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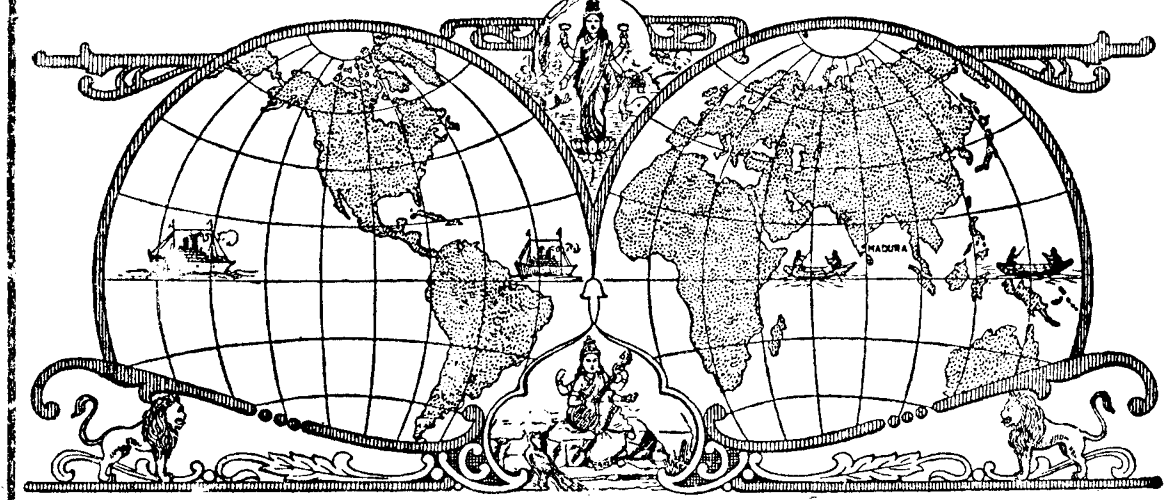

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INDIAN COMMERCE

A high class English Monthly devoted to
Trade, Commerce, Industry, Finance, Banking, Foreign Exchange, Co-operation and Commercial Education.

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Vol. I. *October, 1933.* *No. 10.*

The Simla Cotton Talks.

It is now nearly a month since the Cotton Talks at Simla have begun and it is a pity that no information is available as to the trend in which they are proceeding except through the messages sent by enterprising press correspondents to their newspapers which cannot be taken at their full value in the absence of an authoritative Government Press Communique on the subject. The whole country is eagerly waiting for reliable news on these historic talks nobody can deny. Further we do not know what amount of status and authority our Indian delegates, selected by the Government of India, command in the matter of expressing their country's needs and the terms on which a convention may be entered into on behalf of India, but on the other hand we know full well that the two delegations from the West and the Far East, fully backed up by their own national Governments–Governments ruled by the people and really looking after the needs of the people–are sufficiently armed with facts and figures to support their views and make out a strong case in their favour. But the Indian delegation, if we might properly call it so, nominated as it is by the Government, we understand from reports in the Press, have to represent their views through the medium of the Commerce Member to the Government of India. When such is the case, the fact that no authoritative news as to the course of discussion carried on all these days is available is naturally causing much anxiety to the people of the country.

The recent report that the Indo-Japanese Commercial Convention of 1904 has been extended for a period of one month from 10th October 1933 and that thereby, during this extended period the customs duties on goods imported by either country from the other will be unchanged, is to say the least causing grave concern to the Indian Cotton Industry inasmuch as the boycott of Indian cotton has not been lifted up by Japan. Probably the reason why this extension has been acceded to by the Indian delegation is that they have given expression to their goodwill towards the successful conclusion of the talks with an amicable settlement to the benefit of all the parties concerned. It now therefore remains to be seen what would be the outcome of these historic talks and whether the Japanese delegation will in return equally exhibit the same amount of goodwill as the Indian delegation has recently done, but we hope they would certainly not lag behind.

When delicate negotiations are proceeding, we do not want to arrive at a conclusion of our own as to what would be the final results of the talks, but we consider it our duty to bring to the notice of the Lancashire and the Japanese delegations that, India, a country just budding its head and making an honest attempt to become an industrial nation, in spite of the several difficulties that she has to meet with, deserves a sympathetic and just treatment at their hands so that the only industry that she could boast of, namely the cotton industry, is allowed to grow in size and volume without undue and unnecessary bounds. As it is, the cotton industry in India is engaged mainly in the manufacture of yarn below 40 counts while that of Japan and Manchester, the latter with her most equitable and favoured natural conditions, are specialising in the manufacture of yarn of 30 to 50 counts and above 80 counts respectively. So at present each one of the parties to the conference at Simla is engaged in specialising a variety of its own and difficulties come into play only when one enters into the field of the other. But if India wishes to specialise in higher counts and to market her productions in India itself, it should cause no concern to the other two, as they cannot claim the Indian market as their own for the sale of their productions. This aspect of the Indian cotton industry should pointedly be brought to the notice of the Japan and Lancashire delegations by our Indian delegation and India's rights to extend her cotton industry should be secured whatever may be the terms of the convention that may be entered into. India should not be bounded by any convention that would restrict the growth of her only industry and any quota system or other arrangement permanently fixing the counts or particular type of manufacture for each country is not desirable. The present talks are indeed intended not for lifting the boycott of Indian cotton alone by Japan, but also to secure a fair arrangement by

which the three nations engaged in cotton industry may come to an arrangement to their mutual advantage. At any rate after the Indian cotton industry has grown to such an extent as it is in India to-day, Japan and Lancashire must be fully prepared to part with a good portion of the Indian market which they have hitherto been keeping for them ***to India and to her alone*** and we believe that unless and until this cardinal principle is accepted by them, a satisfactory agreement or convention may be very difficult to be arrived at.

We hope the Indian delegation will bear in mind the fundamental requirements of the country and make out a strong case for the just securing of the country's right to improve and develop in all possible ways the cotton industry and will not hastily commit India to a convention which will check the natural growth and expansion of her cotton industry, with a view to simply seeing that Indian raw cotton is being purchased by Japan.

The recent G. O. on Government Technical Examinations.

We publish in another column of this issue the full text of the G. O. Ms. No. 1652, Education, of the Government of Madras dated 13th September 1933, raising the standard of general educational qualifications of candidates sitting for the Government Technical Examinations from April 1935. It will be seen from it that a pupil of a recognized institution to appear for the Lower Grade examination should have a completed Secondary School Leaving Certificate or have passed an equivalent test and a candidate who does not wish to keep attendance in a recognized school, commonly known as 'private candidate' should be a graduate or should have previously appeared for the examination in that subject or should have been employed in mercantile offices for two years and that the heads of offices should certify that their conduct and progress in the subject in which they wish to be examined justify their appearance. Similarly for the Higher Grade, according to the above G. O., a pupil from a recognized school should be a graduate or a S. S. L. Certificate holder declared eligible or should have previously passed the Lower grade and a 'private candidate' should have passed the Lower in that subject or should have been employed in mercantile offices with four years' service instead of two for the Lower, the other conditions as to the employer's certificate being the same. A striking feature of these new rules which we think have been introduced with over-enthusiasm to make the Government Technical Examinations popular is that even graduates are not allowed to appear as private candidates direct for the Higher grade examination without passing the Lower in a subject as if they could not successfully tackle it, whereas those who are employed in mercantile offices, whether unpassed S. S L. Cs., undergraduates or graduates are permitted to appear for the Higher provided the heads of the offices certify that their employee's progress in the subjects in which they wish to be examined are sufficiently satisfactory. We are afraid how the Commissioner for Government Examinations who is to admit candidates for the Technical Examinations under these new rules from April 1935 will be able to see that these rules are easily administered and effectively brought into force. Again we do not know how the employers in mercantile offices will be able to state that the progress of their employees in the particular subjects in which they wish to be examined. are sufficiently advanced as in most cases such employers themselves may not have a thorough knowledge of the subject the employee has to appear for. Why not graduates who, we believe, have a better general knowledge than that of the mercantile employees who have merely put in four years' service and as such can themselves certify, by their own discretionary power, to their own fitness to appear for the Higher which requires an examination fee of Rs. 12, be permitted to appear direct without keeping attendance in schools just like their brethren employed in firms? Certainly this invidious distinction casts a slur on the abilities of the graduates. We hope this injustice will be immediately attended to and graduates will be permitted to appear direct for the Higher if they wish, without either passing the Lower in that test or keeping attendance in a recognized school. If a University degree is not a sufficient general education qualification for appearing for the Higher direct, what else is needed we do not understand. Even for the G. D. A. course graduates are at present being permitted to appear direct without attending a recognized school.

Now let us examine whether the raising of the standard of general education qualification as per the above G. O. is advisable and conducive to the growth and expansion of commercial education in the Presidency. We believe the above new regulations should more act as an effective check to the growth and expansion than of improving the present state of commercial education about which we had to point out in one of our previous issues. What is the status of the Madras Government Technical Examinations? They only cater to the needs of young men aspiring for low paid clerical jobs. both in Government and Mercantile offices and in any way the Technical Examinations do not cater to the needs of professional courses

of an Accountant, Bank Manager, Insurance Expert etc. The profession of Accountancy and Auditing is guided and controlled by an All India Board and Act. Viz., the Registered Accountants Board and Act. So the Higher grade examination in Book-keeping is at present sufficiently not attractive as of old and especilly as of days prior to 1918 when the G. D A. Board was formed. Again the two subjects of Banking and Commercial Geography in the Technical Examination scheme which were appealing to the Banking world till 1925 are now not cared for. Ever since the formation of the Indian Institute of Bankers, with its Head Office at Bombay, conducting under their auspices suitably graded examinations in subjects useful to the profession of Banking such as Theory and Practice of Banking, Economics, Commercial Geography etc, at reasonable rates of examination fees, the two subjects of Banking and Commercial Geography under the Technical Examination scheme have lost their popularity and the number of candidates appearing for them every year will bear eloquent testimony to our statement. So, the Government Technical Examinations, if they have to serve any useful purpose, have to cater to the needs of "general commerce courses" in the Presidency in contradistinction to "superior professional courses in commerce" as Accountancy, Banking etc., and for such purposes the high general educational qualifications as demanded by the above G O. are not necessary. If, in the face of these superior professional examinations, the Government Technical Examinations are "a going concern" with some profit to the Government of Madras, it is because the unemployed graduates, undergraduates and the poor failed S. S. L. Cs. who do not aspire for superior appointments in the commercial world have been their best and most valued customers by frequently appearing as 'private candidates' for Shorthand and Typewriting, the two subjects that add to their chances of securing clerical jobs. But with the introduction of the new regulations these private candidates would be prevented from appearing in as large numbers as of old even for the two subjects of Shorthand and Typewriting and in course of time, we fear, the Madras Government Technical Examinations, instead of propagating commercial education for the benefit of the Presidency will be reduced to the status of Special Test examinations catering to the needs of the Government, just as the Translation Test, Account Test etc., which are now being conducted under the auspices of the Madras Services Commission. We think the objects of the promoters of the scheme of Government Technical Examinations in Madras should have been quite different from this. So if these rules are allowed to come into force from April 1935 as stated in the G.O., we are afraid the last stages of commercial education under the management of the Government of Madras will have to be witnessed very soon. If the Board of Examiners in Commerce have desired for a general increase in the standard of general education of candidates appearing for the Technical Examinations because of the very low percentage of passes, they could have suggested a simple new rule *viz*, "*that candidates appearing for any of the subjects in "commerce" in the Govt. Technical Examinations should have a good knowledge of English*" and thereby left the candidates themselves to judge whether they have the required standard of English knowledge to satisfy the examiners, or not. At any rate we think that it is high time private agencies like the Chambers of Commerce and the professional Commercial Teachers should seriously think of forming at an early date an Indian Institute of Commerce on the lines we have proposed in our April 1933 issue.

Company Law Amendment.

PROPOSALS OF CHAMBERS OF COMMERCE IN BRITAIN.

Towards the end of last month the Association of British Chambers of Commerce issued the report of a special committee which has for several months studied, in the light of recommendations from Chambers, and from other sources, possible amendments to the Companies Acts. The object, of course, is to protect from various abuses the interests both of the trader and the public.

The report has been unanimously adopted by the Executive Council of the Association and includes, among others, the following recommendation:—

No director should also be a trustee for debenture-holders of the same company; but that this should not apply to private companies.

The profit and loss account should show the profit or loss for the period covered, and that there should be stated under separate headings:—(*a*) The remuneration paid to directors required to be disclosed under this Act; (*b*) total income from all investments held by the company other than those in subsidiary companies; (*c*) any material credits which are abnormal or extraneous in their nature to the ordinary transactions of

the company, as well as any reserve from a previous period.

Every balance-sheet should state how the values of the investments, as well as the fixed assets, have been arrived at.

Free reserves should disclosed on the face of the balance-sheet and not included with "sundry creditors." The need for such disclosures should not extend to provisions made for estimated losses or expenses not definitely ascertainable at the date of making up the company's accounts, but to which losses or expenses it is sound and proper to have regard in arriving at the profit or loss for the period.

Secured liabilities should be shown separately from unsecured liabilities.

A new section is proposed regarding investments in subsidiary and sub-subsidiary companies in relation to the inclusion in the balance-sheets of the company of profits or losses.

The Committee recommend that the regulations applying to subsidiary companies should be extended to sub-subsidiary companies and that where reference is made in the Act to "subsidiary companies" this expression should be interpreted to include "sub-subsidiary companies." The Committee are of opinion that the question of the treatment of subsidiary and sub-subsidiary companies in the accounts of the holding company requires very careful consideration. While in many cases the principle of consolidated balance- sheets and profit and loss accounts has been adopted with much advantage, there must obviously be very many cases where such a course would present considerable difficulties and would not necessarily cure defects in present practice. It would, therefore, not be advantageous or proper to impose such an obligation in the case of all holding companies.

The total amount advanced to all directors and other officers should be shown upon the accounts, but not necessarily the amount due from each individual.

The resignation of a director of a puplic company should be required to be gazetted.

In the case of voluntary liquidation, if the directors, after inquiry, have formed the opinion that the company will be able to pay its debts in full within a period of twelve months, the liquidator shall issue a statement of the affairs of the company and call a meeting of creditors.— ***"The Liverpool Trade Review"***

L. A. BILL No. 41 of 1933.

The following Bill was introduced in the Legislative Assembly on the 8th September 1933:—

THE RESERVE BANK OF INDIA BILL, 1933.

Whereas it is expedient to constitute a Reserve Bank for India to regulate the issue of bank notes and the keeping of reserves with a view to securing monetary stability in British India, and generally to make provisions for matters incidental thereto;

And whereas in the present disorganisation of the monetary systems of the world it is not possible to determine what will be suitable as a permanent basis for the Indian monetary system;

But whereas it is expedient to make temporary provision on the basis of the existing monetary system, and to leave the question of the monetary standard best suited to India to be considered when the international monetary position has become sufficiently clear and stable to make it possible to frame permanent measures;

It is hereby enacted as follows:—

CHAPTER I.

PRELIMINARY.

1. (*1*) This Act may be called the Reserve Bank of India Act, 1933.

(*2*) It extends to the whole of British India, including British Baluchistan and the Sonthal Parganas.

(*3*) This section shall come into force at once, and the remaining provisions of this Act shall come into force on such date or dates as the Governor General in Council may, by notification in the *Gazette of India*, appoint.

(*4*) Chapter III shall remain in force for a period of twenty-five years and thereafter until repealed.

2. In this Act, unless there is anything repugnant in the subject or context,—

(*a*) "the Bank" means the Reserve Bank of India constituted by this Act;

(*b*) "bank note" means paper money issued by the Bank;

(*c*) "the Central Board" means the Central Board of Directors of the Bank;

(*d*) "sterling standard country" means the United Kingdom and any country, other than British India, in which any person is entitled by law to obtain sterling on demand from the principal currency authority of that country, on payment at a fixed rate in the legal tender currency of that conntry;

(*e*) "provincial co-operative bank" means any society which is registered or deemed to be registered under the Co-operative Societies Act, 1912, or any other law for the time being in force in British India relating to co-operative societies and the sole business and object of which is the financing of the other societies in a province which are or deemed to be so registered;

(*f*) "rupee coin" means silver rupees which are legal tender under the provisions of the Indian Coinage Act, 1906; and

(*g*) "scheduled bank" means a bank included in the Second Schedule.

CHAPTER II.

INCORPORATION, SHARE CAPITAL, MANAGEMENT AND BUSINESS.

3. (*1*) A Bank to be called the Reserve Bank of India shall be constituted for the purposes of taking over the management of the currency from the Governor General in Conuci! and of carrying on the business of banking in accordance with the provisions of this Act.

(*2*) The Bank shall be a body corporate by the name of the Reserve Bank of India, having perpetual succession and a common seal, and shall by the said name sue and be sued.

4. (*1*) The original share capital of the Bank shall be five crores of rupees divided into shares of five hundred rupees each, which shall be fully paid up.

(*2*) Separate registers of shareholders shall be maintained at Bombay, Calcutta, Delhi, Madras and Rangoon, and a separate issue of shares shall be made in each of the areas served by those registers, as defined in the First Schedule, and shares shall be transferable from one register to another.

(*3*) A shareholder shall be qualified to be registered as such in any area in which he is ordinarily resident or has his principal place of business in India, but no person shall be registered as a shareholder in more than one register; and no person who is not—

(*a*) domiciled in India, or

(*b*) a British subject ordinarily resident in India, or

(c) a company registered under the Indian Companies Act, 1913, or a society registered under the Co-operative Societies Act, 1912, or a scheduled bank, or a corporation or company incorporated by or under an Act of Parliament or any law for the time being in force in any of His Majesty's dominions and having a branch in British India,

shall be registered as a shareholder or be entitled to payment of any dividend on any share.

(4) The Central Board may, at its discretion, without giving any reasons decline to allot shares to any applicant or to register any transfer of shares.

(5) The nominal value of the shares originally assigned to the various registers shall be as follows, namely:—

(a) to the Bombay register—one hundred and sixty-five lakhs of rupees;

(b) to the Calcutta register—one hundred and sixty-five lakhs of rupees;

(c) to the Delhi register—eighty lakhs of rupees;

(d) to the Madras register—fifty lakhs of rupees;

(e) to the Rangoon register—forty lakhs of rupees;

Provided that, in the event of the shares assigned to any register not being fully taken up at the first allotment, the Central Board may, with the previous sanction of the Governor General in Council, transfer a portion of such shares from that register to another.

(6) In allotting the shares assigned to a register, the Central Board shall, in the first instance, allot two shares to each qualified applicant who has applied for two or more shares; and, if the number of such applicants is greater than half the total number of shares assigned to the register, shall determine by lot the applicants to whom the shares shall be allotted.

If the number of such applicants is less than half the number of shares assigned to the register, the Central Board shall allot the remaining shares to applicants who have applied for more shares than two; and if the number of extra shares so applied for exceeds the number of shares so to be allotted, the Central Board shall allot them among the various applicants in such manner as it may deem fair and equitable, having regard to the desirability of distributing the shares and the voting rights attached to them as widely as possible.

If any shares still remain unallotted, the Central Board shall allot them to applicants who have applied for one share only; and if the number of shares so applied for exceeds the number of shares to be so allotted, the Central Board shall determine by lot the applicants to whom the shares shall be allotted.

If, after all applications have been met in accordance with the provisions of this sub-section, any shares remain unallotted, they shall, notwithstanding anything contained in this section, be allotted to and taken up by Government and shall be sold by the Governor General in Council, at not less than par, as soon as may be.

The Governor General in Council shall have no right to exercise any vote under this Act by reason of any shares so allotted to him.

5. (1) The share capital of the Bank may be increased by the Central Board with the previous sanction of the Governor General in Council.

(2) Every such increase shall be fully paid up, and the areas to which such further shares shall be allotted and the price at which they may be issued shall be fixed by the Central Board with the like sanction.

(3) The Central Board may determine the manner in which any increase of share capital shall be effected.

(4) The share capital of the Bank may be reduced by the Central Board, with the previous sanction of the Governor General in Council, to such extent and in such manner as may be determined by the Bank in general meeting.

6. The Head Office of the Bank shall be established in Bombay, and the Bank shall, as soon as may be, establish branches in Calcutta, Delhi, Madras and Rangoon and may establish branches or agencies in any other place in India or, with the previous sanction of the Governor General in Council, elsewhere.

7. The general superintendence of the affairs and business of the Bank shall be entrusted to a Central Board of Directors which may exercise all powers and do all acts and things which may be exercised or done by the Bank and are not by this Act expressly directed or required to be done by the Bank in general meeting.

8. (1) The Central Board shall consist of the following Directors, namely:—

(a) a Governor and one Deputy Governor or two Deputy Governors, to be appointed by the Governor General in Council after consideration of the recommendations made by the Board in that behalf;

(b) four Directors to be nominated by the Governor General in Council.

(c) eight Directors to be elected on behalf of the shareholders on the various registers, in the manner provided in section 9 and in the following numbers, namely:—

(i) for the Bombay register—two Directors;

(ii) for the Calcutta register—two Directors;

(iii) for the Delhi register—two Directors;

(iv) for the Madras register—one Director;

(v) for the Rangoon register—one Director; and

(d) one Government official to be nominated by the Governor General in Council.

(2) The Governor and Deputy Governors shall devote their whole time to the affairs of the Bank, and shall receive such salaries and allowances as may be determined by the Central Board, subject to any minimum prescribed by the Governor General in Council.

(3) A Deputy Governor and the Director nominated under clause (b) of sub-section (1) may attend any meeting of the Central Board and take part in its deliberations but shall not be entitled to vote:

Provided that when the Governor is absent a Deputy Governor authorized by him in this behalf in writing may vote for him.

(4) The Governor and a Deputy Governor shall hold office for such term not exceeding five years as the Governor General in Council may fix when appointing them and shall be eligible for re-appointment.

A Director elected under clause (c) of sub-section (1) shall hold office for five years, or thereafter until his successor shall have been duly elected, and, subject to the provisions of section 10 shall be eligible for re-election.

The Directors nominated under clause (b) and clause (d) of sub-section (1) shall hold office during the pleasure of the Governor General in Council.

(5) No act or proceeding of the Board shall be questioned on the ground merely of the existence of any vacancy in, or any defect in the constitution of, the Board.

9. (1) A Local Board shall be constituted for each of the five areas specified in the First Schedule, and shall consist of—

(a) five members elected from amongst themselves by the shareholders who are registered on the Register for that area and are qualified to vote, and

(b) not more than three members nominated by the Central Board, who may be nominated at any time.

(2) At an election of members of a Local Board for any area, any shareholder who has been registered on the Register for that area, for a period of not less than six months ending with the date of the meeting, as holding two shares shall have one vote, and each shareholder so registered as having more than two shares shall have one vote for each two shares, but subject to a maximum of ten votes.

(3) The members of a Local Board shall hold office until they vacate it under sub-section (5) and, subject to the provisions of section 10, shall be eligible for re-election or re-nomination, as the case may be.

(4) At any time within three months of the day on which the Directors representing the shareholders on any register are due to retire under the provisions of this Act, the Central Board shall direct an election to be held of members of the Local Board concerned, and such election shall be held forthwith, and the names of the persons elected shall be notified to the Central Board.

(5) On such notification, the Central Board shall proceed to make any nominations permitted by clause (b) of sub-section (1) it may then decide to make, and shall fix the date on which the outgoing members of the Local Board shall vacate office, and the incoming members shall be deemed to have assumed office on that date.

(6) The elected members of a Local Board shall, as soon as may be after they have been elected, elect from amongst themselves one or two persons, as the case may be to be Directors representing the shareholders on the Register for the area for which the Board is constituted.

(7) A Local Board shall advise the Central Board on such matters as may be generally or specifically referred to it and shall perform such duties as the Board may, by regulations, delegate to it.

10. (1) No person may be a member of a Local Board who is not or has not at some time been—

(a) engaged in the direction of agricultural, commercial, financial or industrial activities, or

(b) a director of any company as defined in clause (2) of section 2 of the Indian Companies Act, 1913, or of a corporation or company incorporated by or under any law for the time being in force in any place outside British India.

(2) No person may be a Director or a member of a Local Board who—

(a) is a Government official or an official of a State in India, or

(b) is or at any time has been, adjudicated an insolvent, or

(c) is an officer or employee of any bank, or

(d) is a director of any bank, other than a registered society as defined in clause (e) of section 2 of the Co-operative Societies Act, 1912:

Provided that an official of a State in India (not being a Government official on deputation in the State) may be nominated as a Director or as a member of a Local Board.

(3) Nothing in this section shall apply to the Governor, or to a Deputy Governor or to the Director nominated under clause (d) of sub-section (1) of section 8.

11. (1) The Governor General in Council may remove from office the Governor or a Deputy Governor or any nominated or elected Director:

Provided that in the case of an elected Director this power shall be exercised only on a resolution passed by the Central Board in that behalf by a majority consisting of not less than nine Directors.

(2) A Director nominated or elected under clause (b) or clause (c) of section 8, and any member of a Local Board shall cease to hold office if, at any time after six months from the date of his nomination or election, or eighteen months from the commencement of this Act, whichever is later, he is not registered as a holder of unencumbered shares of the Bank of a nominal value of not less than ten thousand rupees, or if he ceases to hold unencumbered shares of that value.

(3) The Governor General in Council may remove from office any Director, and the Central Board may remove from office any member of a Local Board, if such Director or member becomes subject to any of the disqualifications specified in sub-section (2) of section 10.

(4) The appointment, nomination or election as Director or member of a Local Board of any person who is a member of the Indian Legislature or a local Legislature shall be void, unless, within one month of the date of his appointment, nomination or election, he ceases to be such member, and, if any Director or member of a Local Board is elected or nominated as a member of any such Legislature, he shall cease to be a Director or member of the Local Board as from the date of such election or nomination, as the case may be.

(5) A Director may resign his office to the Governor General in Council, and a member of a Local Board may resign his office to the Central Board, and on the acceptance of the resignation the office shall become vacant.

12. (1) If the Governor or a Deputy Governor by infirmity or otherwise is rendered incapable of executing his duties or is absent on leave or otherwise in circumstances not involving the vacation of his appointment, the Governor General in Council may appoint another person to officiate for him, and such person may, notwithstanding anything contained in clause (c) of sub-section (2) of section 10, be an officer of the Bank.

(2) If an elected Director is for any reason unable to attend a particular meeting of the Central Board, the elected members of the Local Board of the area which he represents may elect one of their number to take his place, and for the purposes of that meeting the substitute so elected shall have all the powers of the absent Director.

(3) A casual vacancy in the office of a Director, other than the vacancies provided for in sub-section (1), shall be filled in the manner in which, and by the authority by whom, the nomination or election of the Director vacating office was made; and the Director so nominated or elected shall hold office for the unexpired portion of the term of his predecessor.

(4) Where any casual vacancy in the office of any member of a Local Board occurs, the Central Board may nominate thereto any qualified person recommended by the Local Board, and the person so nominated shall hold office for the unexpired period of the term of his predecessor.

13. (1) Meetings of the Central Board shall be convened by the Governor at least six times in each year and at least once in each quarter. Meetings shall ordinarily be held in Bombay, but at least two meetings of the Central Board shall be held in Calcutta in each year.

(2) The Governor, or in his absence the Deputy Governor authorised by the Governor under the proviso to sub-section (3) of section 8 to vote for him, shall preside at meetings of the Central Board, and, in the event of an equality of votes, shall have a second or casting vote.

14. (1) A general meeting (hereinafter in this Act referred to as the annual general meeting) shall be held annually at Bombay within six weeks from the date on which the annual accounts of the Bank are closed, and a general meeting may be convened by the Central Board at any other time.

