Delhi register under clause 4.

Clause 8.—This gives effect to the recommendations in paragraphs 95 and 96 of the Royal Commission's report. The Joint Committee omitted the original provision prohibiting members of the Indian or local Legislatures from being nominated or elected as directors of the Bank. This provision has been reintroduced by sub-clause (2) of this clause for reasons which have been fully explained in previous discussions. Sub-clause *a(i)* which was added to the previous Bill by the Joint Committee on the precedent of clauses contained in certain other enactments establishing central banks, provides that no person may be a director who is not or has not at

some time been actively engaged in agriculture, commerce, finance or industry.

Clause 9.—This is derived from paragraph 94 of the Royal Commission's report. The Commission recommended therein that the Reserve Bank should have Local Boards in Bombay, Madras and Calcutta, and that representatives from these Boards should constitute a majority on the Central Board. The Local Boards have now been replaced by the five bodies of delegates one for each of the five areas mentioned in Clause 4. Provision has been made for the representation of commercial and agricultural interests and the term of office of all directors has been fixed at five years. As it would be undesirable that all the directors should vacate office at the same time, varying periods of tenure have been fixed in Clause 16 for directors nominated or elected at the outset.

Clause 10.—This clause provides for the election of directors by the shareholders through a body of delegates elected for this purpose. Qualifications for election as delegates and directors are also prescribed and the provision that no shareholder shall have more than one vote is intended to ensure protection for the small shareholder.

Clause 11.—It is provided in this clause that the Governor, a Deputy Governor or any nominated or elected director may be removed by the Governor General in Council if a resolution to that effect is passed by a majority of the Board consisting of not less than 15 directors.

The additional provision for the removal of elected directors follows the lines of a similar provision in the Imperial Bank of India Act. It seems undesirable that elected directors should be removable by a bare majority at a general meeting. It is proposed that directors other than the Governor, Deputy Governors and the nominated official shall cease to hold office if they do not obtain within a month of appointment or if subsequently they cease to possess the required number of shares. This restriction does not however come into force immediately as it is necessary to give sufficient time to directors to qualify themselves by purchase of shares in the open market.

Clause 12.—The fixation of a period of five years for the tenure of the directors makes it necessary to provide for casual vacancies.

Clause 13.—This clause introduces a necessary provision for the holding and conduct of elections and the final decision of doubts or disputes.

Clause 14.—The Joint Committee proposed in the previous Bill that the minimum number of meetings to be held by the Board in each year should be twelve. This has now been reduced to six in view of the new proposal that the Board must include directors from every part of India. It is also proposed to prescribe that as a minimum two meetings of the Board should be held each year in Calcutta, in view of the commercial importance of that city.

Clause 15.—This is an obviously necessary provision and is based on paragraph 98 of the Royal Commission's report. The power of voting by proxy has been rigorously limited in order to ensure that the policy of the Bank shall not

be easily susceptible of control by any combinations of special interests.

Clause 16.—The temporary provisions introduced by this clause are necessary as the Board has to be constituted in advance of the raising of the share capital. The varying periods of tenure prescribed in this clause are intended to retain continuously in the Board a number of directors with previous experience.

Clause 17.—This embodies generally the proposals in Schedule II of the Royal Commission's report defining the functions and powers of the Bank. It is, however, proposed to modify the Commission's recommendations in certain respects.

Sub-clause 1.—The Commission did not propose to allow power to the Reserve Bank to receive non-interest-bearing deposits from private persons. It is considered by the Government of India that like other central banks in the world the Reserve Bank of India should also be allowed to receive deposits from private persons provided no interest is paid.

Sub-clause 2(a).—The restriction to scheduled banks of the facilities provided in this section and elsewhere is intended to give to the scheduled banks some compensating advantage for the obligation which the Bill imposes upon them to maintain compulsory deposits free of interest in the Reserve Bank.

Sub-clause 2(b).—As India is predominantly an agricultural country, it is thought desirable to raise the limit of bills and notes which may be purchased or rediscounted under this provision to one-quarter of the total value of all bills and notes purchased or rediscounted by the Bank.

Sub-clause 3.—Schedule II of the Commission's report proposed that the Bank should have full discretion to purchase and sell the currencies of any foreign country having a gold standard. So wide a discretion is considered undesirable, and it is proposed that operations of this nature should be confined to such countries having a Gold Standard as the Governor General in Council may designate for the purpose.

