

*Friday,
14th January, 1898*

ABSTRACT OF THE PROCEEDINGS
OF THE
Council of the Governor General of India,

LAWS AND REGULATIONS

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ABSTRACT OF THE PROCEEDINGS
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THE COUNCIL OF THE GOVERNOR GENERAL OF INDIA
ASSEMBLED FOR THE PURPOSE OF MAKING
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Proceedings of the Council of the Governor General of India, assembled for the purpose of making Laws and Regulations under the provisions of the Indian Councils Acts, 1861 & 1892 (24 & 25 Vict., cap. 67, and 55 & 56 Vict., cap. 14).

The Council met at Government House, Calcutta, on Friday, the 14th January, 1898.

PRESENT :

His Excellency the Earl of Elgin, P.C., G.M.S.I., G.M.I.E., LL.D., Viceroy and Governor General of India, *presiding*.

His Honour Sir Alexander Mackenzie, K.C.S.I., Lieutenant-Governor of Bengal.

His Excellency Sir G. S. White, G.C.B., G.C.S.I., G.C.I.E., V.C., Commander-in-Chief in India.

The Hon'ble Sir J. Westland, K.C.S.I.

The Hon'ble M. D. Chalmers.

The Hon'ble Major-General Sir E. H. H. Collen, K.C.I.E., C.B.

The Hon'ble Sir A. C. Trevor, K.C.S.I.

The Hon'ble C. M. Rivaz, C.S.I.

The Hon'ble Rahimtula Muhammad Sayani, M.A., LL.B.

The Hon'ble Pandit Bishambar Nath.

The Hon'ble Joy Gobind Law.

The Hon'ble C. C. Stevens, C.S.I.

The Hon'ble Sir H. T. Prinsep, K.T.

The Hon'ble M. R. Ry. Pannappakkam Ananda Charlu, Vidia Vinodha Avargal, Rai Bahadur, C.I.E.

The Hon'ble J. J. D. LaTouche, C.S.I.

The Hon'ble F. A. Nicholson.

The Hon'ble Rai Bahadur Pandit Suraj Kaul, C.I.E.

The Hon'ble Gangadhar Rao Madhav Chitnavis, C.I.E.

The Hon'ble Allan Arthur.

ACCOUNTS FOR 1896-97.

The Hon'ble SIR JAMES WESTLAND said :—" Before making the motion which stands in my name, I have the permission of His Excellency the President to mention that the Finance and Revenue Accounts of the Government of

India for the year 1896-97 are now passing through the Press and will be issued about Wednesday next. A copy will be sent in due course to each Hon'ble Member. The result of the accounts of the year is, as usual, a little better than the Revised Estimates laid before the Council in March last; the difference to the good is twenty-eight lakhs, being entirely made up by better receipts of revenue."

INDIAN PAPER CURRENCY BILL.

The Hon'ble SIR JAMES WESTLAND moved for leave to introduce a Bill to provide for the issue of currency notes in exchange for gold received in England. He said:—"It is well within the knowledge of Hon'ble Members that the Indian money market at present is passing through a period of extreme stringency, and that there is a demand for money for the purposes of trade which local resources are for the time unable to supply. I had to introduce a measure for the relief of a similar state of things in December, 1896, and I am informed that the necessity for relief now is even greater than it then was, while the same measure of relief, namely, the transfer of money from the Currency Reserve to the uses of trade, is not for the time open to us.

"The causes of this scarcity of money are not far to seek: they are, shortly, the withdrawal of no small portion of the European capital which has been employed for banking purposes in India. With the exception of the capital of the Presidency Banks, and of one or two others, the capital of the larger banking institutions in India is sterling capital; and the continual fall in the value of the rupee and the consequent depreciation of such sterling capital as was held in the form of money in this country has induced these Banks (and many of their constituents also) both to remit home to England much of the capital they used in this country, and to adopt the policy of keeping as little of their capital as they can help employed in India. This policy was adopted by the Banks before the currency legislation of 1893, and is in no sense the consequence of it. If the policy of that legislation is pursued to a successful end, it will provide a remedy for the state of things I describe, as it will give the Banks and other capitalists the assurance that whatever capital they bring to this country for any temporary purpose they will be able to remit back without loss. But, while we are still in the condition of advancing towards the attainment of the sixteen-penny rupee, the very success of our efforts militates for a time against the transfer of sterling capital to India. At the present moment, for example, when the rupee is even above sixteen pence, the only effect of the rate upon the Exchange Banker is to convince him that the less he remits to India the better for himself, for he is bringing out his money

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at the top of the market ; he cannot possibly re-remit it at better rates, and he may have to do so at worse rates.

