25th January 1927

THE

LEGISLATIVE ASSEMBLY DEBATES

(Official Report)

Volume I

FIRST SESSION

OF THE

THIRD LEGISLATIVE ASSEMBLY, 1927

DELHI
GOVERNMENT OF INDIA PRESS
1927

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LEGISLATIVE ASSEMBLY.

Tuesday, 25th January, 1927.

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

MEMBERS SWORN:

Mr. Hugh Golding Cocke, M.L.A. (Bombay: European);

Lieut.-Colonel H. A. J. Gidney, M.L.A. (Nominated: Anglo-Indians); and

Mr. Narayan Malhar Joshi, M.L.A. (Nominated: Labour Interests).

MOTION FOR ADJOURNMENT.

DESPATCH OF INDIAN TROOPS TO CHINA.

Mr. President: I have received the following notice of motion for adjournment of the House from Mr. Srinivasa Iyengar:

"I give notice that I shall move the adjournment of the House to-morrow (25th January) to consider a matter of urgent public importance:

the action of the Government of India in agreeing to contribute a contingent including Indian troops to take part in the military operations in China."

I do not understand what debate the Honourable Member desires to raise on this motion. If his object is to call into question the foreign policy of the British Government or that of the Government of India, the motion is clearly out of order. I should like, therefore, in the first instance, to ascertain from the Honourable Member what the object underlying his motion is. The motion, I regret to observe, is in very wide terms and I should like to know from the Honourable Member what really he means or what point he intends to raise by this motion.

Mr. S. Srinivasa Iyengar (Madras City: Non-Muhammadan Urban): Sir, the object of the motion is to discuss the question whether the Government of India is entitled to or should send Indian troops to China without consulting the Indian Legislature.

Mr. President: I do not know if, in view of the narrow issue which Mr. Srinivasa Iyengar proposes to raise on his motion, Government have any objection.

The Honourable Sir Alexander Muddiman (Home Member): Yes, Sir, I am afraid I must object—for this reason, because it seems to me impossible to discuss the question of sending troops to China without explaining to the House the reason why troops are being sent to China, and that would involve a discussion which cannot fail to affect our relation—not only the relation of this Government but of the British Government—with many other foreign powers. A discussion of this kind at this stage could not fail

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in my judgment, and it is a considered judgment speaking as a Member of the Government, to have the most disastrous results. I believe it would be impossible, however carefully my Honourable friend was to avoid going beyond the narrow issue, not to discuss the necessity and other points relating to the sending of these troops, and, even if he was successful in that, there is no guarantee that other Members of the House would observe the same restraint. If my Honourable friend wishes at any time to raise the constitutional issue, I would suggest to him that it is very easy for him to do so in general terms and without interfering with international relations which may have reactions which this House I am sure would be very very reluctant to stir.

Pandit Motilal Nehru (Cities of the United Provinces: Non-Muhammadan Urban): Sir, the motion which is before the House and in respect of which leave is being asked for arises out of an announcement made by His Excellency the Governor General in his Inaugural Address.

Mr. President: Order, order. The only question now under consideration is the point of order, and I would ask the Honourable Member to be as brief as possible.

Pandit Motilal Nehru: I will not be more than five minutes. It arises out of the announcement made by His Excellency that the Government of India had agreed to send a contingent including Indian troops to China. Well, the object of the motion is simply to protest against any such agreement having been arrived at without any reference to this House and without giving it an opportunity to express its views on the subject. As the issue has been limited by the Mover, there is no question of any foreign relations between the British Government and any foreign power. The Viceroy himself said that the reason why the contingent was being sent was the lawlessness of a certain section of the Chinese public which had resulted in insecurity of life and property and that this was a purely defensive measure against such lawlessness. That was the reason assigned by His Excellency himself. We are not going beyond that, and I do not think it is proposed to discuss anything else. There are no relations between the British Government and His Excellency the Governor General or between the Governor General and any foreign State involved. It is a purely domestic question whether the troops that are being sent out to China for whatever reason (with which we are not concerned) should include a contingent from India containing Indian troops without reference to the Legislature. That is the whole point. As for the apprehension of my friend the Honourable the Home Member that, although the Mover of the Resolution may restrict himself to the narrow issue he has stated, there is a likelihood of the other Members going beyond the limits, I submit, Sir, that it will be for you to see that the Members do not go beyond those limits, and I think the House may well leave it in your hands. We are sure that you will not allow the discussion to digress.

Pandit Madan Mohan Malaviya (Allahabad and Jhansi Divisions: Non-Muhammadan Rural): Sir, I support what my Honourable friend the last speaker has said and I wish to draw attention to just one or two other points. The troops of India cannot be employed outside India without the sanction of Parliament. The troops of India should not be employed out of India without consultation with this Assembly. When there was a war, the Government were pleased to call a Conference. That Conference was invited in Delhi in order to explain to the Princes and people of India the reasons which led His Majesty's Government to enter upon the war and to ask for their continued support in carrying the war to a successful issue. We do not know what developments may take place in the future in connection with the despatch of this contingent to China, but I am sure that if such a more serious contingency should arise, Government would wish to enlist the sympathy and support of the Indian public represented as it is in this Legislature, in order to carry out their policy, and it seems to me, Sir, that the question as to whether the Government should have sent out troops without any reference to this Assembly is a question of vital importance and that it should be discussed as such without entering into questions which will affect the foreign relations of His Majesty's Government.

Mr. R. K. Shanmukham Chetty (Salem and Coimbatore *cum* North Arcot: Non-Muhammadan Rural): Sir, are we to understand that the Honourable the Home Member has raised a technical objection to this motion on the ground that it will come within the mischief of the rule prohibiting discussion of the foreign relations of His Majesty's Government, or does he simply object on the point of expediency?

Mr. President: The Honourable Member has heard the Home Member as I have done. The Home Member is quite clear that he objects to the motion on the ground that it falls within the mischief of rule 22 or 23—whichever it is—of the Resolution Rules and he further objects on the ground that any discussion of the subject matter of the motion at this stage would lead to disastrous consequences. I have no power to disallow this motion on the ground that it can not be moved without detriment to the public interest. That power is vested in the Governor General. The Chair is therefore not concerned with the second objection. The main objection of the Home Member, as I understand, is that the motion comes within the mischief of Rule 23 of the Resolution Rules.

***Mr. M. A. Jinnah** (Bombay City: Muhammadan Urban): Sir, I understand that the motion which is now before the House is sought to be confined only to one point, namely, whether the Government of India should have agreed to send Indian troops to China, as was announced by His Excellency the Viceroy, without reference to this House. That is what I understand to be the issue. If that is the only issue, then the only question that we can discuss is whether the Government of India should have referred the matter to this House before they agreed to send the troops or not. If it is confined only to that point, then may I know what objection there can be to the motion being discussed?

The Honourable Sir Alexander Muddiman: I should like to say, Sir, that if I am to justify, I must explain; if I am to explain, I must explain foreign relations. It is quite obvious that I cannot justify by any other way. It was said that Members would confine themselves strictly to the terms of the motion. I am quite prepared to admit that they will endeavour to do so. But I cannot confine myself to the terms of the motion. I cannot explain matters that cannot be explained without references that at this stage might have most unfortunate results and would open a debate not within the rules. I do appeal to the House to consider the international

*Speech not corrected by the Honourable Member.

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implications of this matter. Already in this discussion I have heard the use of the term "war". Do you really desire to prejudice negotiations of the most delicate character? If, I am to justify this, I cannot justify it fully without breaking the rules. Do you wish to force me into that position? I appeal to the House.

Mr. S. Srinivasa Iyengar: I wish to reply in a word or two. I do not propose to argue it.

Mr. President: The Honourable Member has no right of reply in this case. It is merely a point of order that is being discussed. The Honourable the Home Member does not question that the motion now before the House raises a definite matter or a matter of urgent public importance. I take it, therefore, that the subject matter of the motion is a definite matter of urgent public importance. The main ground on which he objects to this motion is that it relates to a matter affecting the relations of the British Government with the Chinese Government. This Assembly is certainly not entitled to criticise or discuss the foreign policy of the British Government or of the Government of India, and any motion which directly or indirectly raises any discussion of that foreign policy would certainly be out of order. But the Honourable Member in charge of this motion has clearly indicated that his intention is to restrict this motion to a narrow issue, namely, that the Government of India should not have agreed to send Indian troops to China for military operations without reference to this Assembly. There is, therefore, no danger of the Assembly discussing or criticising the foreign policy of any Government. I fully appreciate the point of view of the Home Member that any discussion on the subject matter of this motion at this stage would lead to disastrous consequences. But, as I have already pointed out to this Assembly, it is not a question for the Chair to consider. The Chair is bound by the rules and regulations, and, if the motion does not raise any question of foreign policy of the British Government or of the Government of India and merely calls in question the action of the Government of India in agreeing to send Indian troops without any reference to this Legislature, I do not see how I can disallow it. It was contended that Members would not have sufficient restraint in discussing this motion and would criticise the foreign policy in their speeches. It is of course for the Chair to see how it would regulate the discussion on this motion, and I am perfectly certain that, so far as I am concerned, I shall not allow any Member in the slightest degree, directly or indirectly, to call into question the decision of the British Government to carry on military operations in China or anything of that kind and I shall also see that the discussion on this question is restricted to the one issue and the one issue alone, namely, the action of the Government of India in agreeing to send Indian troops without reference to this Assembly. The Home Member further contended that Members might put a restraint on themselves but he could not explain his case without giving reasons why the Government of India had been obliged to agree to send troops to China. Well, that is his misfortune. The Chair cannot help him. In the opinion of the Chair, it is not at all necessary for the purpose of this restricted motion for the Home Member to touch on and discuss the question of foreign policy. He can very well say in reply "Well, we are not bound under the Government of India Act to consult the Legislature, and therefore

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we have not consulted them". Or he might go further and say, "Ordinarily, we would consult the Legislature, but in this matter, there are secret negotiations going on, or anything of that kind, and therefore it is not in the public interests to discuss the whole matter on the floor of this House". He can, if he wishes, meet the Legislature in that way. But, as I say, it is not my fault that the Home Member finds himself in a difficult position. For all these reasons, I rule that the motion, restricted as it is on a single narrow issue, is in order.

I now ask whether the Honourable Member has the leave of the House to move the adjournment?

The Honourable Sir Alexander Muddiman: I oppose it.

Mr. President: As objection is taken, I request those Honourable Members who are in favour of leave being granted to rise in their places.

(More than 25 Honourable Members rose in their places.)

Mr. President: As more than 25 Honourable Members have risen, I intimate that leave is granted and that the motion will be taken up at 4 P.M. to-day for discussion, unless, in the meantime, His Excellency the Governor General otherwise directs.

ELECTION OF THE STANDING FINANCE COMMITTEE FOR RAILWAYS.

Mr. President: I have to announce that the following Members have been elected to serve on the Standing Finance Committee for Railways:

Maulvi Muhammad Yakub,

Mr. H. G. Cocke,

Mr. R. K. Shanmukham Chetty,

Mr. E. F. Sykes,

Mr. Jamnadas M. Mehta,

Haji Chaudhury Mohammad Ismail Khan,

Mr. Fazal Ibrahim Rahimtulla,

Mr. Ghanshyam Das Birla,

Haji Abdoola Haroon,

Mr. M. S. Aney, and

Mr. Varahagiri Venkata Jogiah.

STATEMENT LAID ON THE TABLE.

The Honourable Sir Charles Innes (Member for Commerce and Railways): Sir, I lay on the table the Agreement* between the United Kingdom and Estonia regarding Tonnage Measurement of Merchant Ships, together with Notes exchanged, which affects India.

*Not printed.

ELECTION OF THE PUBLIC ACCOUNTS COMMITTEE.

Mr. President: Non-official Members of the Assembly will now proceed to elect eight members to serve on the Committee on Public Accounts. There are 13 candidates whose names are printed on the ballot papers which will now be supplied to Members in the order in which I call them.

(The ballot was then taken.)

THE NEGOTIABLE INSTRUMENTS (AMENDMENT) BILL.

The Honourable Sir Basil Blackett (Finance Member): I ask for leave to introduce a Bill further to amend the Negotiable Instruments Act, 1881, for a certain purpose. I do not think that I need add anything to the Statement of Objects and Reasons setting forth the purposes of this technical Bill. I move.

The motion was adopted.

The Honourable Sir Basil Blackett: I introduce the Bill.

THE INDIAN SECURITIES (AMENDMENT) BILL.

The Honourable Sir Basil Blackett (Finance Member): I move for leave to introduce a Bill to amend the Indian Securities Act, 1920, for certain purposes for the reasons given in the Statement of Objects and Reasons.

The motion was adopted.

The Honourable Sir Basil Blackett: I introduce the Bill.

THE CODE OF CIVIL PROCEDURE (AMENDMENT) BILL.

(AMENDMENT OF SECTION 115.)

The Honourable Sir Alexander Muddiman (Home Member): I move for leave to introduce a Bill further to amend the Code of Civil Procedure, 1908, for certain purposes.

The section amended is section 115 of the Code which deals with revisions. As this is a new House, I may explain the genesis of the Bill. The Government of India appointed a very strong Committee which is generally known as the Civil Justice Committee and they made a very large number of recommendations. Those recommendations have been in large part dealt with, but still there are some which have not been disposed of. The particular proposals which this Bill puts forward were recommended by that strong committee which was presided over by the present Chief Justice of the Bengal High Court. The reasons which led the Civil Justice Committee to make those recommendations will be found on pages 370 to 375 of their Report. They examined the matter with considerable care. The proposals in a word effect a considerable reduction in the power of the High Court to interfere on revision. The Government of India felt that proposals of this kind required further examination and they circulated it to Local Governments and High Courts, and a considerable body of opinion supported the Civil Justice Committee's proposals. In these circumstances I felt it my duty, as the recommendations of this powerful Committee had been supported in various competent quarters, to bring in a Bill in this House to give effect to this. I accordingly ask for leave to do so.

The motion was adopted.

The Honourable Sir Alexander Muddiman: I introduce the Bill.

THE INDIAN LIMITATION (AMENDMENT) BILL.

The Honourable Sir Alexander Muddiman (Home Member): Sir, I move for leave to introduce a Bill further to amend the Indian Limitation Act, 1908, for certain purposes.

Those Members who were Members of the last House will have seen this Bill before. It is a Bill with a short history. It was originally introduced and passed in the Council of State. I moved on it in the last Assembly and objection was taken on two small points. It was at the end of the Session. I could not plead any great urgency and, therefore, I asked and obtained the permission of the House to withdraw that Bill. The Bill as introduced endeavours to meet the two points that were taken in the debate on the occasion when I last moved. Our late colleague, Sir Sivaswamy Aiyer, raised the question of clause 2 of the Bill and we have amended clause 2 of the Bill as now introduced in a manner which I hope meets the point raised. He raised the question—I see I was wrong, it was Sir Hari Singh Gour, not Sir Sivaswamy Aiyer—that it should not be necessary that the fact of payment under clause 2 should appear in the handwriting of the person making it. The Bill now provides that the acknowledgment of the payment may be in the handwriting of or in the writing signed by the person making the payment. That, I think, goes some way to meet the objection then raised. Another objection of a more general character was that a Bill providing for limitation should not be introduced without a reasonable amount of notice to people concerned and we have provided for that by inserting in the Bill that I now ask for leave to introduce a commencement clause providing that it should not come into force till the first day of January 1928. The other small amendments with which the Bill deals are of a trivial nature and were not challenged on the last occasion they were before the House, and I conceive will not be challenged on this occasion. Sir, I move for leave.

The motion was adopted.

The Honourable Sir Alexander Muddiman: Sir, I introduce the Bill.

THE INDIAN REGISTRATION (AMENDMENT) BILL.

The Honourable Sir Alexander Muddiman (Home Member): Sir, I move for leave to introduce a Bill further to amend the Indian Registration Act, 1908, for a certain purpose.