(2) Any shareholder shall be entitled to attend at any general meeting, and each shareholder who has been registered on any Register, for a period of not less than six months ending with the date of the meeting, as holding two shares shall have one vote, and each shareholder so registered as having more than two shares shall have one vote for each two shares, but subject to a maximum of ten votes; and such votes may be exercised by proxy.

15. (1) The following provisions shall apply to the first constitution of the Central Board, and, notwithstanding anything contained in sections, the Central Board as constituted in accordance therewith shall be deemed to be duly constituted in accordance with this Act.

(2) The first Governor and the first Deputy Governor or Deputy Governors shall be appointed by the Governor General in Council on his own initiative, and shall receive such salaries and allowances as he may determine.

(3) The first eight Directors representing the shareholders on the various Registers shall be nominated by the Governor General in Council after consultation with the Local Governments concerned.

(4) A Director so nominated to represent shareholders on the Bombay or Calcutta Register shall hold office for two years, and a Director so nominated to represent shareholders on the Delhi, Madras or Rangoon Register shall hold office for four years, or thereafter until his successor shall have been duly elected.

16. As soon as may be after the commencement of this Act, the Central Board shall direct elections to be held and may make nominations, in order to constitute Local Boards in accordance with the provisions of section 9, and the members of such Local Boards shall hold office up to the date fixed under sub-section (5) of section 9, but shall not exercise any right under sub-section (6) of that section.

17. The Bank shall be authorised to carry on and transact the several kinds of business hereinafter specified, namely:—

(1) the accepting of money on deposit without interest from, and the collection of money for, the Secretary of State in Council, the Governor General in Council, Local Governments, States in India, banks and any other persons;

(2) (a) the purchase, sale and rediscount of bills of exchange and promissory notes, drawn and payable in India and arising out of *bona fide* commercial or trade transactions, bearing two or more good signatures, one of which shall be that of a scheduled bank, and maturing within ninety days from the date of such purchase or rediscount, exclusive of days of grace;

(b) the purchase, sale and rediscount of bills of exchange and promissory notes, drawn and payable in India and bearing two or more good signatures, one of which shall be that of a scheduled bank, or a provincial co-operative bank, and drawn or issued for the purpose of financing seasonal agricultural operations or the marketing of crops, and maturing within six months from the date of such purchase or rediscount, exclusive of days of grace: provided that the total face value of bills or notes so purchased or rediscounted shall not at any time exceed one-fourth of the total face value of all bills and notes purchased or rediscounted by the Bank up to that time;

(*c*) the purchase, sale and rediscount of bills of exchange and promissory notes drawn and payable in India and bearing the signature of a scheduled bank, and issued or drawn for the purpose of holding or trading in securities of the Government of India or a Local Government, or such securities of States in India as may be specified in this behalf by the Governor General in Council on the recommendation of the Central Board, and maturing within ninety days from the date of such purchase or rediscount, exclusive of days of grace;

(*3*) the purchase from and sale to scheduled banks and persons approved by the Central Board, in amounts of not less than the equivalent of one lakh of rupees, of the currencies of such sterling standard countries as may be specified in this behalf by the Governor General in Council by notification in the *Gazette of India*, and of bills of exchange (including treasury bills) drawn in or on any place in any such country, and maturing within ninety days from the date of such purchase, exclusive of days of grace; and the keeping of balances with banks in such countries;

(*4*) the making of loans and advances, repayable on demand or on the expiry of fixed periods not exceeding ninety days, against the security of—

(*a*) stocks, funds and securities (other than immoveable property) in which a trustee is authorised to invest trust money by any Act of Parliament or by any law for the time being in force in British India;

(*b*) gold coin or bullion or documents of title to the same;

(*c*) such bills of exchange and promissory notes as are eligible for purchase or rediscount by the bank: provided that the total of the loans and advances against such securities as are referred to in sub-clause (b) of clause (2) shall not at any time exceed one-fourth of the total loans and advances made by the Bank up to that time;

(*d*) such biils of exchange as are eligible for purchase by the Bank under clause (3);

(*e*) promissory notes of any scheduled bank or a provincial co-operative bank, supported by documents evidencing title to goods which have been transferred, assigned, hypothecated or pledged to any such bank as security for a cash credit granted for ***bona fide*** commercial or trade transactions, or for the purpose of financing seasonal agricultural operations or the marketing of crops: provided that no loan or advance shall be made on the security of any promissory note such as is referred to in this sub-clause after the expiry of five years from the date on which this section comes into force;

(*5*) the making of advances to the Governor General in Council repayable in each case not later than three months after the close of the financial year in respect of which the advance has been made;

(*6*) the issue of demand drafts and the making, issue and circulation of bank post bills made payable on its own branches;

(*7*) the purchase and sale of securities, maturing within five years from the date of such purchase, of the Government of any sterling standard country specified in this behalf by the Governor General in Council by notification in the ***Gazette of India***;

(*8*) the purchase and sale of securities of the Government of India of any maturity, or of a Local Government or of a local authority in British India maturing within ten years from the date of purchase, or of such securities of States in India of like maturity as may be specified in this behalf by the Governor General in Council on the recommendation of the Central Board: provided that the amount of such securities held at any time in the Banking Department shall be so regulated that—

(*a*) the total value of such securities shall not exceed the aggregate amount of the share capital of the Bank, the Reserve Fund and two-fifths of the liabilities of the Banking Department in respect of deposits;

(*b*) the value of such securities maturing after six months shall not exceed the aggregate amount of the share capital of the Bank, the Reserve Fund and one-fifth of the liabilities of the Banking Department in respect of deposits;

(*c*) the value of such securities maturing after one year shall not exceed the aggregate amount of the share capital of the Bank, the Reserve Fund and one-tenth of the liabilities of the Banking Department in respect of deposits; and

(*d*) the value of such securities maturing after ten years shall not exceed the aggregate amount of the share capital of the Bank and the Reserve Fnnd;

(9) the custody of monies, securities and other articles of value, and the collection of the proceeds, whether principal, interest or dividends, of any such securities;

(10) the sale and realization of all property, whether movable or immovable, which may in any way come into the possession of the Bank in satisfaction, or part satisfaction, of any of its claims;

(11) the acting as agent for the Secretary of State in Council, the Governor General in Council or any Local Government or State in India in the transaction of any of the following kinds of business, namely:—

(*a*) the purchase and sale of gold or silver;

(*b*) the purchase, sale, transfer and custody of bills of exchange, securities or shares in any company;

(*c*) the collection of the proceeds, whether principal, interest or dividends, of any securities or shares;

(*d*) the remittance of such proceeds, at the risk of the principal, by bills of exchange payable either in India or elsewhere;

(*e*) the management of public debt;

(12) the purchase and sale of gold coin and bullion;

(13) the opening of an account with, and the acting as agent or correspondent of, any other bank which is the principal currency authority of a sterling standard country under the law for the time being in force in that country;

(14) the borrowing of money for a period not exceeding one month for the purposes of the business of the Bank, and the giving of security for money so borrowed;

Provided that no money shall be borrowed under this clause from any person in India other than a schedule bank, or from any person outside India other than a bank which is the principal currency authority of any country under the law for the time being in force in that country;

Provided further that the total amount of such borrowings from persons in India shall not at any time exceed the amount of the share capital of the Bank;

(15) the making and issue of bank notes subject to the provisions of this Act; and

(16) generally, the doing of all such matters and things as may be incidental to or consequential upon the exercise of its powers or the discharge of its duties under this Act.

18. When, in the opinion of the Central Board, or, where the powers and functions of the Central Board under this section have been delegated to the Governor, in the opinion of the Governor, it is necessary or expedient that action should be taken under this section for the purpose of regulating credit in the interests of Indian trade, commerce, industry and agriculture, the Bank may, notwithstanding any limitation contained in sub-clauses *(a)* and *(b)* of clause (2) of section 17, purchase, sell or discount any bills of exchange or promissory notes drawn and payable in India and arising out of ***bona fide*** commercial or trade transactions, bearing two or more good signatures and maturing within ninety days from the date of such purchase or discount, exclusive of days of grace.

19. Save as otherwise provided in sections 17, 18 and 43, the Bank may not—

(1) engage in trade or otherwise have a direct interest in any commercial, industrial, or other undertaking, except such interest as it may in any way acquire in the course of the satisfaction of any of its claims: provided that all such interests shall be disposed of at the earliest possible moment;

(2) purchase its own shares or the shares of any other bank or of any company, or grant loans upon the security of any such shares;

(3) advance money on mortgage of, or otherwise on the security of, immovable property or documents of title relating thereto, or become the owner of immovable property, except so far as is necessary for its own business premises and residences for its officers and servants;

(4) make unsecured loans or advances;

(5) draw or accept bills payable otherwise than on demand;

(6) allow interest on deposits or current accounts.

CHAPTER III.

CENTRAL BANKING FUNCTIONS.

20. The Bank shall undertake to accept monies for account of the Secretary of State in Council and the Governor General in Council and such Local Governments as may have the custody and management of their own provincial revenues, and to make payments up to the amount standing to the credit of their accounts respectively, and to carry out their exchange, remittance and other banking operations, including the management of the public debt, on such conditions as may be agreed upon.

21. (1) The Governor General in Council and such Local Governments as may have the custody and management of their own provincial revenues shall undertake to entrust the Bank, on such conditions as may be agreed upon, with all their money, remittance, exchange and banking transactions in India and, in particular, to deposit free of interest all their cash balances with the Bank:

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

(2) The Governor General in Council and each Local Government shall undertake to entrust the Bank, on such conditions as may be agreed upon, with the management of the public debt and with the issue of any new loans in India.

22. (1) The Bank shall have the sole right to issue paper money in British India, and may, for a period of one year from the

date on which this Chapter comes into force, issue currency notes of the Government of India supplied to it by the Governor General in Council, and the provisions of this Act applicable to bank notes shall, unless a contrary intention appears, apply to all currency notes of the Government of India issued either by the Governor General in Council or by the Bank in like manner as if such currency notes were bank notes, and references in this Act to bank notes shall be construed accordingly.

(2) On and from the aforesaid date the Governor General in Council shall not issue any currency notes or any other kind of paper money.

23. (1) The issue of bank notes shall be conducted by the Bank in an issue Department which shall be separated and kept wholly distinct from the Banking Department, and the assets of the Issue Department shall not be subject to any liability other than the liabilities of the Issue Department as hereinafter defined in section 34.

(2) The Issue Department shall not issue bank notes to the Banking Department or to any other person except in exchange for other bank notes or for such coin, bullion or securities as are permitted by this Act to form part of the Reserve.

24. Bank notes shall be of the denominational values of five rupees, ten rupees, fifty rupees, one hundred rupees, five hundred rupees, one thousand rupees and ten thousand rupees, and of such other denominational values, if any, as may be directed by the Governor General in Council.

25. The design, form and material of bank notes shall be such as may be approved by the Governor General in Council.

26. (1) Subject to the provisions of sub-section (2), every bank note shall be legal tender at any place in British India in payment or on account for the amount expressed therein, and shall be guaranteed by the Governor General in Council.

(2) The Governor General in Council may, by notification in the ***Gazette of India***, declare that, with effect from such date as may be specified in the notification, any series of bank notes of any denomination shall cease to be legal tender save at an office or agency of the Bank.

27. Any bank note re-issued from any office of the Bank shall be sterilized and disinfected before re-issue, and the Bank shall not re-issue bank notes which are torn, defaced or excessively soiled.

28. Notwithstanding anything contained in any enactment or rule of law to the contrary, no person shall of right be entitled to recover from the Governor General in Council or the Bank the value of any lost, stolen, mutilated or imperfect currency note of the Government of India or bank note:

Provided that the Bank may, with the previous sanction of the Governor General in Council, prescribe the circumstances in and the conditions and limitations subject to which the value of such currency notes or bank notes may be refunded as of grace.

29. The Bank shall not be liable to the payment of any stamp duty under the Indian Stamp Act, 1899, in respect of bank notes issued by it.

30. If at any time the Bank fails to comply with any provision of this Chapter or with any other provision of this Act, the Governor General in Council may, by notification in the ***Gazette of India***, declare that the Bank has forfeited the right of note issue, and shall thereupon take over the liabilities of the Issue Department, together with such portion of the assets of the Bank as is required to meet such liabilities, and thereafter the business of the Issue Department shall be carried on in the manner prescribed by this Act by such agency as the Governor General in Council may determine.

31. No person in British India other than the Bank or, as expressly authorized by this Act, the Governor General in Council

shall draw, accept, make or issue any bill of exchange, hundi, promissory note or engagement for the payment of money payable to bearer on demand, or borrow, owe or take up any sum or sums of money on the bills, hundies or notes payable to bearer on demand of any such person:

Provided that cheques or drafts payable to bearer on demand or otherwise may be drawn on a person's account with a banker, shroff or agent.

32. (1) Any person contravening the provisions of section 31 shall, on conviction by a Presidency Magistrate or a Magistrate of the first class, be punishable with fine equal to the amount of the bill, hundi, note or engagement in respect whereof the offence is committed.

(2) No prosecution under this section shall be instituted except on complaint made by the Bank.

33. (1) The assets of the Issue Department shall consist of gold coin, gold bullion, securities of sterling standard countries, rupee coin and rupee securities to such aggregate amount as is not less than the total of the liabilities of the Issue Department as hereinafter defined.

(2) Of the total amount of the assets, not less than two-fifths shall consist of gold coin, gold bullion or securities of sterling standard countries:

Provided that the amount of gold coin and gold bullion shall not at any time be less than thirty-five crores of rupees in value.

(3) The remainder of the assets shall be held in rupee coin, Government of India rupee securities of any maturity and such bills of exchange and promissory notes drawn and payable in British India as are eligible for purchase by the Bank under sub-clause (*a*) or sub-clause (*b*) of clause (2) of section 17 or under section 18:

Provided that the amount held in Government of India rupee securities shall not at any time exceed one-fourth of the total amount of the assets or fifty crores of rupees, whichever amount is less.

(4) For the purposes of this section, gold coin and gold bullion shall be valued at 8·47512 grains of fine gold per rupee, rupee coin shall be valued at its face value, and securities shall be valued at the market rate for the time being obtaining.

(5) Of the gold coin and gold bullion held as assets, not less than seventeen-twentieths shall be held in British India, and all gold coins and gold bullion held as assets shall be held in the custody of the Bank or its agencies:

Provided that gold belonging to the Bank which is in any other bank or in any mint or treasury or in transit may be reckoned as part of the assets.

(6) For the purposes of this section, the securities of a sterling standard country which may be held as part of the assets shall be securities of any of the following kinds payable in the currency of any of such sterling standard countries as may be specified in this behalf by the Governor General in Council by notification in the *Gazette of India*, namely :—

(*a*) balances at the credit of the Issue Department with a bank which is the principal currency authority under the law for the time being in force of such country ;

(*b*) bills of exchange bearing two or more good signatures and drawn on and payabe at a place in any such country and having a maturity not exceeding ninety days;

(*c*) securities maturing within five years of the Government of any sterling standard country specified in this behalf by the Governor General in Council by notification in the *Gazette of India*:

Provided that, for a period of two years from the date on which this Chapter comes into force,—

(*i*) any of such last mentioned securities may be securities maturing after five years, and the Bank may, at any time before the expiry of that period, dispose of such securities notwithstanding anything contained in section 17, and

(*ii*) sterling securities of the Government of India may be held as part of the assets.

34. (1) The liabilities of the Issue Department shall be an amount equal to the total of the amount of the currency notes of the Government of India and bank notes for the time being in circulation.

(2) For the purposes of this section, any currency note of the Government of India or bank note which has not been presented for payment within forty years from the 1st day of April following the date of its issue shall be deemed not to be in circulation, and the value thereof shall, notwithstanding anything contained in sub-section (2) of section 23, be paid by the Issue Department to the Governor General in Council or the Banking Department, as the case may be; but any such note, if subsequently presented for payment, shall be paid by the Banking Department, and any such payment in the case of a currency note of the Government of India shall be debited to the Governor General in Council.

35. On the date on which this Chapter comes into force, the Issue Department shall take over from the Governor General in Council the liability for all the currency notes of the Government of India for the time being in circulation, and the Governor General in Council shall transfer to the Issue Department gold coin, gold bullion, securities of sterling standard countries, rupee coin and rupee securities to such aggregate amount as is equal to the total of the amount of the liability so transferred. The coin, bullion and securities shall be transferred in such proportion as to comply with the requirements of section 33:

Provided that the total amount of the gold coin, gold bullion and securities of sterling standard countries so transferred shall not be less than one-half of the whole amount transferred, and that the amount of rupee coin so transferred shall not exceed fifty crores of rupees.

36. (1) After the close of any financial year in which the minimum amount of rupee coin held in the assets, as shown in any of the weekly accounts of the Issue Department for that year prescribed under sub-section (1) of section 49, is greater than fifty crores of rupees or one-tenth of the total amount of the assets as shown in that account, whichever may be the greater, the Bank may deliver to the Governor General in Council rupee coin upto the amount of such excess, but not without his consent exceeding five crores of rupees, against payment of legal tender value in the form of bank notes, gold or securities:

Provided that if the bank so desires and if the amount of gold coin, gold bullion and securities of a sterling standard country in the assets does not at that time exceed one-half of the total assets, a proportion not exceeding two-fifths of such payment shall be in gold coin, gold bullion or such securities of a sterling standard country as may be held as part of the assets under sub-section (6) of section 33.

(2) After the close of any financial year in which the maximum amount of rupee coin held in the assets, as so shown, is less than fifty crores of rupees or one-tenth of the total amount of the assets, as so shown, whichever may be the greater, the Governor General in Council may deliver to the Bank rupee coin upto the amonnt of such deficiency, but not without his consent exceeding five crores of rupees, against payment of legal tender value.

37. (1) Notwithstanding anything contained in the foregoing provisions, the Bank may, with the previous sanction of the Governor General in Council, for periods not

exceeding thirty days in the first instance, which may, with the like sanction, be extended from time to time by periods not exceeding fifteen days, hold as assets gold coin, gold bullion or securities of a sterling standard country of less aggregate amount than that required by sub-section (2) of section 33 and, whilst the holding is so reduced, the proviso to that sub-section shall cease to be operative.

(2) In respect of any period during which the holding of gold coin, gold bullion and securities of a sterling standard country is reduced under sub-section (1), the Bank shall pay to the Governor General in Council a tax upon the amount by which such holding is reduced below the minimum prescribed by sub-section (2) of section 33; and such tax shall be payable at the bank rate for the time being in force, with an addition of one per cent per annum when such holding exceeds thirty-two and a half per cent of the total amount of the assets and of a further one and a half per cent per annum in respect of every further decrease of two and a half per cent or part of such decrease:

Provided that the tax shall not in any event be payable at a rate less than six per cent per annum.

38. The Governor General in Council shall undertake not to re-issue any rupee coin delivered under section 36 nor to put into circulation any new rupees, except through the Bank and as provided in that section; and the Bank shall undertake not to dispose of rupee coin otherwise than for the purposes of circulation or by delivery to the Governor General in Council under that section.

39. The Bank shall issue rupee coin on demand in exchange for currency notes of the Government of India, and shall issue currency notes or bank notes on demand in exchange for coin which is legal tender under the Indian Coinage Act, 1906, and it shall, in exchange for currency notes or bank notes of five rupxes or upwards, supply currency notes or bank notes of lower value or rupees or other coins which are legal tender under the Indian Coinage Act, 1906, in such quantities as may, in the opinion of the Bank, be required for circulation; and the Governor General in Council shall, subject to the provisions of section 36, supply such rupees or other coins to the Bank on demand. If the Governor General in Council at any time fails to discharge this duty, the Bank shall be released from its obligations to supply such coins to the public.

40. The Bank shall sell, to any person who makes a demand in that behalf at its office in Bombay, Calcutta, Delhi, Madras or Rangoon and pays the purchase price in legal tender currency, sterling for immediate delivery in London, at a rate not below one shilling and five pence and forty-nine sixty-fourths of a penny for a rupee:

Provided that no person shall be entitled to demand to buy an amount of sterling less than ten thousand pounds.

41. The Bank shall buy, from any person who makes a demand in that behalf at its office in Bombay, Calcutta, Delhi, Madras or Rangoon, sterling for immediate delivery in London, at a rate not higher than one shilling and six pence and three-sixteenths of a penny for a rupee:

Provided that no person shall be entitled to demand to sell an amount of sterling less than ten thousand pounds.

42. (1) Every bank included in the Second Schedule shall maintain a balance with the Reserve Bank the amount of which shall at no time be less than seven and one-half per cent of the daily average of the demand, and two and one-half per cent of the daily average of the time liabilities of such Bank in India.

(2) For the purposes of sub-section (1), the daily average of the amounts of the demand and time liabilities of each scheduled

(*Continued on page 315*)

Unemployment Relief Measures.

(AN APPEAL TO SOUTH INDIAN ZAMINDARS).

(By a Zamin Employee).

The problem of Unemployment is already the master problem of the age and is causing as days pass on considerable anxiety and concern. The public are no longer interested in acadamical discussions about the How and Why of it but are eager to find out solutions in a constructive spirit. With the growth of civilisation and consequent multiplication of human wants luxuries of one decade are becoming the indispensable necessaries of the next, so much so no nation in modern times has grown rich and powerful without industries and manufactures. Besides, with the rapid growth of population coupled with the limited scope for expansion and comparatively the poorer return per head in the field of agriculture, the practice in western progressive countries has been to limit the number of persons in agriculture and provide more work for their labour force in industries and subsidiary occupations. This practice has not yet been fully recognised in India and hence the problem of 'Industrialising India' mainly for the present as a cure for unemployment deserves closest study and scrutiny.

But no country can afford to neglect agriculture which supplies the primary requisites of human existence such as food for population and raw material for industries. This is especially true of India with its vast natural resources and a teeming agricultural population of whom most do not know what it is not to be hungry. Hence the necessary scientific knowledge and facilities to put it into practice should be given them first and thus relieve of their hunger while the plan of making the country rich by rapidly industrialising it should be worked out side by side by those wealthy few who are better equipped for such work than these unfortunate millions. This leads to the question of radical reform of the system of education now in vogue producing an educated class in this unfortunate land of classes and creeds with little sympathy for and incapable of being in any way useful to the rural folk. But this is all for the future.

The immediate present is most trying and suggestions made can but be in the nature of relief measures. No person who has had anything to do with the victims of this contagion will belittle the help however small that may be forthcoming from sympathetic quarters towards its temporary relief. Here then is certainly a golden opportunity for some at least of the patriotic and progressively minded Zamindars of the South where the problem seems to be most acute to come to the help of these unfortunate victims and their perplexed parents. The interests of the generality of this conservative class hardly range beyond cock-fighting and horse-racing but there are here and there a few exceptional gentlemen whose administrations of their respective Estates are models for others of their class to copy and who play besides a prominent part in all nation-building activities. Naturally to this latter class our appeal lies.

First these zamindars can make it a regular practice to recruit in future only young men from the universities to serve in the various departments of their administration. These young men may be inexperienced with the workings of the peculiar Zamin machinery at the outset but given some time and most important of all a little encouragement and gentlemanly treatment these young graduates will easily adjust themselves to the environments and are bound to richly contribute in the long run towards the efficiency and purity of the administration. Graduates are now available for Rs. 30 per month and some stability and a graded scale of pay with a little less of personal equations are the bare necessaries to make them stick to Zamin service. The administration of Sivaganga Zamindary affords the nearest approach to these conditions and we are glad to note that the practice of taking in graduates initiated by the Court of Wards is continued by the present Rajah Sahib.

Again most of the Zamindars own pannai or homefarm lands, most of which having been acquired by and in the enjoyment of their family from a long time past. These lands are leased out for cultivation while some of them are cultivated by Zamin Pannai Department. Besides there are also lots and lots of Elapannai or bought-in lands most of which are either neglected or cultivated by the defaulting ryots themselves. Out of these tracts some fertile areas may be selected and leased out for long terms of not less than five years for nominal sums to these educated unemployed who are agriculturally minded. Natives of the Estates may be given preference since they are likely to have more lasting and permanent interest in such enterprises. Agricultural colonies may be started in important Estate centres if not less than a minimum number say five, offer to work such a Colony. The initial expenses of starting such colonies may be met from Estate funds and also small loans for agricultural purposes may be granted to the members if found necessary on well-laid conditions. House-sites may be granted free and loans without interest to be repaid in easy yearly instalments may also be given for erecting houses. The members of such a colony should agree to work like ordinary ryots on a co-operative basis for a minimum period after which they may purchase and own lands. Till then, of course the lands will be held by the colony as a whole on terms of any ordinary lease. The details will naturally vary with local conditions and with each Estate administration.

The young educated members of such colonies may not have the necessary knowledge and experience to profitably conduct the agricultural operations for the first one or two years. Hence as an educational centre an agricultural demonstration farm may be started at Estate headquarters at Estate cost and run on upto-date scientific lines. The farm should be self-supporting

and its methods within the means of the ordinary ryot if they are to be useful. It should besides be in close touch with its outposts, the agricultural colonies whose activities in turn should be models for the ryots of the locality to follow. The members of the central farm as also those of the colonies should be given complete freedom to take all initiative, work out plans and make their own experiments with little of that red-tape found in all administrations. The help to be given to the colonies by the central farm should be of an advisory and practical character.

Such are the relief measures in broad outline we venture to submit for the kind consideration of such of the South Indian Zamindars who possess the necessary spirit of patriotism and adventure to initiate such measures and thus alleviate the sufferings of the educated youths of the land who are ready to work and earn their livelihood if only it could be found for them.

Fort St. George, September 13, 1933.

(G. O. Ms No. 1652, Education).

No. 207.—In Notification No. 29 regulating the Government Technical Examinations published on pages 85-88 of Part I B of the *Fort St. George Gazette*, dated the 29th January 1924, as subsequently amended the following alterations shall be made:—

These Alterations will take effect from the Examination of April 1935.

1. In rule 5 *for* the prefactory words and clauses 1 and 2 (a), *substitute* the following:—

"The educational qualifications required of candidates applying for the Government Technical Examinations are as follows:—

I. Subjects included under the head 'Commere'

(1) *Lower Grade.*—(a) Candidates for the Lower Grade examination from recognized achools should have obtained completed Secondary School—Leaving Certificates, or have passed the European Middle School Eamination.

(b) Candidates—

(i) who are graduates, or

(ii) who have previously appeared for examination in the subject, or

(iii) who have heen employed in mercantile offices and have put in a service of at least two years, provided that their applications are submitted for exemption in proper time through the heads of the offices in which they are employed, and that the heads of the offices certify that their conduct and their progress in the subject in which they wish to be examined, justify their appearance, shall be admitted as private candidates.

(2) *Higher Grade.*— (a) Candidates for the Higher Grade Examination from recognized schools should be—

(i) Graduates, or

(ii) Secondary School-Leaving Certificate holders who have been declared eligible for University courses of study in the Madras Presidency and have obtained not less than 40 marks in English and 35 marks in each of the other subjects, or

(iii) persons who have passed the European High School Examination, or

(iv) persons who have perviously passed the Lower Grade examination in the subject.

(b) Candidates—

(i) who have previously passed the Lower Grade examination in the subject or

(ii) who have been employed in mercantile offices and satisfy the conditions mentioned in 1 (b) (iii) above, but with four years' service instead of two, shall be admitted as private conditates.

II. *Subjects included under heads other than 'Commerce'.*

(1) Candidates for the Lower Grade examination in subjects under heads other than "Commerce" should have studied up to the VIII standard of an elementary school and have qualified for an Elementary School Leaving Certificate;

(2) (a) candidates for the Higher Grade examination in subjects under heads other than 'Commerce' should have qualified for a Secondary School-Leaving Certificate or have passed the Matriculation Examination; the examination in the subjects under the group headed 'Co-operation' will be open also to persons employed in the Co-operative Department and to supervisors and other employees of non-official co-operative organization.

