LEGISLATIVE ASSEMBLY DEBATES

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SIXTH SESSION

OF THE

FOURTH LEGISLATIVE ASSEMBLY

1933

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Legislative Assembly.

President :

The Honourable Sir Shanmukham Chetty, K.C.I.E.

Deputy President :

Mr. Abdul Matin Chaudhury, M.L.A.

Panel of Chairmen :

Mr. H. P. Mody, M.L.A.

Mr. K. C. Neogy, M.L.A.

Sir Leslie Hudson, Kt., M.L.A.

Sir Abdulla-al-Mámün Suhrawardy, Kt., M.L.A.

Secretary :

Mian Muhammad Rafi, Bar.-at-Law.

Assistant of the Secretary :

Rai Bahadur D. Dutt.

Marshal :

Captain Haji Sardar Nur Ahmad Khan, M.C., I.O.M., I.A.

Committee on Public Petitions :

Mr. Abdul Matin Chaudhury, M.L.A., *Chairman*.

Sir Leslie Hudson, Kt., M.L.A.

Mr. B. Sitaramaraju, M.L.A.

Mr. Gaya Prasad Singh, M.L.A.

Kunwar Hajee Ismail Ali Khan, O.B.E., M.L.A.

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LEGISLATIVE ASSEMBLY.

Tuesday, 19th December, 1933.

The Assembly met in the Assembly Chamber of the Council House at Eleven of the Clock, Mr. President (The Honourable Sir Shanmukham Chetty) in the Chair.

MEMBER SWORN.

Mr. John Bartley, M.L.A.

THE RESERVE BANK OF INDIA BILL.

Mr. President (The Honourable Sir Shanmukham Chetty): The House will now resume consideration of clauses 40 and 41 of the Reserve Bank of India Bill and the amendments moved thereon.

Dr. Ziauddin Ahmad (United Provinces Southern Divisions: Muhammadan Rural): Sir, I do not want to take more than ten minutes of the time of the House (Hear, hear), though I intended to speak originally for about three hours. Sir, I have taken your advice and would not like to refer to the discussion that took place either in London or in the Select Committee here. I know there has been some heated discussion on the floor of the House on that subject, although I am in a fortunate position for possessing summaries of remarks made by individual Members on the various topics in the London Committee. I was a silent spectator and I took detailed notes. I think this is not the place to refer to those things or make any reference to the discussions of the London Conference and the advice that you have given, Sir, is an advice, which is not only desirable, but also very necessary, because, sometimes people speak, not because they hold a certain opinion, but because they just want to initiate a certain discussion. I hope other Members will follow the advice given by you.

Sir, the object of the two clauses, 40 and 41, is really to fix very definitely the ratio at 1*s*. 6*d*. The Government ask us to legislate in favour of 1*s*. 6*d*. These two clauses go beyond the Currency Act, because that Act fixes only the lower limit; but, in these two clauses, we are asked to legislate both for the upper and the lower limits. Now, in this particular case, we know that the opinion of the whole country is decidedly in favour of the view that the present ratio is rather too high and ought to be reduced. The amendment brought forward by my Honourable friend, Mr. Sarma, does not meet my point of view. I am very strongly in favour of an immediate reduction, but his amendment is much better than the provisions of the Bill. Those provisions legislate that now and in future, until

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this Act is altered—and there the permission of the Governor General in Council and later of the Governor General at his discretion will be necessary,—that ratio will remain. Under Mr. Sarma's amendment, the discussion of this point will be postponed to a later date since, as he said, the legislation on the ratio question should not be mixed up with the legislation concerning the Reserve Bank. But the amendment moved by Mr. Sadiq Hasan is very definite. He says the country cannot afford to wait even for a day and that the reduction should take place immediately; and my own opinion is very definitely for immediate legislation in favour of 1*s*. 4*d*., but if this is not achievable, then I would like to support Mr. Sarma to postpone the discussion to a later date. I oppose very strongly any attempt to legislate for 1*s*. 6*d*. straight off as it goes further than the Currency Act. I should now like to develop my arguments as to why I want to lower the ratio to 1*s*. 4*d*.

Sir, this ratio is acting very prejudicially against our interests. We have already tried two shillings and we have also tried the 1*s*. 6*d*. ratio, and this has resulted in a loss of 113 crores to the Exchequer, not to speak of the loss to individual members who really entered into transactions. I shall mention three arguments and I hope the Finance Member will meet them. In the first place, our balance of trade, which used to be in the neighbourhood of 83 crores during the quinquennium ending 1929-30 dwindled last year to three crores, though the prospects are better this year, but it will fall very much short of our normal balance of trade. If that is so, how are we going to meet our external obligations? These obligations are of two classes. The first are the obligations of the Government, and the second are the obligations on account of individuals wanting to send their money to England. Suppose Mr. James—I mention his name because he is so popular on the Opposition side—wants to send Rs. 1,300 to England; then the Indian Exchequer will have to find £100 for him in London. That can be done, (1) by borrowing, (2) by the sale of gold, or (3) the shipping of goods. So, against remittances sent to England, it is necessary that we should have to provide sterling and these sterling obligations amount to Rs. 70 crores. How are these obligations to be met? Everybody will admit that payment by loans is very unhealthy and cannot go on indefinitely. If we decide to pay them by drawing on our reserves, then it is very necessary that we should keep the ratio at 1*s*. 6*d*., so that the rupee in our reserves should fetch 1*s*. 6*d*. instead of 1*s*. 4*d*., but if we decide to pay our obligations out of our goods which we produce by our own labour, then it is very necessary that our exports should increase and that can only take place if our ratio is reduced. This has actually been tried in several countries, for example, in Australia and New Zealand, and I think we ought to try that, as, without it, it is impossible for us to increase the volume of our export trade. I would ask my Honourable friend, if he does not agree with our opinion, to suggest something better by means of which the export trade could be increased. The second argument against the reduction of the ratio which is constantly urged is about the rise of internal prices. Now, if we read the discussions of 1927, when the ratio at 1*s*. 6*d*. was fixed, we find that the main argument used then was that if the ratio was reduced to 1*s*. 4*d*., prices would rise. This is what Sir Basil Blackett said in his speech:

"There would be a sharp rise of prices all round, a rise of approximately 12½ per cent."

This argument had some force because, at the time (1917), our index price was 148. At that time, therefore, it had some meaning to legislate in favour of 1*s*. 6*d*., so that a further rise might be checked. But now the problem is not the same as in 1927. Then, the problem was how to reduce the price level. Now, the problem is how to raise it. Therefore, if the argument of having a ratio of 1*s*. 6*d*. in order not to lower prices was true in 1927, then the same theory ought to apply today,—and then, the Government, during their discussions, practically admitted the principle that by lowering the ratio, the price level would rise. At that time we did not have a rise and, therefore, 1*s*. 6*d*. might have had some meaning. But today Government themselves want that the price level should rise. Therefore, according to the argument which the Government used in 1927, they have no other alternative but to draw the inference that the ratio should be reduced from its present level of 1*s*. 6*d*. My last argument is this that, if you link the rupee with sterling, then it is very desirable that we should be tied together at a price so that the wholesale prices may rise or fall harmoniously. Here we find that up to 1926-27 the price index was almost the same in England as it was in India, but now the fall has been much lower in India than it has been in the United Kingdom. This shows that the rupee has not been linked with gold at its true economic value.

Mr. Muhammad Yamin Khan (Agra Division: Muhammadan Rural): Sir, there are two kinds of amendments which I characterise as male and female. There is a bold, definite and straightforward amendment standing in the name of Shaikh Sadiq Hasan which suggests the ratio to be at 1*s*. 4*d*. That is a brave, bold and male amendment. Then, there is the bashful and shy-like-a-maiden amendment of my friend, Mr. Sarma . . .

Mr. N. M. Joshi (Nominated Non-Official): Sir, I strongly protest against the description of the modern manhood of this country.

Mr. Muhammad Yamin Khan: Sir, when I read the amendment of Mr. Sarma, I just remembered an Urdu verse which runs thus:

"Khub parda hai ki chilman se lage baithe hain,
Saf chipte bhi nahin, samne ate bhi nahin."

"What a kind of pardah is this that the beautiful lady is sitting just behind the chicks: she is neither fully observing the purdah nor is she coming out of it."

This description exactly applies to the amendment of Mr. Sarma who is not at all definite in his amendment. In other words, Mr. Sarma is *sharmoing*. His amendment does not say 1*s*. 6*d*. He does not say that he is in favour of 1*s*. 4*d*. He leaves it to the Government to make any arrangement they like in the future.

Mr. R. S. Sarma (Nominated Non-Official): May I interrupt the Honourable Member, Sir. Are we not asked not to discuss the ratio at all in these amendments? That is the reason why I have not said anything in my amendment.

Mr. Muhammad Yamin Khan: Unfortunately, my friend, Sir Cowasji Jehangir, did not move his amendment, but he asked one of his lieutenants, Mr. S. C. Mitra, to move that amendment.

Mr. S. C. Mitra (Chittagong and Rajshahi Divisions: Non-Muhammadan Rural): He does not accept my amendment: I stand for myself.

Mr. Muhammad Yamin Khan: Now, Sir, may I ask what is the effect of these amendments?

Sir Cowasji Jehangir (Bombay City: Non-Muhammadan Urban): About what clause are you talking? Is it 40 or 41?

Mr. Muhammad Yamin Khan: If the Honourable Member listens to me in patience, he will know what I am talking about. Mr. Sarma does not say that the ratio should be fixed now; it may be fixed after a few months. Whatever may be the *de jure* ratio may be put down then. It means that they want to postpone the fixing of the ratio for a few months more. The same thing happened with the Bill now but a few months before. What is the object? Just to have the satisfaction that the Member concerned did not vote for 1*s*. 6*d*. People may say that Government have fixed that ratio at 1*s*. 6*d*. but I did not vote for it. Sir, this kind of thing may give satisfaction to some shy people who cannot face the world boldly, but let me tell the House that I am not one of those persons. I want to face facts boldly. I must say frankly whether I am for 1*s*. 4*d*. or for 1*s*. 6*d*. or for nothing. I may be wrong, but this is my view. It does not matter to me if I hold a different view from other Honourable Members. It is the boldness which is required and not the shyness that is concealed behind the amendment of Mr. Sarma. Sir, I must at the very outset say this that I am not satisfied with the ratio of 1*s*. 6*d*. I would have liked it if it was 1*s*. 4*d*. and preferably even lower than 1*s*. 4*d*. That would have solved the whole difficulty. But I agree at the present moment with my three Honourable friends, Sir Cowasji Jehangir, Diwan Bahadur Ramaswami Mudaliar and Mr. Mody, who are conversant with these business matters, that at the present time we cannot definitely say that 1*s*. 4*d*. is the best ratio. Under the present circumstances, having regard to the economic condition of the world, it is not safe to say what should be the ratio which will be beneficial for India.

Mr. Lalchand Navalrai (Sind: Non-Muhammadan Rural): What is it safe to say then?

Mr. Muhammad Yamin Khan: Sir, it is futile to say, to borrow the language used by Sir Cowasji Jehangir and Diwan Bahadur Ramaswami Mudaliar, that at the present moment the ratio should be 1*s*. 4*d*.

Mr. S. C. Mitra: Is not the 1*s*. 4*d*. ratio better than the present ratio?

Mr. Muhammad Yamin Khan: It may do good to India, it may not. The only question now before us is whether we can fix in the Bill the ratio at 1*s*. 4*d*. But it is futile to put it down at 1*s*. 4*d*. We might be obliged to have resort to 1*s*. 2*d*. We might be forced to have the ratio at one shilling. At the present moment the whole economic world is disturbed and the only safe thing to do is to link the rupee with the sterling. It does not matter what the ratio is, but it must be linked with the sterling. We can make any alteration in the ratio at present, but the present condition is such that although it may be advantageous for the exporters to a certain extent, yet, may I ask, is that the only remedy? How much of our exports are affected by 1*s*. 4*d*. or 1*s*. 6*d*. at the present moment? I am not talking what will be the condition when we come back to the gold standard. As long as we do not have the gold standard, up to that period the question is absolutely different. Take, for instance, cotton, jute and wheat with which the agriculturists are chiefly concerned. In Southern India, there are some groundnuts and cocoanuts which are exported.

Mr. M. Maswood Ahmad (Patna and Chota Nagpur *cum* Orissa: Muhammadan): What about rice which forms 51 per cent. of our exports?

Mr. Muhammad Yamin Khan: If my Honourable friend should see the statistics of the Commerce Department, he will find that he is not correct.

Mr. Lalchand Navalrai: What about Sind rice? Sind exports large quantities.

Mr. Muhammad Yamin Khan: As far as wheat is concerned, we debated a lot during the discussion on the Ottawa Agreement and we came to know that we exported something like three lakhs of tons of wheat in the best year, which is a very big quantity. As far as cotton is concerned, what is its fate? When yen depreciated and when Japan boycotted our cotton, all the cotton was left in our own country. That has got nothing to do with 1*s*. 4*d*. or 1*s*. 6*d*. or 1*s*. 3*d*. Whatever ratio you may put down, it is not going to affect our cotton. The cotton question greatly depends upon the results of the negotiations we are having with Japan. After yen depreciated, we found that all our markets were dumped with Japanese goods. Japan is selling goods at prices which neither the English manufacturer nor the Indian manufacturer could sell. We are getting from Japan things so cheap that it is impossible for anybody to compete with Japan as long as the present condition lasts. While we are getting all the things from Japan very cheap, Japan is not taking any goods from us in return. So the Indian agriculturists do not get anything for their cotton, no matter what the ratio is. It does not affect the cotton growers at all.

Mr. H. P. Mody (Bombay Millowners' Association: Indian Commerce): Does the Honourable Member think that this state of affairs will continue permanently?

Mr. Muhammad Yamin Khan: The other thing is about jute and this may be affected to some extent by the ratio of 1*s*. 4*d*. or 1*s*. 6*d*. I think most of our jute goes to Dundee, and if the ratio is changed, it might bring some money to the pockets of the agriculturists who grow jute. But if it is realised that jute trade is mostly carried on by middlemen and not by jute growers direct, then we must say that a major portion of the profit by the lowering of the ratio will go to the middlemen. These middlemen are now talking in the guise of greatly interested persons for agriculturists. But these middlemen have got their own interest to look to. When my Honourable friend, Mr. Mody, was speaking on behalf of the agriculturists yesterday, I was reminded of a Jat proverb which my Honourable friend, Chaudhri Lalchand, recited one day in the House that "if any woman says that she loves other people's children more than her own, then she must be a witch". I find that when persons who really want to exploit the agriculturists speak in favour of agriculturists, there must be something behind it. My Honourable friend, Mr. Mody, is interested in seeing that cotton is not exported. He wants that cotton should be cheap in India so that he may get it for the Bombay mills and his interest lies in fixing the ratio at 1*s*. 4*d*. In that case, the things which come from outside will be raised

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by two annas in every rupee and the Bombay millowners will be able to sell their goods at two annas more. They will buy the raw materials cheap and sell the manufactured goods at a higher price. That is the motto of my Honourable friend, Mr. Mody. The Bombay millowners should be the last persons to speak on behalf of the agriculturists. Their interests lie in other directions.

Mr. H. P. Mody: Are lawyers any better?

Mr. President (The Honourable Sir Shanmukham Chetty): The Chair would appeal to the Honourable Member who is speaking and to other Honourable Members to be as brief as possible today.

Mr. Muhammad Yamin Khan: Sir, there are four classes of people living in India. Firstly those who are actually engaged in agriculture, the peasantry; secondly, the zamindars who collect rent, *i.e.*, the well-to-do people; thirdly, the wage earners in towns, the artisans and the salaried officials; and, fourthly, the people belonging to higher circle, big millowners, money-lenders, bankers, and so on. As far as the poorest class is concerned, about 75 per cent. of them are small zamindars and peasants and it does not matter to them what the ratio is, because they are the last people to be benefited by this fluctuation in ratio. What will be the effect on the wage earners? If we raise the price of goods coming into this country, such as cloth, etc., these people, who are wage earners, will have to pay more for their goods, and the result will be that they will demand more wages and they will never be content to live on the wages they get. As far as the richer class is concerned, these are the people who are mostly connected with trade with America, Japan, Italy and France and Germany. My Honourable friends, who are importing motor cars, are sending out their money to foreign countries. Instead of making attempts to manufacture cars in India, they are importing American cars, and so on. That is draining the money from India and, as long as the dollar is depreciated, this is going to remain and we are not going to be affected in any way by our trade at all. As far as Italy and France are concerned, their cloth imports combined are more than English cloth imports and they are not going to be affected by our sterling ratio in any way. As regards the rich people who get cutlery, biscuits, etc., it does not at all matter what they pay. They can afford to pay anything and they will continue to pay. As for Mr. Sarma's amendment, it will do this harm that the whole commercial world outside will know that the ratio is going to be changed and it will be less than 1*s*. 6*d*. So all people, who placed orders for goods outside, will cancel their orders, because unless they are sure of the ratio, they are not going to buy. And if you do not get things from England, then Japan will dump her goods. And as long as the money does not remain in India, it does not much matter whether Japan or England or any other country gets it. But all orders will be cancelled, because people will know that for one shilling, instead of ten annas and a half, they will have to pay twelve annas, and many people will become bankrupt, because a loss of two annas in a rupee is quite sufficient to make a man bankrupt. Big and small traders will be ruined and the market will be dislocated and business will be at a stand-still. Therefore, this amendment has no legs to stand upon and it cannot be supported.

Mr. Sarma mentioned one point that the Honourable the Finance Member smuggled in the upper point, and he is not right. The upper point has not been smuggled in. It was discussed in full, it is in the London Committee's Report, everybody knew that it was coming and it was agreed to by everybody even in 1927. So everybody agreed that this upper point was essential in the Reserve Bank Bill. My Honourable friend, Dr. Ziauddin, thinks it is going beyond the existing law. In that case, he is quite entitled to oppose it when we come to clause 41. Because clause 40 relates to the lower point and clause 41 relates to the upper point. He can vote against this upper point if he can prove that it is injurious to the country and should not be brought in; but I think no one can say that it should not be decided by the Legislature, but should be left free to the Bank or the Government to decide later on. So this upper point must come in now.

I will now refer to a controversy to which I was a party and on which there might be some misunderstanding, I mean the controversy between the Finance Member and Diwan Bahadur Mudaliar. I think neither of them remember the facts properly. The controversy was about this sentence in the London Committee's Report:

"In their view, it is for the Government of India and the Legislature to examine these and all other relevant considerations with a view to ensuring that the minimum possible strain is placed on the currency system of India."

This is only one sentence, but none of them read the whole clause which follows the other clauses, and this is what precedes it:

"A considerable majority of the Indian Delegates feel it their duty to record their view *that a suitable exchange ratio is one of the essential factors for the successful working of the Reserve Bank.* They point out that considerable changes have occurred in the currency bases and policies of almost all the countries of the world in the last few years."

And then, comes the sentence which I read before. Before this we find:

"The ratio provisions in the Bill are designed to make it clear that there will not be any change in the *de facto* situation by the mere coming into operation of the Reserve Bank Act."

There it is said that the existing ratio must be put down at the time when the Bill is introduced. My friend, Mr. Mudaliar, contended that the Government had given this undertaking that they and the Legislature will examine this question before the Bill is introduced. The Honourable the Finance Member repudiated this, and he gave it out that what happened at the time was that he asked what should be the procedure, and, from what happened, an inference might be drawn that he had no time and the Government could have no time for making that investigation. But. I say, this is only a half-explanation. The real truth is that after great deliberation we agreed that the ratio must be put down as at the time the Bill is introduced, because we did not know what would happen at the time the Bill was introduced. There was the Economic Conference sitting in London when this question was being discussed, and nobody was certain what position would be taken up by various other countries, and, therefore, it was decided that this should be done. Some did want an inquiry, but the Committee refused to undertake it: that is why it is said here that the Committee said that they were not going to go into this business—it was no business of theirs; but it was the business of the Government of India and the Legislature to make a further inquiry later on when they so liked:

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it is no question that the Government gave any undertaking to make any inquiry before or that the Legislature should go into this matter; the Committee in London was not a Committee of the Legislature; it was not a Committee of the Government. It was a Committee composed of certain experts, some Members of the Legislature, some people who were connected with this matter in India, and one member coming from the British Treasury. So they refused to go into this big question and left it to be investigated by the Government of India and the Legislature when the time came, as it was not for them to go into it thoroughly. So whether the Bill came in before or later, the matter was left undiscussed and unconsidered there: they only said, they felt that a certain ratio must be put down and that ratio must be the ratio which existed on the date the Bill was introduced. That was the final decision. Therefore, the Honourable the Finance Member was perfectly entitled to say that what was put down was in accordance with what had been decided and what he had been instructed by the Committee to do. There is nothing wrong in this: the ratio must be the same ratio. I am afraid I have not got the time to develop my points and show the greater fallacies in the amendments moved. I will, therefore, merely submit that I cannot agree with those amendments. I said of Mr. Sarma's amendment that it was a bashful and shy maiden like amendment and that it did not say boldly what it meant. Unfortunately I cannot accept Shaikh Sadiq Hasan's amendment, because even the three other members of the London Committee are not ready to accept his amendment: they say it is futile to say that we must have 16*d*. at the present time: otherwise, it would have been a better amendment. Therefore, I oppose these amendments.