This, Sir, is a Bill which has been thought to be necessary in view of a certain decision of their Lordships of the Privy Council. That decision was given in the case of Dyal Singh *vs.* Indar Singh. The Privy Council in that case lay down that an agreement to sell immoveable property of the value of Rs. 100 or more, if it contains the recital of part-payment of purchase-money by way of earnest, requires registration so as to render it admissible in evidence. Our attention has been drawn to this case both by

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questions in this House and also by a reference from the Bombay Government, and the consensus of opinion we have received and the best advice we can obtain go to show that unless we legislate we shall leave the law in a very unsettled condition. What exactly is the effect of the decision is possibly doubtful. I see that it has been judicially considered in a Bombay case comparatively recently, and if the view of the Bombay court is the correct one, then the scope of the effect, or as we conceive the effect, of the former decision of the Privy Council is somewhat limited. The case was that of Lachmi Das and Company *versus* D. J. Akali, which was heard by the Chief Justice and Mr. Justice Kemp. But in any event we do fear there may be a considerable disturbance of a procedure, or rather of a rule, which has been followed for a considerable period of years by the Indian courts. Therefore it is for that reason, Sir, I ask leave to introduce the Bill.

The motion was adopted.

The Honourable Sir Alexander Muddiman: Sir, I introduce the Bill.

THE CURRENCY BILL.

The Honourable Sir Basil Blackett (Finance Member): Sir, I introduce the Bill further to amend the Indian Coinage Act, 1906, and the Indian Paper Currency Act, 1923, for certain purposes, and to lay upon the Governor General in Council certain obligations in regard to the purchase of gold and the sale of gold exchange.

Sir Purshotamdas Thakurdas (Indian Merchants' Chamber: Indian Commerce): May I ask the Honourable Member one question? When is it his intention to bring up this Bill for consideration before the House?

The Honourable Sir Basil Blackett: Sir, I am not prepared at the moment to answer that question which is one for the Leader of the House.

THE GOLD STANDARD AND RESERVE BANK OF INDIA BILL.

The Honourable Sir Basil Blackett (Finance Member): Sir, I introduce the Bill to establish a gold standard currency for British India and constitute a Reserve Bank of India.

THE IMPERIAL BANK OF INDIA (AMENDMENT) BILL.

The Honourable Sir Basil Blackett (Finance Member): Sir, I introduce the Bill further to amend the Imperial Bank of India Act, 1920, for certain purposes.

THE STEEL INDUSTRY (PROTECTION) BILL.

The Honourable Sir Charles Innes (Member for Commerce and Railways): Sir, I introduce the Bill to provide for the continuance of the protection of the steel industry in British India.

THE INDIAN MERCHANT SHIPPING (AMENDMENT) BILL.

The Honourable Mr. J. W. Bhore (Member for Education, Health and Lands): Sir, I introduce the Bill further to amend the Indian Merchant Shipping Act, 1923.

THE INDIAN INCOME-TAX (AMENDMENT) BILL.

The Honourable Sir Basil Blackett (Finance Member): Sir, I introduce the Bill further to amend the Indian Income-tax Act, 1922, for certain purposes.

THE GOLD STANDARD AND RESERVE BANK OF INDIA BILL.

The Honourable Sir Basil Blackett (Finance Member): Sir, the motion that I now have the privilege to move is that the Bill to establish a gold standard currency for British India and constitute a Reserve Bank of India be circulated for the purpose of eliciting opinions thereon.

Of the three Bills relating to currency which have just been introduced this is the one which deals in a comprehensive manner with the recommendations of the Currency Commission as a whole and contains the proposals of the Government of India for giving effect to those recommendations. Of the other two Bills the last, the Imperial Bank of India (Amendment) Bill, is in a sense consequential on the Bill now before us. It is designed to regulate the position of the Imperial Bank of India when the Reserve Bank has come into effective existence. The first of the three Bills, the Currency Bill, is in substance a revival of the Bill introduced last August into the last Assembly, the purpose of which is to regulate the stabilization of the currency of India during the interim period between now and the moment when the Reserve Bank of India comes into existence. The Gold Standard and Reserve Bank of India Bill covers the whole of the recommendations of the Currency Commission. It provides for the introduction of a gold standard into India in that form which has come to be known as the gold bullion standard, and it provides for the inauguration of the proposed Reserve Bank of India. Its provisions are detailed and somewhat complicated and I do not think that there will be any hesitation in any part of the House in agreeing with the view which has been taken by the Government that the first step is to circulate that Bill for the purpose of eliciting opinions thereon. It is most important that the Government and the Legislature should have the advantage in a measure of this sort of the judgment of the commercial and general public, both on the principles on which the Bill is founded and on the details as set out in the various clauses. It has been no light task for those responsible to get this Bill ready and published by the time this House began its Session. For our success in producing and publishing a Bill at that date we are very much indebted to the team work that has been put in by all those who have been responsible for preparing the Bill, in the Finance Department of the Government of India, in the India Office and in the Imperial Bank of India. I should like to pay a special tribute of thanks to the Controller of Currency, Mr. Denning, for the work that he has done, and last but not least to the draftsman, Mr. Wright, who has worked very hard in preparing this Bill.

The principles of the measure have been before the public for nearly six months, since the date of the issue of the Report of the Currency

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Commission on August 4th, and the whole subject of India's currency and the possible methods of reforming it has been under discussion in the Press and in the study very vigorously since that date. Attention has perhaps been somewhat unduly concentrated on one particular point, a point which from the angle of vision of the Bill now before us may be said to be a minor one. The subject of the ratio is indeed raised by this Bill, for example, in clauses 28 and 35, where the question of the ratio is definitely raised. But I think it will be for the convenience of the House if we defer to another opportunity the continuance of the discussion of that particular subject. The Currency Bill raises the question of the ratio in a specific form, and it is the intention of the Government to press that Bill to a decision during the current Delhi Session. In answer to the point that was put to me by Sir Purshotamdas Thakurdas a few minutes ago, the Government have not yet come to a decision as to the further procedure which will be adopted in regard to the currency measures generally. It depends partly on the progress of other business; but I may say that after consulting opinions so far as they could do so in various quarters of the House, Government are inclined to the view that it will be the desire of the majority of the Members of this House that the Currency Bill should not be brought on for effective discussion until the Budget has been introduced. Meanwhile we propose that the Gold Standard and Reserve Bank Bill should be circulated for public opinion; and we may well hope that before it returns from circulation, the long drawn-out controversy about the ratio will have been happily settled as a result of our discussions in connection with the Currency Bill and that that controversy will not becloud the discussion of this Bill that is now before us. The subject of the ratio is not entirely irrelevant, however, to this Bill. It is obvious that at the moment you are endeavouring to inaugurate an important reform of the currency system, it is most undesirable that you should intrude any disturbing factors, such as a sudden change of the ratio, into the equilibrium which it is most desirable should exist when you are attempting an important reform. Clearly, the intrusion of such a disturbing factor would render it at least open to question whether it was not desirable to postpone for a time any further attempt to reform the currency system until prices had settled down again at an equilibrium in connection with a new ratio. But the subject of the ratio can be dissociated for purposes of discussion; and as I have said, it is desirable that we should so dissociate it I think if we are not to becloud the discussion of this Bill now before us and for the rest of what I shall have to say on this Bill today, I propose to leave the question of the ratio entirely aside.

The study of the Bill which we have before us can be conveniently divided under two heads—the gold bullion standard and the Reserve Bank. It is important, however, that we should remember, if we dissociate these two questions for purposes of study, that they are intimately bound up the one with the other. The two parts of the Bill are mutually interdependent. There are certain responsible and important duties which are thrown upon the Currency Authority by the new gold bullion standard that is proposed to be introduced by this Bill. They are not altogether simple duties, and it is very important that if they are to be undertaken, there should at the same time be an improvement in our currency machinery and a unification in the control of the reserves and the control of the machinery which is bound up with our proposals in regard to the Reserve

Bank. There is a very interesting statement by one of the American witnesses, Dr. Sprague, in giving evidence before the Currency Commission on this question of the intimate inter-connection between the problems of currency and the problems of central banking (question No. 15415). In the course of his reply Dr. Sprague says:

"I think in your experience a rather interesting analogy in the United States arises. This is one of a series of Royal Commissions which have been concerned with Indian currency and monetary matters. I think it is rather striking that these successive Commissions up to the present one at any rate have given comparatively little attention to banking matters. If one looks into our history, one finds that public attention throughout many decades concerned itself almost entirely with the securing or proposing of monetary changes. After the crisis of 1873, for example, there was much discussion of the unfortunate situation in which we found ourselves and its causes; and public opinion settled down to the belief that the main cause of difficulty was in the green-back issue,"

and he traced the history of currency study in the United States from 1873 onwards till 1907 when:

"came another crisis, not in many respects very different from those we had experienced in earlier decades. It happened that there were not conspicuous monetary causes to which the trouble could be attributed. There was no reason to think that any change in our monetary arrangements would have enabled us to escape the difficulties. Perforce we were driven to perceive that difficulties in our banking system were present, and were in that particular the seat of the troubles,"

with the result that the attention of the students of the subject was diverted somewhat from currency to the question of banking, and ultimately the federal reserve system was established in 1914. So that we must remember in our study of this Bill not to dissociate the question of the Reserve Bank from the question of the gold bullion standard and bear in mind the emphasis laid by the Currency Commission on the mutual interdependence of all their proposals in this respect.

I turn now to the gold bullion standard. The essential feature of the gold bullion standard is that the rupee becomes a gold value equivalent to a definite amount of gold automatically secured from rising in value above that amount of gold or falling in value below it by obligations laid on the Currency Authority and rights given to the public to secure the absolute interconvertibility of legal tender and gold. The rupee has a long history in India and I suppose the meaning that the ordinary man attaches to the rupee is that it is a silver coin. It is this silver coin (here the Honourable Member showed a rupee) that the word rupee means to most people. But under our new system as proposed in this Bill the rupee will become a gold unit of account and a gold standard of value. Its meaning as the coin will still remain but that will not be its essential meaning. The rupee will be a given amount of gold as a standard of value and as a unit of account. It is interesting to compare the position in some of the countries of Europe which have reverted to the gold standard after a period of difficulty after the war. The latest of them to do so is Belgium. In Belgium they have introduced a new currency called the Belga. The Belga is equal to 5 Belgian francs and 35 Belgas go to a British sovereign. There is no such thing in existence as a Belga. It has no physical existence. It is nothing but a notional entity representing a certain number of grains of gold, about 3¼ grains of gold. Its value is kept from rising and falling by an obligation laid

12 Noon.

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on the Currency Authority to give not gold but gold exchange for legal tender and legal tender for gold exchange; in other words, Belgium has gone on to the gold exchange standard. India goes a step further in this Bill. The Indian rupee becomes a notional value just as the Belga and for a period, that is for the period between now and 1931, the standard will be the gold exchange standard. The obligation will be laid first on the Government as Currency Authority—that is under the Currency Bill—and then on the Reserve Bank as Currency Authority under the Bill now before us to give gold exchange in exchange for legal tender in India and to accept legal tender in exchange for gold. But after 1931, the position is that we shall go a step further and there will be laid on the Reserve Bank as Currency Authority an absolute obligation to give gold in exchange for legal tender and to pay out legal tender for gold and a corresponding right to the public to secure the absolute inconvertibility of legal tender in India and gold, that is to say, India goes on to the gold bullion standard, a standard practically identical to that which was adopted by the United Kingdom under the Gold Standard Act of 1925. Under the Gold Standard Act of 1925 the currency of the United Kingdom ceased to be a paper currency as it had been for some time after the war and became a gold standard currency again. But whereas before the war the public had the right to take gold to the mint and get it coined into sovereigns, that right was taken away by the Gold Standard Act of 1925. No longer can the public take gold to the mint and get it coined into sovereigns. In place of that right an absolute obligation was laid upon the Bank of England to pay out gold in the form of 400 ounce bars in exchange for legal tender and to receive gold from the public and give legal tender for it and the public were given the right to obtain gold in 400 ounce bars from the Bank of England. What we propose for India is practically the same, subject only to certain special arrangements made in regard to the rates at which gold is to be given. The provisions in this respect are so technical that I think it is perhaps undesirable that I should attempt to expound them here. They are found fully stated in the Currency Commission's Report and are turned into legal language in the Bill now before us; but their essence can be quite simply explained. Their essential purpose is on the one hand to secure absolute convertibility between legal tender and gold, so that there is no possibility of the value of the rupee rising above or falling below its gold value. Automatically that right is secured to the holder of the rupee and an absolute obligation laid on the Currency Authority. But provisions are also introduced in order to prevent the Currency Authority, in other words the tax-payer, from having to pay the cost of importing gold into India for non-currency purposes, and at the same time provision is made to secure the continuance of the free working of the gold market in India and to prevent any disturbance of its present powers of providing for the retail demand for gold in India. It is proposed to introduce the gold bullion standard by stages. There is first the stage covered by the Currency Bill, the period between now and the time that the Reserve Bank begins to function. There is then the stage from the time the Reserve Bank begins to function, *i.e.*, not later than the beginning of 1929, and the 1st of January 1931. During that interim period the Currency Authority will be obliged to give foreign exchange for legal tender and will be engaged in building up its gold reserves in order that not later than the 1st of January 1931 it may be in a position to introduce the gold bullion standard. It will be seen that under these proposals India gets an absolute gold standard. She joins the ranks of the gold standard countries of the world with her rupee a gold standard of value and a gold unit of account and the last semblance of the monometallic silver standard will have been shed.

The chief criticism that I have seen or heard in regard to these proposals in regard to the gold standard is that it does not give India a gold currency. This is an old controversy but happily, I think, we are in a position not to quarrel about it on this occasion, for whatever school of thought one may belong to, the school which thinks that it is desirable that India should have a gold currency at the earliest possible moment, or the school that thinks it is inevitable that she should pass through the period of using a gold currency, or the school that thinks that the use of gold currency is undesirable—whatever school one may belong to, the proposal of this Bill for the establishment of a gold bullion standard can be accepted by all as the right step to take next. If you adopt the view that a gold currency is desirable at the earliest possible moment, you must still take as the next step the establishment of a gold bullion standard. It is a stage that you must necessarily pass through, since no one, not even the most confirmed advocate of gold currency, believes that it can be introduced this year or next year. The strongest advocates of a gold currency recognise that it must be postponed for a considerable period while a transitional arrangement is in force, and that transitional arrangement must necessarily be the same as the gold bullion standard proposed to be established by this Bill.

But it may be said, if you cannot give a gold currency at once, why do you not provide in this Bill that on and after a certain date a gold currency shall be brought into existence? I think the answer to that is that the date is necessarily so uncertain that even if it be accepted that a gold currency is desirable, it is absurd to think that we can bind our successors by fixing in this Bill a date at which a gold currency must be introduced. Indeed, by so doing you may very likely not hasten but retard the date at which gold currency would be possible. Ten years hence, fifteen years hence—the date must depend on many factors, most of which are entirely out of the control either of the Government or people of India or of any one nation in the world—ten years hence it may be possible to introduce a gold currency, and if it is possible I have not the least doubt that if the Legislature of that date is still of opinion that it is desirable, a gold currency will be introduced: and you will gain nothing, and possibly may actually retard the date, by trying to fix it in advance in the provisions of this Bill. The first step is obviously to get over the not inconsiderable difficulty of establishing firmly and effectively the gold buillion standard.

That this cannot be established without considerable difficulty as early as the 1st January, 1931, is perhaps one lesson that we can learn from the events of the last year. The crux of any proposal for reforming India's currency is in my opinion to be found in the existence of a large surplus of coined silver rupees. That surplus came into existence—or the greater part of it came into existence—as a result of the extra coinage that was necessary during the war and towards the end of the war. Obviously if we are going to introduce a gold bullion standard, we require a considerable quantity of gold assets. I use the words "gold assets"

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to cover gold coin and bullion securities easily converted into gold, and any other assets which can be turned into gold. At the present moment the fact stares us in the face that of our potential gold assets in the reserves—even if we take silver at the figure of 24 pence—something over 50 crores of our gold assets are locked up in the silver rupees which are in the Paper Currency Reserves, silver which it is very difficult, if not impossible, to convert into gold value at the present time. We have got over 100 crores of silver rupees in the reserves, and in the course of last year over 20 crores of silver rupees have been drawn into the reserves because they were redundant. This redundancy of silver rupees has caused a certain number of people to be apprehensive as to the possibility of maintaining the stability of the rupee at any ratio at all, and it has been regarded with some alarm, for not only have we had to accept these rupees into the reserves, but we have had to use up gold assets to the extent of over 20 crores in the course of last year, in order to find room for them in the reserves. I do not think that anybody would really question the sufficiency of our reserves for maintaining stability in exchange at the present *de facto* ratio, but we must be willing to use our reserves. But for the purposes of a gold bullion standard undoubtedly we need to strengthen the gold portion of our reserves. It is interesting, therefore, to consider the causes of this phenomenon of the flow of rupees into the Paper Currency Reserve. The explanations, I think, are many, but one may choose a few of the most important. One—and perhaps the most interesting—is undoubtedly the increase in the banking and investment habit of India, which has induced people, who formerly kept their savings in the form of rupees locked up in their houses, to keep them in the form of money invested or money banked. But that is only one cause, and certainly not the biggest cause, of bringing rupees out of what one calls hoards. The more important reasons are, I think, the substitution of gold bullion and silver bullion for rupees in the hoards. People have bought gold and silver bullion—principally gold—and put it into the hoards and turned out rupees. These rupees do not affect the amount of legal tender in circulation for the purposes of affecting prices, so long as they are hoarded, but once they come out of the hoards and are in circulation, they are at once a potential increase in the volume of money circulating. With the level of prices which they find they are redundant, and they find their way, therefore, into the currency reserves and notes are taken out in their place. That is the first step. But the notes themselves also contain the same threat of causing conditions of inflation. They, therefore, have to be prevented from causing inflationary conditions. The currency authorities, therefore, are obliged to do what is called contraction of currency. I would ask you to observe that in these circumstances contracting is not something in the option of Government: it is absolutely obligatory unless conditions of inflation are to be allowed to be created.

