Tuesday, 13th February, 1934

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.

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COUNCIL OF STATE

Tuesday, 13th 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.

QUESTIONS AND ANSWERS.

AREA UNDER NON-FOOD CROPS.

20. **THE HONOURABLE KHAN BAHADUR DR. SIR NASARVANJI CHOKSY**: (a) Will Government be pleased to state whether the area under non-food crops has increased from 1921-22 to 1932-33, and in what provinces ? What was the gross value of these crops at the prices prevailing upto 1929-30 ?

(b) Has the quantity of opium grown in India been reduced during the last five years ? What areas are under cultivation and what is the value of opium raised ? How much opium is consumed in the country ? What is the quantity exported to other countries ?

THE HONOURABLE MR. M. G. HALLETT: (a) The latest figures available are for 1931-32. A statement showing the area under non-food crops in various provinces in 1921-22 and 1931-32 is laid on the table. It is not possible to make an estimate for the gross value of these crops, as the statistics of production and of prices are incomplete.

(b) Poppy is cultivated in the United Provinces in British India and its cultivation has been reduced during the last five years. A sum of Rs. 28,47,097 was paid to cultivators for opium received during that year. 5,205 maunds 21 seers of opium were consumed in British India and 2,052 chests (equivalent to 3,491 maunds 10 seers) of opium were exported to other countries in 1932.

Statement showing the area under non-food crops in various provinces.

Province.	Area under non-food crops (in thousand acres). 1921-22.	1931-32. (Provisional).
Ajmer-Merwara	52	53
Assam	1,023	1,067
Bengal	3,425	3,521
Bihar and Orissa	2,753	2,650
Bombay	7,101	9,445
Burma	2,319	2,687
Central Provinces and Berar	6,912	7,232
Coorg	44	31
Delhi	30	41
Madras	6,435	7,971
N. W. F. Province	316	273
Punjab	7,097	8,152
United Provinces	3,575	3,332
Total	41,082	46,455

A

THE HONOURABLE MR. JAGADISH CHANDRA BANERJEE: Is it possible to give us an idea which people among the different provinces of India are greater consumers of opium?

THE HONOURABLE MR. M. G. HALLETT: I regret that I have no knowledge of the question which I am answering. I am only answering as a substitute for the Honourable Member in charge of Education, Health and Lands. If the Honourable Member will give notice of the question, I shall try and obtain information.

THE HONOURABLE MR. JAGADISH CHANDRA BANERJEE: Is it a fact that the largest quantity of opium is exported to China from India and that the Chinese are the greatest opium eaters in the whole world?

THE HONOURABLE MR. M. G. HALLETT: I believe that is a fact, Sir.

UNDERFEEDING OF RURAL POPULATION.

21. THE HONOURABLE KHAN BAHADUR DR. SIR NASARVANJI CHOKSY: Will Government be pleased to state whether there is any difference of opinion between the Census Commissioner and the late Director-General of the I. M. S., in regard to the underfeeding of the rural population of India? If the reply is in the affirmative, how is the divergence explained?

THE HONOURABLE MR. M. G. HALLETT: None that the Government is aware of. If the Honourable Hember thinks otherwise, perhaps he would state the passages he has in mind, giving references, and the Director General, Indian Medical Service, will be glad to examine them.

RESERVE BANK OF INDIA BILL.

THE HONOURABLE MR. J. B. TAYLOR (Additional Finance Secretary): Sir, I move:

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

Five months ago when I introduced this measure in this House in the Simla Session on the motion that it should be referred to a Joint Committee of both Houses I said that I was convinced that the more closely this important measure was examined—and we were determined to give the fullest opportunity for such examination—the greater would its advantages from the point of India be seen to be, and I am gratified to see how that prediction has been fulfilled. We had the measure examined by a Joint Committee of both Houses. We gave that Committee the opportunity of asking experts to join in informal consultation with them and thereafter the measure went through a most careful and laborious examination clause by clause in another place. As a result, Sir, I think it safe to say that Indians are now realising how great an advance is possible under this measure, and in securing this end I think that the experiment of Government in asking both Houses to join together to examine the measure was an important factor. The examination was of a most meticulous nature. The Bill began with 54 clauses. It has emerged from the Legislative Assembly with 61. The Joint Committee introduced no less than 184 amendments or modifications leaving only nine clauses in their original form. The Assembly also introduced another round dozen or so modifications.

At the same time in spite of those modifications, the main features of the Bill remain unaltered and, if I may say so, more firmly established. Those main features are two. The first is that the Reserve Bank of India will be a share-holding institution. When I introduced the Bill in Simla I said that I was convinced that examination would show that a share-holding institution was the only possible one to meet India's requirements. The share-holding principle has been attacked, but I think that I can say without fear of contradiction that no workable alternative has been produced. The charters of other banks in other parts of the world have been carefully examined by our critics but there is no alternative which emerges if a body is to be constituted which will not only be authoritative but independent.

The second main feature of the Bill which has also, if I may again say so, been strengthened in its passage through the Committee and the other House is that since the Reserve Bank must be built on a framework of the external value of the rupee, the only possible framework, if controversy was to be avoided, was that in force at the time when the Bill was introduced. As I said then, what we are doing now is creating a Reserve Bank; we are not discussing the external value of the rupee, important though that question may be: and it has been recognised that the votes of both Houses on this matter are votes in favour of a Reserve Bank and not necessarily in favour of any particular currency policy. That is an issue which does not arise.

These are the two main features which I have said remained unaltered in the Bill. At the same time in its passage through the Committee and the Assembly there have been numerous important alterations and I would like to invite the House to a few of the more important of these so that they may see what changes have been made since the Bill was originally brought before them.

The first is that the value of the shares has been reduced from Rs. 500 to Rs. 100 and the minimum voting power has been reduced from Rs. 1,000 to Rs. 500. Government accepted the views of the non-official Members in this matter though with a certain amount of hesitation and I think possibly that it is still not fully realised how enormous an advance this is towards what I may call the democratisation of the Bank. I have looked up the charters of some of the other central banks. I find that in the case of the Bank of France the voting power is limited to the 200 shareholders with the greatest voting power and in the case of the Bank of England voting power is limited to people holding stock of £500 or more. Here we are creating an electorate of 100,000 people with a share-holding value of only Rs. 500 and careful modifications have been introduced both in Committee and in the other place to secure as wide as possible a distribution on the initial allotment of that voting power. This, Sir, I think is a most important change in widening the base on which the Bank will be built.

The second point, Sir, of importance was that of the London Office of the Bank. We felt that it was hardly fair on the Bank to impose a statu-

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tory obligation on it to have a London Office. We wished to leave it to the unfettered discretion of the Central Board. In another place, however, it was felt that something definite should be put in the Bill about a London Office; Government have accepted that decision and I am not going to propose any modification of that alteration.

A third change was that the Bill in its original form would have made Bombay the headquarters of the Bank. It has now been agreed on the suggestion of the Joint Committee that the Bank should be migratory like the Imperial Bank. I think, Sir, that is a sound decision. India is such a large country and the interests of the various centres are—possibly divergent is not the word, but so different that even though the Bank might gain in efficiency by having a central office in one place it would probably lose more in its representative character than it would gain in efficiency.

Another point on which Government have met the views of the non-official Members, though again with considerable hesitation, was as regards the minimum holding of gold. At the present time, Sir, with gold fluctuating widely in price from day to day, my own view is that it would be rash to put any definite figure on it. However, there are other factors and we on the Government side have agreed to accept the amendment which was introduced in the Joint Committee that the minimum holding should be raised from Rs. 35 crores to Rs. 40 crores.

Another change, Sir, again of considerable importance, was that the silver rupee should remain legally interchangeable for notes without limit. The Hilton Young Commission, impressed as they were with the dangers and risks, the strain which the adherence to this principle put on the Indian currency system during the war, would have abolished this right as regards the new notes of the Bank. On the other hand, it was strongly pointed out in the Joint Committee both by non-official Members and by experts that it was desirable to do nothing which might impair in any way the confidence of the public in the new note issue. Besides, not only with regard to gold but even with regard to silver the world is at present in such a state of flux, and taking all the factors into consideration, it seems on the whole desirable that the legal interchangeability between notes and silver should continue.

Finally, the whole of the provisions regarding scheduled banks have been modified in consultation with experts, and here I would pay a tribute to one of the Members of this House on the Joint Committee for the strong fight which he put up on this question. We have, however, come definitely to the conclusion, and I think it has been confirmed in discussion in Committee, that if the Bank is to function properly in its control of credit it must have some definite control over other banks in this country, and that control can only be effective if they are compelled not only to furnish information to the Bank but also to deposit a certain amount as a token that they will do their business with it. At the same time, Sir, so long as the main principle remained unchanged we were prepared to make modifications to suit the convenience of the banks. We had a representative team of bankers from various parts of India representing the exchange banks, the joint stock banks and also the indigenous banks and I think that the modified provisions regarding scheduled banks do represent a fair measure of agreement as a sound working compromise.

Then, Sir, as regards the Imperial Bank, there will be a separate Bill which I shall move for consideration at a later stage as regards the consequential amendments to the constitution of the Imperial Bank. Naturally, the character of that institution will be fundamentally altered by the creation of a Reserve Bank. At the same time, it will still have an important function to perform. It has a large number of branches scattered throughout the country and it is doing a very valuable work in developing the banking habit which it would not be in the interests of the country to impair. The clause dealing with the agreement which will have to be made between the Reserve Bank and the Imperial Bank and the remuneration of the latter was specifically stated by Government at the time of the introduction of the Bill to be one on which we would be open to suggestions both from the Committee and from the expert witnesses. The clause was carefully examined and there too, I think, Sir, as a result of this examination there has emerged a much stronger appreciation of the valuable work which the Imperial Bank is doing and which it will have to continue to do. The agreement has been altered slightly as regards both the term and as regards the method of remuneration but the principle remains, if I may say so, even more firmly established.

Finally, Sir, in the Assembly there were several further alterations. These primarily took the direction of increasing the duties of the Reserve Bank in the matter of agricultural credit,—a question which I know this House has very much at heart. There were two particular amendments which they introduced. In the first place, they somewhat widened the definition of a provincial co-operative bank, by giving discretion to Local Governments to allow the admission of individual central bank as distinct from provincial apex banks to dealings with the Reserve Bank, and secondly, and more important, the Bank has now been enjoined by Statute to proceed at once to the creation of a separate agricultural credit department so as to co-ordinate its activities in the matter of agricultural credit, not so much for direct credit—I am afraid that the Reserve Bank will be able to give practically nothing in that way,—but much more in co-ordinating the activities not only of the provincial co-operative banks but of other banks which are engaged in these operations.