2. In rule 5—

for the sub-paragraph

"The Commissioner may accept any other examination which he considers equivalent or higher, in lieu of the general educational tests prescribed above for admission to the Higher and Lower Grades."

substitute—

"The Commissioner may accept any other examination which he considers equivalent or higher, in lieu of the general educational tests prescribed above for admission to the Higher and Lower Grades, in any subject under 'Commerce' or any other head."

and insert the sub-paragraph immediately above the existing Note commencing with the words 'No person'.

3. In the concluding portion of rule 5—

for "The following persons shall also be eligible for admission to the Government Technical Examination:-"

read "The following persons shall also be eligible for admission to the Government Technical Examination in subjects under heads other than 'Commerce':—"

(*Continued from page 310*)

bank shall be computed in respect of each period ending on the fifteenth and on the last day of each month.

(3) Every such bank shall send to the Governor General in Council and to the Bank a monthly return, signed by two responsible officers of such bank, showing—

(*a*) the amounts of its demand and time liabilities respectively in India,

(*b*) the total amount held in India in currency notes of the Government of India and bank notes,

(*c*) the amounts held in India in rupee coin and subsidiary coin respectively,

(*d*) the amounts of advances made and of bills discounted in India respectively, and

(*e*) the balance held at the Bank,

at the close of the month to which the return relates.

(4) Every such return shall be sent not later than fourteen days after the close of the month to which it relates, and shall state whether the bank has during that month maintained with the Reserve Bank the minimum balance required by sub-section (1).

(5) Any bank failing to comply with the provisions of sub-section (3) or sub-section (4) shall be liable, on application made by or on behalf of the Governor General in Council to the principal Civil Court having jurisdiction in a place where an office of the bank is situated, to a penalty of one hundred rupees for each day during which the failure continues.

(6) When it appears from any such monthly return or from a report of the Central Board that any scheduled bank has failed to maintain the minimum balance required by sub-section (1), the Governor General in Council may call for such further return, or make such inspection of the books and accounts of that bank, as may be necessary to ascertain the amount of the deficiency, if any, and the period during which it has continued; and a bank so in default shall be liable, on application made by or on behalf of the Governor General in Council to the principal Civil Court having jurisdiction in a place where an office of the bank is situated, to a penalty at a rate per annum which shall be three per cent above the bank rate on the amount of the deficiency for each day during which the default has continued, and shall be raised to five per cent above the bank rate after the first seven days of the deficiency.

(7) The Governor General in Council shall, by notification in the *Gazette of India*, direct the inclusion in the Second Schedule of any company, not already so included, which carries on the business of banking in British India and which—

(*a*) is a company as defined in clause (2) of section 2 of the Indian Companies Act, 1913, or a corporation or company incorporated by or under any law in force in any place outside British India, and

(*b*) has a paid-up capital and reserves of an aggregate value of not less than three lakhs of rupess;

and shall, by a like notification, direct the exclusion from that Schedule of any scheduled bank the aggregate value of whose paid-up capital and reserves at any time becomes less than three lakhs of rupees, or which goes into liquidation or otherwise ceases to carry on banking business.

43. 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 twenty-five years, and shall further contain the provisions set forth in the Third Schedule.

(*To be continued*)

Can Gold be a Fixed Price Standard ? §

BY

PROFESSOR GUSTAV CASSEL.

The present economic position throughout the world is so hopeless that all countries and all classes of people are directly interested in a clearing up of the position. That is why we are to have the World Economic Conference. At the same time the position is so complicated that it can be understood only after an analysis which separates the several principal factors of this problem, and tries to discover their nature and importance, and which at the same time considers measures whereby the separate bad effects possibly could be reduced,

Practical business men, who are trying to find a basis on which to form an opinion on the economic situation are smothered by an enormous volume of literature on the subject, and it is not to be wondered at if the many and partly contradictory opinions make them confused. One principle must be established from the beginning and that is that only such research is to be taken into consideration which aims at clarity and examines the problem in its many aspects from this point of view. All the ballast of writings on this subject which may exist between the separate factors should be put aside.

The most important question from a practical point of view is this: What influence has the international money policy had, and is still having, on the present depression? This question is so important and fundamental that it must be treated separately. There is no hope whatever of arriving at a conclusion if we speak at the same time of all the other factors which may possibly have influenced the economic development or if we are satisfied with finding that the development is the result of the combined influence of a number of badly understood factors. It is true that a totally inadequate supply of means of paying, and the resultant downward movement of the price level of commodities, have had a substantial influence of other disturbing factors. Nor do we wish to deny the possibility that this depression may have been caused to a certain degree by the general and by now well-understood laws governing the general situation and its movements. Those who are studying this very complex question and wish to analyse the monetary aspect of the present situation are perfectly aware of the importance of other contributory factors. They admit freely that these factors are receiving their fullest attention.

The first point which must be cleared is that a universal falling of the prices of goods always means an increased value of money, and that this can only be explained by an inadequate supply of money. This inadequacy is, of course, relative and must be judged in relation to the continuously fluctuating demand for money. It should, however, have been possible to discover the means of providing a supply large enough to prevent a general drop in the prices of goods. If a general fall in prices occurs, then this is proof that this task has either been neglected, or that no means were discovered. Therefore, all the reasons which have been advanced as explanations of the depression are sheer nonsense.

A general drop in prices is always purely a matter of money supply. This axiom remains true, even if we remember difficulties which may arise when, for instance, such great amounts of money have to be found suddenly, as the degree of the fall in prices make necessary. Such difficulties are essentially and solely a question of money policy. Every practical business man knows that it is most important for the stability of the economic position, if it is possible to maintain the general level of prices, apart from all the relative and unavoidable fluctuations. It is, therefore, necessary to realise that the maintaining of a permanent price level is a task belonging to the money policy. Many authors say that this programme is to a certain extent arbitrary, inasmuch as the general level of prices is a statistical definition which can never be ascertained with precision. We may, however, leave this clever dictum to itself. For it is the great practical problem to create money conditions which have a sufficiently satisfactory inherent stability. This can be done by first agreeing upon adequate prices, and then applying them as standards for the stabilisation. According to this plan it would evolve upon the Central Bank to provide sufficient money to maintain the price level for commodities.

It is objected that this programme is arbitrary, and that it could be advantageously replaced by other methods of procedure, to be adopted by the Central Bank. Certain authors have put forward the most subtle arguments purporting to show the advantages of replacing the stable price levels by a level which would be lowered in relation to increases in production. Such a scheme can hardly be upheld, because it does not take into consideration the fluctuations in wages. Above all, however, such agreements are impracticable because they can never lead to a money policy upon which the different nations and the Central Bank could agree.

A universal programme must be much simpler, and it is not possible to find a simpler aim than the constant level of prices. There are other authors who propose to neglect the regulating of price levels altogether, and are satisfied to make a few general remarks on the aims of a Central Bank. It is, for instance, asserted that the "Central Bank should help commerce and industry," or see to it that commerce and production should develop in as close a relation as possible. Such formulas have neither sense nor value, or else they give us quite a wrong idea of what a Central Bank can really do. In a small country with gold standard, a Central Bank can have no other task than that of maintaining the values at the prescribed parity in relation to gold. This task, there-

§ Specially contributed to the "British Trade Review" by this eminent Swedish Economist.

fore, determines the policy of the Central Bank. No others are of importance.

In large countries there is the additional fact that the money policy of such countries is bound to have a direct influence upon the gold market, and thereby on the price of gold. The question therefore arises as to how this influence should be taken into account. The answer is the one which I gave already in May, 1928, to the Bank Committee of the United States House of Representatives. The Bank, in collaboration with other Central Banks, shall use its influence upon the value of gold in such a way that all unnecessary fluctuations in the value of gold are avoided. Now, as the value of gold can only be measured with the help of the general level of prices of commodities, this programme includes the task of keeping this price level constant.

In view of this logical deduction all the arguments that this programme is arbitrary, become idle. Besides, what alternative can be suggested? The gold value itself makes the regulating of the prices a necessity in the sense that a standard price in gold must be established for an arbitrarily chosen commodity—i. e., for a commodity which is subject to unforeseen and arbitrary fluctuations. We have had so many examples of the terrible fluctuation of gold values, that the old fiction of gold as a fixed constant standard can no longer be accepted as true. It is now a recognised truth that if the gold standard has to be maintained in force, great efforts will have to be made to give gold a far greater stability than it has hitherto had. The world must get rid of these fluctuations of an uncontrolled gold value system, if a greater stability of economic conditions is to be obtained.

Banking in England.

BY
J. S. PONNIAH, M.A. Dip. Econ.
American College, Madura.

LONDON GOLDSMITHS.

Modern English Banking owes its origin and development to the London Goldsmiths, a class of people who are mentioned as early as the reign of William the Conquerer. It is recorded that one Goldsmith was Lord Mayor of London between 1189 and 1213. About the beginning of the 16th century, the goldsmiths had formed themselves into companies for transacting their business. In 1556, the books of the goldsmiths' companies show that out of 107 members, no less than 76 resided in Chepe, the remaining 31 in Lambard Street. It was during Cromwell's times that the goldsmiths began to assume the character of bankers. In the 17th century, there were 70 or 80 of them as bankers.

FEATURES OF THEIR BANKING.

The contribution that made the banking development was the attraction of deposits from those who had savings or from merchants and land-owners, at first for only safe custody, but later by allowing a small rate of interest. They issued 'receipts' for these deposits, the forerunner of the modern pass-book. No less significant was the practice of allowing their depositors to draw on them by means of cheques. The current or running account was thus developed. It was also found that they could circulate 'notes' or promises to pay which, when presented, could be turned into cash. These three aspects of banking—attraction of deposits, withdrawals by means of cheque and circulation of bank notes—were developed by them from very early times. They also transmitted money from one place to another by means of Bills of Exchange. They were also large lenders to the Governments of Elizabeth, Charles the I, Cromwell and Charles the II. When Charles the second repudiated the debts he had contracted from them in 1671, it was rumoured that the goldsmiths who had lent money, had become bankrupt. There was a 'run' on them for cash. This shock to deposit banking was so severe, but the facilities afforded by them were so great that confidence was soon re-established and many of them started business again.

Bankers and banking firms.

In addition to individual bankers like the goldsmiths of London and other towns, there were also small firms or private companies of bankers. The oldest Provincial Bank of this type was Samuel Smith and Co., of Nottingham which attracted deposits and was carrying on a flourishing business from 1688. There was a large expansion of such private banks.

The advantages of the circulation of Bank Notes by individual bankers and banking firms were so patent that a multitude of bankers and institutions grew up. "Shopkeepers in the country started up like mushrooms and turned into bankers. They issued notes and inundated the country with miserable rags." Note issue, in spite of its abuse by some unscrupulous bankers, was considered an essential condition for successful banking.

Origin of the Bank of England.

At this moment was founded the Bank of England. It is perhaps the greatest event in the history of the 17th century. The circumstances under which it was started, can be briefly mentioned. The wars of William the III resulted in a large accumulation of debt. The Government could no longer borrow from the goldsmiths, but the need for money was very urgent. The Whig Chancellor of the Exchequer suggested that the Government may confer the privileges of a Chartered Banking institution, to those who subscribed to a Government loan of £ 1,200,000 at 8 per cent per annum with the monopoly of note issue to that amount. The Tories regarded the scheme with alarm, but forty Whig merchants raised the amount and the bank was started in ten days by an Act of Parliament (1694).

The Bank of England was a private shareholders' bank, but since it kept the Government balances and was believed to be having the support of the Government, it commanded much confidence and was therefore the biggest banking institution in the country. We must emphasise also that in addition to its prestige, it had two important privileges. (1) It was the only Chartered or Incorporated Bank in the country, no other banker or bank having had this privilege. (2) It possessed also ***the monopoly of note issue*** in London and 65 miles radius. But there was nothing in the Act of incorporation to suggest that there could be no Joint Stock Bank in London and 65 miles radius. But until 1833 it was interpreted that the Bank of England was given the monopoly of having Joint Stock Banking within that area, for in the Charter of 1708 it was provided that "during the continuance of the said corporation of the Governor and the Company of the Bank of England, it shall not be lawful for any body politic or corporation whatsoever created or to be created or for any other person whatsoever, united or to be united in covenents or partnerships ***exceeding the number of six persons*** to borrow or owe or take up any sum or sums of money of their bills or notes payable on demand or at a less time than six months from the borrowing thereof". What this act prohibited was the issue of bank notes by banks with more than six partners; not to the carrying on of banking business by any institution with more than six partners. Any way this monopoly of note issue was a great privilege for the Bank of England. The London goldsmiths and other private banks ceased to issue notes, though they possessed legal rights to do so and carried on their other banking activities in alliance with the Bank of England. The Bank of England has therefore promoted sound traditions acting as a check as it were, on banking in London and 65 miles radius.

Growth of Joint Stock Banking.

When the Bank of England was founded, there was no Joint Stock Bank in any part of the country; there were only individual bankers and private banks. Though there were other Joint Stock organizations like the Stock Exchange (1773), the Sun Fire Insurance Office (1710), all of which incorporated by Act of Parliament, banking on a Joint Stock basis was not done. Not until 1815 was the principle of limited liability introduced and incorporation permitted. But Joint Stock Companies on an unlimited liability basis began to carry on banking business. But they were not allowed to set up business in London until 1833. In 1834, the London and Westminister Bank and the London and the County Bank were founded. The Charter of 1708 was thus partly responsible for the late development of Joint Stock Banking; because it was felt that no banking business could be carried on without the right of note issue.

The Bank of England received the Joint Stock Banks with a bad grace. The private bankers of London joined the Bankers' Clearing House and for a long time refused the Joint Stock Banks admission to it. It was largely to the determination of the genius of Mr. Gilbert, Manager of the London and Westminister Bank that the victory was ultimately won. He celebrated a striking triumph when he bought up the business of their chief opponent in the past. It is fortunate that the Bank of England grew under such favourable accidents; it never faced any competition from the other banks. The monopoly of note issue, though mistakenly interpreted was a great check to the indiscriminate banking habits of other institutions. The private banks and the Joint Stock Banks grew in direct dependence of it. Until 1844, the Banking development in England had proceeded satisfactorily. In 1833 the notes of the Bank of England had been made legal tender and their convertibility to all intents and purposes guaranteed by the nation.

Control of Note Issue.

Up to this time there was no control of note issue on any of the banks including the Bank of England. In order to protect their own credit, bankers had wisely restrained overissue. But the few Joint Stock Banks which were established in the country exercised their privileges of note issue rather indiscriminately. They issued five pound notes and caused a great inflation of credit. The Nopoleanic War and its aftermath had "resulted in a dislocation of business and business failures." Several banks were ruined. The notes of the Bank of England could not be converted into gold since the Government had borrowed and used its gold resources. There was a sense of insecurity all round; there was a run on one of the country banks at Newcastle in 1796. A panic spread like wild fire. Confidence in the notes of the Bank of England was also threatened. Pitt, the younger, therefore came to the rescue by passing the Bank Restriction Act of 1797 which made the bank notes inconvertible into gold. The suspension of cash payments averted the immediate crisis. But after the restoration of specie, payments in 1821 returned to normal conditions. There was an outburst of speculative investments and overtrade. Factories, canals and railways cost a large drain of money. Several banks which had lent money to such speculative enterprises went down. This crisis opened the eyes of the adminstration to the necessity of controling the currency. There were also collapses of several banks in 1836 and 1837. In 1839, the Bank of England had to seek assistance from the Bank of France for its gold reserve. "It became evident that the whole banking system of the country had broken down and a radical reform was needed." The cause of bank failures was attributed to the uncontrolled note issue by all banks. Sir Robert Peel appointed a committee to report on the situation.

(To be continued)

Review.

The Indian Colonial Review.

Edited by Mr. T. K. SWAMINATHAN.

Annual Subscription Rs. 6/- inland;

12 sh. foreign.

We have received the first number of "The Indian Colonial Review" an English monthly devoted to Emigration, Colonisation, Trade, Travel and Politics. It is an excellent magazine advocating the cause of the Indian Emigrants abroad. The articles contained in the issue under review are varied and highly interesting. We believe this Journal should greatly appeal to our countrymen interested in the welfare of our brethren who have settled in South Africa, Malaya and other foreign lands where their position is at stake at present. We wish the Journal every success. Copies can be had of the Editor, 27 Thumbu Chetty Street, Madras.

Government of India.

Finance Department.

RESOLUTION.

The 14th September 1933.

No. D. /6980 F.—In their Resolution No. 509 (Post Office), dated the 11th March 1905 the Government of India announced their decision that the rate of interest allowed on cash deposits (at call) in the Post Office Savings Banks should be reduced from $3\frac{1}{8}$ per cent. to 3 per cent. per annum. In view of the general reduction in their borrowing rates the Government of India consider that a further reduction is now justified. They have accordingly decided that with effect from the 1st of November 1933, the rate of interest to be allowed on cash deposits in the Post Office Savings Banks shall be $2\frac{1}{2}$ per cent. per annum.

Edited and Published by **Mr. T. Kalyanasundram, D. Com.,** Principal, Kalyanam's Institute of Commerce, 267, West Masi Street, Madura, (S. India) and printed on behalf of the publisher, at The Harleamaya Divakaram Press, No. 3, Manjanakara Street, Madura, (S. India.)

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BUSINESS NOTICE.

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Manager. "Indian Commerce"

The Organisation of a Bill Market in India.

One of the main advantages expected to be derived by the member or scheduled banks which according to the Reserve Bank Bill are required to keep a deposit of 7½% and 2½% to their demand and time liabilities respectively in cash with the Reserve Bank is that they may enjoy the facilities of rediscounting commercial bills with the latter in times of need or financial stringency This hope naturally conveys an impression to one that the scheduled banks are now a-days having a good business in discounting commercial bills, one of the main functions of a modern banker, whereas the actual state of affairs in the country in this matter is quite the reverse. Our banks, excepting the foreign Exchange Banks, do a very small business in bill discounting in the proper sense of the term and the expectation of a great improvement in this line within a short time after the establishment of the Indian Reserve Bank is, in our opinion, likely to prove only a very pious hope. The system of reducing to writing a credit dealing on the very day it takes place is quite uncommon in this country. Even when a trader takes a loan from a banker on the security of his promissory note and some other collateral security, on the understanding that the loan is to be repaid at the expiry of three months from the date of borrowing, he executes *a demand pro note only* instead of *a three-months' period pro-note* with the object of saving the heavy stamp duty in the case of the latter. Further, among Indian businessmen the system of drawing bills of exchange for collection of debts has not become popular. So we think some inducement must be offered to our traders and they should be encouraged to draw bills of exchange; otherwise a good supply of bills may not be available to suit the requirements of our banks

In England there is a well organised commercial bill market and even there, banks are not engaged in discounting bills *directly* with the traders and merchants who offer them for sale. Well established firms of bill brokers who have a thorough knowledge of the financial position of the various manufacturers and others who offer bill for sale, act as middle-men between the bankers and the merchants selling them These bill-brokers whose credit in the financial world is at its zenith, borrow from banks on very low rates of interest on the understanding that the loans are to be repaid whenever demanded or at short notice, usually known as "at call" and do a good business in discounting bills in the open market, at rates, in most cases. lower than the Bank rate, by one-half to three-fourth per cent. Thus most of the bills available for sale come to their hands and whenever they need additional loans to carry on their trade they tender a parcel of bills they have discounted to their banks as collateral security for their loan or discount them outright with their banks, when their current accounts are credited with the proceeds. Thus British Bankers, though engaged in discounting bills, are absolutely safe and incur no loss, because the bills they have purchased bear the signatures of the wealthy bill-brokers who may be called upon to pay,—and who do actually pay—in case a bill is dishonoured. The bills discounted by the British Banks in this manner are in some cases rediscounted with the Bank of England, the Bankers' Bank, and thus in times of financial stringency, the Bank of England is able to render monetary help to the needy banks in England and arrange for the elasticity of currency needed at particular seasons of the year. But in India where the supply of bills available for sale is not good, bankers have to exercise a good deal of caution and discretion in choosing suitable instruments with a view to minimising their risk, because they are not sure that the bills they discount will be duly honoured, in the absence of a guarantee of a bill-broker as in England. So, from the point of view of the scheduled banks, if the bills rediscounted by them with the Reserve Bank are not honoured at maturity, they would be placed in the same position as that of an ordinary borrower and will have to pay the Reserve Bank immediately, some how or other, with a view to maintaining their prestige.

Thus it will be seen from the above that there is a great difference between the practice of bill-discounting as is in vogue in England and in India and unless and until the English system is brought into force in this country and a well organised bill market is created. scheduled banks will have little or no opportunity of enjoying the facilities hoped for and their cash deposits with the Reserve Bank will only prove an unremunerative item or 'dead stock' reducing their working capital to the extent of their deposits.

To our mind there seems to be two ways open to attain our objective First of all the stamp duty on period bills of exchange which is now *ad valorem* should be completely abolished or if this wholesale abolition is not immediately possible on account of the loss of revenue to the Government, it should atleast be reduced to that of 'demand bills' now in force and thereby the habit of drawing bills among the mercantile public should be greatly encouraged. If the drawing of bills becomes familiar, as soon as a credit transaction takes place, the resulting debt is immediatly turned into a negotiable instrument, facilitating its conversion into ready cash before the due date for payment, instead of keeping the debt frozen as it should naturally be when a bill of exchange is not drawn. Had it not been for the heavy stamp duty, most of the promissory notes now executed would contain the true terms of the contract of debt and the existing practice of issuing a demand pro note to all outward appearance while there is a completely different oral understanding between the borrower and the lender would have been completely put an end to. Again, as a result of the large use of bills, our native indigenous bankers, shroffs and other hundi merchants who may be expected, by virtue of their local knowledge, to know the financial standing of the traders would develop and take a special interest in their business of bill discounting and in course of time, they would take the place in India of the bill-brokers in England and form a good link and safe medium between the joint stock banks and the traders using bills. It is only in this way that banks discounting bills can be free from risk and in times of financial stringency they may freely seek the help of the Reserve Bank.

The second way that would greatly facilitate the achievement of our ambition is the affording of facilities for the collection of cheques and bills payable anywhere in India, without incurring any expenditure, through the medium of an All-India Clearing House and Provincial Clearing Houses as in England. If these clearing houses are brought into existence the use of cheques and bills will become very popular, and the banking habits of the people also will be fostered. We believe these two reforms are very urgently needed in the interest of the trade and commerce of the country and their postponement should no longer be permitted. The Government of India should immediately abolish the stamp duty on bills and our bankers should put their heads together and see that an All-India Clearing House on the model of the "Country Clearing" in England is formed at an early date. We hope our joint select committee members of the Reserve Bank Bill will ponder over these suggestions and recommend to the Government of India the abolition of the stamp duty on period bills and pro-notes with a view to organising a bill market in India and thus see that the scheduled banks get some benefit in return for their compulsory deposits.

Banking in England.

BY

J. S. PONNIAH, M. A. Dip. Econ., *American College, Madura.*

(Continued from page 322)

The Bank Charter Act of 1844.

The main outcome of the deliberations of the Committee was the idea of controlling the issue of currency notes by centralising note issue and vesting that responsibility *on* the Bank of England. For it was believed that if note issue was controlled, speculation would be checked.

Hence it was provided that the Bank could increase its note circulation only when it can increase the stock of gold and not otherwise. The Bank had the right of issuing currency notes up to 14 million pounds without any gold backing, this amount being the Government debt in the shape of securities; over and above this amount for every five pound note issued, it had to keep coins or bullion as reserve. To see that the bank discharged this responsibility faithfully it was divided into two departments, "the Issue Department" and "the Banking Department". The accounts of both had to be kept separate. It was also required to publish a weekly statement of its position. These provisions took away from the Bank of England its right to judge for itself the amount of notes it could issue and the reserve it should keep.

In addition to these provisions regarding the control of note issue, new banks that were to be started were to have no right of note issue, and the existing banks were to limit their amount of note issue to their total average circulation during the early part of 1844, which amounted to £ 8.63 millions. Thus the note issued by other banks could be issued only to this extent. If these banks were to become insolvent or to amalgamate themselves with other banks, they were to lose the right of note issue and the Bank of England could increase its note circulation up to two-thirds of the amount of notes thus lapsed.

The results of the legislation.

The object of the legislation, as stated above, was the control of note issue to prevent panic, crises and drain of gold by limiting the issue of notes to the total stock of gold available in the country. But this object was never realised. For if people exchanged all the notes of the Bank of England for gold, there would be drain of all its gold. Panics and crises could be engendered by a mere lack of confidence in the institutions, not necessarily always as the result of over-issue. The Bank Charter Act was suspended three times in the 19th century—in 1847, 1857 and 1866.

On the other hand, the measure greatly curtailed the available quantity of credit required for legitimate trading since expansion of credit was made dependent upon the available stock of gold. Fortunately, this restriction of credit was overcome by an entirely unexpected development. For, having lost their right of note issue and therefore of expanding credit, the Joint Stock Banks and other bankers developed the cheque system. The Act of 1844 was thus indirectly responsible for one of the most characteristic features of the English banking system.

In spite of these two defects, the legislation should be regarded as the most momentous one in English banking, (1) it centralised currency control and made the Bank of England the sole controller of national credit: (2) consequently the Bank of England became the central bank or the bankers' bank the centre and the pivot of the whole of the monetary system, (3) the limitation of note issue for the banks started before 1844 obliged many of them to amalgamate themselves and form stronger banks. Now banks that were started also found it profitable to amalgamate since they could not create credit by note issue. In 1844, there were 207 private banks and 72 Joint Stock Banks, but by the year 1921 all the private banks except only one have disappeared and the number of Joint Stock Banks has fallen to 47. Extensive amalgamations were made between 1917 and 1919 also. At present five large London Joint Stock Banks (known as the "Big Five") control the whole banking business of England.

War Finance.

Since the outbreak of the war, a revotion came over the organization of the Bank of England. (1) The first Act of the Government was calling in gold and gold coins and centralising all gold resources in the vaults of the Bank of England. (2) The export of gold was prohibited under the Defence of the Realm Act: for Germany was trying to sell securities abroad and increase her gold resources. England had therefore to close the Stock Exchange on the 29th July, 1914. Lest the citizens should withdraw gold from the Bank of England, four days were also declared as bank holidays. (3) The Government by an Act of Parliament was empowered to issue treasury notes for £1 and 10 shillings to an unlimited extent. These were bought by the banks and added to their resources on which they could extend credit. There was thus a large inflation of both currency and credit. (4) These devices having failed to meet all their

(*Continued on page 351*)

Amendment of Indian Companies Act.

BY

PRINCIPAL SOHRAB R. DAVAR, BARRISTER-AT-LAW,

of Davar's College of Commerce, Bombay.

The Companies Act in India was passed in the year 1913. This Act of 1913 was an adaptation, with certain alterations to suit Indian requirements, of the English Company's Consolidation Act of 1908. It will thus be seen to what extent this important piece of legislation is out of date in these go-ahead days when the company system has made rapid progress and developed all over the world to an extent unheard of during the past twenty years. In England since the passing of the Act of 1908, they appointed two commissions, one presided over by Lord Wrenbury and the other by Mr. Green.

The investigations and recommendations of these commissions have resulted in the passing of the English Companies' Act of 1929. This English Act of 1929 had to be passed rather hurriedly because the Parliament was at the time on the eve of dissolution, with the result that though many new and wholesome amendments have been effected, the enactment is discussed to be far from being perfect. The British Press and the public in common with professional bodies, such as the Institute of Chartered Accountants through their recognised organs are clammering for an early revision.