The Government during the last year have therefore been considerably concerned in effecting what is called a contraction of the currency by finding room in the reserves for these silver rupees, by using up their gold assets and to some extent also their rupee assets also in the form of Government of India securities, but mainly their gold assets. But they have not really been contracting the currency in the sense of causing less currency to be in existence than there was when they began this process. What has really happened is that rupees which were formerly immobilized in the hoards are now immobilized in the Paper Currency Reserve, and the amount of effective circulation of legal tender is very much the same at the end of the process as it was at the beginning.

I have dwelt on this aspect of the question at a little length partly because I believe that the existence of this large surplus of silver rupees is the crux of all currency problems in India, and partly because I think that the lesson that we have to learn from what has happened is that any attempt to go ahead faster than is proposed by the Currency Commission and by this Bill would be accompanied by some risk. There is no reason to doubt that our reserves are ample to maintain stability of exchange, but we do not want to ignore the existence of this large surplus of silver rupees in any plans that we may make for improving India's currency. I am inclined myself to believe that the amount of surplus rupees still outside the control of the Currency Authority has been reduced to comparatively modest proportions. If so, we cannot feel that the experience has been altogether harmful because we are obviously much better off if we have broken the back of the business of dealing with these superabundant rupees than if the danger is still all ahead. But in any steps that we take for improving India's currency we have to take account of the existence in our reserves and still in hoards of an undesirably large surplus of silver rupees. This subject will come up again in another aspect when we deal with the proposals made by the Currency Commission and contained in this Bill for the composition of the new currency reserve. The proposal is that the Gold Standard Reserve and the Paper Currency Reserve should be amalgamated into one Currency Reserve and detailed conditions are laid down for the composition of that reserve. One of those provisions is that the amount of silver rupees held in the reserve shall be limited to a progressively smaller figure. We shall have to consider that matter very carefully when we come to deal with the Bill in detail.

The existence of these surplus silver rupees has also an important bearing on one other proposal in this Bill which has been the subject of a certain amount of comment. It is proposed in this Bill, in accordance with the recommendations of the Currency Commission, that when the new Reserve Bank notes come into existence, they should no longer be what our Government currency notes now are, promises to pay so many rupees, but should be what the one pound and ten shilling notes are in England, pieces of paper expressing a given value in terms of rupees; their value being maintained, not by any right to convert them into silver rupees, but by the automatic provisions of the currency law and the working of the currency machinery under the Reserve Bank. I think it is very essential that we should get rid of this obligation to give silver rupees for notes. It was that obligation which caused the breakdown of the pre-war currency system during the war, and it is that obligation which is responsible for the existence of the enormous surplus of coined rupees to-day. It is an entirely illogical obligation too under the new system, for under the new system both the silver rupee and the currency note will depend for their value on their convertibility into gold, and it is both illogical and dangerous in the future to make one form of note, the note printed on paper, convertible into another form of note, the note

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printed on silver when the value of both of them depend simply on both of them being convertible into gold.

I need not, I think, say much about the detailed proposals for the composition of the reserves. The proposals are very lucidly set out in the Currency Commission's Report and we have followed those proposals in this Bill in essence. I would only draw attention to one particular point. We have provided in clause 30 of the Bill that when the new Reserve Bank comes into being and the new currency system comes into being, the reserves shall contain at the outset a minimum of 50 per cent. of gold assets, although the proposal of the Currency Commission for the minimum legal requirements for this reserve, as followed by us too in clause 28, is a 40 per cent. minimum only. We propose for safety to start with a 50 per cent. minimum, leaving a margin over the legal minimum.

I can now turn from the gold bullion standard to the question of the Reserve Bank. It is difficult to exaggerate the importance for India of the proposed new Reserve Bank of India. The proposals of the Royal Commission on Currency in this respect have been given worldwide attention and evoked worldwide interest. The establishment of a Reserve Bank for India will be an enormous step forward in the development of India's financial and monetary machinery and will, I think, assist that gradual silent revolution in India's economic life which promises to bring higher opportunities of life and higher standards of living to every one in the country. But it is not only in its effect on financial machinery or on its currency side only that this proposal is of interest. It is an important contribution to the consolidation of the national unity of India. When Alexander Hamilton was devoting his genius to the promotion of the unity of the States of what are now the United States of America at the time when the Union was first being formed, he laid special stress on the Bank of the United States which he was largely responsible for starting. That Bank was destroyed by the provincial jealousies of the various States before it had been many years in existence, and for over a hundred years from that day the United States were without any kind of central banking organisation, with great loss to the people of the United States both in regard to their currency and in regard to other matters. Finally in 1913 the Act was passed which established the federal reserve system. It is interesting to observe that even that Act fell short of what those who were thinking solely of the currency and banking interests of America desired, for instead of creating a single Central Bank for the United States it established a Federal Reserve Board sitting in Washington and twelve Federal Reserve Banks scattered all over the country; and it is generally recognised by those who have devoted thought and attention to this subject in the United States that the system they have obtained falls short of the ideal which they would have liked, namely, a single strong Federal Reserve Bank. That was, however, a concession that had to be made to State separatism—perhaps provincial autonomy is the Indian term—in the United States.

Now just as in the United States the establishment of a central banking institution was regarded by Alexander Hamilton as a key contribution to the unity of the country, so in India I think the establishment of the Reserve Bank of India will be an important step forward in the unification of Indian life. I am inclined therefore to regard the proposal respecting the Reserve Bank of India as the most important measure of liberalism in finance that has been ever offered to India. It is a measure which I am proud to think is the first one that is being discussed in this new Council House of New Delhi. I think it is a very fitting measure to take the first place in the new Council House. It is a measure that has a claim to bear comparison with the various progressive developments that have been and are being realised in accordance with the spirit of the declaration of 1917, and I am sure that when it comes effectively into existence the Reserve Bank of India will add enormously to the importance and influence of India's position in the financial counsels of the world when the Reserve Bank takes its place side by side with the other great Central Banks of the Empire and of the United States and elsewhere.

Up till 1920, there was no kind of Central Bank in India, just as in the United States up to 1914. The balances of the Government of India were all held in Government treasuries, not in any bank. The subject came before the Chamberlain Commission on Currency in 1913-1914; but in the end, although they gave considerable attention to the subject, they decided to make no recommendation in regard to the establishment of a State or Central Bank. Their labours were not however altogether fruitless, for it was largely in consequence of their deliberations and of the documents which they published that in 1920 the Imperial Bank of India was brought into existence by the amalgamation of the three Presidency Banks. In the few years of its existence the Imperial Bank has rendered very great services to India. More has been done in those few years, with the opening of over 100 new branches all over the country, for the spread of the banking habit and for the spread of banking facilities throughout India than had ever been done in a similar period before. But there is a very great deal more to do and the first consideration that we have to take into account in dealing with the question of the new central banking institution for India is that nothing we do shall threaten the continued activities of the Imperial Bank in spreading banking throughout India or withdraw banking facilities from those to whom the Imperial Bank is now beginning to offer them. It was this consideration of the enormous importance of the Imperial Bank's work in commercial banking up-country that finally dissuaded the Currency Commission from recommending the transfer to the Imperial Bank of the functions which the Government now do and which it regarded as desirable to transfer to a banking institution. No one likes to face the difficulties and trials of the creation of a new institution until he is convinced that it is absolutely impossible to use an existing institution for the purpose, but the Currency Commission were convinced, and the Government of India have been convinced by the facts of the case, that there is no option—that if the Imperial Bank is to continue to do the services for India which are required from it, and if the central banking functions now performed by the Government are to be transferred from the shoulders of the Government to a bank, then the only choice is to create an entirely new institution. And though one may begin by disliking the idea of creating a new institution there is much to be gained when you look at the picture of the existence side by side of two strong institutions, one continuing with greater freedom than at present the business of expanding banking facilities throughout India, and the other taking over from the Government of India all the functions which the

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Government at present perform in matters that are essentially of a banking character. Once these two institutions are strongly established side by side India will move forward towards that financial and economic development, with the granting of additional financial and banking facilities for Indian agriculture, Indian commerce and Indian industry, which has been the theme and object of one Commission and Committee after another. We shall see the development of a discount market and an acceptance business, of increased facilities for the marketing of produce; and, in short, a gradual mobilisation of India's immense potential capital for the development of India's own resources. The opportunity will at last arise for giving greater effect to some of the recommendations of the Industrial Commission of which my Honourable friend Pandit Madan Mohan Malaviya was a member, or of the External Capital Committee. In fact a new chapter will open in the financial history of India. The Government will hand over to the Bank a large portion of the work which the Reserve Bank will undertake. The remittance business of the Government will be taken over by the Bank. The Bank will take over the responsibility for the note issue. The Secretary of State has intimated his willingness to promote in the British Parliament the necessary legislation for the amendment of the Government of India Act to enable the control of the Secretary of State's balances to be handed over to the new Reserve Bank in London.

And not only will the Reserve Bank take over all the Government business including the control of the balances, but it will under the proposals towards the end of this Bill, in clause 41, enter into special relations with the other banks in India. It will concentrate the banking and currency reserves of the country. It is proposed by the Commission that it should be obligatory on other banks in India to keep with the new Reserve Bank 10 per cent. of their demand liabilities and 3 per cent. of their time liabilities. After careful consideration the Government came to the conclusion that, having regard to the special conditions of banking in India and to the need for rather a larger proportion of till money than is necessary in countries where banking is more developed, these proportions were rather too large. The figures in the Bill, instead of 10 per cent. and 3 per cent., are 7½ per cent. and 2½ per cent. respectively. It is proposed that all other banks should keep these proportions of their demand and time liabilities with the Reserve Bank.

Membership of the federal reserve system of India will come, I think, to be regarded as a very great privilege by other banks. They will realise that in the Reserve Bank of India they have a friend and counsellor and that in the rediscounting facilities which are offered by the Bank they have an opportunity of being sure that their assets are always liquid—a great deal more liquidity will be given to their assets than they can look for under existing conditions. The credit of these banks will, thereby, I think, be considerably improved, and the Reserve Bank meanwhile will by means of this control over a portion of their balances be able to secure that control of the money market which is an essential ingredient in any proper monetary system.

In addition, it is proposed that these banks should make monthly returns in a prescribed form to the Reserve Bank, the existence of which will undoubtedly give confidence to the public and I think our statisticians will feel that a long-felt want is being supplied when they get these figures.

The relations of the Imperial Bank of India and the Reserve Bank are provided for in particular in the Second Schedule to this Bill. It is of happy augury that the Central Board of the Imperial Bank has found itself able to approve for recommendation to its shareholders the proposals which are included in this Bill for compensating the Imperial Bank for giving up its present contract with the Government. It has at present a contract which runs till 1931 for the management of the Government's balances. It has expressed itself willing to allow this contract to be abrogated forthwith in exchange for the provisions regarding the relationship between the Imperial Bank and the Reserve Bank which are foreshadowed in this Bill. In arriving at those proposals the Government have had to take into account on the one hand the absolute necessity of not doing anything to damage the Imperial Bank for whose coming into existence they had some responsibility and for whose future in developing banking in the mufassil they are deeply concerned. On the other hand they had to be careful that such terms were not given to the Imperial Bank as would damage other banks or would be contrary to the interests of the tax-payer. I think that we have succeeded in these proposals in arriving at a plan which does even-handed justice all round, and I trust that when the Imperial Bank goes before its shareholders, as it must do before this Bill becomes law, no trouble will be met with in securing approval of what is proposed.

It is difficult when one has started on the merits of the Reserve Bank to know where to stop; but I have already made a long speech and other opportunities will arise for discussion of this measure. I have described it as the greatest measure of financial liberalism ever offered to the Indian people and as such I commend it to the House and to the public. Sir, I move.

Mr. President: Motion moved:

"That the Bill to establish a gold standard currency for British India and constitute a Reserve Bank of India be circulated for the purpose of eliciting opinions thereon."

Sir Purshotamdas Thakurdas (Indian Merchants' Chamber: Indian Commerce): Sir, that the Bill should be circulated there will hardly be difference of opinion on in this House. But the Honourable Member has taken advantage of this motion to tell the House a good deal not only about the main aspects of the Bill but also about the other subject in which he elected to give a technical reply to me this morning. I think, I too may, Sir, put before the House the main aspects of the Bill and currency reform as they strike me.

The Honourable the Finance Member quoted Dr. Sprague of the American Deputation who gave evidence before the Royal Commission in connection with the importance of banking to any country. Dr. Sprague, Sir, is a great authority. But greater authorities or equally great authorities in the past suggested the same thing to the Government of India as far back as 1893. The Herschell Committee and the Fowler Committee said the same thing, and several members on those two Committees put on record distinct recommendations or minutes to the effect

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that the whole of the currency reform in India as undertaken in 1892 and 1898 would be of no avail if banking was not developed. What is the result? The Bill itself contains a very vivid picture of the Government of India's acceptance of that recommendation. I would ask Honourable Members for a minute if I may to turn to the First Schedule to the Bill which it is now proposed to circulate. The First Schedule, Sir, contains the names of banks which the Honourable the Finance Member proposes should be looked upon as important banks to be controlled by the Reserve Bank which he asks this House to approve of. Out of 26 banks in that Schedule, the first 7 contain the names of Indian banks; and out of this 7 there is one which is now owned by a British bank—I refer to the Allahabad Bank which for all practical purposes has been taken over by the P. & O. Bank. You are then left with 6; and out of this 6 again you have one, the Imperial Bank, which owes its existence a great deal to assistance from the Government. There are therefore five banks left. Since 1893 there have been five Indian banks and the Honourable Member to-day quotes Dr. Sprague to show the importance of banking for the development of India . . . .

The Honourable Sir Basil Blackett: May I just say that I quoted him on the importance of central banking, which is rather a different thing?

Sir Purshotamdas Thakurdas: If the Honourable Member quoted Dr. Sprague in connection with central banking my remarks would not apply; but I have not Dr. Sprague's evidence with me here and I understood that the quotation was in connection with banking generally.

Regarding central banking, then, I would say that the Reserve Bank as it is now proposed by Government requires to be looked at from the point of view of the main requirement of India, namely, whether this step will encourage banking in India or the development of banking, about the importance of which the Honourable Member himself, I expect, will not have much difference of opinion. I wish then to ask whether the main aim of this Reserve Bank is not control of currency and credit in a single hand. And if that is so, it is only right that the public in India, both commercial and the other public, should have a very substantial say before the Bill comes up before this House for their consideration.

Next the Honourable Member turned to the question of the bullion standard. I have nothing to add to what I have said in my Minute of Dissent on the Royal Commission's Report. I there expressed my conviction that the demonetisation of the sovereign and half-sovereign, the only gold coins which are now legal tender in India, was not necessary. Since then, Indian public opinion has expressed itself unequivocally against this. And this is a matter on which we will hear more later on. The Honourable Member indicated finally that he sympathised with—I do not know if he actually said this or not, but he certainly indicated that if there was a strong feeling in favour of gold currency it would still be feasible even with this gold bullion standard. I think a categorical question may be asked, whether the Government of India are prepared to accept the unanimous recommendation of the Royal Commission that, when India has adequate gold resources, the Assembly *on demand* should have gold currency for India. I think a categorical reply to this recommendation of the Royal Commission would perhaps remove a good deal of suspicion and what appears to me at least to be some apprehension on this score.

