

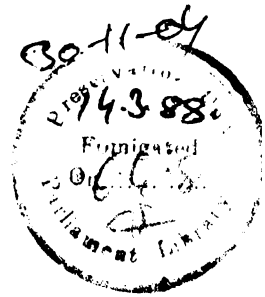
Wednesday, 14th February, 1933

THE
COUNCIL OF STATE DEBATES

VOLUME I, 1934

(8th February to 27th April, 1934)

SEVENTH SESSION
OF THE
THIRD COUNCIL OF STATE, 1934



PUBLISHED BY MANAGER OF PUBLICATIONS, DELHI.
PRINTED BY THE MANAGER, GOVERNMENT OF INDIA PRESS, NEW DELHI.
1934.

CONTENTS.

Thursday, 8th February, 1934—

	Pages.
Members Sworn	1
Death of Mr. Abdul Hamid	1
Questions and Answers	2—11
Statements laid on the table	11—13
Messages from His Excellency the Governor General	13—14
Committee on Petitions	14
Resolution re placing on record the deep sympathy of the Council with sufferers in the recent earthquake—Adopted	14—19
Governor General's Assent to Bill	19
Bills passed by the Legislative Assembly laid on the table	19
Motion for the election of two non-official Muslim Members to the Standing Committee on Pilgrimage to the Hejaz—Adopted	19—20
Statement of Business	20

Saturday, 10th February, 1934—

Question and Answer	21—22
Bill passed by the Legislative Assembly laid on the table	22
Nominations for the election of two non-official Muslim Members to the Standing Committee on Pilgrimage to the Hejaz	22
Resolution re Indianization of the Indian Civil Service—Withdrawn	23—35

Tuesday, 13th February, 1934—

Questions and Answers	37—38
Reserve Bank of India Bill—Motion to consider, adjourned	38—69

Wednesday, 14th February, 1934—

Members Sworn	71
Questions and Answers	71—78
Reserve Bank of India Bill—Motion to consider, adopted	79—111

Thursday, 15th February, 1934—

Reserve Bank of India Bill—Consideration of clauses and Motion to pass, adjourned	113—46
---	--------

Friday, 16th February, 1934—

Bill passed by the Legislative Assembly laid on the table	147
Reserve Bank of India Bill—Passed, as amended	147—63
Imperial Bank of India (Amendment) Bill—Considered and passed	168—65
Statement of Business	165

Saturday, 17th February, 1934—

Question and Answer	167—68
Presentation of the Railway Budget for 1934-35	168—73
Motion for the election of two non-official Members to the Standing Committee to advise on subjects other than "Indians Overseas—Emigration" and "Haj Pilgrimage" dealt with in the Department of Education, Health and Lands—Adopted	173

Thursday, 29th March, 1934—

Indian Finance Bill, 1934—Considered and passed	609—31
Salt Additional Import Duty (Extending) Bill—Considered and passed	631—35
Statement of Business	630

Thursday, 12th April, 1934—

Members Sworn	637
Questions and Answers	637—45
Short Notice Question and Answer	645—46
Statements laid on the table	646—47
Bill passed by the Legislative Assembly laid on the table	647
Motion for the election of six non-official Members to the Central Advisory Council for Railways—Adopted	647
Motion for the election of one Muslim non-official Member to the Standing Committee on Pilgrimage to the Hejaz <i>vice</i> the Honourable Mr. Hossain Imam, resigned—Adopted	648
Indian Trusts (Amendment) Bill—Considered and passed	648—49
Statement of Business	649

Monday, 16th April, 1934—

Member Sworn	651
Short Notice Questions and Answers	651—52
Ruling re putting of questions standing in the names of absent Members	652—55
Statements laid on the table	655—56
Motion for the election of one non-official Member to the Standing Committee on Emigration <i>vice</i> the Honourable Sir Kurma Venkata Reddi—Adopted	656
Motion for the election of three non-official Members to the Standing Committee for Roads—Adopted	656
Indian States (Protection) Bill—Motion to consider, adopted	656—58
Election of one non-official Muslim Member to the Standing Committee on Pilgrimage to the Hejaz	658
Nominations for the election of six non-official Members to the Central Advisory Council for Railways	658

Tuesday, 17th April, 1934—

Member Sworn	699
Questions and Answers	699—700
Bill passed by the Legislative Assembly laid on the table	701
Indian States (Protection) Bill—Considered and passed	701—32
Statement of Business	732

Friday, 20th April, 1934—

Questions and Answers	733—45
Statement laid on the table	746
Bill passed by the Legislative Assembly laid on the table	747
Election of a non-official Member to the Standing Committee on Emigration <i>vice</i> the Honourable Sir Kurma Venkata Reddi	747
Election of three non-official Members to the Standing Committee for Roads	747
Election of six non-official Members to the Central Advisory Council for Railways	747

Friday, 20th April, 1934—*contd.*

Congratulations to the Honourable Sir Joseph Bore on the successful termination of the Indo-Japanese Agreement	748
Indian Tariff (Textile Protection) Amendment Bill—Motion to consider, adjourned	748—803
Appendix	804—06

Saturday, 21st April, 1934—

Questions and Answers	807—09
Bill passed by the Legislative Assembly laid on the table	809
Indian Tariff (Textile Protection) Amendment Bill—Considered and passed	809—27
Resolution <i>re</i> Road Development Fund—Adopted	827—35
Statement of Business	886
Appendix	887—38

Thursday, 26th April, 1934—

Question and Answer	839
Congratulations to the Honourable Sir Harry Haig on his appointment as Governor of the United Provinces	889
Death of Sir Sankaran Nair	840—44
Statement laid on the table	844—46
Result of the election of six non-official Members to the Central Advisory Council for Railways	847
Trade Disputes (Extending) Bill—Considered and passed	847—50
Sugar (Excise Duty) Bill—Considered and passed	851—907
Sugar-cane Bill—Motion to consider, adopted	907—30

Friday, 27th April, 1934—

Questions and Answers	931—34
Death of the Right Honourable Sir Dinshaw Mulla	934
Sugar-cane Bill—Considered and passed	934—55
Matches (Excise Duty) Bill—Considered and passed	955—63
Motion <i>re</i> Committee to enquire into and report on the working of and results achieved from the Ottawa Agreement—Consideration adjourned	964—68

COUNCIL OF STATE.

Wednesday, 14th February, 1934.

The Council met in the Council Chamber of the Council House at Eleven of the Clock, the Honourable the President in the Chair.

MEMBERS SWORN:

The Honourable Mr. Bertrand James Glancy, C.S.I., C.I.E.
(Political Secretary).

The Honourable Saiyid Raza Ali, C.B.E. (United Provinces:
Nominated Non-Official).

QUESTIONS AND ANSWERS.

JUTE EXPORT DUTY.

22. THE HONOURABLE MR. JAGADISH CHANDRA BANERJEE:
Will Government be pleased to state whether they have decided to give fifty per cent. of the jute export duty to Bengal? If so, when will the money be available for Bengal?

THE HONOURABLE MR. J. B. TAYLOR: The Honourable Member must not expect me to anticipate the Budget proposals.

TELEPHONE CHARGES, DACCA.

23. THE HONOURABLE MR. JAGADISH CHANDRA BANERJEE:
(a) Have Government received any petition or petitions from several gentlemen of Dacca regarding the lowering of telephone rates at Dacca? If so, will Government be pleased to state what action they have taken regarding those petitions?

(b) Are Government considering the possibility of lowering the telephone charges at Dacca? If so, when will the lower rates be introduced at Dacca?

THE HONOURABLE MR. D. G. MITCHELL: (a) and (b). Certain representations were received. No action has been taken on them but Government have under examination a reorganization of the scale of telephone charges at Dacca and elsewhere.

RAILWAY BRIDGE OVER MEGHNA RIVER, ASSAM BENGAL RAILWAY.

24. THE HONOURABLE MR. JAGADISH CHANDRA BANERJEE: (a) Will Government be pleased to state whether there is any scheme to erect a railway bridge from Bhairab on the Assam Bengal Railway over the Meghna River? If so, when will the work of construction of the proposed bridge be commenced?

(b) Is it a fact that the work of construction of the said bridge cannot be started owing to the negotiations of the Bengal Chamber of Commerce and the India General Steam Navigation and River Steam Navigation Companies? If so, will Government be pleased to make a brief statement on the correspondence that has so far passed between Government or the Assam Bengal Railway authorities on the one hand, and the Bengal Chamber of Commerce, India General Steam Navigation and the River Steam Navigation Companies on the other?

(c) Will Government be pleased to state the decision they have come to on the construction of the said bridge?

THE HONOURABLE SIR GUTHRIE RUSSELL: (a) The construction of a railway bridge over the Meghna River is under consideration, and the likelihood of the expenditure involved being remunerative is now under investigation. Until that investigation is completed, it is not possible to say whether, and if so when, the work of construction will be commenced.

(b) The project is not held up owing to objections raised by the Bengal Chamber of Commerce or the River Steamer Companies.

(c) No decision has yet been arrived at regarding the construction of the bridge.

**RECRUITMENT TO SUBORDINATE SERVICES OF THE POSTS AND TELEGRAPHS
DEPARTMENT IN BENGAL.**

25. THE HONOURABLE MR. JAGADISH CHANDRA BANERJEE: (a) Will Government be pleased to state the number of hands recruited in the subordinate services in all the branches of the Posts and Telegraphs Department in Bengal since 1931, with their names and native districts?

(b) Is it a fact that the place of recruitment in Bengal being Calcutta the hands recruited mostly belong to West Bengal?

(c) Were the appointments in the subordinate services of the Posts and Telegraphs Department in Bengal made by competitive examinations? If not, why not?

(d) Will Government be pleased to state whether candidates belonging to any Revenue Division adjacent to Calcutta have been appointed in Calcutta in the subordinate services of the Posts and Telegraphs Department since 1st September, 1926? If so, how many and why?

THE HONOURABLE MR. D. G. MITCHELL: (a) Government regret that the information is not readily available and could not be obtained without undue difficulty.

(b) The Honourable Member's assumption that Calcutta is the only place of recruitment in Bengal, is not correct. The question, therefore, does not arise.

(c) No. It was not considered necessary to introduce such examinations.

(d) Yes. Government regret that the information regarding the number of men appointed in Calcutta who belong to the Revenue Divisions adjacent to Calcutta is not readily available. The appointment of such men in Calcutta was permissible.

THE HONOURABLE SAIYID RAZA ALI: Have Government had occasion to examine lately the general question as to how far recruitment to this branch of the public service should be made by pure competition, how far by nomination and how far by competition combined with nomination?

THE HONOURABLE MR. D. G. MITCHELL: I am not aware that any special inquiry has been made on this point, but it is a question which Government have always in view in dealing with recruitment at all times. I would point out to the Honourable Member that the inferior servants referred to include both peons and linemen and that the question of competitive examination for recruitment for peons is probably not a live issue.

THE HONOURABLE SAIYID RAZA ALI: Am I to understand that the policy of the Government is the same as it was in 1925 when a Resolution to this effect was adopted in this House?

THE HONOURABLE THE PRESIDENT: You can claim notice.

THE HONOURABLE MR. D. G. MITCHELL: I should like notice of that question, Sir.

TRUNK TELEPHONE LINE FROM CALCUTTA TO DACCA.

26. THE HONOURABLE MR. JAGADISH CHANDRA BANERJEE: (a) Will Government be pleased to state what they have done with regard to opening a trunk telephone line from Calcutta to Dacca? Have they begun any work in connexion with this matter? If so, when and what progress has been made in the matter of laying the line?

(b) Will Government be pleased to state what will be the charges for a trunk telephone call from Calcutta to Dacca when the line is opened for the public?

THE HONOURABLE MR. D. G. MITCHELL: (a) The question of opening a trunk telephone line from Calcutta to Dacca has been under consideration for some time but owing to the high cost entailed, mainly because of the river crossing, sanction to the scheme has been deferred. Further enquiries are now in progress.

(b) At the standard rate now in force, the charge for a call of unit length of 3 minutes between Calcutta and Dacca would be Rs. 2.

THE HONOURABLE MR. JAGADISH CHANDRA BANERJEE: Is it the only place where high cost underlying such a proposal like that of river crossing stands in the way?

THE HONOURABLE MR. D. G. MITCHELL: I must ask for notice of that question, Sir.

CARRYING OF AIR MAILS BY INDIAN NATIONAL AIRWAYS CO., LTD.

27. THE HONOURABLE MR. JAGADISH CHANDRA BANERJEE: Do Government give any subsidy to the Indian National Airways Co., Ltd., that carry mails from Calcutta to Dacca and from Calcutta to Chittagong and *vice versa*? If so, what is the amount? Will Government be pleased to make a statement on the nature of the contract for carrying such mails between Government and the Indian National Airways Co., Ltd.?

THE HONOURABLE MR. D. G. MITCHELL: No subsidy is paid to Indian National Airways. There is no contract with the Company for the carriage of mails but payment is made by weight at the rate of Rs. 2 per lb. for conveyance of air mails between (1) Calcutta and Dacca and between (2) Calcutta and Chittagong.

AERODROME AT DACCA.

28. THE HONOURABLE MR. JAGADISH CHANDRA BANERJEE: (a) Does the aerodrome at Dacca belong to the Royal Air Force of the Indian Army? If so, will Government be pleased to state why the 'planes of the Indian National Airways Co., Ltd., are allowed to land and park therein for commercial and pleasure flying?

(b) Has it been represented to Government that the present timing of the departure of the air mail from Dacca has caused a good deal of inconvenience to the public and that there is a demand for changing the present timing to the old timing which was 2 p.m. (standard time) from the Dacca General Post Office?

(c) Will Government be pleased to state what steps they have taken in the matter?