Amendation persistently Demanded.

We in India have practically done nothing since the old Act of 1913 in spite of persistent public demand for the amendment of our Indian Companies' Act. This demand has been voiced both by the Indian and Anglo-Indian Press and even the learned judges have in their decisions frequently commented in their judgments on the defects of the Act. Some eminent members of the Legislative Assembly and others have called upon, at regular intervals during past years, the respective Commerce Members in office to declare the intention of the government in this direction. The replies given during these past ten years or so have been more or less stereotyped. In early years the excuse was that as England was busy investigating this question through its commission, we might wait until the English Act was amended. In about 1929, after the English Act was amended, a similar interpellation in the Assembly brought out the answer that the government were considering whether an investigation through a committee in India should precede the amendment of the Act; and there the matter has been allowed to rest during the years that follow.

Why not Move Now?

This is, we submit, the most appropriate juncture when the matter may be taken in hand without delay. Our industries were never so low as at present. They are all worked under joint stock companies' system. The world condition is more promising, thanks to the satisfactory results of the Laysanne Conference. The economic revival seems to smile on a tired, and sorely tired, world through the mists of the social and political upheavals on the horizon. The result is that both the Presidents of the Bombay Stock Exchange and the Indian Merchants' Chamber have once again thought it necessary to devote time and attention to this question. Both have demanded an early amendment of our Companies Act. The Bombay Shareholders' Association took up the question a couple of years ago and its company law amendment sub-committee, of which I had the privilege to be the chairman, prepared and formulated the directions in which amendment was necessary. We have no doubt that, now that the matter is agitated again, the association will try and complete its investigations in this direction as early as possible.

Indian Industrial Stagnation.

We have of late passed through a period of depression not only through world causes, but also through local conditions. Now that a world revival is within sight, we should try and see in what manner we should harness, if not abolish, the most wasteful system under which most of our industries are at present managed by firms of managing agents, an institution peculiar to this unfortunate country which has been dominating the working and organisation of joint stock enterprise in this country for generations. The textile mills industry which is a staple industry of Bombay, is suffering from stagnation and decay and some of the best mills which at one time paid handsome dividends have closed their doors and are being liquidated. There may be other reasons such as foreign competition, but there is not the least doubt that this unfortunate result is in a large measure due to the inherent defects in the system of management through agency firms.

There are numerous manipulations which some of the agency firms with a number of joint stock companies under their control have been shown to be carrying on, which, though undesirable and against the interests of the shareholders and the industry, cannot be prevented for want of adequate legislative powers. We no doubt hear of many company irregularities and failures in Great Britain also, but in the absence of hereditary vested rights such as an agency agreement alone can provide for, the havoc is not much greater than we hear of. If, therefore, England with its amended Act and unburdened with the setback of a hereditary managing monopoly is clamouring for further amendments, there is no reason why we in India should be kept waiting so long for the long overdue amendment.

A Public Enquiry Necessary.

If a satisfactory amendment or rather overhauling of our Act has to be effected we shall have to investigate the question fully from the standpoint of Indian conditions. This may only be done through a special enquiry committee. There are no doubt vested interests which dread the idea of such a public enquiry into the working of our joint stock componies. The investor and shareholders have made it clear that what they desire is a public enquiry preceding the drafting of the amended Act through their organisations.

The vested interests desire no such inquiry but are satisfied if a bill is drafted and circulated for opinion in the usual way. We submit that the latter course seems to shirk the idea of an investigation through witnesses who can be cross-examined by either side, a process through which alone a very important and controversial question like this can be satisfactorily dealt with. The investor is the person most interested in this matter and unless his point of view is respected, the growth of our industries is sure to be impeded for want of capital. A nervous investor who has suffered so much for years through unsatisfactory company management is not likely to come out boldly to contribute his savings towards the capital of new enterprises. The question, therefore, is not only of local or sectional importance and therefore cannot be looked at from the point of view of a small group of vested interests, but it is one of too great a national importance to be neglected or negligently dealt with. In other words, legislation with a view to amend Companies Act after a proper inquiry is of the greatest importance which should be taken up in preference to other legislation in case the country's economic position is to be improved and its industrial rise and expansion brought about within reasonable time.

The Possibilities of an important Indian Industry.

BY

C. A. KRISHNAMURTI RAO, M.A., F.R. Econ. S. (London).

The Indian public has not sufficiently realised the wonderful possibilities of the Indian paper and pulp industries, the demand for whose product is sure to be ever on the increase with the rapid progress that India is bound to pass through in the days that are yet to come. An examination into the conditions under which these industries work in India would be really useful for a proper understanding of their problems.

As early as 1924 and prior to that, a demand had been made by the Indian paper manufacturers for protection for the industry from dependence on foreign materials and for eventually developing an export trade in bamboo pulp. In 1925, the Tariff Board made recommendations. The Bamboo Paper Industry Protection Act of 1925 imposed protective duties on certain kinds of paper, which expired on the 31st of March, 1932. So the Tariff Board was again requested by the Government to make inquiries as to how far the Act had achieved its purpose, and whether continuance of the protective duties was desirable and beneficial. The report of the Tariff Board was available in 1931. Following are the principal findings and recommendations.

The consumption of paper, including paste-board, in India increased from 111,963 tons in 1924-25 to 175,627 tons in 1929-30, but fell to 154,277 tons in 1930-31; and, of these quantities, the Indian mills have steadily supplied from 22 to 25 per cent. The consumption of paper of protected classes increased from 43,331 tons in 1924-25 to 53,584 tons in 1929-30, but fell to 49,046 tons in 1930-31, and of this paper the Indian mills supplied from 53 to 71 per cent. The nine paper mills now working in India were responsible for an output of 40,000 tons. †

Indian paper mills have been largely using imported pulp, first, owing to the low price of pulp, and secondly, owing to the fact that the financial aid recommended by the Tariff Board was not granted. There is now an annual expenditure of Rs. 20 lakhs on Indian materials and labour which would otherwise have been spent on imported paper. The Indian mills have the prospect of capturing an additional market to the extent of 20,000 tons per annum, apart from the normal increase in consumption.*

The amount of bamboo available in India and Burma is sufficient to supply the needs of the Indian paper industry, and even develop an ample export trade. The average quality dry bamboo which cost about Rs. 55/-per ton in 1925 now sells at Rs. 38—4—0 a ton or even less. Considerable improvement has been made in the mechanical treatment of bamboo, and further experiments are still being made. The digestion of the material is done by the acid sulphite process at the India Paper Pulp Co.'s mill at Nauhati. Other mills use the alkali process. The bamboo paper has been found to be quite satisfactory for most purposes. $ But the future depends on the proper exploitation and development of the bamboo to a degree and in a manner that the paper industry can think of a time when it can entirely dispense with protection. In the opinion of the Tariff Board, grass also occupies an important place in the industry and should therefore, be subjected to the same proposals for assistance. A withdrawal of the present duty would endanger the very existence of the industry in India. A duty on imported pulp at Rs. 45 per ton would be directly encouraging. *

The present duty of Rs. 140/-per ton or one anna per lb. should be continued according to the Tariff Board's recommendations, for some seven years at least. It should include printing and writing papers and newsprint and packing paper. The Indianisation of the staff with apprenticeship schemes has made some, though not sufficient, progress. Sufficient effort does not seem to have been made in the matter of attracting Indians of promise and talent, still less of employing them, especially, in the paper-making department. This aspect should receive the attention of authorities sufficiently early. The paper pulp sections of the Forest Research Institute at Dehra Dun should be developed especially with the object of co-ordinating the experimental work carried out by the mills.

It will be clear, therefore, that the future of the industry depends on the co-operation of the Government and the public quite as much as on that of the industry and the brains at research work. But this may be emphasised that the paper industry is one on which Indian capital and enterprise may profitably think of concentrating themselves. It should occupy a prominent place in any case of planned or unplanned economy for India.

† Report of the Tariff Board.

* Report of the Empire Marketing Board for 1932.

$ India in 1930—1931.

* Tariff Board.

L. A. BILL No. 41 of 1933.

Reserve Bank of India Bill.

(*Continued from page 315*)

CHAPTER IV.

General Provisions.

44. After making provision for bad and doubtful debts, depreciation in assets, contributions to staff and superannuation funds, and such other contingencies as are usually provided for by bankers, and after payment out of the net annual profits of a cumulative dividend at such rate not exceeding five per cent per annum on the share capital as the Governor General in Council may fix at the time of the issue of shares, the surplus shall be allocated as follows:—

(a) one half to a Reserve Fund, until such Reserve Fund is equal to one-half of the share capital, and the remaining one-half to the Governor General in Council;

(b) thereafter, until the Reserve Fund is equal to the share capital, one-tenth to the Reserve Fund, and the balance to the Governor General in Conncil; and

(c) when and for so long as the Reserve Fund is not less than the share capital, a portion to an additional dividend to the shareholders calculated on the scale set forth in the Fourth Schedule, and the balance to the Governor General in Council:

Provided that, so long as the Reserve Fund is less than the share capital, not less than fifty lakhs of rupees of the surplus, or the whole of the surplus if less than that amount, shall be allocated to the Reserve Fund.

45. The Bank shall make public from time to time the minimum rate at which it is prepared to buy or re-discount bills of exchange or other commercial paper eligible for purchase under this Act.

46. (1) Not less than two auditors shall be elected and their remuneration fixed at the annual general meeting. The auditors may be shareholders, but no Director or other officer of the Bank shall be eligible during his continuance in office. Any auditor shall be eligible for re-election on quitting office.

(2) The first auditors of the Bank may be appointed by the Central Board before the first annual general meeting and, if so appointed, shall hold office only until that meeting. All auditors elected under this section shall severally be, and continue to act as, auditors until the first annual general meeting after their respective elections:

Provided that any casual vacancy in the office of any auditor elected under this section may be filled by the Central Board.

47. Without prejudice to anything contained in section 46, the Governor General in Council may at any time appoint such auditors as he thinks fit to examine and report upon the accounts of the Bank.

48. (1) Every auditor shall be supplied with a copy of the annual balance sheet, and it shall be his duty to examine the same, together with the accounts and vouchers relating thereto; and every auditor shall have a list delivered to him of all books kept by the Bank, and shall at all reasonable times have access to the books, accounts and other documents of the Bank, and may, at the expense of the Bank if appointed by it or at the expense of the Governor General in Council if appointed by him, employ accountants or other persons to assist him in investigating such accounts, and may, in relation to such accounts, examine any Director or officer of the Bank.

(2) The auditors shall make a report to the shareholders or to the Governor General in Council, as the case may be, upon the annual balance-sheet and accounts, and in every such report they shall state whether, in their opinion, the balance-sheet is a full and fair balance-sheet containing all necessary particulars and properly drawn up so as to exhibit a true and correct view of the state of the Bank's affairs, and, in case they

have called for any explanation or information from the Central Board, whether it has been given and whether it is satisfactory. Any such report made to the shareholders shall be read, together with the report of the Central Board, at the annual general meeting.

49. (1) The Bank shall prepare and transmit to the Governor General in Council a weekly account of the Issue Department and of the Banking Department in the form set out in the Fifth Schedule or in such other form as the Governor General in Council may, by notification in the *Gazette of India*, prescribe. The Governor General in Council shall cause these accounts to be published weekly in the *Gazette of India*.

(2) The Bank shall also, within two months from the date on which the annual accounts of the Bank are closed, transmit to the Governor General in Council a copy of the annual accounts signed by the Governor, the Deputy Governors and the Chief Accounting Officer of the Bank, and certified by the auditors, and the Governor General in Council shall cause such accounts to be published in the *Gazette of India*.

(3) The Bank shall also, within two months from the date on which the annual accounts of the Bank are closed, transmit to the Governor General in Council a statement showing the name, address and occupation of, and the number of shares held by, each shareholder of the Bank.

50. (1) The Local Board of any area may at any time require any shareholder who is registered on the Register for that area to furnish to the Local Board within a specified time, not being less than thirty days, a declaration, in such form as the Central Board may by regulations prescribe, giving particulars of all shares on the said Register of which he is the owner.

(2) If it appears from such declaration that any shareholder is not the owner of any shares which are registered in his name, the Local Board may amend the Register accordingly.

(3) If any person required to make a declaration under sub-section (1) fails to make such declaration within the specified time, the Local Board may make an entry against his name in the Register recording such failure and directing that he shall have no right to vote, either under section 9 or section 14, by reason of the shares registered in his name on that Register.

(4) Whoever makes a false statement in any declaration furnished by him under sub-section (1) shall be deemed to have committed the offence of giving false evidence defined in section 191 of the Indian Penal Code, and shall be punishable under the second paragraph of section 192 of that Code.

51. (1) Nothing in the Indian Companies Act, 1913, shall apply to the Bank, and the Bank shall not be placed in voluntary or compulsory liquidation save with the sanction of the Governor General in Council and in such manner as he may direct.

(2) In such event the Reserve Fund and surplus assets, if any, of the Bank shall be divided between the Governor General in Council and the shareholders in the proportion of seventy-five per cent and twenty-five per cent, respectively.

52. (1) The Central Board may, with the previous sanction of the Governor General in Council, make regulations consistent with this Act to provide for all matters for which provision is necessary or convenient for the purpose of giving effect to the provisions of this Act.

(2) In particular and without prejudice to the generality of the foregoing provision, such regulations may provide for all or any of the following matters, namely:—

(a) the holding and conduct of elections under this Act, including, if the Central Board thinks fit, provisions for the holding of any elections according to the principle of proportional representation by means of the single transferable vote;

(b) for the final decision of doubts or disputes regarding the qualifications of candidates for election or regarding the validity of elections;

(c) the maintenance of the share register, the manner in which and the conditions subject to which shares may be held and transferred, and, generally, all matters relating to the rights and duties of shareholders;

(d) the manner in which general meetings shall be convened, the procedure to be followed thereat and the manner in which votes may be exercised;

(e) the manner in which notices may be served on behalf of the Bank upon shareholders or other persons;

(f) the manner in which the business of the Central Board shall be transacted, and the procedure to be followed at meetings thereof;

(g) the conduct of business of Local Boards and the delegation to such Boards of powers and functions;

(h) the delegation of powers and functions of the Central Board to the Governor, or to Deputy Governors, Directors or officers of the Bank;

(i) the formation of Committees of the Central Board, the delegation of powers and functions of the Central Board to such Committees, and the conduct of business in such Committees;

(j) the constitution and management of staff and superannuation funds for the officers and servants of the Bank;

(k) the manner and form in which contracts binding on the Bank may be executed;

(*l*) the provision of an official seal of the Bank and the manner and effect of its use;

(*m*) the manner and form in which balance sheet of the Bank shall be drawn up, and in which the accounts shall be maintained;

(n) the circumstances in which, and the conditions and limitations subject to which, the value of any lost, stolen, mutilated or imperfect currency note of the Government of India or bank note may be refunded; and

(o) generally, for the efficient conduct of the business of the Bank.

53. In the Indian Coinage Act, 1906, for section 11 the following section shall be substituted, namely:—

"11. Gold coins, coined at His Majesty's Royal Mint in England or at any mint established in pursuance of a proclamation of His Majesty as a branch of His Majesty's Royal Mint, shall not be legal tender in British India in payment or on account, but such coins shall be received by the Reserve Bank of India at its offices and agencies in India at the bullion value of such coins calculated at the rate of 8.47512 grains troy of fine gold per rupee."

54. The Indian Paper Currency Act, 1923, the Indian Paper Currency (Amendment) Act, 1923, the Indian Paper Currency (Amendment) Act, 1925, and the Currency Act, 1927, are hereby repealed.

THE FIRST SCHEDULE.

[*See* section 4.]

AREAS SERVED BY THE VARIOUS SHARE-REGISTERS.

1. The WESTERN AREA, served by the BOMBAY Register, shall consist of—

the Bombay Presidency including Sind, the Central Provinces, Berar, Hyderabad, Baroda, Khairpur, the Western India States, the Central India States (including Makrai but excluding Rewah and other States of Bundelkhand and Baghelkhand), the Gujerat States, Kolhapur and the Deccan States.

II. The EASTERN AREA, served by the CALCUTTA Register, shall consist of—

the Bengal Presidency, Bihar and Orissa, Assam, Sikkim, Manipur, Cooch-Behar, Tripura, the Eastern States, Rewah and other States of Bundelkhand and Baghelkhand, and the Khasi States.

III. The NORTHERN AREA, served by the DELHI Register, shall consist of—the United Provinces, Delhi, the Punjab, the North-West Frontier Province, Ajmer-Merwara, Baluchistan, Kashmir, the Punjab States excluding Khairpur, the Simla Hill States, Dujana, Pataudi, Kalsia, Rampur, Tehri-Garhwal, Benares, the Rajputana States including Palanpur and Danta, Gwalior, Khaniadhana, Kalat, Las Bela, Hunza, Nagir, Amb, Chitral, Dir, Phulera and Swat.

IV. The SOUTHERN AREA, served by the MADRAS Register, shall consist of—the Madras Presidency, Coorg, Mysore and the Madras States.

V. The BURMA AREA, served by the RANGOON Register, shall consist of—Burma, the Andaman and Nicobar Islands, Bawlake, Kantarawadi, and Kyebogyi.

THE SECOND SCHEDULE.

[*See* section 43 and section 2 (*g*).]

SCHEDULED BANKS.

Ajodhia Bank, Fyzabad.
Allahabad Bank.
American Express Company Incorporated.
Banco Nacional Ultramarino.
Bangalore Bank.
Bank of Baroda.
Bank of Behar.
Bank of Chettinad, Madras.
Bank of Hindustan, Madras.
Bank of India, Bombay.
Bank of Indore.
Bank of Mysore.
Bank of Taiwan.
Bank of Upper Burma.
Bari Doab Bank, Lahore.
Benares Bank.
Bhowanipore Banking Corporation, Calcutta.
Bhagwan Das & Co., Dehra Dun.
Byopar Sahayak Bank, Meerut.
Calicut Bank, Calicut.
Canara Bank.
Canara Banking Corporation, Udipi (S. Kanara).
Central Bank of India.
Chartered Bank of India, Australia and China.
Chota Nagpur Banking Association.
Coimbatore Town Bank.
Comptoir National d'Escompte de Paris.
Eastern Bank.
Frontier Bank, Dera Ismail Khan.
Grindlay and Company.
Hongkong and Shanghai Banking Corporation.
Imperial Bank of India.
Imperial Bank of Persia.
Indian Bank, Madras.
Industrial Bank of Western India, Ahmedabad.
Jalpaiguri Banking and Trading Corporation.
Karnani Industrial Bank.
Kumbakonam Bank, Kumbakonam.
Lloyds Bank.
Mahaluxmi Bank, Chittagong.
Mercantile Bank of India.
Mitsui Bank, Bombay.
Muffassil Bank, Gorakhpur.
Mysore Industral Bank, Bangalore.
Nadar Bank, Tuticorin.
National Bank of India.
National City Bank of New York.
Nederlandsche Indische Handelsbank.
Nederlandsche Handel-Maatschappij.
Nedungadi Bank, Calicut.
Oudh Commercial Bank.
Pangal Nayak Bank, Udipi.
P. and O. Banking Corporation.
Punjab and Kashmir Bank, Rawalpindi.
Punjab and Sind Bank, Amritsar.
Punjab Co-operative Bank, Amritsar.
Punjab National Bank, Lahore.
Punjab Zamindars' Bank, Lyallpur.

Quilon Bank, Travancore.
Raikut Industrial Bank, Jalpaiguri.
Simla Banking and Industrial Company.
South India Bank, Tinnevelly.
State Aided Bank of Travancore, Alleppey.
Thomas Cook & Sons.
Travancore Commercial Bank, Kottayam.
Travancore National Bank, Tiruvalla.
Union Bank of India, Bombay.
U. Rai Gyaw Thoo and Co., Akyab.
Yokohama Specie Bank.

THE THIRD SCHEDULE.

(See Section 43.)

Provisions to be contained in the agreement between the Reserve Bank of India and the Imperial Bank of India.

1. The Imperial Bank of India shall be the sole agent of the Reserve Bank of India at all places in British India where, at the commencement of the Reserve Bank of India Act, 1933, there is a branch of the Imperial Bank of India and no branch of the Banking Department of the Reserve Bank of India.

2. In consideration of the performance 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 at the places referred to in clause I 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 a commission calculated on 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. Such commission shall be one-sixteenth of one per cent on the first 250 crores of such total and one-thirty-second of one per cent on the remainder.

3. Subject to the condition that the Imperial Bank of India shall keep open branches not less in number than those existing at the time of the coming into force of the Reserve Bank of India Act, 1933, the Reserve Bank of India shall allow the following balances to the Imperial Bank of India at the interest rates hereinafter specified, namely:—

(a) during the first five years from that time—3 crores free of interest;

(b) during the next five years—2 crores free of interest and, at the option of the Imperial Bank of India, an amount not exceeding 1 crore at 2 per cent per annum;

(c) during the next five years—1 crore free of interest and, at the option of the Imperial Bank of India, an amount not exceeding 2 crores at 2 per cent per annum; and

(d) during the next five years—at the option of the Imperial Bank of India, an amount not exceeding 3 crores at 2 per cent per annum.

4. The Imperial Bank of India shall not without the approval of the Reserve Bank of India open any branch in substitution for a branch existing at the time this agreement comes into force.

THE FOURTH SCHEDULE.

(See section 44.)

SCALE OF ADDITIONAL DIVIDEND PAYABLE TO SHAREHOLDERS.

A. If the maximum rate of dividend fixed under section 44 is five per centum and so long as the share capital of the Bank is five crores of rupees—

(1) if the surplus does not exceed four crores of rupees—*Nil*;

(2) if the surplus exceeds four crores of rupees—

(*a*) out of such excess up to the first one and a half crores of rupees—a fraction equal to one-sixtieth;

(*b*) out of each successive additional excess up to one and a half crores of rupees-one-half of the fraction payable out of the next previous one and a half crores of excess:

Provided that the additional dividend shall be a multiple of one-eighth of one per cent on the share capital, the amount of the surplus allocated thereto being rounded up or down to the nearest one-eighth of one per cent on the share capital.

B. If the maximum rate of dividend fixed under section 44 is below five per centum, the said fraction of one-sixtieth shall be increased in the ratio of the difference between six and the fixed rate to unity.

C. When the original share capital of the Bank has been increased or reduced, the said fraction of one-sixtieth shall be diminished in proportion to the increase or reduction of the share capital.

THE FIFTH SCHEDULE,

(See Section 49.)

RESERVE BANK OF INDIA.

An Account pursuant to the Reserve Bank of India Act, 1933, for the week ending on the day of

ISSUE DEPARTMENT.

Liabilities.

	Rs.
Bank Notes held in the Banking Department	
Bank Notes in circulation ...	
Total Bank Notes issued ...	
Government of India Notes in circulation	
Total Liabilities ...	

Assets.

	Rs.
A. Gold coin and bullion—	
(a) held in India	
(b) held outside India ...	
Securities of sterling standard countries	
Total of A ...	
B. Rupee coin	
Government of India rupee securities	
Internal bills of exchange and other commercial paper ...	
Total Assets ...	

Ratio of total of A to liabilities, per cent.

Dated the day of 19 .

BANKING DEPARTMENT.

Liabilities.

	Rs.
Capital paid up	
Reserve Fund	
Deposits—	
(a) Government	
(b) Banks	
(c) Others	
Bills payable	
Other liabilities	

Assets.

	Rs.
Notes	
Rupee coin	
Subsidiary coin	
Bills discounted—	
(a) Internal	
(b) External	
(c) Government of India Treasury Bills	
Balances held abroad ...	
Loans and advances to the Government	
Other loans and advances ...	
Investments	
Other assets	

Dated the day of 19

STATEMENT OF OBJECTS AND REASONS.

The object of this Bill is to set up a Reserve Bank for India. The Federal Structure Sub-Committee of the first Round Table Conference recommended that "with a view to ensuring confidence in the management of Indian credit and currency.......efforts should be made to establish on sure foundations and free from any political influence, as early as may be found possible, a Reserve Bank, which will be entrusted with the management of the currency and exchange." The Financial Safeguards Committee of the third Round Table Conference recommended "that steps should be taken to introduce into the Indian Legislature a Reserve Bank Bill conceived on the above lines as soon as possible." In the report of that Committee it was also placed on record that "the Secretary of State undertook that representative Indian opinion would be consulted in the prepartion of proposals for the establishment of the Reserve Bank including those relating to the reserves."

2. A representative Committee was set up in order to give effect to that undertaking and a copy of its report is attached as an annexure. The present Bill is drafted in accordance with the recommendations of that Committee.

GEORGE SCHUSTER.

SIMLA,

The 4th September 1933.

Some Notes
ON THE
Indian Reserve Bank Bill

BY

A. RAMAIYA, M.A., F. R. Econ. S. (London)

(Advocate, Legal and Economic Adviser Madura-Ramnad Chamber of Commerce, Director Bureau of Economic Research, Madura).

I propose in this Note to deal briefly with certain important aspects of the main provisions of the Reserve Bank Bill from the point of view of an impartial student who claims to know something of the subject. Ever since I gave evidence before the Currency Commission about 8 years ago, I have been interesting myself in the subject of money and credit, and trying to acquaint myself with the monetary conditions of the leading countries of the world and the nature and scope of the problems connected therewith both in their national and international aspects.*

1. Reserve Bank Necessary and Desirable.

Whatever may have been the reasons which induced the Government to introduce the present Bill to set up a Reserve Bank for India, it cannot be gainsaid that since the Currency Commission made its Report in 1926, informed public opinion in the country has been strongly in favour of the early establishment of a Central Bank which will take over the management of the Currency from the Government, and serve also as a bankers' bank. The prior attempts of Sir Basil Blackett in 1927—28 to pass similar legislation failed, not because the people of the country were opposed to the establishment of a Central Bank but because there was genuine difference of opinion with regard to the constitution of the Bank, which could not be reconciled, viz., whether it should be state-owned as the Members of the Legislative Assembly honestly believed it should, or whether it should be independent of the State and managed as a private share holders' Bank as was equally honestly contended on the Government side. No one in fact

* I think I must not inflict on the Committee some of my own views on monetary reform which may perhaps be considered revolutionary. They are to be published presently in the form of a book entitled 'The Monetary System'.

was opposed to the creation of a Central Bank as every one recognized it to be necessary for securing unity of policy in the control of currency and credit if monetary stability was to be achieved. But exaggerated importance was given by either side to the form of the Constitution, each forgetting that the form could always be modified by the Legislature in the light of experience. The result was that the dual system of control of currency and credit which was sought to be avoided by means of the Reserve Bank continued to remain as before and the Government allowed to continue in charge of the Currency System, a position which neither it nor its critics wanted it to have.

In recommending their proposal of a Central Bank, the Currency commission stated:—"The economic history of the great trading nations of the world during the last half-century demonstrates, far more clearly than any technical exposition of the workings of the system could demonstrate, the high efficiency of the system and its benign influence upon economic progress, wherever it has been introduced". The monetary history of the world during the past four years has further emphasised the necessity of a Central Bank for the proper management of the currency and credit situation in each country and for effective cooperation between Central Banks for maintaining stability of international prices and other purposes connected therewith. One of the first matters emphasised during the proceedings of the recent World Monetary and Economic Conference was the necessity for the creation of central banking organisations where they did not exist at present and the need for international collaboration in the field of monetary policy (W. E. C. Journal P. 71).

It is thus clear that there is a real need for a central banking institution in India not only for the better regulation of her currency and credit policies but to enable her to take her proper place in the international monetary system.