The Honourable Member, Sir, then thought fit to enlarge upon the rather technical reply that he gave me earlier this morning and told the House how he happened to come to the decision that the Currency Bill which contains the question of the ratio need not come before this House till the Budget time. I do not know which section of the House the Honourable Member sounded in order to come to the conclusion that this was the general feeling in the House. From the inquiries that I have been able to make since he said this, I find that at least one or two important sections of the House have not been sounded at all. At Simla, Sir, we were told that the Honourable Member was prepared to go ahead with this question (and I am now mainly referring, Sir, to the question of the ratio) there and then. Then, owing to various circumstances which need not be related here, very nearly five or six months time had to be given and has passed. One would have thought that this House, as soon as it met here, would be given the opportunity of finally expressing its opinion. The Honourable Member does not evidently wish to do so and now wishes to put before the Assembly what strikes me as being another *fait accompli* because, when he brings up this question with the Budget, it would mean that, if the Assembly does not accept what he brings before it, namely, the 1*s*. 6*d*. ratio, there will be no time left to alter the Budget and after all the Budget has to be passed before the 31st March, both by this House and by the other. (*Mr. Jamnadas M. Mehta*: "Then drop the Budget".) I therefore feel, Sir, that this at least is not the right way of ascertaining the views of the Assembly. The Honourable the Finance Member knows that there are strong views against his policy and I happen to have very strong views on the question of the ratio. I feel that, if he does not want to handicap this House in an impartial consideration of that question, he should bring it up as early as possible, and the longer the delay the more one will be able to say the handicap to this House and to those who hold views different from what the Honourable the Finance Member holds. (*Mr. M. A. Jinnah*: "Unfortunately".) Sir, the Finance Member has made a few references to the adequacy of the resources of the Government of India to maintain the 1*s*. 6*d*. ratio. It is a very big question. I do not propose, Sir, to go into it at present. But I cannot help feeling that when he said that, he had perhaps this in mind, because he indeed did mention that in silver rupees alone he had fifty crores of rupees worth of reserve. If the Honourable the Finance Member has in mind the sale of silver in case of need, all that I can say is that my greatest sympathy will be with the classes whose savings in silver will be further depreciated. He further told us that whilst currency had been contracted, he felt that the same amount of currency was still in circulation. Perhaps a more detailed examination of that dictum would be necessary. But it would be very important for this House to have ample time at its disposal to discuss the question and to express its opinion. I, Sir, very strongly protest against the decision, as it appears to me, of the Honourable the Finance Member, which may be taken perhaps to be the decision of the Government of India, *re* this method of preventing a fair chance of the case being put before this Assembly to those who hold views other than the Finance Member's. I do hope that the Government of India will think over it and will see their way to give this

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House timely opportunity, so that the views of both sides may be weighed by the House and there may not be undue haste in the final step that is to be taken.

I wish, Sir, again to refer to the question of the development of banking. What I said at first I stopped short at, because the Honourable the Finance Member drew my attention to the fact that he quoted Dr. Sprague in connection with central banking. Even in connection with central banking and the necessity of a Reserve Bank, Dr. Sprague, I think, himself told us that in America they had the Federal Reserve Bank on the top of, how many banking branches in that country? 35,000 banking branches. Canada, Sir, has 4,000 banks and banking branches and is still considering the necessity and the advisability of having a Central Bank. I wish the Honourable the Finance Member had given us the figures, in his elaborate speech, of how many banks and banking branches there are in India. You put in in India to-day a pure unalloyed Reserve Bank of the type of the Western countries. I know that in India at times we—indeed in the past and may in future—start from the top instead of starting from the bottom. But such movement in this direction, Sir, in connection with banking is not likely to help and may very likely retard progress. If I have any apprehension regarding either the desirability or the value of a pure unalloyed new Reserve Bank being started, it is only because I greatly apprehend that with the responsibility of developing banking taken away from the Imperial Bank, as at present, there may be very little done by anybody in connection with the development of banking. Till 1919, Sir, there were hardly 200 banking branches available all over India. It was only when the Imperial Bank Bill was brought before the Imperial Legislative Council that that Council said that before they came to any sort of contract with the Imperial Bank, they would insist that within five years the Imperial Bank must start a hundred new branches. To-day

1 P.M.

the Imperial Bank stands out as the only banking institution in the whole of India which has branches running into three figures. The branches of the Imperial Bank to-day I understand number about 164. They had 60 branches or so till 1919 and 100 new branches have been started in accordance with the contract since 1920. Now, the Imperial Bank is a combination of three banking institutions, namely, the Bank of Bengal, the Bank of Madras, and the Bank of Bombay. The Bank of Bengal was first started in 1805 if I mistake not. During 115 years of the Bank of Bengal and the existence of very nearly half a century back of the Bank of Madras and the Bank of Bombay—these three between them could or did only start and open branches to the extent of 60. And it was only when the Indian Legislature of the day said "Nothing doing with any banking institution which will have the balances of the Government without an undertaking, a hard and fast undertaking, to open so many branches" that within five years India had 100 new branches. I know and I am quite aware that there is a certain amount of feeling that the competition caused by the Imperial Bank branches is a handicap to private Indian banks being started. I do not wish, Sir, in the slightest degree to indicate that there is nothing in that plea. I mention it because I do not want to be misunderstood. The main thing which the country requires to-day is to consider, from the point of view of those who run Indian banks and those who wish to develop banking institutions in India, what should be done to encourage banking. The starting of a Reserve Bank of the type that is now proposed will hardly meet the question; in fact, it is possible that there will be nobody left to think of developing branches in the interior of India, and in that connection a reference to Schedule I is very instructive and has a number of lessons. Out of the 26 Banks which can be looked upon as respectable banks for the purpose of banking in India 21 are non-Indian banks. They are either British or Japanese or American or Dutch. There are only 5 Indian banks, and that, Sir, after the Government of India having accepted the Herschell and Fowler Committees' recommendations that development of banking in this country was most necessary even from the point of view of a very correct and adequate currency policy. I therefore submit that the question which is being raised by this Bill is a very important one.

I did in my Minute of Dissent say that there should be a Reserve Bank and it is necessary for me to say why I favoured at all the starting of a Reserve Bank if I held the views which I have enunciated just now. My reason for favouring a Reserve Bank is this. At present the currency policy of this country is directed by the Government of India under the control and direction of the Secretary of State; in fact it is directed from Whitehall. I feel that any measure which could be put before this House to take that control away from Whitehall and vest it in the Government of India such as it is at present, imperfect and at times non-responsible to our demands as it may be, (*Some Honourable Members*: "Always non-responsive.")—well, you may say that, but I say that that is the least that we could do immediately. Let us therefore support a scheme which will take away control from Whitehall and which will give the control here to the Government of India who will be available to us for explanations, and if need be for our telling them plainly what we think of their policy from time to time. I therefore felt that a scheme which showed us a way out of this was worth considering. But I feel, indeed I have said so in my Minute of Dissent, that the Reserve Bank need not necessarily be different from the Imperial Bank. The Imperial Bank, I know, has many critics. At the moment I happen to have the honour of being one of the Governors of the Imperial Bank in my capacity as chairman of the local board of Bombay. But in the Assembly on this question I do not look at this subject from the point of view of the shareholder of the Imperial Bank at all. That is much too insignificant to have the slightest consideration in the very serious problem that faces us—of solving how best to encourage banking and how best to have the currency policy directed from within India and by the Government of India. I therefore feel that we need not at the start go on to the pure unalloyed western standard which has been good for America with its 35,000 bank branches but which is not yet good for Canada with her 4,000 bank branches and which may not be at all suitable to India in her present conditions. How many bank branches are there in India to-day? A guess was risked and I was told that it would not be more than 250. India, which is a continent, with 250 banking branches is sought to be treated in the same manner as Canada which hesitates about it with her 4,000 branches, and the size of the two countries hardly stands comparison. I therefore feel that, so far as this question is concerned, a good deal should be concentrated on what we get for developing our indigenous banking. I therefore feel that it is only right that this Bill should be circulated, and, in conclusion, I will only hope that the Government of India in the Finance Department will seriously think over their present

[Sir Purshotamdas Thakurdas.]

idea of delaying the other Bill until Budget time, because if nothing else, there will be very strong ground for suspicion, which has been lurking up to this time, that they do not want the question of ratio to be discussed on its merits and that they propose to use the powers vested in them in order to force this Assembly to a certain decision. I hope that it would not be so.

Mr. Ghanshyam Das Birla (Benares and Gorakhpur Divisions: Non-Muhammadan Rural): Sir, as has been stated by my Honourable friend, Sir Purshotamdas Thakurdas, any measure calculated to take away the control from the Secretary of State should only be welcomed by us. But the Bill as drafted at present and put before the House is very unsatisfactory in many ways and, therefore, whether the House should finally accept the scheme of the Reserve Bank or not would very much depend on its constitution and the provisio s which may be made about the location and composition of the reserves, and also on the representation which Indians may receive in it. It has been stated in the Preamble that this Bill is to establish a gold standard currency for British India. I hope, Sir, that these words will not mislead this House. This Bill is calculated neither to give a gold standard nor a gold currency to India. Sir, if I am to understand properly the meaning of a gold standard, I think under the scheme of a gold standard the silver rupee ought to represent as a token coin a given amount of gold, but on reading the Bill carefully one can find very easily that under the Bill there is no fixing of any given amount of gold which the rupee will represent. As a matter of fact the buying and selling rates of gold by the Government will fluctuate to the extent of 2½ per cent. Sir, the Government will sell gold at the rate of Rs. 21-10-10 only when the exchange is 1*s*. 5-13/16*d*. and will buy gold at the rate of Rs. 21-3-0 per tola only when exchange is 1*s*. 6*d*. That means that the price of gold itself, which is intended to be the standard of value, will fluctuate to the extent of 2½ per cent. to the extent of 8 annas per tola.

The Honourable Sir Basil Blackett: Can the Honourable Member suggest any country where it is not true?

Mr. Ghanshyam Das Birla: I will suggest the case of England, Sir, where the selling price of gold by the Bank of England is 77*s*. 10½*d*. per standard ounce and the buying price 77*s*. 9*d*. per standard ounce. That means about half an anna per tola, whereas in India the difference will be about 8 annas a tola. Therefore it cannot be called a gold standard.

The Honourable Sir Basil Blackett was kind enough to tell us that the question of a gold currency will entirely depend on the will of the Indian Legislature. But I, Sir, challenge the statement. I want Sir Basil Blackett to enlighten us as to how under the gold bullion standard proposed under this Bill he would be able to introduce a gold currency in India at any time. I submit, Sir, that under the scheme of gold bullion standard as proposed under this Bill India can never get a gold currency even after 20, 30 or 40 years. In order to have a gold currency we must have a gold standard as proposed by the Honourable Sir Basil Blackett himself before the Currency Commission. I, Sir, fail to understand why the Honourable the Finance Member, who submitted a scheme for a gold standard and a gold currency only a few months back before the Currency Commission, wants to go back on it, and after rejecting the same he himself wants to sing the praises of this new gold bullion standard. Sir, we had many defects in the past in our currency system, and if for nothing else, just to prevent future manipulations by the Government we must have nothing short of a gold standard and a gold currency. I hope that when this Bill comes up for proper consideration before the House it will consider the same in this light and will strongly press for a gold standard and a gold currency.

Then, Sir, with regard to the question of the ratio, I do not think that this is the proper time to discuss it, but I was very much interested to hear the remarks which fell from Sir Basil Blackett about the recent contraction of the currency. He, Sir, tried to justify the recent contraction of currency by saying that it was due to the fact that the rupee by itself came into the reserve of Government because it was not required in the currency. That is the conclusion at which he arrives; but may I ask, Sir, whether this contraction of currency was automatic or whether the Government effected this contraction in order to stabilise exchange at 1*s.* 6*d.* or in anticipation of the exchange going down below 1*s.* 5¾*d.*? I hope, Sir, that Sir Basil Blackett will admit that this contraction was not automatic but was manipulated by the Government in order to stabilise exchange at 1*s.* 6*d.* or rather to prevent exchange from going down. Sir, if Sir Basil Blackett could contract a very huge amount of currency at a time when generally the season is at its busiest and when currency is specially required in the country, I do not know what he will have to do when the season is very dull after three or four months. If Sir Basil Blackett realizes his mistake and if for the same reason he wants to postpone the consideration of the question of ratio, then, Sir, I would welcome it, because I do not want Sir Basil Blackett to commit the same mistakes as were committed in the past by Sir Malcolm Hailey. Sir Malcolm Hailey who was then Finance Member could commit many such mistakes, but an expert like Sir Basil Blackett should be the last person to make such blunders.

Then, Sir, there is the question of the representation. As I read the Bill, Sir, I do not find sufficient provision in it about the representation of Indians on the Board and in the management. There is no guarantee, Sir, that this new Reserve Bank will not be ruled, will not be dominated, by a particular group of financiers or by a particular community. Therefore, I hope that when the proper time comes, the House will consider as to how best they can provide for proper representation of Indians and proper control of the Bank by Indians.

Then, Sir, there is the question of the location of the gold reserves and of their composition. If, Sir, an automatic expansion and an automatic contraction are to be provided for under this Bill, I hope that there will not be much necessity of keeping a large amount of reserves in any other countries than India. Similarly, having regard to the past experience which we have had of England being divorced from the gold standard, I hope that proper safeguards will be provided against any large investment of our gold in sterling securities or in any other securities except that of the Indian Government.

Regarding the Schedule of Banks, Sir, much has already been said by my Honourable friend, Sir Purshotamdas Thakurdas. I regret to find,

[Mr. Ghanshyam Das Birla.]

Sir, that names have been included of banks which have very little connection with Indian industries or with Indian trade; for instance, I find the inclusion of Japanese banks and of French banks and also of such English banks as are not connected, directly or indirectly, with Indian trade. If, Sir, the new Reserve Bank is to act as a bankers' bank in the best interests of India, mainly for the benefit of Indian industries and trade, then we should see to it that more Indian banks are included in the Schedule, and those banks which have not much connection with Indian business and trade are excluded. I have got nothing more to say, Sir, on this point. I quite agree that this Bill should be circulated for opinion, and I hope that, when the proper time comes, the House will take into consideration all these points.

MOTION FOR ADJOURNMENT.

DESPATCH OF INDIAN TROOPS TO CHINA.

Mr. President: Order, order, I have received the following communication from His Excellency the Viceroy on Mr. Srinivasa Iyengar's motion for adjournment:

"*In exercise of the power vested in me by sub-rule (2) of rule 22 of the Indian Legislative Rules, I, Edward Frederick Lindley, Baron Irwin, hereby disallow the motion of Mr. S. Srinivasa Iyengar to move the adjournment of the House for the purpose of considering the action of the Government of India in agreeing to contribute a contingent including Indian troops to take part in the military operations in China, on the ground that it cannot be moved without detriment to the public interest.*

(Sd.) IRWIN,

Viceroy and Governor General."

As a result of this order, no discussion of this motion shall take place. The House now stands adjourned till Twenty-Five Minutes to Three of the Clock.

The Assembly then adjourned for Lunch till Twenty-Five Minutes to Three of the Clock.

The Assembly re-assembled after Lunch at Twenty-Five Minutes to Three of the Clock, Mr. President in the Chair.

THE GOLD STANDARD AND RESERVE BANK OF INDIA BILL.

Mr. President: The House will now resume consideration of the motion of Sir Basil Blackett on the Reserve Bank Bill.

Mr. Jamnadas M. Mehta (Bombay City: Non-Muhammadan Urban): Sir, I support the motion for the circulation of this Bill. I wish the Finance Member had, at this stage at any rate, contented himself with having made a mere motion to that effect without adding a provocative speech to it. I am afraid he has a knack, happy or unhappy, of provoking unnecessary opposition when he might well avoid it. As he has gone into matters which are more or less controversial, I feel compelled to make a few observations on some of his statements. His first statement which I want to contradict is that anybody had been approached, at any rate on this side of the House, who had told the Finance Member that we were willing that the discussion on the Currency Bill should be postponed till the Budget. This is, to quote Mr. Winston Churchill's well-known phrase, "a terminological inexactitude". It is wholly incorrect. So far as these Benches are concerned, nobody has given him to understand anything of the kind, and I am amazed that he should have made a statement like this without proper foundation.

The Honourable Sir Basil Blackett: I regret that my understanding is at fault.

Mr. Jamnadas M. Mehta: One of the misstatements is then withdrawn?