THE HONOURABLE MR. D. G. MITCHELL: (a) Yes. Permission has been granted to Indian National Airways to use the Dacca landing ground on payment of the fees laid down by the Government of India for the use of Government landing grounds by commercial concerns.

(b) No; on the contrary, the change of the timings has been of advantage to the public.

(c) Does not arise.

AERODROME AT DACCA.

29. THE HONOURABLE MR. JAGADISH CHANDRA BANERJEE: (a) Will Government be pleased to state whether they have received any application from any private gentleman from Dacca to allow his aeroplane, which would be solely used for pleasure flying and not for any commercial purpose, to land and park in the aerodrome at Dacca? If so, will Government be pleased to state what they have done on that application and what is the name of the applicant?

(b) Is the aerodrome at Dacca under the control of the Director of Civil Aviation of the Government of India? If not, who are its controlling authorities?

Council of State Debates, 14th February, 1934, Vol. I, No. 4, page 75.
In the answer to part (b) of question No. 31 for the words "Airmen (Motor
Transport Section)" read "Airmen (Mechanical Transport Section)."

THE HONOURABLE MR. D. G. MITCHELL: (a) The answer is in the affirmative. The applicant, who is Mr. N. N. Roy, a zamindar and Honorary Magistrate at Dacca, has been permitted to use the landing ground on payment of the usual charges to the Royal Air Force. The question of a site for Mr. Roy's hangar is under investigation.

(b) No. The aerodrome belongs to the Royal Air Force and is controlled by them.

DIRECTOR OF CIVIL AVIATION.

30. THE HONOURABLE MR. JAGADISH CHANDRA BANERJEE: What are the functions of the Director of Civil Aviation to the Government of India and what is his salary?

THE HONOURABLE MR. D. G. MITCHELL: The Director of Civil Aviation in India is the chief technical adviser to the Government of India in all matters pertaining to the policy and development of civil aviation in India and is the administrative head of the Civil Aviation Directorate. The post carries a rate of pay not exceeding Rs. 2,500 per mensem, the minimum pay being Rs. 2,250 per mensem. The salary of the present incumbent is Rs. 2,500 per mensem.

INDIANS IN THE ROYAL AIR FORCE AND INDIAN AIR FORCE.

31. THE HONOURABLE MR. JAGADISH CHANDRA BANERJEE: (a) How many Indians are there in the Royal Air Force in India? Will Government be pleased to state their names and qualifications and whether they received any training in England?

(b) Is there any Indian Flying Corps of the Indian Army? If so, will Government be pleased to state the number of Indians in the said Corps?

(c) If Indians are not appointed in the Indian Flying Corps, will Government be pleased to state why they are not taken?

HIS EXCELLENCY THE COMMANDER-IN-CHIEF: (a) None, Sir. The Royal Air Force is a purely British service and is not open to Indians.

(b) Yes. The Indian Air Force was constituted on 8th October, 1932, and contains at present the following Indian personnel:

Officers	5
Cadets under training in England	8
Airmen in the Squadron	24
Airmen (Motor Transport Section)	116
Airmen (non-combatant)	332

Enrolment in the Indian Air Force is confined to Indians. The Indian Air Force is not part of the Indian Army but is a separate service governed by the Indian Air Force Act, 1932.

(c) Does not arise.

THE HONOURABLE MR. HOSSAIN IMAM: May I know, Sir, how long it will take to replace the Royal Air Force by the Indian Air Force as at present according to the present scheme?

HIS EXCELLENCY THE COMMANDER-IN-CHIEF: That is a question of policy. It has not yet been decided whether the whole of the British Air Force will in fact be supplanted by the Indian Air Force. At present it is very difficult to say, if that was the policy, how long it would take. It depends on progress and efficiency, step by step.

AERODROMES IN INDIA.

32. THE HONOURABLE MR. JAGADISH CHANDRA BANERJEE :
(a) How many aerodromes are there in India and where are they situated ?

(b) Will Government be pleased to state whether Indians are taken in those aerodromes, which are under the direct control of the military authorities, for training in aeronautics ? If not, why not ?

HIS EXCELLENCY THE COMMANDER-IN-CHIEF: (a) The information will be found in the publication entitled *The Air Pilot, India and Burma, 1933*, issued by the Directorate of Civil Aviation, a copy of which is in the Library.

(b) Members of the Indian Air Force receive training at the aerodrome at Karachi, but the Air Force organization is not designed, nor would it be able, to impart training to civilians.

SAILESH CHANDRA NAG, DETENU IN THE DEOLI DETENTION JAIL.

33. THE HONOURABLE MR. JAGADISH CHANDRA BANERJEE :
Will Government be pleased to state the present condition of health of detenu Sailesh Chandra Nag of Gandaria, Dacca, now confined in the Deoli Detention Camp ?

THE HONOURABLE MR. M. G. HALLETT: He is suffering from enlarged tonsils which is not in any way serious but causes occasional pain in the right ear. He is receiving special treatment for this trouble. His general physique is reported to be very good.

CONSTRUCTION OF NEW LINES ON THE EASTERN BENGAL RAILWAY.

34. THE HONOURABLE MR. JAGADISH CHANDRA BANERJEE :
(a) Is it a fact that a new line of the Eastern Bengal Railway will be constructed very soon from Jagannathganj to Pingna in the Mymensingh district ?

(b) Is it a fact that another new line of the Eastern Bengal Railway will be opened for traffic four miles up from Serajganj in the Pabna district ?

(c) Is it a fact that the construction of the proposed Dacca-Aricha Railway line of the Eastern Bengal Railway cannot be started owing to financial stringency of Government ? If so, will Government be pleased to state why the new lines referred to in (a) and (b) will be constructed and what facilities they will offer to both passenger and goods traffic ?

(d) Will Government be pleased to state the estimated approximate cost of the construction of the aforesaid proposed new lines of the Eastern Bengal Railway ?

(e) Will Government be pleased to state what will be the total cost of construction of the proposed Dacca-Aricha Railway line ?

(f) Has the idea of constructing the Dacca-Aricha Railway line been abandoned ?

THE HONOURABLE SIR GUTHRIE RUSSELL: (a), (b) and (c). The main channel of the Brahmaputra River having moved away from Serajgunj Ghat, which is no longer approachable by steamers, it has become necessary to construct a new line four miles long to a suitable site for a new ghat station. The extension of the existing line on the other side of the river from Jagannathganj to Pingna, which will make it practicable to introduce wagon ferry working between the two ghat stations, is now under consideration by the Eastern Bengal Railway Administration, as it is believed that this will secure more goods traffic for the Railway and prove remunerative.

The present position with regard to the Dacca-Aricha Railway is that the Government of Bengal have informed the Government of India that after most careful consideration they have come to the conclusion that the construction of the railway is altogether undesirable and should not be proceeded with, because the construction of an embankment across the spill of the Dhaliswari River would be a serious menace to the public health and agricultural prosperity of a large area, and that the danger to public health and agriculture far outweighs the benefit to communications which would accrue from the construction of the railway.

(d) The information required by the Honourable Member is not yet available.

(e) The detailed construction estimates have not been completed, but it is probable that the cost would be more than 2 crores of rupees.

(f) In view of the opposition of the Government of Bengal to the project, the Government of India have for the time being decided not to proceed with it.

ECONOMIC ENQUIRY.

35. THE HONOURABLE MR. JAGADISH CHANDRA BANERJEE :
(a) Will Government be pleased to state what is the nature and scope of the Economic Enquiry which Professor Bowley and Mr. Robertson are undertaking at the invitation of the Government of India ?

(b) Will Government be pleased to state whether any honorarium will be paid to these Economists ? If so, how much ?

(c) Were the two Houses of the Central Legislature ever consulted by Government before sending invitations to these Economists to come out to India for the purpose for which they will be engaged ? If not, why not ?

(d) Have the Economists begun their work ? If so, when and where ? If not, when will they commence their work ?

(e) Will these Economists examine the official and non-official economic experts in India ?

(f) Will Government be pleased to state what will be the approximate total cost of such an enquiry ?

(g) Will the Economists make a tour of the country for their enquiry ? If not, are new appointments being made for their assistance ?

(h) Will the Provincial Governments make any contributions towards the cost of their enquiry ?

(i) Has Burma been included in this Economic Enquiry ? If not, why not ?

THE HONOURABLE MR. J. B. TAYLOR: (a) The following are the terms of reference:

I. With a view to facilitating the further study of the economic problems of India to report on the existing organisation and range of statistical and other information bearing on the economic conditions of India with special reference to the gaps which exist at present and the means of filling them. In particular—

- (i) to make recommendations as to the organisation of a central Statistical Department which in addition to the collection of statistics can co-ordinate statistical enquiry and information for the whole of India,
- (ii) to consider the practicability and scope of a census of production,
- (iii) to consider the materials obtainable for measurement of national income and national wealth,
- (iv) to make recommendations as to the initiation or continuation of series of index numbers of prices, wages, production, etc.

II. As it is desirable that the collection of the information referred to under I should be as far as possible designed to serve as a guide to practical policy the main problems which arise in regard to the full utilisation of India's economic resources should be formulated.

(b) An honorarium equivalent to the salary which they would have received in England *plus* a compensatory allowance at the rate of Rs. 1,500 per mensem in India and £100 per mensem on the voyage to and from India.

(c) No. But the proposal was approved by the Standing Finance Committee at the meeting held on the 25th of November, 1933.

(d), (e) and (g). The Economists began their work at Delhi on the 24th of December, 1933, and will remain in India until the 24th of March. They will tour as extensively as is practicable in the time at their disposal for the purpose of consulting official and non-official economic experts, university authorities and others interested in their enquiry. They have already visited Bengal, Bihar and Orissa and the United Provinces, and Mr. Robertson has also visited Madras.

(f) The total estimated cost, including the pay and allowances of the two Indian Economists and the Secretary who have been engaged to assist Professor Bowley and Mr. Robertson, is about Rs. 60,000.

(h) Provincial Governments have not been asked to contribute towards the cost of this enquiry, but their co-operation has been invited.

(i) Burma is included in the scope of the enquiry, but it will not be possible for the Economists to visit that province during the time at their disposal.

THE HONOURABLE SAIYID RAZA ALI: Was a similar economic survey made or attempted to be made by the Government of India before and, if so, when?

THE HONOURABLE MR. J. B. TAYLOR: Sir, there have been economic inquiries on several previous occasions but there has been none, so far as I know, of this particular scope.

1
RESERVE BANK OF INDIA BILL—continued.

THE HONOURABLE THE PRESIDENT: The debate will now be resumed on the Reserve Bank Bill. I would like also to point out to Honourable Members that I propose to continue the sitting of this House after lunch today.

*THE HONOURABLE MR. HOSSAIN IMAM (Bihar and Orissa: Muhammadan): Sir, at the close of the debate yesterday I was going to discuss the agricultural credit provisions of this Act. Keeping in mind the fact that of India's population nearly 80 per cent. are concerned with agriculture, they are the real producers of wealth in so much that they are the only exporters of goods. Very little of our manufactured goods finds its way outside India because in order to support them we have to give them an enormous amount of protection and protected industry is, as is well known, unable to compete in outside markets. Therefore, the well-being even of the industries depends largely on the well-being of the agriculturists. Therefore, it was necessary and to be expected, Sir, that the Government would have made ample provisions in this Act to facilitate the agriculturists. In the Joint Select Committee, a scheme of agricultural credit was placed in the hands of the Government Members, showing how in other countries of the British Empire agricultural credit was being supported by the Reserve Bank of the country concerned. We, Sir, expect that when we place before the Government what another part of the Empire is doing that it will carry greater weight and it will affect them more than any arguments or appeals to reason that we might make, and we were in a way justified. We had a discussion in which this provision was included. We thought, Sir, that something is better than nothing. But now, Sir, we find that the real thing has been taken out and we have been left with but a shell. The Agricultural Credit Department of other parts of the British Empire contains provisions by which they can go on giving facilities to agriculturists. A portion of the reserve is earmarked for this fund. Here we have got nothing of the substance. We have got the shadow, in so much that an expert staff will be maintained to study the question of agricultural credit. It is thought, Sir, that after the exhaustive inquiry made by the Central Banking Inquiry Committee and its provincial branches Government will have sufficient data to proceed on as to how to facilitate agricultural credit. It is unfortunate, Sir, that up till now no Resolution of the Government of India on the whole of this report has been published. Commissions are formed, enquiries made, public money wasted, people asked to give evidence and other expenditure incurred in studying and coming to decisions and making certain recommendations to us, but these, when they reach the Government, are shifted from one department to another, from the Finance Department to the Home Department, and afterwards it takes such a long, long time that by the time the whole thing goes through the Government of India and they come to decisions, it becomes a history of the past and is not the burning question which it was at the time when the enquiry was started. Just the same thing is going to happen with the Agricultural Credit Department. We are afraid that the Reserve Bank will take three years to present their report. After that, the report will go to the Finance Department and from there it will in due course pass on to the Home Department and after that it will go to the Viceroy's

*Speech not corrected by the Honourable Members.

[Mr. Hossain Imam.]

Executive Council. Like a shuttlecock it will be passed on hither and thither and it will end in a fiasco and nothing will come out. Therefore, Sir, we expect some provision to be made that such-and-such a thing should be done by the Reserve Bank to facilitate agricultural credit.

One point which we wished to include was that facilities should be given to the agriculturist to hypothecate his crops. The difference between England and India, an industrial and an agricultural country, is that in an industrial country credit is required for moving the goods from the warehouse to the purchaser. A wholesale house gives credit to the purchasers and after that, it goes in the bill market and liquidates that bill. But here in India the position is the reverse. It is the purchaser who wants credit. The seller of the goods always insisted on having his cash down at the moment of parting with his goods. Therefore, what is necessary is that people should be given advances to purchase agricultural produce and thereby the agriculturist would be in a position to get money whenever he requires it and this can be very easily done if hypothecation of the crops is allowed so that the agriculturist may have dealings direct with the Reserve Bank and these bills will no longer be eligible for purchase by the Reserve Bank. The Bank will not have anything of the sort. This indirect method is going to harm the agriculturist more. In the original Bill hypothecation was included, but in the amended Bill it has been taken out.