Whatever may be the form of the constitution of such an institution, one thing is undeniable—that there is a net advantage in taking the management of the currency out of Government's hands and concentrating in the hands of a single independent authority the management of both the currency and credit reserves of the country instead of their being entrusted to two different authorities whose policies may possibly be widely divergent and sometimes even conflicting. Of course there must be ample safeguards for ensuring that the new authority recognises itself to be the servant of the public and discharges its functions efficiently and exclusively in the public interest.

There are even now a few individuals in the country who think that the present time when, as the preamble to the present Reserve Bank Bill itself admits, the monetary systems of the world are disorganised, is not suitable for the setting up of a Reserve Bank. Their doubt primarily seems to be with regard to the wisdom of giving statutory recognition to a monetary standard not based on gold—which they fear will continue to stay. But it is universally admitted that the present is not the time for the establishment, re-establishment or restoration of the gold standard in any form. Further the bill itself expressly states that it leaves open the question of the monetary standard best suited for India to be considered when the international monetary position has become sufficiently clear and stable to make it possible to frame permanent measures. Though the objection may have force as regards the adoption of a permanent monetary standard under present conditions, it is no argument against the constitution of a Central Banking Organisation which will undoubtedly ensure for the country the benefits of a more efficient and proper management of its system of currency and credit than that obtaining at present.

II. It should not be the Imperial Bank.

While public opinion is strongly in favour of the early establishment of a Reserve Bank for India, it is equally strongly

convinced that such a Bank should not be the Imperial Bank but a new institution solely devoted to Central Banking functions. When the Currency Commission was taking evidence in India, every one of the witnesses (including myself) advocated the conversion of the Imperial Bank into a State Bank and entrustment to it of the management of the currency. The Currency Commission itself was so impressed with this proposal that the idea of a new institution was not at all put to any witness in India. It was only when the Commission was examining witnesses in England, especially when listening to the suggestions of the Right Hon'ble Montagu Norman, that the Commission recognised or rather was forced to recognise the necessity of new organisation, independent of the Imperial Bank.* Anyone who reads the evidence of the Governor of the Bank of England cannot but be convinced of the absolute soundness of the proposal for the creation of a Central Bank in preference to the alluring suggestion of conferring on the Imperial Bank itself central banking powers. At present, in India, except a few of the Imperial Bank shareholders who fear depreciation in value of its shares and loss of profits to themselves, I don't think anybody in the country really desires to entrust the Imperial Bank with the functions of a Central Bank.

The arguments in substance against handing over the control of the currency and right of note issue to the Imperial Bank and empowering it to discharge central banking functions are briefly,

1. Being a fully developed commercial bank with more than a hundred branches all over the country, its activities as a commercial bank may on very many occasions come in conflict with its currency and credit policy as a Central Bank. How can it exercise unbiassed control over the credit situation if it itself happens to be involved in it?

2. If it is recognised that the credit of a Central Bank should always stand highest, then if it should happen that at any time of financial stringency, the Imperial Bank's commercial banking business is exposed to the same kinds of risks as those to which other commercial banks are exposed and a panicky feeling leading to a run on the Bank results, then a very serious situation will be created. There will be an attack not only on its deposits but also on its notes which, in such circumstances may possibly be tendered in wholesale fashion for conversion into gold or if that is not possible, sterling.

3. As the Imperial Bank will be a competitor and that, a very serious competitor of the other commercial banks, its impartiality will always be suspected and there will be perpetual complaint, either well grounded or baseless, that it is abusing its right of note issue and the other banks' reserves in its possession by giving a favoured treatment to its own commercial department and branches. Sir Earnest Harvey of the Bank of England enunciates as one of the cardinal principles of central banking that "a Central Bank should not compete with the trading banks for general banking business; for such competition will be unfair, since the Central Bank will then be working with funds entrusted to it by its competitors". If the Imperial Bank is to give up its commercial functions—which is impossible in view of its numerous branches all over the country —then, apart from any other consideration the Bank will be depriving the country of the commercial banking facilities it has been giving.

Of course the Imperial Bank will, by the setting up of an independent Central Bank, suffer in prestige to a considerable extent. Having regard to its past connections with the Government and the risks it had undertaken in branch banking in order to discharge the statutory obligation imposed on it at the

* It may also be noted that the Currency Commission consisted of ten members of whom five were importantly connected with and greatly interested in the Imperial Bank either as Governors or otherwise.

time of its creation, reasonable compensation will have to be given to it without question. What however will be reasonable compensation and its mode of ascertainment will be considered later, when discussing the proposed agreement between the Reserve Bank and the Imperial Bank contained in Clause 43 of the Bill and Schedule III. Further the Bank will have to be freed from the restrictions at present imposed on its constitution and made as free as an ordinary limited company, registered under the Indian Companies Act, with safeguards for any balances and agency work that may be entrusted to it by the Reserve Bank.

III. It may be in form a Share Holders' Bank, but must be so constituted as to function solely in the interests of India.

As the Reserve Bank is going to be in charge of the entire monetary system of the country and the ultimate source of supply of the means of payment for all transactions, measurable in terms of money, it will be the most potent single factor capable of affecting the economic life of the country for good and for evil. Its achievements and blunders are going to tell unperceived on the individual and collective economic well-being of more than 350 millions of people. It will be entrusted with the country's currency reserves to the extent of Rs. 200 crores, besides member bank reserves and Government balances of considerable amounts and will also transact various kinds of business on behalf of the Government and the public which will affect the volume of currency and credit available for all purposes. It is necessary therefore that the Bank should be so constituted as to function thoroughly in the furtherance of the interests of the country and as Sir Cecil Kisch rightly emphasises 'no inducement must be allowed to divert the Bank from the pursuit of the public interest with the object of earning increased profits.' ('Central Banks,' p. 48).

Now judged from this point of view, the question is whether the provisions of the present Bill with regard to the constitution of the Bank are such as to ensure its proper working as a truly national institution. According to the Bill, the Bank is to be a shareholders' Bank, with a capital of Rs. 5 crores, divided into 1,00,000 shares of Rs. 500 each. The shares are to be allotted to five registered areas into which the country is to be divided as follows,

Bombay	...	33,000 shares.
Calcutta	...	33,000 do.
Delhi	...	16,000 do.
Madras	...	10,000 do.
Rangoon	...	8,000 do.

The shares are in the first instance to be allotted at the rate of two each to such applicants as have applied for two or more shares and in case of over subscription, the allotment is to be decided by lot.

Various contingencies are provided for in case there are not enough of eligible applicants and so on—none of which however will happen. There can be no doubt that there will be a very great rush for the shares, and I won't be surprised if the shares are over-subscribed a hundred times. The reason for this is that while from the beginning a dividend of 5% is assured* every one knows that the Bank is going to be a great power holding under its thumb the financial destiny of the whole country, that its shares are very limited, will have a scarcity value and sell at a very high premium from the moment of issue, that fancy prices will be paid by those who would want to get qualified for membership of a Local Board or the Central Board as such persons are required to own shares to the value of Rs. 10,000 and that voters will be made handsome payments for their votes by candidates who seek election to the Local Boards.

* I say 'assured' because though Clause 44 may with seeming innocence suggest that no profitoer-ing will be allowed and that for a few years the share-holders may not get 5 per cent dividend, it does not reveal the real situation, which is a matter of mere arithmetic.

Taking the latest figures of the Paper Currency and Gold Standard Reserves we find that as against a Note circulation of Rs. 179,45,20,502 which, we shall assume, will be handed over to the Bank, the Go-vernment will be transferring assets in the form of Gold bullion to the value of not less than Rs. 35 crores, Rupee coin of the face value of not more than 50 crores, and the balance in interest yielding sterling and rupee securities. This means that from the beginning the Bank will be getting interest on secu-rities of between Rs 80 crores and 100 crores at rates varying in the neighbourhood of 4 to 4½ per cent. Thus the profits from the assets even at the very beginning of the Bank's career will be between 3 and 4 crores. Deducting the expenses of the Bank as provided in Clause 44, which may not come to very much, there must be a large surplus to yield a dividend of 5 per cent on a capital of 5 crores which only needs a sum of 25 lakhs a year. Taking into account the other earnings of the Bank from Government balances, from Government deposits, and central banking functions it is easily possible that within a few years of the establishment of the Bank the lucky monopolisers of the Bank's shares will be getting the maximum possible dividend for ever and ever, subject, it must be admitted, to a possibility which, however, is very very remote, of the Bank breaking down on account of an unescapable catastrophe.

According to the Bill the maximum number of persons to whom shares will be alloted will only be 50,000. As the shares will be a precious possession very many Maharajas and Zamindars with their accumulated hoards, and merchant princes and powerful limited companies and banks will rush to subscribe for the shares, and try to acquire as many as they possibly can. It is highly probable that a hundred or a few hundred wealthy persons in the country will try to acquire all the shares in their own names and the names of other members of their families. Within a year or two of the commencement of the Bank all the shares in each of the five registered areas will be concentrated in a few hands, with the result that a few families will monopolise the Local Boards and the elected portion of the Central Board. This is not a mere possibility but almost a certainty.

There is also another and a worse possibility. If one or more aggrieved political parties in the country become so minded, they can make the bank unworkable, by the richer members belonging to them acquiring many or all of the shares available in the various registered areas, and creating a situation in which qualified men with shares worth Rs. 10,000 will be unavailable outside their own fold for memberships of Local and Central Boards. This is no fanciful statement but something which may likely happen having regard to the genius of the people of India for non-cooperation and non-action and their attitude towards the present Govt. Unless the constitution of the Bank has the support of public opinion many people in the country will work for the wrecking of the Bank. And it cannot be said that in a country with a population of 350 millions, the necessary funds will not be forthcoming for this purpose.

Again if some of the strong commercial banks, especially the powerful exchange banks, are so minded, they can acquire all or most of the shares at any price, control the whole electorate in all the areas, send their own nominees to the Local Boards and the Central Board, and make them act to their dictation and through them direct the conduct of the business and policies of the Reserve Bank for their own purposes. This is not an impossibility. Strong cooperation of the commercial banks actually defeated the South African Reserve Bank though in another manner and for another purpose.

Thus the scheme as provided by the Bill, when logically worked out, leads to unthought of and dangerous results. I have merely indicated three possibilities but there are others equally serious and demanding the attention of those responsible for this piece of legislation.

For all these reasons I consider that the scheme provided by the present Bill is not at all satisfactory and requires to be radically changed. The following are some of the suggestions which I venture to offer:—

1. If the Bank should be a shareholders' Bank* then the share capital

* I am personally inclined in favour of a State bank, which will be thoroughly a national institution while being completely protected from political pressure or attack. Having regard to all the circumstances of the case, so far as India is concerned, the best course seems to me to be one in which eight of the Directors should be selected by the Governor-General from out of a number of 12 or 16 chosen by the Indian Legislature from those who are not members either of the Indian or Provincial Legislatures, one chosen by the Federation of Indian Chambers of Commerce, one by the Federation of the European Chambers, one by an All India Federation of Agriculture to be newly formed, and one by the Scheduled Banks from outsiders.

should be at least 10 crores, and the shares distributed on as wide a democratic basis as possible. The value of each share should be reduced to Rs.100, so that every small genuine investor may come in.

2. In order to keep the shares in a sufficiently large number of hands, the maximum number of shares that any one may hold should be limited to 10, so that the number of shareholders will in no event fall short of 1,00,000.

3. The share qualification for Directors and members of Local Boards should not be unnecessarily high and it must be limited to a minimum holding of 5 shares. If it be found necessary that Directors entrusted with responsible duties in the Bank should be men of property, the deposit of a moderate security during their period of directorship may be a more suitable requirement and a better course to adopt.

4. No shareholder should have more than one vote, whatever may be the number of shares he may hold.

5. In view of the fact that India is a country of distances and each registered area will be considerable in extent, elections to Local Boards if they should be efficient should be conducted by means of voting through post, as in the case of elections to the Senate of the University of Madras and to the Council of State.

6. The Central Board consisting of 12 members should be constituted as follows:—Six members to be elected by the shareholders, one by the Federation of Indian Chambers of Commerce, one by the Federation of European Chambers of Commerce and one by an All-India Federation of Agriculture (inclding planting) to be newly formed and three members to be nominated by the Governor-General-in-Council so as to ensure representation of all interests.

7. While the Governor and Deputy Governor may have to be men of eminence and international reputation and experience, in as much as the members of the Central Board are not likely to be all experts, I suggest that an Expert Advisory Committee of three should be permanently in existence in order to advice the Board on all matters of currency and finance, and they should be appointed by the Governor-General-in-Council.

8. A Government Supervisor should also be permanently appointed in order to safeguard the interests of Government and to see that the Bank is functioning in accordance with the provisions of the Act as a true servant of the public, 'affected with a great public interest'.

9. With a view to make the activities and policies pursued by the Bank widely and publicly known, I suggest that the Bank should publish a monthly bulletin of its activities and a detailed Annual Report as is done by the Federal Reserve Board of U. S. A., and the Annual Report should be presented to the Government and also placed before the Indian Legislature.

10. The Governor-General-in-Council should have a power of veto, which may be exercised on the basis of a report made to him by the Government Supervisor or the Expert Advisory Committee.*

11, Finally, there must be a provision in the Act for a review of the whole position, functions and activities of the Bank by a Statutory Committee to be appointed by the Secretary of State or Governor-General-in-Council or Cabinet, consisting of monetary and banking experts of international experience and reputation.

IV. It must extend to the whole of India including the States.

The Bill [Clause 1 (2)] provides that the Act shall extend to the whole of British India, but unless the States are also included within the zone of its operation, the Bank will fail of its purpose. As British Indian money is legal tender throughout India, the Bank will not be in a position to maintain stability of the monetary system unless it is in a position to regulate the volume of currency and credit for the whole of India. Factors leading to a greater or smaller absorption of currency or credit by the States such as the financial operations of the States' governments, changes in the hoarding or banking habits of the States' peoples and princes, changes in the methods of private and public economy in the states, a greater or smaller resort to the use of local currency in such states as Hyderabad, Travancore and so on are likely to affect the powers of control of the Reserve Bank over the monetary system. Unless the banks in the States are included among the Scheduled banks and brought under control, and the minting and coinage privileges of such of the Ruling Princes as still possess them, completely taken away from them, there will not be that amount of unity of policy in the regulation of currency and credit which may be necessary for a Central Bank to secure monetary stability. In the interests of the States themselves which are in many respects economically more backward than British India, their union with the latter for the purpose of having a united system of currency and credit will be an unmixed good‡. The States have therefore to be advised or if necessary prevailed upon by the Paramount Power in the exercise of its sovereign right of intervention for the economic good of India as a

It is a essential condition of the Bank's independence that no members of the Legislatures should sit in its Board of Management. For, otherwise, the Bank will be perpetually exposed to attacks in the Legislatures at the instance of those political Parties which for the time being are fortunate enough to have their own representatives in the Board of the Bank. The ways of politics are totally incompatible with those of Central Bank management. A politician is always concerned with arousing public feeling and his course of conduct is guided by the barometer of public opinion in relation to his party's politics. But a Central Bank's sole aim is the safety of the monetary and financial system and the economic welfare of the country as a whole. "The history of other countries shows that Central Banks of issue often become subjects of political controversy and of strong political animosities, and further, that the greatest single danger to Central Banks is probably the danger of political exploitation." (Extract from memorandum submitted to the Government of Poland by Dr. Edwin W. Kemmerer, one of the world's foremost authorities on Currency and Finance, who was entrusted with the task of reorganising the Polish Currency in 1926).

* Though the Bank must have freedom of action and be protected from Government interference, its relations with Government must necessarily be close, as will be seen from the following extract from Mr. C. H. Kisch's evidence before the Currency Commission "Adopting the other hypothesis that there is a reserve bank formed without commercial functions, what would your view be as to the relation between the Government and the reserve bank?—I think that in any case the relations must be close and intimate, because in the last resort the exchange policy is an act of the Indian Legislature, and the Government are responsible to the Indian Legislature with regard to the execution of the acts of that body. I think, therefore, that whatever is done it would be essential for the Government to keep in close touch with the Bank on matters of high policy." (Q. 11140. Minutes of Evidence, Vol. V, page 30). So also Mr. Montagu Norman, I think it is of the utmost importance that the policy of the bank and the policy of the Government should at all times be in harmony—in as complete harmony as possible. I look upon the bank as having the unique right to offer advice and to press such advice even to the point of 'nagging'; but always of course subject to the supreme authority of Government." (ibid Q. 14597, pp. 234-5).

‡The Indian States Committee (1928-29) have also emphasised the advantage of a united monetary system and stated "We are strongly of opinion that the multiplication of different currencies in India is hostile to the best interests of the states and to the country as a whole. We have heard of one state where the currency has been manipulated with such results that trade has been seriously affected." (Report p. 47).

whole,|| to extend the operation of the Indian Reserve Bank Act to their territories also.

As it is, the Bill is very defective in its references to and distinction between 'India' and 'British India' which may lead to various legal difficulties as instanced below.

The preamble recites that the aim of the Act is to secure monetary stability in *British India* and S. 1 (2) extends the Act to the whole of British India. S. 2 (e) confines the definition of provincial cooperative bank to societies in British India, thus excluding cooperative banks in the States.

S. 4 (3) provides that only those persons can be shareholders who have their principal place of business or are domiciled in India, thus extending the right to hold shares, to the Princes and peoples of the States also. But S. 4 (3) (c) would seem unintentionally to exclude companies incorporated or registered under an Act or Regulation of a State.

S. 6 permits the Bank to have branches or agencies anywhere in India thus including places in the States. Here it is perhaps open to question whether the Bank whose sphere of operation is by S. 1 (2) extended only to British India, can transact any business outside British India by having branches there.

S. 17 (1) authorises the Bank to transact business for the Governments of Indian States also.

S. 17 (2) (a) and (b) permit the Bank's dealing in bills of exchange and promissory notes drawn and payable in India (thus including the States also). Here again it has to be noted that under the law of British India bills drawn or payable in the States are foreign bills, governed by different provisions, with regard to presentation, dishonour, notice of dishonour, protest, etc., and as for decrees obtained in respect of them execution is not possible as the States and British India treat one another as 'foreign countries'. Unless therefore the whole of India has a unified system of law and judicial enforcement, it is dangerous for the Reserve Bank to deal in bills drawn and/or payable in the States, as the liquidity of its assets is liable to be hampered on account of legal difficulties and delays.

S. 22 says that the Bank will have the sole right of note issue in *British India* and would thus seem to exclude the States from the benefits of such issue. The States have also not got the power to issue currency notes of their own. But they may issue demand bills and notes (S. 31).

S. 33 (5) requires that the Bank shall hold 17/20ths of its gold assets in British India (so that any holding in its branches in the States will not count for the purpose of this Section).

S. 42 (1) requires that for the purpose of determining the liabilities of a Scheduled bank, its liabilities in the whole of India (including the States) have to be included. While this will affect banks like the Mysore State Bank which have branch offices in British India, a bank in a State, having no branch office at all in British India will wholly escape, as S. 42 cannot operate outside British India as per S. 1 (2).

These points are mentioned here simply to show the necessity of a uniform system of currency and credit and unification of the laws relating to same for the whole of India.

|| The existence of such a power is ambiguously affirmed in the States Committee Report, page 30.

I have not had either the facilities or the time required to investigate the question of the Bank's relation with the States in full. But I venture to suggest the following matters for consideration :—

1. By arrangement with the major States, the Bank should open branches or agencies in important places, and undertake to transact all financial business for them. The States Governments should agree not to carry on their financial operations such as the raising of loans, etc., except through the Bank and should also keep their balance with the Bank. This will enable the Bank to control the monetary system of the country more efficiently than it otherwise could and at the same time secure advantageous terms to the States.

2. In the assets of note issue, securities of the States, approved by the Governor-General-in-Council and having a maturity of not more than five years may also be included up to a fixed maximum of, say, 10 crores. As the Bank's notes will be current legal tender in the States this is quite a proper asset for backing the note issue.

3. In order to make the Bank a thoroughly Central Bank for the whole of India, it is also desirable that at least 2 of the Directors of the Central Board and two members of each of the Local Boards are representative of the States. If no one of the elected Directors is such representative, the Governor-General-in-Council may so exercise his power of nomination as to bring about this result.

V. It must aim at Securing Monetary Stability Internally as well as Externally.

The preamble to the Bill declares that the Bank is constituted for regulating the issue of bank notes and keeping reserves with a view to securing monetary stability. I consider that this is and ought to be the fundamental aim of the monetary authority of every country. By monetary stability I understand and I believe the authors of the Bill also understood such stability of the standard of value of a country as will keep the internal price level as well as the rate of external exchange fairly constant. A sound monetary system will combine both kinds of stability, though the degree of importance attached to either will vary according as the one or the other is the more vital for the particular country in question. Of course a fairly constant level of internal prices is important for all countries, but in the case of some, either foreign trade is found so necessary or the recurring foreign obligations so large or both so considerable that special attention has to be paid to stability of the foreign exchange rate or rates.

Under her present conditions India cannot, I should think, endeavour or aspire to have a closed monetary system in any way similar to that now attempted by U. S. A., to the neglect or subordination of her foreign trade. The main reason for this is that she has a heavy recurring external obligation to discharge, for which she has to find the means of payment. As almost the whole of this obligation is due to England, she is importantly concerned with maintaining a stable rate of exchange with sterling. Without going into the question whether India should aim at returning to the gold standard or adopt a managed standard wholly or partly divorced from gold at a future stage, when the monetary conditions in the world become steadied, we may not disagree that for the present, the continuance of the Sterling Exchange Standard is the best course open for this country. Of course such a standard has some inherent defects. Far from helping us to preserve stability of internal prices, profits and employment, the maintenance of such a standard may transmit to our credit system any serious disturbances affecting England and other sterling standard countries. Further it is also possible that the pursuit of a policy by England to suit her own interests may, unless it is also advantageous to India, on occasions prove inconsistent with the maintenance of stability in and the best interests of this country, if steps are not taken in time to counteract its effects here. But such a contingency is very rare, and 'in view of the greater experience of London in management of currency and exchange and of the presence there of a market more highly organised and offering greater facilities of all kinds than might be possible locally', (Planned Money By Sir Basil P. Blackett, p. 146) stabilization of the Indian currency in terms of Sterling will in normal times no doubt stand us in good stead. As the British currency system is undoubtedly being managed by more competant people than India can possibly have if she were to manage her currency without reference to an external standard, we are in a position to reap the advantages of such management, without any cost and at less risk. It must also be remembered that Sterling is at present the strongest international monetary standard, far surpassing in importance either the gold standard, in which not more than a fourth of the world trade is still carried on or the closed dollar system attempted by U.S.A.

I am therefore strongly of opinion that for the present at any rate, the link with sterling is the best means of achieving external stability for the Rupee. The provisions of the Bill relating to the obligation to buy and sell sterling are in the right direction. I would only suggest that the profits or a portion of the profits of the Issue Department must be allowed to accumulate in sterling securities to the extent of at least 50% of the country's recurring external obligations, under a Fund to be called the Exchange Stabilisation Fund.

While the Bill contains elaborate provisions for securing external stability it is much to be regretted that it does not expressly enjoin that the Bank should maintain internal stability, though the various powers given to it under Sections 17 and 18 may, when wisely exercised, possibly enable the Bank to achieve a fair measure of stability of the internal price level. In this country there is no satisfactory statistical organisation for the preparation, and publication of index numbers of general prices (wholesale or retail), which can be relied on as a sure guide by the Central Banking authority for regulating its currency and credit policy with a view to secure stability of prices. While the powers of the Bank to maintain stability of exchange are amply provided, the facilities for achieving internal stability are absolutely wanting. I should think that there must be an express provision in the Act requiring the Bank not at its own option but as a duty to regulate in such of the ways available under Sections 17 and 18 as it may consider prudent, the volume of currency and credit with reference to an index number of the wholesale prices of all the important commodities entering into the economic activities of the nation, adequately composed and carefully weighed. It may be said that the experience of other countries does not prove the ability of Central Banks to maintain the price level by regulating the monetary machine and its working. But that is mostly because of the conflicting international economic policies which the countries with which they are concerned have been pursuing. As the Macmillan Committee pointed out, there can be no question about the ability of a closed monetary system to bring about a rise of prices or maintain stability. It is only international disharmony that is the real disturbing factor in the case of countries depending partly or wholly on international commerce. The relations of the Bank of England with its own monetary system do show that, if international factors contributing to instability are eliminated or counteracted, a Central Bank can by adequate control over the amount of bank money and credit, prevent a wide departure from stability. *

VI. Other Suggestions with regard to various Clauses in the Bill.

(1) *Duration of Central Banking Functions.*

While Clause 1 (4) gives a charter for 25 years, clause 30 empowers the Governor-General-in-Council in case of the Bank's failure to comply with provisions of Chapter III, to forfeit the right of note issue, take over charge of the Issue Department and make other arrangements to transact the business of that Department. It would appear that these two Clauses are not quite fully reconcilable. Further, in case the right of forfeiture should be exercised what is to become of the obligations and transactions of the Bank under Clauses 20, 21, 40, 41, 42, and 43? They are not statedly connected with the Issue Department. A pertinent question will be whether the far-reaching national responsibilities involved in these provisions can be safely continued to be entrusted to a 'defaulter'. Clause 30 must clearly provide for the surrender by the Bank of all its rights and responsibilities under Chapter III. It must also provide for the forfeiture, wholly or in part of the reserve fund and surplus assets accumulated as per Clause 44 and made divisible under cl. 51.

(2) *Business which the Bank is authorised to transact.*

While the Bill contains in this connection the usual provisions relating to the business of a Central Bank, as evidenced by the working of such institutions in other countries, there are two important matters in respect of which there must be a modification of the provisions of the Bill, in order to adapt the functioning of the Bank to the conditions of the country and habits of its people. As Mr. Leon Fisher, President of the Bank for International Settlements pointed out the Monetary and Financial Sub Commission II of the World Economic Conference there can be no rigid rules for the operations of Central Banks because they have continuously to adapt themselves to particular conditions and circumstances.

(a) *Financing Agricultural Business:—*

As India is and will for centuries to come be a predominantly agricultural or partly agricultural and partly industrial country, special attention has to be paid to her agricultural needs and the financing of agricultural products. It appears to me that in framing S. 17 (2) (b) [which also affects S. 17 (4) (c) and S. 18] and in fixing the period of maturity at six months due consideration has not been given to the time-lag involved in the processes of agriculture. This question with regard to the special measures needed to be taken by Central Banks in agricultural countries specifically came up before the World Economic Conference, when Mr. Madgearu, the Roumanian delegate, suggested among other things, the admissibility of discounts of agricultural bills with a usance of nine months, the purchase by Central Banks in the open market of agricultural mortgage bonds, and the seasonal relaxation in the ratio of legal cover. The

* I have not in this Note considered the question whether the Reserve Bank of India as soon as it is set up should in its efforts to maintain stability, reconcile itself to the present level of prices, or attempt to raise it to the level of 1928 and then maintain that level. It is now universally recognised that the fall of prices being an world fall, all countries of the world should co-operate in their efforts to raise prices by adopting reflationary processes. Though as the Macmillan Committee Report emphatically stated "our objective should be, so far as it lies within the power of this country to influence the international price level, first of all to raise prices a long way above the present level and then to maintain them at the level thus reached with as much stability as can be managed," (page 117, para 275) the problem is an essentially international problem and so far as the Indian Reserve Bank is concerned, the safest course for her will be to act in close conjunction with the Bank of England in this connection.