The Honourable Sir Basil Blackett: I have not withdrawn it; I said my understanding must have been at fault.

Mr. Jamnadas M. Mehta: It is clear from this that he, at least, is willing that the discussion should be postponed till the Budget and the reasons are quite obvious. He could present the Budget on the one hand on the basis of 1*s.* 6*d.* and the Bill on the other and will then say: "Gentlemen, here is the Budget which hangs on this Bill. You shall pass this or this Budget shall be a deficit Budget. You will have no provincial contributions remitted. You will have more taxation to undergo. Pass this Bill or this penalty will await you". It is this pistol aimed at the head of the Legislature in March next with which he hopes to compel the House to accept the 1*s.* 6*d.* ratio. I can assure him that the House will resent it. The House wants to judge this issue entirely on its own merits, not complicated in the manner he intends. It is therefore necessary that before Monday next he should announce the consideration stage, so that the House may have an early opportunity and ample time for discussing this most important and revolutionary measure,—I mean the Currency Bill.

Sir, coming to the present Bill, I find it is called the Gold Standard and Reserve Bank Bill. There is, however, as much of gold standard in this Bill as there is of self-government in the Government of India Act, which means there is neither self-government in the Government of India Act nor gold standard in this Bill. The gold standard, as he has expounded it to-day, is merely an expanded gold exchange standard. We were told that under the gold bullion standard there would be an obligation on the part of the currency authority to buy and sell gold; all that pretention is given up in the Currency Bill. The only thing that will be sold now will be gold exchange, so that even the recommendation of the Commission is now abandoned and gold will only be purchased; but gold will not be sold; gold exchange will only be sold, and gold exchange may mean anything, not necessarily gold. This sale of gold exchange on foreign countries is simply another way, and a more extended and more insidious, and therefore more mischievous, way of diverting India's gold outside India. Up till now the gold has been kept in London; we have been given instead a huge volume of the rupee token currency. All the gold has been kept in England. Then that gold has been invested in British securities, so that the Indian gold is really used for the purposes of London finances and not for the reserves of the Paper Currency or Gold Standard. If you read the weekly currency statements that are published in the Gazette, you will find there clearly stated week after week that "the gold in the gold standard branch amounted to rupees *nil*". That is because the gold is not there, but in place of gold there are gold securities; and if

[Mr. Jamnadas M. Mehta.]

we pass this clause about the sale of gold exchange to foreign countries, our gold instead of being diverted to London alone as now will be also kept in France, Japan or New York, where it will be wanted for Britain to pay her debts, and the hope of India to get gold for her own reserves will vanish into remote futurity.

The Honourable Sir Basil Blackett: The Honourable Member makes so many misstatements that I would like him to explain some of them. Will he explain how the keeping of India's gold assets in New York will enable Britain to pay her debts?

Mr. Jamnadas M. Mehta: I say you are keeping our gold in the form of securities, not in gold. To that extent our gold goes into American hands. That is all.

The Honourable Sir Basil Blackett: Thank you.

Mr. Jamnadas M. Mehta: The author of the misstatements stands exposed. He had to admit that only five minutes ago.

I was trying to emphasize the fact that under this new system as proposed in the Bill, the gold reserves of India will be scattered all over the world, not merely in England, and this is the most objectionable feature of this Bill. The Honourable the Finance Member has repeatedly said to-day that the introduction of a gold currency has been delayed on account of the huge volume of the rupee token currency in circulation. Really speaking the immense amount of token currency is the result of the fact that gold belonging to India was never allowed to come to this country in payment of our balance of trade; it was insisted that payment should be made in rupees even in the time of the War when silver was so dear, and now we are made to realise that that is going to be one of the reasons why the gold currency is delayed. How far that sort of argument appeals to anybody I cannot understand. It really is adding insult to injury. At least it cannot appeal to any reasonable man.

Sir, I do not want to delay the House very much at this stage and I would not have done so except for some controversial statements which the Finance Member made. There is one more thing I wish to emphasize; I am not prepared at this stage to say whether it would be right to have a separate Reserve Bank or whether it would be desirable to develop the existing Imperial Bank into a Reserve or Central Bank. That would be naturally considered when we have received the opinions of the various interests that are concerned in this matter, but I would like to say that there should be no unnecessary duplication of institutions, and if what we want to be done through this Reserve Bank can be effectively done with the necessary changes by legislation through the machinery of the Imperial Bank, we should certainly like that that also should be considered; if it is found that that is hopeless and cannot be done, then only should a separate institution be started; otherwise the Imperial Bank will weaken the Reserve Bank and the Reserve Bank will weaken the Imperial Bank.

Then, Sir, another statement was made by the Finance Member, namely, that for the first time the rupee will, under this Bill, become a coin linked to gold. That statement, I say, is utterly unfounded, in fact the rupee has been always regarded, since 1898, as containing a particular amount of gold, that is 7·53 grains of gold. It has always been understood that the rupee contained 7·53 grains of gold and that has been the basis of our currency legislation. The rupee was linked with gold since that time and it is not that this new legislation is going to link it for the first time. If the Finance Member will only refer to the speeches of his predecessors, such as Sir James Meston, he will find that that great authority has made that statement, and the Chamberlain Commission also has made the statement that the rupee was linked with gold, and I wonder that the Finance Member should come forward and say that he is now linking it with gold for the first time.

The Honourable Sir Basil Blackett: A thing may be linked without being completely linked.

Mr. Jamnadas M. Mehta: So that we are not getting any reform which we had not had. Sir, I hope that this Reserve Bank or Imperial Bank, or whatever the institution eventually is, will become a truly bankers' bank and will have a good policy for developing a re-discount market. The Finance Member will be glad to note the recommendation of two great authorities, Drs. Kemmerer and Vissering to the South African Government. They made a report in which they said that the right method for developing a discount market was:

"that merchants should give preferential terms to purchasers who are willing to accept bills in lieu of obtaining credit on open accounts and that commercial banks should give rates that are more preferential than those now prevailing to merchants who obtain their advances from banks by discounting such bills as compared with merchants who borrow from banks on current account, namely, overdrafts or one-name promissory notes and that the Reserve Bank should give substantially preferential discount and rediscount rates on trade acceptances."

This is the kind of a discount market which I should like to see developed in this country through the machinery of a Reserve Bank, or similar institution.

Then I want to sound a note of warning before I finally close my observations. As my Honourable friend Mr. Birla pointed out, there is not going to be under this Bill any sale of gold as the rate at which gold will be sold will be so prohibitive that instead of buying gold it will pay merchants to sell gold when the Government are also selling gold, because the difference between the buying and the selling rates will be so great that when Government are willing to sell gold to merchants, they themselves will be willing to sell gold to Government; and, therefore, this provision about the sale of gold is going to remain a dead letter even if it is not an eye-wash.

Sir, I want to warn the House again that the provision in this Bill as also in the Currency Bill, that our gold may be invested in foreign securities and that the Government or the currency authority may sell gold exchange to foreign countries when necessary—this, as I said at the beginning, would dissipate our gold reserves. Take even a poor country like Germany to-day—I have the latest issue of the "Statist," dated 1st January 1927, in which the gold policy of the Reichs Bank is stated. Dr. Schacht, who is the greatest authority on banking in Germany, says that it is desirable to have the gold reserves kept in your own country and not have gold invested in securities. This is how the matter is stated:

"The Reichs Bank in general holds the view that its assets abroad should not exceed certain limits. Gold although it yields no interest is not liable to the risks to which investments abroad may under certain circumstances be exposed. In calculating gold cover, allowance must be made for the not inconsiderable circulation of coin with a large proportion of alloy. Further a gold cover has the psychological advantage that the general public clearly realises when the gold export point is reached."

[Mr. Jamnadas M. Mehta.]

As I said before, Dr. Schacht is the greatest authority on German banking and his view is that it is better to have actual gold instead of gold securities. I hope that also will not be forgotten when we eventually pass the Bill.

The Honourable Sir Basil Blackett: Is there any difference between the German system and that proposed here? A certain proportion is to be kept in Germany and the rest in gold securities.

Mr. Jamnadas M. Mehta: We had in the past gold in the Gold Standard Reserve but you have seen to it that there is now as little gold as possible. That is the point I am making, that we should have a substantial proportion of gold in our reserves—a far more substantial proportion than in the past.

The Honourable Sir Basil Blackett: That is the proposal of the Bill, Sir.

Mr. Jamnadas M. Mehta: Well, Sir, if that is so, we will take it into account. I am simply warning you in view of the past history of the case. Even the Bank of England, in spite of all that is said to the contrary here, does not go in for innovations of having gold securities in other countries but keeps all its gold in its own country. Sir, I support this motion for circulation.

Mr. T. Prakasam (East Godavari and West Godavari *cum* Kistna: Non-Muhammadan Rural): Sir, the history of currency in this country has been a continuous tragedy. Every effort that has been made at every stage by Indian experts or by the leaders of Indian industry or commerce to get a proper redress has been circumvented by the Government and by the Finance Member in charge each time. I do not propose now at this stage to deal with the different stages of the ratio question in connection with this Bill. It is proposed that this measure should be circulated and it has been stated by the Honourable Member in charge of this Bill that it opens up a new era for this country. I hope that this opens up a new era, at least by the time it passes out of this House finally. As it stands, whether really there would be any such relief to the country, I have not been able to convince myself. But the establishment of a Central Bank with the object of removing the power from the Secretary of State in Council there and from the hands of the Finance Department here and locating it in a central bank if it should be an autonomous body by itself and if it should be a body which would control the currency and credit of the country, will be a welcome measure. I have been anxious to see whether the proposed institution of this Central Bank would at least free us from the danger of deflation and inflation and from the power which the Finance Minister and the Secretary of State in Council have been able to exercise and bring this country to ruin from time to time. While the Currency Commission, which was brought into existence for the purpose of knowing what is the proper ratio, was sitting and while the Currency Commission was still proposing to take evidence, the Finance Minister has been busy deflating . . . .

The Honourable Sir Basil Blackett: And inflating.

Mr. T. Prakasam: And what is the amount? In the month of April 1926—I think by that time, the deflation was by about 8 crores of rupees.

While this very question was in issue, while the Commission was sitting to inquire whether it is this ratio of 1*s.* 6*d.* or that ratio of 1*s.* 4*d.* that should be adopted by this country, this process of deflation has been going on. I will now read this short paragraph from the *Times of India* of the 4th December, 1926, which will tell the House what the process of this deflation has been and what the financial condition has been:

"4th December 1926: The Imperial Bank's statement shows a decrease in the cash balance of 331 lakhs; the trade demand is better by 102 lakhs, and Government and other securities held by the Bank, have declined by 110 lakhs. Government deposits show a decline of 349 lakhs and this is accounted for by a further deflation of 5·33 crores carried out by Government last week. 4 crores of this deflation has been carried out against withdrawal of sterling securities in London and the balance of 132 lakhs by cancellation of *ad hoc* securities in India. The total deflation since the beginning of the financial year now amounts to 24·84 crores, of which 19 crores is against withdrawal of sterling securities and 5·84 crores against cancellation of *ad hoc* rupee securities. This reduces the sterling securities held in London for the Currency Department to 9.99 crores. It is considered that it will not be many weeks before the balance of 9·99 crores disappears if the present policy of deflation continues."

Well, Sir, if we could be saved at least from this power which this department could exercise in this manner, that will be the greatest thing with regard to this measure when it passes this House. The Central Bank, I presume, from the imperfect knowledge that I have of the different parts of the world, must be an autonomous body. If the Central Bank proposed by this measure will be such a body, which will exercise complete control over currency and credit, unhampered by the Secretary of State or the Finance Department here, and if the Central Bank is so constituted with regard to the management, constitution of the Board and other matters as to guarantee the interests of this country, certainly, Sir, this will be a measure which we should all welcome and which we should support.

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I have gone through this Bill that has been placed before us and before the country for circulation. In Chapter II, share capital is proposed. What I have been feeling I am trying to place before this House at present. This Central Bank under the present conditions of the country I feel must be one that would not have any share capital at all. There should be no shareholders. It must be an institution which should be financed from our own finances and that should be made an independent body. Then clause 10 lays down that the Governor or Deputy Governor of the Board could be removed by the Governor General in Council. Well, that power should not be in that form. And in Chapter III, clause 18, there is a proviso which gives the power to the Governor General to take away whatever may have been granted in the previous portions of the Bill. The proviso is as follows: (The Bank to have the right to transact Government business)

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

Certainly if this proviso is to be effective, whatever powers may have been given to the Central Bank in the other clauses will become nugatory whenever this power could be exercised by the Governor General in Council and by the propounder of this Bill to-day in this House. As regards the obligations to sell in gold, clause 35 deals with these obligations. I would submit to this House that the obligation to buy and sell must be regulated

[Mr. T. Prakasam.]

in such a manner that gold is bought and sold in India only. As regards the location of our reserve fund, I should say that the whole of it must be only in India. If all these points are embodied in this and if we modify the measure finally in such a manner as would give the Central Bank or the Reserve Banks a proper management and a proper power which will protect the interests of Indian commerce and Indian industry, I should say that there would be some good done to this country. Otherwise, if the Bill should pass in the form in which it has been presented here, it will be another camouflage similar to the other measures that have been introduced and that have been given effect to in the same manner whatever may have been the form or the language in which they had appeared.

Mr. R. K. Shanmukham Chetty (Salem and Coimbatore *cum* North Arcot: Non-Muhammadan Rural): Sir, I must confess I did not expect that at this stage of the Bill we would hear the very interesting speech that the Honourable the Finance Member delivered to us this morning. I am glad, he has confessed that at least on one point he has been misled . . . .

The Honourable Sir Basil Blackett: What point is that?

Mr. R. K. Shanmukham Chetty: Just wait a minute,—and that is about the wishes of the various sections of this House as to the exact time when they would like to have the Currency Bill discussed. It is usual to ascertain the opinion of the various sections of the House by personal talks, either with the leaders or the Secretaries or the Whips of the various parties concerned. So far as we are concerned, Sir, none of these officers in our party have been consulted, and from what my Honourable friend Sir Purshotamdas has said, and from what I have heard from other friends, none of them have been consulted on this matter, and yet, the Honourable the Finance Member had the courage to say he understood from the various sections of the House . . . .

Sir Walter Willson (Associated Chambers of Commerce: Nominated Non-Official): Did he say 'of the House'?

Mr. R. K. Shanmukham Chetty: Yes.

Sir Walter Willson: I do not remember it.

Mr. K. Ahmed (Rajshahi Division: Muhammadan Rural): When were the office bearers of your Party elected?

Mr. President: Order, order. The Honourable the Finance Member can take care of himself.

Mr. R. K. Shanmukham Chetty: He said that he had reason to think that the various sections of the House would like the Currency Bill to be discussed at the time of the Budget. I am glad that the Honourable the Finance Member has confessed that he has been misled somehow or other in this matter.

Mr. M. A. Jinnah (Bombay City: Muhammadan Urban): He stands exposed.

Mr. Jamnadas M. Mehta: He misled.

Mr. R. K. Shanmukham Chetty: He has stood exposed for the last three years and that is no new position for him.

Sir, the main principles of this Bill are to introduce a modified form of gold standard in this country and to co-ordinate the currency and credit policy of the country I wholeheartedly support these principles underlying this Bill. But unfortunately, the gold standard that is sought to be introduced by this measure is one which it is difficult for even experts to thoroughly grasp. From the trouble that the Honourable the Finance Member had in taking out a rupee coin from his pocket and in trying to explain what it will mean in future we can gather some idea of the complications underlying the new gold bullion standard. In paragraph 22 of their Report the Royal Commission have made the following observations:

"Certainty and simplicity have been lacking (in the present system); and for a system of currency under Indian conditions and for the Indian people these two last qualities are as vitally necessary as the first. Without certainty and simplicity in the system, there will never in India be confidence in the stability of the currency, and without confidence in the stability of the currency, the uninstructed public will never be weaned from those uneconomic habits of hoarding and that disinclination to investment which are now the worst obstacles to the progress of the nation."