Raja Bahadur G. Krishnamachariar (Tanjore *cum* Trichinopoly: Non-Muhammadan Rural): Sir, the great Bhishmacharya said in the Shanti Parva: "Never be at the tail of an army, that is to say, at the back of the army; nor in the front. If you are in the front, you get killed. If you are in the back, you are neglected; therefore, always try to be in the middle ". I always preach that, but in my own case, I forgot it for the reason that I wanted to hear my friends, Sir Cowasji Jehangir and Diwan Bahadur Ramaswami Mudaliar, before I said anything, with the result that today I am pressed for time. I do not make any complaint: I can quite understand your feeling, Sir, and if I was in your place—as I hope I shall never be,—hearing these arguments from morning till evening, wise and otherwise, will really make me mad and I would fully justify the letters M. L. A. as the late Pandit Motilal Nehru interpreted them. I will, therefore, try to be as brief as possible, and I shall proceed immediately to say what little I have got to observe within the short space of time at my disposal without any flourishes.

The question of the ratio at one time loomed so big that I thought it was a bugbear which it would not be possible to get over. After having heard all the discussions these two or three days, I find there is very little and there was absolutely no use wasting the time of the House by going into matters which really do not come within the purview of these amendments. As far as I understand, the question of ratio arises in these discussions in two ways: first, regarding the exchange obligation of the Government, and next, as to the actual exchange value of the rupee, that is to say, whether it should be 16*d*. or 18*d*. or 14*d*. or whatever it may be. As regards the latter question, I agree entirely with those gentlemen who said that it would be absolutely no use discussing it. My Honourable friend, Mr. Raju, has so deeply immersed himself in the researches of old political institutions to find out how we can get over the machinations of the London people and have our own independent sovereign Legislature here that he did not seriously take this amendment, and, therefore, in a few sentences moved it. I believe my Honourable friend, Sir Cowasji Jehangir, said that you can understand this from the half-hearted way in which he moved it that he did not lay stress upon it. But I do not put it upon that ground. If Honourable Members would kindly refer to the dissenting minutes to the report of the Select Committee, excepting nine gentlemen, both from this House and the other, all of them, although they declaim a great deal against the present ratio of 18*d*., say that it must be considered hereafter either by an expert Committee or by somebody and somebody, and then a conclusion arrived at as to what the actual ratio should be. Consequently, so far as the question whether the ratio should be 16*d*. or 18*d*. is concerned, there is no necessity to go into its merits. I do not agree that the question can be so easily settled, simply because there was a larger number of men who say 18*d*. is bad and 16*d*. is good. There is another set of opinion in the country which, with facts and figures, say that the lower rate is good. Consequently, I quite agree with those members of the Select Committee who said that this matter must be inquired into and there was no good rushing the question here in this Bill which admittedly had not got anything to do with the determination of the question of ratio. In this connection, I will only make one or two observations. In the first instance, I desire to congratulate, if I may, my Honourable friend, Mr. Ramsay Scott, on the feeling speech which he delivered regarding this ratio question; I felt that no Indian could have put better or more touchingly the position that he took up. Another point which arose from the same speech as well as from the speeches of other Honourable Members was that when this rate of 18*d*. was settled in the year 1927, they said it was only a temporary measure and although it was said so and six years have passed, it still remains a temporary measure without any attempt being made to make it permanent. But, Sir, whose is the fault? Sir Basil Blackett, who got the Currency Act amended, said in his speech when introducing the Currency Act Amending Bill that it was only a temporary measure and that as soon as the Reserve Bank came into existence that Bank would take charge of adjusting the question of currency and ratio and all that. Sir, the Reserve Bank did not come into existence, whose fault is that? My friend, Mr. B. Das, said the other day that they were sorry that they wrecked that Reserve Bank Bill, and consequently if the ratio did not come permanently into the Statute-book, I am afraid we are at fault and nobody else. Eternal vigilance, they said, is the price of democracy, and when we wrecked the Reserve Bank Bill, we forgot all about the currency ratio remaining a temporary measure, with the result that it remains temporary today. One important feature of the debates is, and I am glad of it, that my friend, Mr. Mody, has become a friend of the agriculturist, but, Sir, I happen to have an inconvenient memory. It was last year, I think, on the question of imposing a duty on Kenya cotton, on the Gujarat growers and Uganda people, my friend and those who agreed with him having had some interest or other in Uganda and Kenya, jumped at the idea of this tax being introduced, the fact being that it did not help the Gujarat agriculturist, but that it did help the Uganda people who grow the long staple. However, we are thankful to him for small mercies, and I hope

[Raja Bahadur G. Krishnamachariar.]

when the Finance Member will introduce his Budget, he will not try and shift the burden on to the agriculturists. I, however, agree with him in regard to one thing, and that is, I join my friend in his request that a Committee should be appointed in order to examine the economic situation in the country and suggest how it can be improved. I do not want to go into the question of the level of prices and how it could be raised. My Honourable friend from the Punjab dealt exhaustively with this question and I need not cover the same ground. I was glad that Sir Basil Blackett, speaking in Malaya the other day, complained exactly as we do, so that what really happens is that, when we are in office, we are not able to do much or we could not do anything, but when we come out of office, we all complain against the Government as to what they should or should not do.

Now, Sir, that brings me to the real question about which I have been in doubt from the beginning. You may call me a doubting Thomas or whatever it is, but from the time I read Mr. Sarma's amendment in type when it was communicated to me, there was a little doubt in my mind. So far as I have been able to read the London Report,—and I am sorry to say I have got to go upon the language of it, and in accordance with your ruling, Sir, which I may respectfully say was the only correct ruling that could be given under the circumstances,—we have got to rely regarding what actually happened upon the terms of the agreement which have been printed and circulated. Sir, with the knowledge of English that I possess, I tried to read clauses 19 and 20 as carefully as I possibly could. The first clause, that is, clause 19 says that the position regarding the currency is very difficult, that it is not possible to do anything now under any circumstances and that, therefore, the exchange obligation rate, that is to say, the rate for buying and selling sterling should be the one that was existing at the time when the Bill was introduced. Then, Sir, they are careful enough to add that this does not mean that they either agree to this ratio or do not agree, but that they desire that the *de facto* position must continue. Having said that, they proceed to another paragraph, regarding which my friend, Diwan Bahadur Ramaswami Mudaliar, rightly took credit, for having entered that paragraph. But, Sir, I am sorry to say that it only recites what the Indian Members said, and it does not say as to what the opinion of the Committee itself was. Consequently so far as that paragraph is concerned, it is just the same as it was not there, and if my friend, the Diwan Bahadur, had said here that he did say so and so in the London Committee, nobody would have questioned his statement.

Then, Sir, clause 20 is the most important clause. After referring in a small paragraph to the position of the currency and the direction that something should be stated in the Preamble as to what eventually should be done when the monetary standard should be settled once for all, they go on the paragraph 20, and this paragraph is the relevant paragraph in this discussion. They say that it is necessary to fix the upper and the lower point. I will only read just one sentence,—I shall not waste your time by reading the whole of it,—but there are one or two matters which I must bring to the notice of the House. This is what the paragraph says:

"It will be necessary in the Bill to provide limits of the range at which the Bank will be required to sell on demand sterling for immediate delivery. According to the practice now prevailing upper and lower points have in fact been retained as though the rupee was linked with gold. We recommend unanimously—'unanimously' is my word—We recommend that this practice to which the public have become accustomed should be continued."

Sir, apart from the quibble whether the law provides for the upper or the lower point, I have got my complaint regarding this. My friend, the Finance Member, wanted me to read through the Act. I did go through it, I mean to say the Currency Act, I did take my friend, the Finance Member's advice and read it. The result was that there was no upper point mentioned there, and consequently I found that the present law has not provided for the upper point. There is no doubt that he was literally incorrect, but that is not relevant to the present discussion, because the Bill has got to be framed according to the directions of the London Committee. The London Committee, after stating that exchange obligations incorporated in the Bill must necessarily be in accord with the rupee sterling ratio existing at the time when the Bill is introduced, goes on to say that, so far as the upper and the lower points are concerned, the practice now existing being the one that people are accustomed to, they should not be disturbed. So far as the lower point is concerned, we all agree that it is in the Currency Act, it is only the upper point which has not been fixed, but I want to know whether, as a matter of practice, Government have not been buying gold all these days. It may be for remittance to England or for any other purpose, but they have been buying gold all these days, and they must have been buying gold at some ratio point or other, and I take it that the spirit, as my friend, Sir Cowasji Jehangir, always used to say about this agreement, that the spirit of the agreement is—you have been buying and selling gold and sterling—keep up that practice until the time comes as stated in the Preamble, when, of course, the whole thing could be adjusted. That is the position. I respectfully submit, Sir, in speaking on this question, the existence or non-existence of a certain point in the Act is absolutely side-tracking the issue, and, without wasting much time of the House, I will just read a few sentences from this morning's *Hindustan Times* which exactly represents my view:

"The main contention is that the ratio issue is not raised by this Bill which only states the law as it is at present. Both Mr. Sarma who moved the amendment and Mr. Ramsay Scott who supported him have shown that these two clauses go further than the Currency Act of 1927. That Act, it may be remembered, fixed no upper point, but only the lower point at which the Government may sell gold or sterling, at their option. With the suspension of the gold standard by Britain, India found herself automatically linked to sterling. . . .The Reserve Bank Bill, by fixing the upper point, in addition to the lower point, does go beyond the present law."

That literally it does, there is no doubt about it, but the point which caused me doubt all these days, and I am sorry to say that my doubts have not been dispelled after all that I have heard from those who lay too much emphasis on this argument, is about the amendment and its object.

The paper adds:

"But those who lay too much emphasis on this argument should beware of the Government taking them at their word and leaving the lacuna in the law as it is. To do so will be of no advantage to the country which demands devaluation of the rupee, not a rupee pegged to sterling at a rate below which it cannot fall, but above which it will be free to rise.

Some of the amendments proposed in the Assembly want to postpone the decision on the issue for the present. Such amendment will be a triumph only if, after accepting the amendment, their supporters could induce the Government to repeal the Currency Act."

[Raja Bahadur G. Krishnamachariar.]

Supposing this amendment is carried and Government say, "All right, 12 NOON. We wipe out clause 41, because it is not provided for in the Currency Act", it is impossible for any of us to compel the Government to come to the Assembly to get this upper point decided, and, if you want legislative sanction, they might issue an Ordinance. If you want legislative sanction, an Ordinance will come into being the day previous to the coming into operation of the Reserve Bank Act, and then the whole thing will be put on a legal basis. As a matter of fact, if Government wanted to do that, they might do it, but there is a very sensible suggestion in this newspaper, and that is this. If you pass this amendment, you are neither here nor there, but what we would suggest is that the Government should be induced to repeal the Currency Act immediately in order to allow the rupee to find its level, whatever it may be, on the date when the Act would come into force and then declare that to be the ratio. My Honourable friends know that it is not possible for us to move the Government to take that step, and consequently, according to the view of this paper, with which I agree, it is not at all right that we should disturb the position as framed in the Bill. That, Sir, is my doubt. I say, I keep an open mind; I said that when I first saw the amendment, and I have been saying so. I have been trying to clear my doubt from every individual who could throw some light upon it, and although I said let there be light, there was no light.

Some Honourable Members: Let the question be now put.

Mr. President (The Honourable Sir Shanmukham Chetty): The question is that the question be now put.

The motion was adopted.

The Honourable Sir George Schuster (Finance Member): I think that no one in this House will deny that this is an exceedingly difficult debate for me to reply to it. I wonder if Honourable Members realise how irksome it is to have to sit here and hear various arguments being raised and not to be able to reply to them when they are put forward. Sometimes, my self-restraint burst its bounds and I had to get up and interrupt Honourable Members. (*An Honourable Member*: "Very cleverly.") If I have done so and inconvenienced them at all, I hope they will excuse me.

Now, Sir, I think my first task is to recall to the House exactly what the issues are before it. I should be glad to do so, but I am afraid that I myself am not quite clear about it. We have three amendments before us, but some of them have been moved in such a half-hearted fashion that, according to the advice of my Honourable friend, the Leader of the Independent Party, I am supposed to understand that they have not really been moved at all and are not before the House.

Mr. S. C. Mitra: I do not accept that interpretation.

The Honourable Sir George Schuster: I do not accept it either.

Sir Cowasji Jehangir: I have never said that they were never moved.

Sir George Schuster: Never mind . . . .

Sir Cowasji Jehangir: If I may make myself . . . .

Mr. President (The Honourable Sir Shanmukham Chetty): The Honourable Member cannot speak unless the other Honourable Member gives way.

The Honourable Sir George Schuster: I have my Honourable friend's speech before me and what my Honourable friend said was that I might gather, from the half-hearted way in which the 1*s*. 4*d*. amendment had been moved, certain conclusions. I do not propose to accept my Honourable friend's advice and I propose to treat the matter as one which has to be regulated by you, Sir, rather than him, and to take account of the three amendments which are before the House. First of all, there is the amendment moved by my Honourable friend, Mr. Mitra, to the effect that the words "to be announced by the Governor General in Council after consultation with expert opinion in the country at the time of bringing this Act into operation and that question shall be placed subsequently before the Central Legislature for its confirmation" be substituted in clause 40. My Honourable friend who moved that made one of the speeches in the whole of this debate with which I feel myself in sympathy. If I understood my Honourable friend aright, he does not want to play into the hands of speculators, he does not feel that he is able to pronounce judgment on this issue as to which course is right or wrong, he feels that there is a good deal to be said on both sides, and he wishes to ensure that somehow or other the best advice should be taken and a rate which really suits India shall be adopted. I wish I could meet my Honourable friend, but this sort of resolution would inevitably have the same effect on which I shall have to dwell at some considerable length as regards one of the others—this sort of amendment would inevitably have the effect of opening the door to speculators, and our position is that we must stand on clear ground until the conditions contemplated in the Preamble arise and the whole situation has to be reviewed in the light of a different international exchange situation. That, Sir, is all I need say on that particular amendment, though there are some suggestions that my Honourable friend made to which I shall return later.

Then, I come next to the amendment recommending a reduction to 1*s*. 4*d*. That is a simple issue. I agree with what my Honourable friend, Mr. Yamin Khan, said that that is a straightforward and manly amendment which I welcome. I welcome a straight fight. I should like to have a straight fight on this issue. Then I should have time to develop our case more fully than I am afraid would be possible today. I can only say that at present the line I shall have to take up is that that amendment is quite unacceptable. It would mean making this Bill an occasion for altering the present currency position, and that, we have always made clear, is something that we cannot accept. But I want to say something on this particular amendment before I come to the merits of the whole case as regards exchange policy. I want to make Honourable Members realise what the position really is. An amendment of this kind would, in fact, satisfy nobody. Now, let me tell the House of one simple fact. We have had recently in the Finance Department 59 representations from Chambers of Commerce on this subject. Out of those 59, only 2 recommend the devaluation of the rupee to 1*s*. 4*d*.; one recommended a devaluation to a shilling, and 56 recommended letting the present rate go and

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devaluation without putting any limit to it. That, Sir, I submit, is the real demand of the devaluationists in the country today, and yet that is not a demand which is supported by many of those who have taken their stand under the flag of devaluation in the present debate. It is not supported by them. Why? Because they realise that to take that line is going to open the flood gates to a rush of troubles and difficulties, doubts and uncertainties which they dare not face. And yet they take their stand on the side of the devaluationist and are prepared apparently to support this amendment of 1*s*. 4*d*., which would satisfy nobody and which, if devaluation is the sort of policy that this country wants, would obviously be quite inadequate to meet the situation.

Now, Sir, I come lastly in my review of the issues to that amendment moved by my Honourable friend, Mr. Sarma,—a curious product, if I may say so, the product of an apparently new firm composed of two partners, one "a noble-hearted Englishman" if I may adopt my Honourable friend, Mr. Ranga Iyer's phrase, and the other a nominated Member who can command the applause of the Opposition Benches,—almost self-contradictory terms! (Laughter.) Both those Honourable gentlemen are Members of this House for whom I cherish feelings of respect and friendship; but if I thought that they had really meant the things which they said, I am afraid feelings under both those heads in my mind would have suffered a very serious decline. But I do not think that I need take all that they said very seriously, because, on internal evidence, I have gathered the conviction that the product which has been put before us—this amendment and their speeches—were not actually the manufacture of that particular firm. I think my Honourable friends were performing the functions of middlemen in this business. (Laughter.) What they have put before us are goods supplied by a well known wholesale house in Calcutta which has been doing a very active business during the last few weeks and I am not quite sure if my Honourable friends quite understood the quality of those goods or the meaning of all the words which they used. (Laughter.)

Mr. R. S. Sarma: A wholesale firm to whom the Honourable the Finance Member has very often in the past looked for inspiration.

The Honourable Sir George Schuster: But enough of that. I want the House to ask itself what this amendment means and what is the motive or justification of those who have supported it. It seems to me that the one thing which has emerged with absolute certainty from this debate is that the answers to my questions are matters of extreme and insoluble doubt. It is, Sir, a very remarkable fact that all the main protagonists have supported this amendment or justified their position on entirely different grounds. My Honourable friends, Messrs. Sarma and Scott, supported it on the ground of my misrepresentation, brought it forward in order to prevent my smuggling through the Legislature a legislative provision which would fill up an existing lacuna in our exchange position and said that their motive was to force us to come before this House and ask for further legislation in order to fill up that lacuna and thus throw the whole ratio issue into the arena of controversy again. They accused me of having misled the House. Now, Sir, I do not believe that that is a charge which will be supported by any single one of those who have followed my proceedings in this matter. I think my Honourable friends, who have sat with me on the Select Committee, will acknowledge that on every point that had arisen I have been perfectly frank, I have been perfectly consistent and I have deliberately faced the issues, brushed aside all those considerations which I once described to them as hoodwinking considerations. I have told them what my position was, what we can do, what we mean to do and exactly what it means. That, Sir, I intend to continue. Now, the essential purpose of what I said to the House was this. I said that we were not asking the Assembly to give any fresh confirmation of the existing position. Under the existing position, we have Statutory authority and Statutory obligation to support exchange on a 1*s*. 6*d*. basis. That is the position which we intend to continue and I want to make it clear to the Assembly that, if we succeed in passing this measure, we shall not claim that we have received any fresh confirmation from the Assembly of this position, nor say to them "Well, in 1933, you again confirmed the ratio and, therefore, it does not lie in your mouths to criticise it or ask us to change it". That, Sir, is, I think, the sort of position which some Honourable Members are afraid of being put into by this measure. I want to make it absolutely clear that we have no sort of intention of taking up that stand.

Having made that clear, I was going to show up the absurdity of that quibble of my Honourable friends that, in seeking to put in provisions which included the upper point, we were trying to smuggle something through the Legislature inconsistent with the attitude that I had taken. My Honourable friend, the Raja Bahadur, has already quoted from the leader of the *Hindustan Times* of this morning which I myself had also brought down to quote. Therefore, I need not repeat that, but I will only say that I hope that some of my Honourable friends who proposed to support this amendment, when they appreciate the real position, may alter their action when it comes to voting.

Now, I come to the three main speakers in the Independent Party, all of whom were members of the London Committee. Now as to these, a question has been raised as to whether they have gone back on the London Committee's Report which they themselves signed. I think a good deal of unhappy atmosphere has been introduced into this debate in connection with that subject, and I want to make it perfectly clear that I charge no one with dishonesty. I want to make it perfectly clear that I have always felt and said, and that I still feel and will repeat again, that the members of the London Committee have rendered their country most valuable service, have undertaken a very difficult role, and have shown great courage in doing so. I want to make it absolutely clear that I fully appreciate their own difficulties and indeed the difficulties of the Assembly in connection with these particular clauses. I want to make it absolutely clear lastly that I consider that it woud be quite legitimate for any member of the London Committee on his return to India, if after discussion with his Party he found there was difficulty in getting support for the measure in that particular form, to come to us and say: "You must appreciate that if you put the matter forward in this form, we shall find it very difficult to get support. Is it not possible to devise some other form which will serve your purpose and get over our difficulties". If any member of that Committee had approached me on these lines, I should have given very serious consideration to the matter. And indeed even without being approached I have been giving very serious consideration to it; but we have found that it is impossible to select any of these amendments that have been put forward,—and they are very numerous,—and we have found it impossible ourselves to devise any formula which

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would carry out the intention of the London Committee, except in the form which we have chosen, without misleading the public as to our intentions and without creating what we consider to be a vague situation which might be extremely dangerous and extremely adverse to the interests of the country. Sir, I said I could have understood it if my Honourable friends had taken that sort of line, but they have not taken their stand on that ground. My Honourable friend, Mr. Mody, in his characteristically broad-minded way, brushing aside all details, took, I think, the wisest line, because, as far as I could understand him, he made no attempt to meet this charge of inconsistency at all. But I think he did make it clear from his speech that he does mean something very substantial by this amendment. He wants to force the Government to come before the Legislature again. He has thought very hard on this matter. He thinks that if he supports this measure, the position will be closed, bolted and barred once for all. He wants by some sort of loophole to force us to come before the Legislature again before the Bank is set up. Well, my Honourable friend is always frank and I am glad that he has made his position clear. It will help the House to appreciate what our attitude to that position must be. Then, my Honourable friend, Mr. Mudaliar, did, if I understand him aright, take something like the line which I have indicated. He asked us to appreciate the difficulties and he maintained that what he was proposing now was not inconsistent with the London Committee's recommendation, relying very much on one sentence and, I must say, ignoring what I myself consider to be the vital sentence. Lastly, my Honourable friend, the Leader of the Independent Party, took an entirely different line. He frankly admitted, the proposal did vary the method which had been recommended in London, though he maintained that it was consistent with the spirit of the London proposals, and, finally, with a frankness which I greatly appreciated because that was the part of his speech that I liked best, he said at the end:

"Frankly, I must admit that this amendment practically means nothing at all." (Laughter.)