Regarding the inclusion of indigenous banking, it seems strange that when they are willing to come into the fold, when they are anxious to deposit their money free of interest, nothing is done. They pleaded to be included in the list of the scheduled banks. We had a representative of the indigenous bankers before us as witness before the Joint Select Committee and he was anxious that members of his community should be included in some form or other. Their Association from Bombay also pleaded for their inclusion. But the Government would not have them because it was thought unwise, or you might say they will come into competition with the established banks and therefore they will harm vested interests. It is a known fact that industrial banks which exist in India deal only with less than 20 per cent. of the population of India—I mean with those who are concerned with industries only. They do not have dealings with the people concerned with agriculture. Eighty per cent. of the people have no connection with the industrial banks, exchange banks and joint stock banks which you have in the big towns. It is with the indigenous bankers they have to deal,—the *banias* to whom they will have to go for their needs. If they had been included it would have been possible by means of rules and regulations to effect some sort of reform. You could have asked them to keep accounts; you could have asked them to forward accounts to their debtors and so on and so forth. In some of the Local Councils I am very glad that a Money-lenders' Bill has been introduced. Punjab has taken the lead, and now other provinces are following suit. It is probable that other parts of India will also make this desirable reform. Something on those lines could have been done by the Reserve Bank. By executive action they could refuse to recognise those who refuse to keep certain kinds of accounts. It would have been wholly to the advantage of India to bring in these indigenous bankers into the fold of the Reserve Bank. But the Government are so obsessed with the ideas of an industrial country like England that they cannot realize the real needs of India.

Now, Sir, I should like to say a few words about the technique of the Reserve Bank as understood by that word and as adopted in the present Bill. The first point is about the stable money, what is being called planned economy, in which a constant price level has to be maintained, money has to be kept at such a standard that its value does not change. That desirable monetary reform could not be worked by the Reserve Bank in the way in which it has been constituted, because it will be impossible for it to keep its money at a level which would sustain prices. I am not going to labour the point. The next point is that the connection between the Government and the Reserve Bank should be so cordial that Government could always intervene and dictate. I would point out that it is only in times when there is no trouble and life flows along placidly from day to day that a Reserve Bank functions smoothly without Government interference. As soon as some calamity overtakes the country, when war is declared or there is an economic disaster, then the Government in all the countries of the world have to intervene and dictate terms. Even in that home of conservatism, England, Bradburys were issued during the war. They attacked the domain of the Bank of England. Even now they are supporting paper sterling by the operation of an exchange equalization fund. Nothing of the sort has been made out here. There is a great difference between England and India. In England, as is well known to you, Sir, there are very few things laid down in a written constitution. Everything is carried on by means of tradition, the growth of centuries of usage. Unlike the newer countries, they are not habituated to having everything in black and white. We cannot boast, Sir, of the same traditions and pedigree and we have not the same reliance on precedence. We want to have everything in black and white. It would have been in the fitness of things if provision had been made in the Act for taking over the entire management of the shares of the Bank in case of emergency by the Governor General in Council.

Then, Sir, we come to the provision, section 42, about the inclusion of scheduled banks. Some of my friends were anxious to erase the whole schedule and have no scheduled banks and they would like to have every one free to join the Reserve Bank at any time they might select. In other words, they wanted to follow the Bank of England where there is no statutory provision for other banks to come in or to deposit any money. As I have said, that is difficult for us because we have not the same traditions to fall back upon. But my point is that Government have made the position worse by the amendment which was carried in the Joint Select Committee that only those banks which have a capital of Rs. 10 lakhs should be included in the scheduled banks. As I have instanced in my note of dissent, it creates anomalies, so that banks with very small public deposits are included among the schedule banks and given all the facilities whereas a bank holding Rs. 35 lakhs of public money does not find a place among the scheduled banks. The Mysore Industrial Bank of Bangalore with total public deposits of Rs. 43,000, because it has a capital of Rs. 10 lakhs, can get in while the Bhowanipur Bank of Calcutta which has deposits of more than Rs. 32 lakhs cannot come in. We are concerned in the Reserve Bank—

THE HONOURABLE THE PRESIDENT: We are not dealing now with the Schedule. At this stage the general principles of the Bill are only

[The President.]

to be discussed. When the Schedule comes before us you may then refer to scheduled banks. You will have an opportunity of speaking on the subject then.

THE HONOURABLE MR. HOSSAIN IMAM: My complaint was that no account has been taken of the deposits. Capital is the sole criterion. My point is that both capital and deposits should be counted for a bank to be qualified to enter the Schedule.

Then, Sir, there is one point to which most of the speakers have not drawn attention and that is the constitutional aspect. A few of us, Sir,—I am glad to say that out of seven, four were Members of the Council of State—who appended a note of dissent on this point referred to the Secretary of State's evidence wherein he said that the Central Legislature will not have the power to amend the Reserve Bank Act wherever it touches the powers of the Governor General in Council. That came to us as a surprise and we thought that it was too high-handed to be allowed to pass unnoticed. No doubt the British Government can hold us to our promise, at least those who went to the London Committee on the subject, that they have given their consent to the inclusion of such and such items in the present Bill. But I say that no one, either in India or any other country of the world, can pledge the future Legislature to any line of action. The Legislature is the supreme bar of the country and not even the King can circumscribe its power. I am grateful that my friend (the Honourable Mr. Jagadish Chandra Banerjee) reminds me of the fact that he has also drawn attention to this position and I should like to make the point clear that no pledge or promise given by any one can bind the future Legislature of India to any line of action. The history of constitutional reform will bear me out when I say that those kinds of pledges do not hold; they are always liable to fall as under.

Then, Sir, I should like to put in a few words about the Directorate. As I said in the beginning, some element of non-shareholders in the shape of public bodies should be included in forming the electoral colleges to send Directors to the Bank. People have not realized the fact that the interest of the shareholders is so slight in comparison with the work of the Issue Department that it pales into insignificance. The Issue Department will have Rs. 180 crores and the shareholders will have Rs. 5 crores, and even that Rs. 5 crores will carry a guarantee of a minimum rate of profits for them. What interest have they got in the management of the currency? They do not gain anything by it; they do not lose anything. The Reserve Bank can lose any amount of money without touching the profits of the shareholders. Why should they care?

Then, Sir, we should realize the fact that no provision has been made in the Act itself to retain the wide franchise which will be created at the time when the shares are allotted. I agree with the Government that they have taken care to give shares to as large a number of people as possible and without losing votes, but what provision have the Government made to see that the centrifugal tendency of everything going back to Bombay or Calcutta will not prevail? The whole of the shares will go to the Bombay mill-owners and the Calcutta bankers and others.

THE HONOURABLE SIR HOMI MEHTA: Why?

THE HONOURABLE MR. HOSSAIN IMAM: That will be a good investment. You are now investing at less than 2 per cent. in Treasury Bills.

THE HONOURABLE SIR HOMI MEHTA: What makes you say that it will go to Calcutta and Bombay?

THE HONOURABLE MR. HOSSAIN IMAM: Therefore, Sir, we wanted to have a provision in the Bill that there should be no transfer from one Register to another.

THE HONOURABLE THE PRESIDENT: Is there any precedent for it?

THE HONOURABLE MR. HOSSAIN IMAM: There is no precedent for many things that are being done in India. There is no precedent in the world for this demarcation of the functions of the Government.

THE HONOURABLE THE PRESIDENT: Is such a provision included in the Central Bank Acts of other countries?

THE HONOURABLE SIR HOMI MEHTA: It means that if Delhi wants to sell shares and if there are no buyers at Delhi the poor shareholder will suffer because he will have to sell at a lower price in Delhi whereas he could get a much higher price at Calcutta or Bombay.

THE HONOURABLE THE PRESIDENT: That is why I asked the question.

THE HONOURABLE MR. HOSSAIN IMAM: Our point is that shares in the Reserve Bank should not be a matter of speculation. They ought to be held by people as they hold their property, their ancestral property, something sacred, something which carries with it not only the question of profits for the time being but the responsibility as you say of carrying and of managing the currency of India. You give the lie direct to your own argument by arguing that it is nothing but a monetary transaction in which the question of profits has got nothing to do with the management of the currency of the country. We admit, Sir, that you are right in this diagnosis that nothing will be done, this share will not be held by the people as a trust—

THE HONOURABLE SIR HOMI MEHTA: Why should they not? What is the argument?

THE HONOURABLE MR. HOSSAIN IMAM: My argument is that you give this power to shareholders so that they may question the currency policy. Nothing of the kind will happen because in order to question the currency policy you have got a qualifying share. That share has absolutely no relationship with the magnitude of the currency business, with the good management of the concern. The cat is out of the bag; it is money grabbing. People are out to make as much money as they can. They want profit. It just means profit taking and then the thing will fall down. I should have liked that in addition to the shareholders public bodies like the chambers of commerce and co-operative societies to be included; they

[Mr. Hossain Imam.]

should have a voice in the matter. They would come in with an unbiased mind, without any desire to fill their own pockets. They would be unbiased judges of the actions of the Reserve Bank. Here you have a body which is directly interested in all their dealings and Government thinks that they will be good judges. Our point is that just as the Government have included four nominated members to be nominated by the Governor General in Council, we should have four nominated by different electoral colleges. We are contributing equal shares, Rs. 5 crores by the Government of India and Rs. 5 crores by shareholders; we should have an equal number of shareholders and non-shareholders.

I am not going to discuss the day-to-day working of the Bank as detailed in the Bill because that will be discussed when amendments are being moved, but I should like to say a few words about the initial assets and liabilities. In our joint note of dissent we have stated that the initial liability which is to be transferred to the Reserve Bank is inadequate to meet the requirements of the Bank. It has been very exhaustively dealt with in our joint note of dissent. I shall not therefore waste the time of the House by going through the whole of it, but I should like to point out one thing. As a result of the Hilton-Young Commission proposals the external reserve was to have been Rs. 118 crores and the present suggestion asks for an external reserve valued at the outside at Rs. 106 crores at gold stocks valued at old parity. This was a point which we made out in our note of dissent. Here I should like to point out that it is wrong that our external reserve should be based on the note issue only. Other countries no doubt base their reserves on the liability for notes or liability for note issue and public deposits. But the case of India is very different. Here there are two kinds of notes, silver notes and paper notes. Our silver coin, token money in India, is of such enormous magnitude that we cannot lose sight of it. In other countries they have also got silver shillings and small subsidiary coins and half crowns. There subsidiary coins do not count because they are of such a small amount in circulation; the Central Bank can very easily discount it and not take it into account. In India, Sir, the question is different entirely. Here the stock of rupees in circulation has never been correctly estimated. It might be anything between Rs 2½ to 400 crores. For such an enormous amount we should have some sort of reserve. Formerly, Sir, we had the gold standard reserve earmarked to liquidate our liability on account of depreciation in the rupee value if it is sold as bullion. The amount at present outstanding ought to be adequately safeguarded if we wish to have a stable form of government. It was unfortunate, Sir, that with the exception of the gold standard reserve, Secretary of State after Secretary of State wanted to take slices out of it at times of distress, with the result that all the accumulation that could have been made in the gold standard reserve out of profits of silver coinage was not kept there. Sometimes they were taken for railway works and sometimes for other purposes and so on and so forth. It would have been better, Sir, that, if we could not have earmarked the profits of the Reserve Bank for the liquidation of our sterling debts as I said in the beginning, at least the profits should be earmarked for something in the nature of the gold standard reserve as it existed in times past and we should have a gold standard to liquidate our losses from silver unless and until a sufficient amount of external reserve in the shape of gold or sterling is created to underwrite the whole of the losses which

are likely to accrue to the Government or to the Reserve Bank from demonetization of the silver rupee. It is necessary that an adequate reserve should exist and therefore, Sir, I should like to suggest to the Government the advisability of creating something on this line.

I should like to say, Sir, one word more and then I will conclude. In the creation of the Reserve Bank care has been taken to exclude the Indian politician and I will admit that English politicians do not directly find place in it. But the nomination by the Governor General will be most probably at his discretion, which means directly under the influence of the Secretary of State, because for any powers which the Governor General exercises at his discretion he is answerable to none but the Secretary of State who in turn is responsible to the British Parliament. Therefore, Sir, we would request the Government to make provision here that nomination will not be at the discretion of the Governor General but it will be on the advice of the future Finance Minister of India. This Reserve Bank Bill, Sir, as it is at present worded, confers no new benefits, it simply, as my Honourable Leader pointed out, creates a new glorified Imperial Bank which will cost us money and will not benefit us. For these reasons I do not support this Motion.

THE HONOURABLE SIR HOMI MEHTA (Bombay: Non-Muhammadan): Sir, before I begin to have my say on the Reserve Bank Bill one thing is certain, and that is that the whole of India is indebted to the Honourable Sir George Schuster and the Honourable Mr. Taylor for drawing up the Reserve Bank Bill as they have done, elucidating every point arguable, and putting before us a finished article which has gone through the Legislative Assembly and is likely to go through this House. On the former occasion, in the time of Sir Basil Blackett, when he tried to launch a similar Bill, it was thrown out on very flimsy grounds and India regrets today that that Bill, which, as some of our friends here say, was a better enactment than the one now produced, was thrown out at the will of a few of the Members who were opposed to Sir Basil Blackett. I will not say they were personally opposed but they were obsessed to such a length that they saw everything with the eye of suspicion, thinking that Government was always doing the wrong thing. However, this time this new Bill was put before the Select Committee in London where it was gone through clause by clause and eventually came out with almost a unanimous opinion and then it was placed before the Joint Committee of both the Houses in this country, where those Members of the Council of State who sat on that Committee will bear me out that every clause was scrupulously examined, every clause was argued absolutely threadbare and the Chairman of the Committee, Sir George Schuster, took great care, and at the conclusion of every clause he took the opinion and asked for the votes of the Members and when he found that the votes carried the clause by a large majority, then and then only he passed on to the next clause. This was the procedure adopted by Sir George Schuster and it pleased and conveyed to the hearts of all those 28 Members of the Legislature who were gathered together there, that at least Sir George Schuster had the honesty of purpose and that he wanted the thing thoroughly done, a thing which would satisfy the Legislature and which was for the good of the country. On that basis every clause was argued out and eventually it was placed before the Assembly in the shape of the Bill. That Bill has gone through the Assembly and this shows that

[Sir Homi Mehta.]

all the flimsy objections which were raised and raised with very little meaning in it were thrown out and the Bill came out with a large majority showing that it is appropriate for India.

