ROYAL COMMISSION ON INDIAN FINANCE AND CURRENCY.

MINUTES OF EVIDENCE

TAKEN BEFORE THE

ROYAL COMMISSION

ON

INDIAN FINANCE AND CURRENCY.

VOL. II.

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LIST OF WITNESSES EXAMINED.

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ROYAL COMMISSION

ON

INDIAN FINANCE AND CURRENCY.

VOL. II.

TWENTY-FIRST DAY.

At The India Office, Whitehall, S.W.

Thursday, 23rd October 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

LORD FABER.	Mr. ROBERT WOODBURN GILLAN, C.S.I.
Sir ERNEST CABLE.	Mr. HENRY NEVILLE GLADSTONE.
Sir SHAPURJI BURJORJI BROACHA.	Mr. JOHN MAYNARD KEYNES.
Sir JAMES BEGBIE.	Mr. BASIL P. BLACKETT (*Secretary*).

Sir JAMES S. MESTON, K.C.S.I., called and examined.

9020. (*Chairman.*) I think you are at the present time Lieutenant-Governor of the United Provinces?—Yes.

9021. Would you, for the sake of putting it on record in connection with your evidence, just give me a sketch of your previous Indian experience?—I have served in India, with a brief interval in South Africa, since 1885. For four and a half years I was Financial Secretary to the Local Government of what is now the United Provinces; and from July, 1906 to the end of March 1912, I was Financial Secretary to the Government of India, and also for a few months held the post of Finance Member before Sir Guy Fleetwood Wilson arrived. For the last 18 months I have been out of direct touch with the Finance Department.

9022. In the course of your long Indian career you have of course had very considerable experience of Indian finance?—Yes.

9023. I think you attend here to-day on the nomination of the Indian Government?—Yes. The Government of India have delegated me to explain as far as possible their views in regard to finance and currency. Perhaps I might explain that although they did so delegate me, they have not given me any definite instructions with regard to a number of points which seem to have occupied the attention of the Commission, and possibly the Commission may, if it sees fit, allow me to differentiate between any views which may be my own personal opinions, and the description of the views which are either on record or have been the subject of discussion by the Government of India.

9024. We should be glad to do so whenever you think proper. I propose to ask you some questions which will no doubt be supplemented by my colleagues, but I should like to say at the outset that if there is any matter which our examination leaves untouched, or which it leaves in your opinion obscure, I should be glad if you would tell me, say at the end of your examination, and supplement the statements you have made in answer to our questions with any further statements you think desirable?—I am much indebted to you.

9025. One of the first questions that attracted our attention was the high balances which have existed in recent years in London and in India. In regard to the Indian balances, to what extent would you say that their size was deliberate and to what extent it was accidental?—I think it would be unfair to describe the large balances in India as in any way deliberate. Some difficulty in answering the question arises from the fact that in considering the cause of our high balances we have really to take the Indian and the English balances together. We always proceed on the theory that the two treasuries are one and indivisible, and, as the Commission knows, the extent to which those balances are located in India or in England is very largely dependent on the action of the Secretary of State in drawing bills on India. With that reservation I should, on behalf of the Government of India, definitely rebut any suggestion that the balances were intentionally high.

9026. You will agree, I suppose, that they have been abnormally high?—They have since 1908–9 been abnormally high.

9027. The fact that they have been abnormally high is, I think you suggest, in part the cause why the London balances have been abnormally high; that is to say, the large amount of money available in India has enabled and encouraged the Secretary of State to draw more largely than he would otherwise have done?—Quite so; but the real radical cause why he has been enabled to do this, of course lies in India, because there we have collected our revenue, and it is there in a very large measure that we have fallen short in our estimated expenditure.

9028. What are those underlying causes in India?—To begin with, the theory on which we proceed is to budget as closely as possible for a closing balance of about 12 millions in India, and we understand that the Secretary of State requires a minimum of 4 millions in England. Now, as against this 16 millions, we have the fact that in 1908–9 the year closed with a balance of 18¼ millions. That in itself provided a margin which I think no one would regard as unreasonably

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high; but between then and the same date two years later, namely, the end of 1910–1, the balances had risen to 30¼ millions. In the subsequent period of another two years, up to the close of 1912–3, there was practically no reduction, so that perhaps you will allow me to take those four years as the period to explain. The increase in the balances is due—this is a mere truism—to the excess of actual net receipts over the budget figure. The main elements in the rise during the first two years were the large Imperial surplus, which for those two years I think aggregated 4½ millions, and the large provincial surplus, which in the same period aggregated 2¾ millions. The third main cause would be lapses in railway expenditure. In the following two years the budget was again very heavily exceeded by about 12 million sterling, and owing to that fact it was found impracticable to make any reduction in the general cash balances. If we go a step further and examine the reason why the Imperial surplus was so very much higher—perhaps I had better take the Imperial and provincial surpluses together, as that would make it very much simpler—than the Finance Minister had budgetted for, we find that, between the 1st April 1909 and the 31st March 1911, the opium was better than our estimate by roughly 4 millions sterling; Customs were about 600,000*l.* better—I am giving very rough figures; the railway revenue (net) was about 600,000*l.* better: what we call civil charges, that is the ordinary expenditure on the administration, such as education, medical charges, police, and all the rest of it—were about 600,000*l.* less than the estimate; the army expenditure was about 800,000*l.* less; and other heads contributed an improvement of one million sterling, the chief factor in them, as far as I remember, being the interest on these high balances which we are now discussing.

9029. May I interrupt you for a moment to ask whether, in regard to railways and education, the net expenditure was what we call here a failure to expend, or whether it was due to a real economy; that is, whether it was due to your inability to expend in the particular year the amount which had been granted, or whether it was due to permanent economies which rendered such expenditure unnecessary?—Perhaps I might split up my answer. The railway lapses, that is to say, the lapses in capital expenditure, were, I think, due to a failure to spend and not to any intentional economy. On the other hand, there was a very large addition to railway revenues, and both these factors worked in the same direction as regards the comparison with the budget. The two years were years of great prosperity, and the railways, as they always do, responded.

9030. I think we have had it in evidence before, but at the moment I forget: do the figures which appear for the railways in your Indian accounts represent the net revenue, or do you show the gross revenue on one side and the expenditure on the other side?—We have a device by which we show both on the revenue side. We show the gross revenue and underneath, in italics, we show the working expenses as we call them; then we draw a line and show, for revenue purposes, the net revenue.

9031. So what you bring into account is the net revenue?—Yes.

9032. Which would be increased, if the takings are greater?—Yes.

9033. Or if the expenses are less?—If the working expenses are less. It is a curious but well-known fact that in the years in which the receipts are very high, the working expenses rather tend to go down in some directions (*e.g.*, maintenance and repairs), but to rise in others (*e.g.*, running charges, coal, &c.), so that it is difficult to say precisely what relation there is between them. Coming to the second part of your question about education, I should prefer to put the position in this way: The Government of India found at the end of these two years that it had a considerable sum in hand which it had not expected, and had not prepared for, but which it was quite ready to spend profitably after due deliberation. The method in which it employed those funds was, to some extent, to hand over large grants for education and sanitation to the local Governments. The grants came to them at the end of the financial year, and indeed came to them very often at a time when they had got no definite programmes ready for their expenditure. The result was that the money was put away in the provincial balances, which form an item in the Imperial account, until such times as the local Governments should be able to draw up a most careful and economical programme for that expenditure. A large amount of those educational grants and of the medical grants is still lying in the balances, because—I can speak for myself, and I think that all the other local Governments would agree—it would be the greatest possible calamity to plunge into expenditure before we had got a programme ready for the most useful employment of the money.

9034. Should I be right in thinking the money is earmarked for those particular purposes?—Yes, carefully.

9035. When I interrupted you, you were enumerating the causes of the abnormal surplus?—I have given very briefly the main causes for the original rise in the balances from 18¾ millions to 30¼ millions. The ordinary procedure then would have been to arrange for a considerable reduction. That reduction in the next two years was not effected, for the following reasons: The budget was again exceeded under the following main heads—opium brought us 3·3 millions more than we budgetted for, Customs 0·6 millions, railways 3·9 millions, and other revenue heads, 2·3 millions.

9036. Are you now speaking in rupees?—No, I have been speaking in pounds sterling.

9037. They brought you in that amount more than you expected?—More than the budget. The total of those purely revenue heads was 10·1 millions. Then there were lapses in railway capital expenditure to the extent of 0·7 millions; there were lapses on the expenditure for the new capital at Delhi of 0·7 millions; and under other heads 0·5 millions, or altogether 12 million sterling. I think those are the main figures which elucidate the statistical position.

9038. I think we have had it in evidence that in each year the Government budget estimate was framed with the object of reducing the balance to something like normal, but that the renewed excess of income and deficiency of expenditure instead of reducing the surplus rather tended to increase it?—That is so.

9039. I am very far from desiring, even in a question, to indicate any disposition to blame the Government of India for caution in their budget estimates, having regard to what we have heard here as to the uncertainties of Indian revenue. But looking back on those years with the wisdom which comes from experience, would you think it unfair to say that the Government did err a little on the side of excessive caution in their financial estimates?—I must admit they did. Perhaps I might have an opportunity some time of explaining the reasons. There were reasons, because it was a course which was not lightly or hastily entered upon.

9040. I take it one reason was the great uncertainty of the opium revenue and the necessity of the Government estimating that revenue on the most conservative basis?—That was one very great reason.

9041. Perhaps it would be convenient if you indicated the other reasons now?—The broad reason is what you have already mentioned—the fact that in our financial work in India the only possible tradition upon which we can work, the only possible theory upon which we can base our calculations, is great moderation in our estimates of all ordinary revenues. We have to assume that the harvests will be normal and that all the numerous consequences which follow from them will be on the same lines. The fact is that for several years the caution that was exercised, and ought to have been exercised, on those lines was veiled by the large reductions of taxation that were made in Sir Edward Baker's time. When Sir Edward Baker was Finance Minister he deliberately set himself, with the full concurrence of the Government of India, to remove as far as possible all the extra taxation that had been imposed on India during the time when we were struggling against bad exchange. It was felt that our first duty to the taxpayer in India when we

got our rupee on a stable basis was to get rid of that extra taxation. The consequence was that year after year a very large excess over our ordinary normal caution would have appeared in our figures if it had not been for those large reductions. Then there came at the end of that period, with striking suddenness, the catastrophes of 1907, 1908 and 1909. We had a big famine in 1907, and we had, as the Commission knows, the American financial crisis; so that in 1908–9 we closed with a deficit of 3¾ millions in our revenue budget. That was simultaneous with the arrival of a new Finance Minister, and the first experience which he gained of Indian finance appeared to him—and very naturally appeared to him—a failure on our part to realise the dangers to which we were exposed. It also forced the Government to call a halt in all this liberal policy of the remission of taxation. The result was that the next year a certain amount of new taxes of which you have heard, on tobacco, silver and other things were imposed. It is quite arguable now, and I think it was quite arguable even then, that for immediate needs that taxation was probably unnecessary, and that we could have got over the crisis of 1908–9 by temporary borrowing. But there appeared at the same time on the horizon a consideration which is not probably before the public. That was the fact that the Government of India knew that very large claims were going to be made upon it under Lord Morley's instructions for the development of a programme of social reform. We knew that a very big scheme of education was in the air, and we had estimates prepared in the Secretariat, which have never been published, which indicated the enormous call upon us in the near future. It was the same with sanitation and medical advancement; and the same with the improvement of the police. It was also evident that in many respects the Army was getting behind in its equipment and armament. Hanging over us the whole time was what appeared to us at the moment the terrible calamity of the loss of the opium revenue. We knew that China was moving, and we knew that sentiment in India was very much in sympathy with it. The net result of all these considerations was that we felt that a certain amount of financial heresy was permissible. It was essential to economise, and we did economise very considerably. We also stood by the taxes that had been imposed ostensibly for the troubles of 1908–9, and which were now necessary for the real needs of the country in the near future. This explanation may possibly not be regarded as a defence of under-estimating, but I think it is a reason for anticipating high surpluses. The under-estimate, I think, was simply a matter of, as you have said, probably exaggerated caution. There the personal element comes into play. Some of us would have been prepared to budget for a crore or two more, but the Finance Minister of the day felt that he had come in at a very difficult time and that he had a very difficult part to play, and he was determined to be on the safe side.

9042. I suppose if any British Chancellor of the Exchequer had been confronted with the same circumstances that you have described as having faced the Indian Finance Minister, he would certainly not have been disposed to over-estimate his revenue in the immediately ensuing year?—I fancy not. He would also have had the advantage probably of being able to take the House of Commons into his confidence.

9043. When all that is said and done, we come back to the fact, do we not, that, apart from the circumstances of those particular years, Indian budgetting is a particularly difficult operation. I make that suggestion because it appears from the evidence that we have received that the revenue of India, whether it be derived directly from agriculture or indirectly from agriculture, is really dependent upon the harvesting of the crops, and the Indian Government has to make its estimates at a time when it has no knowledge and can have no knowledge of what the crops are likely to be; that is so, is it not?—That is perfectly true.

9044. It has been suggested to us, and I should like to make the suggestion to you, that the Finance Minister could estimate with much more accuracy if the Indian financial year were changed. Suppose that instead of ending, as I think you do, with the last day of March and beginning your new year on the 1st day of April, you began the new year on the 1st day of October; by that time would he not have, at least as to the major monsoon, such knowledge as would enable him to make a much more accurate and satisfactory forecast of the probabilities of the Indian year?—That subject has been considered from time to time, and I think the main considerations in weighing the proper date are, as you say, the desirability of greater knowledge of the consequences of the monsoon, and also the recognition of the very long time which it takes to prepare our budget. The Indian budget is an amalgamation of a vast number of other budgets which are prepared by all sorts of authorities, right down to the district officer. It is hardly an exaggeration to say that the district officer, who after all is the authority directly responsible for the collection of the land revenue, on which everything hinges, begins his calculating six months before the budget is discussed in Council. Now, if the financial year were altered to an October–September one, we should have the district officers beginning to prepare their estimates long before the monsoon commenced. It is quite true that we could correct them roughly and on broad lines in August, but the correction would not be a particularly valuable one, because although it is true that most of the rainfall judged in inches ought to fall if it is going to fall at all by the end of August, still there is an extraordinarily important period of rainfall which comes about the third week in September, and if that fails, our experience has always been that there is a great shortage in the area which it is possible to value for the Winter crops, which after all are the great export crops. Consequently we are a little sceptical whether we should be able to prepare a budget to put before the Council on the 1st September—the latest possible date we could do it—which would be much more valuable than the present estimate.

9045. I was suggesting that you should begin your year not on the 1st September but the 1st October?—I am assuming that our financial year begins on the 1st October. Our present practice is to prepare the budget and place it before the Council precisely one month before the commencement of the new financial year. At the present moment our budget is laid before the Council on the 1st March for the year beginning the 1st April following. Under the scheme you suggest I assume the present conditions, *ceteris paribus*, would prevail and therefore the budget would, I take it, have to be ready on the 1st September, and at that period we should not be in a position to give a very valuable estimate of the consequences of the monsoon which was just then closing.

9046. My experience is British, as you know. We do not here habitually present the budget until after the new financial year has commenced?—We have always prided ourselves upon our virtue in that respect, that is, upon finishing the whole of the discussion before the year begins.

9047. All I would suggest is, that there would be no serious loss of revenue if your budget statement was made shortly after the 1st October or close to the 1st October, instead of being made a month in advance of the new year?—Quite the contrary; we should be very glad of the extra period of grace, because it would enable us to give a much more correct statement of the actual figures of the year just finished.

9048. Is there any insuperable objection in regard to the necessary movements of the Indian Government and of its officers in making the financial year commence about that time?—I do not think so.

9049. It would not interfere with the Viceroy's or high officials' Autumn district tours?—The consideration of the budget in Council alone takes quite a month; and a change of the date which you indicate would mean that the Council would meet for that purpose at the Summer headquarters of the Government, both for Imperial and for provincial Governments, which might be inconvenient to a number of the unofficial members. Several of the Indian gentlemen on the Council rather dislike being detained for any length of time in the Hills, and the same would apply, I think, to the local Governments. To that extent there would be inconvenience. But if the Commission contemplate the discussion of changing the dates, might I suggest that the calendar year would be in many ways one which would suit us very much better than the present financial one.

9050. Would you prefer that to a year beginning on the 1st October?—I think it would be much more helpful to us from the point of view of precise estimating, and from this point of view also: Assuming that we maintain our previous standard of virtue and lay the budget on the 1st December, we should then have before us a full and complete account of the rains; we should know exactly what sort of harvests we were going to get in, and what sort of revenue was going to come in, during the first three or four months of the year; and although it is true that we should miss the experience of what is called the Winter rains, still we should, I think, be able to give a slightly better and a slightly stronger estimate than we do under the present conditions. But I do not think the 1st October would help us.

9051. It has been objected in evidence before us that at the present time—and I suppose this must be the case whatever your financial year is—the great bulk of your collection of taxes takes place at the time of the greatest trade demand for money, and that you have in fact more money locked up in your Treasuries at the moment when the trading community needs it for the movement of crops than at any other time of the year?—Broadly speaking, that is true.

9052. In so far as it is true it is unfortunate; perhaps you will agree with me in that?—Yes.

9053. I want to put to you a suggestion for your opinion. A good many witnesses have attempted comparison in this and in other matters between Indian conditions and British conditions here at home; I can see that there are very great distinctions, but for the purpose of putting my question it would be convenient for me to use our British practice as an illustration. A great part of our revenue, almost the whole of the income tax, for instance, is collected in the last quarter of the financial year; if we followed the Indian practice we should, I suppose, budget for such opening balances as would make us independent of borrowing for the first three-quarters of the year, and we should meet the expenditure of those three quarters, in so far as it was in excess of the revenue then coming in, out of the balance carried forward from the preceding year. As you probably know, that is not the system which prevails here. We borrow on deficiency advances, Ways and Means, bills, &c.; the Government is a borrower in what are for them the lean months of the year, and pays back the money to the market when its revenue comes in. Would it be safe to try anything of the same kind in India with the Indian financial conditions; in other words, instead of budgetting as you now do to produce a balance at a time when it is at its lowest which is sufficient for all your needs, could you count upon borrowing in the lean times and repaying when your revenue comes in?—In other words, making very large material reductions in our permanent Treasury balances?

9054. Yes. Of course, as a necessary consequence of that, you would have to count—and that is really my question, could you count—upon borrowing for the months before your revenue came in?—This is one of the points on which I am afraid I have no instructions at all; but speaking from one's personal experience, I should feel very considerable doubt whether it would be possible to raise the large sums we want for Treasury purposes during what, from the Treasury point of view, are the lean months. We do in practice raise our annual loan in July, which I suppose is the beginning of the lean time, but we know from our own experience how difficult it is, first of all, to forecast the amount that we are likely to get by that loan; secondly, to get any substantial amount; and I fear that still greater difficulties would apply to raising money on temporary Bills. It must also be remembered that about that time of the year most of the local bodies are in the market. The Indian market is a narrow one essentially, and besides the Government borrowings you have now large and increasing borrowings by City Improvement Trusts, Port Trusts, Municipal Boards and all the rest. They all come in at the same time, and I think they take all the money off the market that is available. Your suggestion means, if I may just add another word, such a complete departure from our practice of being our own bankers, so to speak, that I am sure India would like a little time to consider it if it is going to be pressed.

9055. I was very anxious to express no opinion in the form my question took, but I agree, I may say at once, with your conclusion. You mentioned, in answering my question, the loan which the Government raises in India; you would hold, I suppose, as most of the other witnesses have done, that the lower India can keep its commitments in sterling in London, the better?—I entirely agree.

9056. It would follow from that that India's need for capital being so large, the more capital that can be raised in India the better?—Certainly; and the more money the Government can itself raise in India, the better from a political point of view, if from no other.

9057. Do you think that the Indian Government has raised as much in rupee loans in India in recent years as it might have been possible to raise?—There I have to express a personal opinion. I do not think they have. I think the Government of India could have raised substantially larger amounts on a good many occasions, without departing from the present system of borrowing. It has frequently been impressed upon us that we should go further, that instead of trying to add a crore or a crore and a half to our annual $3\frac{1}{2}$ per cent. loan, we should have another form of loan which would probably be more popular and appeal more to the ordinary investor. That has been several times considered, and several times rejected. However opinions may differ on that point, I think we are all at one in feeling that the Government of India might have more if it took from the market all that the market could afford to give it.

9058. Do you think that it can make a substantial increase year in and year out in the amount that it raises in India?—I think on the average of years it could make a substantial increase. For instance, in several recent years we have only raised a crore and a half or two crores when I think we could have easily raised three or three and a half; we have done that at times; we have gone as far as four and a half without any serious calamity.

9059. I gather you do not think that you could fix any figure, say, $4\frac{1}{2}$, and maintain it absolutely?—No, I think not. It depends so much on the condition of the market each year, which varies more than it does in any other country that I know of.

9060. There is another branch of this question of the balances. Apart from the balance which is held in London, it is sometimes suggested that you keep more in the local treasuries or reserve treasuries than is really required for your wants; what do you say to that?—As regards the reserve treasuries, the money that is stored there is an extraordinarily fluctuating amount. It is really a reservoir for the Secretary of State's drawings, and unless we know more definitely what the Secretary of State's drawings are likely to be, I doubt if we could at the moment reduce the reserve treasury holdings all the year round materially, but I quite agree we could reduce them during the busy season. As regards the other treasuries, I have seen some suggestions in the evidence given before this Commission, that, first of all, the treasuries are too numerous, and, secondly, that they are rather too well fed. Perhaps I might explain what our difficulty in that matter is. In the first place, we must have a treasury for each administrative district. That fixes the minimum figure, and the actual number of treasuries in excess of that I think is very small. Then we have got to consider what the duties of a treasury are in estimating the amount of money which has to be kept at it. If I may give a concrete example, taking the province that I know best myself, every district of about 2,000 or 3,000 square miles has a headquarters treasury, fed by four or five detached sub-treasuries. The whole of the revenue of the district, which may amount to anything from five to twenty lakhs a year, is paid into this treasury. The income tax comes into it, but in ordinary country treasuries the income tax receipts are very small. The excise comes in, and the stamp duties come in; they are also relatively small. You have got nothing in the way of Customs; you have got no salt receipts, and you have got as a rule no railway receipts. The consequence is that the amount coming in is somewhat spasmodic as regards its dates and somewhat small as regards its amount. At that headquarters, apart from the district needs and apart from the maintenance of roads and staff, railways, schools, hospitals and all the rest of it, it may be that you have a large cantonment, and you have very large sums every month going out for the payment of the troops and for commissariat and transport. You may also have a station which is a favourite abode of old pensioners, and consequently you may have a very heavy pension list; or it may be an opium district in which the advances for the opium harvest are extremely high. The consequence of all this is that your net outgoings in this particular treasury at times are extremely high, and that, as an ordinary precaution, we have to keep at that treasury a very much larger balance than the year's total indicates to be necessary. When you multiply that by the large number of districts of this type that we have in India, I think you will find—and the calculations have been revised carefully and minutely a large number of times—that the total aggregate of the treasury balances in the districts is by no means excessive.

9061. You agree with what has been stated to us by other witnesses then, that the balances so kept are the result of actual experience, and are periodically revised with a view to their reduction, if reduction is possible?—That is so.

9062. Such revision will, of course, be necessary, but I understand you do not think in the future that any large reductions can safely be made in the aggregate?—On the contrary, I think the tendency will be to increase them. The Comptroller-General devotes a great deal of time and labour to this question of the movement of the funds in the most economical way, but the whole tendency since I have been associated with the finance department, has been to increase the balance.

9063. You have in some cases been able to close treasuries owing to the opening of banks?—We transfer the treasuries to the banks.

9064. In those cases, at any rate in the initial years, you have not saved anything as far as your balances are concerned?—No; on the contrary, we have had to guarantee in many cases a balance which was distinctly higher than we should require for our own working.

9065. I think it has been suggested that from those treasury balances you might make loans to the public; what do you say to that?—I am a little handicapped in answering that question, because the attitude of the Government of India has altered in the last few months. Perhaps I may explain first of all what was the theory until quite recently. The proposal to lend surplus treasury balances to the banks during the busy time is a comparatively old one. It has been put forward and accepted in times of crisis on more than one occasion; but the Government of India have always, until quite recently, stood out against any promise of loans to the public on ordinary occasions or upon any terms that might be considered at all favourable. The feeling that they had in the matter was that the loans would be undesirable and unhelpful. They felt that the Indian market is a somewhat narrow one, with cash at the bottom of all its transactions and comparatively little credit, and that all the marginal cash which is really necessary reaches the market through the exchange banks. What they felt mainly was that the Treasury balances are again very variable in quantity, and it is impossible to say in regard to any given year that they would be so high as to enable any very large and substantial loan to be given to the market. If that is so, it has always seemed to the Government of India that to establish a practice of loans to the market during the season of high balances would tend to encourage the banks to reduce *pro tanto* their own provision of funds, that is to say, there would not be an aggregate addition to the loanable capital in the market. Then if a bad year came and the Government of India withdrew its funds, or refused to lend its funds, the banks would find themselves in a tight position, and they would have to raise money on onerous terms at very short notice with possibly the result that the bank rate would go higher than before. The consequent feeling against the Government would be considerable, and it might generate a crisis which would be extremely undesirable. That, briefly, was the view that was taken until a few months ago, but since I started to come home I have received a draft copy of a despatch* which the Government of India have sent to the Secretary of State, and which probably may be before the Commission for all I know, or may be coming before the Commission, in which they propose as a tentative measure that during the ensuing busy season a loan up to, I think, three millions sterling should be given to the Presidency Banks.

9066. From the balances?—Yes.

9067. Supposing that this precedent of lending when it is convenient to the Government of India, were to be followed in subsequent years, have you considered at all whether the most convenient source for the loans would be those treasury balances or the Paper Currency Reserve? I ask you in answering the question to put aside any objections arising out of the existing statutory regulations of the Paper Currency Reserve, and to assume that they might be altered if thought desirable?—I ask permission to give a personal view, because the matter has not been discussed yet fully by the Government of India. Personally, I dislike the idea of lending treasury balances, partly for the reasons that I have tried to indicate, and partly also because I think that the duty of wisely and judiciously disposing of balances is hardly a duty which a Government department can efficiently carry out. I think the time will come—it is bound to come on occasions—when the officer of the bureau responsible for the treatment of treasury balances will have an extremely difficult task before him. I do not speak about a year of famine, because I think in a year of famine the demand for money probably would not arise; but you might have a great rush of Council drawings, or you might have a run on our savings banks, which would mean very large issues from our balances; or you might find an extraordinarily opportune moment for heavy capital expenditure on productive works on advantageous terms. It would then be the duty of the responsible officer of the bureau to weigh these claims with the claims of the market, which might at the moment be particularly insistent, on a very limited margin of funds. I personally should very much dislike to be the person in that position. I should not feel that I had the necessary knowledge, and I do not think that anybody, except a banking corporation could carry on that work satisfactorily. If you turn to the other alternative, that is to say, loans from the Paper Currency Reserve under reasonable modifications of the statutory provisions, I have at the outset to say that the Government of India have objected also to that. They hold that the Paper Currency Reserve is a trust fund, and that as the law stands they are not justified in suggesting any other use of the money lying there except for the convertibility of the currency notes. They also doubt whether rupees would be available in a very busy season with heavy trade demands from the currency reserve without fresh coinage. They also feel that if the currency reserve did happen to be so permanently flush of money as to be equal to giving big loans to the market, the proper treatment would be to increase the element of permanent investment. That is the official view which has been taken as regards the Paper Currency Reserve, and I think the Government of India will probably say the same, although they have not

* *See* Appendix XXXVII., page 701.

discussed it. with regard to the scarcely separable process of an enlargement of the note issue by the issue of uncovered notes.

9068. Let me ask you to give your personal opinion here. If you have to choose between lending from the balances or lending from the Paper Currency Reserve, which would you object to least ?—Personally, I should not have any serious objection to lending from the Paper Currency Reserve. It seems to me that our reserve operations in the past have been almost too careful.

9069. Will you agree with this line of reasoning: The grievance of funds being locked up in the Government coffers is most felt when trade is busy, and when trade is busy the tendency on the whole must be for the note circulation to expand; it is not at that moment that notes will return for encashment. Of course you will understand that individual notes, and even large masses of notes, will always be coming in and going out, but on balance at times when trade is busy will not the note circulation be on the increase ?—It ought to be.

9070. If that is so, then that moment when the market most needs relief will also be the time when the Paper Currency Reserve will be in the best position to give relief ?—My memory is a little treacherous on the subject, but my recollection is that the volume of note circulation tends to diminish during the busy season in India on account of the heavy Council drawings.

9071. (*Mr. Gillan.*) I think what the Chairman has in his mind is the net circulation ?—Then I should like to correct my answer. During the busy season, when Council bills are very active, and payment for those bills is taken from the reserve treasuries, a very large number of notes are taken from the treasury and presented in exchange for rupees, the notes are cancelled, and to that extent there is a reduction in the gross circulation. Otherwise I quite agree with the general proposition that during the busy season the net circulation ought to increase.