Now, how many Honourable Members in the House are prepared to stand up and say that they are supporting this amendment, because it means practically nothing at all? Sir, if every Honourable Member would get up and say that, our position would be entirely different . . .

Sir Cowasji Jehangir: My Honourable friend has got my speech before him. He can quote it.

The Honourable Sir George Schuster: I have not got that part of my Honourable friend's speech before me.

Sir Cowasji Jehangir: I will give it to him if he wishes.

The Honourable Sir George Schuster: Does my Honourable friend dispute that he did say at the end,—"frankly, one must admit that this amendment means very little at all", or words to that effect?

Sir Cowasji Jehangir: Yes.

The Honourable Sir George Schuster: I do not want to misrepresent my Honourable friend, but I think that is more or less what he said.

Mr. B. R. Puri (West Punjab: Non-Muhammadan): I think we had better know what the exact words were.

The Honourable Sir George Schuster: I think I am supported generally when I say that that was the impression created by my Honourable friend. Sir, that is the position; but before I get on to my main argument, I want to finish off what I have to say about this London agreement. I must tell my three Honourable friends, to whom I have already referred, that although I have not the slightest doubt that they have satisfied themselves in their own minds that the position that they have taken up is perfectly consistent and absolutely straightforward, I must tell them that so far as I am concerned, I am quite unable to accept their position that the views which they have advanced and the amendments which they have proposed or supported are not inconsistent with the recommendation contained in the London Committee's Report. I am quite prepared to admit that that is a personal opinion and that it is a difference of opinion, but I must make my opinion clear and I must also make it clear that it will be so regarded in London. Now, I do not think that that is an unreasonable position and I also challenge anybody, including my three Honourable friends, to say that we could have embodied the recommendations of the London Committee more accurately and more precisely than we have actually done in clauses 40 and 41 of the Bill.

Mr. H. P. Mody: Will my Honourable friend tell us what meaning he attaches to the words, "that it is for the Government and the Legislature to examine these and all other relevant considerations with a view to ensure a minimum of avoidable strain on the Currency Authority in India"? At what stage is such examination contemplated?

The Honourable Sir George Schuster: That represents the view of a considerable majority of the Indian delegates . . . . .

Mr. H. P. Mody: That is ourselves.

The Honourable Sir George Schuster: I do not dispute that, but what I have always asked my Honourable friend to explain, and what he has never explained, is how he deals with the sentence to which he himself has appended his signature:

> "On this basis the exchange obligations incorporated in the Bill must necessarily be in accord with the rupee-sterling ratio existing *at the time when the Bill is introduced.*"

Sir Cowasji Jehangir: May I ask my Honourable friend one question? Is it open to my Honourable friend, with the sanction of the India Office, to vary that agreement as he chooses while it is not open to us to vary it in a way that does not go against the spirit of the agreement? He can vary it as he chooses with the sanction of the India Office, but we cannot vary it even if we observe the spirit of the agreement? Is that what he means to say?

The Honourable Sir George Schuster: My Honourable friend's question is obviously completely absurd. The position I am taking up is that we have never claimed and never suggested that this Legislature is in any way bound by what was settled in London. Nor have I ever suggested that it is not open to any member of that London Committee to change his position if he chooses to do so. But the position which I myself take and have always taken is that this represents a position which, so far as the Secretary of State is concerned, is regarded as an agreement to which he is bound. I explained to the House the other day that he regards himself as bound to put forward these proposals with the same authority as His Majesty's Government's proposals in the White Paper. Now, if that is the position which he has frankly taken up, my position is that, if this Legislature departs from any substantial terms in the scheme recommended in that report, then obviously the Secretary of State is no longer bound, as I have pointed out that he regards himself to be. My Honourable friend has asked, what is the position as regards the modifications that have been made? But those are all modifications which have been made with the approval of the Secretary of State. If, in order to meet wishes expressed by the representatives of the Indian Legislature, he likes to depart from conditions which the London Committee has laid down, obviously he can do so. My Honourable friend has not been asked to depart from his position in any way which he resents. He has agreed to and indeed advocated all these changes which we have recommended. So, I repeat that my Honourable friend's question was entirely absurd. Now, Sir, that is the position as regards this agreement. This Legislature is not bound and no Member who signed that report is irrevocably bound, but if this Assembly does not pass a Bill which embodies the main feature of that scheme, then the whole of the results of our London discussions are liable to go by the board. That would be a serious result which I consider would be very adverse to the interests of India, because, I repeat, that the Indian delegates in London did succeed in obtaining a great many concessions of substance from the British side and served their country very well in that result.

Now, Sir, I want to come back to the main question of this amendment. What I want to ask Honourable Members is that, after they have heard all the speeches and heard the various differing grounds on which this amendment has been supported, does any of them know precisely what it means, what exactly the result is that it is intended to produce and what exactly our position would be if we were to accept it? Now, let me try to indicate to the House exactly what would be the effect of the amendment. In the first place, it will not force the Government to come before the Legislature again. On the contrary, it will tend to keep the Legislature out. Let me ask the House to consider what might happen? Supposing in the period before the inauguration of the Bank things go on as they are, we need do nothing; we need not come before the House again; we can carry on perfectly well without an upper point. That position has already been made clear. But supposing, on the other hand, the circumstances contemplated in the Preamble arise; supposing all the main countries stabilise again on a gold basis, then the situation contemplated in the Preamble would arise. We have always contemplated that when that situation arose, the whole matter would be reviewed. Now, these things happen suddenly. My Honourable friend, the Leader of the Independent Party, has often pointed out how suddenly the executive has to take action in the first place. Well, we might have to issue an Ordinance. Supposing we were going to put the rupee on a gold basis again at a new parity, we should undoubtedly, in the first place, have to achieve that by the issue of an Ordinance. If that happens at any time within six months from the setting up of the Bank and if my Honourable friend's amendment is passed, our legislation by Ordinance, which ought to be in force only for six months before we have come to the Legislature for confirmation, would in effect be picked up by the provision which my Honourable friend seeks to insert into the Bill, thus making it the permanent law of the country. My Honourable friend says the rate prevailing according to the law in force on the day before the Bank is set up. "Law in force" covers an Ordinance. The Legislature would be completely side-tracked. Is that the intention of the Honourable Members who have supported this amendment? On the other hand, if you leave the position as we have put it, then if India comes back to a gold basis on a new parity, we have got to come forward for amending legislation. We are putting it into a Statute which has got to be amended. Whether it is the existing Currency Act or the new Reserve Bank Bill, it is a Statute and it would have to be amended in those circumstances. My Honourable friend's proposal, as I said, creates the definite possibility of side-tracking the Legislature and allowing the Government to continue without ever consulting this House again. Then, Sir, what is the second result? Obviously, an amendment of this kind must create uncertainty. After this debate, can we on this side possibly take our stand on the position that my Honourable friend, the Leader of the Independent Party, has taken up that this amendment practically means nothing? The Assembly can claim that it means something quite different and the public will believe that it means something quite different. How many Honourable Members—I repeat that question—will support it if they are told and believe that it means absolutely nothing? Will every Honourable Member get up and testify publicly when he goes back to his constituency that he has passed this wonderful amendment which means nothing? If I can get a written assurance from every Honourable Member of this House that that is their position, then I might regard this amendment quite differently.

Now, I want to say something on this question of speculation and the results of an amendment of this kind. In the first place, let me just read to the House a report which has appeared in a London paper, the *Morning Post*, as to the significance of this amendment. The *Morning Post* has a very acute Indian correspondent and they have dealt with this matter rather fully. They say:

"Devaluationists have hit on new method for attacking the rupee ratio under cover of the Reserve Bank Bill. It is embodied in an amendment that for requirements that Bank should on demand buy sterling at 1s. 6d. should be substituted provision requiring sterling to be bought at rate at which on day before provision comes into force Government are Statutorily obliged to buy it. Devaluationists argue that while Currency Act prescribes selling and buying rates for gold there has not been since departure from gold standard a corresponding specific statutory obligation to buy sterling at fixed ratio. By deleting such provision from Bill but inserting provision that Bank shall buy at statutory rate already applying to Government they would compel Government to introduce legislation to place themselves under such statutory obligation. Hence it is contended that amendment if adopted would force Government to throw whole ratio question into melting pot again before Bank comes into being."

Now, Sir, that shows the sort of impression which is created. Again, I want to say something about the speculators. My Honourable friend,

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Sir Cowasji Jehangir, has told me that I am raising a bugbear which has no real existance. Sir, I do not believe that there are many Members in this House who know what dirty methods these speculators adopt or how they are certain to take advantage of any rumour or any suggestion of a change and exploit it for their own profit. Now, Sir, I want to tell the House a little story. (Cheers from a Non-Official Member.) My Honourable friend's applause is premature; it is not a funny story.

On the 2nd of December, when I was busily engaged in this debate, a certain incident happened. The Additional Secretary in the Finance Department was sitting in the official box in this Chamber when a representative of the Associated Press called to see him and said: "Oh, with reference to this letter of yours, which I have just received, I have already put it on the wires to go off to Calcutta and Bombay, but I want to ask you whether you have got any further information to give me". And he put forward a letter with the heading "Finance Department" signed apparently—a well forged signature—by Mr. J. B. Taylor. This is supposed to be a letter from Mr. Taylor to Mr. Sen of the Associated Press. The letter runs as follows:

"Dear Sir, we understand President Roosevelt has been persuaded by his Advisors to follow the slippery path of unchecked inflation which will mean an entire collapse of other currencies to start with. Currency authorities are adopting measures in all countries to prevent American action from reacting too violently on them, but it is certain that in the early stages there will be almost complete dislocation. It seems important to warn the Indian market at once of the violent fluctuations that are sure to occur in the next few days although in India nothing more than a fall of a penny in the rupee exchange may result. Will you issue the necessary statement, beginning "realiable private advices show, etc., etc."

Yours Sincerely,

J. B. TAYLOR."

As soon as Mr. Taylor saw this letter, he said: "This is a wicked forgery which will lead to the most disastrous consequences, you must stop this at once". The Associated Press representative said: "I will do my best, but I have already sent telegrams down to the Post Office". As a matter of fact, however, he was able to save these telegrams going off by thirty seconds thanks to his promptness, a serious disaster was averted. If the telegrams had gone off, there would at once have been panic in Calcutta and Bombay.

Now, Sir, that happened just after I had made a very definite statement in this House as regards our exchange policy, and the Secretary of State had made a similar statement in London. Those people who had been gambling on creating uncertainty during the discussions on the Reserve Bank Bill had realised that we had spoiled their game and they then had resort to this kind of move in order to enable them to cover up their purchases in one day's panic. That, Sir, is the class of persons with whom one has to deal, these are the sort of vultures which are hanging over the position. And if we allow any uncertainty to be created by anything that is done in this House, it is absolutely certain that there are people waiting about with positions already created to take advantage of that, while the poor agriculturist, whom some Honourable Members have in mind, will sit in his village and suffer far worse in the long run than if we kept the position stable so that he knew where he was. A very similar result was nearly created last week when another rumour was published to the effect that Government intended to compromise on this ratio issue. As a matter of fact, of course, we arranged for the contradiction of that at once. In Calcutta, owing to the fact that we had made a very strong statement a week before, the rumour was not believed and it had no particular effect. In Bombay, I am afraid, there were more credulous people, and the rumour had an effect, an immediate effect, both on existing prices and on the prices of Government securities. Fortunately our contradiction came after about half an hour and the effect was stopped. That shows the atmosphere in which we are discussing this legislation and I do not believe that five per cent. of the Members of this House realise what are the risks against which we have to guard and why it is necessary for us to take up the very strong attitude that I have had to take up in connection with this matter. That being the position, I must make it clear that we intend to maintain the present position, that we cannot allow the Bill to pass into law if it contains any amendments, such as the present amendment which, according to Honourable Member's own representations, will leave the position vague and uncertain. That is our position and there must be no misunderstanding about that. I ask, what would be the position of Honourable Members if this amendment is passed. They will, as I have already pointed out, achieve absolutely nothing, they are not going to put this matter any more in their power, in fact less; they are going to create uncertainty in the country in which the speculators will thrive and the people who are trying to do genuine business would suffer, and they are going back to their constituencies to tell people, what? They will say: "This wicked Government which we cannot remove is maintaining its position in spite of all we say",—(Loud applause from their audience). "We took a strong line in the Assembly, we brought them to book",—(Loud and prolonged applause, and a Voice: "How did you do it?") And what will be their answer? "We gave them a blank cheque". That is the result. This amendment gives us a blank cheque. To us, the Government, that you cannot trust to do what you want, the Government that you want to bring to book, you give us a completely free hand to do exactly what we want. I submit that it is a misconceived amendment, it will not fulfil the purpose of any one who has supported it, but it will play into the hands of speculators and do this country a very great deal of harm.

Now, let me turn to the merits of the case. Had time been available, I should be prepared to talk for three hours on this question, because, I have had no time at all in past debates to deal with the merits of this case. This case has been argued before us mainly as part of an attack on our currency policy and it has been argued very largely on the ground of the miserable condition of the poor agriculturists and based on the desire to help them. Now, Sir, there is no time for me to go into the whole question of currency policy and effects of devaluation. I pointed out the other day that devaluation of currency cannot increase the wealth of the country, it can merely alter its distribution. It serves some people's purposes, it makes the position of others worse. Obviously if a currency authority says: "We are going to make every rupee in the pockets of the people two-thirds of what it is at present"—and, Sir, it is very surprising that a course of that kind should have achieved the amazing popularity which it

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seems to have—if the currency authority takes that line, then clearly they are going to make the position worse for those who hold money, they are going to make the position worse for those who have fixed claims in money and they will make the position better for those who owe money and for those who have goods to sell. There is one very important class of people who have fixed claims in money and these are the labouring classes, working for a fixed money wage. I must confess, I was extremely surprised to hear my Honourable friend, Mr. Joshi, come out and support this amendment. But I must also congratulate my Honourable friend on the general tenor of his speech. He did make, if I may say so, a very comprehensive review of the situation and he pointed out that mere currency depreciation must, of course, adversely affect the wage-earner. But he said: "If you safeguard me against that and do not take any other steps, I may be worse off even then if you depreciate your currency". That, I think, is roughly what my Honourable friend said. He is perfectly right and I want to say something on the other steps afterwards. But there cannot be any doubt that if you can isolate the effects of devaluing your currency, it does amount to a cut in wages and that is why it is supported by my Honourable friend, Mr. Mody. There, Sir, you have the first clear issue, undoubtedly currency devaluation for the time being helps the industrialist. It reduces the real burden of all his fixed charges including, first and foremost, his wages bill. It is a secret cut in wages which does not have to be made good so quickly as a direct cut made have to be. Now, I cannot attempt to deal with all the facts, but I do wish to say something about the case of the actual agriculturist. There was a good deal of talk going on on the Benches opposite when an Honourable Member sitting behind me was making a speech yesterday and the Deputy President occupying your Chair called him to order for speaking on irrelevant matters. Now, Sir, if his is a debate on measures to help the position of the actual agriculturist in the country, I maintain that my Honourable friend's speech was the only relevant speech that has been made in the course of the whole debate. (Hear, hear.)

Sir Cowasji Jehangir: Including the repudiation of debts?

Mr. K. C. Neogy (Dacca Division: Non-Muhammadan Rural): Including the suggestion that debts borrowed by the cultivator should be disowned and never re-paid.

The Honourable Sir George Schuster: He did endeavour to make the House realise what the position of the cultivator actually is; and I am quite certain that if I could get a class of Honourable Members opposite to sit with me and go carefully through a list of the typical cultivators of this country and consider their position as it is today, they would come to the conclusion which I have done that anything like devaluing the rupee to 1*s*. 4*d*. or whatever level you like is not going to do any good in the present circumstances to the poor agriculturist. Sir, we are always accused on the Government side of not studying these matters and sitting idly with folded hands watching Rome burn, absolutely regardless of what are the real facts of the situation. I must ask the House to believe that I have been trying to study the situation ever since I have been in India, and I have tried to examine the position of the actual cultivator to see whether I could support any proposals for devaluing the rupee on the basis of the benefit that that would give to him. And, Sir, I have come to the conclusion that it would fail entirely to benefit the ordinary average cultivator in this country. I have got a lot of typical budgets here and I wish I had the time to take the House through them. But I will take only one just to try and make the House face realities in this matter, because all our talk goes on on the basis of old cliches, talk about the wicked Government policy, organised robbery, and so on, and I have never heard a speech in any debate on this subject in this House which has tried to get down to realities and work out how it really would affect the actual people in this country, the biggest class of the people in this country, the actual agricultural producers working on the land. Now, Sir, take the case of one of the budgets of the ordinary small cultivator in the Punjab, and the Punjab Government has made some very careful inquiries into family budgets. Here you have a man,—I will put two parts of the year together,—both the *rabi* and *kharif* crops, who produces gram, wheat, *bhusa* (fodder), *jowar*, *bajra*, *dal*, *dhan* (paddy), *mung* (pulses) and *gur*. His total production of these crops for the year is worth Rs. 160-8-0. In addition to that, from his buffaloes he produces ghee worth Rs. 70. So, his total produce is Rs. 230-8-0 and that is all produce for local sale. Now, the price of none of those articles is going to rise if you devalue the rupee, for they are all products for which there is only any internal market, except only the wheat and that will not rise, for the price of wheat in India is, owing to our import duty, well above world parity. The price of cotton or jute which is fixed according to international prices might, of course, rise—I mean it would be able to rise,—but for all these articles,—and over 75 per cent. of the production of the ordinary agriculturist in India does consist of articles which are sold locally,—for these articles the prices would not rise immediately on the devaluation of the rupee. Now, here is the case of an individual whose income is Rs. 230-8-0, and how does he spend that? As regards his food, flour and ghee, he exchanges some of his products for flour and uses some of his own ghee.

Mr. Muhammad Yamin Khan: May I ask the Honourable Member a question? When the Honourable Member said that the price of cotton may rise, did he mean long staple or short staple cotton?

The Honourable Sir George Schuster: What I meant was that, with regard to an article like cotton, the price of which depends on the international market, if you reduce the value of the rupee, the price of that,—because it is an international quotation,—would rise. And that must be so whether it is long or short staple cotton, because there is an international price of both.

Diwan Bahadur A. Ramaswami Mudaliar (Madras City: Non-Muhammadan Urban): And it will have no effect on the price of other articles?

The Honourable Sir George Schuster: I have not finished my statement of the case yet. I am taking the case of this particular small cultivator and I say his food which represents his own produce or what he gets locally in exchange for his own produce, costs him Rs. 60. His cultivation expenses, *i.e.*, seeds and smaller tools, cost him Rs. 12-12-0; and payment to *kamins*, that is, to the village blacksmith, et cetra, in kind, Rs. 5-8-0; and the maintenance of cattle, Rs. 70—that is, taking the value of his own produce. The total of that is Rs. 148. That represents about 63 per cent. of his total expenditure which he really meets in kind. Therefore, the price of the produce does not affect him at all as regards that 63 per cent. Then, he has cash purchases like salt, sugar, oil, tobacco, clothes, etc., the total of which is Rs. 36-12-0—that is about 15 per cent. of his total expenditure. Then he has certain rupee payments as on ceremonies—and it is an extraordinary thing that, even in these bad times, in every one of these small budgets, you find that something like 10 per cent of the expenditure of the year goes on ceremonies. This comes to Rs. 19. Then, "bribe to petty official" (Laughter),—that is also a universal item,—Rs. 4.

Sir Cowasji Jehangir: Will that go up too?