Well, the Honourable Mr. Taylor had to do most arduous work and so had the Honourable Sir George Schuster in conducting the Bill as he did so exceedingly well in the Lower House. One must admit that they have secured the freedom for India, as far as the currency and finances are concerned. Hereafter the currency of this country will not be conducted by one man, the Finance Member, but will be dictated by a Governor and a Central Board nominated as well as elected. This is real *Swaraj* in the currency as people must admit, and the names of these two gentlemen will go down to posterity to show that they were the first liberators of this country as far as currency is concerned.

My friend, the Honourable Mr. Hossain Imam, has urged that there should be as many nominated members on the Directorate as elected. Supposing for one moment, Sir, that that clause had been inserted by Sir George Schuster with the consent of the Executive Councillors and His Excellency the Viceroy, what would have happened? Those very gentlemen of the Legislature would have said: There are eight elected members and eight nominated members, therefore the country cannot rightly get its voice heard, and there would have been such a hue and cry about it that nobody would have known where they stood. You cannot satisfy everybody. When the Government does a certain thing to please the country, the country wants something else which cannot be done and there is no Government in the world which can please everybody.

THE HONOURABLE MR. HOSSAIN IMAM: May I point out, Sir, on a point of personal explanation, that I did not say eight nominated members. I said four nominated members and four from electoral colleges and public bodies.

THE HONOURABLE SIR HOMI MEHTA: Sir, if my friend will look up his notes of yesterday's speech he will find that yesterday he said 12 NOON. eight nominated members. This morning he did say that four should be elected members, saying Chambers of Commerce, this and that, should send one man each. Now, what are the Chambers of Commerce, Millowners' Associations and other national institutions formed on such lines?

THE HONOURABLE MR. HOSSAIN IMAM: Co-operators would have come in.

THE HONOURABLE SIR HOMI MEHTA: Co-operators? Many of them too are elected by the people and sent to the Chamber of Commerce, and then join the executive body in that Chamber. They are also mostly merchants. Therefore the suggestion made by the Honourable Member will not achieve the object he aims at. It would only mean that instead of eight elected members, there would be 12 elected members and four nominated members. That is all; but as I have said, my friend's object would not be fulfilled.

Then, Sir, there has been some sort of dispute as to why this Reserve Bank has been constituted a Shareholders' Bank instead of a State Bank. This point was discussed very fully in London and the ultimate result

was that, barring one, everybody wanted a Shareholders' Bank. It was discussed in the Joint Select Committee here in India and I think that the Honourable Rai Bahadur Lala Ram Saran Das was the only one who said that a State Bank was wanted.

THE HONOURABLE THE PRESIDENT: Proceedings of Select Committees are of a confidential character and it is not usual for Honourable Members to refer to them in the course of debate.

THE HONOURABLE MR. HOSSAIN IMAM: I can correct my Honourable friend's memory. A State Bank has been recommended by nine members in the note of dissent.

THE HONOURABLE SIB HOMI MEHTA: I am very grateful to you, Sir, for drawing my attention to the fact that the proceedings of the Select Committee are confidential and I shall not therefore touch on that subject. I am very grateful to you, Sir. A Shareholders' Bank is wanted by every reasoning man. Why is it so? Because, it has been provided that so many shares should be held in Delhi, so many in Bombay, so many in Calcutta, so many in Rangoon and so on in other places. That shows that the purpose of the Government was that electorates from all these parts should have a clear voice in the management of the finances of the country and that no one part of India should carry the whole burden whilst the remainder remains ignored. Then the point was raised that these shares will be bought by Bombay and Calcutta. How can that be? You cannot compel a man to sell his share if he wants to keep it. He knows full well that he is not going to get more than 5 or 6 per cent. dividend on his share. He knows that he cannot get more than 6 per cent. in any good investment in this country today, and therefore he will stick to it. If he does not want to stick to it, in the first place he would not go in for it. And what is the holding? Five shares worth Rs. 500 in order to enable him to have a vote in the banking and currency policy of the whole of India. That being so, why should he sell that share? If he wants to sell it, why should he buy it? And what will be the premium? There could not be an enormous premium as my Honourable friend supposes. If there is a premium of 50 per cent., what will be the realization on that share? Not even 3 per cent. People are not so foolish as to put all their money into a thing which would not realise 3 per cent. Therefore, that argument falls to the ground absolutely. As regards the other argument which my Honourable friend Mr. Banerjee brought forward that shares should not be sold from one side to the other, what will be the consequence if this is not allowed? Suppose one person wants to sell his shares. There is no market there, yet he must sell locally. So a few buyers on that side who may be rich men will simply take away from the men who are in distress at a ridiculous price. It would bring them a loss instead of a profit. I do not know why my Honourable friends are saying that Bombay and Calcutta are the only culprits in this country who will deprive the poor cultivators and agriculturists of their holdings. Nobody is going to do that. Nobody has got the slightest intention of doing that.

Then, a great deal has been said in this House about the ratio question. I do not know how the question of ratio enters into this discussion at all. The Preamble of the Bill says positively that the ratio question is not concerned with the Reserve Bank Bill. It leaves it absolutely in the

[Sir Homi Mehta.]

hands of the Governor and the Central Board hereafter, when the monetary conditions not only of this country but of the countries of the world have been stabilized, to take up this question and see what ratio is good for the country. That is the only thing I can see from the Preamble of this Bill. That being so, it will be useless to waste one's time by entering into a discussion on the ratio. Whether 1s. 6d. or 1s. 4d. or 12½d. is good, I have no doubt that everybody has got an honest opinion about it. There are people very intelligent, well-educated, experts in economics, who think that the present ratio of 1s. 6d. is bad for the country and who want a lower ratio. There are also many who think that the present ratio if touched at the present moment would do more harm to the country than good. They all hold honest opinions. But, Sir, let me say that the ratio is not playing a great factor in this country alone. It is playing a great factor in every part of the world. All countries are economically upset. No country knows where it stands and the best economic brains of the world are at present trying to find out what ails the world in its financial and economic condition. These are the conditions prevailing all over the world, and India cannot be free from that condition. I am only happy to say that India must congratulate herself that she is not so much down as the other parts of the world. If my Honourable friend takes the trouble to read, he will find that there are parts where the crops have been burnt down—crops like wheat, coffee and rubber goods. Rubber plantations have been left neglected absolutely, leaving the tracts a wilderness. Why? Because there is more production in the world than the world can consume. That is the main reason why prices are falling. There are certain countries in South America and the lower Europe where they have not been able to pay even the wages of Government servants. They have been in arrears for five months or six months. Such are the conditions in other parts of the world. We have to be thankful even for small mercies as they are in this country. But this is all going away from the point of the Reserve Bank Bill. I took it up only because previous speakers had tried to convince this House that India was the only country in the world suffering on account of the ratio, a point which really does not arise so far as the Reserve Bank Bill is concerned. I may perhaps hold the same opinion as my Honourable friend that the ratio may be doing harm; but that does not matter one bit, because many men cleverer than myself have failed to understand this problem and no one should claim that he alone is right and everybody else is wrong and fight over that.

THE HONOURABLE MR. HOSSAIN IMAM: Should the Government fight?

THE HONOURABLE SIR HOMI MEHTA: It is not the Government that is fighting. That is the wrong way of expressing it.

Then, Sir a great country like America thought that it might make an experiment because it is so abnormally rich, and they set up a system which no other country in the world would have dared to do, even old countries like France, England and Germany have not done it. They depreciated their currency? And what was the result of that depreciated currency? If my friend will take the trouble to look into the figures he will find that last June and July when America went off the gold standard the price of cotton was about 12·40 cents and after going off the standard instead of the prices of wheat, cotton and other produce soaring up they

went down by nearly 80 per cent. and the price of cotton came down by 10 cents till the President, Mr. Roosevelt, and his advisers did not know where they were and what else they should do. They eventually found that the only remedy was for the country to produce as little as possible so that the surplus may be wiped out, and that is the policy they have adopted.

THE HONOURABLE MR. HOSSAIN IMAM: Will the Honourable Member point out the price of cotton in Bombay and Broach in that season?

THE HONOURABLE SIR HOMI MEHTA: The price of cotton when America went off the gold standard was Rs. 228. After that it slumped till it came down to Rs. 172 which was the price only six weeks ago. Since America declared that the acreage would be reduced to limit the production to 10 million bales, the price began to go up and the price last evening according to the telegram I had was Rs. 215. I do not know what it is this morning.

However, that proves absolutely to the hilt that the ratio is not the only thing which can avoid all evils. It may have a temporary effect but in the end it does not change the position materially. If it did so, then all the countries of the world would do the same thing. Why otherwise should France and Holland and Switzerland and Denmark remain on gold? Then my Honourable friend drew attention to the fact that before the war our exchange was 1s. 4d. and we are the only country in the world whose exchange is 1s. 6d. which is higher than the pre-war level. But look at Switzerland; there it is nearly 40 per cent. above the pre-war level, and the same is the case with Holland and Denmark and other countries.

THE HONOURABLE MR. HOSSAIN IMAM: Because of the gold standard.

THE HONOURABLE SIR HOMI MEHTA: Nobody denies that. Then, Sir, about finding so many millions as surplus, my friend Mr. Hossain Imam gave us the hint that America has saved something like 2,400 million dollars by its policy of devaluating the dollar. But where has that 2,400 million dollars come from? May I ask that simple question? And the answer is also simple. It is a mere paper entry, just like any trading concern with a stock worth Rs. 170 putting it down at the price of the day as Rs. 220 when he is striking a balance. There may be 2,400 millions more on paper, but it is not money. The Government of India has a stock of Rs. 45 crores of gold, and you might just as well say on the same analogy that stock is worth Rs. 80 crores of gold, because our gold must have been bought before 1920-21 when the price was never more than Rs. 19 or Rs. 20 per tola, and taking to-day's price the value would be between Rs. 75 crores and Rs. 80 crores. Suppose the Honourable Finance Member were to take it into his head to put down the value of that gold at Rs. 80 crores, would this Legislature look on silently? Most certainly not. It would make a considerable noise and Government would have to recede from that position, because the excess is not there. It is all paper money or book value. Money can only be obtained when a transaction is complete and there is no other way. You cannot count in the difference between the purchase value and the selling value. That is not a sound commercial canon.

THE HONOURABLE MR. HOSSAIN IMAM: How did they establish a 8,000 million dollar loss?

THE HONOURABLE SIR HOMI MEHTA: Because they experimented in many ways to increase prosperity in the country and they failed miserably. If the Finance Member in this country had played that kind of game he would perhaps have been recalled the very next day and India could not have stood the strain for five minutes even.

Then, Sir, as regards agriculturists. That is a class which every one in this House should defend as it constitutes nearly 80 per cent. of the population. But when some Members attempt to prove that this class is being killed by the industrialists, and the Government of the country are not looking after the interests of this class, they are entirely wrong. The natural instinct of the agriculturist and the labourer in the field is self-preservation. We are all aware that holdings in India are of much lesser area than elsewhere, being on an average of five, ten or even less acres. But these holdings are cultivated by their own hands and with the same implements that they have employed for generations past. They cannot use tractors and such other improved implements because they have not large holdings. But whatever they may be producing, rice, wheat, cotton or other produce, the first instinct of the cultivator is to set aside enough to last him and his family for the year. The rest he wants to dispose of at the best price he can obtain so that he may buy other amenities of life. That is the instinct of every uneducated man. But owing to the distressing conditions prevailing in every part of the world they cannot get the prices they require. We all know that the American farmers have been ruined and that is why these great experiments have been tried in America. In Brazil, in Argentine, it is the same story, perhaps far worse than what it is in India. These conditions prevail not only in our country but in all countries in the world. Providence has given with two hands such an enormous amount of crops that the crops cannot be consumed by the countries and therefore prices have fallen down to that extent.

Speaking of the imports and exports of this country my Honourable friends Mr. Hossain Imam and Bai Bahadur Lala Ram Saran Das told this House that our exports were falling miserably and if these conditions were to continue we would be wiped out from the surface of the earth. Well, if these gentlemen will take the trouble of studying the actual figures, they will find that the arguments do not hold much water. Certainly during the last year the exports of India have been affected and they have, to a very large extent, gone down tremendously, but still without taking the shipments of gold, the yellow metal, into any consideration, the exports of India were Rs. 5 crores more than the imports. This year, according to the statistics published by the Government of India up to the 31st December, if I am not wrong, the exports in commodities, without taking gold into consideration at all, are about Rs. 32 crores more than the imports. Is that the condition which my Honourable friends made the House believe will bring about ruination? I should like very much to know what would be their views if the exports continue like that. Besides gold is playing the part of an individual commodity, not only as a valuable metal. People are not compelled to sell. Some gentlemen say it is all distress gold that is going out of the country. Well, I would be very much surprised if that were true. All the former writers and economists like Mr. Dadabhai Naoroji when they wrote that India was a

miserably poor country must be entirely wrong if the distressed classes were in actual possession of at least the Rs. 200 crores worth of gold shipped out of Bombay. Either the one or the other is wrong; surely both cannot be correct, because the two ways of explaining the situation are absolutely opposed to each other. Now, taking the basis of gold exports, if my friend will divert his attention he will find that as soon as gold begins to fall in price, and comes in the neighbourhood of 80 or 80/4 or 80/8 there is a lull in the shipment. Shipment then comes to about 45, 60 or 70 lakhs per week. As soon as gold rises to 83 the shipments go up to 2 crores and more, and when it came to the level of Rs. 84 and more per tola, the shipment in a week was over 5 crores. Does he mean to say that all that gold came from the distressed classes and from the distressed and ruined farmers all over the country within a week to the tune of 3 and 5 crores more?