9072. (*Chairman.*) Before leaving the question of the balances finally, I would like to ask if you have any observation to make on the drawing of Council bills ?—The Government of India are quite satisfied, and have been quite satisfied, about the system of drawing Council bills. I have been instructed to express the hope that the Secretary of State will, as far as possible, refrain from large drawings when the exchange drops below 1*s.* 4*d.* That is the official view held at the present moment, but personally I cannot press the matter, as I do not altogether agree with it. I think I shall be perfectly safe in saying that the Government of India would be glad to see, if possible, somewhat lower drawings when exchange is drooping; and certainly I do not think we ought to be in the position which, if my memory serves me, we were in once or twice several years ago, when we were selling bills on both sides simultaneously.

9073. I suppose I may take it that the Government of India will agree with those who have represented to the Secretary of State that the first consideration of the Secretary of State must be how to get over here the money that is required for Indian charges on this side ?—Entirely, provided he does not go below the gold point.

9074. That is, he must not refrain altogether from buying when exchange is comparatively low, unless he can be perfectly certain that he will be able to cover the whole of his needs at a later time when exchange is high ?—I quite agree.

9075. Now I pass to a different subject, the Gold Standard Reserve. Does the Government of India desire to make through you, or do you desire to make on its behalf or your own, any representations to this Commission as to the size of the Gold Standard Reserve, or as to its composition ? Let us take its size first ?—The Commission has before it, in the printed memoranda which the India Office submitted, a very voluminous correspondence between the Government of India and this Office in regard to the size, the composition, and the treatment of the Gold Standard Reserve.* What I have been asked to say is that there have been reasons in the past why the Government of India have taken strong exception to the dicta of the India Office on this subject. There is no desire whatever to rake up controversial matter, and a great deal of it has been laid for ever. The India Office have step by step come, we think, nearer our view, and we are extremely grateful to them for doing it, but we still stand very firmly on the sentiment—it is more than sentiment—on the certainty, on the conviction, that there can be no finality about the size—I take the size, as you wish me—of the Gold Standard Reserve. We believe that even the last decision of the Secretary of State, great improvement though it was on the previous decisions, is one that we shall still induce his Lordship, or his successors, to modify. We wish to see the Gold Standard Reserve built up without reference practically to any definite maximum. If a maximum were called for at the moment, we should probably say we should be glad to see 30 millions, but that can only be with reference to present conditions, and we should be very sorry to say that five or ten years hence a certain figure would be adequate.

* Printed in Appendix V., page 109, Cd. 7070.

9076. I want to make certain that I have your reasons for the views you have expressed as similar views have been expressed by other witnesses. Will you tell me why it is that you think it impossible at the present time, or in the highest degree undesirable, to fix anything as to the amount of the Gold Standard Reserve ?—I am afraid I did not express myself very clearly if I suggested that. What I wished to imply was that although for the moment we should be glad to accept a figure of 30 millions, still we should not be prepared to regard that as a figure for eternity, so to speak.

9077. That comes, I think, to very much the same thing as I was putting—that you take 30 millions as a limit, because it is a limit which you have not nearly reached, but you think if you were drawing near to that, you would be very likely to ask the Secretary of State to reopen the question ?—Yes. I will explain briefly how it appeals to us. Our experience has been extremely limited. We have had only this 1907–8 calamity. Whatever may be said about that, the fact remains indisputable that the 1907 famine, neither in its duration nor in its area, was anything exceptional. It was a limited famine, and you might easily conceive of a very much worse one. In the second place, we feel that the financial crisis which occurred in New York, and upset the markets is not, so far as we know, the last word in crises—that we might have something very much greater and very much nearer home, and it might be simultaneous with troubles in our own borders, such as war or civil disturbances. Then what we feel more than all that is that our experience of the new conditions only dates from 1908. Up to that time, whatever the outside world may have thought, it is, I believe, beyond question that the Secretary of State or the Government of India never went beyond a justification of the Gold Standard Reserve for any other purpose than the purpose of meeting the Secretary of State's home charges. In 1908–9 we committed ourselves to what appeared to us to be a new confession of faith; we probably had the faith all the time, but we had not confessed it in public. What we did then was to commit ourselves to *contra mundum*, instead of *contra* home charges, so to speak. The consequence is that we really do not feel that we know enough of what that liability implies. I personally quite admit that the liability to maintain our standard has been somewhat unwisely overstated in certain quarters. I think, for instance, the statement that we ought to have enough to convert every rupee in India into gold is nonsense; to have enough gold to convert even 25 per cent. of all the rupees in India is probably sufficient. The matter, however, is conditioned by the whole question of the balance of trade. It seems to me, and to most of us who have thought over the matter, that the trade of India is a thing which is bound to increase. India is only at the beginning of its industrial development, its social improvements and everything else, and the probability is that both its exports and its imports will increase enormously, that the balance of trade will consequently constantly alter, and that to maintain that balance of trade we ought to have a figure which I should consider no man wise if he attempted to forecast at present.

9078. If I rightly understand you, your view is that the size of the Gold Standard Reserve is not to be conditioned by the number of rupees circulating in India but rather by the necessities of external trade ?—Yes, I personally think so.

9079. And therefore—I think you imply this in your answer—as the trade of India grows, so, though not necessarily in the same proportion, the Gold Standard Reserve should grow also ?—I think as a broad and simple way of putting it, that is what we ought to stand by.

9080. So much for the size of the Gold Standard Reserve; now as to its composition. There have been some discussions in the past between the Government of India and the Home Government on that, but what we are most concerned with is the practical question of what ought to be done now ?—There again, the view of the Government of India is no doubt familiar to the Commission. They have pressed from time to time for a much larger ingredient of what we call liquid gold. Although the Secretary of State has consented to holding five millions in that form, I think the Government of India would ask for, say 10 millions. The reasons for that have been stated over and over again. They are not entirely dependent on what we may call the quantitative theory of the currency, because he would be a very foolish man who attempted to press the quantitative theory too far. The Government of India have always felt that the position of strength at which they ought to aim is a position at which immediately on the occurrence of a crisis in exchange they should be able to release substantial and imposing amounts of actual gold at the same time as they are contracting large amounts of silver currency in India. They do feel that this operation, the release of gold, will not be achieved by selling securities and simply transferring gold from one hand to another. What they feel they ought to have is a large hidden reservoir of gold of their own which they can open when a crisis arises.

9081. As regards the location of the main portion of the reservoir or reserve, have you any objections to offer to the practice of holding it in London ?—During the time of less confident relations between Calcutta and London I think the Government of India rather favoured the view of many critics in India that it would be a good thing to have the gold under our lock and key, so to speak, as when it went to London we did not exactly know what happened to it. That has all passed now, and personally I think there can be no question that the proper place to hold the gold is in London, where it is required for the settlement of international balances.

9082. You spoke of having gold to release in such a crisis; had you in mind then the release of gold in London and in London only, or were you thinking of releasing gold in India too ?—I think it would be much more effectual to release it in London than in India.

9083. To such an extent as you had it in India, would you release it freely if such a crisis as 1907–8 arose again ?—Yes.

9084. In that crisis there was some hesitation, I think, which may be easily explained, as it was due to the novelty of the circumstances, in freely using the resources which the Government had; I gather that in your opinion if a crisis arose again those resources should be used freely and at once to relieve the crisis ?—I entirely agree.

9085. By a crisis do you mean a crisis in exchange ?—I mean a crisis in exchange. Would it be permissible for me now to take advantage of your very kind offer to supplement your questions, in view of the very acute and as we feel undeserved criticisms to which we have always been exposed over this so-called mistake in 1907, to give a very brief narrative of what actually happened ?

9086. Please do so ?—The facts are that on the 14 November 1907—I am giving the exact dates as I think they are somewhat important—we had a telegraphic intimation from Bombay that the exchange banks there were asking for large supplies of gold. Our total supply of gold at the time was extremely low, and a considerable part of it was scattered about in the treasuries up-country from which it was very difficult to collect it at short notice. We consulted commercial opinion upon the subject, and although certain of the persons whom we consulted advised us to hand out all the gold that we had, others advised that the money was simply going to be utilised in connection with the speculations which were then going on in America, and that we should be thoroughly justified in maintaining the funds under our own control and for our own purposes. On the 19th November, before the Government of India had come to any decision on the question, the same bankers applied for telegraphic transfers on London at a fixed rate. We felt at the time—and the position was somewhat different from what it is now—that if telegraphic transfers were to be given we should only do so through the Paper Currency Reserve, and consequently with the consent of the Secretary of State, whose consent, of course, in any case would have been necessary. We accordingly stated the facts to the Secretary of State in a telegram of the 19th November. On the 20th November the Secretary of State wired to us instructions to refuse gold to the banks. On the 21st of the same month, that is, on the following day, he wired out again and said that perhaps freer issues of gold might not be undesirable, even if the banks were making big profits out of them. On the 25th November, the question then being under daily discussion with the bankers in India, the Bank of Bombay advised our sending telegraphic transfers at 1*s.* 3$\frac{27}{32}$*d.*, and the representatives of the exchange banks the same afternoon asked us to do nothing of the kind, but to let them have gold in India. So that at that moment there seemed to us to be no very clear view of either the needs of the market or their wishes. We were perfectly prepared to let gold out if it was going to assist the position. On the 27th we again explained the whole position to the Secretary of State and told him that we had got a million of gold available for issue and that we were prepared to issue it, but that we felt we could not promise anything in the nature of telegraphic transfers unless he was prepared to maintain the redemption of such drawings and we did not know what his capacity in that respect was. On the following day he wired back to us asking us, if we agreed, to let the banks know that we should issue telegraphic transfers on him at 1*s.* 3$\frac{27}{32}$*d.* We did so at once, and the episode was over.

9087. The exact account you have given of what took place in those years is very interesting and useful, but I think the important question is to see what is the lesson of those years for the future. I understand you to have told me that in your opinion the primary and all-important object for which the Gold Standard Reserve exists is to maintain the par of exchange ?—That is so.

9088. And that if a crisis arises it should be used freely for that purpose ?—Yes.

9089. Then the question arises, in so far as you have gold in India at such a moment, how could it be best used ? In your opinion should the Government give it out freely in India, or should they not give it out in India but ship it to London and sell transfers against it ?—The gold in India to which I have been referring in the history which I have just detailed, and I take it the gold to which you also refer, would be gold in the Paper Currency Reserve, not gold in the Gold Standard Reserve ?

9090. I think there is no gold in the Gold Standard Reserve in India, is there ?—There is occasionally, but not as a practice. I only mentioned that because we were talking about the Gold Standard Reserve in the first instance. However, the position regarding other gold, that is, gold in the Paper Currency Reserve or gold in the Treasury Balances, is, I think, that it would dribble away very rapidly before the actual occurrence of an exchange crisis, but that when the exchange crisis comes we should freely give gold in India in so far as it is asked for and required. I should not contemplate a situation in which it would be necessary to ship gold on Government account from here, because one would hope that the Gold Standard Reserve and the Paper Currency Reserve gold under the Secretary's of State's control would be brought into play.

9091. And would be sufficient?—And would be sufficient.

9092. Would you anticipate that gold given out in India would would have much effect upon exchange?—There experience again is somewhat limited. We know that particularly during the crisis in 1908, although a very large amount of gold dribbled out of the treasury, a very small amount of gold was actually exported. I would not personally draw too wide a deduction from that somewhat limited experience. I am disposed to think that although the so-called waistcoat-pocket gold is not in the first instance an important factor in supporting exchange, still the position might arrive in India at which the gold in circulation, or still more so the gold in hoards, would become a very valuable instrument in assisting us against an exchange crisis: that may be in the far-distant future, but I think it will come in time.

9093. In so far as that gold is in hoards, what circumstances do you think would bring it out in great quantities?—The most obvious circumstance I think would be a scarcity.

9094. A scarcity of what—that is my point?—I mean a scarcity of food.

9095. But not a scarcity of gold?—No. Before going on with that question, however, I ought to differentiate between gold bullion and sovereigns; I think there is a possibility of a little confusion of thought in that respect. When I said that a shortage of food would bring gold out, what I implied was that I think the people would produce their ornaments, their gold bullion and their hoards, in very large quantities; I did not mean to suggest that rich people, who had stored up large quantities of sovereigns, would produce them in those times; I think it is probable they would not, because sovereigns are then at a high premium.

9096. When the sovereign goes to a premium, there is a tendency rather to stick to their sovereigns than to yield them up?—Quite so.

9097. Do you think there are any circumstances, except the pressure of actual need by famine, in which gold hoarded would come out in large quantities?—In our present position, I do not see any other circumstances. As I say, I think in the future, when the country is more saturated with gold than it is at present, gold would be bound to come out to pay the international debts, if everything else fails; but that is not at all likely to happen so long as the Government hold a sufficient reserve of gold in their balances.

9098. Do you think there should be, from the point of view of the Indian Government, any attempt to frame statutory regulations for the management of the Gold Standard Reserve?—I think the Indian Government would have no objection to a statutory description, if I may so put it, of the reserve and of its purpose, but neither the Indian Government nor any of its members have ever attempted to formulate, to draft if I may so say, an Act on the subject. We feel that the Act would be an uncommonly short one. The only general principle which we should like to see laid down under the authority of Parliament is that the reserve is to be, until it reaches a definite figure, exclusively used for the purpose of supporting exchange, and not to be turned aside for buying rolling stock or the like. Apart from that, the other statutory provisions we contemplate would be simply a wide power to the Secretary of State for making rules for his own guidance. It is not a point on which I think the Government has any strong sentiment one way or the other.

9099. Now I turn to the paper currency reserve; have you any observations to make about the strength of the silver holding?—There again, as the Commission are aware, there has been a considerable amount of recent discussion and correspondence. The Government of India has fully accepted the lines of an extremely careful memorandum* which I believe Mr. Abrahams drafted, in which it was advised that we should organise our coinage operations so as to hold 24 crores of silver in the paper currency reserve on the 1st October, the idea being to ensure that we should have 17½ crores on the 1st of the following April in each year. As I say, the Government of India accepted this proposal, but the scheme has since been somewhat still more developed into a series of definite standards. What I understand the Government of India now aim at is to have 24 crores in the reserve on the 1st November, and so to regulate their coinage that in a year of heavy absorption there would be 18 crores left in the reserve on the 1st May, and I think 24 crores on the same date in a normal year. They have also formulated standards which will enable the coinage to be undertaken much more regularly and almost automatically, but liable, of course, to stoppage in the event of the conditions suddenly altering in the course of the year. It would probably be inexpedient for me to give the dates on which they propose to buy silver for these purposes. The great point is that they have so arranged their programme as to give timely warning to the Secretary of State, whom they leave to do the buying.

9100. I gather from what you have said that the Government of India is taking steps to get its silver purchased more regularly?—More regularly with reference to a more regular coinage programme.

9101. In the hope, perhaps, that it may not be forced to purchase such large quantities at a given time, as occurred just recently?—So as not to purchase at such short notice, I should say.

9102. You have already, in answer to questions of mine, said something about loans from the Paper Currency Reserve; I should like to ask you now in that connection whether you have considered at all whether it would be safe, with the experience that you now have of Indian currency, to take powers to increase the fiduciary portion of the Paper Currency Reserve?—Do you mean by that the portion which is invested permanently?

9103. I would prefer to say the portion which is invested. I will explain that, if it is not quite clear to you. The whole of the fiduciary portion need not be invested permanently; it might, if the Paper Currency Reserve were used for making temporary loans to the public, be invested temporarily, but it would be invested?—I was not presuming to criticise your statement of the case. I was only on the point of explaining that what we understand by what we very often describe in India as the fiduciary portion is a little different from the interpretation of the same phrase in England. As the law stands, we have only one fiduciary issue in the sense of an issue against invested securities, and the securities are, as you know, of a permanent character. I take it you would not object to my considering a position in which the present bonds of the law were relaxed.

9104. No; I am asking really whether you think the time has come for an amendment of the law?—I do think that the time has come. I quite accept the sentiment of the Government of India that it is a very important trust, and that public opinion would be very much shocked if the Government of India, without full justification and strong authorisation, were to alter the reserve system. But if a body such as this Commission, with all its authority, were to recommend an alteration in the law, I think that there would be a very strong backing in India. Personally, as I said before, I think we have been almost too careful and that there ought to be no difficulty in educating the public mind to a considerable change. If I may put it in figures, as a very rough suggestion, I should be glad to see the reserve held somewhat in this style: I should like to see about 40 per cent. in rupees to secure the prompt convertibility of the notes which are likely to be brought in for conversion. That implies, I think, that the facilities for conversion will be considerably greater than they are at present. I should like to see, say, 20 per cent. held in gold, available for the prompt purchase of silver to restore the rupees in the event of a run upon them. I think it would be quite sufficient to have 30 per cent. of permanent securities as an ultimate reserve against a very grave collapse in the note circulation. That would leave 10 per cent. of the total reserve, which I should have no hesitation in leaving free to the market; that is to say, as you explained, in the form of temporary investments against good security.

9105. It follows, I think, from what you have said, that you favour such a change in the law as would make the fiduciary issue a proportion of the whole, rather than, as it is at present, a fixed sum, with no reference to the present circulation of notes?—I used these percentages merely for the sake of simplicity. I think that a law which defined the ingredients of reserve in terms of definite proportions might be a little difficult to work at times, but I quite agree with the general principle that the development of the reserve should be in rough proportion to the note circulation.

9106. Now I want to turn to the question of the gold coinage. What, briefly, is your view upon that subject? Perhaps I ought to define my question more exactly, and so I begin by asking, Are you in favour of the opening of a mint for the coinage of gold in India?—I am. I ought to say the Government of India has expressed itself in favour of that view.

9107. Not very strongly, I think?—I think their position is that it is not a matter of the first importance in currency reform, but it is a matter which they would be glad to see fully considered, and that it would be consonant with a very strong body of Indian opinion if a concession in that direction could be given.

9108. I suppose that opinion is really rather dependent upon the view expressed by some witnesses that it is desirable largely to increase the amount of gold in circulation in India. Am I right in thinking that those who advocate the opening of a mint for the coinage of gold in India hope that one of its effects, at any rate, will be to popularise the circulation of gold coinage in India?—I think that is undoubtedly the case; or, perhaps, if I may put it in some different words, to substitute the genuine circulation for the concealment of gold in hoards. That I think is the most prominent consideration in their minds.

9109. In what way do you think that the opening of a gold mint would induce the tender for coinage of gold which is now hoarded?—I think it would be regarded as a very great convenience by the people to be in a position to have their gold holdings, so to speak, hall-marked. At the present moment they receive a very large number of sovereigns, and they have no idea where they come from. I am talking about the ordinary masses of the people: they have very little understanding that these sovereigns represent a standard gold coin of Imperial value. All that they know is that they are tokens of a certain fine touch and monetary worth, and that when they can get a sufficient number of them and melt them down to form ornaments for themselves and bars for their hoarding, they have got something to which a definite value attaches. There is no facility for the reverse process; there is nothing which will enable them to bring out their hoards, bring out their bars, and bring out their ornaments, and have them converted into coin of the realm.

9110. That coin of the realm being —? — The sovereign. The result is that they have not yet become educated to the sovereign. It is quite true that a very large number of sovereigns do come into the country, but you have seen the statistics indicating the extent to which they disappear, and the extent to which they remain in circulation*. What we should like to see would be the introduction of the sovereign as a distinctively Indian coin. When I speak of a distinctively Indian coin, I do not mean a coin with an Indian device, but a coin made in India and known to the people as being available and as being manufacturable, so to speak, in India. We look upon that as a definite step towards the education of the people to a better system of currency than they have at present.

9111. If, under the present circumstances, a man is driven by his needs or desires to produce his hoards, has he any difficulty in turning them into sovereigns?—On terms, no; but he very often has to pay a very great deal more than he ought to.

9112. He goes to a middle man, who charges him a very high commission?—Yes.

9113. Do you think it would be an advantage if the Indian Government notified that it was ready to receive gold bullion at the mints in exchange, not for sovereigns, but for rupees or notes?—I am afraid I have not considered that question. We used to receive gold bullion, but the amount produced was so small that we cancelled the notification.

9114. It occurred to me, and I think you have to a certain extent supported the idea, that this gold is not likely to come out of the hoards in large quantities, except under pressure of famine?—I think that is so.

9115. Famine, however, means bad trade, bad trade means weak exchange, and it is in a moment of weak exchange that the Government needs the gold most for the support of exchange, and just in that moment it might get the gold from these hoards; would that be facilitated by a notification that the Government was ready to exchange gold bullion for notes and rupees?—Yes, I think it would. Of course, the operation would be a somewhat expensive one, because in order to obtain any advantage from the bullion which would come to us in this way, under present conditions we should have to export it to London.

9116. It might, therefore, be necessary to fix its price in the first place in reference to the fineness of the gold, and, in the second place, at such a sum as allowed for the cost of the export to London—that is, the freight and so on?—Yes; in other words, we should have to assay and refine.

9117. You would have to assay, not refine?—No; that is so—not to refine.

9118. Now, in the circumstances which I am contemplating, would not London be the place where you would need that gold?—Quite so.

9119. Do you think, under those circumstances, there would be any advantage in perhaps reverting to the cancelled notification of the Government of India?—Yes, I should see no objection to that.

9120. I gather from what you have told me, that you feel that it is desirable to increase the gold in circulation in India?—Yes; I do feel that.

9121. What moves you chiefly thereto, I understand, is the feeling that a very much larger amount of gold in circulation in India would be a real support to exchange?—I think it would in time be a support to exchange, but the motives which underlie the conviction that I have on the subject are somewhat different. As I tried to put it, I look upon the increased circulation of gold, the greater familiarity of the people with gold, as an educative measure. I do not look upon it as an end in itself. I think that gold will be the line through which we will in India arrive at a more economical form of currency by a more economical treatment of the people's wealth and resources.

9122. In itself, gold is not an economical form of currency, is it?—I quite admit that.

9123. Is it your view that by popularising gold coinage, you would really get at the hoards?—May I put it this way? It is difficult for anyone who has not actually lived among the people of India to realise the extraordinary absence of all forms of banking facilities, of all forms of systematic and economical credit, of all inducements to thrift and saving, that there is in the country. We in the Western countries have, I think, been educated very much by the banking system, by the use of paper, by the use of cheques, and all that, to a greater appreciation of the value of money. All that is absent in India at the present moment. It is almost incredible the extent to which it is absent. You see it present to a certain extent in the towns among the educated people and among the rich, but among 99 per cent. of the people there is not only blank ignorance of all these material tendencies towards moral improvement, but a certain amount of fear of them. I cannot help feeling that we can only get rid of this fear, this timidity, this ignorance, by teaching the people better, and what I

* Cd. 7070, page 188.

* *See* Reports of the Paper Currency Dept. for 1910-11, 1911-2, and 1912-3, published by Government Press, Calcutta.

may call more responsible, forms of currency. At the present moment the sovereign hardly fulfills that object. The sovereign, as I say, is a thing which they know very little about, except as a counter which comes in to be melted. If they had the sovereign in larger circulation, if it were a domestic utensil so to speak with them much more than it is at present, I feel that that would be a step towards better banking, better management of their wealth, and greater economy in every way. I may, perhaps, give you an example of what I mean, although it is a very small and very unimportant point. From time to time in the villages I have been asked by the people whether there was any chance of the sovereign being introduced by the Government. They do not realise at the present moment that they are Government stock. They say, and the women of the family in particular say, the sovereign is a much better thing to have than rupees; "when my husband goes to a fair with a few rupees tied up in his waistband, he never brings any of them back, but if he goes with a sovereign, he thinks twice before he breaks it." That is a small and trivial illustration of what I mean.

9124. Now, speaking of it merely as a matter of currency, and apart from the predilections of any particular people for the moment, a paper currency, provided it is a sound one, is a more economical one than a gold currency?—I quite agree that it is a more economical one, but please may I add that I could not agree that it is a more suitable one at the present moment for India.

9125. That is quite a different question, is it not?—Yes.

9126. The expansion of the note currency in India has been very remarkable, has it not?—Very.

9127. That, perhaps, may be accounted for in part by the increased facilities which have been given for the encashment of notes?—Yes.

9128. I think it must also be taken to indicate a growing popularity and understanding of the note over large portions of India?—I think it does, but I think it implies a much larger confidence in the note.

9129. Gold is preferred in certain portions of India, but I think over comparatively small areas, according to the evidence we have received?—The preference for gold fluctuates very considerably; but I think you may take it as a much more general proposition that the preference for notes is restricted to the towns and busy centres. The difficulty which we have always felt about the note system is that, do what we can—and what we have done has been attended with considerable success—to increase the note circulation, we are still only *en rapport* with the commercial classes. We do not, and cannot in the present circumstances, expect notes to get down amongst the agricultural classes, the artisans, the villagers and all the rest of them. There are, for instance, the dangers attaching to paper money. Living as they do, the large mass of these people, in poor homes, with constant risk of floods, fires and destructive insects, it is impossible that they will take the risk of keeping their little stocks in notes. There is also a great danger among the illiterate populace of their being taken in by forgeries. The note forgeries are extraordinarily clever and abundant, and every outbreak of forgery shakes the confidence of the villagers still more in the paper circulation. That is really at the back of my mind when I am trying to impress upon the Commission the great value of the sovereign as an educative instrument. It is not likely to be washed away, it does not get burnt, it does not get eaten by white ants, and it is not so easily forged. A villager will always tell the difference between a good coin and a bad one, but he cannot tell the difference between a good note and a bad one. But the two processes must go on, the note circulation steadily expanding among the commercial population, and the sovereign going in this way among the villagers, who, after all, form the great mass of the people.

9130. I think I understand your view, which is rather a different one. I should add, from that which has been put to us by other witnesses; but it is a very interesting one. Now that I do understand it, I want to come back to the question of the gold mint. I see now your reason for desiring to popularise the sovereign—that it would bring home to the people of India in a way that is not brought home to them now, that it is an actual coin of the Government of India. That correctly states your view, does it?—Yes.

9131. Accepting all that you have said for the purposes of my further question, may I ask you this: assume that the Government of India took your view and acted upon it, would you feel it incumbent upon you, in pursuit of that view, to press the circulation of the sovereign in preference to other forms of currency, or would you merely think it desirable to afford the people every facility for getting sovereigns if they wanted them and for turning their bullion into sovereigns?—I should have absolutely free trade in that. If they wished for sovereigns they should have them, but I should do nothing in the way of forcing sovereigns upon them.

9132. I rather gather from what you have said that you yourself would not be disposed to make any special effort to increase the circulation of the notes in preference to the circulation of gold?—Preferentially, so to speak?

9133. Yes. For instance, one thing that might be done would be to instruct your officers, where no special form of currency was asked for, always to tender notes; but that, if gold was demanded, they were to give gold?—I do not think I should press them to express to the customers any indication of their own preference in the matter.

9134. You attach a great importance to the gold standard reserve?—I do.

9135. To its maintenance and to its growth?—Yes.

9136. That growth is dependent on the token coinage, is it not, under present conditions?—Yes, in the sense that the further expansion of the rupee, the profits on the coinage of which go into the gold standard reserve, thereby increases it.

9137. And, except in so far as there is interest from the securities, that is the only source of addition to the gold standard reserve?—That is at present the only source.

9138. Under those circumstances, do you think that any loss of your power to maintain the stability of exchange by checking the growth of the gold standard reserve would be compensated by an increased holding of gold by the people? I am now putting the question not from the point of view of the currency, but from the point of view of the maintenance of the par value of the rupee for exchange purposes. The gold standard reserve is built up by the profits of the rupee coinage, but if the circulation of gold rather largely increases that may be at the expense of notes or rupees or both, or at the expense of the growth of this reserve?—At the expense of the growth.

9139. If it causes a reduction in the growth of the number of rupees it checks the growth of the gold standard reserve?—Yes.

9140. Would that loss in the gold standard reserve, in your opinion, be compensated by the stability given by the increased gold in circulation?—You have put a rather extreme case to me, and I find some difficulty in answering, because I very much doubt whether, whatever encouragement we might give to gold or to notes, or to both, we should still reach the limit of our rupee currency. I think that even if the people take much more than they have been doing, or much more than we expect in the near future of those other forms of currency, India is still far from being saturated with rupees.

9141. I put to you another question, but following the same line of thought. Which is most useful to you for the maintenance of exchange in a crisis—a million sovereigns in the gold standard reserve in London, or a million sovereigns in circulation in India?—The former, undoubtedly.

9142. If you were dealing with the problem of currency merely as an adjunct of the problem of exchange, you would encourage the circulation of rupees and notes rather than the circulation of gold?—From the point of view of economy of currency?

9143. Yes, and from the point of view of building up the gold standard reserve?—Yes, quite so.

9144. Your reason for desiring the increased circulation of gold is one you have already given to me, that it has an educational effect upon the people?—Very largely, yes.

9145. And you hope that it would gradually lead to a change in their habits in the matter of hoarding?—Quite so. It still in the end means a very great increase of true currency.