Sub-clause 4.—The financing of industry and the movement of crops in India is at present effected by cash credits and as the provision recommended by the Commission stands, it would be difficult for the Reserve Bank to assist other banks in providing necessary credit facilities without considerable changes in banking methods. It is, therefore, proposed in sub-clause (4)(e) that for a period of five years the Bank should be authorised to advance money against promissory notes of scheduled banks under certain conditions.

Sub-clause 8.—It is considered undesirable to limit the amount of securities held at any time in the Banking Department to so low a figure as 25 per cent. of the liabilities as recommended by the Royal Commission in clause 3(d) of Schedule II to their report, since in view of the fluctuating character of deposits the limitation might on occasion force the sale of securities merely to bring the Bank within the provisions of its charter for a few days.

The Commission recommended in clause 7(a) of Schedule II to their report that the paid-up capital

and reserve may be invested in securities of the Government of India having not more than five years to run. In view of the fact that the Government of India are now funding their short-term loans into long-term loans the limitation suggested might in the near future unduly restrict the power of the Bank to invest in Government securities. It is, therefore, proposed to modify the provision so as to permit of investment in Government of India securities of any maturity.

Sub-clause 13.—The power of the Reserve Bank to open accounts and act as agents of other banks is restricted by this provision. Such relations may be entered into only with central banks which are the principal currency authorities in their respective countries and among which the Federal Reserve Banks in the United States of America are included.

Sub-clause 14.—It is essential that the Bank should have power to borrow in London in view of the obligation imposed upon it to keep the Secretary of State in funds, and it is necessary also that the Bank should be able to borrow in India so as to facilitate the control of credit. The limitation which this clause provides will prevent the Bank from using its power of borrowing in order to compete with other banks for fixed deposits.

Clause 18.—This gives effect to the recommendation in paragraph 102 of the Royal Commission's report regarding open market operations. The Joint Committee considered it necessary to prescribe definitely that the Reserve Bank should not be entitled to enter into indiscriminate competition with commercial banks, and for this reason it has been provided that action under this clause must be approved by the Board of the Bank: and the purposes for which alone they should approve the undertaking of such operations have also been indicated.

Clause 19.—This is based upon Schedule II of the Commission's report defining the business which the Bank should not be authorised to carry on or to transact.

Clauses 20 and 21.—These give effect to the recommendation in paragraph 140 of the report regarding the relations of the Bank with the Government. As recommended by the Joint Committee it has been provided that the Reserve Bank should have control of all Government balances not excluding those of such of the Local Governments as may have the custody and management of their own provincial revenues.

Clause 22.—This gives effect to the recommendation in paragraph 141 of the report. The Commission recommend that the right of note issue should be transferred to the Bank as soon as the Bank is in a position to issue its own notes. It is, however, thought to be undesirable to delay the exercise of this function of the Bank until it is able to arrange for the manufacture and issue of its own notes, and it is therefore proposed to allow the Bank to issue notes of the Government of India for a year from the date on which the Bank takes over the control of the currency.

Clause 23.—This gives effect to the recommendation in paragraph 143 of the Commission's report regarding the separation of the Banking and Issue Departments of the Bank.

Clause 24.—This gives effect to the recommendation in paragraph 142 of the Commission's report. Freedom is retained to postpone for a time the issue of one rupee notes if such postponement appears desirable with reference to the size of the holding of silver rupees in the Reserve. Provisions relating to a gold mohur introduced by the Joint Committee have been removed for reasons which have been fully explained in previous discussions.

Clause 25.—This gives effect to the recommendation in paragraph 155 of the Commission's report regarding the form and material of bank notes.

Clause 26.—This is based upon the recommendation in paragraph 149 of the Commission's report that the notes of the Bank shall be legal tender for the payment of any amount and shall be guaranteed by the Government of India. The guarantee ensures the confidence of the public in the bank notes.

The Commission recommended in paragraph 141 of their report that, not later than five years from the date of the Bank Charter becoming operative, the Government of India notes still outstanding should cease to be legal tender except at Government treasuries. It may be presumed that by the end of five years very few Government of India notes will remain outstanding; but it would be undesirable to take away the legal tender character of such note in the absence of any very definite advantage to be gained by so doing. No provision to the effect suggested is therefore made. It is, however, proposed to take power for the Governor General in Council to call in notes of particular series if necessity arises.