“ It must be understood that I do not for a moment lay any blame for this state of things on the Exchange Banks. They have their functions to perform, and they must perform them on commercial principles. Exchange Banks are not benevolent institutions, and cannot be expected to run the risk of loss for the general advantage of Indian trade. I am merely sketching the general condition of things which has led to short supply of money in the trade centres and describing the extreme unwillingness of those who have, till recently, supplied money for trade requirements, to keep in India any margin whatever against possible developments of trade demands.

“ I see people sometimes discuss these subjects as if it were in the power of Government to interpose at once in some effectual way, and, as by a magician's wand, to restore ease and confidence to the Banks and to commerce. There is really only one way in which any relief can be given, and that is by making money available ; but it is considered that Government possesses somewhere boundless stores of money which it has only to let loose upon a suffering commercial world, when everything will be at once put straight. Now I am not going to discuss in this place the obligations of Government, if there are any, to place funds at the disposal of the Banks for the commercial community ; but I wish to give a distinct denial to any allegations that we are playing the Banks, as it were, that is, wilfully keeping back money with the intention of starving commerce and forcing up rates of exchange. We have told the Secretary of State what money we have, and the extent to which he can draw against it, and we must claim the right to do what every sound trader does, namely, keep available under our own control sufficient funds to meet the bills he has drawn upon us, and means to draw. To this extent, and to this extent only, are we at present keeping any available money out of commercial employment. And, if Banks and others will be good enough to remember the heavy demands that have fallen upon us in respect of Government expenditure during the past twelve months,—demands so heavy that we were obliged for the time to ask the Secretary of State not only to intermit his drawings but to send out money to our help,—it will surely be understood that we are not rolling in wealth while we are refusing aid to others, and that our inability to advance money (admitting for the moment that such a policy was desirable on other grounds) is due not to any wilful obstinacy, but to want of adequate means.

“ The position then of the money market is this. Everybody has realized now what they did not sufficiently realize a month ago, namely, that the demand for

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money for trade is, and is likely in the immediate future to be, extreme. The exchange banks, who under the old system could bring out as much as they liked (for if Council bills were not available they had only to buy silver in London and have it coined at our Mints), will not bring out a single rupee which they can avoid bringing; and we cannot advance money from our reserves. The Secretary of State of course cannot draw on us for more than we are able to pay. The fear is therefore that the market may reach a point where money will become actually unavailable, and merchants will find it impossible to sell their bills. Gold of course can be procured in any quantity, and can be sent out to India, and under existing circumstances can be exchanged here for rupees; but the operation takes three or four weeks, and therefore this means of remittance provides a remedy that may prove too tardy to be effective.

"Under these circumstances, I propose, with the permission of the Council, to introduce a measure which will have the effect of assuring the public that there is at least one point beyond which the pressure will not go: that there is at least one ultimate means by which supplies of money can be obtained. We have a large quantity of money locked up in our Currency Reserve, and under existing legal conditions we can make part of it available by issuing it in exchange for gold. At present, however, as I have just explained, supplies of gold (beyond what happens at the moment to be in India) cannot be obtained until three or four weeks have passed. I ask the permission of Council to abolish this interval by enabling me to issue notes from the Currency Department against gold received on account of that Department by the Secretary of State, which he, receiving, will immediately send out to this country. Pending the arrival of that gold (if any is so tendered to the Secretary of State), the Currency Reserve will, so far as immediate availability is concerned, be deficient to the extent of its value. But, as I shewed last year in introducing a Bill for the investment of a portion of that reserve, the amount we have in hand is ample for the purpose of the assurance of the convertibility of our notes, and there is no risk, from a currency point of view, in the operation. In fact, the full amount of the reserve will be actually in existence and under our control, although, like the silver bullion we used to hold on it, not immediately producible in the form of coin in hand.