9146. Now I come to a very big question, and I propose to deal with it very shortly; it is the question of a State or central bank. Have the Government of India formed definite views of their own on that question, one way or the other, which they desire you to lay before us?—During the whole of the six years that I was working with the Government of India this question never came under their consideration at all, and I think their attitude during that period might be perfectly fairly described as regarding the problem as for the time being outside practical politics. Of course, the Commission is familiar with the older story of the 1900 discussion,[*] and the capital résumé which Mr. Brunyate published of the previous discussions,[†] and also of the considerations[‡] which led Sir Edward Law to advise the Government of India to drop it. I need not go into all that; it is all past history. In recent years the Government have never really considered the matter at all, and I may say that I do not think they had any warning of the importance which this Commission attached to the subject. It is only within the last few days, I may almost say, that I have received privately from Sir William Meyer a note, compiled by him after he had seen the memorandum[§] which Mr. Abrahams laid before you. That note, he was very careful to tell me, expressed only his personal views, and it has never yet been before the Viceroy or his Council. I feel sure that before the Government of India would express any opinion, either through me or otherwise, they would ask for an opportunity of the fullest consultation with commercial opinion in India, and they would also like to realise what action the Secretary of State would be prepared to take in relation to anything in the nature of a State or central bank if the proposal commended itself to him. I can give you an epitome of Sir William Meyer's views; he authorised me, if I was desired, to do so.

9147. I think the Commission would certainly be glad to have his views?—It being understood, of course, that they are personal to him?

9148. Yes?—Sir William Meyer's note, which I have not had the opportunity of discussing with him personally, proceeds, it seems to me, on one interpretation, which, for all I know, may be a somewhat limited interpretation, of the thesis. In your first question on the subject you referred to a State or central bank. That opens a somewhat wide field, and it may cover very different types of institutions. Sir William Meyer was thinking about what we used to think about in olden days—an amalgamation of the three Presidency banks, which probably would be more properly described as a central than as a State bank. He, in his note, proceeds to examine the difficulties which he foresees, which may be briefly summarised under, I think, four heads. The first is the difficulty of interprovincial jealousies and banking rivalries, which, of course, is perfectly familiar to the Commission. The second is the difficulty of maintaining the dividends of the existing shareholders of the three banks. The third is the danger of a sharp conflict of views between India and London on the assumption that the amalgamated bank has a London house, and the feeling that this conflict may drag in the Secretary of State and the Government of India, as well as the actual officials of the bank. The fourth is the very great difficulty of obtaining a competent body of directors who would possess an All-India experience and who would possess sufficient leisure to undertake the management of a greatly diffused institution of this sort. Sir William Meyer went on to say if—and it is a large "if"—you overcame all these difficulties, then he would welcome the bank for various reasons. One reason is, that it would go far to mitigate what I may call the political objections to the method in which the whole banking of the Indian Government is managed by a close bureaucratic corporation, and it would also, at the same time, meet the commercial sentiment of what is right and fitting. Another advantage in the bank is that it would relieve the officers of Government, who very often have neither the training nor experience necessary for this sort of work, of obligations and responsibilities for which they themselves must recognise that they are not fully equipped. The third is the possibility, again assuming a London house, that by borrowing in London this amalgamated bank would give a larger supply of loan capital to India. Finally, I think he felt that a bank established on this much broader basis, especially if it was entrusted with a larger measure of Government funds, could very well be required to develop banking facilities in India generally. He then went on to explain what he would hand over to the bank. He would hand over the greater part of the Treasury balances—when I say the greater part I have no doubt he had in view the large amount of money which would still be necessary to work the district treasuries, as I attempted to describe, in areas where there would be no branches of the bank, for of course we cannot expect the Bank to open many hundred branches straight away. Then he would hand over the paper currency reserve and practically the control of the note circulation. He would not entrust them with the gold standard reserve, although he would be prepared to invite their advice and assistance in the management of it. He would expect them to do the buying of silver and the initiation of coinage when it seemed to them that fresh coinage was necessary. He would also contemplate their undertaking exchange and banking work in London, which of course underlies a great deal of what I have already tried to explain is his view.

9149. Is the exchange and banking business in London not merely to extend to the Indian Government's requirements, but to be generally on account of the public?—I think so, but I am not sure that I should be correct in making a definite statement of his views on that point. I need hardly point out that this is a very different proposition from such a constitution as might be drafted for a State bank proper.

9150. But it does raise the one question that I want to put to you on this subject—I daresay some of my colleagues will desire to put others. The only question I really want to put to you on the statement you have made on this subject is this: assuming a bank of the character which you have described, with substantially the powers and responsibilities which you have described, could the Indian Government entrust so much to them without being represented on its board?—I think not. I think it would require a strong representation.

9151. One of the great advantages of such a bank in the eyes of some of the advocates of it who have come before us, has been the relief it would bring to the Indian Government from financial responsibilities. If the Indian Government were strongly represented, as you suggest, on the board, do you think that they could divest themselves of responsibility for the bank's proceedings?—I do not at all think so. I think the responsibility would be almost as great, only it would be worked through a different channel.

9152. Do you think, if anything went wrong and through unfortunate management the bank failed, that it would be regarded in India as the failure of a private institution or as the failure of the Government?—I think it would be a public calamity, and the Government would have to intervene with its whole resources.

9153. Perhaps the Government would have to bear, justly or unjustly, a large share of the blame?—Yes, quite possibly.

9154. When you, in your answers, speak of the Government of India being responsible, am I right in thinking that that implies, under the constitution of the Indian Empire, that in the last resort the Secretary of State in Council is responsible?—Undoubtedly.

[*] *See* Appendix XV., page 355, Cd. 7071.

[†] *See* Chapter VIII. of "An Account of the Presidency Banks" published by the Government Press, Calcutta, 1900.

[‡] *See* Appendix XV., pp. 428–38, Cd. 7071.

[§] *See* Appendix XIV., page 339, Cd. 7071.

9155. In finance in particular his authority is very direct and paramount ?—Yes.

9156. So that in the last resort the affairs of this bank might be very naturally the subject of discussion in our Parliament here ?—I should think that extremely probable.

9157. That being the authority which in the last resort controls the Secretary of State in Council ?—Yes.

9158. (*Lord Faber.*) With regard to the large balances which you have had in London for two or three years past, they have not been unprofitable, have they ?—No.

9159. For one thing you have been able to lend the money out at very high rates, lately, at any rate, and over the whole of the last three years at rates which we have not seen before in England; and, secondly, instead of raising loans here, as you generally do, you have taken money out of these balances whenever you wanted it ?—Quite so.

9160. So that in both ways you have made good use of a great part of your balances ?—We regard the use of the balances for the reduction of loans as essentially proper and justifiable.

9161. If you had come for a new loan, for instance, last February, you would have had to pay nearly 4 per cent., but now you are using your own balances. Do I understand rightly, from what some of our witnesses have told us, that part of these big balances has arisen because railway construction did not go on as fast as you expected, and you could not get delivery of the necessary material ?—The failure of the railways to push their construction programme to the extent to which they had estimated is undoubtedly one of the large factors in these high balances. The failure of deliveries is undoubtedly an ingredient in these lapses, but I should not like to put it as the most important.

9162. Have you ever thought of having a fixed committee in India to deal with railway questions solely and wholly, and to make a yearly programme for the building of new railways, which are so very important in India and which pay so very well ?—We have both those. We have a railway board, which ought to, and which does, consider the whole finance of railways, and we have not only an annual programme, but we have what is known as a triennial programme of capital expenditure on railways. I quite agree with what is probably underlying your question—that the system is capable of improvement.

9163. It is so obvious that it is a very profitable source of revenue to India. You can borrow, even to-day for instance, at 4 per cent. here, and perhaps in a year or two considerably cheaper, and you will be able to employ that money to a great deal more advantage if the railways continue to make the progress which they are making at present in the way of dividends ?—Of course it is arguable that the law of diminishing returns will set in in time, even in railways, but at the present moment I entirely agree that we could advantageously utilise more capital on the railways, although, what is even more important than that, is the desirability of having our capital more constant and more and better foreseen.

9164. That is what was in my mind—that you should apportion so much year by year, and that it should go on always as a matter of course unless something entirely unforeseen arises, such as a famine ?—That opens up a very wide question which has never been out of the minds of the Government of India, and in regard to which a good many of us have hopes that the Government of India will depart from the attitude that it has taken up in regard to conditioning the railway programme strictly by the finance of the particular year. It is not at all inconceivable that we may have something in the nature of an equalisation fund, if I may so put it, by which the amount available for railways will never in any ordinary conceivable circumstances fall short of a definite minimum.

9165. With regard to the change of the date of the Budget, you interested us very much by putting forward an argument we had not had placed before us: that was with regard to the district officer who actually gathers in the land-tax, and who, therefore, as you very justly say, is one of the most important officers connected with the Budget. As I understand it, this officer now starts his Budget for the year in October ?—Even earlier; I think he starts in September.

9166. I am taking October because the date that we had in our minds was that the Budget year should begin in October. Practically the most important officer does begin in October now when the Budget comes out on the 1st March ?—Yes.

9167. And you would rather have it like that than alter the officer's business to the 1st March and the budget to the 1st October ?—Yes.

9168. One question about banks and loans to banks. The Government have signified a desire to help the banks in India by making loans to them; I suppose they are loans with security ?—Yes, they would be loans on defined security.

9169. What security can the banks give ? Is there a large supply of securities held by banks there which they can put up with the Government ?—The Presidency banks—and I think the proposal is to lend to them alone—generally hold a very considerable reserve of Government paper.

9170. What we should call gilt-edged stock ?—Yes.

9171. I think you said that the more gold you had in India the more useful it would be in times of crisis. Is that your view ?—I would not put it in that quantitative way. What I feel is that a large gold circulation, and a genuine gold circulation, and a rapid gold circulation, so to speak, will ultimately be helpful in times of crisis.

9172. I will put a question on another very interesting subject, which perhaps you will be able to answer: do you think that the importing of gold in the shape of bars leads to the hoarding of gold more than it would if sovereigns were imported into India, instead of gold bars; in other words, do you think gold bars create hoarding more than sovereigns do ?—I am afraid I am hardly able to answer the question, as I have not given it much consideration. The trouble is that sovereigns are so immediately converted into gold bars that the two things are almost indistinguishable.

9173. On the other hand, I suppose a man would get rid of a sovereign more easily in India than he would get rid of a gold bar ?—Yes, he would always get a defined price for it.

9174. With regard to a central bank or a Government bank, we will take the Government bank, if you please. Do you think it advisable or necessary for such a bank to have any shareholders except the Government ? Do you think that the interests of the shareholders conflict with the nation's interests when dealt with by the same hand ?—I think in theory one would be very glad to dispense with the shareholders, but the difficulty in India would be the absorption of the three Presidency banks.

9175. I have that in mind, but that does not affect the argument. Would you take in shareholders because you do not want to act harshly towards the Presidency banks ?—Quite so.

9176. If you came to an India where there were no banks, would you, in starting a central bank, have shareholders or not ?—I think not, if I had a *tabula rasa*, so to speak.

9177. Is it because you think, and rightly so, that some attention should be paid to the claims of the Presidency banks for very good work done in the past, and not because of the merits of the new bank in question ?—I feel that there is no room for a new State bank superimposed on the Presidency banks. I think that even a State bank would have to consider the absorption of the Presidency banks. That being so, we should have a large body of shareholders in India and in Europe who have been accustomed to very substantial dividends in the past, and I think it would be extremely hard to throw their money back at them.

9178. Would it be better, perhaps, to buy out the shareholders at the price of the day ? What I am trying to get at is your opinion as to which is the best bank for the future of the country—one with shareholders or one without ? This is a new point, and I have not heard it argued before, but evidently it is arguable; I have in mind the Bank of England here ?—I should like to have a little more time to think the subject over before answering you on that important point.

9179. (*Sir Ernest Cable.*) You said that from time to time the Government had been considering various forms of loans in order to raise more money and increase the amount of capital available for railway and other productive works: were you alluding then to the proposal to issue 4 per cent. railway bonds ?—I had those in mind.

9180. I think you said it was found to be an impracticable suggestion ?—What I had in mind was that the proposal for 4 per cent. bonds, or for what has also been suggested, a $3\frac{1}{2}$ per cent. security, with a division of profits above a certain limit, has been felt to be in some ways desirable, but otherwise likely to interfere with other borrowers. The main reason, I think, why the Government of India have never committed themselves as a body to another form of borrowing, apart from the possibility of that form being a more expensive one than the present, is that it would immediately bring them into conflict with the local bodies, the port trusts and the like, who at present have a definite 4 per cent. market of their own. We have always felt that it would be very unfair for the Government, with its greater security, greater prestige and all that, to come into the market with something which would be practically parallel, as far as profits and terms go, to the propositions which these bodies have to put upon the market.

9181. I see your point, but of course the great trouble is that the Government of India constantly need more funds which they could employ with great advantage to the country. The problem has become a commercial proposition which ought to be tackled by the Government ?—I quite agree.

9182. Has it occurred to the Government to improve the market for Government paper by issuing terminable loans ?—I do not think that has been considered. I saw that it was referred to in the evidence, but I do not think the Government of India have ever taken up that question.

9183. That is a suggestion which it is thought might very likely popularise the Government loans and lead to larger sums being brought out; do you think that would be so ?—As you know, the Government of India has not been at all remiss in trying to get ideas for increasing the popularity of their rupee loan system. Up to the present, it has devoted itself very largely to making the present paper more marketable, more convertible, if I may say so. As you know very well, the difficulties in the way of the treatment of our paper at the public debt offices have in the past been very considerable, but we are steadily disposing of those. Proposals, for instance, have been made for having debenture bonds payable to bearer, instead of the present promissory note system. An infinite variety of proposals has been made; but, as I say, a big thing like the suggestion for a second defined type of Government securities has always been looked at with a certain amount of shyness, because it was felt that we should thereby come into competition with other bodies, whom we have always endeavoured to give their fair share in the market.

9184. You mentioned just now, but it was not known to me, that there is already a triennial programme for railways ?—That is so. Perhaps I might explain what I mean by a triennial programme. Some years after Mr. Robertson's enquiry,* the difficulties which are present, I take it, in the minds of the Commission in regard to the uncertainty of the provision of railway capital, were attempted to be met under the Secretary of State's instructions by the provision for a definite programme, both of works and of the financing of those works, for the whole of the railways of the country, and also, I think I am right in saying, for the irrigation works of the country. This programme was liable in practice to constant variation, and the Secretary of State ultimately, especially in the last few years of Lord Morley's régime, was constantly warning us against attaching too much importance to it. I remember one case. On the strength of a triennial programme which Lord Morley had sanctioned, certain orders in advance were placed for rolling material, and Lord Morley took the strongest objection to this. He said the programme was not a sanctioned scheme of expenditure, but simply an administrative indication of what we proposed to do. The result has been that we have been gradually driven back to what is, in reality, an annual programme. We still, I think—Mr. Gillan will correct me if I am wrong—go through the form of preparing three years' statistics in advance, but they are frequently valueless, and the only important thing is the programme for the next year. What I should like to see, and what many of us would like to see, would be a genuine triennial programme, to which the Government would commit itself from its present resources, or, if necessary, supplementing these resources by further borrowing, and which would prescribe a definite amount for railway capital expenditure three years ahead.

9185. Is this a personal view of yours ?—I am not saying this merely as a personal view; it is strongly held by most of us who believe in Indian railway extension.

9186. (*Chairman.*) Has it ever been urged by the advocates of that proposal in India that it might enable them to make their contracts on much more advantageous terms ?—Quite so, to place advance orders on better terms.

9187. Foreknowledge is as important to the contractor here as it is to the community in India ?—Yes; I think that has been very strongly felt.

9188. (*Sir Ernest Cable.*) You mentioned to us the case of a ryot who would spend the few rupees in his waistband when he went to the bazaar, but if it had been a sovereign he would not break it; that was not, I imagine, a Bengali ryot ?—No, it was up-country.

9189. If this was generally the case, I should like to point out that the result was to hoard the sovereign, not to spend it ?—If you mean by hoarding, reserving it against a greater necessity, I agree.

9190. I was interested in hearing what you said about the great bulk of the Government currency notes not being held by the people at large. Is that so ? Is there any return available showing what proportion is held throughout the country amongst the villagers ? That information has never been obtained, I think ?—I am afraid not, and I think it would be almost impossible to get it. The people would immediately think you were going to increase their income-tax.

9191. I should have thought 5-rupee notes would be largely held amongst the villagers ?—I fancy there is a certain number of them so held, but I think it must be comparatively small.

9192. With regard to a State bank and to your answer to the chairman to the effect that if there was a calamity the Government would have to come to the rescue of the central bank, would not the Government have to help the Presidency Banks under present conditions ? If the Bank of Bengal, for instance, were to get into difficulties the Government would be practically bound to come to the assistance of the bank, would it not ?—I could not at all speak for the Government of India in that matter.

9193. Partly as a matter of commercial expediency, and partly in the interests of the Government as well as of the people, do you not think the Government would be morally bound to come to the rescue ?—If I might refer to experience—an experience of which you have a larger share than I have—the Government has never hesitated to help the Bank of Bengal when it requested special assistance in times of special crisis, and one may deduce probably wider considerations from that fact.

9194. (*Mr. Keynes.*) With reference to the high balances, I understood you to put them down partly to accidents and partly to a proper desire to be in a very strong position in the future. That second cause I put on one side; but in so far as they are due to the first cause, accident, is it your opinion that in any way the system is at fault, or was it a quite unavoidable circumstance which no system could have helped ?—By system, do you mean the Budget system ?

* Cd. 1713.

9195. I mean the Budget system, and also the *arrangements which led to the lapsed grants?*—As I have explained, I think the lapses which occurred very largely in the expenditure of the railways would be to a considerable extent avoided by a longer programme of capital spending; and they also might be, I think, mitigated by a more liberal system of what we may call overcertification in regard to railway stores ordered in advance. But as regards the increase in the revenue surpluses, I do not think that I could attribute that to any fault in our Budget system. It is due to the exceptionally good years, to possibly somewhat exaggerated caution, and to the very rapid advance which India has made in all possible directions in the last five years.

9196. I think you also spoke of provincial grants for capital expenditure which were not all spent in the year. I suppose when Government makes a grant of that kind it is not likely that it will be spent within the year in which it is given?—No; as a rule it is extremely unlikely that any substantial part of it would be spent in that year.

9197. Does the Government go on the hypothesis that it will not be spent and keep it in its cash balances?—The money is not put away in any separate pocket.

9198. It has the effect of increasing the cash balances, has it not?—Yes.

9199. Is this system a necessary one seeing that these grants will not be utilised for two or three years' time? Could that not be allowed for?—Both the Secretary of State and the Government of India have always set their faces very rigidly against what they regard as the financial heresy of funding excess revenues. I take it that what is in your mind is a form of investment of moneys which have not been required for immediate uses.

9200. It would take various forms; it might mean that you might borrow less in the year in question and more a year later on?—I think that is being done now. I understand that the loans are very much smaller than they used to be, and that the justification for the small loans is the distance of those programmes.

9201. Would you be in favour of the Government taking into account the fact that these grants would not be spent at once and laying all its other plans on that basis?—It does so now. When the Government prepares what we call its Ways and Means Estimate, it always takes for granted that the provincial governments will not spend promptly those large special subsidies which they have been receiving recently.

9202. If this factor is already taken into account, it cannot be a part explanation of the high balances; it is only so far as it has not been taken account of that it explains the accumulations?—In so far as the local governments have gone beyond the Imperial Government's expectation in regard to the failure to spend this money, that is true.

9203. But it is partly taken account of already?—Yes.

9204. Is that another point on which you think they have been a little more cautious than they need?—May I give you the justification for the caution? I take the justification from my own personal experience. In the province which is now under my charge, we have been given very large and liberal grants for a system of national education. Those grants take their place in the figures which I have attempted to give you. We have been pressed by the Government of India to expedite the disposal of this money on advantageous terms. No doubt the executive department of the Government of India which has been pressing us in this matter has been advising the financial department that we are under severe pressure to get rid of the money as soon as possible. We, on the other hand, have deprecated being hustled in the matter. We feel that until we have got a programme of education which has looked all round the subject, and has brought in the co-operation of the people and all the rest of it to the greatest possible extent, we should be thoroughly unjustified in spending largely from these grants. The consequence is that they have lain in our balances against what I may call the remonstrances of the Imperial Government.

9205. I should have thought that in that matter the policy of the local government was obviously the right one, and that the Government of India, having been criticised for having too large balances, is now trying to get rid of them by every possible means, and that *they therefore urge that by asking you to say that you intend to spend this money* and then lay their plans accordingly; they are urging you to spend it sooner than you naturally would?—I think there is more in their mind. I think it is more an administrative question than a financial one. They are extremely anxious to see the education of the country advanced at the quickest possible rate, and they are pressing us to take all the necessary action. The subsidiary consequences of the large lapses is not in any way intentional.

9206. There is some difference of opinion between the Government of India and the local governments as to the rate at which these sums ought to be expended?—That is true.

9207. The Government of India have acted upon the hypothesis that their own policy would be followed, when in point of fact perhaps it may not have been followed?—Not, at least, so rapidly as they hoped.

9208. With regard to the date of budgetting, I understood you to say that at present the budget is done such a very long time in advance that to antedate it six months would not bring it really within the monsoon period?—That is my feeling. When I said that the Budget starts a long time ahead, please do not imagine that I am excluding the capacity of the Government of India or of the local governments to correct the figures on a large scale according to the alterations in the season. But those corrections, as a rule, we feel, are not wholly satisfactory. We feel, in connection particularly with the land revenue and with the canal and railway revenues, which are intimately associated, that the man on the spot, if I may use that expression, is the estimator whose figures we ought to follow as closely as possible; and that any large lump corrections, in a hurry, at the end of the budget season, are always rather dangerous.

9209. Would it not be possible to make your district officers produce two estimates: an optimistic estimate and a pessimistic one; and then, six months later, when they had more information, it would be very easy to get information from the local governments, whether they think on the whole the optimistic or the pessimistic estimate ought to be held to?—Our poor district officers are heavily overworked and I should not like to add this to their trials. In practice *something* like that actually happens in regard to the *land revenue.* There is a most elaborate system by which they are called upon to provide the figures—I speak for the Province I know—in the event of the rains being favourable, and in the event of the rains failing by a certain date or stopping by a certain date.

9210. In that case the whole machinery exists already, and if the date of the Budget were postponed the Government would then be in a position to choose between those two estimates, whereas now it is not in a position to choose between them?—It is in a position at present to choose between them, but the difficulty is that it has no possible means of judging which of them is more likely to be correct.

9211. I mean that if the date is altered, it will have the material on which to base its choice; at present it has no material?—That would not be so if the date is altered to the 1st September. I want you to be quite clear about that. I think that on the 1st September they will be in a better position to judge of the results of the current monsoon than they are on the 1st March to judge of the results of the monsoon which is still distant. But the full effect of the monsoon is not really known until the end of September; so that if you are going to produce a Budget for the year, beginning on the 1st October and continue to produce it well in advance of that date, I think the additional information you will have will not be sufficient to justify the change.

9212. If the date of the Budget was postponed to October—and I think your answer to the Chairman shows that there are no insuperable difficulties in the

way—do you not think that you would have more material?—Do you mean with the financial year beginning in November?

9213. No, I mean that they should not publish the Budget until a few days after the commencement of the financial year, the present practice of publishing it in advance being abandoned and the financial year beginning on the 1st October?—I would ask you to bear in mind the many complications that there are in producing our Budget. They are greater, I fancy, probably, than, other things being equal, they are in England. If we have to produce a Budget which dates from the 1st October, according to our present arrangements we should have to have the whole of the figures, practically in their final form, by, let us say, the 1st September. We have to produce them in that form after constant telegraphic communication with the Secretary of State. The Budget figures involve probably extra taxation, remission of taxation, large grants for local governments, and all sorts of things of that sort; and at every single step of that kind we have to get the consent of the Secretary of State before we can incorporate it in our Estimates. What would happen if you had your October to September year—even if you decided not to bring your Budget into Council until, as you suggest, the 1st October—would be that for three weeks or four weeks before that we should have been not only working against time ourselves, but working the telegraph to and from the India Office with great rapidity and constancy, and this would be prior to one of the critical times of the rains, which begins in the second and third weeks of September. So I do not think, even by dropping our present attempts at financial virtue and bringing in the Budget a month later, or even after the beginning of the financial year, we should get over that difficulty.

9214. If the date was made the 1st November, would these difficulties apply?—I should have to work all through the calculation again to answer you, but I rather think they would. As far as I remember—and I tried to focus all the dates in my mind this morning in anticipation of these questions—I do not think we could do it in comfort, if I may put it so, for any year earlier than the calendar year.

9215. It appears to me that the complications are the same whatever the date is, and therefore if you put the date forward six months you must gain six months, and if you put it forward seven months you must gain seven months, and a point must come when you can just use the latest information?—The complication is not quite the same, I am afraid. First, the cardinal date for seeing the effect of the current monsoon being, let us say, the 20th September, you want a reasonable interval after the 20th September for the tabulation of your figures, for your correspondence with the Secretary of State, and for all the other proceedings that have to be gone through before you produce your real Budget. Let us say we want six weeks for that purpose; that brings you to the end of October or the beginning of November. I should prefer, unless I contemplated the Finance Department being worked to death, to let them produce their Budget on the 1st December.

9216. I am merely endeavouring to discover what date you favour. It appears to me there must be some date which would avoid all these difficulties, but I have no opinion, of course, what date it would be?—I have suggested the 1st December. I think that is the best date if you are going to change it at all.

9217. You have expressed your own personal opinion against lending from the balances, on the ground that it would require a banker's discretion to know when to lend and when not to lend?—Yes, in quite a number of circumstances which might often recur.

9218. With regard to the loans from the paper currency reserve, do you think that the same objection does not hold?—Not quite, because the only other demand upon the paper currency silver is its production for the payment of notes which are returned.

9219. The loans from the paper currency reserve might serve to make the Indian money market easy or not easy?—They might.

9220. There are occasions when it is not desirable to make it artificially easy, are there not?—There are many occasions. That is a point I am very glad that you have mentioned. It seems to me that the test of the bank rate ought not to be pressed to the same extent that it is in England, because it means very often a very different thing. A high bank rate may simply be a device of the Presidency bank in a given area to prevent certain forms of trading, to check overtrading, and to check speculation. We often see that, when the money market in reality is not tight, and when you can get local loans, shroff's loans, as they are commonly called, at rates very much below the official bank rate.

9221. The officer responsible for the lending of the loans would have to be governed by general banking considerations?—Yes.

9222. Do you think that is a work which could be done suitably by officers of the Government with their present sources of information?—As I said, I dislike the additional responsibility which those loans would throw upon them, but I do not say that the officers of the Government would resist or resent the responsibility if they were told it was for the general good.

9223. I do not know that they would resist it, but are they competent to perform it efficiently in your opinion with their existing sources of information?—They have got very difficult work to carry through at present in the administration of the various reserves and of what is really a banking concern of a very extended character; and I think I must leave it to the Commission to say whether they do that well.

9224. At present they have no banking business in the sense of judging what the financial position is all over India, and whether money ought to be made easier or not; they have none of that sort of banking business at present, have they?—No, they have not an intimate acquaintance with the demands and the necessities of the various trades. The Comptroller-General's constant duty, however, is to be in touch with the requirements of every single large industry in India from the point of view of the provision of currency, for instance, and an extension of that same information, that same knowledge, and that same experience would, I think, help them very materially in judging on loans if they were unfortunate enough to be required to make those.

9225. You think it is rather an undesirable duty, but not an absolutely impracticable one, to put upon the local officer?—I do not think it is absolutely impracticable, but I would rather not see it put upon him.

9226. At the same time you would agree that the present system of keeping the Government balances in the chest is a very extravagant one?—In the sense that you lose interest on them.

9227. In the sense that the amount of capital represented by those funds is for the time being wasted?—Is for the time being shut up. I should be very glad to see that capital made more useful.

9228. You have also, I think, expressed the opinion that more is kept in actual hard cash in the paper currency reserve than is really necessary to ensure the convertibility of the notes?—Personally I think so.

9229. The general drift of these questions is in connection with the State bank?—I understand.

9230. What I am putting to you is this, that the present system is rather wasteful, but at the same time a cure of it is exceedingly difficult if Government officers are to do the whole business: would you agree to that?—I agree that the present system does not give the Indian market the advantages which ought to accrue to it from the capital which is shut away in the Government treasuries; and I agree that it is a heavy task to impose upon Government officers to entrust them with the most efficient disposal of the balances if they are to be placed in the hands of the market. At the same time I ought also to point out that, as we stand at present, we are in no way debarred from handing over very much larger balances to the Presidency banks, and I think it would be quite possible to do so without any radical alteration of our system.

9231. As long as you do not do it on so large a scale as to dominate the Indian money market?—Quite so. I think the general feeling in India, as far I have been able to judge, is that the amount which we should have to place at the disposal of the Presidency banks in a time of ordinary tightness, apart from a serious crisis, would not be a very imposing amount—in fact the mere promise to place the funds at their disposal would probably in many cases be sufficient.