THE HONOURABLE MR. HOSSAIN IMAM: The middle classes are being reduced to starvation and they are joining hands with labour.

THE HONOURABLE SIR HOMI MEHTA: Sir, this is beside the point. If, instead of giving an answer to a concrete question put before him my Honourable friend diverges, I am not going to enter into a discussion. Certainly there may be a certain percentage of distress gold. I do not deny that for a moment, but surely most of the gold that is going out is the hoarded gold and people are shrewd enough to understand the value of it. They say, "Well, we have bought it at Rs. 19 or Rs. 20 per tola; we can realise Rs. 84 or more, we make 75 per cent. profit, which in no other commodity can we do. There will be a time when the gold will come down in price and we shall refill our coffers when this happens." One who goes to the top of the hill never remains there. He must come down for the necessities of life and therefore gold cannot keep on the top as my Honourable friend seems to imagine. It must find its own level once again and that level will soon come when people who are so fond of hoarding gold begin to realise that after some time the inflated value is absolutely nothing else but nominal and there will be no buyers or sellers at that price, and when they want to dispose of it that will be the time for India to purchase gold.

THE HONOURABLE MR. HOSSAIN IMAM: When will that day dawn?

THE HONOURABLE SIR HOMI MEHTA: I cannot tell you. If I knew it I would be a rich man and I would not be here.

Sir, before I make any further remarks, I only want to keep myself within the bounds of the Reserve Bank Bill. My Honourable friend says that it will take three years or three-and-a-quarter years for the Bank to come into being. I hope not. Perhaps our Honourable friend Mr. Taylor will be able to guide us in that respect in his summing up speech; but the sooner it comes the better it is for the country because it is really and substantially to the advantage of the country for the Currency Department to be in the hands of the Governor and the Central Board. I would tell you why. Because, not that one head is worse than several heads—it is not that—but the confidence of the country will be with our own elected eight representatives; and there will be four nominated by His Excellency the Viceroy and surely the Government is not going to make the mistake

[Sir Homi Mehta.]

of appointing people who have no voice in the country. Certainly they will take every care to see that those four nominated have the confidence of the country. These with the Governor and two Deputy Governors, out of whom we are assured one at least will be an Indian gentleman, will command the confidence of the country and people will in turn have confidence in the finances of their own country. That being so, one thing is certain, *viz.*, that from the day that the Bank comes into operation we shall be far more happier in mind than we are now. Another thing is about the ratio. When the Central Board, which would be mostly Indian, comes into being, and when they really see, as my friend Mr. Hossain Imam says, that the present ratio is wrong and is no good to the country, then they will be the first to bring before His Excellency the Viceroy and the Governing Body that this ratio is no good for the country and I do not believe for one moment that any Viceroy can do or act otherwise than on the recommendation of the Board.

Sir, with these few words, I support the Bill.

THE HONOURABLE KHAN BAHADUR CHAUDRI MUHAMMAD DIN (East Punjab: Muhammadan): Sir, the Reserve Bank is necessary in the interests of the new constitution of this country and the Government of India is to be congratulated on bringing forward the scheme to ensure confidence in the management of India's credit and currency. The vexed question of the exchange ratio has been very much discussed during the last few years. The present ratio of 1s. 6d. has been useful because as a result of it foreign goods are selling more cheaply. The price of machinery and plant is considerably less than before. In a way the present rupee exchange is favourable to the creditors and this favourably affects the credit of India in the money markets of the world. Sir, the disadvantages of the exchange ratio have however been very much more serious. It has adversely affected the value of agricultural produce. Major Vanrenen, a big zamindar in the Punjab, told us the other day that:

"in contrast to India, Australia and New Zealand in the crisis have been free to depreciate their currencies."

This they have done by 25 per cent. In comparison with the time when the rupee ratio was 1s. 4d. the Australian farmer enjoys an advantage over the Indian cultivator of 37/12 in the exchange factor alone. The Australian farmer has been saved by the policy of his Government from the same degree of distress as the Indian cultivator has suffered in the depression. In spite of the depression Australia has been able to increase the volume of her agricultural exports by 33 per cent, whereas India's exports have diminished immensely. Speaking at Bombay the other day Sir Montagu Webb said that:

"it was certainly a most suitable moment for making the strongest possible protest against a continuance of the over-rated rupee seeing that most other countries had de-rated their currencies, and that Japan in particular was undermining our trade in all directions, largely by the aid of their depreciated yen."

Sir, nearly 80 per cent. of India's population lives on agriculture. It is becoming increasingly difficult to find a market anywhere for India's agricultural produce. As this has adversely affected the purchasing power of the agriculturist, the internal trade and industry of the country has been

ruined, the zamindars have become utterly destitute and even the village moneylender is having the hardest times of his life. Lord Linlithgow, the President of the Royal Commission on Agriculture, had said :

"Raise the purchasing power of the ryot and help him to raise himself out of his present terribly depressed condition, and in one stroke you will give to industry, to manufacture and to commerce, an extended field of service and so far legitimate gain".

But in India, Sir, as a result of the currency policy the course of events has gone the other way about and the purchasing power of the ryot instead of being raised and strengthened has been almost shattered. Indeed, so sharp and keen are the feelings of zamindars on this point that the representatives of the Punjab in the Central Legislature have received definite instructions from their constituencies to make the strongest possible protest against the continuance of the present ratio policy.

In America President Roosevelt has been compelled by circumstances to depreciate the dollar. This has gone some way towards giving an impetus to trade in the United States. If that country in spite of its enormous resources and wealth finds some depreciation of its currency necessary for reviving trade, it is very much more necessary in the case of India that we should also act in the same manner. The exact level of depreciation it is difficult to lay down. But a true and natural adjustment would be reached if the rupee is delinked from the sterling and is allowed to find its own level. There is no doubt that the mere change in the currency policy is not sufficient by itself to usher in an era of prosperity, but it will certainly give the necessary impetus to trade and industry and may ultimately bring better times to the ryots.

I would therefore strongly urge that with a view to save the agricultural masses from starvation and to enable them to pay the revenue the rupee should be allowed to find its own level.

THE HONOURABLE KHAN BAHADUR DR. SIR NASARVANJI CHOKSY (Bombay : Nominated Non-Official) : Sir, I beg to support the Motion for the consideration of the Indian Reserve Bank Bill. I associate myself with the sentiments expressed by Sir Homi Mehta with regard to the great pains and interest that both the Finance Member and Mr. Taylor have taken in the matter. I would submit some observations from a detached and impersonal point of view. The one and only consideration that should weigh with the House in our deliberations is whether the Bank is calculated to preserve and enhance the interests and financial stability of India and that it is not likely to benefit any class or creed. That is the sole criterion from which it has to be judged. A very apt remark was once made by a well-known personage in relation to the benefits that were anticipated to accrue to India from the Ottawa Pact. He said :

"What does not suit one's pocket does not suit India".

Truer words were never spoken. And no better occasion to take them to heart and to apply them could be envisaged than the present.

The Dominion of Canada has had to face the problem of a Central Bank. A Royal Commission was appointed about two years ago. Its recently published report appears to be of considerable interest to us inasmuch as some

[Khan Bahadur Dr. Sir Nasarvanji Choksy.]
of the conditions are analogous to those with which we have to deal. To summarize briefly its principal recommendations. They are :

- (1) The first Governor and Deputy Governors and Directors to be appointed by the Governor General in Council and in future subject to his approval.
- (2) The Bank to be a Shareholders' Bank, the capital to be offered for public subscription.
- (3) The shareholders to be British subjects resident in Canada.
- (4) The Bank should reserve 25 per cent. in gold and foreign exchanges against its outstanding note-issue and sight liabilities.
- (5) A rural credit department of the Bank could be brought into operation after a new and separate enquiry.

One very pertinent statement in the report is of immense significance. It says :

"A Central Bank could not cure all the economic ills of Canada. It would not be a source of unlimited credit for all borrowers on all occasions and indeed its operation might as often be restricted as expansive. A Central Bank is not a panacea for economic troubles and it can have only a very limited influence upon price levels".

It will thus be seen that the Bill under consideration does not contemplate a remedy for our economic troubles ; on the other hand, it has been framed upon a more liberal basis than the Canadian Bill.

Sir, I would briefly touch upon two matters, *viz.*, the restriction for holding shares proposed to be imposed upon the nationals of those countries that discriminate against Indian subjects of His Majesty the King Emperor, and the alteration in the present ratio in order to effect devaluation of the rupee.

This House is fully aware of the numerous humiliating disabilities under which Indians labour in South Africa and elsewhere. It is greatly to be regretted that in order to perpetuate the present policy of discrimination against Indians, the Act of 1833, Queen Victoria's Proclamation of 1858 and the repetition of the pledge in the Act of 1919 have now been unfairly invoked. Nay, further, there is no inclination to alter this policy which the Secretary of State stated before the Joint Select Committee has existed for a century and that it would be a very retrograde step to go back now upon a consistent line of policy of the kind that has always been in operation. He expressed his sympathy with the question. He said there was a strong feeling in India against it and he hoped that the Joint Select Committee while making its report will take into consideration the strong feeling that existed in India. He suggested that the Government of India would have an opportunity of negotiating an agreement about questions of that kind and that they have got, after all, in their power a strong lever to refuse the right of entry. The fact is, however, overlooked that when the pronouncements of 1833 and 1858 were made, commonwealths, dominions, unions and colonies as known today did not exist nor were dreamt of, nor was labour even recruited from India by those countries. Circumstances have radically changed and it is only fair that the policy should now be altered as a piece of bare justice to India and to suit existing conditions. The repetition of the pledge of 1919 should have been resented by India.

During the course of his speech, in another place, a certain speaker stated :

"The self-respect of India resents discrimination and that self-respect is sometimes more important in the history of nations than precise political definition".

He went on to add that he had not met an Indian resident in any of the Dominions, with one exception, who had not come back and spoken with humiliation of the position of his countrymen there. But beyond some minor changes Government and their representatives have not been able to achieve any material amelioration in their condition. Repatriation to India has not been a success as the returned emigrants and their children born in Africa find themselves looked upon as aliens in their motherland. Schemes for colonizing them elsewhere are in a nebulous state. Sir, in this connection we should feel grateful to the British commercial community in India for its persistent and unstinted support in our demands for the redress of their grievances. All honour to them.

Turning now, Sir, to the consideration of the ratio and consequent devaluation of the rupee. Certain hypotheses, unsupported by data, but with assurances of great benefits to India, have been placed before the public. It has been said that the ryot would receive more for his produce on account of the rise in the price levels of the commodities he produces ; further, that exports would be stimulated and fetch higher values and thereby enable him to purchase imports which, in their turn, it is surmised, would increase Government revenues through customs duties and higher tariffs. That is the picture of the promised land flowing with milk and honey set before us by the protagonists of devaluation. It is evidently forgotten that, with the exception of some big zamindars and talukdars with unencumbered estates, the old peasantry is deep in an enormous load of ever increasing debt ; that it is bound down hand and foot to the *mahajan* or the *sahukar* or the money-lender, whatever he may be called. The ryot has been reduced to virtual serfdom, whereas the lot of his labourers is far better than his. His lands are mortgaged up to the hilt and in times of necessity even his prospective crops are also hypothecated. Is it conceivable that the *sahukar* or the rack renter would be so gracious as to turn over to him even a pie of the anticipated rise in the prices of his staples ? Whatever gain there may be is more likely to be absorbed by him and his bankers. And, further, the ryot will have to pay more for those necessities that he does not himself produce. In fact, it appears as if his last state would be worse than the present. Scant heed appears to have been paid to the prejudicial effect upon the wage earner and the man with fixed salary. Would not living be made dearer for them ? This important fact has been completely ignored and no remedy suggested to increase their income. America's experience from the National Recovery Act, whatever it may be, is not applicable to Indian conditions. To take one instance from the American National Recovery Act. Let us look at the case of the farmers. They were asked to restrict production in order to bring about a rise in price levels. But how was it worked ? They were assured that an increase in the level of prices will help them and that this will be supplemented by Government subsidies. Since the subsidies were to be paid from new taxes on the consumer, the consumer had thus to pay doubly, i.e., higher prices to the farmer and at the same time to contribute to the additional taxation.

Sir, the anticipated stimulation in exports bringing more money into the country is another myth dangled before our eyes. Europe, hitherto by far

[Khan Bahadur Dr. Sir Nasarvanji Choksy.]

the largest importer of our staples, has collapsed as a purchaser of Indian commodities. Honourable Members who may have had the opportunity of studying the last report of the Indian Trade Commissioner at Hamburg must have found the aspect indeed not only gloomy but getting worse every day. All countries have put up tariff barriers. They control quotas of their imports. They have exchange control systems in order to promote self-sufficiency by all sorts of devices and therefore import their barest requirements. Thus it is that imports of cotton, jute, rice, tea, oil-seeds, etc., into Germany have greatly declined. As regards oil-seeds the import of ground nuts has been reduced to a negligible quantity as the oil is found too dear for the manufacture of margarine; and whale oil and soya have been substituted instead. There are no signs of improvement in this outlook and the situation is less promising than when the report was written. The only solution that the Trade Commissioner suggests is that India should now search for other outlets for trade within the Empire instead of Continental Europe and thus benefit from the Ottawa Agreement. There is another aspect of this subject that has not even been referred to. It is that India is not the only producer of those staple commodities and that whatever may be the ruling level of internal prices, there is no guarantee that those prices would be obtained in world markets in competition with other countries producing the same commodities and all the more so, if their currencies are depreciated of set purpose.