Clause 27.—This is based on paragraph 155 of the Commission's report regarding the re-issue of bank notes.

Clause 28.—This is based upon a similar provision in the Indian Paper Currency Act, 1923, and is necessary to protect the Bank against a civil action in respect of notes lost, stolen, mutilated or imperfect. The present practice by which a note may be divided into two halves and the halves when joined together are accepted as legal tender remains unaffected.

Clauses 29 and 30.—These are based upon similar provisions in the Indian Paper Currency Act, 1923. The proviso in clause 29 has been altered from the form in which it stood for many years in order to make it clear that cheques upon a banking account are not prohibited by that clause, even though the account may be overdrawn.

Clause 31.—This gives effect to the recommendations in paragraph 145 of the Commission's report regarding the constitution of the Reserve.

Sub-clause 2.—The Joint Committee introduced in the previous Bill a provision requiring that after the end of ten years the amount of gold securities in the Reserve must never exceed one-half of the total gold assets. This has been omitted, as such a provision is likely to prove unduly hampering to the executive of the Bank in the management of the Reserve.

Sub-clause 3.—The amount of silver coin and bullion now held in the Paper Currency Reserve is 110 crores, or 25 crores more than the amount

held at the time at which the Royal Commission made their recommendations. It is open to grave doubt whether it would be possible without a serious disturbance of the silver markets of the world to dispose of this surplus silver within a period of ten years. Partly for this reason and partly because of the obligation imposed on the Bank by clause 37 to supply rupees freely to the public in such quantities as may be required for circulation, the limits of the amount of rupee coin which may be held at various periods in the Reserve have been increased by 25 crores each.

Sub-clause 5.—The proportion of the gold coin and gold bullion held in the Reserve which must be kept in British India has been raised to 85 per cent. The raising of the proportion to this extent has been rendered possible largely by the elimination of the provision for the sale of gold for delivery outside India which was recommended by the Commission.

Sub-clause 6.—The Joint Committee wished to prohibit the holding in the Reserve of bills of exchange drawn on foreign gold standard countries as an unnecessary and undesirable feature of a gold reserve. But the provision to which the Joint Committee objected appears in Statutes regulating the conduct of other central banks, and the Government of India are satisfied that the same liberty should be given to the Reserve Bank of India.

Clause 32.—This gives effect to the recommendation in paragraph 146 of the Commission's report defining the liabilities of the Issue Department. The initial amount of 50 crores of rupees for the purpose of providing for rupee redemption recommended by the Commission has however now been altered to 40 crores. The original figure was based on an estimate indicating the total amount of rupees that might be spared from circulation as about 250 crores. In view of the changes now proposed as regards the permissible silver holding in the Reserve and of the return of rupees from circulation since the Royal Commission reported, it is considered safe to reduce the figure for rupee redemption to 40 crores of rupees.

The provision in sub-clause (2) of this clause is similar to that in the proviso to sub-section (6) of section 18 of the Indian Paper Currency Act, 1923, although it differs in detail. Under the Indian Paper Currency Act, 1923, notes of denominational value exceeding Rs. 100 cannot be deemed to be not in circulation until 100 years after the date of issue, whereas notes of lower denominations are so deemed after 40 years. This distinction between the higher and the lower denominations of notes is undesirable. In practice notes of higher denomination are much less likely to be outstanding for a very long period than notes of lower denomination and the practice at the Bank of England is to treat all notes as not in circulation after 40 years. It is considered that the Reserve Bank might with advantage follow the practice of the Bank of England.

Clause 33.—This is based upon paragraph 144 of the report. The Commission recommended that coin and bullion and securities to be transferred to the Issue Department should be specified in a Schedule. The amount of notes in circulation at the time of inauguration of the Bank will not be known when the Bill is introduced and passed and also between the dates of introduction of the

Bill and its passing into law and the inauguration of the Bank, there will be changes in the constitution of the Reserve held against note issue. It is, therefore, proposed to provide for the transfer to the Bank of assets of such a nature as to enable the Bank to constitute the Reserve in accordance with the requirements laid down in the Act. In order to give the new Bank the necessary margin over minimum requirements, it is proposed to include in the assets transferred, gold and gold securities equal to one-half of the liabilities of the Issue Department as suggested in clause 3(a) of Schedule III to the report.