The Honourable Sir George Schuster: That remains the same. The total of these two cash items—ceremonies and bribes—is Rs. 23; and then land revenue and water rate come to Rs. 29-8-0. The total of the items of expenditure which I have given comes to Rs. 237-4-0 against the value of produce Rs. 230-8-0. The balance in this case was covered by presents and a small loan. Now, Sir, there are in that budget items amounting to about Rs. 36 representing expenditure on articles that have to be purchased for money, the price of which undoubtedly will rise if the value of the rupee is reduced. The cost of his oil will certainly go up, the cost of his cloth will go up, the cost of his refined sugar will go up; and what I am trying to point out to the House is that on the one side this particular cultivator is producing nothing the value of which will go up if the value of the rupee goes down, but he is spending more than a seventh part of his income on buying goods the price of which will go up. And I maintain that, in that particular case, the particular cultivator will be actually damaged by devaluing the rupee. Now, my Honourable friend, Mr. Neogy, asked. "What about his debts?" Well, this particular individual has debts of over Rs. 600 on which, at 20 per cent. interest, he ought to be paying Rs. 120 a year. At present he is paying absolutely nothing; the money-lender is not collecting his interest. On the other hand, he is still allowing that man to spend Rs. 36 a year on necessary purchases and Rs. 19 on ceremonies. That really is the key to the position. At present in India, and India is still on a primitive basis with its primitive money-lending system, the main burden of the present depression is being taken not by the agriculturist but by the money-lender; and my Honourable friend behind me, who spoke yesterday, was, I am certain, right when he said that in good times the money-lender gets a bit more out of the cultivator, in bad times he is elastic in his demands and he goes short. And, in times of prosperity, what happens to the cultivator is that his credit becomes better and he gets more deeply into debt. He borrows as much as he can borrow and the money-lender is the shock absorber in this whole economy. It is he who is bearing the main burden at present and not the agriculturist. Now, Sir, I freely admit that if the present level of prices continues, and if we are to go on for long in this state of affairs where the ordinary cultivator is not able to meet any of the interest due on his debts, a very serious situation may arise in India and that will have to be tackled. And I freely admit that out of this situation there are arising problems which Government ought to be considering. Honourable Members are quite justified in putting this point to us. Therefore, I very much welcome the suggestions made by my Honourable friend, Mr. Mody, by my Honourable friend, Mr. Joshi, by Mr. Mitra and by Mr. James that Government ought to do something to consider what the effect of the present economic crisis with its quite unexampled depression is on the country, what it is leading us to and what steps must be taken. But that is in the line of direct action, and when I say direct action, I mean action which is directed at a particular evil which has been revealed as a result of scientific and careful inquiry. That is something quite different to shooting of a bolt into the blue in the way that those who ask for devaluation of the currency would have us do and trusting that some benefits from that will somehow come to the cultivator. As I have said, I am perfectly certain that none of the benefits in present circumstances will come to the cultivator, and that the whole of the profit will go in the first place some to the manufacturers, but mostly to the speculators and those who are dealing in export and import trade in India. I wish there was time to dwell more thoroughly on that subject, because I am convinced that Honourable Members who really have the interests of the agriculturists at heart would not support this kind of measure at present if they studied the situation. But they would come back from that study reinforced probably in their demand that we should do something on other lines to deal with the present situation.

1 P.M.

A good deal has been said about the position in other countries. Again I wish I had time to deal with that fully. But a reflection which I want to put before the House is this: if one looks round the world today, one could find examples of countries which have tried practically every kind of policy and every variation of policy. You can point to the "old guard" like Holland and Switzerland which still remain on their pre-war gold standard. You can take the countries like France, Italy and Germany who have devaluated their currency and have now come back to the gold standard and are sticking to it like grim death: they have been through devaluation, and the one thing they are sure of is that they are not going through it again if they can help it. You can look at the whole sterling area which keeps a sort of middle course and I think the sanest course in the world today, where in terms of gold the currency has been depreciated by 30 to 40 per cent. Then you can turn and look at the extreme cases, and the most interesting case of all is undoubtedly the United States where this great experiment is being made by President Roosevelt today. In all those countries, I maintain, the position, is very much the same. You cannot point to any one country and say "they have tried a particular experiment and they have prosperity: we have not and, therefore, we are in misery". It is not true. Holland, where, I said, they had stuck to their old pre-war gold standard and are, therefore, at their pre-war parity—Honourable Members are quite wrong in saying that India is above its pre-war parity in relation to all other countries—we are far below those countries which are still on the old gold parity—Holland has a large foreign empire to deal with very like India in some respects: yet they have stuck to their original gold standard and I do not believe their position is any better or worse than most other countries. You find differences, of course, and there is one country, Japan, which may be quoted as having achieved success

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by means of currency depreciation. But that is just one of the exceptions which proves the rule, and a study of the case of Japan will be very instructive to all Honourable Members who are interested in this subject. It reveals the differences of the effects of that sort of policy on a country like Japan and a country like India. Japan went through a terrible struggle keeping on the gold standard several months after we went off. During the time of that struggle, they worked up the efficiency of their industries to something which the world has never seen in any other country before: then they let their exchange go and immediately gave all their manufacturers a considerable advantage; and having worked up their efficiency, as I say, to something far higher than we have in this country, with the advantage of exchange depreciation, they were able to capture the export markets of manufactured goods from other countries. In India we have no parallel to that at all. What are we suffering from? Take jute which used to be our biggest export: our jute exports used to be over 80 crores—they are now down to something like 17 crores. We are not suffering from the fact that our prices are too high, we are suffering from complete absence of demand; and if we depreciate our currency and put up rupee prices of jute, we shall not improve our position in the very slightest. In fact we may make it worse, because, if we put up the local internal prices, we will very probably encourage people to go back again to cultivate jute; we shall over-produce and the last state of the producer will be worse than the first. These things ought to be studied in relation to the needs of each country and the position of each country.

Now, before I leave the case of other countries, I just want to say something about the United States. My Honourable friend, Mr. Mody, seems to regard my predecessor, Sir Basil Blackett, very much like the curate of the story regarded his egg. He is "good in parts" and it suits my Honourable friend to quote him in parts; but if my Honourable friend had gone on to tell us what Sir Basil Blackett said about the United States in that speech from which he quoted, I think it would have been very instructive. I just want to read two passages; towards the end he says:

"But the interesting thing is that one after the other all President Roosevelt's devices have succeeded only to a very limited extent in raising prices; and undoubtedly the industrial codes have raised costs at least as much as they have raised prices in most cases."

And then, again, he says:

"The chief effect of the raising of prices in America so far has been to stop the tendency of world prices to rise and to threaten a fall in gold prices. That is not ultimately for the good of the world. The chief effect has been to initiate one more experiment in the competitive depreciation of currencies throughout the world, and unless we can get away from competitive depreciation of currencies and get something like co-operative action, I do not think we are going to reach the time of prosperity that is undoubtedly due to us."

Now, the Honourable Member, the Leader of the Independent Party, has said that circumstances have changed since he discussed this matter in London; and he had particularly in mind the state of affairs in the United States. If that has any effect on our position, I should say it is one quite contrary to that which my Honourable friend would have us take into account. It seems to me that what is happening in America is showing up the dangers and difficulties of these attempts to create prosperity artificially by monkeying about with your currency and monetary policy. If ever a determined effort was made by a Government or rather by a single man who had the power to carry it out, that effort is being made in the United States today. But experience shows us that, as each step is taken, it produces reactions which were not thought about before. And then some new step has to be taken to correct those reactions. That, again, sets up further reactions, and the result is that President Roosevelt has been continuously, one week after another, forced to devise some new expedient to correct the undesirable effects of the last one he has undertaken. He has been led deeper and deeper into a morass of difficulties, and the result is a thing on which we ought to reflect very carefuly. America is a very powerful country. It has, by virtue of an elected President who has enormous powers, a very effective executive. The President, as I say, is in a position to carry out things which practically no other Government in the world is in a position to do today. America in those circumstances can perhaps afford to take risks. She is very self-sufficient, she has no foreign obligations, she is not dependent on others; she depends on her own credit, and she can experiment with her internal economy, and what is happening to her credit or trade outside is to her a matter of minor importance. Now, in India, we are in a very different position. Unfortunately, we are a debtor country, and we are dependent on our foreign trade for all that margin of cash purchases to keep the country's standard of life and the economic machinery going. For us to take the risk of being led further and further, as President Roosevelt has done, is a course which, I submit, no Government, with a full sense of its responsibility, could possibly undertake. And I wish to ask the House particularly to realise this. Any step of devaluation will be only the first step in the general demand. It is the most insidious drug that can possibly be administered to a patient. I admit, it may be a stimulus to a certain portion of the economic body, but it is a most dangerous drug, a most dangerous stimulant, the use of which encourages the demand. It can at best, as a friend of mine who was Finance Minister in New Zealand said, it can at best be described as a "cocktail bounty". It gives an immediate fillip possibly to certain industries, but as soon as the effect of that is worn off, things are as before except that a demand for more will have been created and, if we were to start upon this course, no one can say what would be the end. The final end is always a day of reckoning which brings upon countries results which were never contemplated. One of the most interesting things in all the discussions I had in London this year was to see how the French, who had been through this process of devaluation, regarded the possibility of further devaluation. They simply dared not face it; their small monied classes have seen their fortunes diminish to one-fifth of what they were before. They dare not put the country through that again. Sir, these are the sort of lessons that we ought to learn, and before Honourable Members ask us to embark on courses of this kind, they ought to reckon out very carefully the effects on India, on India's public finances on the one side and the benefits on the other, and they will find that the benefits, such as there are, would go to persons that they would not wish to benefit, and that the adverse effects may jeopardise India's future for a long time. But, Sir, that is all rather outside the present issue. The present issue is merely this amendment which is meaningless, but which yet will have the serious practical effect of leaving the position

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vague and opening the door to speculation. In that period of speculation, all those interests that really need the benefit will suffer, and no one, neither this Legislature nor any other interest in the country, will derive any good at all. There is one sound course for this House to adopt, and that is to get this Reserve Bank set up as soon as possible. Then they will have the control of currency taken out of the hands of this "wicked and unsympathetic" Government, they will then be able to influence the course of affairs much more effectively than they can at present. That is my real answer to all that my friend, Mr. Mody, has said. Help us in our honest endeavour to help you and get this Reserve Bank set up. We are taking great risks. If we really wanted to retain control and a rigid official system which disregards public opinion, then *we* would be making delays as regards this legislation. Honourable Members have not realised what courage we are showing in asking them to adopt this course. That, from their point of view at least, is the right course, and, on these grounds, I strongly advise every one in this House not to vote for this amendment, but to let us proceed with this Bill and get the Reserve Bank set up as quickly as possible. (Loud and Prolonged Applause.)

Mr. B. Sitaramaraju (Ganjam *cum* Vizagapatam: Non-Muhammadan Rural): Sir, as the Mover of the amendment for 1*s*. 4*d*., I owe it to the House a personal explanation. Some Honourable Members in this House have suggested that I was not serious in moving that amendment. It is certainly not correct to suggest that. Not only now, but even on the occasion where the remark was made, I said it was not true. The reason why my seriousness in moving this amendment is questioned is, it is suggested, I did not make a long speech. I made it very clear in that speech that as I had taken a very long time on this very question on the first day of the debate, I would not be justified in repeating the remarks which I had made on this question. We have been hearing very strange economic theories and reasonings of late; to that may be added this theory that, in order to prove that a man is really serious, he should make a long speech. Sir, I was never more serious in my life than on this amendment, nor do I ever move any amendment without being serious.

Mr. President (The Honourable Sir Shanmukham Chetty): Mr. Sarma's amendment will be put to the vote first. If that is adopted by the House, then the other amendments fail. If Mr. Sarma's amendment is negatived, then Mr. Mitra's amendment will be put to the vote; and if that is negatived, then Mr. Raju's amendment will be put to the vote.

The question is:

"That for clause 40 of the Bill, the following be substituted:—

'40. The Bank shall sell to any person who makes a demand in that behalf and pays the purchase price in legal tender currency at its office in Bombay, Calcutta, Delhi, Madras or Rangoon, gold for delivery at the Bombay Mint at the rate which may be fixed by the law which is in force on the day prior to the coming into force of this section or, at the option of the Bank, sterling for immediate delivery in London at the rate and subject to the conditions under which, on the aforesaid day, the Governor General in Council is, by law, under obligation to sell sterling'."

The Assembly divided:

AYES—45.

Abdul Matin Chaudhury, Mr.
Azhar Ali, Mr. Muhammad.
Bagla, Lala Rameshwar Prasad.
Bhuput Sing, Mr.
Chandi Mal Gola, Bhagat.
Chinoy, Mr. Rahimtoola M.
Dumasia, Mr. N. M.
Dutt, Mr. Amar Nath.
Hari Raj Swarup, Lala.
Hoon, Mr. A.
Isra, Chaudhri.
Jadhav, Mr. B. V.
Jehangir, Sir Cowasji.
Jog, Mr. S. G.
Joshi, Mr. N. M.
Lalchand Navalrai, Mr.
Liladhar Chaudhury, Seth.
Mahapatra, Mr. Sitakanta.
Maswood Ahmad, Mr. M.
Mitra, Mr. S. C.
Mody, Mr. H. P.
Mudaliar, Diwan Bahadur A. Ramaswami.
Murtuza Saheb Bahadur, Maulvi Sayyid.
Neogy, Mr. K. C.
Pandit, Rao Bahadur S. R.
Pandya, Mr. Vidya Sagar.
Parma Nand, Bhai.
Patil, Rao Bahadur B. L.
Phookun, Mr. T. R.
Puri, Mr. B. R.
Ranga Iyer, Mr. C. S.
Reddi, Mr. P. G.
Roy, Kumar G. R.
Sadiq Hasan, Shaikh.
Sarda, Diwan Bahadur Harbilas.
Sarma, Mr. R. S.
Scott, Mr. J. Ramsay.
Sen, Mr. S. C.
Sen, Pandit Satyendra Nath.
Shafee Daoodi, Maulvi Muhammad.
Singh, Mr. Gaya Prasad.
Sitaramaraju, Mr. B.
Thampan, Mr. K. P.
Uppi Saheb Bahadur, Mr.
Ziauddin Ahmad, Dr.

NOES—63.

Abdul Aziz, Khan Bahadur Mian.
Ahmad Nawaz Khan, Major Nawab.
Allah Baksh Khan Tiwana, Khan Bahadur Malik.
Anklesaria, Mr. N. N.
Anwar-ul-Azim, Mr. Muhammad.
Ayangar, Mr. V. K. A. Aravamudha.
Bajpai, Mr. G. S.
Bartley, Mr. J.
Bhore, The Honourable Sir Joseph.
Bower, Mr. E. H. M.
Chatarji, Mr. J. M.
Clow, Mr. A. G.
Cox, Mr. A. R.
Dalal, Dr. R. D.
DeSouza, Dr. F. X.
Dillon, Mr. W.
Fazal Haq Piracha, Khan Sahib Shaikh.
Graham, Sir Lancelot.
Grantham, Mr. S. G.
Haig, The Honourable Sir Harry.
Harbans Singh Brar, Sirdar.
Hezlett, Mr. J.
Hudson, Sir Leslie.
Ibrahim Ali Khan, Lieut. Nawab Muhammad.
Ishwarsingji, Nawab Naharsingji.
Ismail Ali Khan, Kunwar Hajee.
Ismail Khan, Haji Chaudhury Muhammad.
James, Mr. F. E.
Jawahar Singh, Sardar Bahadur Sardar.
Lal Chand, Hony. Captain Rao Bahadur Chaudhri.
Lee, Mr. D. J. N.
Mackenzie, Mr. R. T. H.
Macmillan, Mr. A. M.
Metcalfe, Mr. H. A. F.
Millar, Mr. E. S.
Milligan, Mr. J. A.
Mitter, The Honourable Sir Brojendra.
Morgan, Mr. G.
Mujumdar, Sardar G. N.
Mukherjee, Rai Bahadur S. C.
Nihal Singh, Sardar.
Noyce, The Honourable Sir Frank.
Rafiuddin Ahmad, Khan Bahadur Maulvi.
Raisman, Mr. A.
Rajah, Rao Bahadur M. C.
Ramakrishna, Mr. V.
Rau, Mr. P. R.
Schuster, The Honourable Sir George.
Sher Muhammad Khan Gakhar, Captain.
Singh, Kumar Gupteshwar Prasad.
Singh, Mr. Pradyumna Prashad.
Sinha, Rai Bahadur Madan Mohan.
Smith, Mr. R.
Sohan Singh, Sirdar.
Studd, Mr. E.
Suhrawardy, Sir Abdulla-al-Mamun.
Talib Mehdi Khan, Nawab Major Malik.
Tottenham, Mr. G. R. F.
Trivedi, Mr. C. M.
Wajihuddin, Khan Bahadur Haji.
Wilayatullah, Khan Bahadur H. M.
Yakub, Sir Muhammad.
Yamin Khan, Mr. Muhammad.

The motion was negatived.

Mr. President (The Honourable Sir Shanmukham Chetty): The question is:

"That in clause 40 of the Bill, for the words 'not below one shilling and five pence and forty-nine sixty-fourths of a penny for a rupee' the following be substituted:

'to be announced by the Governor General in Council after consultation with expert opinion in the country at the time of bringing this Act into operation and that question shall be placed subsequently before the Central Legislature for its confirmation'."

The motion was negatived.

Mr. President (The Honourable Sir Shanmukham Chetty): The question is:

"That in clause 40 of the Bill, for the words 'one shilling and five pence and forty-nine sixty-fourths' the words 'one shilling three pence and forty-nine sixty fourths' be substituted."

Dr. Ziauddin Ahmad: Sir, I move:

"That for the words 'forty-nine sixty fourths' the words 'twenty-nine thirty-seconds'' be substituted."

The motion was adopted.

Mr. President (The Honourable Sir Shanmukham Chetty): The question is:

"That in clause 40 of the Bill, for the words 'one shilling and five pence and forty-nine sixty-fourths' the words 'one shilling three pence and twenty-nine thirty-seconds' be substituted.

The Assembly divided:

AYES—47.

Abdul Matin Chaudhury, Mr.
Azhar Ali, Mr. Muhammad.
Bagla, Lala Rameshwar Prasad.
Bhuput Sing, Mr.
Chandi Mal Gola, Bhagat.
Chinoy, Mr. Rahimtoola M.
Dumasia, Mr. N. M.
Dutt, Mr. Amar Nath.
Fazal Haq Piracha, Khan Sahib Shaikh.
Harbans Singh Brar, Sirdar.
Hari Raj Swarup, Lala.
Hoon, Mr. A.
Ibrahim Ali Khan, Lieut. Nawab Muhammad.
Ismail Khan, Haji Chaudhury Muhammad.
Isra, Chaudhri.
Jadhav, Mr. B. V.
Jehangir, Sir Cowasji.
Jog, Mr. S. G.
Lalchand Navalrai, Mr.
Liladhar Chaudhury, Seth.
Mahapatra, Mr. Sitakanta.
Maswood Ahmad, Mr. M.
Mitra, Mr. S. C.
Mody, Mr. H. P.
Murtuza Saheb Bahadur, Maulvi Sayyid.
Neogy, Mr. K. C.
Pandit, Rao Bahadur S. R.
Pandya, Mr. Vidya Sagar.
Parma Nand, Bhai.
Patil, Rao Bahadur B. L.
Phookun, Mr. T. R.
Puri, Mr. B. R.
Reddi, Mr. P. G.
Roy, Kumar G. R.
Sadiq Hasan, Shaikh.
Sarda, Diwan Bahadur Harbilas.
Sarma, Mr. R. S.
Scott, Mr. J. Ramsay.
Sen, Mr. S. C.
Sen, Pandit Satyendra Nath.
Shafee Daoodi, Maulvi Muhammad.
Singh, Mr. Gaya Prasad.
Sitaramaraju, Mr. B.
Sohan Singh, Sirdar.
Thampan, Mr. K. P.
Uppi Saheb Bahadur, Mr.
Ziauddin Ahmad, Dr.

NOES—57.

Abdul Aziz, Khan Bahadur Mian.
Ahmad Nawaz Khan, Major Nawab.
Allah Baksh Khan Tiwana, Khan Bahadur Malik.
Anklesaria, Mr. N. N.
Anwar-ul-Azim, Mr. Muhammad.
Ayangar, Mr. V. K. A. Aravamudha.
Bajpai, Mr. G. S.
Bartley, Mr. J.
Bhore, The Honourable Sir Joseph.
Bower, Mr. E. H. M.
Chatarji, Mr. J. M.
Clow, Mr. A. G.
Cox, Mr. A. R.
Dalal, Dr. R. D.
DeSouza, Dr. F. X.
Dillon, Mr. W.
Graham, Sir Lancelot.
Grantham, Mr. S. G.
Haig, The Honourable Sir Harry.
Hezlett, Mr. J.
Hudson, Sir Leslie.
Ishwarsingji, Nawab Naharsingji.
James, Mr. F. E.
Jawahar Singh, Sardar Bahadur Sardar.
Lal Chand, Hony. Captain Rao Bahadur Chaudhri.
Lee, Mr. D. J. N.
Mackenzie, Mr. R. T. H.
Macmillan, Mr. A. M.
Metcalfe, Mr. H. A. F.
Millar, Mr. E. S.
Milligan, Mr. J. A.
Mitter, The Honourable Sir Brojendra.
Morgan, Mr. G.
Mujumdar, Sardar G. N.
Mukherjee, Rai Bahadur S. C.
Nihal Singh, Sardar.
Noyce, The Honourable Sir Frank.
Rafiuddin Ahmad, Khan Bahadur Maulvi.
Raisman, Mr. A.
Rajah, Rao Bahadur M. C.
Ramakrishna, Mr. V.
Rau, Mr. P. R.
Schuster, The Honourable Sir George.
Sher Muhammad Khan Gakhar, Captain.
Singh, Kumar Gupteshwar Prasad.
Singh, Mr. Pradyumna Prashad.
Sinha, Rai Bahadur Madan Mohan.
Smith, Mr. R.
Studd, Mr. E
Suhrawardy, Sir Abdulla-al-Mámûn.
Talib Mehdi Khan, Nawab Major Malik.
Tottenham, Mr. G. R. F.
Trivedi, Mr. C. M.
Wajihuddin, Khan Bahadur Haji.
Wilayatullah, Khan Bahadur H. M.
Yakub, Sir Muhammad.
Yamin Khan, Mr. Muhammad.