"It will thus be seen", says the Trade Commissioner, "that India's position as an exporter is beset with grave obstacles and the above conditions cannot be overcome by the depreciation of the rupee".

As regards great increase in imports it has been noted that they have steadily depreciated and if the capacity of the Indian ryot and wage earner should become further reduced to absorb them, what becomes of the rosy outlook presented to us that the custom duties and higher tariffs would make up for Government deficits? The Home charges to the extent of five to six crores will have to be met: the cost of supply to the Defence Forces will increase *pari passu* with the rise in price levels and it is but obvious that the duties on imports would not react in proportion to Government's requirements. It is worth noting that this aspect of the question has been either brushed aside or most airily or cursorily disposed of by the supporters of devaluation.

It appears, Sir, as if the present state of the rupee is not dissimilar to that of a poor sore stricken patient besieged by a horde of quacks in opposition to his own doctor in whom he has perfect faith. He has become disgusted with the nostrums of the former and asks them to leave him alone, as he knows he is in safer hands and ultimately bound to recover under the ministrations of the latter. The rupee is in the same sorry plight. It has been knocked about, bruised and battered until it has lost the semblance of its former self. It is being treated by Dr. Schuster, its old doctor, but its friends have brought in a host of medicine men, fledged, unfledged and even fledglings, who recommend their pet panaceas. Dr. Schuster, however, does not believe in them for he says:

"Devaluation is the most insidious drug that can possibly be administered to a patient; that it may be a stimulus to a certain portion of the economic body, but it is a most dangerous drug, a most dangerous stimulant the use of which encourages the demand".

In fact the appetite grows with what it feeds upon. Should we therefore not be guided by the experience of such a clever and versatile physician like Dr. Schuster rather than trust to the tender mercies of all sorts of currency quacks who have so suddenly sprung up in our midst? Let the latter not

ignore the experience that befell Simple Simon and the pieman when devaluation raised the price of a penny pie to two and then to three pence. He could not sell them. After he had eaten up his pies himself and made them last as long as he could he crawled under the farmer's corn stack and died of starvation. When, however, inflation followed through Government printing a lot of paper money and handing it over to a Central Bank matters did not at all improve as the price levels soared higher and higher. Even the ten penny nails that the pieman's son made at a smithy cost three shillings which people could not afford to buy and used bits of string instead. Then he happened to come across a copy of the *Financial Times* and he read about discount bills, long dated credits and short dated drafts: the bullion reserve and the cross rate and thought that things were improving. Whereupon he revived his father's old trade of making pies but they went up to four and five pence apiece. He, too, could find no customers. Being, however, a man of education, a B. Sc. and M. A. (Econ.) he did not starve like his father but became bankrupt. Such is the uncompleted story related in the *Times of India* by a correspondent who styled himself "Daddy Long Legs."

Such, Sir, was the bitter lesson derived both from devaluation and inflation. The monetary systems all the world over are in a chaotic condition and changing from day to day. It is impossible to forecast what twenty-four hours may bring forth. The occasion therefore to initiate radical changes by devaluation is not yet. We shall have to wait until more stable conditions have become established. It is dangerous to swop horses in midstream. And, finally, though the dying echoes of the plaintive refrain of the swan song of the Currency League still reverberate, they will cease ere long to disturb us.

THE HONOURABLE SAIYED MOHAMED PADSHAH SAHIB BAHADUR (Madras: Muhammadan): Sir, the Bill now under consideration represents a most important measure. In fact it is the most important piece of legislation that has come before this House during recent years. This Bill proposes to take away from the Government the management of the currency and to place it in the hands of a separate and independent agency. It proposes to place the monetary policy of the country on a more stable and firm basis, making it free from political influence. The institution which the Bill proposes to set up is thus the most essential for the monetary policy of the country and the management and control of credit and currency. In the very early stage of the Round Table Conference at its very first session the need for such a central banking institution for our country was realized, and the White Paper has made the establishment of this institution a condition precedent to the grant of further constitutional advance. Therefore this is a measure which is designed for the purpose of securing for us financial responsibility and for satisfying one of the four conditions which have got to be satisfied before India can hope for self-government. Sir, the Honourable Leader of the Progressive Party quoted extracts yesterday from Sir Malcolm Hailey's memorandum showing that the present budgetary position was extremely unsatisfactory and bade fair to get much worse with the addition in public expenditure on account of the reforms under the new constitution, and he observed that when the budgetary position was not assured it was not advisable for such a banking institution to be set up in India. Sir, may I ask whether it would be advisable to allow the present system to continue, to allow the management of the currency to remain in the hands of Government and credit to be controlled by the Imperial Bank, and whether it is in the interests of the country that these two closely connected functions should be allowed

[Saiyed Mohamed Padshah Sahib Bahadur.]

to be performed by separate agencies instead of by one. Is it advisable to allow Government to continue to control the currency so that it may manipulate it to suit the requirements of unbalanced budgets. Is it not therefore advisable that this Bank should be established as quickly as possible so that credit and currency may be managed by one and the same agency and Government may not be able to manipulate currency to meet the needs of their deficit budgets. There is another reason why this Bank should be established without any avoidable delay. Instead of the present depression which is holding the world in its terrible grip, it is hoped that ere long there will be a change for the better, and when this change does come attempts are bound to be made all the world over to set in order the monetary system which has been so badly unhinged. Sir, if the attempts that were made in this direction failed at the great Economic Conference held in London recently, it was not because it was not recognized that some such permanent monetary system was necessary for the world, but simply because in existing circumstances in the abnormal conditions now prevailing it was found impossible to co-operate internationally.

As some of my friends would like to adjourn now, may I continue my speech after lunch, Sir?

THE HONOURABLE THE PRESIDENT: I am afraid you must finish your speech

THE HONOURABLE SAIYED MOHAMED PADSHAH SAHIB BAHADUR: Sir, the failure was due to the fact that it was not found possible in present abnormal conditions to co-operate internationally in determining the monetary standards. Therefore if a change for the better comes and trade begins to look up and the depression passes away, it will be possible for India also to consider a permanent and more stable monetary standard, and it will be all the better if by then this Central Bank has been well established and has had an opportunity of functioning for some time. By this I do not mean that any proposal that may be made for the establishment of this institution whether good, bad or indifferent, should be accepted. All that I mean is that if we find that the proposal made is sound in essentials, if we find that the arrangements proposed for calling into being and the functioning of this Bank are such as are calculated to give us an institution which might safely be entrusted with these important functions, then it is our duty to accept the proposal and not obstruct it merely because some provision therein might offend some pet notion of ours.

Sir, as one who has had the privilege of working on the Select Committee I could testify to the great care with which the provisions of the original Bill were scrutinized by that Committee. Sir, every provision of that Bill was subjected to very close examination and every practical point was discussed with the experts who, I might acknowledge here, helped the Committee a good deal in arriving at proper decisions in connection with those technical points about which some doubts were felt. Almost all the objections that had been raised about this proposal on the occasion of the Motion for reference to Select Committee and all the points about which controversy has been raging in the country ever since the first attempt in this direction was made in 1927 all these were

very carefully and closely examined. The result was that a number of important amendments were made in the original Bill, even though it should be admitted that the main features of the Bill have remained as they originally were. Sir, one of those amendments was the one which related to the reducing of the share value. Sir, the share value was reduced from Rs. 500 to Rs. 100. The object of it was to put the share value within the reach of even people of moderate means in order to ensure the widest possible distribution of the shares so that almost every citizen might be made to take an interest in the working of the Bank. Then, Sir, the voting power was also brought within closer reach inasmuch as the minimum qualification for one to get qualified to have the franchise was reduced from Rs. 1,000 to Rs. 500 by the Select Committee. Now, Sir, while I am on this point, I might as well meet one of the objections that was raised by my Honourable friend the Leader of the Progressive Party. He asked even if distribution is so made that the majority of the shares are held by Indians what guarantee is there that the outlook of the bank would be national inasmuch as the Imperial Bank is said to have 65 per cent. of its share capital owned by Indians and despite that fact the outlook of the Bank is far from being national? Sir, I think it is obviously wrong to make any comparison between the position of the Imperial Bank and that of the Bank which is proposed to be set up under this Bill. So far as the Imperial Bank is concerned, there is this thing, that there is no limit to the voting power. If anybody has been able to corner shares it would be possible for him to vote down a group of shareholders who might possess shares of a smaller value. But this kind of thing is not possible under the provisions of the present Bill. Here whatever may be the amount up to which shares might be possessed by anybody in no instance would anybody be able to have more than ten votes, so that a person who owns shares of the value of only Rs. 5,000 will have the same amount of influence as another who owns shares to the value of Rs. 50,000 or Rs. 1 lakh, so that the analogy that is attempted to be drawn between this Bank and the Imperial Bank is a fallacious one.

Just one word more. I think I am speaking at a very inconvenient time as my friends are in a hurry to get away for their lunch. One word more with regard to relief to the poor agriculturist. Most of my Honourable friends who have preceded me have stressed, and stressed rightly, the importance of providing for this kind of relief. Sir, the Select Committee was not indifferent to this aspect of the question. It did its best and in the circumstances under which it had to work and during the very short time that was at its disposal and considering the magnitude of the problem and its complexity it was not possible for the Select Committee to arrive at any other decision than it had done. The best that it could do under those circumstances was to recommend a procedure by which a more thorough investigation could be carried out and proper proposals made for bringing about this relief. Some provision has been made in this Bill for providing this kind of relief but as my Honourable colleague from Madras, Sir Kurma Venkata Reddi remarked yesterday, this provision in respect to the harassed agriculturist is much more important than any encouragement that might be shown to the trade and commerce of the country. He was perfectly justified in observing that the Bank would fail in one of its most important duties if it failed to give the much needed relief to the poor agriculturist.

Now, Sir, just one word or two about the two important questions about which controversy has been raging since the time that the first

[Saiyed Mohamed Padshah Sahib Bahadur.]

attempt was made to establish this Reserve Bank. I will first take up the question of a Shareholders' *versus* a State Bank. Since this question has been discussed threadbare I am not going to enter into any elaborate arguments. All that I wish to point out is that since this controversy has begun there has been a steady change in public feeling. If we closely examine the facts we find that most people who originally were very stout champions of a State-owned institution have veered round to the side of the Shareholders' Bank. If we only look at the Report of the London Committee there are people who were signatories to the report who have now obviously accepted the shareholders' institution but who only recently were very staunch champions of a State-owned institution; and it is just right and proper that it should be so, since the experience of the world has demonstrated beyond all possibility of doubt that it is the Shareholders' Bank that is best suited in the present circumstances. One of the most successful institutions in the world, the Bank of England, is a Shareholders' Bank. The Bank of England is only a Shareholders' Bank. Now, Sir, the other alternative that was proposed by some of our Honourable friends who signed the minute of dissent was a Stock-holders' Bank. So far as I am concerned I am at a loss to see what difference there is between this and the other? To my mind if there is any difference between these two the difference is in favour of the Shareholders' Bank, inasmuch as there the interests of the masses of poor agriculturists and of the people of the countryside are entrusted to the two directors who have got to be elected by the 60 trustees. But, Sir, under the present proposal the shareholders will elect eight directors so that under this proposal we at least have eight directors who have been elected directly by the shareholders. I do not think, Sir, I need prolong this and I close my observations by supporting the Motion.

The Council then adjourned for Lunch till Half Past Two of the Clock.

The Council re-assembled after Lunch at Half Past Two of the Clock, the Honourable the President in the Chair.

THE HONOURABLE MR. BIJAY KUMAR BASU (Bengal: Nominated Non-Official): Sir, before I begin I wish to pay a very well deserved compliment to the Finance Member, Sir George Schuster, who has been able with so much tact, persuasive eloquence and ability to push this Bill through the other House. Sir, although I believe that a good many members of the public also feel that the passing of this Bill through the other House is a feather in Sir George Schuster's cap and a crowning glory to an eventful career in India, there is another section who certainly appreciate the tact with which he got the measure through the other House but they do not certainly thank him for the result because they feel that some portions of this Bill at any rate could have been improved. The technique of a Reserve Bank is a very specialized technique and very few up till now have been able to grasp really that specialized technique. With the exception of the Bank of England, all the other Central Banks in other countries of the world, are of very recent origin. They are, if I may say so, still in their experimental stage, and our experiment also in setting up our Reserve Bank should have come earlier than now. It will

be time enough for us after the Reserve Bank is constituted and has been in operation for some time to see what results can be achieved and then to judge whether this measure has to be modified or not in the light of the experience that would be gained hereafter. In the criticisms that have appeared in the Press, in the other House and also on the floor of this House a good deal of imagination has been brought into play. I certainly think that in matters of legislation imagination plays a good part, but if we wait for the results we shall come to a better understanding than if we base our remarks merely on imaginative data. There is one feature of this Bill which it will be proper for me to draw the attention of the House to, and that is, that the provisions of this Bill are mostly taken from the provisions of charters for Central Banks in different parts of the world, specially from England and the Continent of Europe. The only feature that has been taken from the United States Reserve Bank is about the compulsory deposits. The Central Banks in the Continent and the Bank of England have no system of compulsory deposits from the member banks. It is only in the Federal Reserve Bank of the United States that this feature appears. I always thought, Sir, that this compulsory deposit was meant to be a lever by which the credit of the country could be controlled, and I thought that this provision was there in the Federal Reserve Bank of the United States because it was one of the two links to control credit, one link between the Reserve Bank and the member banks and the other link between the member banks and the public. In the United States of America the banking system is so well developed that if the Reserve Bank could control the other banks, the public deposits with the Bank would be controlled and through those banks you could control the credit of the country. But here, the second link is absent. Of course, by this legislation the Reserve Bank will have some hold on the member banks, but the member banks will not have the same control over the public because if we just refer to the Report of the Central Banking Committee, we will find that the indigenous banker in India controls about three or four times, or perhaps more, than the amount of money that is controlled by the Joint Stock Banks in India. Attention has been directed in the Bill to this state of things, and by clause 55 it has been provided that:

"The Bank shall, at the earliest practicable date and in any case within three years from the date on which this Chapter comes into force, make to the Governor General in Council a report, with proposals, if it thinks fit, for legislation for the extension of the provisions of this Act relating to scheduled banks to persons and firms, not being scheduled banks, engaged in British India in the business of banking".