These, Sir, are the main changes—I have discussed them as briefly as possible—which have been effected in the passage of the Bill. But, Sir, what I feel is the most important feature of these prolonged and laborious discussions has been the growing atmosphere of cordiality, the increasing realisation that this Bill is primarily designed in India's interests. It is an enormously difficult measure to frame because we are building something entirely new for India and we are building it at a time when we have nothing to build on. All the credit systems of the world, all the monetary theories are now being put to a much searching and critical examination than they ever had in the past, and in framing a measure of this nature we have to combine to an almost impossible degree rigidity with elasticity. Rigidity because the essence of this Bill is a transfer of financial responsibility from one authority to another, and that authority in transferring the power must see that safeguards and limitations are imposed. Elasticity because, as I have said, the currency systems of the world are in a state of flux, if not of chaos, and it would be unfair to tie down the Bank too far in any particular direction. At the

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same time, Sir, I think that these two principles have been reconciled in this Bill. To my mind, the most important feature of the Bill is that it will create in India an independent and I hope authoritative organisation which will be able to consider those matters, not as at present from the outside, but from the inside, which will realise, by being confronted in practice with the day to day work of such an institution, the practical difficulties which we in the past have been confronted with as Currency Authority. They will realise the practical limitations which are imposed upon a country like India, which is after all still a debtor country, so that the maintenance of its external credit is therefore the fundamental and primary condition of its economic advance. I think that as the Bill progressed it was realised how wide the transfer of power was going to be, wide not only as regards the actual operations but wide also as regards the extent and the untried nature of the authority in whom it is proposed to repose that power. It is a great trust which is being imposed upon the new Bank—upon its Directorate and upon its shareholders, and I trust that in the interests of India it will use that power wisely and well.

Sir, I move. (Applause.)

THE HONOURABLE MR. HOSSAIN IMAM (Bihar and Orissa: Muhammadan): On a point of order, Sir. This Bill was referred to a Joint Select Committee of the two Houses. According to rule 42 of the Indian Legislative Rules this Joint Select Committee ought to have been called up by yourself, but as far as we are aware, the meeting of the Joint Select Committee was not called by you, Sir, and therefore the whole report of the Joint Select Committee as well as everything done is vitiated because in a legislative body the authority which is empowered should call the meeting; otherwise the meeting has got no position. Therefore, Sir, I think that this Bill is not in order, because we passed the motion that the Bill be referred to a Joint Select Committee, and until that Committee reports, we cannot consider it within one year.

THE HONOURABLE THE PRESIDENT: I should have expected the Honourable Member to have given notice of such an important objection as this. I consider the objection not at all sustainable and I therefore hold that the debate will now proceed.

THE HONOURABLE MR. BIJAY KUMAR BASU (Bengal: Nominated Non-Official): Sir, may I suggest that for several reasons which I am going to specify you would allow this debate on this Bill to go on till lunch time every day and not to sit after lunch? To begin with, we have the papers before us which have to be read properly and many of the Members here may like to have time to go through the papers once again before entering into the debate. Secondly, Sir, Delhi is providing us with a lot of entertainments and some of us may like to attend——

THE HONOURABLE THE PRESIDENT: I think that is the real substantial reason.

THE HONOURABLE MR. BIJAY KUMAR BASU: Thirdly, and lastly, Sir, we are not very much pressed for time and I hope you would consider that suggestion of mine and sit only till lunch time every day for the debate.

THE HONOURABLE NAWAB MALIK MOHAMMAD HAYAT KHAN NOON (Punjab: Nominated Non-Official): I heartily support the suggestion of my Honourable friend.

THE HONOURABLE MR. E. MILLER (Bombay Chamber of Commerce): I also support the suggestion.

THE HONOURABLE MR. MAHMOOD SUHRAWARDY (West Bengal: Muhammadan): I also endorse the suggestion of my Honourable friend Mr. Bijay Kumar Basu.

THE HONOURABLE THE PRESIDENT: I am always ready and willing to accommodate Honourable Members. However, it will all depend on the turn the debate takes and the time it will occupy. I hope in all probability to meet with your wishes, but I will not express any opinion just at present and will wait till lunch time.

THE HONOURABLE MR. E. MILLER (Bombay Chamber of Commerce): Sir, I should like first of all to take this opportunity of congratulating the Honourable the Finance Member on having piloted the Reserve Bank Bill so ably through the other House, thereby enabling the Government to present it to us in this House in its present form, in which I may say speaking generally it is quite satisfactory to those I represent.

I am prepared to admit that at an earlier stage there were doubts in the minds of some members of my community as to the advisability of attempting at such a time the establishment of a Reserve Bank. But what far outweighs this consideration is, that if the country is to advance in the direction of Federation, a Reserve Bank must precede that stage and we consider its establishment is a necessity. We believe that in spite of the difficulties that may arise it is wise that it should be established at this stage, so that when the time comes for Federation the Reserve Bank will have had experience in many directions and so be a well organized and going concern able and ready to deal with the financial problems that then exist.

I do not propose at this stage, Sir, to discuss the Bill in greater detail but I notice various amendments have been tabled and when these come up for discussion either one of my colleagues or I myself may have something to say in connection with one or two of them.

Meantime I commend the Bill to the favourable consideration of the House and on behalf of those I represent I give it my full support.

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS (Punjab: Non-Muhammadan): Sir, I am one of those who are strongly in favour of the creation of a Reserve Bank, provided that the time is ripe for its creation and that it is constituted on right lines. As a business man I support the principle that Government should have no voice in the day to day administration of currency and exchange and that the banking reserves of the country should be centralised in order to confer the largest benefit on its people. Having been associated with the Committee which sat in London to consider the question as also with the Joint Select Committee of the Indian Legislature which reported upon the measure quite recently, I feel bound to say that nothing that has been said in either place has convinced me that the scheme now before us is such would evoke any enthusiasm in the country. Why is this so, when we all

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want an independent Reserve Bank, free from political influence? In answering this question, I wish, with your permission, Sir, to state briefly what were, not very long ago, regarded as the conditions for the successful working of a Reserve Bank. They are stated in the White Paper and are four in number. First, that the Indian budgetary position should be assured. Secondly, that the existing short-term debt both in London and India should be substantially reduced. Thirdly, that adequate reserves should have been accumulated. Fourthly, that India's normal export surplus should have been restored.

I will not waste the time of the House with a large mass of detail, but it is necessary to make sure that the foundation is sound before we raise any superstructure over it. First, as regards the budgetary position. I admit that so far as the present position is concerned, the Central Government is not faced with much difficulty. But can this be said of all the provinces? In his statement before the Joint Parliamentary Committee on the financial implications of provincial autonomy and federation, Sir Malcolm Hailey in dealing with the 1933-34 provincial budgets arrived at the following results: Madras, the United Provinces, the Punjab, Burma and the North-West Frontier Province have in all a surplus of Rs. ·85 crores, whereas Bombay, Bengal, Bihar and Orissa, the Central Provinces and Assam have all together a deficit of Rs. 3·02 crores; or taking all the provincial budgets together, there is a deficit of Rs. 2·17 crores. In the budget of the Central Government, there is for the year 1933-34 a small surplus of ·25 crores. When you combine the central and provincial budgets, you get a net deficit of 1·92 crores. When you take into account the proposals of the White Paper for the future allocation of revenues and the additional expenditure due to the reforms now under consideration, Sir Malcolm Hailey's estimate is that an additional sum of between 6 and 8 crores would be required. Can we then say that the budgetary position is assured? I venture to think not.

I have no desire to overstate the case and I will therefore freely admit that so far as the reduction of the short-term debt and the accumulation of adequate reserves are concerned, the Government is in a much better position today than it was say two years ago. As regards the fourth condition, namely, the restoration of the normal export surplus of India, I cannot see any cause for satisfaction. The export surplus has been steadily dwindling as the figures I am giving will show:

Year.	Export surplus of India.
1928-29	86 Crores 47 Lakhs.
1929-30	78 Crores 98 Lakhs.
1930-31	62 Crores 5 Lakhs.
1931-32	34 Crores 83 Lakhs.
1932-33	3 Crores 38 Lakhs.

The above figures were taken from the *Review of the Trade of India* for the year 1932-33, page 234. I will not labour this point further as I shall deal with it again, but I do want to ask the House whether they think this is a state of things in which a Reserve Bank can be successfully launched. Were we free to examine the question on its merits I should not have any doubt as regards the verdict of the House. But we are not free to do so, as the establishment of a Reserve Bank has been proclaimed as a pre-requisite to the inauguration of responsible government at the centre. Were we to oppose it, we should be regarded as opposing the new scheme of constitutional reform. That I am bound to say is a wrong position for any Member of the House to be placed in. What we want is a good Reserve Bank and a no less good measure of constitutional reform. But I fear we are going to be saddled with an undesirable Reserve Bank in order to save a constitutional scheme in the framing of which this House has no voice.

I will not deal at this stage with the technical clauses of the Bill, but only with general principles. To me it is far more important to know what kind of men will work the scheme than to know whether the scheme on its technical side is the last word in central banking wisdom. And here I must express my disappointment that the Bill before us contains not a single feature to which Indian opinion attaches great importance. A Shareholders' Bank is thrust upon us when we would have preferred a State Bank, or as a compromise the Stockholders' Bank to which Sir Basil Blackett had agreed. There is also no provision that the State might purchase the shares after a certain period, if it considers necessary in the public interests to do so.