9232. I turn now to a different subject. In mentioning the figure which you prefer for the liquid gold in the gold standard reserve, were you assuming that there was a certain amount in the paper currency reserve, or were you regarding those two questions as being independent?—I should like to leave the paper currency reserve out of the question for that purpose. It seems to me that, although it is absolutely true that the whole of our gold resources must be called upon and practically brought into one line for the purpose of supporting exchange, yet the fact that our paper currency reserve of gold in London is a very variable quantity and might very well have been drawn off before that time of crisis arises by the purchase of silver, makes it undesirable that we should bring it into our calculations at all. If there happens to be paper currency gold available, so much the better, but we cannot count upon it, and I should like to make the figure in the gold standard reserve entirely independent of it.

9233. I was thinking not simply of gold in London, but of all gold in the paper currency reserve in India also. Would you, in arguing that the liquid gold in the gold standard reserve should be 10 millions rather than 5 millions, absolutely ignore the consideration that the Government has 20 millions of gold elsewhere in a liquid form?—Before a time of crisis I doubt, in the first place, if the Government would have anything like 20 millions; I think it would have dribbled away very materially beforehand.

9234. I suppose it would help to support you in a crisis if you knew that, besides this 10 millions, you had 20 millions elsewhere?—I think, unless we have some standard before us, and, what is almost more important, before the public, in the way of gold in the gold standard reserve, we are on unsafe ground.

9235. Do you want this gold in the gold standard reserve to be accumulated in addition, or would you be perfectly satisfied supposing that the four millions kept in rupees in the gold standard reserve were simply exchanged for four millions of gold from the paper currency reserve, and if five millions' worth of Consols now in the gold standard reserve were to be exchanged for five millions of gold from the currency reserve, thereby increasing the gold by nine millions?—I am afraid I have not quite caught the question.

9236. Do you regard the gold in the two departments as independent, and would you be satisfied by a change which would bring up the gold standard reserve to the figure you want, at the expense of the paper currency reserve?—Liquid gold, do you mean?

9237. Yes?—I see no objection to your bringing up the liquid gold to 10 millions by any device you may select, providing that does not derogate from the ultimate arrival at an aggregate of our gold currency reserves of something approaching 30 millions.

9238. You do therefore take into account what your total gold resources are. Do you want the Government of India to get five millions more gold from outside than it has got already, or do you want a mere bookkeeping transaction by which it credits the one reserve with gold taken from the other?—I quite see your point, and I admit that it is a very strong point as long as the paper currency reserve is in a strong position; but my view is that the paper currency reserve is a very fluctuating one as regards the gold in it, and we cannot predict at any given time what is likely to be there. Consequently, I should like to work up to 10 millions of liquid gold in the gold standard reserve absolutely independently of the sum which at any given time may be in the paper currency reserve.

9239. (*Chairman.*) I think at the moment Mr. Keynes is putting a slightly different question to you, the force of which I do not think you see?—I am afraid I do not.

9240. Suppose that we increased the liquid gold in the gold standard reserve by sending to the paper currency reserve silver and receiving from the paper currency reserve liquid gold in exchange. Mr Keynes asks supposing it were possible by this means to bring up the gold of the gold standard reserve from five to ten millions, would you be better off or would you not?—I owe Mr. Keynes an apology for not catching the point of the question. I quite agree that we should be no better off than we are at present, taking this moment as the point of time; but I feel that we should be in a stronger position as regards the future, because we should have established a standard.

9241. (*Mr. Keynes.*) So that that process of exchange would satisfy what you want?—For the moment, yes.

9242. (*Lord Faber.*) You would be satisfied with selling Consols from the paper currency reserve and handing the gold for the Consols to the gold standard reserve?—We could not do that under the present state of the law; but I should be content if an additional amount of, let us say, rupees or sovereigns were obtained by the sale of securities to the paper currency reserve and if I thereby secured at once 10 millions of sovereigns in the gold standard reserve.

9243. (*Mr. Keynes.*) In fact, your point is really this, that it does not much matter at a given moment whether the gold is in the gold standard reserve or in the paper currency reserve, but if it is in the gold standard reserve then it is safer and is more certain to remain there for long periods?—Yes. Wherever the gold is, it is all available or ought all to be made available for supporting exchange. I am looking at the gold standard reserve constitution from the point of view of our critic, the man in the street. I want to show him that in the gold standard reserve we are laying up a definite amount, not only in the aggregate but also in sovereigns, which we regard as sacrosanct for the purpose of defending exchange when an exchange crisis comes, and that it will be kept there independently of anything that may happen to our other gold resources in the interval.

9244. I think that is a very wise policy, and I only desired to be quite clear whether you wanted a policy of that sort or whether the Indian Government should get the 5 millions of gold from elsewhere which it has not now got?—I am sorry I did not at the moment quite understand.

9245. (*Mr. Gillan.*) It come to this, does it not, that in order to keep up the gold in the gold standard reserve you would not object to what was rather weakening the gold portion of the paper currency reserve?—No, I should not.

The witness withdrew.

TWENTY-SECOND DAY.

At The India Office, Whitehall, S.W.

Friday, 24th October 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

LORD FABER.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEGBIE.
Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.

Mr. BASIL P. BLACKETT (*Secretary*).

Sir JAMES S. MESTON, K.C.S.I., recalled and further examined.

9246. (*Mr. Keynes.*) I want to ask some questions now in relation to the gold question. You gave it as your principal reason in favour of gold that the use of gold is educative. I did not clearly understand what you had in your mind by that; what do you think it would educate people towards?—We hope that gold will in time teach the people to realise a better and more economical form of currency than that with which they are already familiar; and it will do it in this way—They will gradually be led on to greater confidence in the Government currency system, and in time to a more intimate knowledge and appreciation of the advantages of banking, thrift and economy.

9247. If you had said that of the note issue I could have understood it, but you seem to me to be getting dangerously near saying that you would encourage the people to take gold rather than notes in order to educate them to take notes. Does not what you say about getting them familiar with a credit currency apply to notes and not at all to gold, which is as far from a credit currency as you can get?—That is perfectly true in theory, but as I tried to explain yesterday, I think in practice the great bulk of the people of India will be a very long time before they come to an absolute familiarity and intimacy with notes. I hope that a closer and better acquaintance with gold will in time teach them the advantages of something which is more profitable than their present system of hoarding. I quite realise that notes, inasmuch as the note is paper and has no intrinsic value, would in the western mind be a step towards familiarity with cheques; but I think the operation is somewhat different in India, and I think the history of finance in India will be somewhat different from what it is in the West.

9248. You do not think familiarity with gold would work in exactly the opposite direction; you think that the mere familiarity with gold coin rather than with silver coin would lead the people towards paper?—It is not so much towards paper; it is towards economy, towards thrift; that is what I am thinking of. The great enemy of all economical use of money in India hitherto has been what is commonly known as the thriftlessness of the people. I do not admit that the people are intrinsically thriftless, but I consider their surroundings and environment make it extremely difficult for them to be thrifty in the sense in which the French peasantry are thrifty. I think a familiarity with gold will tend in that direction, and that thrift will lead to better banking and greater confidence in credit.

9249. But you cannot give any reason why you think familiarity with gold rather than with notes or silver will have this effect. Is it a mystery which cannot be explained?—No, it is not a mystery. As I say, the position of notes is terribly handicapped in India, because of the dangers attending the possession of notes in the hands of ignorant people and poor people, and the same dangers do not attach to gold. If you want to teach people you must give them a lesson book which is not dangerous to them and which they are not afraid of.

9250. It appears to me to be a lesson of quite a different kind. However, I gather that you would only be in favour of encouraging gold where you thought it was not practicable at present to encourage notes?—That is so.

9251. Wherever it is practicable to encourage notes you would do it?—Certainly.

9252. I want to put a few further points about the efforts on the part of the Government to make gold popular. Suppose that the policy is very successful, as it seems to be quite possible it might be if the Government put their backs into it, and all persons in India definitely preferred gold for all transactions of a size which warranted it; if one assumes that one-third of the circulation became gold in this way, what is your notion of what would happen? I suppose in the first place all the gold you now have in the Currency Department would go into circulation and be replaced by rupees?—I think a considerable flow of gold would come into the Currency Department; but that of course depends very much on the action of the Secretary of State.

9253. That could only apply to the increases to the currency, which are necessarily slow?—Yes.

9254. Taking it beyond that increase, the gold must replace either notes or rupees?—It seems to me that there will be a constant flow of gold through the paper currency reserve, and that you cannot take any definite point at which the currency reserve will be depleted of gold, and no more gold will come into it.

9255. If people are moving in the direction of gold, the first consequence will be new increases to the currency in the form of gold; and, if they move, as they well might, a little faster than that, then they must replace rupees with gold, and the only way in which they could do it would be by bringing rupees to the Paper Currency Department and taking out sovereigns in exchange?—Yes; or by bringing raw bullion to the mint and taking sovereigns in exchange.

9256. But there is no reason why they should have such bullion?—That is where my theory comes in, that the practice of stowing away gold out of circulation will diminish.

9257. If I may go back, except in so far as there is an addition to the currency, they must get rid of rupees?—Yes.

9258. Therefore, if the policy is very successful you would expect an outflow of gold from the Paper Currency Department and an inflow of rupees?—That would be so with a stationary aggregate currency.

9259. And if the movement of the people towards gold was fostered in the interests of the currency?—Yes.

9260. What would happen if it were more successful still? Suppose that people would always rather have sovereigns in any transaction which was big enough, and all the gold flowed out of the Paper Currency Department, how would you then provide sovereigns? Are you proposing to melt down the silver?—No, I hope not.

9261. Is not the policy a dangerous one? Unless it is only very moderately successful your reserves are all put in danger, are they not?—If your policy becomes a success, success means that gold takes the place of silver for all future additions to the currency, and even replaces some of the silver already in currency; and then, of course, I do foresee difficulties. But I think that is quite an impossible future.

9262. So you would agree that your policy, if by chance it was to be very successful, would be dangerous?—Yes, if it were pressed to extremes I think it would be dangerous.

9263. Do you not feel that for Indians it is probably a very natural thing to like gold, and that with a little encouragement they might easily do it on a very large scale?—I do not think so. I do not think that the amount of silver in circulation now is nearly enough for the ultimate requirements of the country. I consider that there is a large class of transactions, and always will be in India, that can never be met by gold; also a very large class of people who will be for all time, as far as one can see, unfamiliar with gold to any large extent.

9264. Your proposal is, therefore, based on the assumption that there is going to be a very large increase in the coinage, and that that increase, and no more than that, will take place in the form of gold?—No, I do not even assume that. If I understand the drift of your questions, you are pressing me to represent the position of India at a time when no silver will have been added to the currency and nothing but gold will come into the pockets of the people. Now I consider that is an impossible thing to look forward to; I do not think that will ever happen. All that I have been trying to press for is what I called before free trade in currency—let the people get what they wish. I believe that they will in time, with a little encouragement from Government, or even without it, take gold in a larger proportion than they do at present. That gold will replace silver for practical purposes. It seems to me that the position contemplated in your question implies a restriction on the legal tender of silver. We are a very long way from that at present; I do not say it is impossible or that it will never come, but we are a long way from it.

9265. We have received evidence to the effect that in some parts of India there is already a great deal of use of sovereigns, and that in Bengal and some other parts there is almost no use at all. There seems no intrinsic reason why in these other parts they could not be made, with a little encouragement, to use gold, and if they did use gold for moving the crops, I should have thought that my estimate of one-third of the currency in that form would not be at all exaggerated. It is at any rate a possibility which the advocates of gold have got to have before their minds, is it not?—Yes, I think so. If I might diverge for a moment, it will probably illustrate what I am trying to place before the Commission. You said just now that there is practically no gold used in Bengal. That, I believe, is true, but here you come to the very point at which I have already been driving, that the possible suspension of additions to the silver currency is in a very distant future. In Bengal I think it is perfectly true to say, or at least in Eastern Bengal, that up to a few years ago, up to the time at any rate at which the jute merchants began to bring currency into the country, there was practically no silver circulation. Eastern Bengal is an example of a part of the country where monetary coinage until quite recently was almost unknown. You have first to flood all those parts of the country with silver before one can contemplate their taking gold to any large extent; consequently, the stoppage of the silver circulation and its replacement by gold is to my mind still very far off.

9266. Would it be incorrect for me to put it like this: that you would view the policy of popularising gold with alarm if you for a moment believed that gold might establish itself as anything like one-third of the currency, but you do not think there is the slightest chance of gold really becoming very popular, and therefore you would like a slight mild luxurious use of gold, but not more?—I consider that a third of the currency might present dangers which we do not at present foresee, but I think even that is a very distant ideal.

9267. It is only because you think it very improbable that the gold will be used to anything like that extent that you are in favour of encouraging it?—Yes.

9268. With regard to the phrase, free trade in currency, complete passivity on the part of the Government officers is scarcely possible, is it? They must tender something—in cases where somebody simply wants money they must either tender him notes, or gold, or rupees?—They may very well ask which he wants to have, and I think they generally do so. Circumstances may arise in which they have not got one particular medium, and then they press their customers to take the other; but, ordinarily speaking, I think they give them a perfectly free choice.

9269. It is not the case that the facilities for exchanging gold and notes are exactly the same?—That is so; they are not.

9270. And it would not be very easy to make them exactly the same?—I quite agree.

9271. So that Government almost necessarily favours one rather more than the other; all that it can do is to try and give people what they want if they ask for it?—Yes.

9272. Do you mean more by free trade than that?—No.

9273. You do not mean it to imply that an attempt to push notes should be deprecated?—No; I do not want to push any form of currency.

9274. But do you think it would be a bad thing to push notes, provided that a man could get gold when he asked for it?—I do. I say that if we have our treasury reserves and our currency reserves strong enough and sufficiently well located to enable people to take either of the three forms of currency, we ought to be absolutely impartial in the matter.

9275. So that you would be against pushing notes, even if that policy was combined with a policy of allowing people gold if they wanted it?—Yes; I am against pushing any form of currency.

9276. Why?—Because I think we ought to give the people what they want. If we are strong enough to give it to them they ought to have it.

9277. Do you think that any attempt to educate them to use what you think is the most educative form of currency is wrong?—No; I never say education is ever wrong; far from it.

9278. I am trying to get at your reasons for this unwillingness to encourage the people, without forcing them to use what you consider the best currency?—I think I must distinguish between encouraging and forcing. We have been very much scared at any attempt to force currency on the people. The attempt was once made, and it was a terrible failure. When you refer to encouragement, I find some difficulty in drawing the line between that and enforcing. If you mean moral suasion, so to speak; that we ought to teach the people and we ought to explain to the people the advantages of one form of currency over another, then I can go with you. If, on the other hand, you say we ought to instruct our treasury officers to try and press the people to take notes when they are somewhat reluctant to do it, then I am against you, because in India, with the humbler people, the smallest indication of an official line is very often taken as a formal order, and I think we ought to avoid any appearance of that sort of forcible persuasion.

9279. I was thinking much more of increasing the facilities for the encashment of notes?—I am quite with you that we ought to increase these facilities as far as we can afford to do so.

9280. Whereas in the case of gold, while reasonable facilities should be allowed, the Government should not put itself to expense to convey sovereigns to remote districts on the chance that they might be wanted there; that is what I mean by encouraging or not encouraging?—I do not think there is much between us. I do not think the Government does, as a matter of fact, incur expense in moving sovereigns unless there appears to be a genuine demand for them. In the case of notes, we feel that the convertibility is a liability which we ought to meet as far as possible at the largest number of trade centres. The number of trade centres at which we do meet that liability has increased, and I suppose will to a moderate extent increase in future.

9281. As we all know, there have been some developments lately in the direction of increasing the availability of notes; is there much further in that direction which you think can be done?—I think that we might open a few more currency centres, if I may use that expression, where the conversion of notes will be a legal obligation; but we ought to progress somewhat slowly in that matter. I would not recommend—if that is also in your mind—the universalization of notes of higher value than those we already have.

9282. Would you think it possible to do anything in the same direction as is done by the branch offices of the Reichsbank? In their case the notes are only legally negotiable at the head office, but the instruction of the Bank Act is that they shall be encashed at the branch offices, so far as the resources and exigencies of the latter may permit?—That is very much in consonance with our actual practice.

9283. Do you give instructions to your officers at places where the notes cannot be legally encashed to encash them whenever they can?—Yes, we do. That is done now.

9284. In point of practice, is it nearly always possible to get a note encashed at a district treasury?—Yes; I think so. When I say "a note," of course I do not refer to very large sums.

9285. Would it be so with a 50-rupee note?—Yes; certainly.

9286. Is that also the case at the sub-treasuries?—It would be more difficult at sub-treasuries. Any large presentation of notes at sub-treasuries would probably be impossible.

9287. Would it be a natural thing for a person to go to a sub-treasury with a 50-rupee note and ask for it to be changed?—Yes.

9288. And generally, could he get it changed?—Yes.

9289. Even at the sub-treasuries?—Yes. I am assuming that you are meaning the singular when you speak of a rupee note.

9290. (*Chairman.*) Up to what point are the notes now universalized?—100-rupee notes and anything below.

9291. It is above that that you think it would be unwise to go at the present time?—I think it would be.

9292. Would you give your reason for that?—The reason is mainly that for ordinary hand-to-hand purposes anything above 100-rupee notes is extremely unfamiliar in India; in other words, the larger notes, the 1,000-rupee and the 10,000-rupee notes, are really stores of value which are put away in reserves by banks and bodies of that sort, and are extraordinarily rarely seen. I have never seen a 10,000-rupee note except at headquarters in the reserve treasuries. What I feel is that, although legally our liability may be limited to specific points, still it hits our credit rather hard if we are obliged constantly to be refusing to cash notes at out-of-the-way centres or places where the legal liability does not exist, and consequently it is better that we should put the matter on a straightforward basis.

9293. (*Lord Faber.*) You are in good company, because if you have a Bank of England note issued in London, and you present it at Leeds, they will not pay it unless they know you?—There is, of course, another consideration, and that is a purely revenue one. The fact is that the internal remittances of funds in the country are very largely in the hands of the Government at present, either by treasury transfers or by the medium of the Post Office. In these ways we acquire a certain revenue which we should be rather sorry to discard. That is, of course, quite a subsidiary consideration.

9294. (*Chairman.*) That is what I thought probably, from what you said, you are a little afraid of; you fear that the internal remittances of large sums would then be made in big notes, and the whole expense of those remittances would fall upon the Government without remuneration?—Precisely.

9295. (*Sir Shapurji Broacha.*) To the man in the street, the placing and withdrawal of the balances in the hands of the Presidency banks seems rather capricious; is it regulated by the will of the officer, or by some strict rules?—The balances in the hands of the Presidency banks are, as you no doubt know, subject to a definite minimum. There is also a provision by which above a definite maximum the Presidency banks are liable to pay interest. Between these two limits the amount is, I think, more or less accidental. It depends very much on the requirements of the district treasuries, and on the possible demands in the reserve treasuries what the exact balance is.

9296. Is the sum placed in these Presidency banks at the caprice of the officer between the minimum and the maximum?—I should not describe it as his caprice. I think it is very much a matter of convenience, having regard to the other claims on the treasury at the time.

9297. We have it stated in the correspondence that the Government generally keep larger balances in the Presidency banks immediately before a new loan is launched?—I think the practice is to ease off the balances, as we call it, just before a loan is issued. That is a very natural process.

9298. I think the Government has priority over all the corporation loans?—We generally get the Government loan out before the corporation loans.

9299. This year, just after the last loan, when three crores were withdrawn from the market, the corporations were left in the lurch. Is it not fitting that the Government should help themselves, and the corporations too, as much as they can? Soon after that last loan, several floatations for corporations, including the Calcutta Port Trust, had to be withdrawn because of that withdrawal of three crores from a small market like India. With 32 crores in the treasuries, it does not appear to an outsider to be a very wise step to take so much off the market. The consequence is, however, that some of these public works will have to stop. The Bombay municipality, who wanted to launch a loan of 40 lakhs, had to be content with 20 lakhs, and that under par, and, as I have said, the Calcutta Port Trust had to withdraw their proposed loan. These are matters which in the money market are more or less matters of sentiment, not so much dependent on the quantity of money available but on the sentiment at the time. Can you tell us what was the reason for this sudden withdrawal of three crores just before these corporation loans were given to the public?—I am very sorry, but I cannot tell you. I was in another sphere of work at the time.

9300. One of your reasons for not lending money to the public, I think you said, was the fear of overtrading?—I would not put it in that way. I think that what I said rather was that the bank rate, I believe, on occasions was raised for that purpose, rather than for the purpose of indicating a definite tightness in the general market.

9301. Still there is that fear present in the Government of India's mind, that the money may not be returned at the due dates?—I think not. I think the Government of India are perfectly happy in the belief that, if the money were advanced to the Presidency banks, the Presidency banks would not only check overtrading, as they do now, but would also return the money when they were asked to.

9302. Up to now, the Government of India have acted in this manner in a detached sort of way, not looking round to see what other countries do under these circumstances. I think the money will return in the time, if it is sufficiently secured, but meanwhile it might happen once in 30 years or 20 years that it might not, yet, on the whole, India will have prospered for 20 years by the Government lending money?—You are referring, I suppose, to the old story of the Bank of Bombay. That is very ancient history, is it not?

9303. No. Neither the Bank of Bombay nor the Bank of Bengal has helped the market, because when their funds have been exhausted they have said they would not do business for the Government for nothing and take the risk and liability of it. I am talking of the year which is just passing?—May I read a quotation from a letter, which interested me very much at the time, which was written by an official of one of the Presidency banks—Mr. Grey, of the Bank of Bengal—on this point. He was describing the trade relations with the banks, and more particularly the relations of his Presidency bank with the exchange banks in his circle. He said this: "Jute is bought, manufactured, "and shipped with our money. When shipped, it is "drawn against by bills on the consignee, and the "bills are sold to the exchange banks, who repay us. "They get the money from London by Councils or in "gold. We have thus to lend heavily, but we cannot "borrow locally. When the money market in India "is bare, high rates of discount are useless, as they "do not produce money." That probably has some reference to the question which is in your mind.

9304. Last year and the year before, when the Government here were lending something like 30 crores, surely India might have had three or four crores. It raises invidious distinctions in people's minds there when banks are lent money in London and they are not lent money in India?—I admit that that sentiment is very strongly held in India.

9305. I think the Government of India and the Secretary of State were at great variance at one time as to the amount of liquid gold to be held in the Standard Gold Reserve?—There was much discussion on that subject.

9306. I do not think they are yet agreed as to the amount?—The Government of India have accepted the Secretary of State's decision.

9307. But they have accepted it with reluctance, as they state themselves. Is it not the Government of India's view that all the gold should be kept as far as possible liquid?—The Government of India would like to see a very large proportion, a larger proportion than at present, of the gold kept liquid; but they have had naturally to accept the very definite assurance which was given to them in Lord Morley's time, when he accepted full responsibility for converting into liquid gold as much of the securities as would ever be required for the purposes of the reserve.

9308. It was an assurance to keep one crore liquid in the shape of short-dated securities or short-dated lendings, as against the 25 crores that you asked for, I think?—I forget the exact figures at the moment. I think it was one million sterling he said they would keep in cash, and a considerable amount in short-dated securities and loans.

9309. Would it not be better that it should be kept in liquid gold than in short-dated securities?—There is a strong feeling that the amount of liquid gold here should be larger.

9310. One reason that has been given for the present practice is that the exports of India are in excess of her imports, and therefore you would always be able more or less to maintain the exchange; India is only protected in one way. India at present is not investing in foreign securities, but a time will come when India will invest in foreign securities, and then it will not depend on the trade excess. That, I think, is one reason why there should be more liquid gold in the Gold Standard Reserve than the amount which has been fixed?—Perhaps.

9311. You said that you would not put a limit to the Gold Standard Reserve; at present you say it should be 30 millions, but the figure may change with the times and the circumstances and the trade of India in the future?—Yes; I think the limit ought to be reconsidered from time to time.

9312. Then you say you should educate the people to use more gold; I think Indians at all times use more gold than any other country that I know, as a rule?—Do you mean in the arts?

9313. In every way. Somehow or other they are more accustomed to sovereigns. Between 1907 and 1913 we received more than 70 millions of gold, and against that, for coinage for silver, only 7 millions; so I think if you want to protect the silver coinage, there is enough gold coming into India to protect it, if the people are ready to lend it at a time of emergency?—Yes, if you assume it comes out as readily as it goes in.

9314. Since the closing of the mints I think the silver used for coinage does not represent half the amount of gold that is absorbed?—That is so.

9315. You say the Government are afraid of the absence of protection for the silver coins; if that fear is to be justified, the habits of the people will have to change, because there is no want of gold coming into India?—I think the habits of the people are changing in many respects. We have had very reasonable evidence that gold is being put into private hoards in place of silver. I was very much struck some years ago by the enormous number of very ancient rupees that one used to find in the Punjab and the North of India, which undoubtedly must have come out from a hoard in the ground, and that at a time when there was no reason to deplete the hoards. There is no doubt the silver was being replaced by something else.

9316. I think there is more necessity for a starvation diet for gold than for pushing gold?—That also is educative.

9317. If all the gold that is asked for is given without restriction, do you not think the people will become more suspicious? Supposing there is no gold given out, would that not be worse than the starvation diet which they have been accustomed to?—Do you mean that a sudden cessation of gold would be serious?

9318. There may be, for instance, rumours of war or anything like that when notes and silver coins come with such a rush to be exchanged for gold that gold may have to be refused?—Yes, that time might come; it has come already.

9319. Therefore, is it not better to let them know that gold is not to be given on demand, and to accustom them to that idea, rather than to give gold on demand for a time and then suddenly stop doing so?—I do not like the idea of refusing to give them what is, after all, the legal currency of the country.

9320. But would it not be worse to refuse it when they have become used to the gold? They will be more afraid of danger then than if they were accustomed to the refusal, and had been always using silver?—I hardly think the refusal to give gold, when the Government's supply of gold coinage is exhausted, would produce anything in the nature of a panic.

9321. Suppose the Bank of France were to proclaim that they would encash all the 5-franc pieces in gold, do you think there would be much gold left in the Bank of France?—I am afraid I do not know enough about it to answer. I believe they have a very strong holding of gold.

9322. Still they would not do it?—The question is whether it would ever happen. I do not think it would ever happen in India, certainly.

9323. But this is certain; the people of India, I know, in case of any crisis, in case of any war, in case of any agitation, would come to you for gold. They know the difference in the values of silver and gold; they know that in the value of the silver rupee there is only 66 per cent. or 60 per cent. of metal, and that in gold there is the full value; they understand their interests; and they would rush in for gold. To refuse them at that time would create a greater want of confidence than to refuse gold always at the option of the Currency Department?—I quite see your point, but it seems to me that when a crisis of that sort occurs, it would be almost necessarily simultaneous with such a fall in exchange as would bring the gold reserve in London into operation.

9324. In no country is the gold given out as you suggest; not in Germany, not in Austria, not in Russia, though they are gold currency countries. Why, therefore, should it be so in India? Gold in the Paper Currency Reserve or in the Gold Standard Reserve would be more valuable and would show

India's stronger position than gold in the pockets of the people. So why should Government help to fill the pockets of the people? Take, for instance, exchange between Calcutta and Lahore; they would give silver there at $\frac{3}{32}$ difference on exchange, and gold at $\frac{1}{32}$ difference on exchange, and so any man would naturally prefer to have a gold sovereign for his 15 rupees at any time?—I do not think it is their standing practice to make that difference.

9325. It was put in evidence by Mr. Dunbar?—I saw his evidence, but unfortunately I did not see it until I had left India, so I was not able to verify the episode to which he referred. As far as my recollection goes, that was an altogether exceptional transaction, and I rather think, if I may hazard an explanation, that it was due to a purely personal and temporary arrangement by which one large exporting firm undertook experimentally to utilise gold to a larger extent in the Punjab than they had ever done before. So far as I have any recollection of the transaction, it was never referred to the Government of India officially and it was never accepted as a policy by the Government of India, but an arrangement was made with the Accountant-General of Bombay to give transfers on Delhi, I think, in gold at a somewhat cheaper rate than the ordinary transfers. It was offered only, as far as I know, to one particular firm, and it was offered in consequence of an arrangement between these two persons to experiment in the utilisation of gold in moving a big crop in one particular year. I should be very sorry, without further reference to the record in India, to admit for a moment that any general practice of this sort was ever accepted or anticipated.

9326. (*Chairman.*) You speak of it as an experiment; could you tell me the object of the experiment? Was it to ascertain whether if the gold were available a larger portion of it could be put in circulation?—That was, as I understand, the object.

9327. Then the idea in the mind of the Accountant General must have been that it was advantageous to get gold into circulation?—He was an officer who was very firmly wedded to the gold theory.

9328. As far as your knowledge goes, that experiment stands by itself and was not repeated?—As far as my knowledge goes certainly.