The motion was negatived.

Clause 40 was added to the Bill.

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

The Assembly re-assembled after Lunch at Half Past Two of the Clock, Mr. President (The Honourable Sir Shanmukham Chetty) in the Chair.

Mr. President (The Honourable Sir Shanmukham Chetty): Does any Honourable Member desire any one of his amendments to clause 41 to be put to the vote?

Several Honourable Members: No, Sir.

Clause 41 was added to the Bill.

Mr. President (The Honourable Sir Shanmukham Chetty): The question is:

"That clause 42 stand part of the Bill."

Amendments are printed in the consolidated list, Part III.

Mr. Thampan, amendment No. 295.

Mr K. P. Thampan (West Coast and Nilgiris: Non-Muhammadan Rural): Sir, I beg to move:

"That to sub-clause (1) of clause 42 of the Bill, the following proviso be added:

'Provided that the amount so deposited by a scheduled bank may be drawn upon by the bank concerned for meeting its liabilities subject to such rules and regulations as may be framed by the Central Board in that behalf'."

[Mr. K. P. Thampan.]

Sir, the object of my amendment is to enable the scheduled banks to draw for temporary purposes upon the deposits made with the Central Bank. It may happen that, to meet an emergency, the banks particularly those banks that have not very much above the minimum capital of five lakhs, might want cash, and in such a case they may be allowed to draw upon the Central Bank subject to certain conditions. These conditions may be prescribed by the Central Board. Similar provisions are not rare elsewhere, for, in the constitution of the South African Bank which is quoted here very often, we find article 30 reads thus:

"No bank may make new loans or pay dividend until required reserve balance is restored."

They are given the right to draw upon it, but until the prescribed minimum is restored, the Bank is not permitted to advance loans. In the United States of America, in the Federal Reserve Bank also, there is an analogous provision. Article 19 says:

"Prescribed balance may, under rules and penalties laid down by Federal Reserve Board, be drawn upon by member bank for meeting existing liabilities, provided no new loans are made or dividends are paid until Statutory balance is restored."

No dividend can be given and no new loans advanced by the Bank until the statutory minimum is restored. That is all they require. Here there is no provision for anything of that kind. Even with regard to the return of deposits when these Banks go into liquidation, the provisions are not satisfactory. I am one of those who believe that the compulsory deposit which is adopted in this Bill is not of any material advantage to many indigenous banks. Now that the House has given its decision about that, I do not want to interfere with it. I only want that in the case of those banks who wish to draw upon their resources to meet a contingency, they must be permitted to do so. Of course, very rigorous conditions to ensure that the privilege is not abused may be laid down by the Central Board.

Sir, I move my amendment.

Mr. President (The Honourable Sir Shanmukham Chetty): Amendment moved:

"That to sub-clause (1) of clause 42 of the Bill, the following proviso be added:

'Provided that the amount so deposited by a scheduled bank may be drawn upon by the bank concerned for meeting its liabilities subject to such rules and regulations as may be framed by the Central Board in that behalf'."

Dr. Ziauddin Ahmad: Sir, I would have very much liked if this question of compulsory deposit was not provided for in the Statute, but was left to the regulations, and the regulations might have been framed in the light of the experience gained. This is a novel scheme. We have taken it from the United States of America and also from those countries which copied out the United States model. I think it is not a desirable thing. At present we are in great financial difficulties, and it will be a great handicap if we ask the Bank at this stage to have compulsory deposits. Their dividends would diminish and it will adversely affect the prosperity of the Bank. What my friend really wants is that the scheduled banks should be permitted to draw the money on the securities of the deposits. That is a very reasonable demand, but the better thing would have been not to have asked for the deposit at all. That is really the right way of doing things and we ought to give them loans on other securities. I beg to support the amendment.

The Honourable Sir George Schuster: I would like to clear up the position. The provision for compulsory deposits was introduced after very careful discussion and, as my Honourable friend is probably aware, we met the banks and reduced the amount so that we are now starting off with a very much lower figure for minimum deposits than is provided for in the South African Act. That in itself makes a considerable difference. But the real point is this that, if a scheduled bank requires cash to help itself, then the course for it is to apply to the Reserve Bank for an advance, and the function of the Reserve Bank will be to help the scheduled banks when they deserve help. So, it really comes to the same thing from the point of view of practical effect. If the bank has five lakhs as its minimum deposit with the Reserve Bank and it is in need of funds for itself, it can go to the Reserve Bank and ask for a loan from that Bank. It has very much the effect as if it goes to the Reserve Bank and says: "May I withdraw part of my five lakhs and pay a ten per cent. penalty on it?"

Mr. K. P. Thampan: Supposing the Reserve Bank refuses to pay?

The Honourable Sir George Schuster: You have got to trust the Reserve Bank to exercise a proper control over the banking system of the country and that is really why, although the practical effect may be the same, we prefer to leave it on the lines that we have laid down, namely, that compulsory deposits must be maintained, and when the Bank wants accommodation, it has got to take that in the form of a loan from the Reserve Bank. Of course, if you do not trust the Reserve Bank and you think that the Reserve Bank is going to exercise its discretion unwisely or unfairly, then you ought not to have the Bank at all. But we think that it is the proper function of the Reserve Bank to control the credit position of the country, and, in order to enable it to exercise that function, one of the most important provisions we have got is this provision for compulsory minimum deposits. My Honourable friend, Dr. Ziauddin Ahmad, objected to the whole principle. I have not got the time to deal in great detail with his points, but I would inform him that we did satisfy all the bank representatives who came before us that if the minimum provision was reduced to this figure of five per cent. and two per cent. it would not be unreasonable and that, if facilities could be given for movement of funds from one branch to another, the practical effect would not be to force the ordinary commercial banks in the country to keep more money tied up in reserves than they do at present, except in cases where they are really working on too fine a margin for the position to be sound. I can recommend this clause with confidence for approval by the House after full discussion on this subject. Sir, I must oppose the amendment.

Dr. Ziauddin Ahmad: Did you ask the representatives of the banks whether they would prefer no deposit at all?

The Honourable Sir George Schuster: There is no question about that. They would all have preferred that from their point of view. I am not saying that they asked for this provision.

Mr K. P. Thampan: Where is the provision for the banks to withdraw their deposits if they go into liquidation?

The Honourable Sir George Schuster: I am afraid I did not hear what my Honourable friend said. But if my Honourable friend would ask me a question outside, I will answer him. I suggest it will be difficult for me to deal with these questions now. I cannot stand cross-examination in the course of the debate, but I should be glad to give my Honourable friend all the information outside.

Mr. K. P. Thampan: I am not cross-examining my Honourable friend. I only want to know whether, in the case of a scheduled bank going into liquidation, there is any provision for withdrawing the deposit.

The Honourable Sir George Schuster; After going into liquidation, there is no longer an obligation on the part of a scheduled bank to maintain any minimum deposit, for it ceases to exist as a scheduled bank at all.

The Honourable Sir Brojendra Mitter (Law Member): The liquidator will take the money out.

Mr. K. P. Thampan: Sir, I beg leave of the House to withdraw my amendment.

The amendment was, by leave of the Assembly, withdrawn.

Dr. Ziauddin Ahmad: Sir, I beg to move:

"That after the *Explanation* to sub-clause (*1*) of clause 42 of the Bill, the following further *Explanation* be inserted:

'*Explanation*.—Demand liabilities means liabilities payable within thirty days or subject to less than thirty days' notice before payment:

Time liabilities means liabilities payable after thirty days or subject to not less than thirty days' notice before payment'."

Sir, in this particular clause, two expressions are used "demand liabilities", and "time liabilities", but these expressions are not defined. I do not know what is the unit of time which my Honourable friend contemplates. Is it the geological unit of time which is really about one million years, or is it the astronomical unit of time which may extend to billions of years or is it the terrestrial unit of time that we all know? I think we should define the word "timely" more accurately. They will be misunderstood by persons who have not got a detailed knowledge of banking operations. We have said repeatedly on the floor of the House that the South African constitution is the last word on the subject. I find in the South African constitution the same expressions which are used here. I also find that the same expressions are used in the United States constitution. Sir Cecil Kisch says in his book on Central Banks on page 486 that:

"Demand deposits comprise deposits payable within thirty days, and time deposits all deposits payable after thirty days."

It is really necessary to clarify this particular clause, and, if we follow the South African and the United States model, we must introduce a proviso at the end. Sir, I move.

Mr. President (The Honourable Sir Shanmukham Chetty): Amendment moved:

"That after the *Explanation* to sub-clause (*1*) of clause 42 of the Bill, the following further *Explanation* be inserted:

'*Explanation*.—Demand liabilities means liabilities payable within thirty days or subject to less than thirty days' notice before payment;

Time liabilities means liabilities payable after thirty days or subject to not less than thirty days' notice before payment'."

The Honourable Sir George Schuster: I do not think that the amendment of my Honourable friend will do much towards clarifying the situation, but it will certainly make a substantial change. We discussed this provision in the Select Committee with the representatives of bankers on the understanding that demand liabilities and the time liabilities did not mean what they mean in the South African Act or what they mean in the United States. If you extend the meaning of the term "demand liabilities" as wide as to cover everything which is repayable within thirty days, obviously you bring in a much larger proportion of the liabilities, and in our provision it is five per cent demand liabilities and two per cent time liabilities, so that my Honourable friend's amendment would increase the amount that the banks have to keep as compulsory deposits very substantially. I am rather surprised to find my Honourable friend proposing that, considering that he is against the system altogether. As regards clarification, that is not really necessary. It is quite clearly understood that demand liabilities mean current account liabilities and time liabilities would mean money held on deposit accounts. There is no difficulty in understanding these phrases. I understood my Honourable friend to say that there may be a difficulty in understanding what these expressions mean by people who are not acquainted with banking practice and who are ignorant of banking terms. But I trust that nobody who is concerned with the interpretation of this clause will be a person who is ignorant of banking conditions and banking terms. This is the concern of the scheduled banks and the Reserve Bank, and it is not a matter in which a layman would be concerned at all. In any case, I must oppose the amendment, because, as I pointed out, it would alter very substantially the provision for reserves which we have after full consideration inserted in this Bill.

Dr. Ziauddin Ahmad: How will the savings bank be affected?

The Honourable Sir George Schuster: We did consider the question of savings bank account, and some bankers put the view to us that the money held in savings bank account represented much less vulnerable liabilities than the liabilities on ordinary accounts, but we were unable to recommend any special provision on that account.

Dr. Ziauddin Ahmad: Accounts kept in the savings bank, where will they come?

Mr. President (The Honourable Sir Shanmukham Chetty): They will come under demand liabilities.

The Honourable Sir George Schuster: It depends upon the terms on which money is held. There are all sorts of conditions and different banks run these accounts differently. The matter will have to be dealt with according to the terms of each particular arrangement.

Dr. Ziauddin Ahmad: I do not want to have a discussion on this topic. I find these expressions are taken from the United States where English is understood. The interpretation of time liabilities is different from the

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[Dr. Ziauddin Ahmad.]
interpretation of demand liabilities. Cases may be brought in law courts and Skeat Dictionary may be consulted whether the word is used in American sense or in Schuster's sense.

The Honourable Sir Gorge Schuster: I quite acknowledge that we propose to adopt quite a different definition to what is adopted in the United States. As regards the position of the savings bank accounts, I would refer my Honourable friend to the report of the Select Committee at the top of page 8, column 2. We have dealt with the subject there.

Mr. President (The Honourable Sir Shanmukham Chetty): The question is:

"That after the *Explanation* to sub-clause (*1*) of clause 42 of the Bill, the following further *Explanation* be inserted:

'*Explanation.*—Demand liabilities means liabilities payable within thirty days or subject to less than thirty days' notice before payment:

Time liabilities means liabilities payable after thirty days or subject to not less than thirty days' notice before payment'."

The motion was negatived.

Dr. Ziauddin Ahmad: Sir, I move:

"That in sub-clause (*2*) of clause 42 of the Bill, for the words 'each Friday, or if Friday' the words 'on the last working day of each month and if the last working day' be substituted."

Sir, I will again quote the constitution of South Africa which, as we have repeatedly said, is really the last word on the subject. On page 14 of the constitution, it is provided that these demands are to be made up to the day of the close of business of every month and signed by the General Manager. That is, they demand these returns not every week, but every month. The other difficulty is that, in the same clause, we have provided later on that some of the banks, which lie at great distances, will be permitted to supply monthly returns. So some banks will supply monthly returns and some will supply weekly returns, and how are you going to bring them all together in a common table? Unfortunately a month is not an exact multiple of a week. A month is equal to 4½ weeks and it will be very hard to bring them all together in a common table. Therefore, it is better to demand these returns not every week, but every month, specially when we have agreed that some of the banks will be asked to send their accounts not every Friday, but at the end of each month. Besides, it will be giving too much trouble to the banks to ask them to prepare accounts every Friday. It will involve unnecessary labour and will not do much good. So, in order to bring uniformity in the whole proceeding, so that all the banks may send their reports at the same time, and in order that we may be in a position to compare the statistics, I request the Honourable the Finance Member to accept this amendment of mine Otherwise, if some banks send weekly returns and some send monthly returns, it will be very difficult to prepare a common table that may be of practical use. Sir, I move.

Mr. President (The Honourable Sir Shanmukham Chetty): Amendment moved:

"That in sub-clause (*2*) of clause 42 of the Bill, for the words 'each Friday, or if Friday' the words 'on the last working day of each month and if the last working day' be substituted."

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The Honourable Sir George Schuster: Sir, this again is a matter on which, I submit, that those, who have a practical knowledge of banking and the practice of banks, are the best judges, and this clause was worked out with the banking representatives as likely to be most convenient to the bankers. I do not know where my Honourable friend gets his information from, but both from the point of view of the Reserve Bank which requires to get these returns and from the point of view of the banks which have to submit them, the weekly return made up to Friday is much the most convenient arrangement. Sir, I must oppose the amendment.

Dr. Ziauddin Ahmad: May I ask a question? Is it not a fact that some banks will be permitted to send monthly returns? And how will you prepare a common table?

The Honourable Sir George Schuster: I find it difficult to follow these questions, but what I would point out to my Honourable friend is that all these provisions were worked out very carefully after long thought. They are all of them no doubt capable of improvement, but I suggest that we have reached a stage when we may very well give a trial to the provisions of the Bill.

Mr. President (The Honourable Sir Shanmukham Chetty): The question is:

"That in sub-clause (*2*) of clause 42 of the Bill, for the words 'each Friday, or if Friday' the words 'on the last working day of each month and if the last working day' be substituted."

The motion was negatived.

Mr. V. K. Aravamudha Ayangar (Government of India: Nominated Official): Sir, I beg to move:

"That in sub-clause (*2*) of clause 42 of the Bill, for the words 'next working day' the words 'preceding working day', and for the words 'three days' the words 'two working days' be substituted."

The object of this amendment is to make the working of this sub-clause quite simple for the banks, specially the second suggestion that for "three days" the words "two working days" be substituted. This is proposed so that the bank employees may not be overworked or have to work on holidays. Sir, I move.

Mr. President (The Honourable Sir Shanmukham Chetty): The question is:

"That in sub-clause (*2*) of clause 42 of the Bill, for the words 'next working day' the words 'preceding working day', and for the words 'three days' the words 'two working days' be substituted."

The motion was adopted.

Dr. Ziauddin Ahmad: Sir, I beg to move:

"That in sub-clause (*3*) of clause 42 of the Bill, for the word 'three', in the sixth line, the word 'one' be substituted, and after the words 'bank rate', in the seventh line, the words 'with a minimum of six per cent. per annum' be inserted."

[Dr. Ziauddin Ahmad.]

My object in moving this amendment is that the provision of this clause may be the same as in clause 37(2). The Honourable the Finance Member has really got one reply and that is that these provisions have been carefully thought out and there is no room for changing a comma or a full-stop now, and he is supported by the votes of the House. Sir, on the floor of the House we have been advancing arguments, but I have not heard a reply to a single argument except that he is opposed. The only argument that I have so far heard is that the whole matter was carefully thought out and, therefore, it ought to be accepted. If that is so, why waste the time of the House at all? The Government could have moved that the Select Committee's report might be accepted and then votes might be taken and then there would have been no need to discuss it clause by clause. Therefore, in future, I think we should change the constitution and take votes once for all instead of dividing the discussion into three stages.

Mr. E. Studd (Bengal: European): Sir, may I point out to the Honourable Member that all these provisions have been discussed with the representatives of the banks and accepted by them as well as by the Joint Select Committee? That seems to me a much stronger argument for our acceptance.

Dr. Ziauddin Ahmad: That is just the point I was coming to. If these have been thought out by the Select Committee and accepted by the banks, it is useless for us to discuss the Bill here, and I suggest that the better method would have been to adopt the Select Committee's report by a simple motion and there would have been then no need to discuss all the clauses. We are here to give our votes not blindfolded, but in full verse, and we bring forward arguments to support our amendments and the only reply that we get is that these have been carefully thought out and there is no need to discuss them Arguments are to be met by arguments and not by general remarks or by votes, as my Honourable friend, Mr. Gaya Prasad Singh, says. My request is that already we have made a certain provision in clause 37(2) and, as this is exactly of the same type as that, we should bring it in the same form and there is no need to have any new formula. This is about the penalty. The penalty proposed is about three per cent. higher than the bank rate, and I suggest that instead of three per cent. which is too high, we should have only one per cent. higher which itself is very high. Then I suggest that the minimum should be six per cent per annum. That is my suggestion and we have provided the same figures in clause 37(2). There I suggest that the figure adopted in clause 37(2) should be adopted here also. Sir, I move.

Mr. President (The Honourable Sir Shanmukham Chetty): Amendment moved:

"That in sub-clause (3) of clause 42 of the Bill, for the word 'three', in the sixth line, the word 'one' be substituted, and after the words 'bank rate', in the seventh line, the words 'with a minimum of six per cent. per annum' be inserted."

The Honourable Sir George Schuster: Sir, I should like to suggest to you, in order to lengthen the proceedings of this House which seems to be highly desirable from every point of view, that in future legislation a fourth stage be introduced; that is to say, after the Select Committee has reported, the Select Committee ought to appear before my Honourable friend, the learned Doctor, and spend five or six weeks with him discussing every clause, and only then should we come before the Legislature. That, I submit, would suit everybody very well.

Dr. Ziauddin Ahmad: Will you explain how the Committee will appear before me if I happen to be a member myself?

The Honourable Sir George Schuster: I need not answer that. But I think that my Honourable friend is extremely unfair to me. I consider that I have given a very good answer to every point that he has put up. I have not contented myself with that easy excuse of saying that this has been considered and, therefore, we cannot consider it again, but, on some of these minor technical questions, I do submit to my Honourable friend that, while he may be perfectly right or we may be right, nevertheless we have reached a stage now at which it is important to get the Bill into force. And as our provisions represent the result of careful discussion round the table occupying many days and discussions also with the banking representatives, I submit that at least the presumption is that our proposals are reasonably sensible and satisfactory. My Honourable friend's proposal in these amendments seem to me to be quite unsuitable. The whole object of this clause is to have a high penalty rate: the bankers themselves do not object to it, and I see no reason at all why we should reduce it. That refers to the first amendment.

My Honourable friend's second amendment seems to me to be quite inconsistent with the whole plan. Here we are attempting to provide a penal rate of interest: my Honourable friend says, there must be a maximum of six per cent. But six per cent. is a rate which is, I am afraid, not infrequently exceeded in India. Therefore, in times of high money rates, it would even pay the banks to get into this position. They would not merely avoid having to pay a penal rate of interest, but would in fact get a concessional rate of interest when they abuse their privileges under this particular clause. I submit, the proposal is quite an illogical one and inconsistent with the whole idea on which this provision has been framed. On these grounds, I oppose the amendment.