"We do not know, and perhaps we need not care, whether the facility, which I ask the Council to enable us to give, will be actually availed of or not. The feeling that the stringency of the market can never reach a point where money may actually become unavailable may give the market the relief it wants, and matters may not reach the stage where, Council drawings or telegraphic transfers on our

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Treasury funds being insufficient for the supply of the market, supplies, by the projected means, through the medium of the currency reserve become necessary.

"For that is the form in which the measure will actually operate. The Secretary of State will draw on the Treasury, if required, to the full extent to which Treasury funds are available, but, if the demand continues beyond that point, he will then, in issuing his telegraphic transfers, set apart the money received on their account in the form of gold, and will take steps to transmit it to this country.

"The measure which I propose to the Council then takes the form of expanding the provisions of section 13 of the Currency Act. That section gives the Governor General in Council authority to issue notes against gold, as well as against silver, received in India. The present measure goes one step further in authorizing the issue against gold not actually received in India, but received in England, to be as soon as possible transmitted to the Currency Department in India.

"I may state that I am warranted in saying that the proposal now laid before Council has the support both of the Banking and of the commercial communities in Calcutta. I have consulted both these communities in framing the scheme, and I would not recommend any measure of the kind unless it had their support and approval. On the other hand, this approval will no doubt go a long way in commending the measure to the Council.

"It may be desirable to mention, in asking permission to introduce this Bill, that we have found it unnecessary to make so great use of the currency reserve in aid of coinage reform in Bhopal, as we anticipated would be required when the Act bearing on the subject was passed last Calcutta session. We have advanced 40 lakhs of rupees in all, and more than half of that amount has been received back in the form of silver now awaiting re-coinage in our Mints. I do not know if it will be necessary to make any further advances, but in any case the account will be closed by the end of March, and any further operations in Bhopal, after that date, conducted without aid from the currency reserve.

"The question will very naturally be asked in this connexion, what steps the Government have in contemplation with the view of carrying into final effect their currency policy of 1893—by what actual steps they mean to introduce the gold standard into India. The Bengal Chamber of Commerce have addressed to us this enquiry, expressing the opinion that the policy of waiting may involve an indefinite prolongation of the period of transition. I am afraid I am unable at this moment to give a final reply. One thing is clear, namely, that a great

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advance has been made, in respect of the condition of our Indian currency, in the direction in which it was contemplated by the authors of the policy of 1893 that the introduction of a gold standard would become possible. Many points which were then obscure and doubtful have been determined by actual experience. The disasters of the past year, by seriously affecting all Indian trade, set back for the time the current of advance, but bountiful harvests and the renewal of trade-activity have restored the position with a suddenness for which I think I may say that the commercial world was not prepared. A distinct advance has also been made in another and most useful direction, namely, that the discussions that took place last autumn have prepared public and official opinion in England for the possible necessity of a measure which may involve the actual diversion for Indian purposes of a certain amount of gold from the general available stock. As to the precise measures to be undertaken, all I can say is that the subject is under consideration, not by any means for the first time, but that in a matter of such importance, which has yet to be dealt with finally by the Government of India and the Secretary of State, it is not possible at the present stage to make any definite announcement, or to bind Her Majesty's Government by giving rise to any particular expectations. I have further to add that we are perfectly alive to the grave commercial bearings of the subject, which are alluded to in the letter of the Chamber of Commerce, and we believe the mercantile community require no assurance from us that their interests, as well as those of the Government, will have anxious attention at our hands. We are no believers in the theory that what is bad for the interests of Indian commerce can be of advantage to the interests of the Government of India."

The Hon'ble MR. ARTHUR said :—" My Lord, with reference to the remarks which have fallen from the Hon'ble Sir James Westland, there is no doubt that the Bill, which he proposes to introduce to provide for the issue of currency notes in exchange for gold received in England, will be welcomed by the banking and mercantile communities of India. The proposed Bill, whether the facilities it will give are availed of or not, will tend to allay the anxiety which prevails in regard to the extreme stringency of the Indian money market. The Finance Minister, as he has told us, is able to meet the drawings of the Secretary of State by telegram only to a moderate extent, and the powers which he asks the Council to give him will enable him to supply the Exchange Banks, if necessary, with an unlimited quantity of rupees, with which to finance the trade of the country, at a known cost.