In other words, there is a provision that within three years, the management of the Reserve Bank will report to the Governor General in Council for a change in legislation roping in the indigenous banker, and then this compulsory deposit will have some effect because I take it that when the Board of Management reports to the Governor General in Council, they will also provide that those people who would be included in the Schedule, although they are not joint stock companies will have to make the same compulsory deposits as joint stock banks will have to do. This mixture of the Continental system with the American system appeared then, and it appears now, before the Management's report comes into being, to be rather an incompatible mixture and the result may not be as favourable as we seem to imagine. It might lead to the birth of a monstrosity.

[Mr. Bijay Kumar Basu.]

Then, Sir, I wish to refer to another feature of the Bill, and that is with regard to the Agricultural Credit Department, which has been put in at the Select Committee stage. I refer to clause 54 of the present Bill. I certainly join whole-heartedly in the wish expressed by my Honourable friend Sir Kurma Reddi that if it was possible through the Reserve Bank to help the agriculturists out of their indebtedness, to help them to organize themselves better and to prosper as they ought to, certainly that would be a consummation devoutly to be wished. But what I find is that by section 17 of this Bill the duties of the Bank and the business that it may do have been specifically fixed. Sir Kurma Reddi pointed out that one of the things the Reserve Bank should do is to lend money to the agriculturists against land. But that is not to be. Then the second suggestion was that the Co-operative Banks should float debentures which would be guaranteed by the Reserve Bank. But even that business has not been specifically mentioned in section 17. So that the Reserve Bank as constituted by this Bill as it stands will not have the power to guarantee the debentures of any Co-operative Bank. I should have liked Sir Kurma Reddi to have given notice of an amendment to include such a provision in the Bill itself.

As regards exchange and matters connected therewith I think the points have been thoroughly discussed both in this House and the other House and there is no necessity for me to cover the same ground.

There is one other point to which I would like to refer and that is the constitution of the Board of Directors. At present the proposal is that we should have four directors nominated by the Governor General in Council and eight directors to be elected on behalf of the shareholders, and it has been indicated how many directors are to be elected from each register. As regards the four nominated directors I think it is practically accepted that particular interests will be represented by them and one of them at any rate should be a person connected with the agricultural development and agriculture of the country. The elected directors will be from different provinces. The question, however, may arise later on, when shares in a particular register are transferred to other registers, and no minimum having been fixed, if the number of shares held by a particular register falls to a particularly low level, would it be proper to have the same number of directors from that register? Take, for example, the Delhi Register. Suppose the Delhi holders sell their shares to people on other registers, and there is no prohibition as to the free marketing of shares—say seven-eighths of the Delhi shares go to Calcutta and Bombay, would the Delhi Register still continue to elect two directors as is here proposed? I would myself suggest the holding of a minimum number of shares in each register. If that meets with the wishes of my friend Mr. Taylor I would expect him to carry that out in the form of an amendment.

THE HONOURABLE RAJA CHARANJIT SINGH (Punjab: Nominated Non-Official): Sir, I support the Motion for the consideration of this Bill. Every important country in the world has got its Central Bank and I think it is only proper that India should also have one. This is all the more necessary in view of the constitutional changes which are going to be made before long. In fact it is considered essential that a Bank of this kind

should be established before the reforms are introduced. From the discussion which has taken place here and elsewhere, it is quite clear that every section of opinion is agreed about the desirability of having a Central Bank. This Bill has been thoroughly considered and discussed, not only section by section but word by word, in the Joint Select Committee, and I am sure the Honourable Members of this House will find it in every way satisfactory.

THE HONOURABLE SIR DAVID DEVADOSS (Nominated Indian Christians): Sir, great credit is due to the Finance Member for bringing forward this measure and piloting it successfully through the other House, and credit is also due to the Honourable Mr. Taylor for the very lucid explanation of the principles of this Bill. I will confine my observations to one or two points. It has been said that this should not be a Shareholders' Bank but a State Bank. If it is a Shareholders' Bank, it is urged the shareholders may not take any interest in its concerns seeing that they are sure of their dividends, and therefore the Board or the Governor will be able to do as they please. My answer to that is that if the shareholders do not take an interest in their own share-holding concern, and if they are going to be indifferent about the doings of the Board, how are they going to manage the affairs of this country when they get self-government? If people realize that this Reserve Bank ought to work in the interests of the country and if people are educated to see that it is worked properly I think the shareholders will take a real interest in its concerns and will see that things are properly done. Another provision in the Bill helps to bring about this result. The Bank's headquarters will be migratory and the annual general meeting will be held not only in Bombay and in Calcutta but also in Madras and Delhi. Well, the people of those places could bring forward objections to the procedure of the Board if they found the procedure was wrong. Therefore, Sir, the objection to the Bank being a Shareholders' Bank, is not a sound one. Again, it is said that the management will be greatly influenced by the Secretary of State. Granting that proposition is true, would it improve matters if the Bank is a State Bank? Would the influence of the Secretary of State be less if it is a State Bank and more if it is a Shareholders' Bank. Therefore, Sir, I think that a Shareholders' Reserve Bank will certainly serve the best interests of the country. If our people had been a little more careful we should have had a Reserve Bank working now. It is a great pity that the Bill of 1928 was not passed. If that had been passed, we should have had a Bank working now for nearly six years and, as a well-known preacher said, when we commit mistakes we stumble upwards. We must have stumbled upwards and we should have had a perfect bank working in 1934. Therefore the sooner the Reserve Bank becomes a settled fact and is put in working order the better it would be for this country. Then, another safeguard is the low value of the shares. It was feared that some capitalists might corner all the shares. It is open to us to induce the people of the country to buy up the shares. Government will not allow the cornering of the shares by a few capitalists and millionaires. Each share is worth only Rs. 100 and we could induce the people of this country to take up almost all the shares and therefore the fear that a few people will get all the shares in their hands is not a well founded one.

THE HONOURABLE MR. HOSSAIN IMAM: How will the Government prevent that?

THE HONOURABLE SIR DAVID DEVADOSS: By allotting shares to small investors just as some time ago when the Government wanted to raise a loan they gave preference to people who were prepared to offer small sums and not to big banks. Government could see to that. We could ask the Government now to assure us that they will give preference to small investors and not to big investors. Then, Sir, with regard to the question of scheduled banks, I think it is in the interests of the banking world that banks should have some portion of their money in the Reserve Bank. After all we must understand that we are only at the beginning of things. Not only that. We are new to this sort of business. When I say new I say it in this sense that we have been doing banking in the European way within the last 50 or 60 years. Our old way was entirely different. We know how the Chettis, Marwaris and other money-lenders have been doing their business, but the co-operative bank and the shareholders' bank and the company-managed bank have been altogether a new thing to us, and we should have something to guide us, something to direct us, and something which would really be beneficial to us. Therefore the scheduled banks should have a portion of their capital in the Reserve Bank not only to ensure their stability but also to facilitate business. It is not proper that all the capital and the invested money of the banks should be utilised for lending purposes; they must always have a fluid reserve so as to meet demands. Therefore, Sir, no complaint can be made on the ground that the scheduled banks are made to deposit a certain amount of their capital in the Reserve Bank.

It was said that the Imperial Bank has been given facilities which it ought not to have. The Imperial Bank is doing really very good business and it has been with us under this name for the last ten or twelve years. Before that we had the well-known Presidency Banks, the Madras Bank, the Bengal Bank and the Bombay Bank. This Bank has branches all over the country and when the new Reserve Bank comes into being it must have some help from a bank which is well established and I do not think that the facilities proposed to be given to the Imperial Bank are such as to make one think that the Imperial Bank is having something which it ought not to have. There is no other bank which can take its place and therefore all the objection raised on that ground, I think, is not well founded.

I do not want to enter into the question of ratio. It is a very, very difficult question and experts or pandits on that point are not agreed and it is not for me, a layman, to venture to offer any observations on that point. But I will only say this. When we were boys we were told the story of two persons having a fight over the colour of a pillar and after the fight one man fell on one side and the other on the other side and both were right. One said it was dark and the other said it was blue or red and they found one side was red or blue and the other side dark. In this controversy it may be that both are right or both wrong. Therefore we cannot now lay down a hard and fast rule as regards this ratio, and seeing that this is a measure within the competence of this Legislature it is open to the Legislature to make any amendment it likes afterwards. No doubt there is the statement of the Secretary of State that nothing can be altered without reference to the Imperial Parliament. Sir, we know how things are at present. Everything is in the melting pot. We do not know what a day may bring forth. As matters stand at present we do not know what is going to happen with regard to the

currencies of the world. America is doing one thing, France is doing another and England is trying to do a third. In this present state of things it is not right for us to say that we must have either the 16d. ratio or the 18d. ratio. We shall see how things work. As I said a little while ago, let us stumble upwards. If we commit mistakes, Government are not going to see that India loses everything. They will open their eyes and see that a mistake has been made and they will rectify that mistake. It is not right that we should object to this measure being passed because the ratio is not what some of us would like to have.

It was said that the Legislature should have a voice in this concern. Political influence as it is understood today ought not to have anything to do with business operations because politicians may change their mind, may change their opinions, and they may be moved by passion, or by the sentiment of the hour. This Bank, I find from the Bill, will be above that influence, but it is said that the influence from Whitehall will be preponderant. I do not for a moment think that the Government of India will do things in such a way as to harm the currency of this country. It may be that even if that influence is exerted people here, the Viceroy and his Councillors, would try to put matters right by showing what would be beneficial to India. Now, take the Tariff Bill. There are so many things we are doing which may not be in the interests of Great Britain but are in the interests of India and the Government of India will take care to see that the finances and the interests of this country are not jeopardized by giving way to influence from outside.

Sir, on the whole, I find that this Bill is a very satisfactory one and it is up to us to see that it is worked properly. If, after some time, we find that there are defects and there are sins of omission and of commission, we can get them all corrected. As I said, a Reserve Bank has been overdue for some time and the sooner it is put in force the better for India.

With these few words, I have great pleasure in supporting the Motion for consideration of the Bill.

THE HONOURABLE MR. J. B. TAYLOR (Additional Finance Secretary):
Sir, in the course of this long and interesting discussion there have been numerous points raised and though I do not propose to deal with them all, I shall deal with several of them, because I am glad that Members of this House instead of moving amendments on particular points have taken the opportunity in this general debate to raise certain questions which can be discussed more properly with relation to the Bill as a whole than if they had been raised on particular amendments. The first point that I would like to deal with is a simple one, namely, Sir Kurma Venkata Reddi's apprehensions about the Local Governments and their position *vis-a-vis* the Reserve Bank. He apprehended that in a future régime of provincial autonomy the interests of the Local Government might suffer because they would not have a representative on the Board, on the assumption apparently that the Central Government would be fully represented. I would like to point out that the four non-official Members who will be nominated by the Federal Centre will be designed to afford representation to interests otherwise unrepresented. They will not be there as representing Government. The only representative of Government will be what I might call the technical expert who will be there to co-ordinate the technical work of the Bank with that of Government. As regards

[Mr. J. B. Taylor.]

the Local Governments, the only practical point that I can see as likely to emerge is with regard to loans and their borrowing programme, and this will certainly not be a matter to be dealt with through a local board. At present, borrowings on account of Local Governments are discussed with the central authority, either Government or the Imperial Bank, and in future they will be discussed with the central authority of the Reserve Bank. I do not think that in practice there is likely to be any difficulty at all because the Reserve Bank will be only too anxious to co-operate in any measure that will improve the credit of the Local Government.

Mr. Basu raised a final trumpet call, on the question of the compulsory deposits for scheduled banks. I congratulate him on a long and gallant fight which I am afraid that he has lost; I am afraid that I am still completely unconvinced by his arguments. I agree with him that the Bank of England does not require to exact compulsory deposits from British banks but the Bank of England is the oldest bank in England, it is by far the most important bank, and it has, as a result of its prestige, numerous unofficial ways of putting pressure on any recalcitrant bank in England. We are creating a new institution which will be confronted with other institutions, long established and with a very high prestige, and for that purpose we must give it some means of exercising at any rate a limited control over such institutions.

THE HONOURABLE MR. BIJAY KUMAR BASU: This system does not exist on the Continent either.

THE HONOURABLE MR. J. B. TAYLOR: Sir, I have not time to discuss all the banks, but there are several banks that have such compulsory deposits, and in Europe in the case of the oldest and strongest institution, the Bank of France, its prestige is so immeasurably superior to other banks in France by reason of its *quasi*-government status that it is able to enforce its authority without this particular right. However, Sir, I do not wish to pursue this particular point.