Sir, having made the statement that simplicity is very necessary especially in Indian conditions the Currency Commission proceeded to advocate a policy which is far from simple. So far as the obligation to purchase gold is concerned it does not differ from the present statutory obligation imposed upon the Government. Even under the present law Government are bound to take sovereigns and half-sovereigns at a particular price and the effect of the new system will be to re-enact this obligation on the part of the Government in a more stringent form; because in future the Government will only be obliged to purchase gold in a quantity not less than 400 ozs. in weight. So far as the obligation to purchase gold is concerned, it does not therefore differ from the existing statutory obligation that is imposed upon the Government. What the people of India would like to see is a simple and honest gold standard if I might use such a term. I recognise, Sir, that it may not be possible immediately to achieve this aim and introduce a simple gold standard in this country. But I do not see what obstacle there might be for the Government either to give an undertaking or to make a provision in the Bill that within a certain fixed period this form of gold standard will be brought into existence. I was surprised to hear the Honourable the Finance Member saying that the fixation of such a period would indefinitely retard the achievement of a pure gold standard in India. I for my part must confess that I cannot understand this statement of the Honourable Member.

The Honourable Sir Basil Blackett: I am being misquoted so frequently that I must apologise if I intervene to correct the Honourable Member. I said "it might even retard" not "would indefinitely retard".

Mr. R. K. Shanmukham Chetty: I am prepared to accept the amendment of the Honourable the Finance Member. May I ask what grounds he has to suspect that the fixation of a period like that might even retard the realisation of a full gold standard in this country! So far as I can see, if a provision of that kind is introduced in this Bill it will impose either on the Government or upon the Reserve Bank that will come into existence an obligation to build up its gold resources so as to be able in the fixed period to issue gold in any quantity and form that the public want; and I cannot understand how such a provision will have the tendency to retard the realisation of the object that we have got in view.

The policy that has been recently pursued by the Honourable the Finance Member will indefinitely postpone the realisation of a simple gold standard in this country. As a result of the deflation policy which he has been

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pursuing during the current financial year our gold securities have been reduced by about Rs. 23 crores and contraction of the volume of currency has been brought about. My Honourable friend in his speech attempted to give an explanation of that policy. That explanation was this. To his dismay he found Rs. 20 crores coming into the Paper Currency Reserve and this he thought was evidence of artificial inflation and his policy was simply to neutralise this artificial inflation. May I ask the Honourable the Finance Member what basis he has got to assume that this Rs. 20 crores has come from the hoards and not from the actual rupees in circulation? We know that we have got two kinds of currency circulating in the land, rupees and notes. And, so far as rupees are concerned, we know that a certain amount of rupees are in active circulation and a certain amount is in hoards. Now, what is there for the Honourable the Finance Member to presume that this Rs. 20 crores came from hoards and not from the rupees that are in active circulation? I maintain that the Rs. 20 crores came from rupees in active circulation and to that extent the number of rupees in circulation has been reduced and, if this assumption is correct, there cannot be any justification for the deflation policy that he has been pursuing. Sir, the explanation for his policy is not far to seek. The tendency is towards an exchange below 18*d*. The Honourable the Finance Member wants to maintain exchange at 18*d*. at any cost. During the last year there has been a steady decrease in gold prices in the world. Does the Honourable Member deny that, Sir? He is shaking his head and I do not know . . . .

The Honourable Sir Basil Blackett: Will the Honourable Member repeat his statement?

Mr. R. K. Shanmukham Chetty: During the last year there has been a steady fall in the gold prices in the world and that is the statement that I make deliberately, and I challenge the Honourable the Finance Member to dispute that statement. I am prepared to prove it if he challenges it.

The Honourable Sir Basil Blackett: May I ask the Honourable Member to explain why the index number of prices in the United Kingdom, according to the Board of Trade, was 152·1 in December, 1925, and 152·1 in October, 1926. There has been a steady fall in prices!

Mr. R. K. Shanmukham Chetty: May I ask the Honourable Member to explain this. According to the statistics of the United States Bureau of Labour the index number in January 1926 was 156; in February 155; March, April and May about 151·5; July 150·7; August 149·2. Those are the figures I have got and these figures were taken from the index figures of the United States Bureau of Labour.

The Honourable Sir Basil Blackett: Will the Honourable Member go on to the next month?

Mr. R. K. Shanmukham Chetty: The next month is 150. (Laughter.) There is not much difference between 149·2 and 150. If the Honourable Member is to gloat over this difference of 8 points I can only sympathise with his knowledge of price movements. Sir, there has been a steady decline in the gold prices in the world during the current year.

The Honourable Sir Basil Blackett: I deny it.

Mr. R. K. Shanmukham Chetty: I maintain it. The fall in gold prices would be neutralised either by rupee prices falling or by rupee prices remaining the same and exchange falling. The Finance Member wants to prejudge the whole issue by attempting to keep exchange at a certain level and bringing about a fall in internal prices by deflation of our currency. The Honourable Member who ever since he came to India has been singing the praise of the stability of internal level of prices is now deflating the currency and bringing down the level of prices with a view to keep up his pet theory of an 18*d*. ratio to the rupee. That is the only explanation that can be given for the artificial deflation that he has been bringing about and there is no use his trying to say that the policy of deflation is the result of neutralising the artificial inflation that has been brought about by the coming out of 20 crores of rupees to his dismay. So much for the policy that he has been pursuing. So much for the dissipation of the gold resources and thereby indefinitely postponing the realisation of a simple gold standard in the country.

So far as the constitution of the Reserve Bank is concerned, I wholeheartedly welcome the proposal in so far as it aims at co-ordinating the currency and the credit policies of the country. And in making this statement I must take leave very diffidently to differ from my Honourable colleague Sir Purshotamdas Thakurdas. I think, Sir, that, if we are to place our currency policy on a scientific basis, there must be a co-ordination of currency and credit policies in one hand, and, for obvious reasons, that cannot be placed in the hands of any Government, even the Government of India. My Honourable friend Sir Purshotamdas Thakurdas thought that the remedy lay in transferring the control from Whitehall to the hands of the officials of the Government of India. I for one am not prepared to accede to any such step. The control of the currency and credit policy cannot be placed in the hands of a Government. It is best for all concerned that it should be placed in the hands of an independent bank. (*An Honourable Member*: "Swarajist?") That will be the ideal. Unfortunately the history of currency in this country has brought to the forefront this fact, that the interests of India as understood by Indians are very different from the interests of India as understood by the European community. I would therefore impress the necessity for making ample provision to entrust the control of the Reserve Bank to Indian hands, people who know the interests of India best. Safeguards must also be made for the composition and location of the reserves of the Bank. It has always been our complaint that the free inflow of gold into India has been artificially stopped by the action of the Secretary of State in purchasing sterling beyond his actual requirements. If a Reserve Bank is to be given unlimited freedom to locate its reserves in any country in any form that it pleases, it would still be possible for the Bank to prohibit the free inflow of gold into India. Ample provision must therefore be made to define the composition and location of the reserves of the Bank, and in this particular matter I for one must emphatically protest against the proposal to allow the Bank to keep its reserves in foreign countries as well. I would not go to the extent of my friend Mr. Jamnadas Mehta in saying that it would enable the British Government to pay off its debts in times of crisis, but I would maintain, that the placing of our reserves in foreign countries would expose our reserves to serious risks in times of international crisis, as war, and I do not want that the slender resources of our country should be exposed to

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those risks. I hope that when the time comes the public at large and this House will suggest suitable modifications and amendments to ensure these safeguards. With these observations I support the proposition of the Honourable the Finance Member.

Mr. Fazal Ibrahim Rahimtulla (Bombay Central Division: Muhammadan Rural): Sir, when I entered this hall I had no desire to take part in the deliberations to-day on a Bill which was going for circulation for eliciting opinions thereon. But one remark of the Honourable the Finance Member has come to those of us who have read his speeches carefully, which I shall refer to presently, with a considerable amount of surprise. His remark that the Currency Bills will be discussed after the Budget is introduced amounts to nothing more than the strengthening of the rumour that there is no sincerity on the part of Government regarding the exchange ratio. I shall presently read some of the paragraphs of his speeches to convince this House of the anxiety of the Honourable the Finance Member to deal with this question in an atmosphere of calm deliberation. I shall read to you, Sir, the speech of the Honourable Sir Basil Blackett, before the Delhi University on the 23rd November, 1926, on the Report of the Indian Currency Commission:

"My anxiety throughout has been that the Commission's recommendations should be studied and weighed in an atmosphere of calm deliberation, and that contention or at least contentiousness should be avoided. India is deeply interested in right conclusions being reached, and putting into operation a spirit of controversy not only prejudices judgment but also involves the risk that we may lose the whole of the great benefits which are I believe capable of being derived from the Commission's Report."

I shall read, Sir, a similar paragraph from his speech at Cawnpore on the 4th December, 1926:

"My dearest wish is that the Commission's proposals may be as widely understood as their importance deserves."

I shall read another speech of his at Lahore:

"It is most desirable that its meaning and purpose should be fully explained to the Indian public, so that the discussion of it in the Legislature may proceed in the light of as complete an understanding as is possible. The desire of the Government of India is that the action finally taken shall be taken after a most thorough examination of their proposals by the public and"

—I may draw the attention of the House to this—

"the fullest consultation with the Legislature."

I, Sir, share with him in that anxiety that he will give us the fullest opportunity to discuss this question and not cloud the issue, namely, by bringing the discussion on the Currency Bills after the Budget is introduced. We are here, Sir, to be convinced by the Honourable Finance Member about the exchange ratio which he has advocated all along, and he has taken one departure which I welcome, namely, of giving expression to opinions outside this House, though the practice was all along that as long as the Honourable Members of the Executive Council remained as such, they never ventilated their opinions outside the House. It is a very welcome move and I hope, Sir, it will be allowed to be continued. As regards the Bill, Sir, I do not wish to say anything at present but I shall appeal to the Honourable the Finance Member that, if he wishes us to give full consideration to the Currency Bills which are at present coming up for discussion, he will bring them up as soon as possible.

Mr. A. Rangaswami Iyengar (Tanjore *cum* Trichinopoly: Non-Muhammadan Rural): Sir, I desire only to say a few words in regard to two points that struck me as necessary to be considered in connection with the circulation of this Bill. The Honourable Sir Basil Blackett referred to the new standard that is going to be established in this country as a gold standard, and he also referred to the terms in which rupees will be valued hereafter. He contended, Sir, that we ought by this process to arrive at the stage in which gold should cease to be in actual circulation in this country, and that we should go only by a method of valuation in terms of gold by a process of offering to buy and sell gold through the Central Bank at a fixed rate. I am not sure, Sir, whether this proposal is one which could be immediately adopted in this country with safety, and that is the reason, Sir, why all along publicists in this country have insisted that we should not only have gold bullion standard but an actual gold standard with a gold coin in actual circulation. The theory that you can have a gold standard without gold being in actual circulation is all right, but it has to be recollected that even in England the idea that gold could be actually absent from circulation was only adopted in the year of grace 1925, and the point is still not free from controversy. The Honourable Sir Basil Blackett quoted an American authority to say that this is an ideal state of things. It may be ideal, Sir, but I think it is not a practical state of things in which we could easily find this country to be for some years to come. On the other hand, I can quote him another well known American authority who says that the theory that gold ought not return to general circulation but ought to be kept in great reserves where it would be instantly subject to the control of organised Banking or public treasuries as a basis for credit, is thoroughly unsound. Because under normal conditions, as he points out, in a gold standard country, people will be seeing and handling a substantial amount of the actual yellow metal: They will respect their paper money more if they know that it actually represents gold and that gold can be got for it, instantly and without difficulty. The presence of a substantial amount of gold in general circulation has a splendid psychological effect and is a very important factor in combating money heresies. The ordinary man thinks—and I think the man in India thinks particularly—in very simple terms, and, as my friend Mr. Shanmukham Chetty said, he wants to have his currency on a simple and easily understandable basis, but he is quite capable of understanding the true theory of paper money only if that theory is emphasised in his daily practice. The true theory of paper money is, as this authority points out, that a piece of paper money is a demand promissory note, a promise to pay real money—gold—on demand. If the ordinary man has in his own practice an opportunity to test this principle, to present paper money for redemption, and to have it redeemed, to get gold when he wants it, and to turn in gold for paper when it is more convenient to use the paper, he is not easily misled by fiat money propagandists.

Sir, what I want to know is whether it is the Government's intention to withdraw currency notes in their present form, which says "I promise to pay so and so Rs. 5" and substitute in its place the form which is put

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down in the Currency Commission's Report which does not indicate any such promise. I say, Sir, that this is a proposal which ought to be very carefully considered because of its psychological effect on people of this country. That is a matter, Sir, on which, I think, the Government should inquire fully and obtain the opinions of Local Governments and of representative bodies in the several Provinces. Then, the idea that all gold should be stocked in the reserves and that gold should not actually circulate is also, I think, fallacious, because the feeling that gold is in actual circulation will, as the authority I quoted puts it, have a great psychological effect, and I think it would be unwise in this view to say that a mere gold bullion standard is a proper standard to maintain in this country. Therefore, whether we have got to go through the transitory process of having a gold bullion standard before having a gold standard or not, it seems to me essential that we should now declare it to be the settled policy of this Government that the Act we now put into operation and the central banking authority that we now set up are out to establish early a gold currency in actual circulation and operate the reserves in their hands for that purpose.

As regards the constitution of the Central Bank, I agree with my friend Mr. Prakasam that there is a great deal to be looked into before we can accept the constitution as it is detailed in this Bill. We feel, Sir, that it must be in a very true sense "Swarajist" in the sense that it is self-governing, that it is not controlled by foreign capitalist interests, that it is essentially controlled by interests that are Indian and national and that the Indian Government should, as far as possible, not seek to put itself in the position of being dictated to from Whitehall on this matter. Therefore, as regards the constitution, I say we have every right to reserve our opinion to see that this institution is made truly and typically Indian. These are the remarks that I wanted to make on this question.

Mr. N. M. Joshi (Nominated: Labour Interests): Sir, at this stage I wish to make a few remarks on only two points. One point that I want to refer to is the omission of an important class of banks from the list given in the Schedule, I mean the Central Co-operative Banks which exist now in most of the provinces. These banks, from the point of view of the common people, are as important as several other banks mentioned in the list given in the First Schedule. I therefore hope that the public will insist, when the Bill is circulated among them for opinion, that these banks are given the status which they deserve along with the other banks mentioned in this list.

The second point on which I wish to say a word is the constitution of the Reserve Bank. I agree with the Honourable Member from Madras that there should be no share capital for the Reserve Bank. Government are quite rich enough for the capital required for the Reserve Bank. If the control of the nation's currency is to be left to anybody, it should be a body representative of the whole people and not a body representing a few shareholders. If the Government insist, and if the people approve of their doing so, that the control of the currency should be in the hands of a shareholders' bank, may I suggest that the amount of such share of the Reserve Bank should be a very small one. I would not put it at more than Re. 1. I would also make it a condition that no man should be given more than one share. I hope that the Government will take my points into consideration, and I also hope that the public will insist upon the two points being considered very seriously as regards this Bill.

Mr. M. A. Jinnah: Sir, I do not wish, so far as the provisions of this Bill are concerned, to take part in the debate and make any startling suggestion or even reasonable suggestion at the present moment, for the simple reason that when a motion is moved for the circulation of a Bill, I believe this is the first time that I know that a debate of this character has taken place. (*Several Honourable Members*: "No, no.") If the Honourable Members will permit me, I will say that I do not remember a single occasion when a motion that a Bill be circulated was moved, that the principles of the Bill were discussed. I do not remember it.

Now, I am not committed in the least degree to the principles of this Bill, and I am not asked to commit myself to the principle of this Bill today. All that the Honourable Member wants is that this Bill be circulated for opinion, but the Honourable Member set the example—a very noble example it may be—he set the example of making a very long statement. And, Sir, listening to that long and very interesting statement, I found that the only point of any importance in that statement was that the Bill further to amend the Indian Coinage Act of 1906 and the Indian Paper Currency Act of 1923 for certain purposes would be considered along with the Budget. Sir, I do ask the Honourable Member, is he really serious about it? Does he not realise that a worse possible course the Government cannot follow than the one that he suggested. Sir, when my Honourable friend, Sir Purshotamdas asked the Honourable Member, "When will you take up that Bill?", he said that question might well be addressed to the Leader of the House. And within a very short time he gave us the information that the intention of the Government was to take up that Bill along with the Budget. I wonder whether he had in the meantime obtained the permission of the Leader of the House to make that statement.

The Honourable Sir Basil Blackett: Yes, Sir.