Clause 34.—This gives effect to the recommendation in paragraph 147 of the report regarding the disposal of surplus rupees by the Bank.

Clause 35.—This gives effect to the recommendation of the Commission in paragraph 147 of the report. As it would be uneconomical to coin new rupees until the stock of silver rupees in the Reserve is reduced to a limit of 25 crores or one-tenth of the total amount of the Reserve whichever is greater, it is proposed to limit the right of the Bank to demand the delivery of rupee coins from Government.

Clause 36.—This gives effect to the recommendation in paragraph 148 of the report regarding the mutual obligations of the Government and the Bank in regard to rupee coin.

Clause 37.—This gives effect to the recommendation in paragraph 152 of the report. The provisions regarding mohurs introduced by the Joint Committee in this clause have been omitted.

Clauses 38 and 39.—These give effect to the recommendations in paragraphs 150 and 166 of the Commission's report regarding the sale of gold and gold exchange by the Bank. Certain modifications are however proposed. The obligation to sell gold for delivery at foreign centres has been replaced by a permanent obligation to sell gold exchange from the outset in any gold standard country notified in this behalf by the Government of India. It is considered that the obligation imposed on the Reserve Bank to keep stable the value of the currency will be made capable of fulfilment by this provision, while at the same time it will make it possible for a greater proportion of gold to be held in India.

The latest date recommended by the Currency Commission on which the obligation to sell gold should have effect is 1st January 1931. The Joint Committee advanced it by six months and for the reasons given under clause 1 it has been considered necessary that power should be taken to postpone the effective operation of this section in the manner provided in that clause.

The minimum amount of gold to be purchased or sold was originally fixed at 1,065 tolas based on the fact that the weight of commercial bars in London is 400 ozs. This original figure is in both cases now reduced to 250 tolas as being a figure more suited to Indian conditions.

The Commission recommended that during the transition period the Reserve Bank should be under an obligation to sell gold or gold exchange at its option. As the Bank must concentrate on building up its gold holdings in order to be in a position to undertake the definite obligation to sell gold prescribed for a later stage, the option to

sell gold during the interim period has been replaced by the immediate permanent obligation to sell gold exchange already mentioned.

Clause 40.—This gives effect to the recommendation in paragraphs 151 and 166 of the Commission's report.

Clause 41.—This gives effect to the recommendation in paragraph 153 of the report regarding the suspension of reserve requirements.

Clause 42.—This gives effect to the recommendation in paragraph 154 of the Commission's report. But it is now made clear that the Bank is to be exempted only from the payment of stamp duty under the Indian Stamp Act, 1899, in respect of the bank notes issued by it. It is not the intention to give any wider exemption.

Clause 43.—The provisions in this clause are in accordance with the recommendations in paragraph 149 of the report. The Commission recommended that the Governor General in Council should have the right to take over the assets of the Issue Department so far as they are required to meet the liability of the note or of rupee redemption. It is proposed to give the Governor General in Council the right to take over the assets not only of the Issue Department but of the Banking Department as well, as in theory such a necessity might arise if the Bank failed to keep sufficient assets in the Issue Department. A provision is also made for the carrying on of the note issue in such circumstances by some other agency determined by the Governor General in Council.

Clause 44.—This gives effect to the recommendation in paragraph 161 of the Commission's report with certain modifications. The percentages for minimum reserve balances recommended by the Commission appear somewhat high for India. It is, therefore, proposed to reduce these percentages to $7\frac{1}{2}$ and $2\frac{1}{2}$ per cent. of the demand and time liabilities, respectively.

The definition of 'Bank' or 'Banker' suggested in paragraph 162 of the Commission's report is imperfect, but it is difficult to arrive at any satisfactory definition. It is, however, considered that if the Reserve Bank is to exercise proper control over the credit system of the country, the obligation imposed by this clause must be extended as widely as possible and should fall upon every firm of any standing or importance doing banking business in British India. It is, therefore, proposed to exhibit in a Schedule attached to the Bill the banks to which the provision in this clause should apply in the first instance, all banks being included which have a paid-up capital and reserve of an aggregate value of not less than three lakhs of rupees. For the future the Governor General in Council is required to include among the scheduled banks any bank which attains the necessary standing or importance and to exclude any bank which falls short of that standard.