It is said that the scheme has been so framed as to ensure that the majority of shareholders will be Indians. I welcome this assurance so far as it goes but to my mind it is not enough. What we want is that the Bank—which really means its Board of Directors—should have a national outlook and should be so constituted as to regard the interests of India as supreme over every other interest. I am very doubtful that the scheme before the House answers this test. The Governor General in Council will have a predominating voice in the appointment of Directors for some time to come and particularly in the selection of the Governor and the Deputy Governors, which would be the key appointments of the Bank. I might quote here the instance of the Imperial Bank. It is said that at least 65 per cent. of the shares of this Bank are held by Indians. Can it be said that the Imperial Bank is national in its outlook? Do the shareholders control the policy of the Bank? Do the Directors, who are also, it is said, largely Indian, control the policy of the Bank in the interests of Indian banking, commerce, industry and agriculture? What I fear is that the new Reserve Bank would become a glorified Imperial Bank and that the difficulties which Indian interests are now labouring under will remain as great as ever. In this connection, I also wish to state that we would have accepted the measure before us if we felt satisfied that by agreeing to it we would obtain control over the policy regarding currency and exchange. But that is by no means assured. The Bill vests large powers in the Governor General in Council. I have no quarrel with these, so long as the present constitution lasts. But when responsibility for finance is transferred to the central legislature of the future, it is only reasonable to expect that the powers now vested in the Governor General in Council should be invariably exercised by the Governor General acting with Ministers. On this point I should like to have some assurance from the Honourable

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the Leader of the House. If you have an adaptation clause in the Constitution Act, as I gather is the intention of the authorities, and confer the powers, or at any rate the really vital ones, now vested in the Governor General in Council in the Governor General alone, you will have deprived the scheme of its only chance of proving satisfactory to national sentiment.

I should also like to know what would be the total loss to Central and Provincial Government finances from the creation of a Reserve Bank. I see this has been differently estimated by different persons. Sir Malcolm Hailey in his Memorandum to which I referred a short while ago put down the loss of currency receipts at rupees one crore. The Secretary of State for India in his statement before the Parliamentary Committee said that the loss would be Rs. 1½ crores. I understand that the Honourable the Finance Member in another place gave the figure for the maximum loss as Rs. 30 lakhs. I should like to know which figure is now the officially accepted one. Personally, I see no reason why even Rs. 30 lakhs annually should be sacrificed in present conditions of financial stringency, but perhaps that is the price which India must pay for the satisfaction of the British investor, the British trader and the City of London. In arriving at this figure, whatever it be, I presume due account has been taken of the appreciation of our gold reserves—I mean in bullion, not in securities—which so far as I know stand in the books of the Currency Department on the old valuation. If we must have a Reserve Bank now, I should prefer to see in the Bill a provision on the lines of section 6 of the English Currency and Bank Notes Act of 1928, under which the Issue Department would be run entirely on behalf of the Government of India and would pay to that Government the *entire* profits of the note issue, from the very beginning of the inauguration of the Bank. There is no reason why the shareholders of the Bank should derive any part of their dividends from the public funds now vested in the Governor General in Council.

I see that it is proposed to exclude Members of the Central and Provincial Legislatures of British India—but not, I take it, Members of Legislative Assemblies of Indian States, where such bodies exist—from membership of local boards as also of the Central Board. I see no justification for such an exclusion, which, I understand, is defended on the analogy of Austrian, Bulgarian, Esthonian, Roumanian, South African and Swiss statutes relating to Central Banks in those countries. In this respect, England is not regarded as a good example for us, though we try to adopt it as a model on the constitutional side. It would not require much research if the statutes of all Central Banks in existence were pressed into service and every possible restriction that was to be found anywhere adopted to suit Indian requirements. It is highly derogatory to our self-respect to consent to any such provision, which would amount to saying that we cannot put aside political considerations while discussing the affairs of a bank as members of its Board of Directors. At any rate the Members of the Provincial Legislatures are not in that position, as the Reserve Bank would be a central subject. I should like to know whether the exemption in favour of Members of the Legislatures of Indian States is based on the ground that affairs relating to the Reserve Bank could never be discussed in those Assemblies. I see that the exemption does not extend to salaried officials of States. In this respect salaried officials in States and British India are treated alike. There must be some peculiar taint with which the Members of the Legislatures in British India are afflicted and from which the Members of the Legislatures in Indian States are free.

The provision regarding compulsory deposits of scheduled banks is, I think, one which will prejudicially affect the financial position of the smaller Indian banks, who will have to apply for membership just to carry prestige with their clients and the general public. I should have preferred the deletion of all compulsion and left it to adjustment by convention. But if we must have deposits on a compulsory basis, I trust the figures that will eventually be adopted will be lower than those we have in the Bill before us.

The provisions dealing with monetary policy and exchange are to my mind most unsatisfactory. Under the scheme we may not be able to review the currency and exchange policy of the Government for several years. For whenever any such question is brought up, Government would be able to say that the Reserve Bank has not yet reported, as required under section 55 (2) of the Bill, as in their opinion the international monetary position has not become sufficiently clear and stable to enable Government to take up the question. This would make things even worse than at present. We hold that the present high rupee ratio is responsible for the depression in the export trade of the country and we consider that the creation of a Reserve Bank is not half as important today as the bringing about of a very substantial rise in commodity prices. That rise will never take place as long as exchange is maintained at its present unduly high figure. I have referred in the earlier part of my speech to the dwindling of the trade balance of India in recent years. This is chiefly due to the steady diminution in the annual exports since 1928-29. For the year 1928-29 the exports of Indian merchandise were valued at Rs. 330 crores. For the year 1932-33, they were valued at Rs. 132 crores; or reduced to 40 per cent. in four years. The total value of agricultural production in 1928-29, according to figures given in the *Review of the Trade of India* for the year 1932-33, was Rs. 1,018 crores. In 1931-32, it was only Rs. 536 crores, or reduced by 47·3 per cent. As prices have fallen since 1931-32, the drop in value of agricultural produce today would be much greater. What relief can we bring to the agriculturists who have suffered such a tremendous loss of purchasing power, when we perpetuate the very measure which has been mainly responsible in bringing about such a serious deterioration in their financial position? Even though mine be a cry in the wilderness I must register my protest against the perpetuation of what the commercial, industrial and agricultural community in India regards as a grievous wrong to the interests of the country.

THE HONOURABLE MR. MAHMOOD SUHRAWARDY (West Bengal: Muhammadan): Sir, I rise to support the Bill which, I feel, lays the foundation stone of a sound economic structure for our country. It is a fact that India is the only civilised country where paper currency is still issued by Government, and where there is no central control of credit, nor any co-ordination of currency and credit at all. I would not like to waste the valuable time of the House by further dwelling on this aspect of the Bill, and therefore I confine my remarks to the expression of hope that the Reserve Bank, when working, will prove in a short time to be-

[Mr. Mahmood Suhrawardy.]

as beneficial as it is expected to be. Another angle from which I would like to throw some light on the future working of the Bank is a point on which I can pronounce an opinion based on personal experience, *i.e.*, the importance of agricultural credit.

Sir, I come from a pre-eminently agricultural province and I can therefore express the feelings of agricultural classes in respect of this Bill. It came as a great relief to them that substantial changes have been made in the original Bill. I refer to the introduction of nine months' agricultural bills, to the abolition of a fixed percentage as regards the proportion of agricultural bills *versus* commercial bills, and lastly to the clause about the establishment of an agricultural department of the Reserve Bank. The Bill, as it stands, will be in a position to help agriculturists. A word of warning seems, however, to be necessary. Agricultural credit can, as a matter of course, only be distributed with the help of a strong co-operative system to such ryots whose financial position is sound. This principle necessitates strengthening of co-operative organisations and also the creation of land mortgage banks. As long as the *mahajan* is not made to abandon his usurious practices and the long-term loans are not given on a reasonably low rate of interest, the working of the Reserve Bank in the field of agricultural credit will be greatly hampered. I am glad to see that the Central as well as the Provincial Governments are trying their best in both directions, but I honestly feel that a good deal more is needed in order to pave the way for an even less hampered flow of Reserve Bank credit in the direction of the villages.

And lastly, Sir, a few words about the management of the Reserve Bank. The Bill, as it stands, will provide the first Governor with a great opportunity to work the Bank in the best possible way and my request now, Sir, to the Honourable Mr. Taylor opposite and to our Government is to provide the Bank with the best possible Governor. It will not be a simple task to organize and work the Bank; there will be practically nothing to guide the first Governor. Only a man with broad vision, with wide experience and strong personality will be able to do justice to the Bank and to our country.

With these words, Sir, I support the Bill on behalf of my Party in this Council.

THE HONOURABLE SIR KURMA VENKATA REDDI (Madras: Nominated Non-Official): Sir, I also rise to support the motion for the consideration of the Bill. A doubt has been expressed, Sir, whether the present is the time when a Bill of the present magnitude should be introduced and this Reserve Bank inaugurated in our country. I have thought that this Bill is a long overdue one. Ever since the Report of the Hilton-Young Committee we hoped that a Bill of this kind would have been passed and that the Reserve Bank would have been an established fact in this land of ours. Two Bills introduced in 1927 and 1928 were torpedoed and the matter was considered in the Round Table Conferences to which almost every one who is anybody in this country and all political leaders of parties were invited and it was agreed there that a Reserve Bank should be established in our country. In the World Economic Conference emphasis was laid that if there should be anything like a real and genuine attempt to see that this depression passes over this world of ours one essential was the establishment of Reserve Banks in almost every country in the world entitled to any claim for civilisation.

Sir, the reason given why this Bill should not be passed is that our trade balance has come down from Rs. 70 or 80 crores to Rs. 3 crores in recent years. Unfortunately it is true, no doubt. But if our trade has suffered and if our trade balance has been brought down to the bottom, it is not because of our monetary system but because of the world-wide depression under which every country in the world has been suffering. Sir, if I may say so, on the other hand the present system, or shall I say want of monetary system, in our country is in a way responsible for at least a portion of the present state of trade conditions in our country. What have we got? Here we have credit and currency divorced. Currency in the hands of the Government; credit in the hands of the Imperial Bank. Look at the rate of interest charged to the villagers. Would it surprise Honourable Members to know that as much as 15 per cent. is being charged by co-operative societies when money is lent to the people?

THE HONOURABLE RAI BAHADUR LALA RAM SARAM DAS: Why?

THE HONOURABLE SIR KURMA VENKATA REDDI: Why? Because there is no proper guiding authority. That relation between currency and credit is not available in this land and the Bill is mainly intended for that purpose because I believe the main function of a Reserve Bank is to correlate currency and credit. We have not got the same facilities for credit as other countries have and this Bill, which creates the Reserve Bank, otherwise called a Bankers' Bank, this Bill will furnish ways and means by which credit facilities at low rates of interest may be afforded to this country. I should therefore think, Sir, that this Bill has long been delayed and that this is the time when this Bill should be passed.