" While the proposed Bill will have this effect, it will in no way tend to stop the fluctuations in exchange, which it was claimed that the legislation of

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1893 would lessen, and which, since that legislation, have been just as violent and often more unexpected than before. My Lord, I should like to point out to the Hon'ble Member, who has told us that he is unable to give any definite reply to the enquiry which was recently made as to what measures are being contemplated for the establishment of the gold standard, that the present high bank rate has seemingly no attractions for those people in this country who have ready money. They are remitting it in thousands of pounds to England, where it would appear they are content with a return of $2\frac{1}{2}$ per cent. on a gold basis, as against the present return of 11 per cent. or more in this country on undoubted securities even on Government paper. While the policy of waiting, to which the Hon'ble Member has referred, will not tend to improve this state of matters, it is satisfactory to note that this very grave question is having the anxious attention and consideration of the Government. The mercantile and banking communities will welcome any sound currency system which will result in loanable capital being attracted to, and not drained from, this country, as is the case, and never more so than at the present time, under the present system,—policy I mean, my Lord, not system. Paragraph 25 of the despatch of the Government of India of last September declared that there is no currency system in India."

The Hon'ble SIR JAMES WESTLAND said:—"With reference to the remarks that have fallen from the Hon'ble Mr. Allan Arthur I desire to say that I am unable to admit that the withdrawal of European capital from India is a direct consequence of the measures which were adopted in 1893, and I do not understand the Hon'ble Mr. Arthur to state this opinion in so many words. If those measures had not been undertaken, we know very well what the consequence would have been to the rupee. It certainly would not have stood as high as it is at present. It would have gone down from the figure at which it stood in 1893, possibly to the existing value of silver, that is, to something like 9 pence, but probably to something higher, with the prospect of a further fall as silver became cheaper and cheaper in the open market. What induced the holders of sterling capital employed in this country to withdraw their capital was the prospect of their not being able to realise it afterwards in sterling form in anything like the value at which they send it to this country. It is obvious therefore that the inducement to them to withdraw their capital and take it back to England would have existed in probably an aggravated form if the currency legislation of 1893 had not been adopted. They would have felt just as insecure as they feel at present and they would in the meantime have suffered a much greater loss than they have under the

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existing system. They have at least been able to remit their capital at 1s. 2d., 1s. 3d., and 1s. 4d., and it is very natural they should take advantage of these circumstances; but my belief is that, if the currency legislation of 1893 had not taken place, the sterling capital that now exists in India would have been frightened out of the country a long time ago by reason of the fall in the value of the rupee far below the rate at which it stood before that legislation was introduced."

The motion was put and agreed to.

The Hon'ble SIR JAMES WESTLAND introduced the Bill. He said:—"In this connection I desire to draw the attention of Hon'ble Members to the somewhat peculiar form in which the Bill is cast. Its operation is expressed to be dependent upon the consent of the Secretary of State to carry out the measures which it contemplates. The reason of that is simply that we have not in India any legislative power or control over the proceedings of Her Majesty's Secretary of State, and the consequence is that any operation for which we legislatively provide and in which the Secretary of State is to take part has to be worded so as to be dependent not on our power to legislate but on the consent of the Secretary of State to take his part in it. The expression therefore does not imply any doubt on the part of the Government of India that the Secretary of State will consent to the measure which is now brought before the Council. In fact we understand that he does consent to its operation, for the present at any rate, for whatever length of time he may consider that consent to be necessary."

The Hon'ble SIR JAMES WESTLAND moved that the Bill and Statement of Objects and Reasons be published in English in the Gazette of India and in the local official Gazettes.

The motion was put and agreed to.

The Council adjourned to Friday, the 21st January, 1898.

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J. M. MACPHERSON,
Secretary to the Government of India,
Legislative Department.