Another difficulty which was raised which I think is illusory is that the shares might drift to the larger centres, thereby denuding the up-country centres of their representation. I do not think, Sir, that is likely to happen. In the first place, as Sir David Devadas pointed out, we are making careful arrangements in the Bill to secure the maximum distribution of voting power on the initial allotment. Preference is going to be given to those shareholders who apply for Rs. 500 worth of shares, that is to say, the minimum voting right. Afterwards, Sir, I do not see any reason to anticipate a drift. These shares are not going to be speculative. They are going to constitute a stable form of investment. As Sir Homi Mehta pointed out, the people who initially subscribe for them will not be people who intend to turn them over at once. I therefore think, Sir, that there will be very little reason to anticipate any drift to the larger centres. Even if there is, that will not affect the voting right of the up-country centres, centres like Delhi and Rangoon, because they will still be allowed to return the same number of directors however much the share register may be denuded. And that, Sir, in itself will also be a powerful corrective to any excessive drift because the more shares that drift away from such centres the greater will be the voting power of the remainder. For these reasons, Sir, I do not think that we need anticipate any material alteration in the initial distribution.

Sir Kurma Reddi twitted Government with over-apprehension about what is called political influence. Sir, I do not wish to overstate the case. Everybody knows what political influence is interpreted as meaning in India at present. But, Sir, that will not always continue. We must not visualise that for ever what is called political influence in India will be synonymous with a certain type of national aspiration. In future we hope that politics will develop in India on the same lines as in other countries and when that development occurs we do definitely wish that there shall be in existence a banking institution which will be outside politics. I might give as an instance something that has happened during the last few weeks. The Bank of France is outside politics. We have seen one Government succeed another day after day in France and yet the Bank of France has managed to stand up against one of the strongest attacks made on its currency and has emerged undefeated. What would its position have been, if it had been politically bound up with the changing Governments of the day? Sir, the experience of other countries, of the Bank of England and of the Bank of France is, to my mind, conclusive that we should look at this question not from the temporary aspect of nationalism or anti-nationalism but from the point of view of the stability of the country, and you will be building well if you create now a Reserve Bank that is and will remain outside politics.

I now turn, Sir, to what I might call the destructive criticism of the measure and I find considerable difficulty in arriving at an appreciation of what is the attitude of mind that underlies those criticisms. In the first place, I do not think they are putting their case quite fairly even from their own point of view. What Lala Ram Saran Das and Mr. Banerjee were saying in effect is that they will be put on the horns of a dilemma, that India was being compelled to swallow what it did not want as an essential pre-requisite to constitutional reforms. Sir, I think that is an entirely wrong way of looking at the matter. Constitutional reform does not come suddenly. If it is to be wholesome it must broaden steadily from one development to another and this measure, quite apart from any question of a further instalment of constitutional reforms, is in itself a most material advance in India's constitutional development. In fact, Sir, I do not think that I would be exaggerating if I said that both as regards immediate effective powers and as regards ultimate potentiality it is one of the greatest, if not the greatest, transfer that has ever been made since the British Government assumed the control of this country.

Then, Sir, they went on to talk about pre-requisites. The Honourable Rai Bahadur Lala Ram Saran Das said that until certain pre-requisites were fulfilled it was rash to create a Reserve Bank. There, Sir, I was frankly amazed. I could imagine him talking like that if he was a Die-hard speaking in the House of Commons arguing that the times were not propitious for such a great transfer of control. But why he should stand up in this House and say that these are arguments why the Indian Legislature should not accept it when offered I frankly confess that I do not understand. In any case, he was exaggerating. He said that our budget was not balanced, and though he somewhat reluctantly admitted that there was a certain minor improvement in our short term debt position and our external credit, he maintained that our exports were going from bad to worse and that the end could only be ultimate disaster. Sir, in reply to that I can only say that no country can say that it is at the height of prosperity at present, but if he will look round I do not think

[Mr. J. B. Taylor.]

that he will find that there is any country whose budgetary position appears more favourable than ours. As regards our short term liabilities in the last two-and-a-half years we have succeeded in funding liabilities which would have matured within five years to the extent of Rs. 170 crores. As regards our external credit, we have now built up external reserves to the extent which the Bill has set out as a pre-requisite for the creation of a Reserve Bank, that is to say 50 per cent., and as Sir Homi Mehta pointed out, if you take into consideration the hidden reserve which we have on account of gold and also the other sterling balances that we have in the Treasury, that percentage will be raised materially; it might even be as high as 70 or 75 per cent. Also, Sir, in the first year after we went off gold there was a temporary dislocation of our imports and exports. The balance is now being redressed, and there is again a steadily increasing export surplus quite independent of the exports of gold.

Then, Sir, the Honourable Mr. Hossain Imam said, if I understood him aright, that there was no object in creating a Reserve Bank because the Reserve Bank could not stand up to emergencies, and that if there was a war or other crisis, that Government must take charge. I did not follow what the conclusion of this argument was. I presume that it was that there was no use in creating a Reserve Bank at all. Surely, the commonsense view of the matter is that if there is a crisis, Government must co-operate, but that if such a crisis occurs it will be of very great value to Government to have an independent and authoritative body which can tender advice at that time. If there is no Reserve Bank and a crisis occurs, Government has to take what action it can, but if there is a Reserve Bank in existence, they will be ready with their advice. They will also be able to warn the Government of impending dangers, so that—even though when the crisis occurs Government may have to take charge, it will be all the better for it to have a Reserve Bank in existence as an established authority.

There is one minor point that the Honourable Rai Bahadur Lala Ram Saran Das asked me to answer specifically and that was about the cost of the new institution. He quoted figures from a memorandum of Sir Malcolm Hailey. The figures, Sir, were not on the same basis. The original arrangement was that the reserve fund of the Bank should be built up to the extent of Rs. 5 crores from the profits of the Bank over a period of about five years. As Government is what I might call the residuary shareholder of the Bank, that is to say, the party which will get the balance of the profits after the shareholders have been paid their dividends, it follows that if this reserve had to be built up out of the profits, there would have been a temporary loss to Government revenues. We have now met that by providing in the Bill that Government will make an initial subsidy of Rs. 5 crores, which will be borrowed, to create a reserve fund for the Bank. This will mean that Government will get at once its full share of the profits. Sir Malcolm Hailey's forecast was based on the position before this provision was brought into the Bill, so that is out of date now and the initial loss will be very much reduced. It is somewhat infructuous to attempt a calculation of what that loss will be, because the profits of the Bank depend so much on the rate of interest at which the Bank can invest its reserves. Two or three years ago when the Bank would have been able to invest at 4 and 4½ per cent. in British Government Bills, these profits would obviously have been very much larger

than now when it could only get one-half or two-thirds per cent. Fluctuations on that account may easily amount to Rs. 2 or Rs. 3 crores. At the same time, so far as I can calculate, the actual loss to Government as compared with what it would have had to incur if the present management of the currency had been continued should not be more than Rs. 5 to Rs. 10 lakhs, and even that is not going to be a dead loss. It is due to the fact that we are incurring expenditure in creating an Agricultural Credit Department and in engaging in other activities which the country demands and which seem to be necessary for productive development, so that it is unfair to talk in terms of profit or loss. In any case, as I have said, the profit or loss will be negligible in comparison with the fluctuations in the ordinary profits which will occur from fluctuations in the value of its holdings.

I now come, Sir, to the old and vexed question of the ratio. I do not propose to deal at any length with it because I think that the arguments of the Honourable Mr. Hossain Imam have been fairly effectively riddled by several other speakers, and I do not consider that the ratio issue arises on this Bill. But, looking at it in an unprejudiced way from the outside, there is one characteristic feature of the debate which appealed to me and that was that though the advocates of devaluation were very eloquent they stuck to generalities while the opponents, that is, those who argued against it, went down to details. They analyzed the problem, commodity by commodity and showed with reference to particular classes how the change would work out. It is very simple to say that if you reduce the rupee $12\frac{1}{2}$ per cent. you will immediately increase the price of wheat, or cotton or rice by $12\frac{1}{2}$ per cent., but everybody knows that this is not the way the thing will work. The Honourable Mr. Hossain Imam went even further. He said that the policy of keeping money stable ought to be the policy of the Central Bank. Sir, there is no charter which any Central Bank in the world possesses which contains the words "stable money" and I do not see how it would be humanly possible to throw such a task on a Bank. If I might give a small metaphor, Suppose we were creating a Bengal Pilot Service to pilot ships up and down through the dangerous currents of the Hooghly. Somebody gets up and opposes it on the ground that instead of having a Bengal Pilot Service, we ought to make the sea flat and prevent there being any currents, as in that case we would not require a Bengal Pilot Service. When asked to develop his thesis, in reply to the question "How do you propose to stop these dangerous tides", his answer is, that it is quite simple, so long as you have elastic measures. You throw out the weight. At one time it registers four fathoms and at another time it registers six fathoms. If the water gets shallow, then you have only to invent a shrinkable line which will still show six fathoms, and the ship will still pass in perfect security. I think, Sir, that fairly describes the attitude of those who think that they can get over these world troubles simply by tinkering with the internal standard. Sir Kurma Reddi was perfectly correct when he said that there are many more factors involved than that. It is a most difficult question and it is impossible to simplify it in that way.

At the same time, Sir, I entirely agree with him that the position is not satisfactory, particularly as regards agriculture, and that Government cannot simply fold their hands and say that nothing can be done. Unfortunately, Sir, it is very difficult to know what to do. There is a lack of anything concrete to work upon. We have had Commission after

[Mr. J. B. Taylor.]

Commission. The Honourable Mr. Hossain Imam accused us of pigeon-holing these reports. I have carefully examined the recommendations of the Agricultural Commission and the Banking Enquiry Committee on this point, and so far as I can see, any concrete recommendations which they had made have been nullified by some recommendation, some prerequisite, which is quite impracticable. For instance, the Banking Enquiry Committee recommended the wide institution of land mortgage banks. They talked a lot about it and then added a sentence:

“ Provided that there will be free transferability of land”.

Now, what is the use in India of saying that you want land mortgage banks but that you can only have them if there is to be free transferability of land? Everybody with any knowledge of the agricultural problems of India has known for years that there lies the difficulty. We have built up in India an artificial protection for the agriculturist by impeding the right of transfer. His rights vary from province to province, from district to district and even from village to village. So long as you maintain that protection to him it is idle to suppose that the credit which he can offer will be as good as if he had something more definite to give as security.

Then again, as regards co-operation. Co-operation has done a great deal of good. I would be the last to under-estimate the value of the work which has been done. But, Sir, there again, we must look facts in the face. The essence of the co-operative movement as I understand it is that a number of men band together, some of them to lend money and others to borrow it. If it is merely a case of them combining together to borrow money then it is doubtful how far the mere fact of their so combining increases their corporate security. In fact from one point of view it might be argued that it made it less. If you have one individual borrowing money and anything goes wrong, you can sell him up; but if a whole village is in a co-operative society and all borrow money and fail to pay it is obviously impossible to sell up the whole village. There will be no buyers, and obviously the wider this tendency spreads, the less will the security become. From that point of view it is arguable that the co-operative movement does not really increase the corporate credit of individuals for borrowing.

These, Sir, are points which I am bringing forward, because it does seem to me that there has been too much rhetoric on this question and that it is time that people got down to real facts and put forward proposals before Government which are based on these facts. We are only too anxious to do anything that can be done, but until those two essential difficulties are realized it is idle to talk of any panacea.

The only panacea which I am definitely certain is a quack one is devaluation. Where there is devaluation, Sir, I am convinced that whoever loses it will not be the *mahajan*. The *mahajan* will always be two moves ahead of the game. If the rupee was devalued so as to increase prices by 20 or 30 per cent., you may be perfectly sure that the paper debts would go up by 50 or 60 per cent. You are not going to get rid of the problem of agricultural indebtedness by those means, unless you follow Mr. Hossain Imam, who has developed an enthusiasm for Germany, to his logical conclusion and reduce the rupee to the value which the mark once had. He said the mark went down to 100 millions to a penny.

He was wrong, it was 1,000 millions to a penny. Well, Sir, if you could devalue the rupee to an extent which would reduce the whole of the present revenue of the Government of India to less than one anna, I have no doubt that you would effect a certain reduction in the debt of the agriculturist. But I do not know that that would be the end of the matter. Russia, Austria, Germany have had to devalue their currencies to nothing and they are still struggling with the consequences and if we look to see what in practice was the result, we find that it was not the agriculturist who has benefited but the man whom one would expect to benefit, that is to say, the man who knows something about currency and exchange, the speculator, the moneylender—he is the man who is going to profit by any alteration.

But as I said, Sir, we recognize the gravity of the problem; the unprecedented fall in prices has undoubtedly had severe repercussions on the established social order in India and we do not wish to minimize that aspect of the question. At the same time, looking at it from that point of view, I still think that what Government have proposed is the most practical method, that is to say, to get ahead with the Reserve Bank, to try to get people together who will examine these questions in a dispassionate and concrete manner and put up proposals to Government giving us something to work on. We can go on turning out Commissions, but so long as they are composed of people who can merely repeat what has been said before we do not get forward at all. I do think however that an Agricultural Credit Department which will act in co-operation with the Local Governments will afford some chance at any rate of seeing these problems in their true perspective, of seeing what the real difficulties are and possibly finding a solution. From that point of view, from the point of view of the agriculturist, I think that the Reserve Bank should be an unmitigated boon to India.

THE HONOURABLE THE PRESIDENT: The Question is:

"That the Bill to constitute a Reserve Bank of India, as passed by the Legislative Assembly, be taken into consideration."

The Motion was adopted.

THE HONOURABLE THE PRESIDENT: As regards the next stage of the Bill I propose to postpone it till tomorrow for two reasons. In the first instance we have made satisfactory progress today and I feel we will be able to finish this Bill tomorrow. Secondly, I dislike that a Bill of this magnitude and importance should be passed when many non-officials are absent. I would like non-official Members to have the fullest opportunity of discussing their amendments. It is for these two reasons I shall adjourn the House till tomorrow.

The Council then adjourned till Eleven of the Clock on Thursday, the 15th February, 1934.