There is yet another reason, Sir, and that is the great changes which this country is going to see very soon in its constitutional affairs. I am not one of those, Sir, who believe that we are getting everything by this White Paper. On the other hand, I am not one of those who believe that we are not making any advance on our present position. As one who has worked the dyarchic system I can assure the Honourable Members of this House that the reforms we are going to get, however unsatisfactory in many respects, will be a very great advance indeed over the existing state of affairs. And when India is seeking to find a place in the comity of nations, when we want to have our own place in the scale of nations, I should think, Sir, that, more than the constitutional reforms, the financial reforms will be a great step indeed and a necessary step too. Sir, India cannot view these things purely from constitutional and political points of view. I should think we ought to look at it from a different point of view altogether. Sir, India is now connected with every part of the world. I suppose, Sir, there is no country in the world which does not send something to India, or which does not purchase something from India. Distances have been annihilated by modern convenience of communication and we have relations with almost every country in the world and if in fact we want to become part of the monetary system of the world, a Bill like this is not only necessary but without it we will never be able to take our place in the monetary systems of the world.

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Sir, I think I had better proceed to deal at this stage with some of the arguments that have been raised both in this House and elsewhere. We have been told that we should have not a Shareholders' Bank but a State Bank. Sir, I thought that that question was practically settled so far as this House is concerned when I found the list of amendments sent to me did not contain any amendment on that proposition. I believe I am correct in saying that no amendments will be coming before this House with reference to this question.

THE HONOURABLE THE PRESIDENT: There is one.

THE HONOURABLE SIR KURMA VENKATA REDDI: I am sorry I did not think there was. If so, when the amendment comes before the House there will be time enough to meet it. But what I would say at this stage is this. This belief that the Legislatures of the country are being deprived of opportunities of criticising, advising and asking questions is, I think, based upon a superficial conception of the frame of the Bill. Sir, this question of political influence has been trotted out too much both in this House and elsewhere and we are told both from the Government benches and from the Opposition benches, one side claiming that there should be no political influence and the other side claiming that political influence is absolutely necessary for the purpose of seeing that the Bank works in a proper manner. But to my mind, Sir, this expression "political influence" conveys no meaning. You cannot get on without political influence either in this country or in any other country. You have got several provisions in this Bill which speak of the Governor General in Council and the Governor General in Council cannot altogether preclude himself from political influence. On the other hand, Honourable Members when they say that they are being deprived of their powers as Members of this House are greatly mistaken because it is impossible for an organization like this to be altogether free from political influence. Take, for instance, the case of elections to the Board. When it comes to elections you are bound to see that they are carried out on purely political or party lines. You may say that political influence will be excluded because Members will not compete or ask questions in the Legislative Councils. But, Sir, even in matters connected with temple committee elections, in my province at any rate, you find political influence is brought to bear and elections are conducted on purely party lines. So there is absolutely no fear on that ground. Both the Government on the one side and the Opposition on the other are thinking of matters which are not of very great consequence there.

Now, Sir. I shall not fully refer to the question of the ratio and I do not know whether there is any amendment on that subject. Whether there is or not, I would only submit this, that this question of ratio again is ridden hard and much undue importance is attached to the question of the present depression and low level of prices. With great respect, Sir,—I no doubt believe that all those who have been speaking are speaking sincerely and honestly with the firm conviction that a fall in the rupee might benefit us,—but what seems to me singular is that those very persons who want this fall in the ratio opposed it when the rupee was linked to sterling. The sterling was falling and when the rupee was linked to it, the rupee too fell. It has in fact fallen in terms of foreign currency and yet we find the opposition is still there. Further, Sir, we were told the prices would rise in case this ratio is reduced. My submission is that there again we are placing too much importance on that matter. No doubt, Sir, that expediency of lowering the value of the currency has been followed in some countries and a temporary rise in prices has been witnessed and instances have been given by the Honourable the Leader of the Opposition in which prices did fall or rise according to the rise or fall in the ratio. But, Sir, if it is true that in 1928-29 and 1931-32 prices had fallen because the rupee had been placed at a certain value, it is also true that the reverse had happened. May I invite the attention of the House to what happened in 1923-24 and 1924-25? When the rupee was steadily rising in relation to sterling our exports increased and the prices rose. In other words, I should say that there has been this rule of the relation between ratio and prices has not been an invariable one, but there have been different consequences following under similar circumstances. Sir, this fall in prices, this depression, is not the result of the monetary system, though the monetary system plays a very very small part indeed in those matters. The World War, the War reparations, the War debts, the improvement in the machinery and the technique which has resulted in over-production and unemployment to a certain extent, the methods of investment, the trade barriers, all these have contributed to the present unfortunate condition in the matter of depression. I believe that the proposition that ratio alone would save us is not certainly consistent with what is happening in the world.

I shall next proceed, with your permission, Sir, to point out a few

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provisions in the Bill which may be considered to be an improvement over the original Bills of 1927 and 1928 and over the Bill as it was introduced in the Assembly. Many of these have been pointed out by the Honourable the mover of this motion, but I would like to invite the attention of the House to a few more provisions. In clause 17 there are facilities provided for the development of the bill market. Sir, unfortunately in this country there is no bill market at present, and if there is no bill market, it is impossible for any Bank or for the Government to control the rate of interest. No doubt, in the Act of 1923—I believe it is Act X of 1923—in section 20, provision was made for the receipt of about Rs. 12 crores by the Imperial Bank of India with a view to facilitate the discounting of these agricultural bills. Unfortunately, that provision has become a dead letter. I do hope that in the provisions that are now being made where a great latitude is being given, this bill market will be forthcoming and will develop in our land with the result that the Bank will be able to control the rate of interest in this land.

Secondly, Sir, in clause 17 (2) (*a*) a recommendation of the Banking Committee on the rupee import bill has been accepted. Also, in pursuance of the recommendations of the Central Banking Enquiry Committee in clause 17 (2)(*b*), agricultural bills are given nine months' time. In one place that Banking Committee Report recommended six months' time, but later on they came to the conclusion that it ought to be nine months, and I am exceedingly glad that nine months' time is being allowed to these agricultural bills.

Again, in clause 17 (*11*) the Bank is empowered to act as Agent to the Indian States. In clause 17 (*8*), the purchase and sale of Government guaranteed securities is allowed and this power is extended to securities

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guaranteed by Local Governments and Boards. That, Sir, is a very great improvement and I am perfectly certain that Local Governments would be very glad indeed.

Then, Sir, in clause 42 (6), the only thing that has been excluded from these scheduled banks—I will have occasion to speak on that at a later stage, but I do feel that unfortunately the indigenous banking system has not been brought into line with these scheduled banks.

Then, Sir, we have got two provisions referred to by the Honourable mover, namely, those referring to the Co-operative Societies and to the Agricultural Branch. On that, Sir, I should like to dwell a little with your permission. Sir, in the beginning, only one bank, the Provincial Co-operative Bank, was allowed to be included but now fortunately not only the Provincial Bank, but also the Provincial Co-operative Land Mortgage Banks are allowed to be included. Not only that, the Local Governments have been authorised to recommend even banks in the districts to be included, and that is a great improvement indeed over the previous provisions. Sir, it is important in this way, and that is connected with the next question of the Agricultural Branch. Sir, I must confess that I am not very much impressed with the form in which clause 54 has been framed. Clause 54 runs thus:

"The Bank shall create a special Agricultural Credit Department the functions of which shall be ·

(a) to maintain an expert staff, etc.,

(b) to co-ordinate the operations of the Bank in connection with agricultural credit and its relations with provincial co-operative banks, etc.".

The first is quite all right. But the second, *viz.*, "to co-ordinate the operations of the Bank", is rather of doubtful utility. It may mean anything, it may mean nothing. Sir, the great need of the country today is not the help that the Government and the Bank could give to trade and commerce but the help that could be rendered to the agriculturist in this country. Sir, with the phenomenal fall in prices, it is impossible to describe the condition of the agriculturist in the villages. Men who were able to spend large sums of money on a marriage and on a death occasion are today hiding themselves in their homes unable to come out and look at the faces of others in their present condition. Women who were dazzling in their gold jewels do not appear before you in the villages because all the gold has disappeared. Men do not come out because those that have been wearing Dacca muslins are now in torn clothes. Sir, the debt of these people is estimated to be something like Rs. 900 crores. With the debt pressing on the one hand and with prices so low down, they feel it impossible to pay the Government *kists* and to maintain their families. I hope I will not be considered to be an alarmist, but I tell you one thing, and I hope Government will give some consideration to what I am saying today. It is this. This country, I thought, was never capable of being subject to anything like communistic ideas. The greatest guarantee for that was that every man in the village has an acre or two. Our holdings are all very small. 90 per cent. of the holdings in the Madras Presidency are Rs. 10 holdings, which means one acre of land in the delta area and 10 acres of land in the dry area. That is the only means of living of an agriculturist for himself and for his family and children. Now, if the impression gets abroad, if the ryot feels that the only chance of his maintaining himself is to be taken away from him, because the land will be no longer useful to him with this heavy taxation and the low prices,—if he feels that he is in a position to give up the land, then, Sir, the fate of India is sealed. That is the strongest hold that you have got on the nation of this country. Not that you cannot retain this land. You can always retain the land because you are a powerful nation. But if you want to retain this land under the great principle known to the comity of nations, namely, that you govern the people with their consent and contentment, then the only way to retain this land in happiness would be to see that you help the agriculturists in such a way that they no longer feel themselves burdened with a heavy debt. If the debt is allowed to remain, the people are finished. Sir, the Bank can help. In the Agricultural Department of the Bank, you have left it in an experimental stage. You say that you will appoint a staff to give advice and that there will be co-ordination of the operations of the Banks. Well and good. But, I beg to submit that though such advice is essential, is necessary and is important, it is not enough. Something more is essential. Government must come to the rescue and tell this Bank to organise itself in such a way that it sets apart, say, Rs. 200 crores or Rs. 300 crores to purchase the mortgage debts. I am not saying anything about the other debts. If you purchase at least the mortgage debts and if you release these Rs. 200 crores, that will at once raise prices, because the Rs. 200 crores is not required for current purposes, cheap money would be available and prices are bound to rise as these people, the creditors, will no longer be able to loan those Rs. 200 crores at 15 and 18 per cent. (*An Honourable Member*: "Under the present Bill it cannot be done".) But it can be done if the Bank stands guarantee. There were two Bills passed in England in 1929 and 1930 known as the Securities Management and Trusts Act, 1929, and the Bankers Industrial Development Companies Act, 1930. Those are for industries, and there is nothing to prevent this Bill conferring power on the Reserve Bank to give these Rs. 200 crores to the Agricultural Banks and the Government or these Agricultural Banks themselves issuing debentures on the guarantee of the Reserve Bank. If that is done the nation will be saved with a resultant gain in trade and industry through the increased prosperity of the people. Perhaps I have said more than I intended on this question but I may say to Honourable Members and the Treasury benches that I myself come from that class. I am an agriculturist though I happen personally to be a lawyer. There are four million people of my caste, all of them closely or distantly related to me. They are toiling day after day in the fields without regard for sun or rain; and for what? To sell their paddy at Rs. 2-8-0 a bag and to pay Rs. 10 an acre to the Government. They are unable to pay even a fraction of the interest which is due to their creditors. How can you expect the nation to rise out of this slough of wretchedness and debt? All these Bills are very good indeed, but the bulk of the population of this country is agricultural—according to the last census 71 per cent., though it was 73 per cent. at the previous census. What are these people to do if they are not saved? There are no industries to which they can turn as they can in Europe where they can flock to cities and industrial centres. If he does not cultivate his land and discharge at least a portion of his debt and so continue to live, he has no other way of living at all. He must either live by his land or starve to death. The Bank can help him and in this way. There are, in my province at any rate, what are