9329. (*Sir Shapurji Broacha.*) So far as the country is concerned, the more gold there is shown to be in the central treasury, rather than in the pockets of the people the stronger is its credit; for instance, Russia has an enormous amount of gold in the hands of the Government and in the Bank of Russia, and I suppose you will admit that her credit stands higher than if that gold had been in the pockets of the people of Russia?—Yes.

9330. Why ought not that example to be followed in India? Would not our credit be stronger if we had 40 crores of gold in our reserves than if we had 50 crores of gold in the custody of the people?—I think the only difference between us is that you would like to see a strong reserve and no waistcoat-pocket gold and I should like to see both.

9331. (*Chairman.*) In so far as the two are incompatible, that is to say, in so far as one is increased at the expense of the other, which do you think it most advantageous under present conditions in India to increase—the gold in circulation or the gold in reserve?—I would much rather increase the gold in reserve, and, if necessary, check the circulation until our reserves are sufficiently strong.

9332. (*Sir Shapurji Broacha.*) What gold do you expect would come to the mint? I suppose it is rather a sentiment that you want to satisfy by this proposal of a mint; or do you think it is a necessity for India?—I would not go so far as to call it a necessity. I think it would meet a very strong and reasonable sentiment in India. Educated Indians feel that there is no particular reason why they should be worse off than some of the great Colonies which have already been supplied with a mint; also Indians generally look upon the mint as an attribute of sovereignty, and they feel that its presence in India would be regarded as adding to their national pride.

9333. How would they recognise one coin from another; there would be no Indian hall-mark, I suppose—all the sovereigns would be the same, would they not?—I think we should have an indication of the mint, the same as they have in Australia.

9334. I suppose it would come out like the Australian sovereign or the English sovereign?—It would be very similar.

9335. And there would be no hall-mark of India on it?—There would be a mint-mark on it, I take it.

9336. A separate mint-mark?—Yes.

9337. The separate mark on the Indian sovereign would be so nearly invisible as scarcely to distinguish one coin from the other. Except one-third of the gold from the Mysore mines, what gold would come to the mint? As you know, the bars of gold that come out to India are already hall-marked, and bar gold is about 1 per cent. dearer than sovereign gold?—I accept your knowledge on that subject.

9338. Would it be from patriotic motives, do you think, that they would bring in bars of gold and send them to the mint and get back sovereigns which would cost 15 rupees and two annas?—As I said yesterday, the supply of raw gold to the mint will not be uniform or regular.

9339. If there were not a sufficient supply brought in, in a few years you would have to scrap the machinery?—I do not think we should have to scrap it. After all, the machinery we set up for minting gold could be utilised with very little alterations in the minting of silver.

9340. Remember that bar gold could be sold at a dearer price than sovereign gold?—I should like to suggest to the Commission that the expression "scrapping the machinery" is a slight exaggeration, because, except for the provision of new collars for the presses, I think everything could be utilised.

9341. Supposing there were different views on that subject? Turning to another aspect of it, suppose that for five years the Government of India were to pay for all gold 3*l.* 17*s.* 9*d.* per standard ounce, just to see whether India requires a mint; would you accept that as an experiment?—You mean buying gold at a favourable rate?

9342. Yes?—I hardly think so. I think the experiment ought to be a much more direct one.

9343. Do you know that from 1898 to 1902 gold was paid for at the rate of Rs. 1 for 7·53344 grains troy of fine gold and not much gold came in?—That is so; very little gold came in.

9344. Is there a popular demand in India for a State bank?—It certainly has not become one of the planks on the platform of the advanced political parties, and it does not come within the horizon of the great mass of the people. To that extent I should not say that there was a popular demand.

9345. If Indians want a thing, they ask for it, do they not?—Yes.

9346. It has been stated here that there are no popular demands, although demands are made for them or proposed for them; but I think we know too well in India that there are many popular demands?—I quite agree with you.

9347. I think the European merchants have a large monopoly of the trade in India—as a rule, anyhow—and of course they are a very intelligent body?—Have they got a monopoly in Bombay?

9348. They have the Chambers of Commerce, and when they are touched in any way they send in petitions and ask for interviews; is that not so?—The Chambers of Commerce express the views of the commercial community with great ability.

9349. They are the merchants' exponents?—Yes.

9350. If they really wanted a central bank or a state bank, do you not think that a deputation would have called on the Governor-General asking for it?—That is quite possible.

9351. As a fact, no deputation has come up to now?—That is so.

9352. Suppose that in making a normal year's Budget you have a surplus of four or five crores, would you be pleased with that surplus?—Do you mean at the end and not in the original estimate?

9353. Yes?—I should be quite contented.

9354. If you had the next year the same surplus, would you try to reduce taxation?—We never budget for such a large surplus. The ordinary traditional budget surplus is about a crore. It has recently been increased somewhat, on account of the demands of the new capital at Delhi; but I have no recollection of the Government of India ever having budgetted for anything like three or four crores.

9355. I think, for a prosperous country like India, a surplus of two or three crores or even four crores is nothing?—I should be delighted if we were allowed to budget for that amount.

9356. When India wants such large public works and the credit of India is a little shaken in the London market, I think it is but right to anticipate a surplus of three or four crores in your Budgets?—You know there are two schools of thought on that subject. There are many wise authorities who would say you were thereby drawing money from the pockets of the taxpayer, which you ought not to.

9357. We are in the position of Russia to a certain extent. The Russian surpluses for the last few years have been 21 millions on an average, of which two-thirds is spent in public works of utility. I think that would not be a bad idea for India. I know, of course, that whenever there is a little surplus there is an outcry about vexatious taxation, but I think that the surpluses should be larger in order to protect your public works?—I am very glad you think our taxation is so light.

9358. (*Sir James Begbie.*) I want to ask you about the paper currency reserve and the strength of the silver holding. Is the reserve of rupees not maintained at a higher level than would be the case if only demands for the encashment of outstanding notes had to be considered?—There have been times at which it has been higher than the mere conversion of notes would necessitate.

9359. The reserve is maintained partly to secure the conversion into rupees of imported sovereigns, is it not?—Yes.

9360. So far as that goes, does it not mean that the cost of maintaining such a reserve adds to the cost of the currency system?—It does mean that, if you imply that we should accept no liability to receive gold in exchange for rupees; but we have accepted that liability.

9361. And over all it means, does it not, that India has to bear the cost of two reserves, one of silver and one of gold, or gold securities?—India has to bear the cost of providing notes and providing silver and frequently gold on demand.

9362. That is necessitated, is it not, by the fact that the Indian system is a gold exchange standard, or has been conducted on those lines for some time?—The Indian system is theoretically a gold standard.

9363. We have had it in evidence, I think, that as worked it is a gold exchange standard system?—I am afraid I do not know the exact definition of a gold exchange standard. That term has been applied to certain other countries, for instance, to the Philippines, and I believe that it has a somewhat narrower interpretation than the Indian system has. It is very largely a matter of definition.

9364. So far as it can be applied to the Indian system, does the Government of India approve of such a system?—I am not quite sure what system is in your mind.

9365. I understand that to some extent, at any rate, the Indian system has been conducted on the lines of a gold exchange standard; so far as that is the case, does it meet the approval of the Government of India? I am only using the term in the way in which it has been used in evidence, to mean a system which provides gold for the maintenance of the par of exchange, but under which it is not obligatory to give gold out against the token currency; or as meaning that India is only on a gold basis as regards foreign exchange, and that it is not a gold country?—May I put the question as I understand it? I understand you to ask me whether the Government of India approves of the system by which at present we give gold in London in exchange for rupees presented in India when the necessity arises, and at the same time we issue, so far as we can, gold for internal circulation in India. If that is so, then I can only say that the Government does approve of doing so. But if, on the other hand, you suggest that the Government of India is desirous of having a system by which there shall be no gold to issue in India and all the gold in its Governmental stock will be held in London for the purpose of supporting exchange, all I can say is that the Government of India does not think that it would be politic to restrain our operations in that matter at present.

9366. I pass on now to the question of free trade in currency. Am I right in understanding that you mean free trade within the limits laid down by the currency regulations?—No; I should like to see the currency regulations a good deal more liberal than they are. One would look forward to a time when there will be absolute free trade, and when people will get without limit any currency which they might find most convenient and which they might demand.

9367. With free trade in currency would you agree that as between sovereigns and rupees there should not be a greater inducement for the circulation of rupees than of gold?—Yes; I do not wish to see preferential inducements for any single form of currency.

9368. If Council Bills were sold against the Paper Currency or Gold Standard Reserves below gold import point, would you say that such sales gave a preference to the circulation of rupees?—Yes, in the sense that they deter gold from coming into India.

9369. With regard to the gold mint, would you restrict the gold coin to be issued by the mint to the sovereign?—Yes, I should.

9370. (*Mr. Gillan.*) I want first to ask you about some points that came out in evidence yesterday—for instance, the question of the Budget date. What I want to get from you there is precisely what importance you attach to this question. You said, I think, that we budget for a normal year?—Yes.

9371. A normal year is a sort of thing that very seldom occurs?—Quite so.

9372. You may be defeated by a famine year, which I think you told us yesterday in 1908–9 led to a deficiency of something like $3\frac{3}{4}$ millions?—Yes.

9373. On the other hand, in the recent prosperous years, having based your Budget on the normal you have been having a very large excess over the Budget anticipations?—Quite so.

9374. So that at the present time these very large variations, you may say, are really inevitable?—I think they are.

9375. And those variations must operate against our making the best financial arrangements?—Yes, they do.

9376. Either you are without a great deal of the money you are budgetting for, or, on the contrary, you have a great deal of money which you did not anticipate and for the use of which you have not provided?—The variations do handicap us.

9377. Does that not strike you as rather a serious matter?—One dislikes anything in the nature of speculative or bad budgetting; but what I feel is that a change in the Budget date to, for instance, an October-September year, would not in any material sense diminish the discrepancies, that a change to the calendar year would somewhat reduce them, but I am not sure that the net effect taken all round year after year is worth the alterations that would be necessary.

9378. You think you would not be on much firmer ground if you changed it as you said to the calendar year, which you prefer?—I think we should be better off; I think actuals would be slightly nearer budgets, but I doubt if the general advantage would be material.

9379. If the financial year ran from the 1st January, would it not be the case that at any rate nine months in each financial year would be more or less secured?—Yes, I think it would.

9380. On the basis of the monsoon which had by that time passed behind you?—Yes.

9381. Would that not give one much greater security?—I quite agree; I think it would.

9382. I do not know if this is your impression, but whenever the matter has been under consideration at all in India, I have had the impression that there will be very great difficulties at home in fitting in any alteration of the Budget date?—That is a very important consideration, which I did not touch at all.

9383. Assuming that those difficulties are not so serious or that they could be got over, do you think the matter is so important that you would rather press the Government of India to make an alteration in the Budget date if it were found possible?—I think on the whole that if the Secretary of State could arrange his budgetting and his estimate of ways and means with the same facility for a calendar year as he does for our present financial year, I should be disposed to make the change.

9384. (*Mr. Keynes.*) In the year 1907–8, if you had had a calendar year or a November year, you would have been able to avoid so large a deficit as actually occurred, would you not?—I think we should.

9385. That is a case in which by that time you would have got knowledge which would have been important to you?—Yes.

9386. (*Mr. Gillan.*) With regard to the question of the gold currency and the gold exchange standard, which has just been raised by Sir James Begbie, I do not know that there is any very great difference of opinion, but it seems difficult to reconcile the differences of opinion that have been expressed. You know the great point of criticism which has been brought against the action of the Government in currency matters is that it has not followed out the recommendations of the Fowler Committee?—Yes, I do.

9387. The demand made on us is that we should carry out those recommendations, and it seems to me a primary point for the consideration of the Commission to say how far exactly they stand in the same position as the Fowler Committee, or how far they think experience since then has led to a modification of the policy then laid down?—I am very glad you have given me this opportunity of explaining what may have seemed to be the somewhat rigid and dogmatic attitude of the Government of India in regard to a gold currency. The Government of India have felt that they were loyally bound to carry out the pronouncements which have been made from time to time by authoritative bodies, and which have been accepted on their authority by the Secretary of State. The position has been one of steady evolution. The first big Commission which investigated our position was the Royal Commission on Gold and Silver of 1888,* I think. They definitely approved of a gold standard, and said nothing more. Five years later there came Lord Herschell's Committee, on whose advice we closed the mints and established a gold standard. In a very important subsidiary report, Lords Farrer and Welby added the corollary that the Government of India must accumulate a sufficient reserve of gold to secure the convertibility of the rupee. That we regarded as a step further. Then came in 1898 the Fowler Committee, which advised us to open a mint as in Australia to the unrestricted coinage of gold. The exact words which they used about the currency were that they looked forward "to "the effective establishment in India of a gold "standard and currency based on the principles of "the free inflow and outflow of gold." Now, that is the last authoritative word that we have had on the subject, and the Government of India's feeling has been that until another equally competent authority either develops or sets aside this instruction it is our duty to work towards it. But, as you have pointed out, we have been insensibly diverted from carrying this out literally, to some extent by the very remarkable and very vital experience that we have gained of the working of the system between 1898 and now. There has been no deliberate or ostensible departure from the principles of the Fowler Committee, but the circumstances of the time have been too strong for us.

9388. (*Lord Faber.*) Do you mean by the circumstances of the time the difficulty of getting gold?—And the possibility of employing gold in a somewhat different manner from that which the Committee contemplated.

9389. (*Mr. Gillan.*) What modification, if any, in the thesis of the Fowler Committee would you consider now practicable or desirable?—We have established the Gold Standard Reserve which they advised us to do, and we have put the gold standard on a very definite basis. All that we ask is that we should be permitted to establish a coinage system which would supplement the somewhat limited manner in which the gold currency recommended by the Fowler Committee has been brought into effect.

9390. I think, judging from the words you have read out of the Fowler Committee's Report, they obviously thought that the problems of exchange and of internal currency were indissolubly connected?—Yes, certainly.

9391. If you remember, there was one very prominent witness* who gave evidence before them who said that he could not conceive of a gold standard without a gold currency?—Yes.

9392. It is with regard to our experience since the date of that thesis that I should like your opinion. The view which has been developed, I think, is this—in fact this is what you yourself said yesterday—that the liability to find gold depends on the balance of international obligations?—Yes.

9393. The view I am referring to says that that liability can be met sufficiently and promptly by reserves, and that we can now afford to treat the internal currency on its merits, that is to say, with regard to the requirements of an internal medium of exchange; would you accept that?—I entirely accept that.

9394. But that is getting a good deal away from the position of the Fowler Committee?—I am not quite sure in what respect the idea of the Fowler Committee would be inconsistent with that. After all, the internal trade and the external trade of the country, if we look at it in that way, are all part of one great transaction. I quite admit that the internal currency is a thing which they regarded as part and parcel of the general currency system of the country, but your point is that we are now taking these practically in separate compartments.

9395. More or less?—I quite agree with that statement of the case.

9396. I think they considered that the question of exchange would really not be sufficiently properly provided for until you had got a thorough gold currency?—That is so.

9397. Are you prepared to say from the experience we have gained that it is now possible to provide for the support of exchange by our reserves without a gold currency?—I quite agree that we have to that extent modified the policy they have laid down.

9398. As a matter of fact, when you say you would like free trade in currency, that is a desire, is it not, which is really dependent on the adoption of this gold exchange standard idea; I mean, if you hold the alternative that a gold currency is essential to the support of exchange, then I take it you would have to subordinate the needs of your internal medium to exchange, and, so to speak, force gold on the people; is that not so?—Yes, I agree.

9399. So that this question of free trade in internal currency is really bound up with this new development, we will call it, of a gold exchange standard?—Yes.

9400. Now about the gold mint as connected with that. You have said, and I think the Government of India have always expressed a very decided preference in that direction, that the sort of coin to be minted should be the sovereign?—Yes; they have regarded the sovereign as being what Sir Shapurji once called it, the cement of Empire.

9401. The advantages to the Empire from that point of view, of course, are clear. There is only one point I would like to put to you; it has been suggested in evidence that the sovereign is too big a coin for the great majority of the payments that have to be made in India?—I think the sovereign is too big

* C. 5099, &c.

* The Lord Rothschild: *see* C. 9037, Q.A. 7614, 7621, 7625–8.

a coin for a very large number of the ordinary payments that have to be made in India, and therefore the sovereign would not be in everyday use to the same extent that it might be in a richer country; I quite see that. If this objection were regarded as driving us towards a smaller piece, we consider the objections to those smaller pieces to be greater though of a different type.

9402. Are you referring to the expense of maintenance?—No. Let us take first of all the 10-rupee piece, which is the standard alternative. The main difficulty there, as you know, is that the 10-rupee piece if coined at all freely would be a competitor with the 10-rupee currency note, which is one of the last things that we desire. Then if you consider, as some authorities have considered, that a still smaller coin, a 3-rupee piece, or 5-rupee piece, should be made, we are afraid of the grave wastefulness, the wear and tear, and the serious loss. What we also feel is that there is a risk that any coin other than the sovereign, and of a smaller denomination, would in course of time, when seriously depreciated, be presented in exchange for sovereigns, because ostensibly they would all remain legal tender, and, therefore, the consequent loss would fall entirely on the Government.

9403. Taking it merely from the point of view of payments, I take it you would agree that perhaps the 10-rupee coin might be more useful. It was put to us by one of the previous witnesses, that a 10-rupee coin could be used in payment of a great many amounts between 10 and 15 rupees?—I think the 10-rupee coin possibly would be more generally useful than the sovereign; but, all considerations taken together, we prefer the sovereign.

9404. There is one point in the same connection that I might clear up. I think it has been suggested that there can be no demand for a smaller gold coin in India, because the half-sovereign has never been popular; but my recollection is that the half-sovereign has never been made available?—The half-sovereign hardly comes to India at all. No half-sovereigns have come from Australia, in fact I do not know that they mint them in Australia; and the half-sovereigns that occasionally come from Egypt are so depreciated that we try to keep them out.

9405. So that the absence of the use of the half-sovereign in India is no guide in this particular case?—No, because we have no general experience of the use of the half-sovereign.

9406. I do not know whether you would like to add anything to what you said about the gold mints with reference to the attitude which the Home Treasury take up about that question?—I have been asked to say that the Government of India think that, in view of our very large experience and very considerable success in minting in India, it would be a graceful thing if my Lords of the Treasury would relax the conditions that they have hitherto imposed, and allow our mint masters to coin sovereigns, under any supervision and subject to any assays and any periodical inspection that they may see fit to impose.

9407. (*Chairman.*) In contemplating the opening of the mint how do you propose that its expenses should be met? Will you charge for coinage?—No, we do not suggest that there should be any seigniorage.

9408. You are aware that there is a seigniorage in Australia?—Yes.

9409. On what ground would you justify coinage in India without seigniorage?—On the ground of popularisation, and also on the fact that our mint will be an extremely inexpensive one if we are allowed to carry it out on the lines which we originally suggested. I think the last estimate I saw of the initial expenditure is only 3,000*l.* The annual expenditure will depend entirely on the attitude of the Treasury. If we are allowed to carry it out through our own agency we should do it for next to nothing.

9410. (*Lord Faber.*) Do you think you would be able to get the raw gold for the purposes of coinage in India?—If you mean the raw gold produced in India, not for some time.

9411. That is under contract, we understand, to come to England. Do you think that it would gradually come to you?—It is possible that on the completion of the existing contracts they might consider our terms.

9412. (*Chairman.*) In making that request on behalf of the Government of India, have you in your own mind, and had they in their minds, the state of the law in England at the present time?—Quite so; they realise the difficulties in the way of the Treasury.

9413. They realise that they are asking for a change of the British law?—Quite so.

9414. (*Mr. Keynes.*) You are probably aware that the English mint will not give sovereigns on demand to a private person, but that there is a great deal of delay involved?—Yes.

9415. So that in practice anyone who wishes to turn gold into sovereigns takes it to the Bank of England, when there is no foreign demand, and gets 3*l.* 17*s.* 9*d.* not 3*l.* 17*s.* 10½*d.*?—Yes, I am aware of that.

9416. Are you proposing that the Indian mint should charge no seigniorage, but should give sovereigns on demand in return for gold and so underbid the Home mint?—No that is not our object at all.

9417. What would be the effect of your action?—As compared with the present condition of things?

9418. Is it your intention that people should be able to get sovereigns for gold on demand, or after a very short time, at 3*l.* 17*s.* 10½*d.*?—I could not answer that question, because I have no idea what the cost of landing gold in Bombay, as compared with the cost of conveying it to the Bank of England, would be.

9419. The terms that you offer is a matter of profound importance, is it not, when you are considering whether gold will come?—I think it is not a matter of the very highest importance, because I am still of the opinion, however heretical it may be, that the opening of a mint in India for the coinage of gold will not materially, if at all, *per se* increase the flow of gold into India.

9420. If you can buy gold in London at 3*l.* 17*s.* 9¼*d.*, we will say, and can turn it into sovereigns in India on demand at 3*l.* 17*s.* 10½*d.*, that will be a very important exchange consideration to some who are able to remit either gold bars or sovereigns?—Yes, I admit it would come into the calculation.

9421. It is the whole point, is it not; whether you get any gold or not really depends upon whether or not you give better terms than the Home mint?—I do not know enough about the gold trade to say. I am always rather doubtful, and I think there are many other considerations such as freight, insurance, the payment of obligations, and all sorts of international trade questions, which come in and materially influence the fact whether that would be a sufficient attraction to bring gold to us in a much larger quantity than comes at present. It is a very complicated question which I should be very sorry to answer straight away without a lot more knowledge.

9422. The Government of India have not considered that aspect of the case fully?—No, they have not gone into it.

9423. (*Mr. Gillan.*) There are a few points I want to trouble you about in connection with the reserves. First of all, about the location of the gold held; I think you said the Gold Standard Reserve should be in London?—Yes.

9424. I want to ask you about the gold belonging to the Paper Currency Reserve held in London. We have been told that that portion of the Paper Currency Reserve originated as a matter of giving extra Councils—I will ask about that when I get to the question of Councils. The second reason that has been given for it is that the gold held here is ready for conversion into silver and it is near the source of supply of silver. Would you accept that as a reason for holding some of the paper currency gold here in London?—Yes, certainly. That, I think, was one of the main reasons in the Government of India's mind at the time the London Currency Chest was created.

9425. Another reason is its usefulness for exchange?—That was the reason stated by the Secretary of State, and accepted by us.

9426. I think you suggested yesterday that we could not very well count on it for that purpose?—I should like not to count on it. I admit that as long as it is there it is available for that purpose, but it is impossible to predict the amount which may be there at any given time, and consequently we would be stronger without complicating our calculations by considering it.

9427. There is another consideration I would like to put to you in the same connection; I think what we are generally considering is a crisis in exchange?—Yes.

9428. It is quite possible, is it not, that you could have a crisis that would lead not only to a fall in exchange, but to a run on the Paper Currency Reserve?—That is extremely possible.

9429. And that is a contingency which you would think ought to be provided for?—Yes.

9430. If it arose, the funds of the Paper Currency Reserve would not be very well situated in England, being removed, so to speak, from their base?—No large amount of them.

9431. Is that a consideration that weighs with you for keeping only a small quantity here?—Yes. We always have pressed for moderating the amount to be kept here.

9432. Then with regard to the fiduciary issues of the Paper Currency, I think yesterday you sketched out some sort of distribution of the reserve, so much in specie, so much in investments, and so on?—I made a very tentative suggestion in that connection.

9433. What I wanted to ask you more particularly there was on what sort of basis should the proportion of specie to notes be?—I think the basis should be a liberal ratio of the total note circulation.

9434. That is what I wanted to put to you, because in the correspondence between the Government of India and the Secretary of State, when an increase has been proposed in the investment it has generally been said that the average of the minimum note circulation of the last three years has been so much, and we therefore consider that an increase in investment is justified?—They have done that, I think, really on the basis of exceeding caution, so as to be perfectly on the safe side. Personally I should, in suggesting any reconstruction of the reserves, be perfectly prepared to base our calculations on the total circulation.

9435. Is there any real difference in your opinion between the part of the note circulation which is held by the public and the part which belongs to the Government?—No. I think it is desirable that Government in all matters connected with what I may call their Currency Trusts, or their Standard Trusts, should put themselves out of court, or rather that they should treat themselves as being private creditors. From that point of view I should like to see the notes held by the Government treated in exactly the same way as the notes held by the public.

9436. The currency note is not legal tender in payments by Government, is it?—No.

9437. So that if you had any trouble affecting the stability of the Paper Currency Reserve, you might have a position in which the Government would require to cash the notes held by itself in order to get the coin to make its payments with?—It is quite conceivable.

9438. I take it that very much the same considerations would apply to that part of the paper circulation which would not be held by the public?—I entirely agree.

9439. I do not think any questions were put to you about the silver branch of the Gold Standard Reserve. Have you anything to say about the need for that, or the possibility of its abolition?—I am much obliged to you for bringing that point forward, as that was one of my instructions. The Government of India are anxious to maintain the silver holding in the Gold Standard Reserve, because they consider that it emphasises the fact that we need a reserve of six crores to make up the difference between the slack season balances and the busy season balances. They also believe that the depletion of this reserve would be a vivid warning for the necessity of fresh coinage, and they feel that that silver is conveniently placed, because it could be temporarily exchanged for gold without having the effect of overloading the Paper Currency Reserve with gold. That is the view which I am instructed to place before the Commission.

9440. A sufficient number of rupees can be provided, can it not, within the Paper Currency Reserve?—Personally, I think the original circumstances which necessitated the creation of this silver branch are not nearly so powerful as they were. At that time there was a low note circulation, and the fact of the matter was that any reserves of rupees which were required could not be conveniently held in the Paper Currency Reserve. Now, the circulation has increased so enormously that I am personally rather disposed to think there might be little real inconvenience in abolishing this silver branch altogether, and there might also be some advantage in view of the constant criticism to which we have been exposed, the constant suggestions that we have been juggling with it, and the difficulty of the ordinary man in the street in understanding what on earth a large holding of silver has got to do with a Gold Standard Reserve.

9441. So the balance of advantage would be, in your opinion, in transferring the rupees now held in the Gold Standard Reserve to the Paper Currency Reserve, and strengthening the gold portion of the Gold Standard Reserve?—I personally hold that view, but I am running away from my instructions.

9442. (*Chairman.*) In the instructions which were delivered to you, did the Government of India develop their idea more fully than you have done in answering Mr. Gillan?—No; I think I have given all the essential arguments that they entrusted me to state to you. I have the precise papers here.

9443. (*Mr. Keynes.*) This vivid warning which they spoke of, I presume was not for the benefit of anybody but themselves?—Only for themselves.

9444. (*Mr. Gillan.*) It has been suggested to us that there should be an amalgamation of the Paper Currency and Gold Standard Reserves; have you anything to say upon that?—On this point the Government of India have had no warning; it has never been a proposal before them, and as far as I know they have never considered it. It is, I think, possible that in the ultimate resort, and always assuming that you have a very large holding of liquid gold, the two reserves might be combined, but I am sure that the Government of India would be disposed to ask that the proposal should not be pressed. As I say, they have had no warning of it, and it is, I think, unquestionable that public opinion would not be at all ready for it, nor, indeed, have I seen any statement of any practical advantage which has been claimed for the proposal. I think myself that the public would greatly dislike any confusion between the two distinctly separate purposes which these reserves fulfil. There is the further consideration that if the Gold Standard Reserve is going to be placed under Statutory regulation we should, according to present arrangements, have two separate laws governing two inseparable branches of one amalgamated reserve. We might also have a conflict of views between the Government of India, which administers the Paper Currency Reserve for the greater part, and the Secretary of State, who would administer the Gold Standard portion of the reserve. Therefore, there are grave disadvantages obvious on the face of the proposal and no advantages alleged for it, so far as I know.

9445. You have mentioned this matter of the regulation of the Gold Standard Reserve. I think you said yesterday on that question that the only point which suggested itself to the Government of India as calling for regulation was some provision that the funds of the Gold Standard Reserve should not in any case be devoted to any other object?—It is the great desire of the Government of India that that should be clearly and emphatically and authoritatively stated.

9446. There are two other points that have been suggested to us as calling for regulation; one was that a definite obligation should be undertaken by the Government of India to support exchange at a minimum rate; do you think they could undertake that obligation?—The minimum rate——

9447. Being the ordinary rate?—I doubt if we are in a strong enough position to make it a punishable offence if we failed to do it, so to speak.

9448. The idea was that it would give us a sense of certainty in case any other crisis came along, and the complaint was that the public were not quite certain what Government could do, and they would like it very definitely recognised in some form?—I should rather see that done in another way than by law.

9449. By notification?—Yes. We have done it already practically, and we can, of course, emphasise it from time to time in many ways. I should rather dislike to see it established by law.

9450. The third point was that a certain minimum should be laid down for the gold holding in the reserve?—We should like to see that, but at the same time I think that that purpose could also be perfectly well served by a rule made by the Secretary of State in Council.