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Mr. President (The Honourable Sir Shanmukham Chetty): The question is:

"That in sub-clause (3) of clause 42 of the Bill, for the word 'three', in the sixth line, the word 'one' be substituted, and after the words 'bank rate', in the seventh line, the words 'with a minimum of six per cent. per annum' be inserted."

The motion was negatived.

Dr. Ziauddin Ahmad: Sir, I would like to move Nos. 304 and 305 together as they relate to the same subject, like the two previous amendments. I move:

"That in sub-clause (3) of clause 42 of the Bill, for the word 'five', in the twelfth line, the word 'two' be substituted, and that after the words 'bank rate', in the thirteenth line, the words 'with a minimum of nine per cent per annum' be inserted."

My arguments are the same as in the previous case: I think we are charging high rates of interest and it amounts to usury: it is a very high rate of interest and, from the banks' point of view, it will prejudicially affect their interests. Sir, I move.

The Honourable Sir George Schuster: Sir, I must oppose both these amendments on the same grounds on which I dealt with the two preceding ones.

Mr. President (The Honourable Sir Shanmukham Chetty): The question is:

"That in sub-clause (3) of clause 42 of the Bill, for the word 'five', in the twelfth line, the word 'two' be substituted, and that after the words 'bank rate', in the thirteenth line, the words 'with a minimum of nine per cent. per annum' be inserted."

The motion was negatived.

Dr. Ziauddin Ahmad: Sir, I beg to move:

"That for part (*a*) of sub-clause (*6*) of clause 42 of the Bill, the following be substituted:

'(*a*) has a deposit of an aggregate amount of not less than ten lakhs of rupees, and'."

In the original clause, it was provided that it should have a paid up capital and reserve of so much. I maintain that the amount to be fixed should not be so much on the share capital or on the reserve, but on the deposits. There are certain banks which have got very small capital, but have very large deposits with them, and they will be better off than the banks which have got large share capital but smaller deposits: a provision of this kind should be introduced more in the interests of depositors than of shareholders and, therefore, we ought to safeguard the interests of depositors more than the shareholders. Whatever proportion we fix should be not on the share capital, but on the deposits in that Bank. For these reasons, I move.

Mr. President (The Honourable Sir Shanmukham Chetty): Amendment moved:

"That for part (*a*) of sub-clause (*6*) of clause 42 of the Bill, the following be substituted:

'(*a*) has a deposit of an aggregate amount of not less than ten lakhs of rupees, and'."

The Honourable Sir George Schuster: Sir, this again is a matter that was considered in the Select Committee. I would refer my Honourable friend to the second paragraph in the first column on page 8. We did consider this. My Honourable friend will on a moment's thought himself realise that the amount of the deposits is such a variable criterion that it is impossible to say from day to day what the deposits are, and it would not provide any sort of standard test: we shall have banks coming in and going out in a manner which it would be quite impossible to control. On these grounds, I oppose.

Mr. President (The Honourable Sir Shanmukham Chetty): The question is:

"That for part (*a*) of sub-clause (*6*) of clause 42 of the Bill, the following be substituted:

'(*a*) has a deposit of an aggregate amount of not less than ten lakhs of rupees, and'."

The motion was negatived.

Mr. V. K. Aravamudha Ayangar: Sir, I rise to move:

"That in sub-clause (6) (*b*) of clause 42 of the Bill, for the word 'bank' the word 'company' be substituted.".

The word originally used in sub-clause (6) was the word "company", but, owing to some oversight, the word "bank" has been substituted. "Bank" is not defined in sub-section (2) of section 2 of the Indian Companies Act. Therefore, I move.

Mr. President (The Honourable Sir Shanmukham Chetty): The question is:

"That in sub-clause (6) (*b*) of clause 42 of the Bill, for the word 'bank' the word 'company' be substituted".

The motion was adopted.

Mr. President (The Honourable Sir Shanmukham Chetty): The question is:

"That clause 42, as amended, stand part of the Bill."

The motion was adopted.

Clause 42, as amended, was added to the Bill.

Clause 43 was added to the Bill.

Clause 44 was added to the Bill.

Mr. President (The Honourable Sir Shanmukham Chetty): The question is:

"That clause 45 stand part of the Bill."

Dr. Ziauddin Ahmad: Sir, I beg to move:

"That after clause 44 of the Bill, the following new clause be inserted and subsequent clauses be re-numbered accordingly:

'45. The Bank shall not purchase shares of any bank outside the United Kingdom without the permission of the Governor General in Council'."

Mr. President (The Honourable Sir Shanmukham Chetty): Order, order. The Chair proposes to take up this amendment after all the clauses are finished. If the Honourable Member wants to move it, he can do so after all the clauses are finished.

Dr. Ziauddin Ahmad: I would like to do so.

Mr. President (The Honourable Sir Shanmukham Chetty): The question is:

"That clause 45 stand part of the Bill."

Dr. Ziauddin Ahmad: Sir, I beg to move:

"That clause 45 of the Bill be omitted."

This clause relates to our relations with the Imperial Bank. I maintain very strongly that when the Reserve Bank has been established, it is not necessary for us to have any special relations with the Imperial Bank. All the scheduled banks should be treated alike, and the Imperial Bank

[Dr. Ziauddin Ahmad.]

should be considered as one of the scheduled banks, and it is not necessary that we should give the Imperial Bank any special privileges. We will discuss this in detail when the Imperial Bank (Amendment) Bill comes up for consideration, and I shall then move that all the clauses of that Bill be deleted and only one clause be added, that it should be left to the Governor General in Council to take necessary steps in order to remove the assets from the Imperial Bank to the Reserve Bank when the latter is established: but this is not the occasion to move those amendments. What I insist now is that, when the Reserve Bank is being established, it is quite unnecessary to have any special relations with the Imperial Bank. The Imperial Bank should be treated in the same manner as the other Banks. Sir, in this connection I should like to bring to the notice of Honourable Members the recommendation of the Banking Inquiry Committee. I find, on page 181, they say this. (At this stage the Honourable Member was looking through the pages.)

The Honourable Sir George Schuster: What page? Will the Honourable Member tell me again what is the page?

Dr. Ziauddin Ahmad: It is in the Banking Inquiry Committee Report, and they recommend . . . .

The Honourable Sir George Schuster: What page?

Dr. Ziauddin Ahmad: I will tell you the page later on. What they recommend is that the special privileges which now exist should not be extended to the Imperial Bank when the Reserve Bank comes into existence. Sir, on account of the past record of the Imperial Bank, it is not necessary for us to give them any special privileges. What is their past record? Their past record is that they always give special privileges to those who are rich and they give no facilities whatsoever to the agriculturists, landlord classes and others; they flatly refuse to give any kind of assistance to co-operative banks. In this particular case, I should like to quote from the Report on the Reserve Bank, at page 181,—I am quoting from the Banking Inquiry Committee's Report. In Madras they demanded some kind of assistance for their co-operative banks, but the Imperial Bank flatly refused to lend any kind of help. They also mention that, on account of a certain rule, they cannot at all advance money on the security of landed properties. They don't help either the agriculturists or the landlords. They merely help those who are engaged in industries. Sir, it is a well known fact that in India the number of people engaged in agriculture far exceeds the number that is engaged in industries, and, therefore, the Imperial Bank is of no use or assistance to those who are engaged in agriculture, and I say that, any bank, which refuses in India to consider the requirements of the agricultural classes, does not deserve special privileges. India is preponderatingly an agricultural country, and, therefore, no assistance of any kind should be given to any bank which refuses to come to the assistance of the agricultural classes and zamindars. We are not here simply to fill the pockets of the millionaires, we are not here to help a bank to provide all possible credit facilities for their trade and commerce overlooking entirely the needs and claims of the agricultural classes. Therefore, Sir, I very strongly maintain that so long as this Bank does not change its rule and so long as it continues its present policy, it should be given no special facilities, and, therefore, I move that the Imperial Bank should be treated just like the other scheduled banks in this country and that this clause should be deleted.

Mr. President (The Honourable Sir Shanmukham Chetty): Amendment moved:

"That clause 45 of the Bill be omitted."

Raja Bahadur G. Krishnamachariar: Sir, I support this amendment. I have got a very great grievance against the Imperial Bank people, and the grounds are exactly the same as those stated by my friend who preceded me. You go to them for any facility, you ask them for money; they flatly decline to help you; if the man in charge of the branch is courteous, sometimes he will tell you in an apologetic way: "very sorry, we are held up by the terms of our Act and the terms of our Charter", and what not. If the Charter is so worded that they cannot come to our rescue, why should they be given any special indulgence? You have got a Reserve Bank which is above all political influence, and you say it is going to be a Bankers' Bank. Put the Imperial Bank on the top if you like, but why should you give it any special treatment? I submit, it is all bunkum to say that they have done a good deal for us in the past. Possibly they have taken a great deal of dividends. I know, Sir, that their shares of the nominal value of Rs. 500 are today quoted at anything between Rs. 1,200 and Rs. 1,300, and they do pay immense *interim* dividends of 10 per cent. and annual dividends of 15 per cent.,—all upon what? Upon my money, upon the money that I contribute which they keep in their possession. They lend money and they do business and distribute the dividend amongst themselves and go on merrily; but when I want money, they put forward the excuse of their Charter and rules, and decline to help me. In order that they may come along with the other scheduled banks, they will have to amend their Charter, otherwise why should we show any special consideration to them when the new Reserve Bank comes into existence? We shall then have our own national Bank, and even removing the exchange banks which, as the Banking Inquiry Committee Report says, will not ordinarily deal with agriculturists, why should we, out of the 42 and odd banks, give special patronage, or special privileges to the Imperial Bank? There is absolutely no reason for it. If the argument is that in the past they have done a great deal of work for us, I say they have also earned a good deal of dividends and profits. They have taken our money and they have earned splendid dividends and they have been able to build magnificent houses wherever they have opened branches. I, therefore, submit that we need not continue our patronage to the Imperial Bank, and I think it is time that we should withdraw everything from them.

Mr. Bhuput Sing (Bihar and Orissa: Landholders): Sir, I have to oppose the amendment moved by my esteemed friend, Dr. Ziauddin Ahmad . . . .

An Honourable Member: Are you a Director?

Mr. Bhuput Sing: No, Sir, I am not a Director

Dr. Ziauddin Ahmad: You are a shareholder like myself.

Mr. Bhuput Sing: For the purpose of proper functioning of the Reserve Bank, it is absolutely necessary that some solvent agency must be found, whether it is the Imperial Bank or any other scheduled bank. The question arises to which of the bank or banks such agency should be given. In the Joint Committee, the representatives of Banks who gave evidence said that the Treasury work was of a very technical character and that it would not be an easy thing for them to take that up. Further, the Imperial Bank is performing such duties since 1921, and they are performing it efficiently and well too. The principal qualification for such work should be that the Bank must be solvent and the solvency must be above suspicion and it must work efficiently. Besides, they have got nearly 175 branches, I speak subject to correction, which no other Bank possesses. There is no provision in the Bill which prevents the Reserve Bank from giving the agency to any other scheduled bank where there is no branch of the Imperial Bank. If the agreement is not made with the Imperial Bank, the Imperial Bank may close their branches in places where there is no other bank, and it will not help the banking facilities of the people of those places. As regards the agreement and compensation, I do not think that the provision in the Bill is sound, and, on that, I have something to say which I shall do when the amendments relating to such matters are reached. Sir, I oppose this amendment.

Mr. Muhammad Azhar Ali (Lucknow and Fyzabad Divisions: Muhammadan Rural): Sir, having had some experience of these co-operative banks and having had worked them, I also got some experience in asking for loans on behalf of these co-operative institutions from the Allahabad Bank and the Imperial Bank of India. I can say that the societies' pronotes used to be placed with the Imperial Bank or the Allahabad Bank, and on the strength of these pronotes money was being advanced formerly. Sir, now, to our great surprise, we find that the Imperial Bank, all of a sudden, and, after that, the Allahabad Bank, refused to advance any money to co-operative societies.

Mr. B. V. Jadhav (Bombay Central Division: Non-Muhammadan Rural): Is there a Provincial Co-operative Bank in the United Provinces?

Mr. Muhammad Azhar Ali: I presume by that interruption that my Honourable friend means that if there is no Provincial Co-operative Bank, these societies' pronotes should not be honoured by any Bank, whether it be the Imperial Bank or the Allahabad Bank, or any other Bank . . . . .

Mr. B. V. Jadhav: That is not my suggestion. My suggestion was that it would be much better for the Imperial Bank and the Allahabad Bank to deal with the Provincial Co-operative Bank than to deal with an individual society, directly.

Mr. Muhammad Azhar Ali: Over and above these co-operative societies, we have got unions, and above some of these unions we have got Central Banks. These Central Banks are Shareholders Banks, and they are just as good banks as any scheduled bank. The report of the Central Banking

Inquiry Committee also supports what I said. In paragraph 181 of their report, page 143, they say:

"The policy of the Imperial Bank in regard to the grant of financial assistance to some of the provincial and central co-operative banks (*here the phrase is central co-operative banks*) seems of late to have undergone a definite change, and it is stated that it shows a much smaller measure of readiness to help them than it used to do in the past."

This agreement with the Imperial Bank does not improve the position. If these central co-operative banks are not assisted with money, I do not know then where to go and where to find money for these co-operative institutions. The Department of Co-operation was established by the Government of India, and though it has become a provincial subject, the Provincial Governments do not fully realise their responsibility in the matter. The Provincial Governments do not care so much for the Co-operative Department as they used to do before. It was said that the money should come from the people. The whole of India, including Burma, did its level best to provide money for each and every Co-operative Society of cultivators. To a certain extent, each and every zamindar, and the public generally came forward to put their money as shareholders in the Central Banks. But still, what do we find? These Joint Stock Banks failed in their duty. I have read out to the House the conclusion which the Banking Inquiry Committee have arrived at on this point. At one time the Government were supporting the movement. It was said that these co-operative banks should stand on their own legs and that the money should not be Government money, but that it should be the money of the people. The people of India have come forward and established co-operative banks everywhere,—societies, unions, and, above them, Central Banks, and then Provincial Banks. And still no help from the Imperial Bank was given. Although there is some provision made now that in case of need the Reserve Bank should help the Provincial Banks and the Central Banks to a certain extent, my submission is that the Imperial Bank has done absolutely nothing to help these co-operative societies. For these reasons, I support the amendment of Dr. Ziauddin Ahmad.

Mr. B. V. Jadhav: I also support the amendment. The charges brought against the Imperial Bank by my Honourable friend, who spoke last, are really true. In all the district towns and in most of the taluka towns. co-operative banks have been established, and they are doing a lot of good to the cultivator and small trader. They have to send money from place to place, and formerly they used to get, what are called remittance orders, from the Government treasury. But, in the big towns, where the Imperial Bank has established branches, the treasury work is done through the branches of the Imperial Bank, and the agents of the Imperial Bank look upon the co-operative banks as their rivals and, therefore, they do not give them as much facility for transmitting money from one place to another as the co-operative banks used to get when the branch of the Imperial Bank was not established. The Imperial Bank is a profiteers' bank, and they want to have the whole of the profits to themselves. They do not look upon the co-operative movement with a friendly eye, and they have not done much to encourage it. Therefore, Government ought to be careful in helping the Imperial Bank any further. Government are now going to establish a Reserve Bank and there is no reason why preference should be given to one bank and not given to other banks which are also sound. I, therefore, support this amendment.

Mr. S. C. Mitra: I can understand Honourable Members voicing their complaints against the Imperial Bank on any particular issue, but I cannot

[Mr. S. C. Mitra.]

understand how they can propose the deletion of the whole clause. This clause authorises the Reserve Bank of India to come to an agreement with the Imperial Bank and, according to the constitution of the Reserve Bank, it will not be in a position, at least, during the first few years, to start hundreds of branches all over India. If we want the Reserve Bank to function as the Bankers' Bank, it should offer facilities to the banks and the general public in as many places as possible and, for that purpose, it is in the scheme of the Reserve Bank that, where it is not in a position to start a branch of its own, it will function through the Imperial Bank, because the Imperial Bank in a way was largely performing the functions of the Reserve Bank for the last several years. I do not think it stands to any reason that the whole clause should be deleted. It is in our interests that this clause should be maintained. As regards the period, I know there are several amendments limiting it to 15 years, making ten years certain and the subsequent notice for five years. There may be other amendments, but deleting the whole clause seems to me unreasonable. In the Select Committee, it was said that, in accepting clause 45, we also accepted Schedule III where there is a detailed condition about the remuneration to be paid to the Imperial Bank. I hope the Honourable the Finance Member will assure the House, as he assured the Select Committee, that there will be a scrutiny into these details, if possible, by the Auditor General.

The Honourable Sir George Schuster: That has been done already.

Mr. S. C. Mitra: May we take it that the Finance Member has satisfied himself that the figures arrived at are approximately correct? We may have other amendments to suggest later on, but I cannot support the deletion of the whole clause.

Khan Bahadur H. M. Wilayatullah (Central Provinces: Muhammadan): Sir, I oppose the amendment. The only argument which has been advanced by my Honourable friend, Dr. Ziauddin Ahmad, for having no connection with the Imperial Bank of India is that the Imperial Bank does not give sufficient help to agriculture and does not finance the co-operative banks and societies. Sir, the co-operative banks are looked after by the Government and they also receive some help from Government. If a huge banking concern like the Imperial Bank were closed down, it will be a great catastrophe to India. We must look to some bank to finance trade, commerce and industry. The co-operative banks look after agriculture. They do not look after commerce and industry. Unless and until we turn our attention to industrialization of the country, there will be no improvement in our financial condition. The country is suffering from lack of industries and consequential unemployment. I do not think it will be a good step to stop all connection with the Imperial Bank. In my opinion, it is very necessary that, for purposes of trade and commerce, a well-established and efficient bank like the Imperial Bank should have dealings with the Reserve Bank. The Imperial Bank has got a large number of branches and agencies all over India which look after Government treasury work. Sir, the amendment proposed is not a sound one, and I oppose it.

The Honourable Sir George Schuster: I am very grateful to the Honourable Members who have opposed one of the learned Doctor's amendments.

I must confess that I find the task of dealing single handed with him somewhat of a strain. I also must oppose the amendment and, I am sure, that every one who read the memorandum that we put before the Select Committee explaining the work that the Imperial Bank has got to do for Government at present, and that will have to be done for the Reserve Bank in future, will realise that some agreement with the Imperial Bank on fair terms is absolutely necessary. My Honourable friend, who spoke just now, referred to the undertaking we gave that we would ask the Auditor General to make a scrutiny of the position. If it is convenient to my Honourable friend, I can read the Auditor General's report. It is quite short. He says:

"I have, of course, not audited the accounts of the Imperial Bank of India for the year ending 30th June, 1933, nor have I in the precise sense audited the figures presented by the Imperial Bank of India to Government, and those presented by Government to the Joint Select Committee. I understand that it was not intended that I should do so" (*I think Honourable Members will appreciate that we did not expect him within the short period to carry out anything like an audit*) "I have, however, made a critical examination of the figures in question and in the light of that examination and the further explanations furnished to me I am satisfied that the calculation of the cost of managing the Government account has been made on correct principles, that where distribution of charges has had to be made the basis of distribution adopted has been one conducive to accuracy and not unfavourable to Government and that in the result the figure of cost reported to the committee Rs. 15,62,748 may be taken as sufficiently reliable. I presume that there will be some definite arrangement under which the Imperial Bank of India will be precluded from the use of any Government balances at any time as an addition to the remuneration in the form of commission. I have examined similarly the calculation of the loss incurred in the maintenance of hundred new branches and have satisfied myself in this case also that the figure of Rs. 10,05,000 reported by Government to the Joint Select Committee may safely be accepted for the purpose in hand."

That, Sir, I submit, is a satisfactory report. I had a long talk with the Auditor General about it and he did assure me he has gone very carefully into this and he considers that the calculations have been made very fairly by the Imperial Bank. If they have erred at all, it is not unfavourable to Government. I think that is all I should say in support of my opposition to this amendment.

Mr President (The Honourable Sir Shanmukham Chetty): The question is:

"That clause 45 of the Bill be omitted."

The motion was negatived.

Mr. B. Sitaramaraju: Sir, I beg to move:

"That in sub-clause (*1*) of clause 45 of the Bill for the words 'fifteen years' the words 'ten years' be substituted."

[At this stage, Mr. President (The Honourable Sir Shanmukham Chetty) vacated the Chair, which was then occupied by Mr. Deputy President (Mr. Abdul Matin Chaudhury).]

You will be pleased to see, Sir, that sub-clause (1) of clause 45 reads as follows:

"The Bank shall enter into an agreement with the Imperial Bank of India which shall be subject to the approval of the Governor General in Council, and shall be expressed to come into force on the date on which this Chapter comes into force and to remain in force for fifteen years and thereafter until terminated after five years' notice on either side."

[Mr. B. Sitaramaraju.]

The House will be pleased to note these words:

"for fifteen years and thereafter until terminated after five years' notice on either side."