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known as Agricultural Mortgage Banks, Co-operative Mortgage Banks. We have an apex Bank in Madras with some 50 to 60 branches in the various districts of the presidency Now if that Bank issues debentures nobody will purchase them unless they are guaranteed by the Government of India or the Local Government or by this Reserve Bank. My submission is that the Reserve Bank can do that, and provision should be made for it in this Bill. If there is anything to prevent that being done, I would ask the Government to come to our rescue to make provision in this Bill enabling the Bank to stand as guarantor.

THE HONOURABLE MR. BIJAY KUMAR BASU: Will you consider sub-clause (8) of clause 17? There is no mention of debentures there.

THE HONOURABLE SIR KURMA VENKATA REDDI: Yes, I suppose you will consider debentures are a kind of security.

THE HONOURABLE MR. BIJAY KUMAR BASU: Not of the Government of India or of a Local Government.

THE HONOURABLE SIR KURMA VENKATA REDDI: Well, Sir, I have not been able to follow the particular point. I have one other point to which I would invite attention and it is a point on which the Government of my province is very keen. You will find, Sir, that the Local Governments are asked to use this Bank as their Agent if they want to float a loan. They are bound to issue the loan through the Bank; there is a provision to that effect in this Bill. For this reason the Madras Government feel that there ought to be some provision for having a representative of their own, at least on the Local Board. I think that when certain obligations are placed upon a Local Government it is only right that they should be allowed some representation. Under the new constitution the provinces will become autonomous. Up to now the consent of the Government of India has been necessary for obtaining loans. I do not know if that consent would still be necessary when provinces become autonomous. Whatever the position, I think that proposal of the Government of Madras is a reasonable one and I trust that some provision will be made to ensure that of the three members to be nominated by the Central Board to the Local Boards one at least is a representative of the Local Governments.

Sir, I have only one word more to say. I have great faith in this Bill. I do not mean to say that it is going to usher in a new heaven and a new earth, but it does provide a machinery which if properly worked is bound to take us far indeed towards our aim and goal, namely, the placing of India in a position of equality with the other nations of the world in commerce and in trade and industry. Sir, objections have been raised and the the Bill has been examined very largely from the political point of view and many of the objections made in another place were based entirely on political grounds, and it did not appear to me that they viewed this measure from the point of view of its actual working. Sir, there are provisions in this Bill which enables Directors to call for a meeting of the Central Board; three Directors can call for such a meeting. There is another provision which enables them to call for a General Meeting over and above the Annual General Meeting, and if the Governor should in any way adopt a policy which is not consistent with the national interest it is open to them to call that into question and a vote of the general body will always have its value. Then, Sir, the Governor General, whose powers are apprehended so much, has not got the power of removing a member of the Central Board unless backed up by a resolution of a majority of nine members of the Central Board. Now, if only there is unity amongst the elected members, and there are eight of them, they must form a majority. If those eight elected members work together I am perfectly certain that a policy in the best interests of the country could be laid down and successfully carried out. I believe the day is not far off when India and this City of Delhi—I am sorry they have not made Delhi the headquarters of this Bank—will once again acquire the position which it once occupied in India of the central monetary authority at least of this Continent.

THE HONOURABLE MR. JAGADISH CHANDRA BANERJEE (East Bengal: Non-Muhammadan): Sir, I should like to make a few observations on this Bill before its clauses come up for consideration. At the outset I may say that the Bill as it has emerged from the Select Committee and the other House is a good deal improved than the one originally introduced in the other House. But it still falls far short of the expectations of the country. I may go a step further and say that it falls far short even of the Bill brought before the Legislature by the Honourable Sir Basil Blackett a few years ago. Of course, it is no use crying over spilt milk. The then Finance Member really desired to meet the wishes of the then Legislature and of the country as well. But the Swaraj Party intoxicated with its command over the majority in the other House demanded certain amendments as a result of which the country had to go without a Reserve Bank for all these years. Really speaking the country's loss is more than that. India now is under compulsion to swallow a measure which, as I said before, is far more retrograde than the previous one. When I say retrograde, I mean actually that the present one is a retrograde measure in comparison to the previous one. In the present measure at every corner of the Bill we find the stepping in of the Governor General in Council. Sir, in the very first speech of the Honourable the Finance Member we heard that the intention of the Government is to make the Bill free from political influence. I for one join issue with them and I say that I would also like to see the Bank free from all political influences. But the real difficulty comes in when we find that Government in their eagerness to satisfy the City of London implies by the term political influence, the influence of the Indians whether of the Congress group, the Moderate group or for that matter any other group in this country who may hereafter form the Indian Cabinet, if and when the proposed constitutional reforms gives the Legislature the chance of forming a ministry. In order only to avoid that political influence Government, in this Bill, have introduced the definition of the Governor General in Council to mean Governor General at his discretion. This Governor General at his discretion really opens the door to all sorts of influence of political parties in England through the Secretary of State. The Governor General under the new constitution will be nothing but a puppet in the hands of the Secretary of State and the British Cabinet which consists of nothing but the leaders of the political party in power in the House of Commons.

Sir, as I said before, I have no objection to see the establishment of a Reserve Bank really free from political influences, be it from the Indian side or from the British side. On the contrary, as I mentioned

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before, the Bill paves the way for the political influence of the stronger side, *i.e.*, the British Parliament, and refusing the same privilege to the Indian Parliament, the weaker of the two. I think, nay, I believe, that this sort of high-handed measures are responsible for keeping before the eyes of India that she is a subject country and that she must swallow what her masters desire. In my opinion it is the forcing of such measures down the throat of India which are chiefly responsible for the estrangement of feelings between the two countries and to my mind such things will only widen the gulf between the two countries.

Then, Sir, in coming to the question of a State *versus* Shareholders' Bank, I do not like to go into the merits and demerits of the principle of the two. There must be advantages in the State Bank as well, otherwise there would not have been State Banks in so many of the advanced countries of the world. Even coming nearer home at the present day, even in England there is a section of British economists who desire a change of the London Reserve Bank into a State Bank. Further the assimilation of the system of a State Bank or a Shareholders' Bank depends on the conditions and the constitution which are prevalent in a country. At the present moment India faced with constitutional changes would very much like to have a State Bank as the future Indian Minister, who would be responsible for the finances of the country, must naturally desire to have a controlling voice over the Bank's currency and exchange policy, on which will depend the success or failure of his financial administration. Taking the case of the London Bank, he will be a very bold man who would declare that that Bank is free from the interference by the Cabinet or the Chancellor of the Exchequer in times of emergency.

Then I come to the question of the Shareholders' Bank as proposed in the Bill. Sir, the value of the shares have been lowered from Rs. 500 to Rs. 100. The main underlying idea in bringing down the value of shares was that the ordinary men of the masses may also invest in this Bank and the Bank will not fall into the hands of capitalistic groups or any other particular group. But the purpose has been defeated by making it permissible for any shareholder to accumulate any number of shares in his hands after the first allotment. As far as I could gather from the perusal of the debates of the other House on this Bill, I find that Government insisted that individuals must be permitted to purchase any number of shares as otherwise it will interfere with the free marketing of shares which according to the Government view is most undesirable.

THE HONOURABLE SIR HOMI MEHTA: Why?

THE HONOURABLE MR. JAGADISH CHANDRA BANERJEE: I am just coming to that point. I admit, Sir, that in an ordinary shareholders' company this principle is necessary. But may I ask Government whether they are treating this Bank like the other ordinary shareholders' company? Are they giving the shareholders of this Bank all the other powers which the shareholders of ordinary Joint Stock Companies enjoy? I ask them whether they are prepared to give to the shareholders of this Bank the same right to appoint or remove the Board of Directors or the executives as are enjoyed by the Joint Stock Companies. Sir, if you go through the whole length of the Bill you will never come across any clause which gives the shareholders of this Bank the power of removal of the Board of Directors or the executives of the Bank if they decide on such a course at a general meeting. That being the case, why only in one respect, that is, in respect of free marketing of the shares of the Bank, bring an analogy with the free marketing of shares of other Joint Stock Companies. Special diseases require special remedies. Special administrations require special measures to deal with them. This is a special measure dealing with a Bank, on the good or bad administration of which will depend the whole financial credit of the country and the whole financial fabric of the country. Certainly, therefore, it deserves special treatment. It is no use bringing the question of the free marketing of shares in this case. I make bold to say that in the name of the free marketing of shares Government has kept the door wide open for financial groups, either in India or outside, to purchase the largest number of shares even, if necessary, at a premium, for the purposes of sterilising a large number of votes and keeping down the number of voters to a minimum so that a few capitalist combines may run the Bank to their advantage. When I say the sterilisation of votes probably I have not been able to make myself clear. I may state here that the Bill has provided for two categories of shareholders. One is that group of shareholders who will purchase less than five shares and who will not be voters. The other group will be those shareholders having five shares and over and who will be voters. Now the first question that crops up is whether people from amongst the masses would come forward to purchase 100-rupee shares knowing fully well that they cannot get a dividend of more than 6 per cent. at the most and knowing fully well that they will have no voting rights. Everywhere people are demanding adult franchise and I do not see any reason why every shareholder should not have a vote. If we give every shareholder a right to vote irrespective of the number of shares he holds, then I think the purpose of making the Bank a Shareholders' Bank free from political influence would have been achieved. But on the contrary what happens is this. Take it for granted that 50 per cent. of the shares are owned by shareholders possessing less than five shares each and therefore they are all non-voters. By this means we sterilise a large number of votes which would otherwise have made such men voters. Then the rest of the 50 per cent. shares may be held by ten per cent. of the shareholders holding five shares each or it may be even possessed by five per cent. shareholders or even by one per cent. shareholders as there is no limit to the holding of shares by individual shareholders. Thus theoretically it is possible for a few to dominate the Bank. I admit that in the actual working that position may not arise. But why keep a door of evil prospect open in a legislation. Sir, legislative measures when enacted are always enacted in a very perfect manner leaving no door of evil prospects open. But, Sir, to our great surprise in the present piece of legislation the door is kept open intentionally for the evil prospect to come in and defeat the very object for which the Bank is made a Shareholders' Bank, namely, to make it free from political influences and other group influences.