9451. Without statutory regulation?—Without statutory provision.

9452. With respect to Council bills, there is a point of principle that I want to ask you about; it seems very important, and I would like to take your opinion. It has been put forward, I do not know as a justification, but as an explanation at any rate, of the amount of Council bills, that they were given, or have been given, largely in the interests of trade. Another view is that they ought to be given, and have really been given, only to supply funds to the Government. On those alternatives, what would be your view?—There seems to me to be only one possible answer to that. The Secretary of State can only draw bills on the Government of India's treasury in order to meet his requirements present or anticipated. It is inconceivable that he should draw for any other purpose. He may, it is quite true, convenience trade by drawing above his immediate requirements, provided always that he has the utilisation of the extra funds in anticipation; but unless he has that confident anticipation, it seems to me that he would be drawing, in order to benefit trade, money which belongs to India, and keeping it permanently as an investment in London for no particular purpose. I think that would be indefensible; it would either mean that we were overtaxing India, or that we were overdrawing.

9453. It comes to this, that it really proceeds on the assumption that the requirements of the Secretary of State are his immediate requirements and no other?—Yes.

9454. I think you included future requirements?—I did.

9455. The reduction and avoidance of debt the investment of temporary surpluses, or anything of that sort?—I should accept as a permissible subject for Council bills any liability which the Secretary of State anticipates that he would be able to meet, within a reasonable time, on terms of at least an equal advantage with those which he would have secured by waiting until the liability occurs.

9456. As long as the amount of Council bills is restricted to the amount of the Secretary of State's requirements, as you have defined them, so long you would say that the operation of drawing council bills does not amount to an interference with exchange?—That is so.

9457. Or to an interference with the flow of gold to India, or anything of that kind?—Quite so.

9458. Would you be in favour of the suggestion which has been made to us, to sell Council bills either at a fixed rate or not below a certain minimum rate, say not below 1*s*. 4*d*.?—I should not favour the sale of Councils at a fixed rate unless you are prepared to sell without limit, which is inexpedient. As regards the 1*s*. 4*d*., the Government of India have from time to time taken exception to the sale of bills materially below that figure, and I think the general feeling is that so long as the Secretary of State keeps in touch with the market and prevents any action of his from reducing exchange below the gold point, and secures the total of his requirements, and does not obstruct the reasonable flow of gold into India, the system is not open to criticism.

9459. And it is not necessary to limit him to selling at not less than 1*s*. 4*d*.?—I should not think so.

9460. There may be circumstances in which it may be desirable that he should do so?—There may be.

9461. What would you wish to say with regard to the accusations of excessive coinage and the redundant rupee?—I wish, if the Commission will allow me, to explain the feeling of the Government of India in regard to the suggestion that it has saturated the country with rupees, or at least provided the country with rupees in excess of the real requirements of the country. It has been said, for instance, that the Government of India from time to time made wild plunges in coinage, that it has lost its head, and various other uncomplimentary suggestions of that sort have been made. In regard to that, the Government of India would like to explain, first of all, that heavy coinage by no means denotes saturation, and until the saturation point is reached (with all reserve as to the quantitative theory of prices) the Government do not feel that there is any evidence that their operations have affected prices or produced evil results in other ways. I doubt if it has been fully understood, as I tried to mention this morning, how vast are the areas in India which are yet practically untouched by coinage in the modern sense, what large masses of population there are scattered about India who are entirely unfamiliar even with rupees, how far payments are made in kind, how far purchase by barter still prevails. The feeling is that until those areas have been provided with currency, it is impossible to talk about saturation or redundancy. Also, it is felt that the average amount of rupees held by individuals is bound to increase as the standard of comfort rises, which it is doing, I am happy to say, every day. In the second place the Government of India would like it to be clearly recorded that it by no means follows that all the rupees which they coin go automatically into circulation at once. There is not a single new rupee issued in India exception demand, either for the payment of Council bills or for issue in exchange for gold. In neither of those circumstances could the rupees be refused. Assuming that we have over-coined, all that happens is that the residuum, the amount which is not demanded either in payment of councils or in exchange for gold, only lies in our reserves until it is demanded for actual circulation. I think I might almost go further and say even that thereby no great harm is done, because no interest is lost on it. If the silver were not stowed away in our mints, it would only be changed into another form—it would be changed into the form of gold, which would be earmarked in the Bank of England. So that our whole feeling, and our whole conviction, and our whole argument throughout all this controversy has been that the issue of coin is entirely automatic, and that it depends entirely on the response which we have to give, and must give, to the demands of trade. If the trade gets too many rupees, if it over-estimates its own needs, then Nemesis comes in time and the rupees come back to us, and we have to give gold in exchange. Therefore, from that point of view, we do deny, and we deny with considerable earnestness, the accusation of having produced anything in the way of redundancy of rupees in the offensive term.

9462. You would say that a redundancy of the rupee circulation which may arise at any time, would only continue if the Government failed to give gold for the rupees given back to them?—Quite so.

9463. As a matter of fact, the maintenance of exchange is a sufficient proof that the rupee has not been redundant?—I certainly think so.

9464. In any case the amount of rupees going into circulation does not depend on the discretion of the Government?—No.

9465. (*Mr. Keynes.*) In this connection, is there not rather a different charge? Is it not suggested that the right policy for the Government of India is to have no more rupees in their reserve than they want? They want to have as much sterling and other resources that they can easily exchange abroad as they can; and is not the charge that they have on some occasions filled up their reserves with silver to a greater extent than was wise or reasonable?—I have not seen it in that form. The charge which is presented to us, particularly in the legislative councils, is that we have saturated the country with rupees, and consequently raised prices. That is the charge which hits us hardest, because we do not believe that it is true.

9466. Would you agree that it is a right policy for the Government of India to have no more rupees in their reserves than are necessary?—I quite agree, and that is the whole policy of the new theory of the regulation of coinage which I was explaining yesterday.

9467. You would be of opinion that the Government of India ought to be exceedingly cautious in the coinage of fresh silver, and not work more ahead of requirements than is absolutely necessary?—I am entirely of that opinion.

9468. (*Sir Shapurji Broacha.*) I suppose when they charge the Government of India with coining redundant rupees, many of them forget that wages in India have very much risen in the last 10 years, so much so that the people have one rupee more in their pockets than they had before?—That is a very important point.

9469. Again, when they say there is a redundancy of rupees or anything like that, they do not see that the population has increased, and that they have to carry their cash in their pockets, because there are no banks. Therefore, in India it would take a very long time before rupees would become redundant?—I believe so.

9470. (*Mr. Gillan.*) Would you like to say anything about the relations between the India Office and the Government of India?—I should be very glad to do so, because I think there have been suggestions in the Press of grave and serious discrepancies between the two authorities. In the first place, the Government of India have never for one moment forgotten their subordination to the Secretary of State in Council, and through him, to Parliament. That there have been differences of view, and that those differences have sometimes been pressed with considerable vigour is, I think, in the circumstances not unnatural; but I should like to explain that any misunderstandings have very largely disappeared, that the authorities now, I think, work in a very remarkably harmonious co-operation. The position of the Government of India in dealing with questions of finance pure and simple is in some respects a little difficult. It has to face a great deal of criticism in India which is entirely different from the criticism to which expression is given in England or in Parliament. The strong national feeling for instance, in India, as shown by "India's gold for India" and phrases of that sort, presses upon us very differently from what it does upon the Secretary of State in Council. We are constantly being told that we have been bolstering up the inefficient gold reserves of London from a selfish point of view; that we have been raising prices by coining silver when it was unnecessary; that we have been giving London cheap credit and giving no assistance to the trade of India; also that we have been helping other countries with our gold—not England but other countries—through the international agency of London; and that we have been parties to allowing the taxpayers' money in India to be used by the Bank of England as an excuse for not raising their rates, and so on. All these accusations come to us at very close range. We are not a secluded body in any sense, but we are exposed to the most direct and immediate intercourse with very acute critics. Although I should be the last to complain of that, and the first to welcome it, still I do rather feel that at one time in our experiences in this matter we had not the knowledge of what the Secretary of State was doing, or rather of the principles which underlay his action. When I went into the finance department first there was no practice, or almost no practice, of confidential and non-official communication between us and the India Office. There was some irritation of feeling. We got from the Secretary of State short dispatches on questions of great financial principle, which we should have been very glad to have understood better, and to have thrashed out more fully with the authorities in London, who presumably were in closer touch with the difficulties than we were. It also has to be remembered that in the Secretariat in India we are extraordinarily busy people. We have not got anything like the trained competent staff that a public office in London has, and we have got thousands of other things to do besides these questions of pure finance. It is quite possible that we, in the hurry, failed to seize some of the delicacies of the Secretary of State's arguments. All these tendencies rather meant cross-purposes at times, and did lead to cross-purposes, and there are records of disputes on such points as the proper form of utilising the silver in the Gold Standard Reserve—whether it ought to be utilised as a loan, or whether it ought to be utilised against investments in England. In regard to those particular points, I confess I think, reading the papers over again, that we were both right; we both had different points of view which the other side did not see. But what I am asked by the Government of India to say, and what I should like to put on record, is that that period of misconception has very largely disappeared, partly due to better personal acquaintance and personal relations, and also partly due to the larger and more extended system of non-official explanatory correspondence in supplement of the official dispatches which pass between the two Governments.

9471. (*Sir Ernest Cable.*) Yesterday, in reply to the chairman, on the question of the gold standard reserve, you suggested that there should be no limit placed upon the accumulation of that reserve, and this morning, in reply to Sir Shapurji, you said a limit from time to time should be considered; therefore I imagine that you recognise that there is some sort of measure by which the size of this reserve should be determined, and that it should not be altogether accumulated to any extent?—Yes. When I said there should be no limit I meant there should be no finality about it. From time to time we must have a limit to work up to, and I quite agree with you that it would be a very good thing if we could have some defined standard by which we could regulate our temporary limit from time to time as we go along. That standard generally has been regarded in the past as something bearing a relation to the Secretary of State's home charges.

9472. Do you consider the reserve would be adequate if the Secretary of State were to accumulate liquid funds up to two years of his requirements?—I think that would be adequate. The 30 millions which I suggested was based on a calculation by a formula of the Government of India's own devising, that the standard reserve in London should be adequate to meet at least half of the home charges for a period of three years. You go a little further.

9473. (*Chairman.*) Did the Government of India at the time that they formed or expressed that opinion, give any indication of their view as to the amount of the 30 millions which should be in liquid gold?—I do not think so. I think all that they have done is to press for an adequate amount in liquid gold.

9474. Would you care to be any more definite, or would you prefer to leave it at that?—I should be very glad to see permanently a third at least of the total amount held in liquid form.

9475. (*Lord Faber.*) Do you think that is enough?—What I feel is that if you have a reserve of 30 millions with 10 millions in liquid gold, that would enable you to meet what we call reverse councils for a period of three or four months, and that would be possibly long enough to enable the Secretary of State to realise the very much larger volume of short-term securities and short loans.

9476. Going back to 1907–8, you wanted a great deal more than 10 millions of gold then, did you not?—Yes, we did. My point was rather this: If we had 10 millions of gold, and assuming that the reverse councils came to about half a million a week, as they did on one occasion, that would take you on for 20 weeks, that is, five months. In the interval, unless there is some great and long-spread crisis in London as well as in India, presumably the Secretary of State would be able to raise a great deal more gold by selling short obligations.

9477. If I remember rightly, there was an American crisis in 1907–8; if that crisis had been in London instead of in America, you would have found a great deal more difficulty than you did in getting gold?—Of course, I should be the last to quarrel with an adequate security; I have only been trying to put the minimum.

9478. (*Mr. Gladstone.*) You made some reference to a recent proposal of the Government of India to advance perhaps up to three crores from their surplus balances to the Presidency banks at times of pressure; would you care to say anything about the rate of interest? It has been represented to us here that the bank rate is no use to the Presidency banks, and that they have not been willing to take advantage of that rate?—May I just refer to the draft despatch* which they gave me—I had not this before me when I answered the original question. The Government of India's most recent proposal is a proposal dated some day in September, and I find on referring to the draft which I now have, that they contemplated loans up to an extent of three millions—I was wrong in saying three crores—and that as regards interest, they recommended that it should ordinarily be from 1½ per cent. to 2 per cent. below the current bank rate. I am not aware what orders the Secretary of State has passed on this recommendation.*

9479. In reference to the suggestion of issuing short term bearer bonds, known here as floaters, you explained that you thought they might interfere with the securities issued by other corporations, but I would suggest that the rate of interest, and the price of issue might be so arranged that they would not give a better return to investors than the 3½ per cent. paper; but they would be attractive because, being short-term, there would be very slight fluctuations in the price, and they might be held by bankers and others who at present do not hold the 3½ per cent. paper because of the considerable market fluctuations that are unavoidable?—I am sure the Government of India would be very glad to consider that suggestion.

9480. I would point out that it might be an assistance to them, as they would have different types of security, just as our Government here have?—Thank you.

9481. In reply to the Chairman in regard to the up-country treasuries, you expressed the opinion that they were carefully watched, I think; but it has been pointed out that there have been great improvements, such as much greater railway facilities and telegraphic facilities, and one would have thought that they would have enabled smaller balances to be kept, whereas the tendency seems to be, as you rather said yesterday would be the case, for them to increase?—I think if you look at the transactions of the Government of India for a period of years, and take the aggregate transactions—that is, take the total balance sheet—you will see that it might fairly be said, where comparison is possible, that they have advanced more rapidly than the improvement in communications, and that our work is appreciating faster than the facilities for the movement of coin.

9482. Do you think the most modern methods are taken? For instance, would the Comptroller-General, or whoever attends to this, get these returns by wire on fixed days, or would it be a question of waiting for letters and reports which may take several days in transit?—He does get them by wire now.

9483. We understand that the Government of India are preparing certain data to show us the working of some of these treasuries, but of that perhaps you have not heard?—They have not entrusted it to me.

9484. (*Mr. Gillan.*) Suppose you have a limit fixed as regards the gold standard reserve; if you reach that limit and the coinage of rupees continues, the accumulation in the reserve is stopped?—Except as regards interest.

9485. Possibly as regards interest; but with that exception the further issues of rupees are, so to speak, uncovered?—Yes.

9486. You have got no insurance against them?—That is so.*

9487. Does not that rather confirm the criticism that is brought against the system we are working under, that in fact it is a managed system in the sense that everything depends on your reserve, and the reserve is at the discretion of the Government, both with regard to its aggregate and with regard to its constitution?—I agree that it is properly described as a managed system.

9488. Then it is the case, is it not, that so far we really have very little experience of this system, as we have only got 1907–8 to go on?—Yes.

9489. Would not that criticism be met by an answer which would at the same time be really sound, if we said we cannot at present foresee the time when you can name a limit to the reserve?—Yes. Sir Ernest Cable's question was what measure we had got in our mind, and he suggested a measure which was somewhat higher than the Government have hitherto held. I think the Government of India would entirely accept your statement of the position, that it is impossible to lay down any final and definite maximum for the reserve.

9490. Then you would rather refrain for the present from stating anything as a limit—even 30 millions?—My difficulty is that we are not stating a limit to what I may call a sympathetic audience. We are always endeavouring to get a somewhat better limit to the one which is being imposed on us from this side.

9491. If the Commission were to say, as I said just now, that we do not at present foresee the possibility of fixing a limit, is that not a position the Government of India would accept?—They would be delighted if the Secretary of State would accept that.

9492. (*Lord Faber.*) Do you not think that all the profit which is made on silver practically should go into the Gold Reserve? It seems to me that if the pendulum swings one way to-day it may swing the other way to-morrow, and gold depreciate and silver appreciate?—I think the ultimate drain on the reserve will never bear any very large relation to the total circulation of rupees in India. I do think, whatever the theory may be, in practice it will be related more to the demand of international trade, that is, to the balance of trade, than to the actual amount of uncovered rupees, and consequently I would not go quite so far as your statement of the case.

9493. I suppose you would not think it would never be possible in this queer world of ours that silver should become as valuable as gold—I can conceive it, you know?—No, but I think we are getting near to the days of Solomon—when silver was of none account.

9494. (*Sir Shapurji Broacha.*) The rupee in India is protected to the extent of one-third, and do we not take off that protection in regard to the so-called redundant rupees when we stop accumulating gold in the Gold Standard Reserve?—Yes; then we have not got absolute and complete protection.

9495. Would you say that that protection should never be lost sight of and should never cease?—The question, to my mind, is whether the whole currency wants protection.

9496. You have something in fiduciary securities and so on, and anyhow it is protected to the extent of 66 per cent. if anything happens?—Yes.

9497. Of course, accumulating gold in the Gold Reserve implies a ready and certain security?—I quite agree.

9498. When you say that 10 millions sterling should be in liquid gold, you mean, of course, that the other 20 millions should be in short-dated and other securities?—Yes.

9499. But then, suppose there is a war, you might not be able to sell. Indeed a witness here has told us that you cannot sell high-class securities to the extent of 10 millions?—I fancy there would be some considerable loss in the event of a tremendous calamity of the sort you contemplate.

9500. Are you not bound to get absolute security of exchange?—I confess it seems to me somewhat wasteful to hold the whole of our Gold Reserve in sovereigns permanently shut up in vaults, and I think the additional interest which we get on that part of the holding

* *See* Appendix XXXVII, page 701.

which is invested is a rather valuable reserve, so to speak, against loss on realisation.

9501. Is not your first argument sounder than now, when you said that other nations were not straining for interest, and why should we?—That was certainly urged.

9502. You know that the Government of India have changed their opinions since?—I do not think the Government of India have changed their opinions. I think they have had to bow to necessity.

9503. Why should we strain for interest when we want to make absolute security for exchange? Why fix a limit and put two-thirds in securities because the 10 millions would not last you for six months?—Perhaps not.

9504. (*Chairman.*) I gather that you will not quarrel with any recommendation from the Commission which tends to increase security?—Certainly not; that is exactly my position.

9505. And that in so far as you have suggested any limits, they have been minimum limits rather than maximum limits, in your mind?—Quite so.

9506. I want to ask you a question in connection with the relations between the Government of India and the Secretary of State in Council, as to which you made a very interesting and important statement. In the course of the examination of another witness it was stated by him that the probable necessities of the coming year were the subject of detailed correspondence between the Secretary of State and the Indian Government, and that in anticipation of the presentation of the budget the needs of the year were forecasted, and the respective parts which the Government of India and the Secretary of State in Council were to fill in meeting them were settled. So that at the time the budget was introduced it had been arranged between the two authorities what debt it would be possible to pay off in London, if any, or what fresh loans would be required to be raised there. Suppose the budget year turns out much more favourably than had been anticipated at that time, it might alter the requirements. The growth of Indian revenue might render unnecessary borrowings which had been contemplated at the commencement of the budget year, it might enable larger sums to be paid off than had been supposed possible at that time. If such a state of things arose, do you think that under the present circumstances the possibility is necessarily brought to the notice of the Secretary of State in Council by the Indian Government?—I think it is. We have a somewhat elaborate machinery for presenting to the Secretary of State in Council the progressive movement of our finances.

9507. The witness whom I have mentioned was Mr. Mitra, who told us that returns were regularly sent which would give to the Secretary of State all the information available to the Indian Government at the moment, but that it was not the practice for the Secretary of State, when once the programme had been settled, formally to consult the Government of India before actually a new loan, for instance, was issued?—That is correct.

9508. I think there has been evidence to show that perhaps—I am speaking now from memory—in 1911 it would have been possible for the Secretary of State to pay off debt which he in fact renewed, and again in 1912 to have avoided the issue of a loan in London; that in 1911 the budget was turning out so much more favourably than had been anticipated that by the time he renewed some 1½ million of debt there was money available to pay it off. Do you think, if it were a regular practice of the Secretary of State to invite the opinion of the Government of India before actually renewing or issuing a loan, it might lead to greater economy?—I certainly do. I have no desire to criticise the methods at present in force, but I would like simply to say this, that we do send every month information to the Secretary of State which might enable him to judge of the movement of our cash balances and to modify his programme in borrowing accordingly. There is, however, this much to be said also, that in recent years the Secretary of State's practice has been to raise his large sterling loans immediately at the beginning, or even a little before the beginning of the financial year, so that the figures before him then, and the only figures before him then, are our own budget estimate of the situation.

9509. I had in mind a particular case in December 1911, when there was a million or so of Bills renewed. I think there has been a good deal of evidence to show that experience had accumulated by that time which was sufficient to render that unnecessary. I wondered whether it would not be desirable that there should be a formal opportunity, apart from anything that may pass in private correspondence, for the Government of India to express an opinion on occasions like that which might be different from that which it had expressed to the Secretary of State before the opening of the budget year?—With regard to this particular transaction the Government had, I think I may fairly say, pressed the Secretary of State to consider the possibility of a larger withdrawal of India bills. It had done so, however, at the beginning of the budget year, because it was perfectly convinced that the year was going to turn out a great deal better than from the ways and means programme it appeared the Secretary of State imagined. The theory always has rather been that inasmuch as the Secretary of State leaves us to advise him and accepts our advice in regard to the state of the Indian market, so we ought to leave him very largely without any criticism in regard to his management of the home market. Nothing that I have said ought to be taken as in any way deprecating a much more frequent and intimate communication between the two authorities in regard to the progress of the year's business.

9510. You quite agree with the evidence given by Mr. Mitra to the effect that he thought some freer communication under circumstances of that kind would be useful?—I quite agree.

9511. I want to turn for a moment to a question that was put to you by one of my colleagues and to the answer which you gave us. You were asked, I think, if the Government sold Council Bills below gold point, would they be encouraging rupees? And your answer was, Yes, in the sense that you prevent gold coming in?—That was so.

9512. Suppose the Government did not sell Council Bills, gold would go in; that is your view, is it not?—Yes, so long as exchange is favourable.

9513. I want to know what you think would become of that gold when it got to India. Would it be tendered at your treasuries for exchange into rupees?—I think a very large quantity of it would be.

9514. And it would then accumulate in your treasury?—It would be to a large extent transferred from the treasuries to the Paper Currency Reserve for rupees which we would require for our treasury purposes.

9515. And if it accumulated to too large an extent, you would have to ship it home to England?—Yes.

9516. Do you not think then that the practice of the Government of India is more conducive to the necessities of India?—I think it is more conducive to the interests of India; I think it is more economical, and I think it gives us warning of our commitments which otherwise we should not have.

9517. And you approve of the system by which the Secretary of State does not hold out for an absolutely fixed figure of 1*s.* 4*d.*, but follows the market?—I personally do.

The witness withdrew.

Mr. Moreton Frewen called and examined.

9518. (*Chairman.*) Of course, we all know you have taken a great interest for many years in currency questions, in particular. I think, in the past developments of Indian currency questions?—Yes.

9519. You have offered, in a communication you sent to me, to make a statement to the Commission which may be the subject of any questions which we may wish to address to you subsequently; I should be glad if you would make that statement now?—If I am right, the Terms of Reference to your Commission point to the desirability of advising whether the proposals of the Fowler Committee, which were consequent upon the findings of the Herschell Committee, are "conducive to the interests of India," and whether the departure from an automatic currency to a managed currency is, however convenient in the book-keeping department of the Government of India, conducive to the interests of the whole community. Although I am quite aware that there is something to be said on the side of a managed currency, it seems to me that its disadvantages, which are, to my mind, growing all the time, will inevitably force the reconsideration of the question at a much less opportune moment than to-day. I would just say this—in anything I say about either the Herschell Committee or the Fowler Committee I should like it to be understood that I speak with respect of both bodies, but since the days of the Herschell Committee we have had an enormous number of object lessons of the utmost importance which that Committee did not have for its guidance as we now have. You will recall that on the very heels of the report of the Herschell Committee, silver fell in a single month, June 1893, nearly 9*d*. Then again, there was an awful fall, the greatest fall in all the history of the metal, in the year 1907–8; silver has never fallen quite so fast in a period of 16 months as it did then. Therefore, the Royal Commission sitting here has had opportunities of studying the results of a *débâcle* in the exchanges with all Asia such as the Fowler and the Herschell Committees did not possess.

I may say, as you were good enough to remark, that I have taken a very lively interest in this question from the first. I was at Washington when the Bland Act was passed in 1878; I heard all the arguments for and against silver. I came to the conclusion that the prosperity of the world's trades, our western trades as well as Asia's, was very largely contingent on steady, and, I believe also, high rates of exchange for silver. After all, you have got 900 millions of people who know only silver, who make all their reckonings in silver; and if that exchange falls out of sight, as it has fallen time after time in the last 25 years, it makes it impossible for the owners of silver to buy gold bills, and thus buy our goods. Time after time the exchange for silver has fallen to such a point that practically all business relations of the importing kind with Asia have been suspended. I will take the lesson of 1908, which so nearly destroyed your new-fangled Indian currency system. The price of silver fell with such rapidity that it became impossible for Bombay to sell to China, whereas during the previous two years the rates of exchange, because of the enormous silver purchases of the Government of India, had enabled the United States and Europe to export enormously to Asia. The ships were running out from the various ports on the Pacific Coast loaded, because the rates of exchange were so high, and the merchant in China was enabled to buy lumber from Oregon, or steel rails or cotton goods or flour. The low rates at which the Orientals bought gold exchange on any of those Pacific ports, or on New York or Glasgow or London, was such that the export trades to China were extremely brisk. Then the Government of India, having bought actually more silver than was being produced by all the silver mines in the world, if we allow for the consumption by the silversmiths, went clean out of the silver market; and the result was the greatest collapse in exchange that we have ever known. Then we noticed all down the Pacific Coast that whereas the ships, Mr. Hill's ships for instance, had been running out from the port of San Francisco to Asia full and had been returning at the high rate of exchange empty, now they were running out empty and returning with full cargoes of pig-iron. Every sort of export from Asia was enormously stimulated in 1908–9 by the great fall in silver; the exports, as we said, of pig-iron, pigtails, and pigs were unexampled. I was at Washington, and Mr. Secretary of State Root sent a circular to all their Consuls in Asia, a very short circular, asking what had been the effect on trade of this fall in silver. The consular replies all came in to the same effect. There had been an earthquake in the exchanges and the export trades from the United States had dried up. Mr. Secretary Root was kind enough to send me duplicates of the originals; these are at the service of your Commission. I will take this instance. The American Consul at Chefoo wrote:—"The present rate of exchange is a check to American "Asiatic trade so far as exports from the United "States are concerned. Commercial agents tell me "that they can import nothing. American flour has "stopped coming. I am told that many American "exports have never been cheaper to the foreign "buyer than at present, and that therefore our "exports ought to be increasing, but a comparison of "the rate of exchange for last year and now shows "that, in order to equalise the cost to the foreign "buyer of \$100 (gold) worth of goods, they must now "be sold for \$80 (gold). Thus it is seen that unless "a reduction materially over 20 per cent. of last "year's price is made American producers are not "able to hold out any financial inducement to their "Chinese buyers, as the extra items of freight and "insurance paid in gold would compel a discount from "the last year's price of at least 21 per cent." Read this evidence of Sir Thomas Jackson, the Chairman of the Hong Kong and Shanghai Bank, which he gave before the Singapore Commission in 1902. Sir Thomas Jackson is a man, in this connection, of perhaps the widest experience in the world, and he treats this question of the relations between exchange and exports and imports as self-evident. He says in reply to a question of Sir David Barbour, who was the Chairman—"I was in Shanghai in 1867, then the "only items of export were tea and silk. Now the "low exchange has enabled them to export all sorts "of things—hides, tallow, wax. In fact, in a ship of "6,000 tons you will find tea and silk not five per cent. "of the cargo. There are a hundred and one articles "exported from China now that were impossible to "export 30 years ago. (*Q.*) Do you think the advan-"tage is permanent?—(*A.*) I think it will tend to "increase as time goes on."