Thus it will be seen that the agreement is to be not only for fifteen years, but also for a further period of five years in any case. That would make altogether 20 years certain. It may be more. My amendment seeks to reduce that period to 15 years. In moving my amendment, it is not necessary for me to speak at any great length, not because I am not serious, but because that is not necessary. The point at issue here is not whether the Imperial Bank should have this subsidy or not; that is not the point at issue; the point at issue is whether the subsidy to be given to the Imperial Bank of free money should be for a very great period and whether that period is justified, and whether, in giving that period, we would be acting fairly to other banks in the country. That is the point at issue. Sir, when we start the Reserve Bank, we have got to note the fact that we are today in circumstances different from those of 1928. The agreement between the Government of India and the Imperial Bank was still in force at that time. Therefore, the justification for any generous terms the Government might have been called upon to give to the Imperial Bank in those days do not hold good now. Sir, we should remember that, by the creation of this Reserve Bank, the limitations imposed upon the Imperial Bank have been now withdrawn under the provisions of this Bill, that it has a formidable number of branches all over the country and that it is going to be a very formidable competitor against all other banks in the country. Such being the case, is it just, is it fair that you should give a long lease of this monopoly to the Imperial Bank, to the detriment of the interests of other banks in the country? That is the point. It must be remembered again that the position today is that just as the Imperial Bank's claim for consideration has gone down by the completion of the agreement, so the claim of the scheduled banks has gone up higher and higher, because, under the provisions of this Bill, the scheduled banks are asked to make certain deposits of their reserves. The only justification which the Government of India had in refusing to have anything to do with indigenous banks before now do not hold good today, because, in the past, it could be said that the Government of India had no hold upon the scheduled banks. Today you cannot say that, because the Reserve Bank will have a hold on other deposits. With what fairness, with what justice, can you say "Let us have another agreement with the Imperial Bank with all these advantages in their favour"? When you come to calculate the advantages that the Imperial Bank would receive, you will find, according to a rough calculation I have made, that it would be making about Rs. 30 lakhs a year. Sir, I think it is not fair; the period is quite long. I do not for a moment ignore the importance of the Imperial Bank. With its large number of branches throughout the country, it occupies a formidable and dominant position in the country, and its position, in fact, is unique. Therefore, I do not for a moment say that it should not have some claim for being selected as an agent of the Reserve Bank. All that I do admit. But give a chance to other banks also to come up, and see that banking in this country does grow up and prosper. Sir, I move.

Mr. Deputy President (Mr. Abdul Matin Chaudhury): Amendment moved:

"That in sub-clause (1) of clause 45 of the Bill, for the words 'fifteen years' the words 'ten years' be substituted."

Dr. R. D. Dalal (Nominated Non-Official): Sir, I rise to oppose the amendment moved by my Honourable friend, Mr. Sitaramaraju, which seeks to reduce the period of the agreement between the Reserve Bank and the Imperial Bank to ten years. I may remind this Honourable House that the Majority Report of the Joint Select Committee lays down that the agreement between the Reserve Bank and the Imperial Bank should run for fifteen years subject to termination on five years' notice given at any time after that period, and that the agency terms should be revised at the end of ten years and thereafter at five-yearly intervals. Sir, I consider that that is an equitable arrangement. In my opinion, it would be a great mistake to reduce the period of the agreement in any way, and I enter a most emphatic protest against any reduction.

Now, Sir, I shall proceed to give reasons very briefly for the view I strongly hold that the period of the agreement between the Reserve Bank and the Imperial Bank should not be reduced in any way. On the 8th September, 1920, in moving the third reading of the Imperial Bank of India Bill at the Simla Session, the Honourable Mr. Malcolm Hailey, the then Finance Member (now His Excellency Sir Malcolm Hailey, Governor of the United Provinces) referred to the amalgamation of the three Presidency Banks of Bengal, Madras, and Bombay as likely to provide a central banking institution for India, and he said:

"The chapter of the career of these three Presidency Banks is now about to be closed, but if our hopes are realised, there will spring from their ashes phœnix-like, a Bank which will partake of a wider outlook and a larger and more beneficial sphere as a National Bank for India."

Now, Sir, what is the implication. My reading—my interpretation of Sir Malcolm Hailey's speech which I have just quoted is this—that it must have been the intention of the Government of India to extend, and to expand, and to constitute the Imperial Bank of India into a Central Bank—a full-fledged Reserve Bank of India. Sir, there can be no doubt that by the setting up of an independent Central Bank, the Imperial Bank will suffer in prestige to a considerable extent, and that by the alteration in the position of the Bank, its sphere of business will be considerably curtailed; and having regard to the past services of Imperial Bank of India and having regard to the risks the Imperial Bank of India had undertaken in Branch Banking in order to discharge the Statutory obligation imposed upon it at the time of its creation, and having regard to what has been done by the Imperial Bank of India by way of Banking Education, I submit that every sympathy, every consideration, every justice should be shown to the Imperial Bank of India. Even after the establishment of the Reserve Bank, the Imperial Bank will have to handle large sums of Government money; and the safety of these balances is a matter of vital importance. Further, the Imperial Bank will have to carry out all duties as agents of the Reserve Bank. So, the Imperial Bank will have to employ a large staff—an adequate, competent, trustworthy staff, to build that staff up on a permanent basis, to give that staff a sense of security and to provide building and housing accommodation. If the period of the agreement be reduced in any way, I have serious apprehensions that it will be fraught with very serious and unsatisfactory results. It will be detrimental to the interests of development of banking, because the Imperial Bank will not be able to induce the right type of men to take up banking as a career if no security as to permanency of employment and prospects can be offered to the staff.

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Mr. B. V. Jadhav: Will the Imperial Bank crumble down after 20 years?

Dr. R. D. Dalal: I can't hear the Honourable Member. The Imperial Bank must have some unremunerative branches, and I think it will be a retrograde step to the development of banking to close any of the established branches, because it will have a most undesirable repercussion on the banking habit. The minimum period of agreement should be 15 years, because, by then, the existing staff will be more or less due to retire, and any staff that may be recruited thereafter will be recruited on such terms as are justified by the new arrangements. But, Sir, the period of ten years is a most unreasonable period—it is neither here nor there; and it is impossible for a large business organisation to accept such a short period as ten years. But it may be asked—how is it that the Imperial Bank of India accepted a period of ten years in 1921? Well, Sir, that was accepted on trust, which is now looked at from a strictly legal point of view. Sir, it is certain and it cannot be disputed that the Reserve Bank of India cannot possibly carry on and transact business of different kinds efficiently and satisfactorily, and cannot possibly spread the advantages and benefits of finance and currency without an institution like the Imperial Bank of India, which alone of all banks in India has the experience and machinery to do this agency work; and if it cannot, I respectfully ask, why the Imperial Bank should be replaced at the end of ten years, especially when we remember that, in every walk of life, continuity of service is an incentive to good, honest, efficient work. In all these circumstances, and in the interests of both parties, and in the interests of development of banking in the country generally, and, above all, in consideration of the fact that the Imperial Bank of India has already relinquished a claim for a period of ten years, I am strongly of the opinion that the security of an agreement for a period not less than that recommended in the Majority Report of the Joint Select Committee should be embodied in the Act.

Mr. B. R. Puri: Sir, I would not have intervened in this debate at all but for an observation which fell from the lips of my Honourable friend, Mr. Raju. He evidently reads this clause as if it means that after a period of 20 years this agency agreement will come to an end. (*Mr. B. Sitaramaraju:* "No, no: I never said that. I said at least 20 years.") I should like to know if my interpretation of this clause is correct that this agreement is to remain good for 15 years in any case. Up to that period, no notice on either side would be permissible and this agreement will then continue even after 15 years subject to this condition that if either party were to choose to give notice, it would be liable to terminate after the period of that five years' notice. That means that if after 15 years for another space of 20 years neither party were to give notice to each other, then the life of this agreement would be extended to 35 years *plus* 5 years, that is, altogether 40 years. I would like to know if this interpretation is correct.

The Honourable Sir George Schuster: Certainly it is correct.

Mr. B. R. Puri: If that is correct, then I would ask the House to realise that if it leads to such an interminable period, are we really taking a wise step in making a provision of such a sweeping character.

Mr. Bhuput Sing: Sir, I rise to support the amendment of my Honourable friend, Mr. Raju. Dr. Dalal just now said: "The amendment proposes to restrict the term of agreement to a period of ten years which is neither here nor there". But may I point out to him that the amendment does not do anything of the kind? It only makes the agreement terminable after 15 years and not after 10 years as was said by him. It gives the agreement for ten years, and then five years' notice.

Dr. R. D. Dalal: We want 20 years.

Mr. Bhuput Sing: That is what the Government also want, and I did not know that Government's interest was his interest as well being a nominated Member. If Dr. Dalal wants the agreement to last for 20 years and thereafter five years' notice, he should have given a separate notice of amendment. Sir, Mr. Raju's amendment only says that Government should make the agreement for ten years so that, together with the period of notice for five years, the total term of agreement would come to 15 years for certain. In this connection, Sir, I would like to read a certain passage from the report of the London Committee. In paragraph 29, page 7, they say:

"We recommend that the Reserve Bank should be required to enter into an agreement with the Imperial Bank on the general lines of clause 45 of the 1928 Bill, but we consider that the period of 25 years prescribed in that clause is too long, and we suggest that this point should be further considered by the Government of India. The initial period, however, should be of substantial duration, with provision thereafter for termination on several years' notice, etc., etc."

I think the period of 15 years, as suggested in the amendment, is very reasonable and not small as suggested by Dr. Dalal. Why should we bind the future Central Board to continue to work with the agreement that is now being made? We must make them free to renew if and when necessary the terms of the agreement on more favourable terms whenever the conditions of Indian banking makes a progress. By giving them a long lease of life, there will be some handicap for the other scheduled Indian banks to make any agreement with the Reserve Bank for doing the treasury work even if they are in a position to do so. During the period of 15 years, they may show their efficiency by doing the treasury work in some places where there is no branch of the Reserve Bank and the Imperial Bank. I do not grudge to renew the agreement with the Imperial Bank as long as the Imperial Bank work efficiently; but, at the same time, I do not see any reason why others should be precluded for a very long period from having the advantage of competing with the Imperial Bank by giving more favourable terms to the Reserve Bank. With these few words, I support the amendment.

Diwan Bahadur A. Ramaswami Mudaliar: Sir, I rise to support the amendment. I must congratulate the Honourable the Finance Member for getting support so ably and so eloquently from my Honourable friend, Dr. Dalal. I thought I was hearing to an elegy on the Imperial Bank when I listened to the very characteristic speech of my Honourable friend. Sir, my Honourable friend, Mr. Bhuput Sing, drew the attention of the House to the recommendations of the London Committee. I do not want to deal with this London Committee more than I could help, but on this occasion, I am perfectly certain, that the London Committee members would have been shocked if they had been told that 25 years was too long, but that 20 years was a fairly substantial period.

4 P.M.

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What they mean by too long is not merely a five year period over and above what was proposed . . . .

Dr. R. D. Dalal: May I point out that the Imperial Bank has already relinquished a claim for a period of ten years.

Diwan Bahadur A. Ramaswami Mudaliar: My Honourable friend is an authority on public health, but he is a very poor authority on arithmetic. Let me show to this House and particularly to my Honourable friend how the Imperial Bank is better off under the provisions of the Bill than it would have been if a similar provision of the 1927 Bill had been accepted and that Bill had been passed into law. In the 1927 Bill, the Imperial Bank was given a period of 25 years and, at that time, the Imperial Bank had not merely a moral claim which Dr. Dalal has trotted out, but also a legal claim. The Charter of the Imperial Bank extended up to the end of 1930 or the beginning of 1931. The Government could not cut in and take back the powers which they had given to the Imperial Bank under the Imperial Bank Act of 1921, and yet Sir Basil Blackett, when he introduced the Reserve Bank Bill, tried to take away these powers; those were the conditions under which the provisions of the Reserve Bank Bill of 1927 were put forward before the Legislature. The Imperial Bank, having a legal claim to continue till the beginning of 1931, and the Government having decided to cut short that period by four years, what did Sir Basil Blackett do? He said that there should be an agreement for 25 years with the Imperial Bank and if the Bill had been passed into law, then the Imperial Bank would have enjoyed that privilege up to the year 1952. Now, in the year of grace 1933, we come to these provisions. What is the position? The Imperial Bank Charter has expired. It is today carrying on at the pleasure of the Governor General in Council. There is no legal obligation to maintain the present position of the Government of India with the Imperial Bank. It is purely, as a matter of grace, that this arrangement is continuing. I leave aside the question of moral claims which have been trotted out more than once and if that is seriously pressed, then alone I should like to refer to that moral claim, but the position today is that legally there is no obligation on the part of the Government of India at all to continue their present relations with the Imperial Bank and without a week's notice, without a day's notice, tomorrow the Honourable the Finance Member could send down his ukase and say that the whole agreement is terminated with the Imperial Bank and that the Imperial Bank should restore the Government balances to such other Banks as the Government may fix. Today the Honourable the Finance Member and the majority of the Select Committee come forward and say: "we shall give this Bank 20 years certain again, because this 15 years certain and five years option merely means 20 years certain". This carries us, if the Reserve Bank comes into existence next year, to the year 1954. Therefore, while under the 1927 Bill when there was a legal obligation towards the Imperial Bank, the period provided took us to 1952 or 1953 to be more exact, under the provisions of this Bill when there is no legal obligation whatsoever we are asked to give this Charter to the Imperial Bank up to the year 1954. My Honourable friend, Dr. Dalal, by some mysterious process of arithmetic, says that it is not so favourable as it was under the Bill of 1927. Now, my Honourable friend has already pointed out that it is not fair that this long period should be given to the Imperial Bank. The Charter of the Reserve Bank is only for 25 years. After that, it may be extended, it may not be extended.

It may be repealed or it may be ended; we will come to that when the clause is considered by this House. Out of that 25 years period, the Imperial Bank is going to have 20 years certain period. I ask whether that is a reasonable position at all. My Honourable friend, Dr. Dalal, said that after 10 years, the terms of the agency may be reconsidered. Nothing of the sort. If my Honourable friend will more carefully read the Third Schedule with reference to the provision that is contained therein, he will see that there is nothing about the terms of the agency there. What is provided is that the amount of compensation should be calculated on a certain basis at the end of ten years, that the basis now provided need not be continued, but that, at the end of ten years, the basis that is provided under the Schedule should be taken into account in calculating the amount to be paid to the Imperial Bank. That is all that is provided for in the Third Schedule. For the benefit of my Honourable friend, who seems to be very nervous of the position of the Imperial Bank, let me read to him the provisions:

"In consideration of the performance *at the places referred to in clause 1* by the Imperial Bank of India on behalf of the Reserve Bank of India of the functions which the Imperial Bank of India was performing on behalf of the Governor General in Council * * * before the coming into force of the Reserve Bank of India Act, 1933, the Reserve Bank of India shall pay to the Imperial Bank of India *as remuneration a sum which shall be for the first ten years during which this agreement is in force* a commission calculated *at one-sixteenth of one per cent. on the first 250 crores and one thirty-second of one per cent., on the remainder* of the total of the receipts and disbursements dealt with annually on account of Government by the Imperial Bank of India on behalf of the Reserve Bank of India."

Then comes this question of how, after the end of ten years, this new arrangement is to be arrived at:

"At the close of the said ten years, the remuneration to be paid by the Reserve Bank of India to the Imperial Bank of India for the performance of these functions shall be revised,"

—mark that the remuneration should be revised and not the terms of the agency—

"and the remuneration for the ensuing five years shall be determined on the basis of the actual cost to the Imperial Bank of India, as ascertained by expert accounting investigation of performing the said functions."

That is to say, if an accounting officer will merely go into the question as the Auditor General has just now done as to what it will cost to the Imperial Bank to carry out these functions, the amount will be arrived at. But the Reserve Bank is tied down to the use of these 150 branches of the Imperial Bank even after the period of ten years. In fact it is tied down for the next 20 years and it is tied down as long as the Reserve Bank uses the Imperial Bank. For 20 years certain it is tied down to the use of these branches of the Imperial Bank which are existing at the date of the passing of this Bill and it can only go into the question of what remuneration it should pay and that will be settled by accountants and not by the Reserve Bank. There is no question of leaving it open for the Reserve Bank at the end of the ten year period to arrange different terms of the agency. The Reserve Bank cannot say: "We do not want these 15 branches which you have at such and such places, we propose to transfer our custom to the Bank of India or to the Bank of Bombay or some other Bank which has established branches in these places". It will not be open for the Reserve Bank to do that. It is tied down to these 147 or 150 branches of the Imperial Bank for the certain period of 20 years inextricably without any hope of

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escaping from that. Now, Sir, not merely is it bad from the point of view of the Reserve Bank, but it is worse from the point of view of other banks, the indigenous banks, and that is an aspect which I should very strongly place before the House. We are all very anxious to develop the banking system in this country. My Honourable friend, Dr. Dalal, almost shed tears over the idea that any deduction from the privileges conferred on the Imperial Bank by this Bill would mean a closing of the branches of the Imperial Bank and, therefore, very great hardship to many people. But we have also to remember that, according to this Bill, if indigenous banks, which are fairly well established, open branches in these places, then a provision like this will be a great hardship to them. At the time when the 1927 Bill was under consideration, that Bill was circulated all over the country, and the various banks had an opportunity of expressing their opinions on the subject. On the present occasion, the motion for circulation was never made, because we thought that there was no need for a motion to that effect and, therefore, the various banks have had no opportunity of expressing their opinions on this. I know that a few banking experts or representatives of certain banks were invited to appear before the Select Committee and their evidence was taken. I do not know what they said and what their views were on the subject. That is a mystery which is within the confidence of the members of the Select Committee. But, on the last occasion, when the Bill was circulated, both the indigenous banks and the foreign exchange banks were distinctly against this period of 25 years which was then fixed by the Bill. Let me read only one short extract:

"We consider that a period of 25 years to which the clause is to extend is excessive and any arrangement between the Reserve Bank and the Imperial Bank should not have a statutory life of more than ten years in the first instance."

That bears the signature of Mr. J. A. Bruce, the Manager of the Chartered Bank of India, of the Managers of the National Bank of India, the Mercantile Bank of India, the Eastern Bank, Limited, and of the P. and O. Banking Corporation. And if you go to the Bank of India, the Bank of Baroda and other indigenous banks, they express an identical opinion on the subject that 25 years is too long, that it is unfair to them and that a period of ten years is sufficient. I ask, when the original Charter at the time of amalgamation was only for ten years and the Imperial Bank authorities were then satisfied with this period of ten years, how can they claim this extraordinary period of 20 years at the present moment? I venture to think that it is not a fair arrangement,—I would go so far as that,—not fair to the Reserve Bank, not fair to the indigenous and other banks existing in the country and not fair to this House. I do not know whether the arrangement has gone to the extent of its being a concluded agreement incapable of being revised by this House. I am very glad to find that my Honourable friend, the Finance Member, says it has not gone to that stage. I was at one stage afraid that it might be so and all my talk would be useless. But if it is not so, I venture to press very seriously for the consideration of this House that we shall not be doing justice to all these people and all these institutions if we have this period of 20 years and the conditions so rigidly laid down, as I have tried to explain to the House.

Dr. R. D. Dalal: If the agreement is for ten years only, how can a trustworthy staff be employed? We want a trustworthy staff. The Imperial Bank will have to handle large sums of Government money; and the safety of these balances is a matter of vital importance.

Diwan Bahadur A. Ramaswami Mudaliar: That very great difficulty which is oppressing my friend, Dr. Dalal, would continue in any circumstances. Does my Honourable friend suggest that a number of staff engaged in the year of grace 1934 will continue right through till the year of grace 1954 on 20 years' contract, and that there will be no intermediate staff engaged during these 20 years?

Mr. B. R. Puri: May I know what is going to happen to the Imperial Bank if tomorrow, as you suggest, the Finance Member were to cease dealing with the Imperial Bank, according to my Honourable friend over there?