Conference was however of opinion that these were matters that required to be decided with reference to the local conditions of each country, such as the banking habits of its people, the extent of banking facilities available, and methods of transacting business. As India is backward in all these matters, and the cheque system has not much developed, I am of opinion that the period of maturity for agricultural bills must be fixed at nine months instead of six, and the total face value of such bills extended to 1/3 instead of 1/4 of the total face value of all bills discounted by the Reserve Bank. I find that in Bulgaria the period of maturity is nine months and 1/3 of the total value of holdings; and in Yugoslavia nine months and 1/4 of the total holdings on condition that such bills are presented through a privileged Agricultural Bank or Cooperative Union. (See World Economic Conference Journal p. 188). In U.S.A. also there has been an amendment of the Federal Reserve Act by means of the Emergency Relief and Construction Act of 1932 by which the Federal Reserve Board was permitted to authorise the Federal Reserve Banks to discount agricultural paper with a maturity of 9 months.

N.B.—S. 17 (2) (b) and (4) (c) contain two independent restrictions which are unnecessary and severe. While the former provides that face value of the agricultural bills purchased or rediscounted should not exceed 1/4 of the face value of all kinds of bills purchased or-discounted, subclause (4) (c) requires that loans and advances (as distinct from purchase and re-discounting) made against agricultural bills should not exceed 1/4 of the total loans and advances. It is obvious that the two separate restrictions while being unnecessary and perhaps not intended will limit the freedom of the Bank more than if they are treated together.

(b) ***Transactions by means of the cash credit system.***

S. 17 (4) (e) prohibits such transactions after a period of five years. This does not in my view, take full account of the manner in which most of the internal trade of the country has been carried on for generations, namely, accommodation through cash credit accounts. The authors of the Bill seem to think that within a period of 5 years after the Reserve Bank is set up, a considerable bill market will develop in the country. I don't however agree that the banking methods of the people will so repidly change. I have with me an extract from the editorial comment of the London *Statist* of 19—2—1927 with reference to the Australian Commonwealth Bank, which reads thus: "A bill market cannot be created at will. Traders cannot be made to change from one day to another, or even from one year to another, their traditional habits of obtaining accommodation from their banks. If the open account habit is ingrained it will be difficult to replace it by the mechanism of acceptance credits." Though I will not go so far as this, I question the soundness of fixing a short period of 5 years for the replacement of the cash credit or overdraft system by an adequately developed bill market. And I therefore suggest a period of ten years provisionally, which, if need be may have to be further extended, if the Reserve Bank should so suggest at the end of that period.

(3) ***The Issue Department, its right of note issue, and assets and liabilites:—***

In requiring that the Bank's Issue Department shall be separated and kept wholly distinct from the Banking Department the Bill has simply followed Peel's famous Bank Act of 1844, dividing the Bank of England into two Departments, the one concerned solely with the duty of issuing notes and the other with the Bank's general banking business which today consists mainly of its functions as a regulator of credit and as the 'banker's bank'. The utility of this separation has long been questioned and though officials of the Treasury and of the Bank of England defended the system, the Macmillan Committee has also seen no advantage in keeping the departments separate (Report pp. 143-144). It is not clear why the authors of the present Bill should have thought fit to adopt what even in the only country of the world where such separation exists, has come to be regarded as obsolete and useless. The Report of the Committee on Indian Reserve Bank Legislation, on the recommendation of which the Bill has now been introduced in the Legislature says in para 15 that the provision regarding separation of the Departments has met with general approval in India. But I find no basis for this statement. It will be more correct to say that there is neither support nor opposition to the proposal, as there has been no understanding yet of the subject in India.

There is an obvious objection (though not serious) to the keeping of a separate Issue Department, ***wholly distinct*** from the Banking Department. As the assets legal requirements of the Issue Department have to be tested by constant reference to the securities and other assets held in or exchanged with the Banking Department, the position of the Bank is made unnecessarily complicated and difficult of understanding by the public, besides giving unnecessarily additional work to the two Departments for the purpose of effecting their mutual transactions and adjusting accounts day to day.

Further, there is no clear definition of the functions of the Issue Department some of which are left vague. For example, (1) While the Issue Department is given the power to issue notes in exchange for coin, bullion, securities, etc., there is no provision in the Act (unless we take it by implication) under which it can part with the gold or the securities when once they get into its reserve. In case the Banking Department requires sterling securities in exchange for notes, and/or internal rupee securities or vice versa, the Issue Department is not obliged or required to part with the securities or exchange securities for securities, unless the Central Board acting as 'the Bank' puts one of its hands into the Banking Department and the other into the Issue Department and effects all the necessary exchanges between the two Departments. In which case, a perpetual exchange will have to go on between the one and the other, the two Departments being required to be carefully kept wholly distinct all the time in all the numerous transactions; (2) It is not clear which of the two Departments is to discharge the *obligation to buy and sell sterling as required* by Sections 40 and 41. Section 30 imposes a penalty for failure of the Bank to comply with the provisions of Chapter III, including these sections, and seems to indicate that these functions are part of the business of the Issue Department to be discharged for and on account of that Department. If so, the obligations involved herein may expose the assets of that Department to the most serious risks to the limit of exhausting. If it is at the risk of the Banking Department and as part of its business that they are to be discharged, then, in the event of the Bank's default, S. 30 does not provide for the maintenance of the sterling exchange standard as contemplated by Sections 40 and 41. It may also be noted that the Bank has authority under S. 17, (3) which may be exercised at its own option, to deal in sterling exchange with scheduled banks and persons appointed by the Central Board.

(4) ***Member Bank Cash Reserves.***

"The first necessity of a Central Bank charged with responsibility for the management of the monetary system as a whole, is to make sure that it has an unchallengeable control over the total volume of bank-money created by its member banks." (J. M. Keynes, ***A Treatise on Money***, Vol. II, p. 225). Clause 42 of the Reserve Bank Bill is intended to help and achieve this end. There is however an erroneous impression among businessmen, and others in India that the main purpose of such legal reserve requirements as contained in this Clause is simply to ensure liquidity of the individual member banks; and taking their stand on this basis, they argue that the meagre cash reserves of $7\frac{1}{2}\%$ and $2\frac{1}{2}\%$ of the demand and time liabilities of the scheduled banks, required to be kept with the Reserve Bank are not going to save them from insolvency if the banks are not otherwise prudent in their lending policy as regards the remaining $92\frac{1}{2}\%$ and $97\frac{1}{2}\%$ of their liabilities, and that therefore the reserve requirements are useless and may misguide depositors into thinking that their position is secure when it is not, and not secure when it really is secure.

The primary function of legal reserve requirements of the kinds provided by Clause 42 is not to assure or preserve the liquidity of the member banks, the maintenance of which depends on their own prudent management but to operate in the direction of sound credit conditions by exerting an influence on changes in the volume of bank credit and enable the Central Bank to pursue an effective banking and credit policy. The whole subject of member bank reserves has been thoroughly investigated recently by an authoritative committee of experts of the United States Federal Reserve System and they point out in their Report * in an unquestionably convincing manner that the present system of legal reserve which requires fixed percentages of demand and time liabilities has never functioned effectively, that it has not operated to relate the expansion of member bank credit to the needs of trade and industry nor helped the Federal Reserve Banks to regulate the volume and activity of member bank credit. They suggest that 'since the volume of member bank credit needed to meet the legitimate needs of trade and industry depends on the rate at which credit is being used as well as on its aggregate amount, it is essential for the exercise of a sound control that legal requirements differentiate in operation between highly active deposits and deposits of a less active character.' The committee's main recommendation may be stated in their own words. "All member banks and all deposits be treated alike for reserve purposes and the formula used in calculating reserve requirements take into account directly, instead of indirectly as in the existing law, the activity as well as the volume of the deposits held by each individual member bank, without regard to the location of the bank or the terms of withdrawal on which the deposits are technically held. To accomplish this, the committee proposes that each member bank be required to hold a reserve equivalent to (a) 5 per cent of its total net deposits, plus (b) 50 per cent of the average daily withdrawals actually made from all of its deposit accounts. These withdrawals, which are shown by debit entries on the books of member banks, are the only real test of the activity of a deposit account and furnish the only basis by which that activity can be equitably and effectively reflected in requirements for reserves. Under this proposal, therefore, each deposit will carry a total reserve based on its activity as well as on its amount. A totally inactive deposit will carry a total reserve of only 5 per cent, while a deposit balance which is checked out on the average once a week will carry a total reserve equivalent to 12 per cent of its amount. For the average member bank the total reserve under the proposed formula will be equivalent to about 8 per cent of its deposits. To prevent this formula from imposing too great a burden in extreme cases, the recommendations of the committee also provide that in no case shall the aggregate reserve required of a bank exceed 15 per cent of its gross deposits." (Report p 2.)

It will be seen from this that the important function of member bank reserve requirements being the exercise of effective control of credit in the interests of trade and industry, it is essential that such reserve requirements reflect both the volume and the activity of credit outstanding; for unsound credit conditions can develop either out of an

(*Continued on page 325*)

* Report of the Committee on Bank Reserves of the Federal Reserve System, 1931.

(*Continued from page 326*)

war requirements the Government borrowed very large sums in the United States of America.

The heavy purchases of food stuffs and war materials from America and the consequent transfers of money turned the foreign exchange against England and caused wide fluctuations in the rate of the dollar-sterling exchange. Therefore exchange was 'pegged' at certain rates with the currencies of all the leading countries. The pound was pegged at 4·7640 dollars rather below the parity of exchange to prevent any profit on the export of gold. Similar arrangements were made with the ***franc*** and the ***lire***. After 1919 pegging ceased and exchange was allowed to find its own level. Thus, during the period of war, government finances overbalanced the entire money market. The abandonment by Parliament of all control of currency and credit or the legal establishment of an absolute financial dictatorship by the Government was a unique experiment.

Foreign Exchange Banking.

With the unpegging of the world's exchanges in March 1919, there started one of the largest businesses for the English banks, namely foreign exchange banking. Until the Great War business in foreign exchange was done largely by foreign banks and their branches. The Directors of the Joint Stock Banks feared foreign banking, because they did not understand it. But during the war period these foreign banks had to leave England and the English banks absorbed their business. The National Provincial Bank and the Lloyd's Bank formed a subsidiary bank in France. Similar subsidiary banks were started by other banks in other countries. A group of smaller English banks established the British Overseas Bank which acts as their agents abroad. The English Joint Stock Banks have now created a chain of Banks working in all parts of the British Empire and its Dependencies.

The extension of such banking activity was made feasible by the improvements in communications. London and Berlin were connected by telephone on December 9, 1924. On the same day Rome and Vienna were put into communication. In 1926, New York and Sidney were connected. In 1933 Madras and Bombay have been connected with London. All these changes have made London the centre for all foreign exchange business. London is to-day the world's financial pulse.

Currency and Banking.

In early times the currency of England was based on silver, the coins being all of one denomination, the pennies. Each penny weighed 24 good wheat grains and 240 such pennies weighed one Saxon pound (lb). These coins varied in size, weight and also in fineness partly because of the crude moulds used and partly because of deliberate frauds committed by clever coiners by clipping the coins. Such debased coins caused much inconvenience to traders and the State.

Hence, these coins had to be called in from time to time and recoined at a great cost. Fraudulent debasement was also indulged in by the monarchs to augment their revenues. It was Elizabeth who was responsible for a thorough reissue of the coins with the help of her famous Master of the Mint, Sir Thomas Gresham but the large influx of silver from America brought about a violent change in the value of the metal. Consequently there was a great disparity between the face value of the minted coin and the market value of the silver bullion. It was profitable to melt down the coin and sell it as bullion. The Government should have had to reissue the coins so as to make the face value and the bullion value equal.

But a new step was taken in the reign of Charles II. Coinage was made free; that is to say, anybody could take bullion to the mint and have it turned into coins, or get bullion in exchange for coins. This new principle of "free coinage" together with the removal of all restrictions on the export and import of bullion automatically adjusted the disparities between the face value and the bullion value of the coins.

But it was found that at times gold or silver was produced abundantly and the exchange value between these metals was fluctuating. When gold appreciated in value, gold coins tended to disappear, and when silver appreciated, the silver coins tended to disappear. To prevent the export or hoarding of one or the other of the coins, England forbade by law the use of silver coins temporarily in 1798 and permanently in 1860. Gold was thus made the final single standard. Silver coin became mere "change" or "subsidiary". Such was the origin of the Gold Standard.

Since Gresham's time England's currency record has been creditable. There was no longer any debasement of the coins and there was no resort either to inconvertible paper money. The Bank of England had to maintain the convertibility of its notes. The Bank was able to do so until the outbreak of the French Revolution. But owing to the abnormal political situation created by that event, the Government authorised the Bank to suspend the payment of cash for its notes in 1796 and cash payment was not resumed till 1821. Gold coin was therefore at a premium during this era of inconvertible paper pound.

This was the reason for Ricardo's pamphlet entitled the High Price of Bullion: A Proof of the Depreciation of Bank Notes and for the appointment of the Bullion Committee in 1810. The recommendation of this Committee for the resumption of cash payments was rejected at first, but an act of 1819 ordered the Bank of England to redeem its notes within four years. The Bank was able to do so within two years. Thus by 1821 England returned to a free gold standard. Free trade in gold was the prelude to free trade in commodities.

The gold standard endured until the outbreak of the war in August 1914. From that day Englishmen are using only cheques for all purposes. Even after the peace, the country found itself in possession only of paper pounds depreciated in terms of gold. Instinctively the banking and the mercantile community set itself to the re-establishment of financial stability which meant the gold standard with a free market for gold. This was accomplished by the Gold Standard Act of 1925. In April 1928 the Government legalised the export of gold and the Bank of England was authorised to sell gold in bars of 400 ounces, following the precedent after the Nepoleonic War when the lower limit of sale was fixed at 60 ounces of bullion. Gradually with the redemption of the treasury notes and the recovery of sterling exchange a free market for gold was established.

This restored gold standard was different from the pre-War one, for the Bank of England was not under obligations to pay coin for its notes; in other words there was not free convertibility except when the notes were tendered for purchase of gold for a minimum of 400 ounces. This new gold standard called the Bullion Standard was functioning effectively till September 1931 when it was also suspended owing to the heavy drain of the gold resources of the Bank of England, caused by withdrawals of large amounts of short term funds deposited by foreign banks.

(Continued from page 350)

excessive volume of bank credit or an excessive use of a given amount of credit or both. It is therefore my considered opinion that the provisions as they are, of Clause 42 of the Bill requiring the scheduled banks to maintain fixed percentages of their demand and time liabilities, with the Reserve Bank, are what the experience of U. S. A. has proved to be illogical and unsound and must not therefore be adopted; and in their place I commend for consideration by the Indian Legislature, the following clauses of the proposed amendment to S. 19 of the Federal Reserve Act, which the committee above named has suggested to Congress.

Bank Reserves.

"Sec. 19.(a) *Each member bank shall* establish and maintain reserves equal to 5 per centum of the amount of its average daily debits to deposit accounts; but, in no event, shall the aggregate reserves required to be maintained by any member bank exceed 15 per centum of its gross deposits.

" (b) Each member bank located in the vicinity of a Federal Reserve Bank or branch thereof shall maintain not less than four-fifths of its total required reserves in the form of reserve balances on deposit with the Federal Reserve Bank, and every other member bank shall maintain not less than two-fiths of its total required reserves in the form of a reserve balance on deposit with the Federal reserve bank. The remainder of the total required reserves of each member bank, over and above the amount required to be maintained in the form of a reserve balance on deposit with the Federal reserve bank, may, at the option of such member bank, consist of a reserve balance on deposit with the Federal reserve bank, or of cash owned by such member bank either in its actual possession or in transit between such member bank and the Federal reserve bank." Provisions similar to the above, with necessary modifications to suit Indian conditions may with advantage be adopted in the place of existing Clause 42 of Bill.

(5) ***Agreement with Imperial Bank.***

Clause 43 and Schedule III of the Bill simply reproduce the provisions of the previous Bills of 1927 and 1928. One important intervening circumstance which must be given due weight in considering the terms of the Agreement is that the period of Charter of the Imperial Bank has already expired with 27-1-1931. That Bank is no longer required to surrender its valuable privileges earlier than before the expiry of its full term when it could hope to make large profits. The *only legitimate compensation therefore that* it will now be entitled to is in connection with the unremunerative branches (if any) which it may have established in order to fulfil the conditions imposed on it by the *Charter under which it came into existence.* The Joint Committee which considered the Bill of 1927 was itself agreed that the period of concession by way of balances free of interest or at a nominal rate of interest should be reduced from 25 to 20 years. But now the Imperial Bank is not surrendering any privileges at all; on the other hand it is to act as the sole agent of the Reserve Bank in all places where it has its branches at present. This is a very important and lucrative office as even on a very moderate estimate, the commission it will get from agency work is expected to amount to 15 lakhs per year This will be more than compensation for the unremunerative branch banking it had been obliged to undertake under its now-expired Charter. Public opinion in the country is dead against showing any further concessions to the Imperial Bank, in particular those contained in para 3 of the Agreement. For my part, considering the matter without excitement and without prejudice I am unable to satisfy myself that either the extent or duration of the concession is justified from whatever standpoint and in whatever aspect it may be considered.

(To be continued)

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The Rupee Ratio Controversy.

At a time when the country is in the horns of a dielemma as to how to regain the past privileged position of having a favourable balance of trade, with a sure chance of obtaining the two precious metals, gold and silver, in final settlement of the international indebtedness, the rupee ratio controversy is indeed rightly engaging the attention of the public, not to speak of the Chambers of Commerce and others interested in the country's finance. With the formation of the All-India Currency League at Bombay and branches in the provincial cities recently, this subject has received wide attention both in the platform and the press and, as we gather, at present, a majority of the public seems to be in favour of devaluation of the rupee to the old level of 16 pence. The supporters are of the firm conviction that the country's economic depression can be easily overcome by this devaluation process alone and with the resulting higher prices for the agricultural products the total value of the country's exports will be increased. The second reason advanced by the supporters is that imports from foreign countries will diminish and as such national industries will have an opportunity of obtaining an indirect protection. They further hope that with the increased prices for agricultural products, the purchasing power of the people of the country will be sufficiently increased and that the export of gold from the country to the extent of more than 150 crores of rupees during the last 27 months since England went off the gold standard will be checked. We think these are indeed good expectations and the country will greatly welcome such a proposal if the above-mentioned benefits are sure to be secured; but we doubt whether the proposed devaluation of the rupee will actually result in securing our ambitions.

What will be the consequences of fixing the rupee at 16 pence? First the demand for our raw materials, from foreign countries on account of their increased prices, will be, to some extent, checked. The country is fully aware of the recent plight of the Indian cotton growers, of the several deputations arranged by them to represent their grievances at Simla and also of the slow progress the country had to face with in the Indo-Japanese cotton talks. Every country in the world, as a result of the unprecedented and severe economic depression as the one experienced during the last three years has made up her mind to ***import less*** and ***export much.*** "Buy British", "Spend Now", etc., have become the slogans of the day. The general slump in the price of agricultural products the world over is another factor that has to be taken into consideration by us for the reduced prices now prevailing in India for our agricultural products. So the devaluation of the rupee alone, in our opinion, will not fetch better prices for our raw products, unless foreign countries come forward with large demands for them.

Secondly the present Indian civilization has become, rightly or wrongly, a slavish imitation of the West. At present very few families in India can pass a day without using at least one manufactured article of either England, America or Japan, or other foreign countries. Even in the matter of feeding our babies, not to speak of machineries for our industrial purposes, the poor man's kerosene, articles of luxury, toilets, oil man stores and several other numerous articles of foreign manufacture, we have to depend on foreign manufactured glaxœs, condensed milks etc. So by a change in the ratio, from the poor to the rich alike, every one will be affected by having to provide for a 12½ per cent increase in some of the items of the family monthly budget. Thus the gain expected, but not certain, in the shape of increased prices for our agricultural products is likely to be carried away by the increased prices the country will have to pay for the imported articles, which we may characterise as urgent necessaries of life. Further, for the industrial expansion of the country, we need a good lot of machineries manufactured abroad and the increased prices for them, as a result of the reduction of the ratio to 16 pence, will surely affect the country's industrial progress. The recent orders for machineries for equipping the newly started sugar mills in India will speak for themselves. Perhaps if India can effectively put a stop to the imports of foreign made articles, our hopes for some benefit from increased agricultural prices would be justified.

Thirdly we have to take into account the position of our Indian Government. India, ruled by a foreign nation, her legislators without any power worth speaking and her Government in no case democratic, looking after the needs of the people, as in the case of America, England and Japan, cannot hope to do full justice to her national needs at a moment's notice as experience dictates. Again the India Government as a result of the past 150 years of

British rule is so closely connected with England that she has to pay the latter a large sum in sterling every year on account of Home charges, guaranteed interest on British loans, pensions for the retired civil and military officials etc., and the proposed reduction of the rupee ratio to 16 pence will immediately raise the Home charges by 12½% in the next year's budget. Already the country is taxed at the highest level and it is the conviction of the Indian economists that the law of diminishing returns in Indian taxation has come into play. In spite of it, the budget has a tendency to show only a deficit. If a 12½% increase on account of Home charges is also added to the already deficit budget, the Government will certainly have to resort to taxing the public still more heavily and we hope the public will find any form of extra taxation a heavy burden and as such will rightly grudge to pay.

Fourthly we have to note that India cannot take the same dose of medicine that England, Japan and recently America took for their malady, viz., devaluation of their currencies with a view to increasing their exports. Further there is a great difference between India's commodities for trade and those of other countries. India is only an exporter of raw materials whereas the other countries are industrial nations of first rate importance vieing with one another as to how to capture the world market, including the Indian market, for the sale of their manufactured articles. We may even go to the extent of saying that they have specially adopted the policy of devaluation of their currencies simply with a view to securing the maximum overseas trade in severe open competition with their rivals. If India to day can take a seat along with these industrial nations as an equal, having a large export trade in manufactured articles, instead of raw materials, which can be grown in their countries also, then the plan adopted by them, viz., devaluation of the rupee, our Indian currency, may be tried with advantage and the markets of America, England, Japan and other foreign countries may be flooded with Indian products at competitive prices; but this is simply a dream. We say tried because, we do not know how far these countries that have devaluated their currencies have been actually benefited and their results have still to be proved, perhaps excepting the case of Japan.

So we consider that it is of no use merely saying that reduction of the ratio of the rupee to 16 pence will be a good panacea for all the evils the country is suffering from. Both sides of the controversy have truths of their own. Merely hoping that the reduction of the ratio will secure some benefit, which is not certain, we do not wish the country should hastily commit itself to a great loss, a loss that is quite patent and has to be incurred in the very near future. The best way to decide the controversy is to immediately arrange for a committee of enquiry, composed of leading Indian economists, businessmen and others, to deal with this vital problem affecting the country and discuss, with facts and figures, threadbare the pros and cons in all possible points of view and arrive at a scientific conclusion which will be readily acceptable to the public. In a question of this kind, only the recommendations of the committee, formed on the lines we have indicated, are worthy of being accepted and not the view of the majority as expressed in the platform and in the press.

A Request.

With this number, our readers will be glad to note that we are completing the first volume of the **'Indian Commerce'.** We are greatly indebted to our subscribers and contributors, who have supported us in our difficult task in keeping the journal going all these months. Difficult task we say because that in a country like ours, to run a Monthly devoted to commerce, the importance of which is not known to the public, is very difficult in the absence of more support. The merchants who have to support us are mostly not educated in English and of those who can really help us, we have to say from our practical experience, there are only more lip sympathisers than true ones. The hoped for support, both in the shape of subscriptions and contributions, from men who are interested in the commerce of the country as evidenced by their walk of life and professional commercial knowledge has proved false. In spite of this we have not decided to go back an inch from our determination in the fulfilment of the task we have set before ourselves; but to proceed further we need the co-operation of our subscribers at least, as equally in future as in the past. So we shall esteem it a great favour if such of our subscribers whose subscriptions expire with this issue would kindly register themselves as regular subscribers and remit their subscriptions for the next year at an early date It would be an advantage to us, if in addition to complying with our request as above, they would also kindly bring to the notice of their friends interested in commerce our Monthly and induce them to become subscribers, thus each subscriber enrolling a new one We think there would hardly be any who, considering the difficulties in which we have been carrying on our task all these months, may wish to stop subscribing to this Journal any further, and if there be any, they may kindly inform us on or before the 10th January, 1934 to that effect. In the absence of such a stop order, we would conclude that our existing subscribers wish to continue their subscription for the year 1934 also, and on this assumption copies of the New Year issue will be despatched to them. Annual subscription is Rs. 3/-, payable in advance. If by V. P. P. Rs. 3/4/-; so sending a money order for Rs. 3 is cheaper by 4 annas.

The Need for Simpler Economics.*

BY PROF. EDWIN CANNAN.

It is rash for one of my generation to pass any judgment on the elaborate economic theory which is now being taught to the young, for we do not understand it. Without too trustfully accepting the *ignotum pro magnifico*, we must hope for the best. But we may perhaps be permitted to point out and deplore the fact that the almost complete absorption of the younger teachers in making what they rightly or wrongly believe to be important advances in the higher branches of theory is leaving the public at the mercy of quacks. Surely out of the large accessions to the ranks of professional economists which have taken place in recent years, a substantial force might be spared to assist common sense to grasp the bare elements of economic science, without a knowledge of which democracies and dictators alike are bound to make the most grotesque blunders.

It is no use to say that the bare elements are so simple and obvious that there is little to be said about them, and that this little has been said so well and so many times that it can do no good to say it over again. In fact, most of the simplest things in economics have never been put in such a way as to carry conviction to the mind of the sort of person who is in the great majority of every public, and the blame is not altogether to be put on his feeble mind, but in large measure on the unnecessarily complicated expositions offered by the economists.

I propose to-day to discuss only two of the innumerable examples of the mischief caused by the failure of the economists to explain simple things so that they can be understood by the people. One is the mischief caused by the worship or undue glorification of agriculture, and the other that caused by the similar worship or undue glorification of exports.

One of the simplest generalisations of elementary economics is that the greater command over natural forces which marks economic progress is necessarily coincident with a decline in the proportion of our time which we are obliged to devote to the production of the necessaries of life. As we progress, we can give more and more time to the satisfaction of our more refined wants, which are very elastic, because we need give less and less to the satisfaction of the more elementary and coarse wants which we share with the beasts of the field, the birds of the air and even the worms which drag down rotten leaves to their larder, and the maggots which enjoy putrid flesh. "The desire of food," as Adam Smith said, "is limited in every man by the narrow capacity of the human stomach; but the desire of the conveniencies and ornaments of building, dress, equipage, and household furniture, seem to have no certain boundary." In the hundred and sixty years since his time we have discovered many wants which are even more

* An address delivered at the 43rd annual meeting of the Royal Economic Society, London.

elastic than those which he thought of, and the human stomach is no wider, though the tongue may be a little more dainty.

Just now there is more need than there has been in recent centuries for attention to this generalisation, because the increase of population in the civilised world is slackening, so that the number of stomachs threatens to become as stationary as their individual capacity, while at the same time the application of machinery and science to agriculture has been increasing its productiveness faster than usual.

Eighteenth-century thinkers like Paley, believing in the desirability of indefinite multiplication of the human species, might well have deplored this state of things, and have said that we were neglecting our opportunities by not producing as many persons as could be given what they called a "healthy subsistence," but we, who rightly or wrongly, believe that ***homo sapiens*** with bathroom h. & c., wireless and aeroplane, is something better than the healthiest gorilla, have no reason to complain. Yet what do we find? All over the civilised world more talk than ever of the "decay" and impending "ruin" of agriculture, not because agriculture is failing in its task of providing food and many materials for manufacture, but because it is succeeding so well that the price of its products does not suffice to pay agriculturists as much as other producers are able to earn. This is a state of things which certainly calls for a remedy, and the true remedy clearly is to allow the relative poorness of remuneration to work out its own cure by the repressing influence which it will exert on the number of agriculturists. After all, it is by this kind of pressure all round that people are driven to produce what is wanted in something approximating to the right proportions. If people could produce as many golf-balls as they liked without reducing the price, we should be snowed under by golf-balls. By the fall of price as more is produced, the production of each thing is restrained to a reasonable amount. But instead of allowing agriculture to come under this very salutary regulation, all civilised countries, or at any rate all those about which I know anything, are engaged in strenuous efforts to "do something for agriculture."