At this stage I close my remarks and before I resume my seat I would request the Government even at this late hour to remove the defects in the measure as mentioned before.

THE HONOURABLE SARDAR BUTA SINGH (Punjab: Sikh): Sir, I rise to welcome this Bill which is going to give us a Reserve Bank. It would be useless now to enter into any detailed discussion as the matter has been thrashed out in the Legislative Assembly. The Reserve Bank does not give us all that we desire, but it is in any case a move, and a very big

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move, in making India its own arbiter in financial matters. I would have greatly preferred if the question of fixing the ratio were left to the Reserve Bank. I would have also welcomed the provision for the immediate taking up of the deep problem of giving facilities for agricultural credits. These matters, I must emphatically assert, have been unwisely left in a different stage to which I would have desired. I have, however, strong hopes that the logic of facts will enforce decisions in no remote future in the right direction and it is with this hope that I give my support to this Bill.

THE HONOURABLE MAHARAJA JAGADISH NATH RAY OF DINAJPUR (Bengal: Nominated Non-Official): Sir, I welcomed the Bill at our Simla sitting but I tried to make it clear that it was not so much the political reasons behind it that made me acclaim it as a blessing. We, whose interests are identical with the hard-pressed agriculturists in the countryside and whose destiny is linked up with theirs in a much greater degree than any executive action could fasten our precious rupee to the paper-sterling, looked up to it in high hopes in the prevailing economic crisis. Although our wishes were, for reasons of State, not fully acted up to by the Finance Department of the Government, their spirit of goodwill and accommodation, as evidenced in the numerous improvements in the original Bill, is doubtless commendable; and I for one congratulate the Honourable the Finance Member as well as my friend the Honourable Mr. Taylor on the success that they have achieved so far.

Whenever I rise to speak on such difficult problems, as involved in the present measure and the like, I do as a layman more to get a clear understanding of the issues than to criticise. Sir, I took some pains to note with care the different view-points that have been given expression to since the Bill was placed on the anvil, and I may frankly confess that the maze created is too intricate now to follow out in all its windings. I can however freely state in the first instance that it would have been easier for me to appreciate the Government point of view in the controversy relating to a State Bank *versus* Shareholders' Bank, if they had refrained from adducing the argument of "freedom from political influence". That charming expression led the Government into an unnecessary wrangle, and put them against a monotonous and bothersome volley of words from the Opposition. Sir, if you will have noticed, there has been of late a greater inclination in the country to look upon more favourably the hammer-strokes of a straightforward politician than the cleverly-worded phrases of a diplomat. I need not repeat that my personal leanings are towards a State Bank. I do not, of course, believe that the Governor General will always be anxious to put in an improper finger into the Bank's policy; but I cannot agree to the view that India cannot look after itself unless its monetary and banking conditions are made healthy under the guidance of the Bank of England. No one can deny that the business of a Reserve Bank is to all intents and purposes a public trust; and particularly when it will be in charge of Note Issue such a Bank cannot be a mere concern of the bankers, industrialists and merchants only. The poorest man in the field is as much affected by the purchasing power of the notes as the richest in the country. I may however say that the attitude of the Europeans, as disclosed in this connection, is quite admirable. They have openly declared that no single section among them is anxious to make a corner in the shares of the Bank or to get a preponderance on its Directorate.

The next important point that strikes me is the power and scope of the Bank to give credit facilities towards a rejuvenation of industry, trade, and agriculture. It was in 1890 that pointed attention was drawn by the First Industrial Conference to the paralysis of industry in rural India due to the poverty of resources of the classes engaged in the production of wealth. It has ever been a grievance with the Indian people that banking reform in India has not been directed to the making of the bankable capital available for development of Indian agriculture, industry, etc. Properly speaking, India has up to this time had no banking system. The whole structure of banking was really without its "crown". With three-fourths of the internal capital being in the hands of the Government of India, who are primarily the bankers to Railways and Local Governments, the banking agencies, which had the control of credit apart from the administration of currency, could not reasonably be expected to do much towards the solution of the greatest economic problem of the country. In setting up the "crown" we all have to remember that the stability of the monetary system so as to keep the prices at a level ensuring the economic prosperity of the Indian producer, and the credit policy of banks to make capital available to him are the two objects which concern the public of India more than anything else at this moment.

To encourage production and consumption and to help thereby in raising the standard of living of the Indian masses ought to be the chief duty of the Reserve Bank. The development of the co-operative movement in the right line will go a great way to quicken agricultural progress, and the Reserve Bank can never overlook or be tardy in recognising this all-important fact. The management of the Bank has therefore to find out ways of such development as a greater duty that it will owe to the country than even an highly efficient conduct of its day-to-day business. The Bankers' Industrial Development Company, as instituted by the Bank of England in 1930, is only a sign-post in that line. It is really distressing that there is no harmony amongst all sections of legislators even in the midst of a momentous crisis. But the wide interest that the proposal of the Reserve Bank evoked in the country is a sure sign of our greater economic consciousness, which somehow or other will let nothing but a Bank of the right type function very long. The Bill itself cannot of course lay down any cut and dried policy. But no one should blame or ridicule those who take care to scrutinise the provisions so that they may not act as a bar sinister to the development of a sound economic policy. No sane man will wish it to turn into an institution for costly economic experiments similar to some of our Provincial Government departments, such as that of agriculture, etc.; and we know it as a fact from the failure of the South African Reserve Bank that a Reserve Bank is not always secure against risks and dangers.

I feel I need not go into other points now, which can be discussed more appropriately during the consideration of the different clauses of the Bill.

THE HONOURABLE MR. HOSSAIN IMAM (Bihar and Orissa: Muhammadan): Mr. President, the Bill before us is of such momentous importance that we cannot really discuss it with the amount of care that it

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requires without going deeply into its merits and demerits. This Bill has met with a barrage of constitutional objections here and in the other place too. Some of them were condoned and some were brushed aside. It is rather unfortunate that a measure of such importance should be brought forward in such a hurry that proper consideration could not be given to the constitutional aspect. When this Bill was referred to a Joint Select Committee of the two Houses, I felt very much elated because I have been fighting that more Bills should be referred to Joint Select Committees than has been the case during the last seven years. (Hear, hear.) When the motion for Joint Select Committee was made by our Honourable colleague the Finance Secretary, I warned him that in forming the Committee he should see that the Committee was of sufficient importance and independence. But I am afraid, Sir, that the Finance Secretary did not take my warning, with the result that in the other place people had something derogatory to say about the way in which the Members of this House behaved in the Select Committee. I too found that whereas from the Assembly not a single nominated Member was sent to the Joint Select Committee, the Honourable the Finance Secretary sent three nominated Members from here, although we were glad to have one of those three nominated Members who proved a tower of strength to the Opposition. If all the other Members had been like him, we would have been rather glad to have them.

THE HONOURABLE SIR KURMA VENKATA REDDI: May I point out, Sir, that in the other place, one elected Member said that he did not believe in the lottery of the ballot box and that in support of the very system of State Bank, which is for them a guarantee against the elected Members?

THE HONOURABLE THE PRESIDENT: I think it will be better if this Council avoids frequent reference to the other House.

THE HONOURABLE MR. HOSSAIN IMAM: Very well, Sir. But I should like to point out that this Bill which has emerged from the Select Committee has emerged in a peculiar fashion. Out of 28 members who composed the Joint Select Committee, it could only find nine members to support it *in toto*. Nineteen members have written notes of dissent on one point or another, including our Honourable colleague the Finance Secretary and only nine clauses have emerged without any amendment. I am not going to deal with the first point except that I wish to point out that out of the nine members who supported it wholeheartedly, five were Members of the Assembly ——.

THE HONOURABLE THE PRESIDENT: Don't you think that it is no use now referring to those matters? It is rather too late.

THE HONOURABLE MR. HOSSAIN IMAM: I only wanted to point out how many elected Members supported it. If you do not wish it, it does not matter. Now, Sir, it is a well-known fact that the authority which controls the credit of a country is the authority which really sets the price of everything. By its operation it can either wipe out all the debts or it can double or treble the burden of debts. We have the example of

Germany which, after the war, with the phenomenal fall in the Mark, effected a very desirable and socialistic—I might even say communistic—measure of wiping out all the debts of the country by so reducing the value of the Mark that it became a difficult task to find out exactly whether a million Marks were worth a penny or more. It was the Deutsch Bank that did it. Our Reserve Bank too could have been utilised by us to reduce the burden of debt, to reduce the internal debts of the Government of India or do other socialistic things if it were not bound to maintain a certain exchange ratio in outside countries. It is that which is preventing it from doing any useful purpose. We are told that we are creating a Reserve Bank in order that they may manage the currency to the best advantage of the country, but we put a stop to its scope. The ordinary measure for increasing the price level is to inflate the currency. The moment they start inflating the currency, exchange will tumble down but they are under a statutory obligation to maintain the exchange. The moment they want to decrease the price in the country and start deflating the currency, exchange goes up, and they have got to put a stop to that. They are hampered on all sides. They have got no liberty of action. They have no initiative left in the management of the currency. It is all tall talk that the Government are giving us any scope to manage our currency. It may be that the Reserve Bank which is now being created will be independent of British influence, but it is very problematical. The provisions of the Act make it impossible for them to work the currency with any measure of independence. For this reason, Sir, we on this side of the House would have favoured a return to the position in which we were before 1927. It will be fresh in the memory of many Members of this House that the Currency Act of 1927 was not passed as a permanent measure. It was an interim measure pending the establishment of a gold standard Reserve Bank, and to say now that we must accept that as a substantive piece of legislation is not quite just on Indians. Ever since we came back to the gold standard after the Fowler Commission about three decades ago we have had no fixed exchange ratio. Up to 1926 the position was that the Government of India maintained the exchange at a certain figure by executive action. In 1920-21 when we fixed 2*s*. gold as the value of the rupee, we could not maintain that, and Government had to give it up in six months after squandering and wasting a lot of money. But that was not a sufficient lesson to the Government. They want again to embark on stabilization, and so far stabilization has been maintained not because the Government have been successful but because of the drain of gold which has poured out of India and a golden opportunity of acquiring foreign exchange in the shape of gold has been lost by the Government of India. We have always had to go to foreign countries, create foreign credits and then buy gold in foreign countries for import into India. This was done either through export surpluses or, as was done after the war, by the creation of foreign credits. But having acquired gold in the country we could have got it in exchange for rupees. That might have been said to be a speculation but it would have been a successful speculation if the Government had embarked on it. The price at which they could have bought in 1931 or even 1932 bears no relation to the price which gold commands nowadays when the dollar has fallen to 5·06 to the pound and the pound is valued at 78 francs. It would have been a successful speculation. We could have gained more money and in addition we would have avoided the stigma attaching to the Government that