The point that I have been referring to is really a question which is not the concern of this Commission so much—the question of the exports falling, which means produce falling, when the exchanges fall. In India which has got now this wretched exchange practice with an artificial rupee, it seems to me that the fall was something exceptional, and I want to ask the attention of the Commission to the effect of the great fall in silver at times of scarcity or famine. Before the Herschell Committee this question was gone into carefully—the question of what would happen in times of famine if the bullion reserves of the natives parted company with the rupee, so that they were no longer able to convert 180 grains of silver into a rupee. The evidence before the Herschell Committee as to this was extremely important. Witness after witness looked ominously at the future if the value of the rupee and the value of bullion silver parted at all considerably from the then parity. I say this because we were all at that time very much in doubt as to what would be the effect on the price of silver bullion of the closing of the United States mints and the Indian mints. I held the view that there would be, as there has been, a great hiatus between the rupee and silver, and my writings at that time were to that effect. I had been in India twice for the purpose of studying this question, and I made certain there would be a great fall in silver, no matter what the conditions of silver production were. But many of the best witnesses before that Committee did not hold that view. I used to lunch not infrequently in those days at the Bank of England, and I remember three ex-Governors, Mr. Lidderdale, Mr. Hucks Gibbs, and Mr. Grenfell, were all ardent silver men. Their view was that if there was anything like a suspension of coinage in India, and also in the United States (the suspension of their Sherman Act), that what has happened would happen, namely, that silver might permanently fall one-half; but the majority of the directors of the Bank at those lunches held a contrary view. Mr. Goschen's brother, for example. Mr. Goschen used to be annoyed when we suggested it. He would say, "No, the production of "silver to-day is the result of this artificial demand "by the United States for two million dollars a month, "and if you shut off that demand the mines will "close down, and presently the exchange will recover." You will see what the Herschell Committee say in paragraph 150 of the proposal to restrict the Indian coinage. "The scheme might, however, be so modified that "the exchange could not immediately rise above its "present level. It might be provided that the mints "should be closed to the public for the coinage of "silver, but should be used by the Government for "the coinage of rupees if required by the public "in exchange for gold at a ratio to be fixed in the "first instance not much above that now prevailing, "say, 1s. 4*d*. the rupee. Any fear of a considerable "rise would thus be allayed, and any evil effects of "such a rise prevented. Moreover, even if silver fell, "the divergence between the nominal and the in-"trinsic value of the rupee would not be so great as "if exchange at the same time rose. There would "be these additional advantages: first, the currency "would not cease to be automatic." There has been no pretence that the currency since their Report went in and was acted on, has been in any way automatic. It has simply been managed at the whim of the latest official sent out from home. One man would come along and stuff the currency, the next would starve it—there has been no plan at all, nor is there to-day, but always some fresh experiment advised—a gold mint, prohibitive duties on silver bullion—anything or everything. To return to the Report: "There would "be these additional advantages—first, the currency "would not cease to be automatic. Next it would be "a less violent step than closing the mints altogether. "They would practically remain open subject to cer-"tain conditions. It would be the smallest departure "from the *status quo* which could accomplish the "object the Government of India have in view. "Besides these advantages there would be the further "gain that it would leave the volume of the rupee "currency dependent on the wants of the people of "India, and the fact that rupees might continue to "be coined would tend to prevent silver falling as "much as would be the case if it were supposed that "the coinage of rupees was to cease altogether." Further, the Herschell Committee talk of the closed mints as "tentative": The whole proposal was a tentative proposal, and if it did not work it was to be reconsidered. They said, "We do not feel ourselves "able to indicate any special time or contingency "when action (the closing of the mints) should be "taken." And again they say, "It is obvious that "nothing should be done prematurely or without full "deliberation." The whole of the paragraphs, which perhaps I ought to read, were pointing to what was going to be done at Washington. The Herschell Committee said—I may trust to memory—it is quite evident that the Government of India think something very serious is about to happen at Washington, that the Sherman Act is going to be repealed, and if that Act is repealed the consequence, as the Government of India see it, will be most serious. We will not allow that Government to drive our Home Government in any direction, that means an international support for silver; and this being the case it is impossible that we can shoulder the burden of saying that the Government of India must not close their mints if they think some awful crisis is at hand. They therefore say—it is a permissive statement of the Herschell Committee—that if these dreadful things are going to happen in Washington, it may be well for the Government of India to be in advance of Washington. All I can say is, and the evidence is overwhelming—I can get it from any of our diplomats or consulars who were there at the time, that there was not the faintest chance of the repeal of the Sherman Act had the Indian mints remained open to free coinage. The new Congress had come straight from its electoral bodies, pledged to free coinage. It was a Democratic Congress which had gone through the elections of 1892 triumphantly declaring that silver was the money of the Constitution, and that nothing should be done to affect it, and that they were to have free coinage. It is quite true President Cleveland was against it, but there was a declared majority in both the Senate and the House of Representatives in favour of free coinage; and everybody in Washington knew that there was not the remotest chance of their suspending the silver purchases under the Sherman Act unless the Government of India closed its mints. Then in June came the panic closing of the Indian mints, and silver fell about 9*d*. in three weeks. There was a financial crisis all over the world; and the argument was used irresistibly at Washington that this frightful disaster was due to the fact that India, finally and for ever, had turned her back on silver. One-fifth of all the silver that had been produced by all the mines in the world since the discovery of America was the property of our Indian wards, and yet we had demonetised this great national asset at its home! That gave the opponents of silver in Washington an argument which they took every advantage of. I cannot help saying, that behind the well-intentioned Government of India—always well-intentioned and always honest and honourable—there were and there now are great speculative interests concerned to create now a fall or now a rise. Silver has been an enormous prize in the money market. I read the Press very carefully, and I am perfectly convinced that the Press in 1893, even Reuter's, had been got at. There was no corruption or anything of that sort—but even Reuter's were declaring in cables to India that from Washington was to come this deadly blow to silver. I have a letter here from somebody of importance at Simla, dated the 5th June 1893, when the report of the Herschell Committee was actually on the sea, going out, and I have the permission of the writer to read it. The writer declares, "I have, moreover, just seen a "Reuter's telegram which points more strongly than "anything I have lately seen to the repeal of the "Sherman Act. We may, therefore, have a further "drop in the exchange, and we are waiting with breath-"less anxiety the arrival of the report of the Herschell "Committee." No sooner was the report received than the mints were closed. A cable from Simla to our embassy at Washington, where Congress was not in session, would have elicited the fact that there was not the remotest chance of the repeal of the Sherman Act; that, on the contrary, only the closing of the Indian mints could prevent the democratic majorities from proceeding to free coinage in the session at hand. I am convinced that the whole of this great disaster to silver was the result of a plot—that some people were getting rich out of speculations in silver securities, and the Press was used for the purposes of the anti-silver party. You will remember that there was something like 90 crores of rupee paper actually quoted in this market in sterling, the price of which, in consequence of the fall of silver, fell some 17 per cent. through bear sales. There never has been on the bourses of the world quite so fashionable a gambling counter as silver. Harbour trusts, dock trusts, and railways in the East—all those corporations were collecting their revenue in silver and were transmitting that silver at an uncertain rate of exchange to pay gold interest to the holders of stock here—these securities were all at the mercy of these changes in the silver market.

I think I have got to the point where it seems to be clear that what the Herschell Committee advised was not at all what the Fowler Committee advised. The Herschell Committee says, "Try this experiment;

" we do not think we are justified in over-riding the " Government of India, therefore, just try it and see " what happens. We do not think that the rupee and " its bullion value will part company very much, and " even if bullion falls, it is not likely to be a very " serious fall. On the whole the evidence of the " witnesses before our Commission leads us to think " that it will be better for the people of India to put " up with a managed currency than to have additional " taxation imposed." The Herschell Committee asked every witness, Which do you think the people of India will feel most—the closing of the mints and a rise in exchange which may affect their exports, or additional taxation? The evidence of many witnesses was that the people of India, 300 millions of them, would never know that anything had happened. It might be done safely because they would never understand it. A most dangerous form of legislation. But what was the evidence of some of those, whom I consider very important witnesses, read to-day, the evidence of Mr. Hardie, Mr. Gardner, Mr. Beith, Mr. Stephen Ralli, or Sir. Frank Forbes Adam? I will just read what Sir Theodore Hope said. At Q. 2244 of the Herschell Committee he said, " Besides that, " there is a very important objection to these devices, " namely, that they would create a vast, inconvertible " token coinage, an objection which is obvious. Then, " finally, what I particularly think about them is the " political danger: that they would do all I have " anticipated in an impalpable, mysterious sort of way " —a way that would be quite unintelligible to the " ignorant masses, who would be perplexed by this " fall in the value of their produce, by this altera- " tion of values throughout the country, without " knowing exactly to what to attribute it; and that, " therefore, there would be a vague feeling of uncer- " tainty and of apprehension as to the future which " might become extremely serious and might lay " the seeds of an universal discontent which might " bear fatal fruit whenever a national crisis afforded " the opportunity. We should then find, as we " did at the time of the Mutiny, that for some " mysterious reason whole provinces were disaffected, " they did not exactly know why." I recall what Sir Robert Giffen wrote to the "Times": "The " highest political issues are also involved. One of " the most dangerous things for a Government to " do is to tamper with the People's Money. Is it " certain that the Indian Government can go on " long with its present ideas regarding money, with- " out producing the gravest complications in the " government of India itself?" These words are precisely applicable to our own times.

I should like now to revert to my *précis*, and to discuss the question of the hoards of silver in India. One of the witnesses before the Silver Commission* in 1876, Mr. Mackenzie, said then what I may say was quite borne out by my own experience in India. I went to India for two winters to study this question, and I am sure that any gentleman who has studied this question on the spot, whether in the native cities or in the interior of the country, will bear out what Mr. Mackenzie said. "In every large village there is " a silversmith, and as soon as a man gets a few rupees " he employs the silversmith to come to his house and " make the ornaments. Although the peasantry in " India have poor houses, yet the amount of ornaments " they have would exceed in value the furniture and " utensils of the same class of peasantry in England." For hundreds of years their whole thrift had been the conversion of silver coins by melting, to bullion or ornaments. Silver came to them through coins—coins previous to the coinage of any rupees, all sorts of strange primitive coins. When the rupee came, first from the Company and then from the Government and the Native States, the ryots, having no cash-boxes and no bank accounts, were in the habit of sending for the silversmiths, and I have seen them, and so has everybody who knows India, welding on the bangles in the bazaars. The silversmiths would take the rupees, melt them up, weld them on the arm or the ankle of the man or woman, and charge an anna or two for the job. The result of closing the mints was to destroy the inter-convertibility of bullion and rupees, which was of immense importance, particularly in times of famine. In the first place, as I have mentioned, the reduction in value, whenever the silver is wanted whether to meet a famine or for the purposes of paying taxes, is a terrible disaster to the natives of India. In famine times — let us go to famines first— they used to go to their bunnia or village sowkar and they would cut these bangles off, and the sowkar would weigh them and give them a loan of rupees at a rate that varied according to the pressure of the demand for rupees or the pressure of the times. But still they could always get par, a rupee for a tola of silver, and the sowkar knew that if he had got 100 tolas of silver from the native, it was always as good as 100 rupees to him, because he had only to send it to the nearest mint for free coinage. The sowkars did not, indeed, send these native ornaments into the mint unless they were themselves pressed for money; they held the ornaments, and they collected their interest. It was only in times of actual famine that a trickle of these silver ornaments would reach the mints at all, as generally the sowkars had sufficient hoarded balances of rupees. If I were a peasant and wanted 100 rupees, the sowkar would retain my bangles or my ornaments, often heirlooms which I valued, until after I had got my crop in, and then I would go and ransom them. When you had a famine like the great Bombay famine, the arrival of ornaments at the mints, this first famine reserve, was the announcement to the Government of India that the famine was becoming acute. In the mint reports of the Government of India for 1876–77, which are published in the Herschell Report, the mint authorities say: "In transmitting the accounts for 1875–6" —that was the year before the famine—"no reference " was made to the quantity of country silver and " ornaments tendered for coinage by native merchants. " This was because the quantity tendered was not so " excessive as to render any special remarks necessary. " It may not, however, be uninteresting to show what " was received during each of the twelve months of " the years 1876 and 1877, as the statement probably " indicates with a certain accuracy the commence- " ment, progress and severity of the present famine, " and the effect it has had." Then the official figures follow. In May only 1,100 rupees weight of ornaments were presented, and in December it was a lakh; in September of the following year, 1877, as the famine got a more terrible grip, it had become 19 lakhs. There was a total of 124 lakhs coined for the year at this single mint. The mints at that time coined more than four crores. Sir David Barbour, who was a member of the Gold and Silver Commission, went into the chair and gave evidence. He was asked by the chairman: "You tell me that in times of famine " hoards are invaded," and he said: "That is certainly " the case." Then he was asked: "Have you any " estimate of the amount which was extracted from " these hoards in any given district during a period " of famine?" In reply to that question he said: "It is quite impossible to say. All that we know is " that certain amounts were brought to the Bombay " mint for coinage, a certain amount in the form of " ornaments; but that must be very much less than " the amount that was brought out of the hoards, " because the man who drew silver from his hoard " would ordinarily pledge it in the first instance with " the native banker or money lender, and the native " banker might either sell that silver again, if he " obtained final possession of it, or he might send it " to the mint." I was sitting in the Senate at Washington in 1898, when a letter was read out to the Senate, signed by Mr. Forbes Mitchell, a responsible merchant in Calcutta. At that time silver was still a burning issue in America, and the idea that England had refused any sort of international settlement of this great question, notwithstanding that our wards in India had 2,000 millions ounces of silver to buy food, the value of which was contingent upon its reception at the mints, made a very painful impression on the Senate. This letter was read to the Senate by one of the Senators from Idaho. The writer said: "Most bitter are the " complaints against the action of the Government, " and frequent the predictions that the historian of " the future will have to brand that Act as one of the " most cruel and unjust pieces of legislation ever " enacted by any civilised Government. I will give " your readers one instance out of many which came " under my notice, of how the closing of the Indian " mints is robbing the natives of their savings. In " the city of Allahabad I met a man who had come in " from one of the most severely famine-stricken districts " with silver jewellery weighing 2,000 rupees, which in " former years he could have sold for about 1,980 rupees, " but, owing to the mint being closed, the silversmiths, " who are the bullion merchants of India, offered him " only 33 rupees for 100 rupees weight of silver. " When I remonstrated with the silversmith, his reply " was, 'What can I do? It is not I who wish to rob " the poor of their savings; it is the Government " who have closed the mints, and will not coin silver " jewellery into rupees. In these famine times these " ornaments are of no use to me; I cannot eat them!' " That is only one case out of thousands. The gold " and silver smiths of India are proverbial as the " greatest usurers in the country." There was much more in the letter reflecting on this tampering with the Indian currency. Here was a loss of something like 8 annas on each rupee. The head man of two important villages near Allahabad, which was in the worst part of the famine district, had brought in all the little hoards of the villagers, and their bangles and bullion, in order to turn them into rupees. The evidence went to show that he had been on the same errand in a previous famine, and expected in this case, to find that he could convert his 2,000 tolas of silver into 2,000 rupees to carry back food. Mr. George Handasyde Dick, a well-known Glasgow merchant, and who had spent most of his life in India and had studied this question closely, pointed out that that famine of 1897 was far less a food famine than a money famine, that at no time was the price of rice higher than 14 seers per rupee, which was at that price not much more than the then normal price up country, and that it was possible to pull a man through a famine for 1 anna per day. Here from two villages 2,000 rupees weight came in and were sacrificed at a loss of some 8 annas for each rupee. You may guess how enormously the mortality rate must have risen in those two villages, and what the villagers said of the Government of India. Here were these natives who have got 2,000 million ounces of silver, one fifth of all the silver known in the world, which, when the mints were open, they could freely exchange into rupees to buy food, but which at the time when they needed it the most, at the famine time when the price of food rose then these poor fellows had to sacrifice their savings at the rate of 3 rupees weight of silver for 1 rupee. I speak feelingly about this question, because I was asked in Washington recently to give evidence before the National Monetary Commission. I have been in the habit of going over there to give evidence before these commissions from time to time. On this occasion the question was put to me of the disaster caused by the closing of the mints I had. I confess, no reply. It seems to me that the peasantry and the whole population of India had been encouraged to melt down their rupees up to 1893—there were most valid reasons why the melting down of rupees was of immense economic importance to India. The natives were assured—I cannot find the despatch, but I know it exists because I have seen it, and it was in a despatch of the Government of India written by Mr. Barclay Chapman, their Financial Secretary, and Mr. Chapman told me himself he had written it—that the mints never would be closed. This despatch was written, I think, in or about 1880. It was an actual breach of faith to close the mints after they had been so assured, and relying on that assurance had continued to melt down the currency.

The interconvertibility of rupees and silver is of immense importance. In the first place, it diminishes the necessity for police. A rupee can be stolen. The natives have got no cash boxes, and they have to bury their wealth or carry it on their persons. You can only steal rupees when they are in the form of bangles by a direct frontal attack. That is a point which I believe is of importance. If you are going to throw sovereigns broadcast into India, a country where up-country the rate of wages is 3 or 4 rupees a month, the inducement to steal anything as valuable as a sovereign will be so great that the possessor of a sovereign is unsafe until he has melted and bangled it, the neighbours will say, "So and so has got a sovereign; let us see if we can find it." It was extremely important, therefore, and is now, for the peoples of India that the savings, the result of their thrift, could be made secure as ornaments for their persons. The second point—no less important—is that it conduced to thrift and sobriety. A man with savings in the form of rupees will very likely go and spend them in the grog shops; but a man would naturally not go and drink if that involved cutting a bangle off his arm or his wife's. Thus the thrift and sobriety of the Indian people were greatly subserved by the fact that rupees were silver bullion and silver bullion were rupees at the demand of the owner.

But the most important point resulting from this melting down practice was the extraordinary immobility of prices it provided throughout all India. Whenever there was a rise of prices in Europe, then the exports of India would expand into Europe because of these higher prices, and the result was at once a great flow of silver to India to pay for enlarged balances of trade. The result in any other country where prices respond through the action of the exchanges would be that prices would rise and fall. But not so India. The perpetual melting up of coins contracted the currency and kept prices stationary. I should like here to mention Chevalier's point as showing the immense importance to the currency of Europe of an open mint in India. Michel Chevalier points out, and Jevons and others accepted his view—it was so evident—that when an immense mass, something like 700 millions sterling of gold, came, in a few years, from the mines of Ballarat and California, the inflation of our currencies and the rise of prices was considerable, but economists were surprised that the rise of prices was not greater. Chevalier said, "Silver is a parachute, which has broken the fall of gold!" This great deluge of new gold was calculated to inflate prices in Europe, but as fast as gold came into Europe it gradually raised prices in Europe, and thus the exports from silver-using Asia—those currencies, not being affected as here by the new gold—were magnetised by our rise of prices. The price of wheat, the price of jute, and the price of all Asiatic stuffs—for not only India, but China exported—was magnetised by our advance of prices. In return for this immense unexpected balance of trade, Asia began to draw away our silver money, and as a result she sucked to the Orient all the silver in the French currency. At the time of the commencement of the gold discoveries in California, the French currency was two-thirds silver and one-third gold. The propulsive power of this rise of prices in Europe, to drive the silver of the Latin Union to the melting-pot and thus distribute it all over Asia, was such that, at the time the gold of California and Australia was exhausted, nearly all the silver of the Latin Union had passed into the melting-pot. The result was that splendid expansion of trade in India and China which was the most marked feature of the 'sixties. If only the mints of India, instead of being closed in 1893, had remained open, the prodigious expansion of not only Indian, but China trade, drawing and draining inward all this cheap silver, would have once again been the economic feature of our time. The closing of the mints, as I say, has aborted, has destroyed, the greatest "boom" that India would ever have experienced in her history. You will remember Mr. Goschen, in the House of Commons, when this proposal to close the mint was first made by the Indian Government, congratulated the Government of the day. He said he was glad that they declined a proposal which "ought never to have been made."

* C. 5099, &c.

Mr. Goschen's view was that the whole suggestion was neither honourable nor politic, and there was no higher authority than he. The author of "The Theory of Foreign Exchanges" knew more about this question than anyone at that time; and Mr. Goschen said, "If, "as we believe, the flow of the new gold from the "river-beds of California and Australia was so valuable "to the trades of Europe and so vivifying, why should "not the flow of this great mass of cheap silver into "Asia be equally for her benefit and for ours?" If India had kept the mints open, she would have been unable to assemble ships enough in the harbours of Bombay and Calcutta to carry her produce to Europe. She would have drained our silver into Asia, where it would have been sufficient to raise prices and wages; but once again this great contraction of the currency through the melting down of the silver coins would have stepped in, rupees would have settled down again into a million hoards, and this exchange crisis would have been at an end long since. I cannot get over what was done! I know what gentlemen from India say. I know they come here and say, "We hated this scheme; "we say this currency tampering was economically "wrong and was bad for India, but we think, in view of "what has happened to the trades of India, good has "come of it." On the contrary, I am convinced that this Commission can satisfy itself that, but for this tampering with the currency, but for the refusal to permit India automatic exchange, you would have had the most prodigious conditions of prosperity in India that you have ever known.

9520. That, if I may say so, is the real point to which you should address yourself, or rather the point to which you should address yourself most. Though it may have been necessary for the purpose of making your views clearer to us that you should make this introductory statement, the point that you have to prove now is not that it was a mistake to close the mints when they were closed, but rather that these people are wrong who say we were against the closing of the mints at the time, but, having regard to all that has happened, we should be against the opening of them now. Supposing you could convince the Commission that it was wrong to close the mints when they were closed, it would not follow that it would be right to reverse the decision now; but that is, I understand, the case which you want to make and which I am anxious for you to direct our attention to?—I quite agree that that is exactly the position. The general effect of the various experiments is supposed to have been good. Some of your witnesses have produced figures of the expansion of exports which on the face of them seem good. On the other hand, I maintain that the improvement in Indian trade has not been *pari passu* with the improvements in the world's trades. That, I think, is the point which should influence the Commission. If we could show that India had got less than her share in the last 20 years of the common good, that is an argument which would be of influence.

9521. (*Sir Shapurji Broacha.*) I myself, like you, was a rabid bimetallist, but we have to submit to circumstances, and the important circumstance is that the production of gold went up from 19 millions to 100 millions. The Government of India from 1873 to 1892 were anxious not to demonetise silver, and they asked all the Governments to help them in keeping up silver in its currency. The Government had to do their duty to their subjects, and that duty was to have the currency or measure of value so regulated that one could transfer that value in India to any other country merely at the cost of freight, insurance and commission; but it was necessary that the civilised nations of the world should combine to come to a unanimous view about currency. I remember a speaker betting in 1889 that in the year 1905 the world would be bimetallist. He lost his bet. He stood up and said, "My friends, I should have been right, but I cannot "fight Providence. When I made that bet the annual "production of gold was 19 millions, now it is 100 "millions, and so, of course, I am defeated." Until that production goes down we need not speak about bimetallism. India has been helping silver, and she coins as much silver now as she did in times of yore, so you must wait until the production of gold is reduced to certainly one-half or something like that?—Pardon me, I have the figures under my eye at this moment. Your view is that because there is more gold the trade of the world can be carried on on a gold basis, is it?

9522. We are now in the land of prophecy. What would happen under certain circumstances? Your suggestions would spoil the ratio of the transfer of gold from one country to another. The best thing you can do is to preach your views to the nations of the world, and India is ready to join you?—That is just the difficulty. I want to get back to my figures of gold supply and trade, but as you have opened up a wider issue still I must remind you that representatives of the United States and France came over here and arranged with Lord Salisbury, then Prime Minister, and the Government of the day, that the mints of India should be opened conjointly with those of France and the United States. I was cognisant of all those negotiations. Senator Wolcott was my great friend, and I was with him during those negotiations everywhere and at all hours. The various high contracting parties met in July 1897 at the Foreign Office here, the French and American Ambassadors and a representative of the Bank of France, I think its Governor was present. After their meetings at the Foreign Office, the two great Republics made this stupendous offer—that they should go in for free coinage at 1 to 15½ if India also would open her mints again. I have got Lord Dufferin's despatch here of 1886, in which he says, The ratio has nothing to do with us; the great nations who propose to open their mints shall have the control of the ratio and all we want is an international agreement; that will give us reasonable security that the exchange will be fixed. That had always before 1897 been the attitude of the Indian Government. Here then were the two great Republics, with 500 million or 600 million sterling of gold offering to open their mints to the free coinage of silver at 1 to 15½. The Chancellor of the Exchequer, Sir Michael Hicks Beach, a rigid and unflinching monometallist, who walked away from the final meeting with Senator Wolcott, said, "I suppose, as a matter of courtesy, "we must refer our agreement for consideration to the "Government of India." It was a sort of afterthought, as I was informed. So our Government telegraphed to India this extraordinary proposal, which took my breath away at the time, which had been advanced after full consideration by these two great countries, by France, the most scientific and the most efficient currency nation in the world, and the great United States, which in the previous year, 1896, had gone through their silver campaign. They said, "We will "open our mints to the unrestricted free coinage of "silver at 1 to 15½ if the Indian Government will "open its mints to the coinage of rupees." England was to do nothing: simply look on and approve and yet obtain fixed exchange for all her vast oversea trades! As I say, it takes our breath away to recall it all these years after! A proposal of this importance was defeated by Lord Elgin and General Sir George White, acting on the advice of Sir James Westland, their Finance Minister, a bookkeeper from New Zealand, the very man who the next year the Fowler Committee so utterly snubbed and disagreed with! What did these three statesmen know of the currency question? Here was a proposal that would give us five Mexican dollars for a gold sovereign and 11 rupees for a gold sovereign for a thousand years, but the Government of India refused it because, they said, a sudden jump in silver would destroy their export trade. I admit there is something in the point; but, I believe that the settlement of the silver question by a small monetary union is ready to hand to-day, and would settle the question for ever. I believe it can be done without any violent jump such as that in the exchange. I admit the Government of India were entitled to say, If we suddenly wake up and find exchange at 11 rupees to the sovereign, it will shut off our exports; but the reply is that India with an

exchange of 11 rupees to the sovereign during all the years between 1860 and 1870 had been more phenomenally prosperous than at any other time in her history.* She closed her mints in June 1893, the rupee fell from 15½*d.* to 11½*d.* Fell 4*d.* at a moment's notice, and yet she was afraid of a rise of 7*d.* I am afraid I have been rather discursive, but Sir Shapurji rather deflected my line of thought. I am obliged to him for doing so. I quite recognise the value of the argument that he advanced. However, I was trying to account for the mind of the Indian authorities. They say that India has been so prosperous under the gold standard that they would not like to go back to the free coinage of silver, even with conditions and safeguards. They apparently think that their trade has been more prosperous than the average trade of the world. I do not think so. This is the crucial question. Has the closing of the mints conduced to the interests even of India herself? The figures that are before the Commission which I have read are, I think, misleading; not only are they misleading, but they point to the great danger that India is now running into. The success of the gold standard experiment results from the accident of the great rise of gold prices in Europe since 1896. If prices had continued to fall, as gold prices were falling in all the western world until 1896, this experiment of the Government of India must have been attended long since by a great disaster. As long as prices rise here and are steady in India, the rise of prices here will of course ensure to India a much greater balance of trade. She can have any standard she chooses — she can have a diamond standard—under those conditions, the world continuing her debtor. But owing to the phenomenal situation to-day, silver prices in India are now rising much faster than gold prices are rising here, and the figures of the exports of India, which India's witnesses here are inclined to take on the basis of mere figures, that is to say, regarding only values and not volume, I think are extremely misleading. Of course if rupee prices rise 100 per cent., exports without increasing at all read as having doubled. Take Mr. Newmarch's figures in the blue book.† I take the exports. The exports of India for 1883 were 59 millions sterling; for 1893, 71 millions sterling; for 1903, 102 millions sterling; and for 1913, 164 millions sterling. It is clear that what you want to consider is not the value but the volume of these exports; you want to ascertain whether the volume has been maintained. As far as I can make out, although the official figures of the Government of India are not entirely clear, yet I think Sir Shapurji will probably bear me out that there has been between 1903 and 1913 a rise of at least 40 per cent. in Indian prices. I say that if that is so then the exports of 1913, which have nominally increased by 65 millions, since 1903 have not increased at all. If you take 40 per cent. off the exports, which were 165 millions, you get the volume down to 100 millions, which is a less volume than India exported in 1903. I believe that though India has progressed yet she has done a little less well than the average of the nations of the world. Taking now the world's exports and adopting the figures of Mr. Austen, the chief of the Statistical Bureau at Washington, I find these figures: I have not got the 1883 figures as the Washington statistics do not include them. But in 1893 the world's exports were 1,043 millions—these are the exports of what Mr. Austen calls the chief commercial nations. In 1902 they were 2,058 millions, and in 1912, 2,720 millions. The world's gold money in 1894 was 840 millions sterling; in 1906, 1,235 millions sterling; and in 1912, 1,500 millions sterling. Therefore, the sovereigns per 100*l.* of exports were for 1894, 80; for 1906, 60; and for 1912, 53; which shows a considerable contraction of the world's gold money in the ratio to the exports of international commercial produce. Turning now to the index numbers of prices, I find that although in 1894 there were 80 sovereigns per 100*l.* of exported produce, the index number of prices, according to the Washington authorities, was 67. When 10 years later, instead of 80 sovereigns per 100*l.* it was 60, the index number had yet advanced to 84; and in 1912, although the sovereigns per 100*l.* of exported produce were only 55, the index number was 94, showing that with the reduction of sovereigns in the world there was yet a great rise of prices, in proportion to the work done. This is the reply to Sir Shapurji's interpolation, is it not? I think that the question of prices is the most important question of all for India. I maintain that it is only the extent of the rise of gold prices which has enabled India to maintain a gold standard and has given her these favourable trade balances. If Indian prices are now since 1909 rising considerably faster than European prices, and particularly if we have a financial crisis, as many authorities anticipate in the next two years, you will have probably an unexampled fall of gold prices here, and, as you have got Indian prices enormously inflated, the balance of trade will go against India, even without any famine in India. That, I think, is the danger, if I have made myself clear. Everybody is aware that you can work any standard you choose, and the whole thing is plain sailing, as long as you have got a large export balance in favour of India. But that balance is entirely contingent upon a high and rising rate of prices here and a steady rate of prices in India. When I come to your note issues in India, I think it becomes fairly evident what has been the cause of this unexampled advance of prices in India. The currency of India has become inflated. Imagine for a moment that if prices in Europe instead of rising since 1896, as they have done, from 25 to 30 per cent., had fallen 25 to 30 per cent., and India's prices had risen, as they have done, perhaps 40 per cent., your gold standard would not have been worth six months' purchase, because the balance of trade would have long since turned against you. The balance of trade was against China always, and therefore the Chinese Government will never be brought to look at a gold standard. You can get in India one of these exchange gold standards, if and only if you can rely on a favourable balance of trade, but if with the rise of prices in India you have a fall of prices here—and I believe we are on the threshold of a great fall in prices—clearly the balance of trade will go against India so greatly that your gold standard will be absolutely unmaintainable.