In our own and in other "old" countries the "something" takes the form of subsidies and exemptions from taxes, while in some of the "new" countries it appears in the restriction of cultivation and the burning of crops already harvested. To grow crops and then burn them is idiotic, to restrict production by law is cumbrous and ineffective compared with allowing it to be restricted by low price, but neither of these plans is stupider than the subsidisation policy, which only tends to put more of the product on the market and thereby to cheapen it still further.

Economists have no right to wash their hands of the matter and say it is not their fault that the mind of the public is an Augean stable. It is their job to cleanse it, and they have had two hundred years to do it in. By this time they ought to have convinced the public that the fact that an industry produces a necessary of life, and is therefore in one sense an "important" industry, does not mean that expansion of its produce

beyond a very definite limit is desirable. It may be urged, indeed, that, so far from cleansing the stable, the economists have really brought more dirt into it by giving the public the impression that agriculture is particularly liable to what they call the "law of diminishing returns." What exactly they mean differs from author to author, and is not of much importance to our present purpose, but whatever it is has certainly helped to prevent the public from properly appreciating the fact that enormous improvements have taken place in the productiveness of agricultural industry, are still taking place, and are likely to take place at an even more rapid rate in the future. Failure to appreciate this fact has had much to do with the persistence of incapacity to realise that a decline in the relative or even in the absolute number of agriculturists is a sign of progress rather than of economic decay.

Of course recognition of the fact that there is a limit to the desirable expansion of the production in every industry is inherent in the theory of marginal utility, but that theory has never made much way among the general public, simple as it is, because instead of being expressed in plain language understood by the people, it has been treated as a classroom playing to be illustrated by lines and curves on a blackboard, which, like the stone and wooden idols of the more degraded religions, come to be revered for themselves rather than for the things they were originally intended only to represent.

Some one may object that there is no worship of agriculture as a whole, and say the trouble is that each country wants to get more agriculture by diminishing the amount of agriculture in other countries rather than by increasing the whole amount. That is not however, the whole truth and nothing but the truth, since it is quite certain that even if there were only one "country" in the world, that single country would still, in the present state of thought—or of whatever is mistaken for thought—be quite unduly solicitous about its agriculture. But even if it were true that anxiety about agriculture is not anxiety about agriculture in general, but only anxiety of particular countries lest their domestic agriculture should be reduced or extinguished by imports from abroad, that would make it a special case under my second heading, the worship of exports, to which I now proceed.

I scarcely suppose that anyone here will be inclined to deny that exportation of commodities is generally regarded by the populace as good, and importation as evil. The public realises in an obscure fashion that when individuals are trading with one another, each of them wants to get as much as possible for his products; his object is to get as much as possible with as little as possible expenditure of time and labour. But when they consider themselves as a whole, trading with persons outside their boundary, the individuals in each country seem to lose sight of this entirely, and to imagine that the object of bargaining is to give, and not to get. They groan dismally if it appears that they are paying an unusually low price for what they buy from abroad and getting an unusually high price for what they sell to persons abroad, and if some exceptionally sane person ventures to point out that this means that they are receiving a larger volume of imports, in exchange for a smaller volume of exports, they are reduced to utter despair. And if some foreign country suffering from the same strange delusion as themselves, that a good bargain consists in giving much and getting little, proposes to tax itself in order to give them something at a lower price, they regard this as a most unfriendly action, and take immediate steps to prevent the intention being carried out.

In their view the perfection of economic happiness would be attained by a country which exported large quantities of all kinds of commodities and received nothing whatever in return. Some approximation to this state is reached by countries which have got to pay huge amounts of reparations, since though they may be bound to pay gold, they buy the gold with the sweat of their brow translated into exports, and it is true that these countries do not seem to enjoy their position, and it is also true that the countries which have reparations and interest on war-debts to receive, do not seem very anxious to give them up, but this is not the result of reasoning, but only of healthy instinct. The sub-intelligentsia which tries to do the reasoning of the nations, holds that it is only the stupidity of "Kansas farmers" and the perverted self-interest of Ministers of Finance which stand in the way of a general recognition of the doctrine that if it is not exactly blessed to pay reparations, it is at any rate blank ruin to receive them.

Probably in modern times the principal support of this love of exports and hatred of imports lies in the popular belief that exports "give employment" to and imports take it away from the people of the country. The belief is not confined to the case of countries politically separated by having different governments and fiscal systems. It is held by the populace just as strongly in regard to towns and all other local divisions; the only reason we hear so little of it except in regard to countries is that inside the same country the taking away of employment from one area and giving it to another is seen to be at work in both directions. If Lancashire cotton goods are imported into Yorkshire, and that deprives Yorkshire of the employment of producing cotton goods for Yorkshire consumption, nobody deplores the sad case of Yorkshire, because everyone sees that Lancashire is getting the employment of which Yorkshire is deprived, and most people can see that if Yorkshire complained of loss of employment in cotton manufacture, Lancashire could equally complain of loss of employm nt in woollen manufacture, so that, from the point of view of the whole country, the complaints would cancel out. But if Lancashire and Yorkshire were two different countries, this cancelling out would not take place, because Lancashire would treat the loss of employment in Yorkshire with complete indifference if not with some satisfaction, and Yorkshire would feel the same about the loss of employment in Lancashire. Each country, looking on the question from its own point of view, and believing that exports give employment and imports take it away, tries greedily to export and not to import, regardless of the influence of its policy upon other countries.

If we are to wait for a time when international feeling will be altruistic enough to make loss of employment abroad weigh as much as gain of employment at home, the youngest of us will be dead. What is required is a much more simple, vigorous, and convincing exposition of the fact that employment is only a means to the attainment of an end, which is the acquisition of goods and services, and that we trade with foreigners, as we trade with those whom we serve and those who serve us at home, not to give ourselves employment, but in order to get the things and services which we want more easily—cheaper, if you like—than if we produced them for ourselves.

Of late the love of exports and hatred of imports have found new support in the modern Balance of Trade theory, which would wilt away very quickly under the sunshine of simpler economics. This theory is sometimes spoken of as a revival of the Mercantile System, but that is a libel on the Mercantile System. The mercantile scheme was directed towards getting a net importation of gold and silver, and however absurd the ideal of an indefinite accumulation of those metals in a country may be, the fact remains that a store of them had some utility, and also a permanent value which could on occasion be turned to account in purchasing anything really wanted from abroad. But what the degenerate imitators of the old balance-of-trade theorists want, is nothing so sensible as a net importation of gold or anything else, but a continuous net exportation of capital. Whether interest and dividends on the capital so lent or invested abroad are paid or not they do not greatly care, since if they are not paid, it will be all the easier to keep the imports below the exports. If there is a net exportation of capital, the balance of trade or payments is said to be "favourable", and if there is a net importation it is said to be "unfavourable" or "adverse", and in the "old" countries at least there is no pretence that these terms are to be understood in a Pickwickian sense; the "favourable" balance is distinctly held up as something to aim at and rejoice over when attained, and the "adverse" balance as something to be avoided and to be deplored when it occurs.

The old and the new theories of good and bad balances in foreign transactions have much in common. They both have their fetishes and their bogies. The fetish of the old is a net importation of precious metal, and its bogey a net exportation of such metal; the fetish of the new theory is a net exportation of capital and its bogey a net importation of capital. They are alike in proposing to satisfy their fetish and avoid their bogey in a way which shows that their exponents have been induced by the word "balance" to fall into a confusion between equation and causation.

The fetish of an indefinite accumulation of gold and silver was ridiculed by Hume and Adam Smith a century and a half ago; and the bogey of "losing" a good national currency or having it "drained away" was properly dealt with by the monetary writers of rather more than a century ago. But the countries which remain on the gold standard still fear that their hoarded gold is being lost or drained away if they see it being exchanged in any large quantity for other goods, or even used for the repayment of their debts, and so on every emergency they sit tight on it like the fraudulent bankrupts they are. Such weakening as is actually manifest in the position of the old fetish and the old bogey is due not so much to the arguments of the economists, which have never really penetrated the public mind, as to the abandonments of the gold standard which have been caused by the superstition of gold-worshippers. When a country is once on a paper standard, it becomes very difficult to be afraid of foreigners robbing it of its currency. Almost anyone can see that a paper currency does not get taken out of a country in large quantities to be held abroad, except on the rare occasions when the foreigners have a stronger belief than the people of the country that the value of the currency will rise, and almost anyone can also see that when this does happen the foreigners are usually wrong, so that the people of the country eventually profit by the transaction. The Germans certainly had no need to grudge the foreign speculators the milliards of marks which those misguided persons acquired in the years before 1924 under the impression that "the mark was so low that it was sure to go up" !

Moribund from whatever causes, the old fetish and bogey are being replaced by the new, which are no better in themselves, and are perhaps more difficult to exorcise because they are less clearly conceived. They have worshippers all over the world, and no doubt have had different origins in different countries. I am a little afraid that if Rhadamanthine Justice is ever executed on us economists, I may get a stripe or two for having been a passive spectator at their birth in this country, instead of promptly endeavouring to smother them before they got into their cradle. Some 20 years ago, in temporary buildings on this very site, I was official supervisor of Mr. C. K. Hobson when he was writing his doctoral thesis on the ***Export of Capital***, and—I say it with all the shame that is due—I failed to see and warn him that he was quite innocently and unconsciously conjuring up a new "balance" as misleading as the old. Not from any misapprehension, but simply because data for estimating the export of capital were even more meagre than those for estimating most of the other items in the account between people in the United Kingdom and people outside it, he reckoned up all the other items first, and got at the probable amount of the net export of capital as the difference between the two sides of the account as added up before the inclusion of import and export of capital. This, of course, was a purely statistical device of apparently the most harmless kind. If you know all but one of the items in an account of which the two sides are known to be equal, what more natural than to discover the amount of the missing item by the easy arithmetical process called subtraction? How was Mr. Hobson or I to know that the Board of Trade's adoption of the method a few years later would lead to the amount in question being generally regarded as a "balance" which must be either "in favour" of the country or "unfavouable" or "adverse" to it, like a cus-

tomer's balance at his bank, and that, too, when the customer is not a business man who may borrow to make a profit, but an old woman who is living on her income from investments and to whom an overdrawn bank account is a sign of over-spending? Yet that is what actually happened, culminating —at least, I hope it culminated, but one never knows what heights of absurdity may be reached—culminating, I say provisionally, during the panic of the summer of 1931, when statesmen of the highest reputation for sobriety of thought went about declaring that the net importation of a few millions of capital must indicate that we were "spending beyond our means," "living on our capital," and "rushing inevitably towards national bankruptcy."

In the old countries the more benighted of the alarmists, talking in this way, completely overlook the fact that capital can be and is accumulated at home as well as invested abroad, and therefore imagine that if no net foreign investment is being made, accumulation has ceased, and that if foreign investments are being realised and the proceeds brought home, this shows that the national capital is being consumed. The less besotted, without going so far as that, think of the decline of foreign investment and its conversion into a minus quantity as a sign of at any rate ***diminished*** accumulation. They therefore have no hesitation in applying the old terms, "favourable", and "unfavourable", "adverse", or "against", not in a conventional sense, but in the sense in which they are equivalent to desirable and undesirable, just as the adherents of the older balance-of-trade theory used to apply them. In the new countries, more familiar with the importation of capital than with its exportation, the terms "favourable" and "unfavourable" seem to alarmists appropriate in this natural sense, because they regard importation of capital as "running into debt" (a thing of which most people have a horror) rather than as "raising capital" (which is highly respectable). In both classes of country the alarmists fail to see that whether it is desirable that the movement of capital should be inwards or outwards depends on the relation of home to foreign conditions. The so-called "favourable" balance may perfectly well be a sign of disastrous prospects at home and bright prospects abroad, and the so-called "unfavourable" balance a sign of expected disaster abroad and prosperity at home.

But this is not the worst of the muddle. The term "balance" itself, though it looks so respectable, applied to this item in the international trade account, is wickedly misleading. We are accustomed to think of the balance—that is, the balancing amount—in an account as not an independent item with its own special causes of increase and decrease, but as, so to speak, the passive result of the other items. The other items when put together produce it. For example, we compare our expenditure with our income, and if the income is the greater, we regard the difference as a balance which is the ***consequence*** of our having spent more or less than our income; we never dream of saying that the bigness of the balance has caused us to spend less. According to the old balance-of-trade theory, the net importation of precious metal was a balance of this kind. Its magnitude was not settled by the amount which the inhabitants of the country were willing to give goods and services for at a rate satisfactory to the people outside who had gold and silver to dispose of, but was settled quite incidentally by the other items. The disastrous result of this mistake was that the politicians became persuaded that in order to get a net importation of precious metal they must undertake the regulation of all the other imports, and exports so as to make the exports exceed the imports, and more than two centuries of absurd attempts to secure this end by fostering exports and discouraging imports followed.

Under the influence of the new balance-of-trade theory, just the same blunder has been made. Because the new balance was called a balance, the politicians of each country have been persuaded that it is not an independent item, but the mere arithmetical consequence of the other items, so that in order to get it they must do just what the adherents of the old theory did—that is, foster exports and discourage imports.

After long experience of the old dispensation, the more intelligent part of the world seemed to have learnt that if a country wanted precious metal, and was willing and able to pay for it, its ability and willingness to pay would immediately alter the other items in the trade account, so that the required balance would appear. Apparently every country, as represented by its government, has yet to learn, what is equally true, and one would think even more obvious, that how much a country invests abroad or borrows from abroad is not the passive result of the comparative magnitude of the other items in the international account, and that if there are reasons for change in it, that will cause the necessary changes in the other items. To give the simplest possible example, which is, or used to be, well known to the most elementary students, any wave of optimism about foreign investment compared with home investment will cause a rise of exports as compared with imports.

I admit that the world's present blindness is due in part to the dislike of reparations and repayment of war debts which not only exists all over the countries which are asked to pay, but is also felt elsewhere by all humane and sensible people, who recognise that international goodwill is worth more than tons of gold. Dislike of the payments has led to groundless asseverations of inability to pay, and these have often been founded on the childish proposition that there was no surplus of exports over imports out of which to pay. Childish, I call it because it ought to be perfectly obvious to any grown-up person that if there is at the moment no such surplus, the payment will *make* one. When the Romans wanted the Egyptians to send them a tribute of corn for their dole, they did not ask whether the Egyptians had an export surplus or not; they made them have one. If they had demanded not corn, but enough Egyptian paper money to buy that amount of corn, the export surplus would have appeared just as well, since to be of any use the Egyptian paper would have to be sent back

to buy something from Egypt. And if the Romans had demanded the tribute in gold, of which the Egyptians had little or none, the demand would still have produced an export surplus, because the Egyptians would not have been able to get the required gold without offering exports for it. Moreover, if the Egyptians, when paying a half-year's tribute in gold, had alleged that they would not be able to pay any more such amounts because the Romans locked up the gold, and then in the next six months the Egyptian Government and their bank accumulated enough gold to pay a whole year's tribute, I think the Romans would have rightly regarded the Egyptians as very poor diplomatists and bigger liars than the Cretans.

But though dislike of tribute may have prejudiced millions against sound theory, and may also account for some of the silence of reputable contemporary economists, it must be a much weaker force in the long run than the prime mistake of the economists, from Ricardo downwards, in trying to make a special theory of international trade separate and different from the theory of trade within a single country. We want not excuses for, but an entire abandonment of Ricardo's monstrous assertion in his text that "the labour of one hundred Englishmen cannot be given for that of eighty Englishmen," and a frank acceptance of his better advised footnote in which what was afterwards christened "the law of comparative cost" is applied to the division of employments inside a country as well as between countries. We want an entire abandonment of the stupid insistence on international trade being "virtually barter"; of course, all trade is "virtually barter" when you drop the intervening money out of the picture and think only of persons producing one set of goods and services for other people and receiving another set from them in exchange. It is the intervention of money which turns barter into selling and buying, and far from eliminating money, international trade usually involves the intervention of not only one money, but two different moneys. And, above all, we want to get rid of the confusing assumption that the inhabitants of a country, continually changed by deaths and births and by migration, are just like a perpetual corporation.

It is not for me, born in 1861, to tell the present generation how further to simplify the subject. If I had known how to popularise sound economics, I should have done it long ago in the time which I have had. It is now the job for some of you, and a job of enormous importance. All countries are trying, with considerable success, to reduce their imports by tariffs, and when they do not succeed as quickly as they would like, they resort to quotas and prohibitions. Many of them subsidise some of their exports, often doing it by indirect and concealed methods not for fear that their own people may object to giving gifts to the foreigners, but because they fear that the foreigner will destroy the effect of their subsidies by imposing import duties or embargoes. When by these operations they have reduced imports and exports alike without making much difference to what they call the balance of trade, each of them tries to effect its purpose by depreciating its own currency, not with the laudable object of reversing a tendency of that currency to appreciate in purchasing power, but in order to win an imaginary advantage over its competitors. Having by these means thrown international trade into dire confusion and greatly reduced its amount, they waste the capital of their taxpayers by spending scores of millions of borrowed money in buying foreign exchange and gold, in order, as their Finance Ministers explain, to counteract the wicked speculators whom they believe to cause violent fluctuations by buying their currency when it is low and selling it when it is high!

You may say you know all this, and that I ought to apologise for drawing your attention once more to the putrid, stinking mass. I do apologise to those who are really helpless in the matter, if any such are here. But I do not apologise to the others, but appeal to them to do more than they are doing to make economic organisation understood by the people. I appeal especially to the younger teachers to consider what sort of future they can look forward to if the popular English newspapers continue to get their readers to believe that at one and the same time the pound sterling may be worth twenty-twentieths of itself in London and Lisbon, thirtyone twentieths in Madrid, and only fourteen twentieths in Paris. Do not let them simply hold their noses and avert their eyes from the disgusting mess and run back to find peace and contentment in neat equations and elegant equilibria.

EDWIN CANNAN.

Principles of Business Conduct.

The Nation's Business quotes the following principles of business conduct, which have been formulated by the United States Chamber of Commerce.

The function of business is to provide for the material needs of mankind, and to increase the wealth of the world and the value and happiness of life. In order to perform its function it must offer a sufficient opportunity for gain to compensate individuals who assume its risks, but the motives which lead individuals to engage in business are not to be confused with the function of business itself. When business enterprise is successfully carried on with constant and efficient endeavour to reduce the costs of production and distribution, to improve the quality of its products, and to give fair treatment to customers, capital, management and labour, it renders public service of the highest value.

We believe the expression of principles drawn from these fundamental truths will furnish practical guides for the conduct of business and for each individual enterprise.

1. The foundation of business is confidence, which springs from integrity, fair dealing, efficient service, and mutual benefit.

2. The reward of business for service ered is a fair profit, plus a safe reserve, nensurate with risk involved and foresight ised.

3. Equitable consideration is due in business alike to capital, management, employees, and the public.

4. Knowledge—thorough and specific —and unceasing study of the facts and forces affecting a business enterprise are essential to a lasting individual success and to efficient service to the public.

5. Permanency and continuity of service are basic aims of business that knowledge gained may be fully utilized, confidence and efficiency increased.

6. Obligations to itself and society prompt business unceasingly to strive toward continuity of operation, bettering conditions of employment and increasing the efficiency and opportunities of individual employees.

7. Contracts and undertakings, written or oral, are to be performed in letter and in spirit. Changed conditions do not justify their cancellation without mutual consent.

8. Representation of goods and services should be truthfully made and scrupulously fulfilled.

9. Waste in any from—of capital, labour, services, materials, or natural resources—is intolerate, and constant effort will be made toward its elimination.

10. Excess of every nature—inflation of credit, over-expansion, overbuying, over-stimulation of sales—which create artificial conditions and produce crises and depressions, are condemned.

11. Unfair competition, embracing all acts characterised by bad faith, deception, fraud, or oppression, including commercial bribery, is wasteful, despicable and a public wrong. Business will rely for its success on the excellence of its own service.

12. Controversies will, where possible, be adjusted by voluntary agreement or impartial arbitration.

13. Corporate firms do not absolve from or alter the moral obligations of individuals. Responsibilities will be as courageously and conscientiously discharged by those acting in representative capacities as when acting for themselves.

14. Lawful co-operation among business organisations in support of these principles is commended.

15. Business should render restrictive legislation unnecessary through so conducting itself as to deserve and inspire public confidence.

Wages: Marginal-Productivity Theory.

BY

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When two things—let us say capital and labour—are jointly demanded, there is a difficulty in attributing to each its relative importance in the joint product. When one is helpless without the other we may call both indispensable. The price we are called upon to pay does not alter that fact. A gramophone costs some pounds, the gramophone needle less than a penny. But the absence of either prevents our using a gramophone record. Both gramophone and needle are indispensable. The total desirability of the factor being no guide, we are therefore obliged to look at the margin for a means to determine how much goes to capital, how much to labour. For this amount will depend upon the marginal desirability of the joint factors.

WAGES AND SUBSISTENCES.

If one of the factors were so abundant that no price had to be paid for it, then the total product would be for the remaining factor or factors. And if merely the necessary upkeep were all that a factor required, then the remaining factor would be able to appropriate all the surplus. The "subsistence theory" of wages did in fact assume that this was all the labour required, any excess being, rightly and naturally, taken by the employer as his profit. Provided that the necessary upkeep was available there would always be an inexhaustible supply of labour. Improving conditions for labour could be no other than transitory. For they would simply bring into being a greater population that would again depress wages. This "iron law" of wages is not, either in theory or practice, obsolete even in our days. The modification of wages in accordance with the Ministry of labour's "Cost of Living" figures is a recognition of the close connexion that exists between wages and subsistence.

Possibly the theory had a relation to fact when it was enunciated; it is probably even now realized in many densely populated areas of China and India. Where this condition does not apply—and we may take it that in countries like our own it does not apply—both labour and capital look for more than maintenance from the product of labour. Labour looks for more than "mere subsistence," more than will just suffice to keep the worker alive, and enable him to bring up a family. Capital looks for more than will constitute a sufficient depreciation fund. There is in the joint product a surplus, forming the subject-matter of bargaining. The marginal desirability of each factor will, if the bargaining of the factors is equally effective, determine the reward of each factor. Not "cost to produce" but "power

to produce" will determine the reward of services. To the extent that the bargaining on the part of the buyer of services or of the seller of services is the more effective, one factor will obtain more than its marginal desirability, the other less.

As to this bargaining we may perhaps assume that, under modern conditions of collective bargaining, it is sufficiently effective on both sides to make the marginal desirability (the marginal productiveness of each factor) an approximate measure of the price of that factor. When this is so ***wages are a money measure of the marginal utility of labour.***

UNEQUAL BARGAINING.

Certainly an isolated worker in his bargainings with a prospective employer is at a grievous disadvantage. The bargaining is not one between equal competitors but, as it is expressed, between a money bag that feels no pangs of hunger and a stomach that does. The worker has no knowledge of the conditions of the market in which he sells his services. He cannot have, even if his leisure and inclination enabled him to study those conditions. Moreover, if he does not now sell his labour he cannot sell it after a very short time; for labour is more perishable than any commodity, more perishable than fresh fish or cut flowers. True, if capital is unemployed for a long time, it likewise perishes without return. It is kept in existence, it is continually replaced with an increment, only by perpetual renovation in being used by labour. The immediate need of the capitalist is much less clear, however, than that of the worker. The individual transaction is to the employer—who is a "combination in himself"—of slight importance; he is in this respect like the wholesale dealer who makes a big income by a tiny profit on a large turnover. To the worker the striking of a bargain is of supreme importance; for on it depends his livelihood. The difference in the eagerness favours the employer. There can be no freedom of bargaining unless each party is able, if he thinks the other's terms unfair, to withdraw from the market; and the worker has this ability only through his organization. The chief function of the trade unions is to correct this inequality of bargaining power by handing over the bargaining in relation to wages to trade union officials who know the conditions of the market and should be able to obtain the best available terms for the worker. Through the "collective bargaining" conducted by his union the worker gets as wage the money that measures his marginal desirability, he relinquishes the rather remote chance of getting more through individual bargaining in order to be sure of the "standard rate".

THE ENTREPRENEUR.

We may elucidate this reasoning by looking at a concrete instance of the entrepreneur—who at present is the paymaster of society—in his attitude towards the payment for services. The stevedore is the entrepreneur that, under our system of separation of employment, does the packing of cargoes and the clearing of them. What he will obtain from the shipper is his ***earning.***

He has an astonishing knowledge—based perhaps on an intuition rather than on logical judgment—of the earning capacity of a "docker" co-operating with his own organizing skill and the use of the appliances he provides. This earning capacity will be the upper limit of the wage paid to the docker. That it will rarely be the actual wage is clear; for then nothing would remain for capital or for organization, much less a surplus that the entrepreneur appropriates as "profits". Now, speed in turning the ship round is highly prized. Moreover, with many workers more effective organization is possible; to have ten working at a cargo would probably be much more satisfactory than to have five. There comes a point, however, where another docker would simply impede the others: even if he would work "for his keep" he would be an unprofitable servant. Before this point is reached the "returns" from each additional docker diminish. Where the stevedore will cease to take on men is where the rate he must pay is no more than the "earning" of the marginal docker. Rough and approximate only the measure is, no doubt. But possibly—his intuition and his practical experience serving him well—it is as accurate as will be obtained by elaborate systems of cost accounting. Marginal earning capacity measures the wage the employer will pay. Not the value of the indispensable workers who ***must*** be employed but the value of the worker whom it is "just worth while" to employ governs the pay of all—assuming something like homogeneity among the workers

The counterpart of marginal cost of production, as determining the price of commodities, is for services the marginal supply price. Is the rate enough to persuade a number of sufficient of those able and willing to work for it? Will it give them what they think a tolerable standard of living? To put the matter concretely, is the rate materially above what the worker can get from unemployment pay, or will it give him a more desirable life than one in the workhouse? The fact that there is a constant reservoir of labour at the docks seems to show that the rate is higher than this marginal supply price.

Pitman's Journal of Commercial Education

An Outline of Cost Accountancy.*

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Section 1.— The Need for cost Accounting.

It is perhaps general knowledge that the average manufacturer is generally apathetic as to his actual costs, so long as his business is showing a profit as a whole; whereas the true facts as shown by an efficient system of costing probably bring out the information that, whilst he is making a handsome profit on some lines, others are making an equally substantial loss, and the profit as shown by the financial books of the concern only give the mean between these profits and losses. The more detailed analysis of costing thereby enables him to develop his paying lines, and to bring into play economy, or even total elimination of his losing products.

The bugbear of certifying Auditors is in the elusive stock figure which, in the majority of cases, is taken at a rough valuation, from an equally rough inventory compiled by the works staff, and must, without a further check be always a source of probable mistake, either of omission or commission. The ideal check would be provided by an installed cost system with its compulsory correct stock and store accounting, by which it provides comparative book stock balances, to set against a physical stocktaking. This must result in a much more accurate sales profit being ascertained.

Leakages of material and labour are definitely traced to their sources, in much the same way as the monetary transactions of the firm, by the financial accounts.

The common practice of comparing the physical stock in percentage terms with gross profit can never be thought satisfactory on account of the previously mentioned unsatisfactory means of ascertaining stocks and, of course, is no real index to economical working.

The Government practice during the war of paying contractors a percentage on their costs, created stimulus in this branch of accounting, but it is significant, however, that a post-war pamphlet issued by the Ministry of Reconstruction showed that only about five per cent. of manufacturers knew their costs.