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it does not care to retain wealth in our country. But, Sir, there was a great difficulty facing the Government. They could never have maintained the 1*s*. 6*d*. ratio. It was to maintain that ratio and only for that purpose that the free export of gold has been allowed. We have brought forward Resolutions asking the Government to put a revenue export duty on gold. Even the Federation of Chambers of Commerce in Calcutta last year asked the Finance Member to impose a revenue export duty on gold, but the Finance Department would not accept it because they knew that without this artificial prop the 1*s*. 6*d*. ratio would tumble to the ground the moment a stop was put to the free flow of gold. This Bill has been utilised by the Government not to keep the position as it was before the passage of this Act. They have been saying in so many words that they did not wish to change the position. But at the moment there is no point at which Government is compelled to buy sterling. Government is compelled according to the Act as in force now to sell sterling in place of gold at a rate at the moment prevailing, but there is no point at which Government would be compelled to purchase sterling. We are imposing a new law which does not exist, and still the Government says that they are not utilising this to alter our exchange position, and we are thought to be utilising this as an occasion to grind our own axe. But the first step has been taken by the Government in bringing forward a measure which has no statutory existence up to now. The Preamble of the Bill says that this measure is only an interim measure and it is not possible to determine what will be suitable as a permanent basis for the Indian monetary system. Well, does not the spirit of this preamble require that Government should have no cut and dried exchange provision and do it by executive action? Even when the Bank is created they could, by asking the Bank to create a credit in England for them, continue to manage the exchange as they have been managing it all these years, as they managed up to 1926. And, Sir, it would have been so easy for the Reserve Bank to go on without having any direct responsibility for the maintenance of this exchange. You are well aware, Sir, that in England the Bank of England is operating and maintaining the exchange on the strength of the Exchange Equalization Fund. We also know that the United States of America have but recently created an enormous exchange equalization fund to maintain the exchange. These two notable Reserve Banks of the world have not been able to maintain the exchange without the prop of an exchange equalisation fund of enormous magnitude. How can we expect this Bank of ours to maintain it? And it is here, Sir, that we have wanted to safeguard our gold and, as Sir Purshottamdas in his evidence said, we wish to sit upon it. It is for this reason that we are afraid that it will be impossible for the Reserve Bank, at the first breath of an adverse trade balance or the stoppage of gold export, to prevent the whole thing from tumbling down. We are afraid, as in 1920-21 when our outside resources were squandered, that in the same way all that the treasury has accumulated as foreign resources will be wasted and the inevitable will happen, the exchange will fall down. In this connection, Sir, knowing the attitude of the House and knowing the Opposition's absolute inability to make any amendments in the Bill in the face of Government opposition, I have not brought forward any amendment. It would have been a sheer waste of time on my part, a wasting of the time of the House and of my own time. Therefore, Sir, I should like with your indulgence to deal with a few important points on which I have written my note of dissent and which I wish to bring to the notice of this House. In this connection I should like to point out to the Honourable the Finance Secretary a lacuna which I find in the Bill. In section 33 we have laid down how we are to value our assets in the Issue Department. The valuation of the assets of the Issue Department are to be made according to certain given rules. Gold is to be valued at a certain rate per rupee. Rupee is to be valued at its face value. We do not find any valuation for sterling. How are you going to value your assets in sterling? We have got a lower and a higher point at which we are to sell and purchase sterling. But how are we to value the sterling which will be at the moment in the Reserve Bank? I do not find that in the Act itself. Perhaps the Honourable Member would like to make a suitable amendment to remove this defect. In the second place, Sir, I find in section 4 that the Central Board shall reserve and allot to Government shares to the nominal value of so much. But under the General Clauses Act, the word "Government" is defined as meaning the Government of India as well as the Provincial Government. Therefore a suitable amendment here too is requisite to make clear that by this clause we do not wish to allot to Provincial Governments but to the Central Government the shares dealt with in sub-clause (8) of clause 4. These are the two technical objections which I think the Finance Secretary will himself remedy.

Coming now to the other provisions of the Bill, we were, Sir, from the very beginning opposed to a Shareholders' Bank. We wish that it should be either a State Bank or a Stockholders' Bank. This point has been sufficiently discussed already and therefore I am not going to waste the time of the House. But I should like to point out that it seems a little anomalous that while Rs. 5 crores of the capital are going to be subscribed by shareholders and a present of Rs. 5 crores is going to be made by the Government of India for the creation of a Reserve Fund, the Government of India representation should be so small. As we are both contributing equal parts to the capital of the Bank, Rs. 5 crores each, it would have been in the fitness of things if the representation of the Government, or in other words, of other than the shareholders by which I mean agriculturists, co-operators and people of that kind, nominations had been more. Have it in the form of nominations or electoral colleges, whatever it might be; but non-shareholders should have been more substantially represented in the Board of Directors than has been done in the present Bill.

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The point about the location of the head office and branches has been sufficiently discussed and amendments are going to be moved. Therefore I need not deal with that point either.

Sir, the first serious objection which I have to this measure is in connection with clause 17. Power has been given to the Reserve Bank in this clause to borrow money inside the country. To me it seems a bit anomalous that with the enormous resources of the Reserve Bank in its Issue Department it should have to go to the open market and further deflate the credit by taking all the money from the market in the shape of loans. I am afraid, Sir, that this provision has been put in for the same old purpose of sustaining the 1*s*. 6*d*. ratio. Otherwise a creator of

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wealth does not require any loan operation in India. I think the Government have rightly given the Bank the power to take loans outside the country and the Bank would be perfectly justified in doing so. It will be called upon to finance Government expenditure in England and they may not be in a position to get exchange facilities and they would have therefore to get credit facilities outside. But the power to borrow money in India can be utilised for two purposes. One is to give the Imperial Bank a chance to make money which they cannot do in ordinary circumstances. Whenever the Imperial Bank have surplus money the Reserve Bank might take it on loan and pay interest on it; otherwise perhaps the Imperial Bank would not get interest. This is very unimportant. I do not think this is the main idea. The main idea seems to be to further deflate and thereby strengthen the exchange whenever it starts falling down. Therefore I take strong objection to sub-clause (*14*) of clause 17.

Now, Sir, as far as the other portions of the Bill are concerned, I have noted in my minute of dissent that we have accepted some of the provisions of this Bill as a mere matter of compromise although we did not agree and did not feel that it was the best measure that we could possibly have; but as there was a prospect of a compromise we accepted those provisions. I am referring to the provision relating to Rs. 40 crores of gold holding. When we asked that the entire gold holding of the Government of India should be transferred to the Reserve Bank the Government very kindly agreed and said that it was their intention always to do so; but when we wanted that the whole of it should be earmarked as a reserve which should not be touched except as a measure of last resort, Government could not agree; and as a compromise it was suggested that in the place of Rs. 35 crores which was in the former Bill it should be Rs. 40 crores. That decision meant that the Government too should have accepted this. I am very glad that in the other place the amendment of the Government was not carried. In my note, I have drawn attention to the fact that the Reserve Bank will be practically debarred from sustaining our credit in London because they are not authorised to keep in their Issue Department assets, internal or external, the Government of India sterling loan securities; and it is an admitted fact which has been thoroughly well found in practice that Reserve Banks concentrate on interchangeable securities. Even in the Central Banking Department they have a very small proportion of such asset which they held in the Issue Department, because the only advantage of joining the central banking and currency functions in one authority is to co-ordinate the two and this co-ordination could not work unless the securities of the Central Banking Department were such that at a moment of stringency they could be transferred to the Issue Department so that they could tide over the difficulty. Being a Bankers' Bank, they could not fall back upon others to support them; they will have to support others and therefore it is eminently desirable and necessary that their assets should be liquid and interchangeable. I tried my level best in the Committee to make this important amendment, but failed. It is up to the House now to see if they can accept it. They may accept it or they may not. But it seems necessary, I am sure that even the working of this Bill will show the Government itself that it is desirable that our credit should be sustained in England. It will be fresh in the memories of most of the Members of this House, and they can recall that when the Government floated a 3½ per cent. loan in the beginning of the summer of last year, within eight days they had to float a loan in sterling in England at 4 per cent.,—at a higher rate than they could get facilities in India,—with the result that the 3½ per cent. loan went down and it has not yet recovered to its old position.

THE HONOURABLE MR. BIJAY KUMAR BASU: What was the ruling rate in England then?

THE HONOURABLE MR. HOSSAIN IMAM: The ruling rate was 3½ per cent. for English loans. Now, Sir, I have already stated that I object to the inclusion of the exchange provision in the Bill. And I would like that we should have no provision of this nature and we should not restrict the Reserve Bank to maintain the exchange, because it would be too great a burden to place on its shoulders. When the non-official Member from Madras was speaking he took us to task for objecting to the linking of the rupee to the falling sterling although our idea was to make the value of the rupee fall. Perhaps the Honourable Member did not realise that our objection was based on the fact not that it is not falling but that it is not falling sufficiently fast and not to a sufficient extent. The American dollar has appreciated. Then they went off the gold standard and then in a sliding scale it came down until it was on a parity with sterling. But they were not contented with even this. They went back and had the gold contents reduced by 40 per cent. so that now they are below the old parity and at 5·07 whereas the original rate was, I think, 4·84. There is a fall of 5 per cent.