Mr. M. A. Jinnah: He did I thought so, Sir: he is a very loyal follower of his Leader. I do ask the Honourable Member not to regard the Members of this House as children. He knew perfectly well that he was going to make that statement: he knew perfectly well that what he wanted was to put the House on the horns of a dilemma. "I have got the Budget, I have prepared my Budget on the basis of one and six pence; if you change the ratio now, see what the consequences will be." Is that what he wanted us to deal with? Sir, I would like to use much stronger language, but I say that it will be a breach of faith with this House, for this reason that in August the Honourable Member speaking on behalf of the Government of India urged that this was a matter which could not brook delay. He was anxious that that measure should be discussed in the August Session. Sir, we pleaded with folded hands and on our knees that we had not yet received a copy of the recommendations of the Commission. We had not received the evidence, we had not received the papers and we pleaded with him. The Honourable Member

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said: "I cannot help that; what can I do? The urgency of this measure is such that we must proceed." It was after great pressure from a considerable section of the House that he himself realised that it would be impossible to do justice to that subject and eventually the Government themselves agreed that it should stand adjourned. And then we understood clearly that this measure would be taken up at the earliest possible moment when the Assembly met, but now we are told that it will be considered along with the Budget.

An Honourable Member: After the introduction of the Budget.

Mr. M. A. Jinnah: After the introduction of the Budget, quite so; and we know when the Budget is introduced—practically at the fag end of the Session. We know that after the Budget is introduced there is very little time; so it means practically the same thing as that it will be considered along with the Budget. Sir, I know I have no power and therefore I cannot indulge in any threats, but I say again that it will be in the highest degree an act of breach of faith on the part of Government to put this House in that difficult position, and I do therefore wish expressly to appeal to you not to adopt that course but to bring this Bill at the earliest possible moment before the House.

Pandit Madan Mohan Malaviya (Allahabad and Jhansi Divisions: Non-Muhammadan Rural): Sir, I agree with the Honourable the Home Member—I mean the Finance Member—that the measure before us is one of the most important measures ever introduced into this House, and I hope the discussion which has taken place will have impressed that importance upon every Member of this House. The Bill is important in many ways. The three Bills taken together deal with questions which vitally affect the people of this country, but the Bill which is now before us has been presented to us in a form which specially enhances its importance. Of the three Bills, that which relates to the fixing of the ratio is not now before us for discussion, but I wish to join with my friends in requesting the Honourable the Home Member—I mean the Finance Member—to fix an early date for the discussion of that Bill. He showed from his speech made at the commencement of the debate to-day that he had some regard for the opinion of this House when he told the House that he understood, as he thought, that the sense of the House was in favour of the postponement of the discussion on the measure until after the introduction of the Budget. By saying so he clearly gave the House reason to believe that he respected and wished to respect the opinion of this House. Therefore, now that that opinion has been expressed here in very clear terms . . . .

The Honourable Sir Basil Blackett: Has it?

Pandit Madan Mohan Malaviya: Has it not?

An Honourable Member: If you like we shall move an adjournment on that.

Pandit Madan Mohan Malaviya: I do not think that after hearing the speeches which have been made here the Honourable the Finance Member could be left in any doubt that there is a strong feeling in this House that the discussion of the question of the ratio should not be postponed till after the introduction of the Budget. After what has been said it will be inexcusable for me to take up the time of the House by dwelling further on that aspect of the question. I hope that the Honourable the Finance Member will not be guilty of a discourtesy to this House by not acceding to a request which has been made from so many quarters of this House.

Coming now to the Bill before us, I regret I have to differ from my Honourable friend Mr. Jinnah in his view as to whether a discussion of the principle of the Bill should take place at this stage. When a Bill of importance is introduced, the principle or principles of the Bill must be discussed before a motion for a circulation of the Bill is carried out. The country expects that those of us who have been elected to represent the people and to watch over their interests will study the measures that are introduced in this Council and give such a lead, such an indication of our opinion to the country, as may help the people to understand those measures and to discuss them. Now here is a measure of very great importance. It is a mixture of curious quality. It is a Bill at once to establish a gold standard currency for British India and to constitute a Reserve Bank of India. It is unfortunately couched in language which is open to the charge of being calculated to mislead. It is a question whether a Bill to establish a gold standard currency for British India and one to constitute a Reserve Bank of India should be mixed up. I ask the Honourable the Finance Member to consider the importance of the question of banking apart from the question of the gold standard currency. The importance of a gold standard with a gold currency is sufficiently great to require to be dealt with in a separate measure. Taking up first the question of the gold standard currency, I wish the Preamble had read:

"Whereas it is expedient to provide for the establishment of a gold standard with a gold currency for British India",

and that it had stopped there. There should then have been a separate Bill to deal with the question of a State Bank or a Central Bank or a Reserve Bank and of the whole system of banking for India. I am sorry to find, Sir, that in the year of grace 1927 we are still debating the question of a gold standard in this country. Japan which was very far backward in 1872, started with a gold standard in that year. It has developed its system of banking enormously. It has prospered wonderfully. Here in India though the question has often been taken up it has not yet been decided. When in 1893 it was decided to close the mints to the free coinage of silver, it was done distinctly with the object of introducing a gold standard in India. Five years later the Fowler Committee was appointed in 1898, to consider and report on "the proposals of the Government of India". . . . to give effect to the policy which "had for its declared object the establishment of a gold standard in India". The Fowler Committee, "looking forward . . . . to the effective establishment in India of a gold standard and currency based on the principles of the free inflow and outflow of gold," recommended that:

"(1) The Indian Mints should continue closed to the unrestricted coinage of silver and should be opened to the unrestricted coinage of gold;

(2) The sovereign should be made legal tender and a current coin;

(3) The ratio between the rupee and the pound sterling should be Rs. 15 to the pound,—that is, the exchange value of the rupee should be 1*s.* 4*d.*;

(4) No legal obligation to give gold for rupees for merely internal purposes should be accepted; but

(5) The profit on the coinage of rupee should be held in gold as a special reserve and made freely available for foreign remittances whenever exchange fell below gold specie point;

(6) The Government should continue to give rupees for gold, but fresh rupees should not be coined until the proportion of gold in the currency was found to exceed the requirements of the public."

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How very valuable were these recommendations as they are even to-day; I do not wish to repeat here the whole history of this question of a gold standard and currency. It is available to every Member of this House in the excellent minute of dissent written by my Honourable friend Sir Purshotamdas Thakurdas. But I wish to draw attention to the important fact that these decisions were arrived at by a Committee appointed by His Majesty's Government so far back as 1898, and that on the 31st of July 1909, the Viceroy telegraphed to the Secretary of State that the Government of India were preparing for the coinage of gold. How inexpressibly sad it is that the scheme has not been carried out during all these years. But what is sadder is this. Until the last Royal Commission sat and carried on its deliberations, the question of the introduction of a gold standard with a gold currency was not complicated by being mixed up with the question of a Central Bank for India. All previous discussions dealt only with the question of the introduction of a gold standard with a gold currency. So far as I am aware this is the first time that two important schemes have been mixed up in the way in which they have been, and that has placed us at a disadvantage in discussing them. We have first to consider whether the recommendations of the Currency Commission on the question of the introduction of a gold standard with a gold currency should be accepted by this House or not, whether they are sound or unsound. We have in the report of the Commission and in the evidence taken by it enough material to discuss and decide the question. The Finance Department of the Government of India submitted a scheme to the Commission for a gold standard with a gold currency for India. The Honourable the Finance Member himself gave evidence before the Commission in support of that scheme. It is unfortunate that he changed his opinion later on.

The Honourable Sir Basil Blackett: I have not changed my opinion, Sir.

Pandit Madan Mohan Malaviya: I am very glad and thankful to note that. I hope that you still adhere to the scheme for a gold standard with a gold currency for India.

The Honourable Sir Basil Blackett: I still adhere to my evidence.

Pandit Madan Mohan Malaviya: Very well. I see that I was giving my friend greater credit than he is willing to take. Now, Sir, the scheme that was placed before the Commission on behalf of the Government of India supports the demand of the educated Indians, of the representatives of the people, that a gold standard, a true and effective gold standard with a gold currency in circulation should be introduced in India. The Commission have given us their reasons, why they rejected that scheme. It is up to us to examine those reasons and to discuss them and to come to a conclusion. That is the great question that is now before this Assembly. I do not think that any other question should be mixed up with it; and if that is to be the point for consideration, apart from the question of a Central or a Reserve Bank, I ask the Honourable the Finance Member and the House to consider what is the right course for us to follow. There are two important questions: one is that of the ratio—whether it should be 16*d*. or 18*d*.—and the other the larger question whether we are going to have a true and effective gold standard with gold currency. The whole history of the last twenty-eight years is full of instruction for us as to what we should do in this direction; and I submit that while we should see that the ratio should be fixed at the correct figure, we should also see that the larger question of the establishment of a gold standard with a gold currency should be taken up and decided now. I think it has been a crime against the Indian people that this has been so long delayed. Who can say how much of injury India has suffered monetarily and otherwise by this question not having been taken up and settled so long? India has lost every day during the last 28 years. It has lost enormously. It is losing and it will continue to lose a great deal until this question is correctly decided. Is there any country in the world of the magnitude of India, with the magnitude of its import and export trade, which has suffered so much on account of exchange as India has suffered? There is none. And if you are now going to deal with this question of currency, are you not bound in duty to the people of India to adopt the right course, to adopt the right scheme in order that this loss should cease and the people of India should have a chance of becoming prosperous? I submit that this question ought to be taken up by itself, as the most momentous question that can be taken up by this House. The Honourable the Finance Member is unquestionably one of the ablest financial experts that India has known. This year is the last year of his office. I appeal to him to give to India the benefit of his entire ability and wisdom in solving it correctly. (The Honourable the Finance Member here held up a copy of the Bill.) I shall be sorry to think that that is all that the Honourable Member can offer. I hope the Honourable Member has something more than that to offer, and I hope that he will endeavour to give us something better than what he has placed before this House in this Bill. But, Sir, if the Finance Member will not help us, I hope the House will help itself, and see that the question which most vitally affects the people is fully discussed and rightly decided. The question now before the House is: What are the reasons which have been advanced by the Currency Commission for rejecting the scheme which was put forward by the Government of India? If those reasons commend themselves to this House, we must accept the proposals of the Commission. But if on being examined, those reasons are found to be untenable, if we can point out where they have erred, how many assumptions they have made which should not have been made, how the difficulties mentioned by them can be overcome, I am sure we shall be satisfied in not accepting their proposals. The matter deserves to be most carefully examined. And that is what I ask this House to do. I am glad this Bill is going out in circulation for eliciting opinions. Let it be circulated. I hope every Member of this House and everyone interested in the proper solution of this question will note the incongruity and complexity which has been introduced in the Bill by two matters of great importance being mixed up. My request to the House is to use all its influence—what little influence it has—to see that at this critical juncture the question of the introduction of an effective gold standard with a gold currency is considered, that this opportunity also is not lost. If we adopt the recommendations of the Commission, I agree with my Honourable friend Mr. Ghanshyam Das Birla—whom I cordially congratulate on his excellent maiden speech in this House—I entirely agree with him that for many many years to come we shall not have a gold standard, and it will be a great national calamity if we do not have it. I hope therefore that every Member of this House will give his best care to the consideration of this question, and use all his influence to see that the two questions are dealt with separately, namely, the question of a gold standard and currency and

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the ratio to be fixed between the rupee and the gold, and the question of a Central Bank with a sound system of banking such as this great country urgently needs.

Now, Sir, coming to this question of a Central Bank, the House is probably aware, that the idea of a Central Bank for India was mooted so far back as 1860. It was discussed several times between that year and 1876. But no decision was arrived at on the subject. The question was taken up by the Royal Commission on Indian Finance and Currency and they said in para. 222 of their Report which was published in 1914 that they regarded "the question, whatever decision might ultimately be arrived at upon it, as one of great importance for India, which deserves careful and early consideration by the Secretary of State and the Government of India". They recommended that there should be a committee appointed to consider and report whether a Central Board should be created and to submit to the authorities a concrete scheme for the establishment of such a Bank fully worked out in all its details and capable of immediate application. We Indians have repeatedly urged that a State Bank should be established. Writing my minute as a member of the Industrial Commission in 1918, I said:

"The interests of the country demand the early creation of an institution which will at once be the central reservoir to which all public balances should belong and the central fountain which will feed all fruitful national activities throughout the country."

But the matter has not been taken up all this time. We had also an External Capital Committee. From what the Honourable the Finance Member told us then we expected that the question of increasing bonds and banking facilities would be taken up early, but it has not been taken up. The question now brought before the House is one of establishing a Central Reserve bank. I endorse what Sir Purshotamdas Thakurdas has said upon this point. I feel that it is a question of greater importance that we should first provide banking facilities in this country by a sound system of national banking which will give to India what every civilised country enjoys in the way of those facilities. The Honourable the Finance Member referred to certain remarks of Dr. Sprague. But I can also quote Dr. Sprague in support of my view. He was asked by the Chairman of the Royal Commission to assist the Commission with advice upon the topic of a Central Bank and as regards its fundamental principles. The Chairman said to him:

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"Without entering into any matters requiring special knowledge about India, there must be points which emerge from the general principles of Central Banking which are applicable to those features of Indian conditions which are common knowledge to all of us."

And in answer Dr. Sprague said:

"In considering in general the subject of banking in India, I would like to describe first my feeling about the general principles which apply to the reorganisation of banking as distinguished from purely monetary problems. I would liken it, if you please, first to the construction of a foundation for a super-structure, and the foundation for a central banking system in India, to my mind, must be carefully introduced among and interwoven with the existing banking practices, the existing customs of business, the existing methods of Government in managing its fiscal affairs, and the existing business that India conducts; but that it should not be applied, as was done to a considerable extent in America, as a sort of forced readjustment of methods. If this foundation upon which the super-structure of a great bank of issue is to be erected in India is not a secure one, if the concrete in other words, has not had time to set, and the completed super-structure is built upon that foundation, the super-structure is liable to weaken, settle and possibly crack and fall."

He further said:

"I am sure that you will not gain the impression from what I say that the suggestions involve any criticism of the course of India in these matters in the past. You certainly cannot believe that when I remind you of the fact that it was only 12 years ago that the United States undertook to do exactly what India is now undertaking to do and indeed with us after 80 years of rather more extreme disorder in banking and monetary matters than probably any nation has experienced."

The Honourable Sir Basil Blackett: Perhaps that is the answer to the Honourable Member's earlier question whether any nation has suffered more than India. [The Honourable Member (Pandit Madan Mohan Malaviya) did not catch the interruption.]

Mr. President: If the Honourable Member desires to take notice of any interruption, he must give way and resume his seat.

Pandit Madan Mohan Malaviya: I beg your pardon, Sir. I want to draw the attention of the House—the Honourable the Finance Member knows it—to what Dr. Sprague further said in this connection. He said:

"Following the crisis of 1907, a Monetary Commission was appointed which undertook detailed studies of our own currency and banking experience together with detailed studies of banking organisation and practice in other parts of the world. After some three years of investigation, which included the publication of 30 or 40 volumes on currency and banking matters, this monetary commission prepared a Bill for a central bank, a Bill which we know in America as the Aldrich Bill. That Bill brought forward in 1911 was the subject of wide-spread discussion and criticism."

Dr. Sprague went on to say that it was after all that extended consideration and discussion that the Federal Reserve Act was passed. Here, the Royal Commission was appointed early last year, and so far as I remember, it took about six months' time to make its recommendations. Six months' time might have enabled it to make a recommendation with regard to the gold standard and gold currency being established in India, because the subject had been very much discussed in the past. But I submit that six months' time was not sufficient to enable the Commission to give the country and the Government a scheme for a Central Bank such as the country needs. Let me quote the last piece of advice which Dr. Sprague gave to this Commission. He said:

"I think our experience raises the presumption that in the case of India you will not reach the desired haven by a consideration of banking, currency, and exchange matters alone; but you will find that they are inextricably interwoven in with banking development, organisation and practice; and possibly our experience may suggest the rather unpleasant consequence that a number of years' work may be ahead of this commission."

Practically the same advice was given by another eminently high authority, *viz.*, Mr. Strong, Governor of the Bank of England, who said:

"The point that I would like to make, using this statement by way of analogy, is that the study of monetary reform in America extended over a period actually of six years in the effort made immediately prior to the establishment of the Federal Reserve Bank."

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He went on to say:

"Therefore, if I may make these remarks by way of suggestion, it seems to us that *the first stage of development should be a study of those banking and business conditions in India which will lay the foundation for the erection of this super-structure of a central bank of issue.* Those studies, it seems to us, should extend specifically into the business that India does, which is largely agricultural and largely confined to four or five major crops which produce a large export balance."