The intense competition of present-day industry call for more scientific and correct costings, in order to reduce to a minimum the cost of production, for obvious reasons.

Cost accounts should interlock with the financial accounts, but should not be part of them—the financial accounts record the monetary aspect of the concern only, whilst cost accounts record the material and labour, which from the financial point is regarded as spent immediately the expense is incurred; the average business man would be appalled if his monetary transactions were viewed from such an angle. Both these factors (material and labour) have an important bearing upon profits earned, because profit is selling price less total cost. An ***efficient*** cost system provides for equitable distribution of overheads, further, because it accounts for material consumed, preventible leakages and wastage of material can be traced, whilst with labour similar remarks may apply to productive work and the so-called non-productive labour.

It also means an efficient factory, and gives the following benefits:—

- Lower costs.
- Lower selling price.
- Increased business.
- The management moves in the light of definite knowledge.

Whilst not claiming to be a panacea for all evils, an efficient costing system may be regarded as a running X-ray of all the activities of stores and production.

* A Paper read to the Yorkshire Branch of the Corporation of Certified Secretaries, Ltd.

Section 2.—The Elements of Cost.

Cost = the difference between net profit and selling price. This difference may be segregated into three main classes:—

1. Material.
2. Labour.
3. Establishment Expenses.

These are only a broad classification and are usually sub-divided into the following:—

Material.

(a) DIRECT RAW MATERIAL.—That which is part of the products obtained, and which can be charged direct to a job.

(b) INDIRECT RAW MATERIAL.—Sometimes called consumable stores, that which is consumed during process of manufacture, and is usally treated as an expense.

(c) SERVICE MATERIAL.— That which is used for running a factory, such as oils and greases and engineering material: often referred to as repairs and maintenance stores.

(d) PACKING MATERIAL such as cases, crates and containers of all kinds, usually treated as a factory expense, but the actual cost of packing should be regarded as a selling expense.

Labour.

(a) DIRECT.—That which can be charged to a definite production order.

(b) INDIRECT.— Sometimes known as unproductive labour, and includes all supervision charges, repairs and maintenance, warehousing and general works services.

Establishment Expenses.

This is a comprehensive term and is to embrace the following:—

FACTORY EXPENSES.—All expenses applicable to production and includes supervision, indirect materials and labour, service materials and labour, factory rents and rates, taxes, insurance, depreciation, repairs to buildings, plant, power, lighting, heating, steam, fuel, wages of works, clerical staff and foremen.

SELLING EXPENSES.—All expenses incurred in selling; including advertising, travellers' salaries and commissions, sales office expenses, finished stock and showroom expenses.

ADMINISTRATIVE EXPENSES.— The cost of running the financial side of the business and includes directors' fees, office salaries and expenses, legal and accountancy fees, telephones and postages, etc.

It will be seen from the foregoing, all the items that form the manufacturing and profit and loss account have been classified, and the aim of the costing system should be to be able to balance these items of expenses at stated periods.

The items shown as direct raw material, direct labour, are usually known as direct charges, plus any item of direct expense that can be charged direct to a production order.

It should be borne in mind, however, that some types of expenses may be regarded as direct from a departmental point of view, but when costing the actual product they must be classified as indirect expense. Rent may be taken as an ordinary example

of this type of expense, which, whilst charged to a department on some pre-determined basis, such as area of floor space occupied, for a stated period, must be included in the overhead when spread on the actual output of the product.

Administrative Expenses are partly chargeable to factory expenses and partly to selling expenses, and should be divided on some equitable basis, say the amount of service rendered to each.

Factory Expense is chargeable directly to the goods manufactured whilst

Selling Expenses are only applied to goods charged to customers To sum up, the cost of production equals the following:-

Direct Materials.
Direct Labour.
Direct Expenses.

The total of these three equals ***prime cost.***

Prime cost plus an agreed proportion of factory expense = ***factory cost. Factory cost*** plus selling expense = ***total cost***; and selling price less total cost = net profit.

Section 3.—Types of Costing.

Job Costs, where every job or order is allotted a definite order number, are costed separately. They are eminently suitable where the work done can be definitely traced and recorded throughout the whole chain of production. Without making an exhaustive survey of this type of costing, it must be said at once, that the type of business, and the product manufactured, must be the deciding factor, as to whether this principle of costing should be adopted. It most certainly entails an expert knowledge of the product made on the part of cost accountant.

Process Costs.

This type of costing is peculiarly adaptable where the raw material loses its identity entirely in the continuous process of manufacture, under such conditions it is practically impossible to cost each job separately as a complete unit. Material and labour can only be charged to each stage of manufacture, the costs accumulating in the different stages or processes additional material being probably introduced during successive operations.

For managerial purposes, production reports may be prepared periodically, showing the unit cost per process, which is arrived at from the sum of material, labour and process expenses divided by the total output per process.

A simple outline of a process cost system may be regarded as a series of small manufacturing accounts, with materials, labour and expenses as the debits, and the value of output to next process, also any by-products as the credits. These are carried on the final repository the finished goods account.

This principle of costing is very suitable to businesses of the chemical manufacturing type, coal mines, foodstuff factories, and in most cases where the cost per ton, yard, or gallon has to be found as distinct from the cost of each job.

Other types of costs are departmental, multiple, single and operating. These are, I think, mostly self-explanatory.

Section 4.—The Determination of Cost.

When planning a cost system, one must have a clear conception of the results to be achieved. A good plan is to view the final results by looking, as it were, backwards through the various records building up that result.

In all probability there may have to be some drastic alterations in existing routine in order to promote a correct sequence of events. The treatment of stock and stores plays a prominent part in an efficient costing system, the physical inventories checking the cost accounts and the cost accounts checking the physical inventories. It follows, then, that an exhaustive investigation into the existing method of ordering, receiving, storing and issuing of stores of all descriptions is necessary. Without an efficient system of store accounting and control, a cost system is hopeless, although it may not always be obligatory to have stores management under control of the cost department.

It is absolutely essential that work of every description should be subject to a factory or works order, as work for stock, customers' work or service, or goods for use within the business itself. The object, of course, being that all work, materials and expenses may be charged to their correct order. This would also facilitate the tracing of work, and materially assist in the compilation of a work in progress account.

The factory should be divided into production and service departments. In the majority of cases this, I think, will be a comparatively easy matter. An important point in planning is to observe the correct sequence of productions. This factory planning into departments very materially faciltates the allocation of overhead expense, always bearing well in mind that some expense items will not be applicable to all departments; e.g., the charging of power to a department that does not use motive power.

It is highly essential that all stores should be controlled from some fixed centre, and the ideal plan is the delegation of this very important duty to a responsible storekeeper, whose sole duty should be the issuing of material and the requisitioning of fresh supplies when stocks have run down to an agreed minimum. In no circumstances whatever should stores be issued without an order signed by some responsible works official, these orders should always definitely quote the job, process or department to which the material is to be charged. These orders and requisition indents form the basis of the keeping of the stock and stores ledgers referred to previously. With regard to labour, there must be prepared an abstract of the wages book classifying the men into the various production and service departments arranged. The production wages fall naturally into line for direct posting to the cost ledger, but with regard to the service departments, the procedure will have to be much more elaborate. The men in the service departments, such as the engineering departments, should have issued to them some form of time sheet or card, daily or weekly, upon which they can record their time spent on repairs and maintenance, to the various departments, whether production or otherwise.

These cards or sheets are analysed, and the total service wages paid are distributed at the rate per hour paid, on the number of hours spent on the job, process or department. It is desirable, also, that the service department expenses should always be recovered on the wages indicated by this analysis. This can be done by a percentage calculated on the ratio of expenses to wages paid over a given period; these, of course, will need amending from time to time.

Moving on to what is usually the chief difficulty to the cost accountant, i.e., the allocation of factory expenses, or oncost as it is sometimes called, I purpose briefly to deal with the method of allocation of some of the items forming it.

RENT, RATES AND TAXES.

On the basis of floor space occupied.

FIRE INSURANCE.

On the capital value of the buildings and plant covered.

DEPRECIATION.

The method of depreciating the asset in the plant register should indicate the amount per annum.

REPAIRS TO PLANT AND BUILDINGS.

These are charged by the service department, time sheets and cards, and material from stores orders.

ELECTRIC POWER.

The ideal method is the fixing of circuit meters per department or process. The total readings of these should about balance the total main meter reading. Failing this method, the total horse power consumed multiplied by hours worked gives H.P. hours, which then can be distributed on the machine hour basis. A third method which can be used more accurately is the taking of temporary readings per machine by the electrical engineer, which give the average consumption per hour per machine, which multiplied out by the machine hours gives fairly accurate results.

ELECTRIC LIGHTING.

The formula $\frac{\text{Lamps x Watts x Hours used}}{1{,}000}$ = B.T.U. gives a very accurate result in practice.

STEAM POWER.

This should be the total of all boiler and steam service expenses, and can be most accurately ascertained by the use of steam meters installed in the service of steam-using departments, although there will always be a small percentage margin of steam losses.

STEAM HEATING.

On basis of floor space supplied.

WAGES OF WORKS CLERICAL STAFF AND FOREMEN.

To be charged in proportion of service rendered to deparments.

SELLING EXPENSE.

This recovered by a percentage on factory cost, in a ratio to be decided by the comparative totals of the two classes of expense.

Section 5.—Modern Tendencies in Costing.

There is a decided tendency at present very much in vogue, to make the costing system not merely a matter of recording comparative history but to be a guide and director of production at the actual times of manufacture. As an example, we have what is known as budgetory control, which means, briefly, that a factory manufacturing standard products can from their previous costing history, build up a definite programme of work with pre-determined costs, and the work can be kept well in view and strictly confined within the limits prescribed. Any serious deviation is then immediately subject to managerial supervision, and the whole productive machinery being keyed up to standard the whole time. This type of control means that the management of a business have a very good idea as the result of a year's trading, without having to wait for the results as shown by the financial accounts.

It has also the further advantage of bringing together the managerial side with the cost department, for the mutual benefit of each. and in addition proving a very material advance in the status of the cost accountant.

I had to deal very perfunctorily with many of the aspects of this very important subject, and trust on some future occasion to be able with them in much greater detail.

Britain's Overseas Commerce.

BY
J. S. PONNIAH, M. A., Dip. (Econ.),
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To no other people is foreign commerce of such vital significance as for the British, "a nation of shop-keepers." It is their very life blood. Relatively to their resources and to the size of their population, foreign trade has been of enormous dimensions, and absolutely, Britain still claims the biggest percentage of world trade.

Trade of each country as percentage of World Trade.

	1875	1913	1924
United Kingdom	20.8	15.5	16.5
France	11.6	7.8	8.2
Germany	11.7	13.1	7.2
U. S. A.	8.3	11.2	15.6
Japan	0.3	1.8	3.3
British Dominions	8.9	11.9	13.8

The British rule the world not by virtue of some divinely ordained mission in life, but by their supremacy in the making, carrying and vending of goods in all the four corners of the world.

Early Beginnings.

The beginnings of the mercantile domination can be traced far back to the 16th and the 17th centuries, when the sea-faring sense was kindled by a new zest for the discovery of ocean routes to the East. This at once broke her medieval isolation. Favourably situated on the fringe of the Atlantic, she jumped within a century from isolation to empire. In 1588 the Protestant islanders sank the Armada of Catholic Spain,

started the East India Company in 1600 and founded the first American colony of Virginia in 1607. Such was the beginning of Britain's colonial trading empire.

How did England suddenly succeed in becoming a mercantile country? For several centuries, she was content to leave the foreigners to finance her trade and carry their goods (metals, corn, and wool); but with the development of her woollen industry she was anxious to find new markets for the surplus goods that her men were putting out. In 1700 woollens comprised nearly half of English exports. Further her bountyfed agriculture made her a regular exporter of wheat to Europe. The Birmingham smiths were working in iron and copper, making swords, guns, buckles, buttons, locks and all kinds of small goods in copper and brass. Again capital accumulation aided by the establishment of Joint Stock Companies contrasted significantly with the early poverty of capital. The 'planter', 'nabob', and the trader in 'black ivory' (slaves) were also enriching the country and the metropolis (London) was fast developing as the starting point of foreign venture with its numerous industries, specialised merchants, bankers, and brokers and a rich congregation of consumers. Finally the Navigation Acts had been a powerful stimulent to the development of their mercantile marine. These courses enabled her to become a great mercantile country.

Trade Rivals.

But at the opening of the 17th century, when England emerged as a trading nation she had many powerful competitors in the field; Spain and Portugal with the monopoly of the new world, the Dutch with their powerful fleet and large volume of carrying trade, and France with her manufactures equal to England. Before the close of the 19th century, however, these rivals were all out-distanced and England became the unquestioned leader of European Commerce with empires in the East and the West.

An Export Policy.

Having thus established her commercial and colonial supremacy, England aimed at developing her exports by fostering the ancient industries of the country especially the premier woollen industry. The emphasis was changed from colonisation and shipping to productive development at home, utilising resources and markets furnished by her empire. But she did not at the same time, aim at national self-sufficiency. She sought to grow rich by exporting the products of her own land, and re-exporting those of her overseas possessions.

Walpole was the prominent exponent of this policy. He was in power from 1721 to 1742 and down to the end of his term of office he kept England at peace with the nations of Europe. He strengthened and increased the navy. Under its protection commerce and shipping flourished. The native industries were assisted by export bounties and the drawback of import duties on re-export. Certain raw materials such as indigo and flax were allowed to be imported with greater freedom. In 1721 he removed the export restrictions on over one hundred articles of manufacture. His skilful handling of the South Sea Crisis restored the commercial prosperity of the nation with South

America. His other financial measures regarding taxation were equally favourable for the development of the exports of Britain.

A generation after Walpole came the great Industrial Revolution. Britain then used her naval superiority to flood Europe with her manufactured goods. Manchester goods were beating out even the most elegant hand-made French goods in France. Coal formed also an important article of export now. It found employment on the outward voyage for the British ships. The prosperity of the country was advancing by leaps and bounds.

NAPOLEON'S GREAT GHALLENGE.

Then came the great French Revolution. On its tide rose Napoleon whose object was to crush England's commerce and her powerful Empire. By his famous Berlin Decree of November 1806 prohibiting trade with or from Great Britain, he aimed at destroying English commerce. To this challenge Britain replied by her Orders-in-Council of November 1807 to the effect that all neutrals should call at a British port before reaching their destination. In retaliation Napoleon decreed from Milan (December 1807) that any vessels submitting to British regulations were lawful prizes of war. After his great victory at Jena and Tilsit, the chain of exclusion was completed. But Napoleon's allies were unwilling partners. The decrees were difficult to enforce and the chief ports became the head-quarters of a large volume of illicit trade. By the decree of Fontainebleu, 1810, Napoleon made a final effort to impose his will on his allies. He confiscated colonial vessels that touched at British ports, and resold the cargo to the profit of his treasury. British-made goods were burned to the accompaniment of military music. French manufacturers welcomed the elimination of British competition, but in spite of the tightening of the blockade, Great Britain's export trade was unimpaired. She found also new markets in South America, Sweden, and in the Levant. When Russia broke loose from the alliance the Continental System collapsed like a pack of cards. By 1814 Napoleon's challenge was no more.

AMERICAN PROTECTIONISM.

Napoleon's challenge ended in a complete triumph for the British. No sooner than that menace was ended Britain had to face the opposition of the U. S. A. in a different form. By her Navigation Act of 1817 America sowed the first seeds of European protectionism. That Act reserved her coastwise shipping for American nationals. She imposed discriminating duties for protecting her domestic industries also. From protection to her manufacturing industries she passed on to protecting her agriculture, when competition was threatened from the newer lands of Canada. This opposition was off-set to a great extent by what Great Britain gained by way of trade privileges in Brazil and the South American Colonies and in Portugal. By the treaty of 1816 Britain secured the commerce of South America open to all nations upon moderate duties with a reasonable preference to Spain.

Between 1800 and 1860 Great Britain and the U. S. A. were in keen maritime rivalry. But during and after the Civil War

the American mercantile marine was crippled and her fiercest competition was at an end. Thenceforward she found a more attractive outlet for her capital and energies in the development of her interior. She began exporting her wheat, meat and cotton to England and the rest of the world.

THE FISCAL REVOLT OF GERMANY.

Throughout the 17th and the 18th centuries Germany was one of England's best customers. There was a large body of English merchants in Hamburg, and, even during the French wars and despite them, the financial link with London was successfully maintained. After the peace of 1815 there was a rush of British goods with Germany, Austria and the Baltic Countries. And in 1841 the German Zollverein concluded a favourable commercial treaty with Britain.

But in the very same year, 1841, Frederick Lisb raised the standard of fiscal revolt in Germany with his challenging book, "The National System of Political Economy", whose cardinal emphasis was on 'power' and 'productive efficiency' as contrasted with plenty. When Germany triumphed over Austria in 1866 and over France in 1870, she came out as a full-fledged protectionist.

"In the period from 1870 to 1914 Germany was learning hard of others, who were ahead of her in 1870. She bought steamships from Glasgow and then built her own. She applied the chemical discoveries of an Englishman to the ores of Alsace Lorraine and erected on coal and iron an industrial empire. She sent her young men to London to learn banking and English. She travelled South America to find out from South Americans in their own language what they really desired. She used her neighbourhood to Russia and South-Eastern Europe to direct the technical developments of their resources and to ship their surplus population to America. In her laboratories she joined university research to the practice of the workshop. But for those who ruled her this was not enough. They must have colonies and a great navy as well as the hegemony of Europe, and therefore they had war."

(C. R. FAY)

(To be continued)

Stenographers Organise.

BY. M. NATARAJAN.

A healthy spirit of constructive co-operation is pervading the Indian atmosphere now, and in nothing is this more apparent than in the recent effort of the Stenographers to organise themselves into an All-India Institute of Stenographers with its Headquarters at 139/3, Russa Road, Kalighat, Calcutta. Usually when labour tries to organise itself, it does so on combative trade union lines and looks upon its interests as always opposed to those of the employers representing Capital. But thanks to the fact the ranks of stenographers are recruited from the intelligent middle classes of India, they have been quick to perceive which side of their bread is buttered, and have accordingly mentioned in their aims and objects of the Institute "to act as interpreters to employers of the needs, aspirations and ambitions of Stenographers as a class; to help employers in choosing stenographers suited to their requirements and in general to bring employers and stenographers closer together in a mutual appreciation of each other's problems and difficulties." Would that the same sense of sweet reasonableness and co-operation pervaded many other corporate activities in India at the moment!

The Institute proposes to do for Stenographers what the Institute of Chartered Accountants does for Accountants, and the Institute of Engineers for the Engineers. The immediate platforms on which the Institute proposes to work are recruitment of members on restricted basis of graded qualifications, holding of examinations on revised syllabuses with a view to bringing the training of student-stenographers more into line with the actual work that they will be called upon to do when starting their career as stenographers, conferment of degrees, which, coming as they do from a responsible body of professionals, will help the employers very much in their harrassing task of choosing stenographers, publication of a journal in which to discuss the various problems of the profession, and insisting on the candidates for the Fellowship of the Institute to submit theses on subjects of general interest to stenographers, thus helping to develop professional literature.

From the beginning the Organizers who include such well-known persons as Mr. P. D'Abrew, Secretary to the Chief Justice of Bengal, Mr. S. K. Ghosh, B. A., F. S. D. S., Local Secretary to the London Chamber of Commerce Examinations, Mr. M. Vertannes, the experienced principal of the Rogers Shorthand Schools and Mr. N. Ganapathy Iyer who learned his lessons of useful service to the profession in his capacity as the Secretary of the Calcutta Shorthand Writers' Association for some years, and is now carrying that experience to a wider field of activity, have worked on very liberal principles of consultation with the leading members of the profession in India. Even now they appeal to every experienced stenographer in India to become a Foundation Member, which will confer on him the privilege of being one of the original founders of the Institute and will give him the opportunity of contributing his constructive ideas on the working of the Institute at a time when the Institute is still in its formative period. The Foundation Member, the number of whom will be restricted to those who join before the 31st December 1933, will have a voting voice on the proposals of the various Sub-committees which will be submitted to a meeting of the Foundation Members during the early part of 1934.

A stenographer asks me why he should become a Foundation Member now instead of waiting to become a member later on, and my reply is (a) Admission to the membership Grade later on will be on a stricter qualification basis than it is now for Foundation Member; (b) A Foundation Member automatically becomes a Member later on without having to pay further any

entrance fee, (c) He will be one of a small body of special Foundation Member-degree holders, the value of whose degrees will increase with the passage of time, (d) He will have the honour of having helped to found the Institute and to contribute his constructive ideas on the organization of the Institute, (e) the Foundation Members will have an effective voice in the future running of the Institute by means of special representation on the Council, and (f) a Foundation Member will have easier facilities of becoming a Life Member, should he desire to do so, than those who join later on. I appeal to every experienced stenographer in India to become a Foundation Member and help the formation of the All India Institute of Stenographers.

Some stenographers ask me what tangible benefits membership of the Institute will confer on its constituents. To the student-stenographer, I say that a certificate of the Institute in due course of time will enable him to obtain an employment sooner than any other certificate will do for this reason that employers will come to recognise sooner or later that a member of the Institute comes better prepared to fall into the routine of his office than any stray stenographer and that he is more amenable to discipline than others. Therefore, ask your Professor, if he has not yet become a Foundation Member, to do so immediately and to coach you in lessons so that you can appear for the Institute's Examinations. The Principals of Commercial Colleges will have the satisfaction of knowing that the course of instructions that they impart in coaching their students to enter for the Institute's Examinations is more approximate to what they will be called upon to do in actual practice than the merely academical course that is now being imparted to them in commercial schools and colleges. It will be only too evident that the co-operation of teachers and principals is highly essential for the success of the Institute, and, insofar as this is an effort to organize the profession, to which they have devoted their lifetime, I believe they will not be slow in taking advantage of this opportunity of joining the Institute and giving it the benefit of their mature experience and wisdom. Let me take this opportunity of assuring the teachers and principals of commercial schools and colleges that the Institute is most definitely under a promise not to run a coaching or training centre in competition with their schools, and that its efforts will be confined to prescribing syllabus and text-books and arranging for examinations and looking to the co-operation of the teaching body to send their students to the Institute's Examinations. I am now in a position to say that the Institute has the blessings of Mr. K. S. Aiyar, B. A., Reporter to the Legislative Assembly, whose contributions to the Pitman's system have been acknowledged by the Headquarters and who has also kindly consented to be on the panel of the Board of Examiners.

The Institute will, however, be of very great assistance to the average commercial stenographer in seeking employment and in retaining it when he has obtained one. The possession of the Institute's certificate or degree, the knowledge that he will derive from the pamphlets, the journals and other publications of the Institute, the facts, figures and professional information that will be available to him in later years—which are not now so available—will all contribute towards securing for him a better hearing from his employers than it has been in all the years past. The peculiar problems with which the Government stenographers are faced, as evidenced by the proceedings of the last Provincial Conference of Stenographers held at Trichinopoly in December last, as also by the very unfavourable scales of pay fixed for new entrants, vide recent newspaper reports, will also have the attention of the Institute, and I have no doubt that in a short while, representations made through an authoritative body of the nature of the Institute will decidedly carry more weight with the authorities concerned than if they were made haphazard by individuals.

A word to the lady-stenographers who might read this article. You have so far kept aloof from this movement. No doubt racial and natural shyness have a lot to do with it, but I firmly believe that the needs and problems of the common profession to which you belong side by side with the male-stenographer will induce you to take your proper share in the Institute. In the social life of the office the lady-stenographers have always maintained friendly and amicable relations with the male-stenographers. Will it be too much to ask of you to similarly take your active part as a corporate body in the corporate functions of the Institute which can help to improve the position of the lady-stenographer as much as that of the male-stenographer.

Economy.

BY

MUHAMMAD L. R. NABBOO,

Certified Economist, of Demerara, British Guiana.

Economy is the parent of integrity, of liberty, and of ease, and the beauteous sister of temperance, of cheerfulness, and health; and profuseness is a cruel and crazy demon that gradually involves her followers in dependence and debts; that is, fetters them "with irons that enter into their souls."

A sound economy is a sound understanding brought into action. It is calculation realized, it is the doctrine of proportion educed to practice. It is foreseeing contingencies and providing against them. Economy is one of three sisters of whom the other and less reputable two are avarice and prodigality. She alone keeps the straight and safe path, while avarice sneers at her as profuse, and prodigality scorns at her as penurious. To the poor she is indispensable; to those of moderate means she is found the representative of wisdom. The loose change which many young men throw away uselessly, and sometimes even worse, would often

form the basis of fortune and independence, but when it is so recklessly squandered, it becomes the worst enemy to the young man. He will soon find that he has bought nothing but expensive habits, and perhaps a ruined character. Economy, joined to industry and sobriety is a better outfit to business than a dowery.

The progress of civilization has incurred a necessity of barter and exchange as the means of subsistence. Thus wealth, as the medium of acquiring all the comforts and all luxuries of life, has obtained high consideration among mankind. Philosophers may therefore scoff as much as they please at the value placed upon riches, but they will never succeed in lessening the desire for their possession. When considered as the means of enjoying existence in comfort, it must be seen that it is only by the judicious expenditure of wealth, that this end can be obtained. Pass a few years, and the prodigal is penniless How few, under such circumstances, but, directly or indirectly, are guilty of injustice and cruelty. Debts unpaid, friends deceived, kindred deprived of a rightful inheritance—such are the consequences of profusion and are not such positive acts of injustice and cruelty? Let those, therefore, who indignantly stigmatize the miser as a pest to society, and in a fancied honourable horror miserly meanness are for showing their nobler spirit by running into an opposite extreme, reflect, that though different the means, how similar the results of profusion, how exactly conducting to the same crimes and miseries. The taste of the age is so much more friendly to prodigality; the lavish expenditure of wealth, by conducing to the gratification of society is so often unduly applauded, that it is an extreme much more likely to be rushed upon. But when the real consequences of its indulgence are fairly and dispassionately surveyed, its true deformity will be quickly perceived.

In short, economy appears to induce the exertion of almost every laudable emotion; a strict regard to honesty; a laudable spirit of independence; a judicious prudence in providing for the wants; a steady benevolence in preparing for the claims of the future. Really we seem to have run the circle of the virtues; justice and disinterestedness honesty, independence, prudence, and benevolence.

The Institute of Book-keepers' Journal.

A Cheque for ½d. Mr. Charles Emmot, Conservative M.P. for Springburn, Glasgow, yesterday received from the Treasurer of the United States a cheque for one cent (about ½d.) as a refund of tax illegally collected on dividend due to Mr. Emmot. With the cheque was a lengthy explanation.

Daily Despatch, 18th May, 1933.

Review.

Book-Keeping Self-Taught

BY

FRAMROZ. R. MERCHANT, F. S. A. A. (Lond.)

Bennett, Coleman & Co. Ltd.. Bombay.

Price Rs. 2—8—0

This small book on the Elements of Book-Keeping, as its title indicates, is intended for the laymen who are desirous of learning the subject without the aid of a teacher and with this object in view the author has begun from the very A. B. C. of the subject. The treatment of the subject is very good and the definitions of the various terms that are commonly come across in a study of this science are very concise and clear. We think this book should be a little more explanatory, and especially the lesson on Bills of Exchange which is a bugbear to the majority of the students of Book-keeping, to suit the best interests of the self-taught.

Edited and Published by **Mr. T. Kalyanasundram, D. Com., F.R. Econ.S. (Lond.)** Principal, Kalyanam's Institute of Commerce, 267, West Masi Street, Madura, (S. India) and printed on behalf of the publisher, at The Harisamaya Divakaram Press, No. 3, Manjanakara Street, Madura, (S. India.)