Diwan Bahadur A. Ramaswami Mudaliar: What has happened to every bank and commercial concern during the last few years? Has not the Imperial Bank retrenched its staff? Can my Honourable friend suggest that today the Imperial Bank has on its register the same number of staff as it had two years ago? It is a matter of notorious knowledge and must have reached even my friend, Dr. Dalal, that commercial concerns and banking institutions have, during this period of depression, had to retrench their staff. I should be extremely surprised if the Imperial Bank of India is the only institution which, through this period of depression, has not in any way retrenched its staff. Every commercial concern has done that, every banking institution has done that, and I am perfectly certain that the Imperial Bank has also done that. Then, why this extreme anxiety for the staff which may go out of existence in the year 1954 or in the year 1949? And, after all, what do we say? We have not suggested that it shall be only for a period of 15 years. Some latitude still exists; the agreement can be continued. All that I plead for, all that we on this side urge is that there must be freedom for this Reserve Bank. For the sake of the Reserve Bank which you are establishing with so much concern, please give it some little latitude to come to its own agreement. Do not tie it down hand and foot for 20 years out of its possible existence of 25 years to deal only with the Imperial Bank and to deal with it only in a particular manner. And I venture to suggest that there is no injustice at all involved so far as the Imperial Bank is concerned. My Honourable friend talked of moral obligations. I know that on another occasion and in another place this question of moral obligation was trotted out. Does my Honourable friend suggest that the amalgamation of the three Presidency Banks was a matter of grace which the authorities of these three Presidency Banks undertook on that occasion simply out of patriotic sentiments and out of a sense of duty of what they owed to the public? Does my Honourable friend suggest that the Presidency Banks of Madras, Bombay and Calcutta would have had a hundredth of the position which the Imperial Bank of India occupies today if they had not consented to that amalgamation? What is this moral obligation that is being trotted out time after time? They got an advantage far above anything that they dreamt of in the year 1920. They were amalgamated into one big concern, the Imperial Bank; privileges were given to them far in excess of what they had ever dreamt of in the days when they started and did business as Presidency Banks. They have got on very well. We have not complained of that; we have no feeling of jealousy with reference to the way in which the Imperial Bank has got on. They undertook some obligations, they received some benefits; what is this moral obligation that my friend is talking of? It seems to me that if there is any moral obligation, it is from the Imperial Bank towards the Government of India and not from the Government of India to the Imperial Bank. I, therefore,

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venture very humbly to suggest,—I do not think there is any unnecessary heat required over this amendment,—I respectfully recommend to this House that, in the interest of all concerned, a period of ten years certain and five years option will achieve the purpose and this amendment should be accepted.

Dr. Ziauddin Ahmad: Sir, my poet friend, Khan Bahadur Wilayatullah, is not here. He came and spoke on one occasion and did not wait for the reply. I should very much like to point out that this Imperial Bank,—of which I do not know whether he is engaged as its advocate,—does not really give the facilities which he has claimed on the floor of this House. He probably had no knowledge of the Imperial Bank besides drawing a cheque, and, as my friend said on a previous occasion, perhaps overdraw his account. But had he gone into details about the Imperial Bank, probably he would not have come forward to support the claim of this bank.

[At this stage, Mr. President (The Honourable Sir Shanmukham Chetty) resumed the Chair.]

In the first place, this Imperial Bank, as we all know, does not lend any money on the security of land. If any bank does not advance money on the security of landed property and does not finance any undertaking in connection with agriculture, that bank is not a bank which should receive any differential treatment or any favourable treatment from the Legislature or from the taxpayers in this country. Sir, the Imperial Bank sometimes gives some help to industrial firms, but if you go through the list of the firms to which this help is given, you will find a large number of European firms and very few Indian firms to which money is given. So are we going really to favour this Imperial Bank and show special favour in order that it may give special privileges and special assistance to a chosen few? The other thing is that I would recommend my friend to read a paper called "Bank Workers", and there he will find in certain articles that there is a differential treatment meted out by this Bank to Indians. Now, when this differential treatment exists in that particular Bank, is it desirable that we should give special facilities to this Bank? My friend said that the Imperial Bank provided banking facilities to this country. But I request him to consider this: if you take a cheque of any Imperial Bank branch, even of Rs. 10, you have to pay a discount of eight annas if you cash it at any other branch of the Imperial Bank. Is this a facility or is it cheating? In European countries, you find that if you take a cheque of any bank to any of its branches, it is paid immediately without discount. But here, even in the case of cashing a cheque in the Imperial Bank at New Delhi, belonging to some other agency, I have to go through great formalities, even if I am personally known to the staff. This is in addition to unreasonably big discount. Do you call it facility or do you call it cheating? . . . .

Khan Bahadur H. M. Wilayatullah: But they still pay you: I thought from what you were saying that they had dishonoured the cheque.

Dr. Ziauddin Ahmad: They cheat all right, but they are not such rogues and I do not say so. Is this a facility or is it cheating? If they cash these cheques at par at any place and not only cheques belonging to their Bank, but cheques belonging to other Banks, then I could have considered that a facility; but when they charge a very big discount, sometimes it is tremendous, then I cannot call it facility, but cheating . . .

Mr. E. Studd: Can the Honourable Member tell me of any bank in India that does not do the same with branches in other places?

Dr. Ziauddin Ahmad: This is just the point I was coming to. Is there any bank in India to whom we show these special treatment? Is there any bank which is supported so much by the taxpayers of India? Is there any bank which has become very fat at the expense of the poor people of this country? Look into the value of the shares: shares of the value of Rs. 500 at one time were quoted at Rs. 1,500 and Rs. 1,600, and I think today it is about Rs. 1,250. They give a dividend of 18 per cent. and more: it is now 12 per cent: is there any bank which has been able to pay so much dividend? So, if the Bank comes to the taxpayers and asks for differential treatment, is it or is it not right for us to demand that they should give special facilities to the people of this country? If this Imperial Bank professes to place itself in the same position as other banks, then the only conclusion from that is that the Bank should not expect any differential treatment from us as well. If it comes forward and wishes to be supported specially at the expense of the Indian taxpayers, if it demands a special loan without interest from the Indian exchequer, then is it or is it not correct on our part to demand that they should provide special banking facilities to the people of this country and not cheat under the false plea of giving banking facilities? I refer to the report of the Indian Central Banking Inquiry Committee. Was this report written in order to be forgotten? Was money spent on this enquiry simply to put its report into the waste paper basket? I wonder if the Honourable the Finance Member ever had before him the recommendations of this Committee when this Bill was drafted. We have got a number of valuable recommendations in the report which will be discussed in connection with rural credit societies: but I call attention to one particular recommendation: it is at page 512—recommendation No. 140. I think the Honourable the Finance Member's knowledge of this report has become hazy: once when I was quoting page 181, he was entirely lost, until I corrected myself and said it was paragraph 181 and not page 181. In No. 140, it says:

> "On the establishment of the Reserve Bank and the simultaneous withdrawal of the restrictions now imposed on the transactions of foreign exchange business of the Imperial Bank of India, the latter should be induced to take an active share in the financing of India's foreign trade. For this purpose a definite arrangement between the Reserve Bank and the Imperial Bank for a period of five years"—(and not ten or twenty)—"or such other period as the Reserve Bank may consider"—(and not the Legislature)— "desirable for utilising the Imperial Bank as agents of the Reserve Bank on terms to be settled between the two banks is recommended."

This is the recommendation of the Banking Inquiry Committee. They recommended a period of five years, and now the period which we are fixing for these swindlers, for these cheats . . . .

The Honourable Sir George Schuster: I really must protest against that expression. My Honourable friend has no right to talk about the Imperial Bank as swindlers.

Dr. Ziauddin Ahmad: The Honourable gentleman may not, but my own experience is that when I have to cash a cheque I don't get full

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value of my money, but money is deducted, and I call it legalised swindling: the Honourable gentleman may not. This period is too long a period and it is not very desirable that we should extend this abnormal privilege. If he desires to legislate special provisions for the Imperial Bank and put them in special privileged positions, is it or is it not the duty of the Honourable the Finance Member to show why this particular privilege ought to be extended, and for what reasons we should put the Imperial Bank in a very privileged position? This point has never been brought out on the floor of the House. We extended the special privileges at a time when the Reserve Bank was not there; but when the Reserve Bank is now coming into existence, then to place any special bank in a privileged position is to say the least unfair to the other banks in this country. If we support this Bank at the expense of the taxpayers, then is it or is it not right for us to demand that they should also treat us in a special manner and provide real banking facilities and not charge us discount right and left and very high rates of interest? With these words, I strongly support this particular amendment.

Sir Cowasji Jehangir: Sir, I rise to support the amendment. I had no intention of speaking after the speeches made by my Honourable friend, Diwan Bahadur Mudaliar, and my friend, Mr. Raju; but the strong remarks that have fallen from the lips of my Honourable friend, Dr. Ziauddin, forces me to say a word or two. He has made a statement that the Imperial Bank shows greater favour to its European clientele than it does to its Indian clientele. I think that is an absolutely incorrect statement and should not go uncontradicted. It is a reflection not only on the management of the Bank—it is a greater reflection on the Local Boards on which there are many eminent Indians. I have nothing to do with the Imperial Bank directly: as a matter of fact, I am connected with an indigenous bank; but, in justice to this Bank, I think a statement of this sort should never have been made in this House and, as it has been made, it deserves categorical contradiction . . . . .

Dr. Ziauddin Ahmad: May I ask whether the Honourable Member speaks on behalf of Bombay alone or for Madras, Calcutta and other places?

Sir Cowasji Jehangir: If my Honourable friend means to contend that in Calcutta the European clientele are given greater facilities, than Indians, I am not in a position to give a categorical denial—I do not come from Calcutta . . . . .

Mr. E. Studd: I come from Calcutta and I can confirm that denial.

Sir Cowasji Jehangir: All I can say is that if they confine their business to their European clientele, then they would very soon have to shut up shop at Calcutta: after all, they must rely upon their Indian clientele if they are to exist: their very existence depends upon Indian clientele: and more so in Madras. I do deprecate, as my Honourable friend, the Finance Member, pointed out, calling anybody swindlers in this Honourable House, and this sort of thing should really be put down.

Now, as to the merits of the question, I agree that the proposals in the Select Committee's report are a little in excess of what they should really be. The Committee in England considered 25 years too long,—a definite expression of opinion. The Select Committee have given the Bank a 20 years agreement: the amendments that stand in several of our names give them 15 years certain. Now, it is not only 15 years certain, but every possibility of many years more than 15. If this agreement is to terminate in 15 years, according to our proposals, a notice will have to be served on the Bank after ten years. If the Reserve Bank do not serve any notice after ten years, then for so long as they do not serve that notice after the expiration of ten years, by that period will the agreement be lengthened over and above 15 years: and, therefore, I think it is a very reasonable proposal indeed, fair to all sides and carrying out to a great extent the recommendation of the London Committee. I beg to support the amendment.

Khan Bahadur H. M. Wilayatullah: Sir, I had no intention to take part in the debate on this amendment, but as certain remarks have been made by my Honourable friend, Dr. Ziauddin Ahmad, with special reference to me, pointing out certain inaccuracies in my speech which I made a short time ago, I wish to say a few words. He said that if there is a cheque issued on the Imperial Bank in Delhi and if it has to be cashed at Nagpur, some commission has to be paid for it. He calls this commission cheating. I think it is a very strong expression. Sir, he is a great mathematician and an educationist. He ought to be very accurate. I will ask him a question. If a boy is handed over to him for education, he charges the parents of the boy the usual fees which is a considerable amount, and, at the time of the boy's examination, a further fee of, say, Rs. 30 or Rs. 40 is charged. If the boy fails in the end, will it be cheating? If charging the commission can be called cheating this, I am afraid, will be called down right cheating. I think, Sir, we ought to be very careful in our remarks and we should not indulge in language like that and without any scruple. There is a system of charging commission on cheques which is in vogue in every bank. If this House has any objection to it, it can pass a Resolution or make a representation to have it rectified. To oppose a provision in the Reserve Bank Bill, because the Imperial Bank charges a certain commission for cashing cheques, is, to say the least, wholly irrelevent and it shows a lack of sense of proportion in offering our criticism on the Bill. Sir, I oppose this motion.

The Honourable Sir George Schuster: Sir, I am in a somewhat difficult position in dealing with this particular amendment, because I have throughout all these discussions been very careful not to take upon myself the role of an advocate of the Imperial Bank's interests. We have had to deal with the Imperial Bank as one party with another, and it has never been my lot to look at things from the point of view of representing the Imperial Bank's side. On the other hand, there is nobody in this Assembly today who can speak as an advocate from the side of the Imperial Bank, and it has been an unfortunate feature in all our discussions in connection with this Reserve Bank Bill,—and there have been times when the Imperial Bank has figured very largely,—it has been an unfortunate feature that there has been nobody who could get up and put as the representative of one party against another the case from the side of the Imperial Bank. Now, Sir, I have looked at all these matters not as a question of privileges to be given to the Imperial Bank, not as a

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question of giving support to the Imperial Bank at the expense of the tax-payer as my friend, Dr. Ziauddin, said, but rather as a question of what services the Imperial Bank is going to render. The Imperial Bank is, after all, performing very important services and unless there is in the country an organization which can perform these services, both the Government and the Reserve Bank are going to be put into very great embarrassment. I do not know whether any of the Honourable Members who have spoken have realised quite the importance of the work which we require from the Imperial Bank. I confess that it causes me a great deal of concern when one looks to the future and considers that possibly some other agencies may have to be employed. I say that for this reason, because the Imperial Bank has to some extent been functioning as a public authority or carrying out Government work and has come to look upon some of these questions from the point of view of an organisation which is concerned with public interests. The Government have to keep scattered about over the whole of India an enormous quantity of currency in currency chests,—not currency in circulation, but currency ready available to meet any demands,—Government have actually in the currency chests scattered about India currency notes of something like ninety crores of rupees. I think that is about the correct figure. At a branch of the Imperial Bank, for instance, at Amritsar, where a currency chest is kept, I think the average amount of currency kept is about two crores of rupees. Now, it is a very heavy responsibility that is placed upon the agency which has to look after these enormous sums of money. That is not money in circulation,—they are simply paper notes, but they can be put into circulation. The control of those is a very important matter. Now, the Reserve Bank cannot start organizations all over the country, and the Imperial Bank has set up branches, built strong rooms, provided all the facilities for looking after that currency, and has for a long period of years been acting as agent for the Government and acquired a staff on which we feel that we can absolutely rely. That is not only a very valuable service, but it is a vital service.

Now, the question is what sort of agreement is reasonable with the Imperial Bank. My friend, Diwan Bahadur Mudaliar, said that the London Committee thought that 25 years was too long and that if they had been told that after consideration here the period was only going to be reduced by five years, to 20 years, that would have seemed to them a travesty almost of what that they had in mind. Now, Sir, of course it is very difficult to say exactly what every one had in mind, and I certainly do not want to start all these discussions about the London conversations over again on this particular matter. I think we rather shirked the issue there and shifted the matter to India, but I will concede this to my friend, that I quite agree with him that a mere reduction of five years is something rather less than what I myself would have thought to be what the general members of the Committee had in mind. But what they had in mind chiefly in considering the length of the period when we discussed it in London was not so much that it was undesirable to tie the Reserve Bank up to the Imperial Bank for a long period as that it was undesirable to fix financial terms. It might be fair now, but it might not be fair in the future. I must certainly make it clear that in my own mind in thinking of limiting the period, I was more influenced by this question of what the financial remuneration was going to be, and I do consider that this proposal which we have evolved now is a very important modification of an agreement which has to run with all its terms unchanged for a definite period. It represents again a sort of compromise arrived at after a good deal of discussion. On the one hand, those, who were against having too long an agreement, felt that, as I say, the terms which were fixed now might prove to be quite out of relation to what was required in ten years' time. On the other side, the Imperial Bank representatives put it before us very strongly that in making the arrangements with their staff, in recruiting their staff, they did require a long period to look forward to. And I am told by them—I hope Honourable Members will not take it as an advocate's point—I am told by them that while in fact they have no difficulty in recruiting European officials on short term contracts, they do find difficulty with their Indian staff—that the Indian staff want a longer period of certainty. Of course, it is obviously desired by everybody here that the proportion of Indians in the staff should be increased as rapidly as possible, and, as a matter of fact, the Managing Governor of the Imperial Bank who came before us pointed out that since, I think, 1929, only one European had actually been recruited and appointed to the Imperial Bank. So, they are proceeding as rapidly as they can in the direction of increasing the proportion of Indians. It helps this process if they can look forward to a long period. Again, I do not want to overstress the point, one fully recognises that a great part of their business must go on regardless of the work which they do for the Government now or for the Reserve Bank in the future. But they do require a special kind of staff for the particular work that they have to do for Government, that is, for looking after the currency chests, and so on, they must have a special kind of staff for that work, and we were convinced, at any rate the majority of the Select Committee were convinced, that their demand for a 20-year period was not an unreasonable one. On the other hand, we said we could not possibly agree to fixing the commission for a period as long as that, and, therefore, we proposed that the terms of the commission should be subject to review at the end of ten years and then, at the end of every subsequent five years, for as long as the agreement goes on. My Honourable friend, Mr. Mudaliar, has represented that that does not amount to very much. He has referred to the fact that the commission is to be fixed almost automatically by ascertaining from the accountant's examination what the cost of running the Government account is. But we thought that that was the farthest we could beat them down to —we looked upon that from the point of view of getting them down to the lowest possible terms that could be offered. If the services are required by Government, if it is very difficult to contemplate handing over work and responsibility of that kind to anything except a very special organisation, if the work has got to be done on a commission which simply covers the out of pocket expenses of the Bank, surely no one can say that that is tying the hands of the Reserve Bank to an unfair arrangement. I think that we have protected the position in every way, and I would again emphasise this, that there is no Indian bank at the moment, or at any rate, very few who have that staff, that organisation, the kind of personnel which is required for carrying out this very responsible work, nor is it likely that they will want to equip themselves for taking on this kind of work. I feel, Sir, that we have to look to a very long connection between the Imperial Bank and the Reserve Bank, and I cannot see why any one should object to that. The Imperial Bank is a great institution. It has achieved a very high reputation in India, and

[Sir George Schuster.]

whatever may be said as to its unwillingness to enter into certain forms of business,— perhaps, it may be open to criticism on those counts, I cannot say,—but any way no one can question the fact that it has established a high tradition of banking methods in India, and is providing an extremely valuable example in India. Looking to the future, one of the great difficulties in the Indian situation is, for the Reserve Bank to establish its position as the dominating factor in the Indian money market. It is being born under rather difficult circumstances. It has got to be born under the shadow of a very powerful institution like the Imperial Bank which has been functioning as the Government Bank hitherto, performing one part of the functions of a Central Bank, namely, the function of the control of credit. There are examples in other countries, recent examples, where attempts have been made to set up a Central Bank under the shadow of an existing institution which has performed the functions of a national bank, and in one case at least that I have in mind it has been a failure. I want the House to look at the thing from that point of view, because, looking at it from a practical point of view, one consideration that has always been very present in my mind is this, that unless you can start the Reserve Bank and the Imperial Bank working together on the most friendly terms in a spirit of mutual co-operation, then I personally think that there is very little chance of the Reserve Bank establishing itself properly in this country. We *must* have the goodwill of the Imperial Bank. Hitherto we have had it in every sort of way. There has never been a suggestion on their side that they would make use of their undoubtedly strong position to exact anything that is unfair. I do want to pay a tribute to them for that. They are in a strong position. But they have helped us in every way in connection with our discussions and preparations for this Reserve Bank Bill, and they have never suggested that they would make use of their position to exact anything like profiteering terms.

Raja Bahadur G. Krishnamachariar: Will the Honourable Member kindly ask them to give us some help?

The Honourable Sir George Schuster: I will come to that. The examination that the Auditor General has made—and we had already gone into the whole matter very carefully in the Finance Department—has established the fact that what they claim represents a very fair estimate of their actual out of pocket expenses. They have behaved fairly and I think that we ought to treat them fairly. I do not mean to say that Honourable Members in proposing to reduce this agreement by five years wish to treat them unfairly. I only want to ask the House to look at this matter in the sort of spirit which I consider to be in the public interest, and on the whole,—although I must confess I had at one time my own doubts about it—on the whole I feel very certain in my own mind now, that 20 years, provided we have this term that the actual remuneration is liable to review after 10 years and every subsequent five years—the period of 20 years is the right thing. After all, it does not make very much difference from our point of view. Even 15 years is a very long period from our point of view. It does not make very much difference from our point of view whether it is 15 years or 20 years, but from their point of view, so they tell us, from the point of view of arrangement of their staff it does make a very considerable difference, and

I think on every ground this proposal ought to be supported; we ought to stick to 20 years and not try to cut it down. My Honourable friend, the Raja Bahadur, has asked what we can do to ensure special facilities for credit to landowners, and so on. I would ask my Honourable friend to regard that as a separate problem. The Imperial Bank is performing certain functions very largely in connection with industrial centres. It is not a land mortgage bank; it cannot perform those services.

Raja Bahadur G. Krishnamachariar: But what about short term credits?

The Honourable Sir George Schuster: It may be that in the branch, to which my Honourable friend has to go sometimes, he may not receive all the courtesy that he deserves. I shall take an early opportunity of enquiring into that particular matter. We have, sitting behind, one of the high authorities of the Imperial Bank, and although I cannot address him, I hope he will personally look into that particular matter. But, on the wider issue, I must adhere to my position that 20 years is a fair period.

Mr. President (The Honourable Sir Shanmukham Chetty): The question is:

"That in sub-clause (*1*) of clause 45 of the Bill, for the words 'fifteen years' the words 'ten years' be substituted."

Mr. B. Sitaramaraju: On a point of order, Sir. May I ask whether any shareholder of the Imperial Bank is entitled to vote?

Mr. President (The Honourable Sir Shanmukham Chetty): Perfectly entitled to vote.

The question is:

"That in sub-clause (*1*) of clause 45 of the Bill, for the words 'fifteen years' the words 'ten years' be substituted."

The motion was negatived.

The Assembly then adjourned till Eleven of the Clock on Wednesday, the 20th December, 1933.