THE HONOURABLE SIR HOMI MEHTA: Have you any idea at what a sacrifice America did it? They lost about 3,000 million dollars to acquire that. Would India ever be able to stand that amount of loss to get it?

THE HONOURABLE MR. HOSSAIN IMAM: They have gained in other ways. You have seen 2,400 million dollars have been added as increased valuation of gold in the holding of the Federal Reserve Bank. That has quashed the enormous deficit of 1,700 million dollars and has resulted in a surplus of about 800 or 900 million dollars. That is the gain they have made out of this.

In addition to this, Sir, I was pointing out our objection was that the fall is not rapid enough and the second objection that we had was that no country in the world has after the war increased its parity with gold except India which before the war was on a parity of 1*s*. 4*d*. with gold but after the war it went up to the 1*s*. 6*d*. And now our relation to sterling is not on the old basis of 1*s*. 4*d*. which has been hallowed by more than a quarter of a century, but at 1*s*. 6*d*. It was for this reason that we objected, and we object now. And it was this reason that when England went off the gold standard, our Finance Member by an Ordinance did the very thing which we are now asking the Government to do. Then for one day the rupee had no gold basis and it was not linked to sterling. We have been hammering at it times out of number and asking the Government to do what it did on its own initiative and without interference from outside. It is for this reason that we object to the linking of the rupee to sterling. England has tried to evaluate the rupee to meet her own demands, England has got a difficult position to maintain. She is a creditor country. She has investments outside and she is a manufacturing

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country. She is interested in selling things cheap but she does not wish to lose all the profits accruing from her investments abroad. For these two reasons they let prices fall to a certain level and then cried a halt and stopped the fall. We have seen, Sir, that in France the pound has been bobbing up and down between 77 and 84 francs. They have not yet made up their minds what will be the best policy. Just in the same way we think that we also require that we should have an opportunity to find out what is to the best interests of India and we should allow it to fall to that level. We should not be made to run with the pound and bob up when it goes up and down when it goes down. That is harmful to the interests of India too and harmful to the agricultural credit.

Then our friend took us to task and asked whether this devaluation of the rupee in terms of gold has caused the rise in prices of agricultural commodities. There, Sir, I should like to point out that it is only a comparative statement of rise and fall that we possess. If he will look at the gold standard countries he will see that the process of falling prices is still continuing. The fall in prices has not stopped in France and in the gold block of Europe. Then we see that even the stationary condition that we are maintaining in India is a blessing and is simply due to our going off the gold standard in India. Then our friend made a very pathetic and moving appeal and gave a grave warning to the Government which Government would do well to take heed of, coming as it does from a person like my Honourable friend. It is not an idle boast, and does not suffer from the exaggeration which the Opposition are supposed to be habituated to. It comes from a friend of Government and one who has served it very well. Their difficulties can best be helped by devaluation. As my Honourable friend said, the burden of debts should be lightened. How better can you lighten the burden of debt than by reducing the value of the coinage that has got to be paid? The silver rupee in which the debtor has got to pay now is valued at a certain figure. If you decrease the value of the rupee you will be materially helping the agriculturist and that will be the best help that you can give because India as a producer of raw materials should have her produce sold in foreign countries at prices at which we can undersell our rivals. Japan is doing this. How is Japan able to maintain her prices so low in India now? We have devaluated the rupee, we have left the gold standard, and so has Japan, but if we had stood at the same level with the yen as when we were on the gold standard, it should be at Rs. 130 to 100 yen. That was the old parity. They have now come down to Rs. 80 or even less to 100 yen.

THE HONOURABLE SIR HOMI MEHTA: What is the Budget loss?

THE HONOURABLE MR. HOSSAIN IMAM: The Budget loss would have been made good. It has always been said that our burden of outside debt will become heavy when the rupee is devalued. This is fallacious. The moment you devalue the rupee, I know that you will have to spend more crores in the payment of external debts. But we will be receiving more crores in the shape of customs duties. Automatically the price of imported articles will go up in the same proportion, with the result that we will strike a balance. Rupees 45 to 46 crores is the amount which my Honourable friend will be receiving from customs in this year which is about to close. He would be receiving Rs. 52 crores if we had 1*s.* 4*d.* to the rupee.

THE HONOURABLE SIR HOMI MEHTA: The present policy of the country, Sir, —

THE HONOURABLE MR. HOSSAIN IMAM: I am not going to give way.

THE HONOURABLE SIR HOMI MEHTA: The present policy of the country, Sir, —

THE HONOURABLE THE PRESIDENT: Order, order. You will have your own say in your turn.

THE HONOURABLE MR. HOSSAIN IMAM: Then, Sir, as regards the present policy, India has got to finance its needs. There are two kinds of imports and exports, visible and invisible. We have to pay an enormous amount to England for England's invisible exports to India in the shape of the demand for pensions and for interest on debts. That demand is not financed by book transactions. It has been the practice of the world, Sir, to pay back in goods. That is one reason why Germany could not continue to pay the war debts because the creditor countries put restrictions on the export of German goods. Therefore, the German Government proved that it was impossible for them to pay back. As an Honourable Member of the Assembly very wittily remarked, the balance of trade of the world is zero. Taking the visible and invisible balance of trade, this is perfectly true. We have to pay this amount. We cannot pay it unless England or the rest of the world takes goods from us. But now we pay by means of this gold. I cannot say how long this gold drain will go on. There is no doubt that India has got enormous quantities of gold. The amount that has gone out is not even 50 per cent. of the gold which we have accumulated during centuries. With all this, Sir, it is rather strange that of all the countries in the world, we should alone be the seller of gold, while most others, even those who have gone off the gold standard like England, are buyers of gold. Now, the Bank of England has increased its gold holdings since September, 1931, by an appreciable percentage. Our Government in India with this gold which it could buy on any day in the internal market does not come forward to buy. I was pointing out, Sir, that by devaluation my Honourable friend will be materially helping the agriculturist and deferring the danger which he sees of communism into this country. The prices have fallen so low that the agriculturists find it difficult to meet their day to day demands. All this distress gold has gone out of the country to meet not the capital expenditure for which it ought to have been utilised, but to meet the day to day expenditure. Now, when that capital is exhausted, when the agriculturist finds that he has got no more gold ornaments to sell, what will he do? He has got to pay his bunya and his landlord. He has got to pay to his Government and a host of others, for services rendered to him. There is a Persian proverb,

> "Her ká dust az jan bá shoed,
> Her cha dur dil darud bá goed"

i.e., "A man who becomes desperate does not stand on ceremonies. He goes to the very quack for the remedy although he knows that he is a quack." But still, something is better than nothing and some remedy will be taken whether it is good, bad, or evil.

THE HONOURABLE SIR HOMI MEHTA: Last week's shipment was Rs. 5½ crores in gold.

THE HONOURABLE THE PRESIDENT: Order, order.

THE HONOURABLE MR. HOSSAIN IMAM: My Honourable friend pointed out that a lower exchange would not help us and that that is no cure for our ills. I admit that it is not the only cure. It is one of the cures and a National Government would have taken it as the first step in a programme of co-ordinated co-operation. What we require now is some sort of guarantee for agricultural export. But Government cannot find the money. We have got to get it. One of the measures is deflation which will add something more than Rs. 35 crores to the value of the Issue Department in the shape of the increased gold value and in the shape of re-valuation of our sterling acquirements. If we go back to 1*s.* 3*d.* paper sterling we could have Rs. 42½ crores of addition to the surplus with which to finance these beneficial measures as the United States has done just now. Japan by its deflation has ousted all its rivals outside as well as inside. We have been compelled to bring forward measures of additional taxation against Japan and the measure is still under consideration in the other place. We have had to take action against Japan about these textile goods and other things, because they have made it possible to sell things cheap in the outside market and still get a sufficient amount in their own country to meet their own expenditure. I should like to remind my Honourable friend that lower exchange was accepted by the British Government itself and it was the British Government which gave to the world a lead in lowering the exchange. They were the first to go off the gold standard among the major countries of the world and it is on their example that we are going and wish to go.

THE HONOURABLE SIR KURMA VENKATA REDDI: Would you make a token payment?

THE HONOURABLE MR. HOSSAIN IMAM: If it were possible to make a token payment we would. While I am on this point I should like to mention one special item. I have set in my note of dissent, and I have stated that I should have liked that the surplus profits of the Reserve Bank which are going to be given to the Government of India should be paid back to the Government of India in the shape of sterling loans scrips so that we can have a sort of Debt Redemption Fund. This should be ear-marked for the redemption of debt. Our experience has been in the last six or seven years that this debt redemption fund has been in existence, it has never been utilised to reduce our sterling debts. It has been used no doubt to pay back whatever it was compelled to pay back out of the railway annuities and certain other fixed charges in the terms of the loans in which it was said that such and such an amount will be paid back each year; but the rest of the money has not been utilised for this purpose. Therefore I wish to earmark all the profits that would accrue to the Governor General in Council from this Reserve Bank for the cancellation of sterling debts so far as the amount available permits. By this means a definite programme of debt cancellation in England would be set up, and what would have been even better than that, our credit would have been very much better sustained and we could have borrowed money at cheaper rates of interest if we had the power to purchase in the open market. As you know very well, it is axiomatic that when Government operates in the open market, that at once reduces the rate at which accommodation can be had.

I had wanted to go a step further in connection with one measure which the Honourable Financial Secretary specially mentioned, namely, the convertibility of notes. No doubt India is a conservative country and it likes to stick to old formulas. But we know how difficult and troublesome it has been to maintain two sorts of token coins, one a paper note and the other a silver note. I had therefore asked that this opportunity should be taken to make the rupee, instead of the unlimited legal tender which it is at present, into legal tender up to the sum of Rs. 100 only. That, while safeguarding the convertibility of the notes, would have the effect of reducing the popularity of the rupee to a certain extent, and thereby we might help materially the Government and the Reserve Bank by making the notes more popular, as they would remain unlimited legal tender while the rupee would be handicapped. That would have gone a little step towards reconciling the Banking Enquiry Committee and Hilton Young Commission's suggestion, that we should try not to stick to the convertibility of notes into rupees.

Now, Sir, about the Agricultural Credit Department ——

THE HONOURABLE THE PRESIDENT: How much more time are you likely to occupy?

THE HONOURABLE MR. HOSSAIN IMAM: About half an hour.

The Council then adjourned till Eleven of the Clock on Wednesday, the 14th February, 1934.