The method of computing of the requisite proportion of the demand and time liabilities of the banks affected, follows the provisions made for the same purpose in the Federal Reserve System of the United States of America.

As the monthly return prescribed in paragraph 161 of the report will show only the position at

the close of the month to which it relates, it is necessary to provide for the receipt of the information mentioned in sub-clause (3) of this clause.

It is also necessary that provision should be made to enable the Government to take action not only on the monthly report submitted by the Bank, but also on any report received from the Board of the Reserve Bank.

The provision in paragraph 161 of the Commission's report, which requires a summary of the monthly return of each bank to be published, has been omitted as the particulars required for the purpose of this clause furnish only a partial statement of the bank's affairs and their publication might mislead the public as regards the financial position of a bank.

Clause 45.—This follows the intention of paragraph 87 of the report.

Clause 46.—This is based upon the recommendation in paragraph 100 of the Commission's report. It is considered unnecessary to build up the reserve fund as quickly as the Commission suggest and a lower rate of accumulation has, therefore, been proposed. Also the additional dividend to be given to shareholders under certain circumstances has been reduced from a maximum of 3 per cent. recommended by the Commission to one of 2 per cent.

Clause 47.—This gives effect to the recommendation in paragraph 158 of the Commission's report.

Clauses 48, 49 and 50.—These give effect to the recommendation in paragraph 156 of the report.

Clause 51.—This gives effect to the recommendation in paragraph 157 of the report.

Clause 52.—It is necessary to make provision for the contingency of the liquidation of the Bank and the distribution of the reserve fund and surplus assets, if any, of the Bank.

The 11th January 1928.

Clause 53.—This is based upon the recommendation in paragraph 164 of the report. The Commission proposed that the Governor General in Council should be given absolute power to make regulations. It is thought preferable that regulations should be made by the Board with the previous approval of the Governor General in Council.

Local Boards are not to be constituted on the creation of the Reserve Bank, but it is proposed to give power to the Reserve Bank Board to establish such Local Boards if considered necessary later on and to delegate to them such powers and functions as may be desirable.

Clause 54.—The obligation imposed on the Government by the Currency Act IV of 1927 to receive sovereigns and half-sovereigns from the public at their bullion value will be taken over by the Bank simultaneously with the transfer of the conduct of note issue to it.

The First Schedule.—The First Schedule in the Bill as amended by the Joint Committee has been brought up-to-date.

The Second Schedule.—The provisions contained in this Schedule involve no fresh charge on the tax-payer. They are designed to compensate the Imperial Bank of India for the agency work done for the Reserve Bank and for the loss in respect of non-paying branches.

The Third Schedule.—This gives the scale of additional dividend payable to the shareholders and is so fixed as to give a maximum of 2 per cent. in addition to the ordinary dividend of 5 per cent.

The Fourth Schedule.—This is based upon Schedule IV to the report of the Commission. The gold coin or bullion held by the Bank in the Issue Department in India is proposed to be shown separately from that held outside India.

BASIL P. BLACKETT.

GOVERNMENT OF INDIA.
LEGISLATIVE DEPARTMENT.

A
BILL

TO

Establish a gold standard currency for
British India and constitute a Reserve
Bank of India; and Annexure.

The Governor General has been pleased
to accord the sanction required by
clause (a) of section 67(2) of the
Government of India Act.

L. GRAHAM,
Secretary of the Legislative Assembly.

(The Honourable Sir Basil Blackett.)

ADDRESS:

KYOTO.

TEL. NOS. 336, 337 & 338 (KAMI)

THE MIYAKO HOTEL, KYOTO.

Kyoto, 20/9/1928

My dear Strong,

Lady Blackett & I are
due in San Francisco by
the "Siberia Maru" on about
October 25th, & hope to be
in New York on about Nov. 5th.
We shall probably stay at the
Ambassador Hotel. I hope we
shall see you in New York, but
have heard no news of your
movements for a long time. I

84 17
the name of
of SSIR
should like to meet your
Fiducial Reserve people in
Frisco. Could you give me a
letter of introduction addressed
to the C/o Thomas Cook & Son,
San Francisco. I do hope
your health is better. Best
wishes. Yrs. ever

Basile Blackett