I could not cite two greater authorities than Dr. Sprague quoted by the Honourable the Finance Member himself, and Mr. Strong, the Governor of the Bank of England. They have both recommended that we should take more time and study the question more fully before we should discuss the question of establishing a Reserve Bank of the kind which has been recommended. I request the Government and the House not to disregard that advice.

I do not wish to take up the time of the House at this stage by pointing out the objections to which the constitution of the Reserve Bank is open, but I agree with my Honourable friend Mr. Joshi in one view which he has put forward. I would not go so far as to say that the shares in the Bank should be rupee shares, but I certainly agree with him that the shares should not be held by any one man or a group of men in excessively large numbers, and that this Bank to which it is proposed to transfer very great powers in the administration of the country's affairs, should be a bank which will have Indians fully represented on it. Let the House realise what this Bank is going to do. With the proposed modifications and extension of the Imperial Bank of India and the creation of the Reserve Bank a tremendous amount of power to direct and regulate the industrial, commercial and other business activities in this country will pass into the hands of the Governors of the Banks. That being so, the representatives of the people cannot be too cautious to see that the representation of the people on such institutions is quite satisfactory. They cannot take too great care to see that the Legislature and the Government acting according to its wishes, should exercise full control over such institutions. I submit, therefore, that the proposal for a Reserve Bank should be discussed separately from the question of the reform of currency which is pending before us. I do hope that when the Bill goes out for opinions these aspects of the question will be borne in mind.

Mr. T. Gavin-Jones (United Provinces: European): Sir, I am in entire agreement with the Honourable the Finance Member that this Bill should be circulated for eliciting opinions thereon. It requires the most careful consideration and deliberate action, but I was very surprised to hear that he wished to delay the consideration of the ratio problem until the introduction of the Budget. I entirely agree with the other Honourable Members here who have protested against this delay. The Honourable the Finance Member introduced a Bill last Session which was to settle the ratio question from the very beginning. It is a question that is of vital importance; it is a question on which everybody in India is wanting to know what is going to be done and what is going to be the result of our deliberations in this House, and I think we should consider it as soon as possible. Personally I am a protagonist of 1*s*. 4*d*. ratio, but there are other Honourable Members in this House who consider that 1*s*. 6*d*. is the correct ratio who also consider that this Bill should not be delayed. I hope therefore, that the Honourable Member for Finance will reconsider what he has said and will endeavour to take the Coinage Amendment Act into consideration as soon as possible.

The Honourable Sir Alexander Muddiman (Home Member): Sir, I very rarely intervene in a financial debate, and, I should not have done so on this occasion, in spite of the invitation of my Honourable friend the Pandit (Pandit Madan Mohan Malaviya) who so frequently referred to the Home Member in his speech that it looked as if he thought that the Home Member was in charge of the Bill. (Laughter.) But my reason for intervention is this. My Honourable friend and colleague, Sir Basil Blackett, has been attacked with great ferocity one might almost say, for his desire, his alleged desire—for I am sure nothing is further from his thought—to endeavour to force an issue on the House in a manner which it does not like. In fairness to the Honourable Member, let me read what he said this morning. What he said was this:

"In answer to the point that was put to me by Sir Purshotamdas Thakurdas a few minutes ago, the Government have not yet come to a decision as to the further procedure which will be adopted in regard to the currency measures generally. It depends partly on the progress of other business; but I may say that after consulting opinions so far as they could do so in various quarters of the House, Government are inclined to the view that it will be the desire of the majority of the Members of this House that the Currency Bill should not be brought on for effective discussion until the Budget has been introduced."

I have no doubt that my Honourable friend in making those remarks desired to elicit opinions from other quarters of the House and he has been extraordinarily successful in doing so. (Laughter.) Therefore, we may say that in regard to that matter the debate has been profitable. I must really ask the House, however, to bear in mind that no Government can hand over the carriage of its own case to the House. The Government must observe their reasonable rights in these matters just as the carriage of a case is with the plaintiff, if he is the plaintiff and not with the defendant. However, I have no doubt that the observations that have fallen from the Members of this House in this debate will receive careful consideration from Government. I cannot say more at present. I would however, point out to the House that, whether you discuss this Bill now or whether you discuss it at the time of the Budget, you cannot possibly divorce the Bill from the Budget—whether you discuss it in March or discuss it in January. I am not a financier and therefore speak subject to correction, but I think whether you discuss it now or in March the difference between the ratios in their effect is not likely to be a severe mathematical sum. I see my Honourable friend opposite smiles. I admit that I am not strong on this point. I however thought it reasonable to say, in view of the observations that have fallen from different quarters, that Government have not come to a definite decision as yet on the question as to future progress of the Currency Bill.

Mr. Vidya Sagar Pandya (Madras: Indian Commerce): As I am a new Member, I must confess I am not quite familiar with the business and procedure of this House. I was under the impression that the Bill would simply be introduced without a speech from the Honourable the Finance Member, as was the case with other Bills that came before. However, as the Bill has been introduced it is not my intention, at the fag-end of the day, to make any long speech. But I want to warn this House about certain matters which have come to my notice. It was very

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unfortunate that the Royal Commission began its work under very bad circumstances. It was boycotted practically in the southern part of India. In spite of representations made and Resolutions moved in this House the personnel of the Commission was not set right. The result was that very valuable evidence which would otherwise have come to the notice of the Royal Commission was not tendered before it. Further, it will be noticed from the second volume of the Royal Commission's Report that they have omitted to publish the evidence of about 60 gentlemen. I do not see why this evidence should be removed. I may further say that I addressed those gentlemen and asked them to let me have the views they expressed before the Royal Commission if the Government are not prepared to publish the evidence tendered by those gentlemen. Some party in the House such as the Swaraj Party may like to publish those views so that the House may judge on the actual evidence tendered and not on the "selected" evidence that has been put forward and published by the Government. Besides that, some gentlemen addressed the Royal Commission and offered to tender evidence. They did not even receive the courtesy of a reply from the Royal Commission. Here I have got with me a letter written by the Chairman of the Ionian Bank in London, and this is what he says:

"Nevertheless I may be able to give you some points of interest, which are not available to the public. When the Currency Commission was appointed I wrote to Commander Hilton Young and told him I wished to give evidence before the Commission and that I should be obliged if he would furnish me with the names of the Commissioners and with the address at which they would meet in London. From that day to this"—

The letter is dated the 7th December 1926.

—"I have not heard one word from Commander Hilton Young and was surprised one day to see a notice in the press that the members of the Commission, or some of the members, had returned to India. Before the Commission was formed I sent to Commander Hilton Young all the documents I am now sending to you, and as they are now all out of print may I ask you to return them to me . . . . . "

and so on. I do not see why a gentleman of the standing of the Chairman of the Ionian Bank who comes forward to give evidence before the Royal Commission should not even have been shown the courtesy of an answer to his letter. I am sorry I have not brought the file of papers with me, as I was not aware that the principles of the Bill would be discussed to-day. I thought it would be simply moved in a formal way. I have other letters with me in which a number of witnesses complain that they were called upon to give evidence and they took the trouble of tendering evidence but were not shown the courtesy of having their evidence published. They did not know that "only selected" evidence would be published. I hope the Government, as they are going to send the Bill for eliciting public opinion, will make the evidence which has not been published available to the Members of the House. It would be better in fact if it is published so that the public may judge why it was not published at all.

Well, it is not my intention to deal in detail with the ratio question, but in passing I may say that the Honourable the Finance Member in his Memorandum before the Royal Commission has himself admitted that the silver rupee is only a promissory note printed on silver. May I explain the position? It is this, that the Government of India had fixed the value of a sovereign at 15 rupees: the value of the silver content of the rupee was about 8 to 10 annas, varying from time to time. The rest of the value of the contents of the rupee were kept in the form of a Gold Standard Reserve, and the Gold Standard Reserve has been used in the past only to enable the foreign merchants in India to send remittances home. The result is that the Government have been taking away 6 to 8 annas per rupee, keeping it in the form of a Gold Standard Reserve, and returning it only to the foreigners who send remittances and never undertaking the obligation to pay this balance to the public here. The result is that when we now demand the return of the full value of the rupee, a portion of which Government have practically been usurping to their own uses, we are told that instead of 15 rupees we shall get hereafter only Rs. 13-8-0. I may be mistaken by about 2 annas, but on the whole there is a big loot.

The Honourable Sir Basil Blackett: If the Honourable Member wants to charge loot I think he had better be right in his figures.

Mr. Vidya Sagar Pandya: I think I am fairly correct.

Now regarding the Gold Standard, well, I do not want to take up much of the time of the House, but it seems to be something like a "bridegroom" without the " bride ". We had so far only a sterling exchange standard, and now we are made to believe, to take it at something better than what it was before, but really, I do not find any difference between the two. If there is any difference, it is this. We have in the past been criticizing the Finance Member and the Government that they have been selling Reserve Council Bills without consulting the Assembly or anybody else. The result of the Bill is that what they have been doing unauthorisedly, they propose to do with our permission, and it is better that we understand fully what the Bill amounts to before we grant our permission. Now some of the Honourable Members here are very happy that we are going to have a transfer of the control of currency from the Secretary of State for India to the Government of India here. But from what I have seen of the constitution of the Reserve Bank and the management of the Imperial Bank, I am afraid—I am taking into consideration our own experience with the Imperial Bank—it might be a transition from " King Log " to " King Stork ". We are not sure what control we are going to have. It is all right to say that all other countries have got a Central Bank and it is a nice thing to get a Central Bank, but we have to consider whether it is not the people in those countries who manage the Central Bank. Are they not managed by the people themselves in the best interests of the country? Here, according to the constitution it appears to me something like handing it over to the foreign exploiters to have their own way, and unless we provide for ample safeguards in the matter of giving control to the public, and unless the Reserve Bank and the authorities appointed by the Government to control the currency are amenable to the discipline and to the orders and mandates of this House, it will be very dangerous to hand over the currency to a new institution of the kind proposed in the Bill. Well, about the Imperial Bank, I am speaking now as a banker and as one who represents the interests of the commercial community in the Madras Presidency. I am sorry to confess that our experience of the Imperial Bank has been very unfortunate. We can never depend upon the Imperial Bank for help (Laughter)—and unfortunately the Imperial Bank still follows the old traditions of the three

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Presidency Banks and I think several Members of this House will recall the part played by the Bank of Bengal in the past in the matter of advances and how they brought about the ruin of the People's Bank of India and also how they readily came forward to help the Alliance Bank of Simla. When we make any business proposition to the Imperial Bank, we are never sure about it and . . . .

The Honourable Sir Basil Blackett: Sir, who helped the Alliance Bank of Simla?

Mr. Vidya Sagar Pandya: That was to save the prestige of the British Banks. While the People's Bank was able to pay 19 annas in the rupee, the Imperial Bank never came forward to help them, while they readily came forward to help the Alliance Bank who could only pay 8 annas in the rupee without sufficiently examining the ass ts of the Alliance Bank. I must warn the House at this stage to go very carefully through the whole evidence—even the evidence which has not been published should be published—and after fully considering the full bearings of the question, they should come to a conclusion on this question. Then, about the gold standard, as I have already said, it looks like a bridegroom without a bride. What is the meaning of gold standard? What we are anxious to have is that we should have gold coin as unit of money and value. Gold coin ought to be the monetary unit. Talking about this stabilisation of the Rupee means we are still harping on the old tune. The rupee ought to go. It is the bastard rupee which ought to get out of place and we should be assured of the gold standard with gold currency and an undertaking should be given that gold will be given to people on demand, not only to a man who asks for 1,600 tolas of gold but to every body. (*Mr. Jamnadas M. Mehta*: "1,065.") I do not want to detain the House any more. I am glad that the Government have agreed to circulate the Bill and I hope we will have ample opportunities of going through the evidence and taking up the Bill at a later stage.

The Honourable Sir Basil Blackett: Sir, I do not think it is entirely a novel procedure to make a fairly lengthy speech on a motion for circulation, and if I did so to-day, it was because I desired—and it has always been my desire—that this whole subject of the reform of Indian currency should be studied and decided upon with intelligence, and if I may say so without offence, I think that some of the speeches to-day showed us that it is still desirable. The last speaker made a great point about the absence of a certain number of written statements. The choice of what to publish is always left as a matter of practice to a Royal Commission. The Royal Commission have explained that considerations of convenience and economy have precluded the inclusion in the published volumes of the whole of their material. *These* are some only of the published volumes. I do not think that it is really reasonable to charge them with having specially selected evidence for a particular point of view. But I may add that we have, I believe, the original statements in most of these cases where evidence has not been published in the Finance Department and I shall be happy to allow any Member who wants to see them and strain his eyes over them.

I do not propose, Sir, to attempt to cover much of the ground that has been covered by the various speakers to-day. There are just one or two casual points that I should like to take up. The question of the relation of the co-operative banks to the new Reserve Bank is a very interesting one. The matter was, I believe, carefully considered by the Royal Commission and has been considered by the Finance Department very carefully. It is quite clear, I think, that the obligations, for instance of keeping a special proportion of their demand and time liabilities and publishing statements which are laid on the other banks concerned could not be laid in that form in the case of the co-operative banks. There is no kind of slight to the co-operative banks in not putting them in there and Government does not consider them suitable for the sort of connection that is proposed in this Bill between the Reserve Bank and the other joint stock banks.

Another suggestion is made that there should be no share capital; that the Government should put up the whole of this capital for the bank out of its own funds. Well, now, the whole object of our proposals is to transfer control over the currency and credit machinery of India from the Secretary of State and the Government of India to an independent body. If the Government is going to put up the capital, Government is going to be the controller. You do not get your independence. If you are going to get complete independence you must find some means of dissociating it from the Government, and it does not seem to me that the natural way to do that is to ask Government to put up the whole capital. It certainly seems to me to be a contradiction in terms.

A good deal has been said about the absence of gold currency. I tried to make it clear in the course of my earlier speech that a gold currency might or might not be desirable hereafter—that was a matter on which I did not wish to express any view at this time—but that whether you regard it as desirable or not, it was quite impracticable at the present moment to introduce a gold currency, and that the right method of progression was *via* the gold bullion standard. I think it was Sir Purshotamdas who asked me whether Government was prepared to give some pledge that a gold currency should be introduced if the Assembly or Legislature hereafter desired that it should be introduced. As I said, I think it would be absolutely useless to pretend to bind your Legislature ten or fifteen years ahead. I have not the least doubt that if the Legislature find that the position is such that there is a possibility of introducing a gold currency, and they take the ordinary steps to show that that is their wish, I have no doubt that it will be introduced. No pledge given now would affect the issue.

I would like once more to emphasize the point, in view of what Pandit Malaviya said, that the Reserve Bank and the gold standard are mutually interdependent, and any attempt to separate them will be very undesirable. You cannot solve India's currency problem unless you take up the question of central banking. Any attempt to separate it would lead you to a wrong end. I think it absolutely essential that this Bill should deal with both subjects, the gold standard and the Reserve Bank, and that they should not be separated into two isolated compartments where one might proceed faster than the other with possible damage to both.

A good many speakers have talked about the gold bullion standard not being a gold standard. Every economist who writes on the subject that I know of admits that the gold standard as at present in force in the

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United Kingdom is a gold standard, and if that is a gold standard in the United Kingdom it is a gold standard here. There is however no need to be too precise about terms. A gold standard obviously shades off from the form that used to be regarded as the Victorian form, a gold currency standard, into all sorts of other forms. But all these shades are gold standards, provided that there is absolute and automatic provision for the maintenance of the gold unit, and it is rather waste of time to argue that one is and one is not a gold standard. What we are proposing is a gold standard without gold currency. We are not proposing a gold standard with gold currency at the present time. But that both are the gold standard is admitted by all those who have really seriously studied this subject, and I do not think we really gain much by quarrelling about words. I do not think it is necessary for me to attempt to follow the very many other interesting lines of thought that have been raised to-day. A great many statements have been made with which I disagree so entirely that it would take me a very long time, even if I had noted them all, to correct them, but we shall have another opportunity at a later stage to deal with this Bill, and I do not think I need continue to discuss it now.

Mr. President: The question is:

"That the Bill to establish a gold standard currency for British India and constitute a Reserve Bank of India, be circulated for the purpose of eliciting opinions thereon."

The motion was adopted.

The Assembly then adjourned till Eleven of the Clock on Wednesday, the 26th January, 1927.