9523. (*Mr. Keynes.*) Do you mean that while India and England are both on a gold standard, the level of prices in the two countries is quite independent?—Yes, quite.

9524. And there is nothing whatever linking the prices of commodities in the two countries?—No. I think the prices in India are clearly rupee prices, and not sovereign prices at all, any more than they are pearl prices. It is quite evident what has happened—I have no doubt you have looked into it. I take it from the composition of your paper currency that what has happened is that the hoarders of rupees are throwing up their rupees and sucking in paper. Just look at the dimensions of your notes. I can only read that evidence one way. There has been a good deal said by witnesses about the expansion of your note currency in India. In a country so poor as India,

* *Note by Mr. Moreton Frewen.*—The error of the Bimetallic Party was in our failure to recognise until too late that Great Britain before 1873 had done fully as much to secure a fixed rate of exchange for silver and gold as France herself had. True, France until 1873 was the world's money-changer. France gave on demand an ounce of gold for any 15½ ounces of silver equally to the merchant of Lyons or the merchant of London. But France did not necessarily give her own gold, and this because she had at all times, through the bill market, access to the Gold Reserve of the Bank of England. Any 15½ ounces of French silver currency melted and exported to Bombay and there exchanged against wheat or rice sold to London was a sight draft on the Bank of England for one ounce of gold so long as and only so long as the Indian mints remained open. Thus it was the open mint in India and the free gold market of London that until 1873 maintained the parity. All that Great Britain should ever have been asked to agree to at the various Money Conferences was to maintain those conditions which were still in being when the last Conference at Brussels adjourned and the action of which had during the preceding century secured fixed exchange.

† Cd. 7070, pp. 234–6.

where the rate of wages is 5 or 6 rupees a month, if there were a general demand for notes for currency it would be for the small dimensions of notes that would circulate. But just look at the actual dimensions of the notes being issued. In the last 10 years there has been an increase of 56 million rupees in 10,000-rupee notes and in the 5-rupee notes there has only been an increase of 8 million rupees as against 56 millions of the larger dimension. Mr. Newmarch puts down (Cd. 7070, page 250) the outstanding notes as what he calls active currency, but as a matter of fact, no 10,000-rupee notes, or 1,000-rupee notes, or, as I maintain, not even 100-rupee notes, in a country where the rate of wages is so low as in India, can be regarded as active currency. In the last 10 years the increase has been 56 millions in 10,000-rupee notes, but only 8 millions in 5-rupee notes. In 1912, last year, Mr. Newmarch's figures on page 240 (para. 9) of Cd. 7070 indicate that out of a total note circulation of 61 crores, 23 crores are in notes of from 1,000 to 10,000 rupees; and over 15 crores more are in 100-rupee notes. Mr. Newmarch, on page 250 of Cd. 7070, says that the notes in what he calls active circulation amongst the public amount to 44 crores, of which 23 crores are these 1,000-rupee notes and 10,000-rupee notes. What I infer from that—and I have no doubt evidence of it could be obtained—is that the men who had large hoards of silver rupees have been throwing up 10,000-rupees to be replaced by one note—in some safe hiding-place. The result is that you have an unexampled inflation of your rupee currency, and this has told its tale in inflated prices; and this must reverse India's balance of trade at an early date. Between 1907 and 1912 the note issue expanded from 47 crores to 61 crores, say 30 per cent., and Indian prices in the meantime rose about 40 per cent.—probably even more.

9525. (*Chairman.*) You spoke of an inflation of the currency; given the circumstances of India you would have expected the currency to grow, would you not?—Yes.

9526. And given a growing confidence in the stability and convertibility of the note issue, you would expect the note portion of the circulation to grow?—Yes, but not quite like this.

9527. (*Mr. Gillan.*) Is it your point that large notes have grown more than small?—Look at the figures which you will find on page 240 of Mr. Newmarch's statement (Cd. 7070).

9528. I have some figures here which seem to point rather in the other direction; this is the report of the Comptroller-General, which puts the figures in percentages. According to these figures the percentage of the 10-rupee notes to the total circulation in 1901–2 was 23·4 and of the 1,000-rupee notes (the Comptroller-General has not got the figures for the 10,000-rupee notes here) was 22·9; in 1911–12 the percentage of the 10-rupee notes is given as 32·1 as compared with the 23·4 in the previous year that I gave, while the percentage of the 1,000-rupee notes had fallen from 22·9 to 19·8?—I have not Mr. Newmarch's memorandum here, but I have a note here that he there says on page 250 (Cd. 7070) that there were in active circulation amongst the public 44 crores, of which 23 crores, according to his figures on page 240, were made up of 1,000-rupee notes and 10,000-rupee notes. If you look at the issues of the 10,000-rupee notes you will see that in 1873 there were only 576 in existence, and there are now 14,320. You cannot call notes of 10,000 rupees notes in active circulation.

9529. (*Mr. Keynes.*) I think you will find those large notes are mostly held by Government and the banks?—I do not think they are in the banks and treasuries to any large amount—there are 23 crores issued of 1,000 and 10,000 rupees?

9530. (*Chairman.*) On the other hand, take the circulation of the 5-rupee notes; they have increased in number in the same time from 310,000 to 2,529,000?—I have looked at the position of the 5-rupee notes, There has been an increase, as I pointed out, of 56 millions in the 10,000-rupee notes in the last ten years, as against 8 millions only in the case of the 5-rupee notes, accepting Mr. Newmarch's figures.

9531. What I do not exactly understand is the moral which you draw, or wish us to draw, from those figures?—What I think is happening is, that there is a substitution of coined rupees in hoards by large notes.

9532. Suppose there is?—If a man who had 10,000 rupees has put a 10,000-rupee note into his note case, and has thrown the 10,000 rupees into the active circulation of India, and if that has been done on a large scale, it will account for the extraordinary inflation in Indian prices.

9533. How can he throw 10,000 rupees into circulation? He goes to the Government to exchange those rupees for a note, that is, he takes a different form of token currency from the Government; but the Government cannot throw those 10,000 rupees into circulation until somebody else comes and asks for them?—The Government have done it; that is the reply. If you remember, at the time of the crisis in 1907 they had enormous stacks of rupees, not merely of their own coining, but old and antiquated rupees. The old rupees have been showing up a good deal more than normal, I am told. Of course, if a man does substitute a hoard of 10,000 rupees by a note, and if those rupees do go by some means into circulation, they would have a very marked effect on prices.

9534. This brings me to an expression which you used very early in your evidence. You have objected to the Indian system on the ground that it is a managed currency system and not an automatic one. I understand by that that you mean that the Indian Government controls in some entirely different method to that which is familiar to us, say, in England, the amount and the nature of the circulation?—Yes.

9535. But is that so? Has the Indian Government any power to put money into circulation except in response to a demand from somebody for it?—I think they have. Look at the position. Suppose, as was the case apparently, that they overcoined themselves?

9536. That is exactly the case I want to suppose. Suppose they do overcoin in excess of their requirements and through a miscalculation, what happens, then?—Suppose they build a railroad to the moon, they have to pay wages for all the work done on the roads, and so those rupees get into circulation in all the country districts where they are building. They can inflate the currency to any extent by public works and in a hundred ways. I have suggested one.

9537. Then is it your suggestion that, having miscalculated the amount of silver normally required, or having their calculations upset by a change in the habits of wealthy hoarders who now hoard in notes instead of in silver, they find themselves in possession of a surplus of silver in their reserves, and then they say: We must get rid of this?—Yes.

9538. Do you really suggest that they thereupon set to work to build a railway in order to dispose of their surplus rupees?

(*Mr. Gillan.*) Where do they get these rupees from that are spent on the railway; do they draw on the currency reserve for them?—I was just going to point out. You remember the Buchanan Gold Loan in December 1908; the Government of India came to Parliament and said: We want a large gold loan for the purpose of building railroads, and it was granted. I do not think I am saying anything unfair when I say that they excogitated some sort of railroad requirements, and I have no doubt very useful and necessary roads too, but they really wanted a great many million sterling to buy their own rupees from their own reserve and to get them into circulation, but for the Buchanan plan I think the exchange standard was done.

9539. (*Chairman.*) In regard to railways, the only complaint we have had before the Commission from any of our witnesses hitherto is that there are not enough railways in India?—By all means; if they will continue to build railways instead of letting rupees congest in the treasuries, I am heartily with them. But how are we to account for this somewhat phenomenal rise of prices within India which everybody has drawn attention to? It must have something to do with the currency clearly. It looks altogether like

inflation, and the currency returns of notes and coins demonstrate an inflation. You have, therefore, just what we should expect to find. But the idea in 1893, when the mints were closed, was to starve the currency and force down prices by melting up a currency which was described as "redundant."

9540. In India the currency is managed by the Government?—Yes.

9541. Perhaps here you might say it is managed by the Bank of England; I do not know whether that is the view you would take?—No; it is absolutely automatic here.

9542. In what sense is it automatic here in which it is not automatic in India?—It is absolutely automatic here. Gold is not merely our standard, it is our popular currency. If gold comes from Africa in any ship it goes straight to free coinage at the Mint. The whole difference, and the terrible difference, between the Indian system and that of every civilized country in the West is, that if we lose to-morrow, say, 10 million sovereigns to the United States because they have an extremely good harvest, and their trade balance is a favourable one—suppose that we take 10 millions of gold out of the Bank of England for that—we are not at all alarmed under those circumstances, because we know that on arrival from the United Kingdom, those 10 million sovereigns will raise prices in the United States, and will thus stimulate our exports to that country, and, through the stimulus to our exports, will presently bring our gold back. That is the whole theory of the foreign exchanges. But there is nothing automatic of that kind in the case of India. The currencies of the West are automatic not merely in the country itself, though as long as you can take gold and get it coined free into sovereigns, you have got an automatic currency for the individual, but you have got also absolutely automatic currencies and free coinage between the various nations themselves.

9543. Would the Indian currency become automatic if the Indian mints were open to the free coinage of gold?—Yes, undoubtedly, it would be automatic, and effectively automatic if and only if the people would use that currency and not melt it.

9544. It is not merely a question of the free coinage of silver, it is a question also of the free coinage of gold?—It would, in a sense, become automatic, I admit, but there is no particular point in an automatic condition of that kind as long as you have got the whole Indian normal currency a silver currency, either silver coins or silver notes. To my mind prices in India are silver prices, and never will be gold prices. If you go and coin a great mass of rupees to-morrow for the Government of India, you are going to inflate prices in India because prices are rupee prices. I think if you coined a great mass of raw gold in India to-morrow it would have no effect on prices there at all, unless by throwing more sovereigns into hoards it threw more rupees out. If there came this substitution, which is to my mind what is going on at this moment, of sovereigns for rupees as well as of 10,000-rupee notes for rupees, both those conditions would account for the present unexampled rise of prices in India as nothing else will.

9545. At the present time, however, would you admit that it is true to say that anyone in India can get any form of currency that he pleases?—No, I do not think that it is the case. I do not think even the banks can get the currency they need. That is their complaint. That is, it seems to me, why we are all here to-day. You will notice what Mr. Dunbar says:* Our currency is locked up, and we cannot get it out, we want rupees. Mr. Dunbar's evidence was very good. He said, "I am opposed to a gold currency, as "not being required in India and as a wasteful and "expensive luxury." Then he goes on: We want rupees; we cannot import rupees; we can import sovereigns by councils, but it is rupees we want, and they are locked up.

9546. Surely that is directly contrary to what you have just been urging upon us; that is a complaint that the Government, instead of flooding the market with

an excess of rupees, is not supplying them with enough?—I think at one time of the year, during the early months of the year till the crop comes in, there is any quantity of currency, and then during the time of stress and strain, when everybody wants the money, it is very hard indeed to get it.

9547. It is not so much a question of currency, then, as it is a question of credit?—No, I think it is a question of currency. The rupees which ought to be in the channels of trade making exchanges between individuals easy, are in the treasuries, having gone into the treasuries to pay taxes and so on. It seems to me that there is a great deal of difficulty in getting rupees.

9548. At that moment there is a difficulty of getting not specially rupees but money?—Yes.

9549. A great deal of evidence has been offered to us to the effect that the Government collects the bulk of its taxes at the moment when trade has the greatest need of money, and that the double stress leads to certain inconveniences?—That is so.

9550. But that is not a special shortage of silver, it is a shortage of money?—That is so.

9551. In so far as money is required in rupees, and Mr. Dunbar says gold does not meet the need, it surely goes to show that there has been no such unnatural inflation of the currency as you were suggesting to us just now?—In 1906 and 1907 you had the mints very busy; then, after coining nothing for three years, the Government of India in the last two years has been very busy again.

9552. Let me ask you why. Do you suppose that the action of the Government of India is purely arbitrary?—Yes.

9553. Do you suppose that a Finance Minister happens to come along who objects to the activity of the mint and he says, shut them down?—Yes.

9554. And then another Finance Minister comes along who is rather pleased to see the machinery going, so he opens them up again?—Yes, I think so. No one knows the least why; there is no plan and never since 1893 has there been a plan.

9555. You do not think the action of the mint follows upon a restriction or an increase of the demand by the public, but you think it is purely arbitrary on the part of the authorities of India?—Yes, it is a managed currency: just as Brazil's is.

9556. Do you think further that in some mysterious way, by building railways which may or may not be required, or by some other form of artificial expenditure, the Government disposes of the surplus rupees it has coined?—I say that it can. As to the arbitrariness of the situation, when it was first proposed to close the mint the idea—and there were many other wild ideas then, we all now admit that, I think—was to melt up great masses of rupees, sell the silver for gold, and start a gold currency as Germany did. They continued that melting up of rupees and so contracted the currency that, as Sir Shapurji will bear me out, it was mentioned in the House of Commons that there was a money famine in India and they were borrowing rupees in Bombay in 1897 on the security of gold bars at 2 per cent. a month. Since then the whole practice of currency in India has run a perfect gamut of experiments. Everybody who goes over there goes in order to try some fresh experiment. They describe them as evolutionary. Sir Guy Fleetwood Wilson, who went over there and who is now coming back, did; and whoever goes next will either send to the mint a lot of silver or possibly nothing if they want to contract the currency during the next ten years and to force Indian prices down, and unless in some way you do force prices down you will a little later encounter an adverse balance of trade and have a great difficulty in selling your Council Bills. If prices are, as I believe, 40 per cent. higher in India now than they were three or four years ago, it is quite clear that if we get a great tumble of gold prices in Europe in the next two years, as wise men anticipate, the balance of trade will go greatly against India, you will not be able to sell Bills, and then you will have to borrow gold.

9557. (*Mr. Gillan.*) Is it only the number of rupees that affects prices? Have notes and gold no influence, so to speak?—As long as a 10,000 rupee note, just

* Cd. 7069, Q.A. 7895, &c.

in the same way I should say as the 1,000*l*. Bank of England note, is in currency, of course it has an effect. But the conclusion that I have come to, from all I can glean, is that prices are rupee prices, and depend on the active circulation of the rupee and small notes, and that gold is not used at all. Of course, if you throw a great mass of gold sovereigns into India, as you have done in the last four years, while these are shaking down in their hoarding places people see them up country; while they are reaching a customer in the Punjab, who wants a sovereign in exchange for perhaps 15 rupees that he has got under his hearthstone, people will see them passing by. Sovereigns appear at the railway stations, and they appear at the treasuries, but they will very soon shake down into the hoards to be no more seen. I do not believe, whatever gold you pour into India, it will ever make any difference to the currency of India. The coin is too large. With wages at four rupees a month, a sovereign is the wages of near four months. What are our wages here? Let us say 5*l*. a month. A sovereign in India is just what a 20-sovereign coin would be here, and we know that a 20-sovereign coin would not provide a currency at all. Our people would not stand it for ten minutes.

9558. (*Chairman.*) I understand your argument so far to be that, in the first place, it was a great mistake to close the mint, and that that mistake was made under a misapprehension?—Yes.

9559. In the second place, that there was an opportunity of reversing that decision at the time of which you have spoken, when the French and American Governments and the British Government were ready to do it, but that India blocked the way?—Yes.

9560. Those opportunities having been in your view misused or lost, things have not remained stationary, and some at any rate of the evils of the original change must have been mitigated; what in your view are the evils of the original change which must have been mitigated or diminished by lapse of time?—No; I cannot accept that. I think the evil increases every day. I point out that prices are rising in India, as far as I can make out, considerably faster than they are rising here; therefore you are going to run up against an adverse trade balance and the impossibility of selling Council Bills. You have shipped a whole mass of gold to India which we here want, and it is lost, in my judgment, for ever, and that will make it more difficult for India to borrow. If gold is to leave Europe at the present rate, what sort of position are we going to be in to finance India? I take for one moment what we saw in the papers this morning. There is the announcement of a Royal Commission to consider the question of the State purchase of railroads. Twenty years ago our minds ran on State purchase at a time when this country could have borrowed money at 2¾ per cent., and when the railroads were earning 4½ per cent. But you cannot do anything of that kind to-day. Germany funded her State railways at a time when bank rates were very low, because the money was then available, but how can we get a great conversion scheme of that kind now? We have sent, roughly, 160 millions of gold to India in the last 13 years; the result is a 5 per cent. bank rate, and the Government of this country could not now borrow at the rate which the railroads are at present earning; they are earning 4 per cent., and if you could borrow at 4 per cent. 1,000 millions, there would be no profit on the operation. These Indian experiments have knocked for ever on the head constructive politics, which require cheap money.

9561. I want you to come a little closer to the present, but I do not want to misrepresent in any way the line of your argument?—I follow; you want to know why do I think it is so very bad now for India and will be worse?

9562. What steps do you think ought now to be taken?—I go back, if I may for a moment, to my original point. In the first place, the danger in famine times of the non-convertibility of bullion to coin is serious, but I think a much greater disaster has been the fact that the peasantry of India, because the mints are still closed—and this argument is good for a thousand years as far as I can make out—are handed over to be fleeced by the money lender. The peasant owning 100 tolas of bangles or ornaments could always send them to the nearest mint and get 100 rupees for them, and as long as he could do that, that controlled the rate which the money lender charged. I looked into this question when I was in India, very carefully. I found the whole situation very interesting. There is no doubt that whereas the sowkar rate and the bunnia rate before the mints closed was not more than 1 per cent. a month, it is now 3 per cent. When Messrs. Toomey and Fraser came here, Sir Ernest Cable inquired from Mr. Toomey. "Knowing the native as "we do, it is quite possible that having a hoard in "his village he may still be borrowing at 40 per cent. "from his bunnia?" (Cd. 7069, Q. 2975.)

9563. You understand, of course, that they were saying that, though he might have money of his own available, sooner than draw from his hoard he would borrow?—Yes. I will quote a case within my own experience at Aurungabad. A little cultivator who had borrowed 400 rupees from a local sowkar died, and apparently left nothing in the world, so the sowkar got an order to examine his premises. They found 4,000 rupees, although he was paying 1½ per cent. a month for this loan of 400 rupees. As long as the mints were open, I do not see how the rate could ever have gone above about 1 per cent. a month, because if the sowkar would not lend at 1 per cent. per month, the little man with the hoard would say, "All right, I "will send it through one of the agencies to be coined "into rupees."

9564. Mr. Toomey's argument was that that was exactly what he did not do; he was so reluctant to draw upon his hoard and to use his hoard, that he borrowed at this enormous rate?—I wish you would ask Mr. Toomey or anybody else who has experience of India, who ever heard of such rates as that in the seventies. I remember opening my eye seven at this rate of 1½ per cent. per month. Witnesses before this Commission have quoted 3 to 8 per cent.; how could such rates be if the mints were open and there was a free competition between the sowkars who make these village loans? If the mints were opened and I were a sowkar, of course I should have to lend at 1 per cent. a month, because my neighbour sowkar would. The opened mints made a zone within which the borrowings took place, but to-day there is absolutely no rate to control these bunnias and sowkars. The security, the good perfect security of silver bullion is gone.

9565. (*Sir Ernest Cable.*) It is an important question as to whether the rates were or were not raised?—I know the rates were much lower.

9566. What I have heard is that the rates tend downwards and not upwards, as you say?—As compared with the early eighties?

9567. Yes. It was only this morning that I happened to ask Sir James Meston that very same question, and he said, "Yes they are much lower and are going lower"?—That is not the evidence as I read it in your own blue books. Several witnesses have quoted 8 per cent. per month, and Mr. Toomey says 40 per cent. I never heard of such rates when I was in India a quarter of a century ago.

9568. (*Chairman.*) Mr. Toomey was speaking of an exceptional case; my memory is that he was speaking of the reluctance of the peasant to touch his hoard?—I know.

9569. Of course, the extent to which he would borrow sooner than draw upon his hoard was perfectly illogical, exactly as you spoke just now of a man who borrowed and then died with apparently nothing, but who really had a sum in reserve which made the borrowing unnecessary?—They are interesting instances, but I do not attach too much importance to them. What I do think is that silver before the mints closed was a perfectly good banker's security at par. A man who had 1,000 tolas of silver in any shape or form had a gilt-edged banker's security for 1,000 rupees, and this form of security, which is to-day worthless,

existed with mints open to the extent of 26 rupees for every man, woman or child in India. And under these conditions I feel certain that the sowkar would say; If I can get this coined at the nearest mint simply by sending it there, I cannot charge a very high rate. On personal unsecured loans possibly the rate now is no higher that it was then—that I know nothing about; but I say the one security which the Indians own is the security of their silver—that is the one thing, it represents their whole fiscal system, their whole condition of debtor and creditor is arranged on that one security, silver, and that you have destroyed.

9570. Would it be the rate of interest that would be affected by the fall in the value of silver; would it not rather be the amount of money?—I think both, but certainly that. I have mentioned the case of the man near Allahabad who had 2,000 rupees weight of silver and only got 600 rupees for it.

9571. In regard to the evils of the working of the present system, I think we have got your views quite clearly; in the first place, it has unnaturally raised prices?—Yes.

9572. In the second place, it has arbitrarily and artificially diminished the value of the hoarded resources of the peasantry?—Yes.

9573. Now let us go on to your next point in connection with that?—That is the origin of the gold exchange standard agitation. That exchange would have recovered despite an open mint I hold to be probable. The crisis of 1873 was of course unprecedented. You had for the first time in the world's history three first-class nations, France, the United States, and Germany, all deciding at the same moment to demonetize silver. Germany was prepared to sell between 300 and 400 million ounces of silver, by throwing it on the French mints; and the French, who had just been defeated in the field, felt constrained to close their mints. The United States at that time had suspended specie payments, but was about to resume specie payments. It was in the Constitution of the United States that at 1 to 16 anybody could bring silver to the mints. In 1873 silver was demonetized at Washington and you thus had this revolutionary change in the status of silver which inevitably must have involved a considerable period for the absorption of that metal. But had the Indian Mints continued open after 1893, serious though the crisis would have been and very inconvenient for the Government, India long since would have absorbed silver, in place of absorbing our gold, so that the rupee would have returned to its old rate of exchange. If India, in the last 13 years, instead of drawing 160 millions of sovereigns against her trade balances, had drawn instead 800 or 900 million ounces of silver, any such drain of silver as 800 or 900 million ounces would inevitably have brought silver back to par again. I think I have now come to the point where I might give you the figures of the present production and consumption of silver. There is no surplus silver; it surprises me how little surplus there ever has been. The industrial consumption of silver is increasing by leaps and bounds, and it is one of the great surprises of the time. Look at the figures. In 1905 the industrial consumption of silver was only 50 million ounces, or 30 per cent. of the production of the mines in 1909, four years later it was 104 million ounces, or 50 per cent.; and in 1911 the industrial consumption was no less than 143 million ounces, or 64 per cent. I have not got the figures for 1912—they come from the Washington Bureau—but the share taken by the silversmiths in 1911 was no less than 85 per cent. of the world's total production of silver in 1905. Now let us look at the coinages. After the silversmiths have been supplied, of all the great mass of silver produced to-day, 240 million ounces, there only remains about 80 million ounces, and of that 80 million ounces for 1911 China took for coinage 34 million ounces, Japan took nearly 5 million ounces, Austria took more than 6 million ounces, Belgium took 1,701,000; Brazil took 1,715,000, Egypt took 1,310,000, Mexico took 1,276,000, Morocco took over 2 millions, Russia took a million and a half, San Salvador took 1 million, and Venezuela took a million and a quarter. What I venture to think you are likely to find with the present situation of exchange, in view of the great drain of our gold, the great rise of prices in India, and the risk of an adverse trade balance in India is that a limited Monetary Union could be to-day established without difficulty and in perfect safety, and that the time is unusually opportune for a settlement of that kind. Let me take the figures of the production of silver for a moment. In 1910 and 1911 the production for the two years was 447 million ounces, and the industrial consumption for those two years was 282 million ounces, leaving 164 million ounces for the two years. The actual coinage for those two years was considerably more than 164 million ounces, so that there was positively a deficit, strange as it seems, of 16 million ounces: you can earmark it and I can give you the countries. On the average of the two years, the net annual surplus for coinage was 82 million ounces, out of which Great Britain, France, Germany, and the United States coined 45 million ounces, leaving only 37 million ounces to meet the coinage of the rest of the world, which amounted to 53 million ounces; so that actually the world required to draw from some existing stock of silver bullion in order to obtain its token currency. I should like to say a word about the state of the China trades, nothing in this connection is more important. The China trades require some fixity in exchange. If we could get to-day an agreement like that offered in 1897 on the part of France and the United States, but which would still avoid the sudden jump which alarmed the Government of India, on the ground that it would kill their export trade; if we could get instead a gradual rise, if we could advance silver 2*d*. an ounce each year, that would be ideal. The proposal I make is really the proposal made by Mr. Alfred Rothschild at the Brussels Monetary Conference that there should be an agreement between the nations to purchase regularly so much silver per year. In my judgment we should do that now. We know what we did not know then; we know how much India requires India for the last 15 years has taken 30 million ounces of silver per year. We are buying yearly for the Mint here 15 million ounces chiefly to go to the Nigerias. The African demand is increasing enormously, and there is no reason why we should not get the whole of East, Central, and Western Africa under a rupee currency. I was in Africa four winters ago, and I found the rupee doing money work everywhere from the Abyssinian frontier south to Tanganyika. It is very popular, and it is being hoarded there just as it is being hoarded in India. The future consumption of silver by Africa must be immense. If India takes 30 million ounces and our Mint, as I say, takes 15 million ounces, that is 45 million ounces out of the 80 million ounces which is the whole surplus, and you have got these other countries at present taking more than the entire balance. If we could have one buyer for the four nations, England, France, Germany and the United States, of a fixed amount of silver per month, we could very easily put up the price of silver 2*d*. per ounce per year until it went to 43*d*., which is the melting rate of the rupee. That was the Rothschild proposal and the price to attain, and having got it up to 43*d*. by these quiet stages, we should have had such object lessons along the road of the value of a fixed exchange, particularly with China, as I have no doubt would conduce to a settlement. I think a settlement of this question is to-day easy. The world has forgotten the nonsense talked and the temper shown a quarter of a century ago. As I say, it is the settlement proposed by France and the United States with the assistance of India, which assistance had been promised by our Government. Here we had these two great nations with supreme power over the exchanges, France saturated with gold—there is more gold at this moment at the Bank of France than we have got in all our banks—and the United States, the greatest financial power the world has ever seen; and yet there was an idea at Simla that two countries of such colossal importance could not maintain exchange, and that a rupee of 1*s*. 11*d*. was not desirable. The real interest of the Indians, who own one-fifth of all the silver in the world, was sacrificed to the remittance interest of a handful of export merchants.

9574. (*Lord Faber.*) Would not such a large increase as it would be of 2*d.* an ounce in the price of silver by agreement with these big nations stimulate the production of silver most enormously?—I think not. That is, I admit, a question for experts. In the first place, silver is a by-product largely of lead mines and copper mines. If the price of silver rose very considerably so that fresh mines were opened, you might so flood the market with copper and lead that the price of both those metals would fall. You must not regard silver as a primary metal. The cost of producing silver is perhaps 1*d.* an ounce; I mean that when you have got it in the copper and lead matte you can release it for 1*d.* an ounce. The production of silver from copper and lead mines to-day is much greater than it used to be, and the production of silver from real silver mines is much less. Except Cobalt I can think of no important silver camp now.

9575. (*Chairman.*) I was told the other day of a three-fold industry, in which the first two and more expensive articles are produced without profit, and the whole profit of this three-fold industry is made out of what you might call a by-product, a waste product, of the first two stages of the manufacture?—I think that is quite possible.

9576. Do you not think that, if the price of the by-product is raised tremendously, you will certainly be able to afford a considerable reduction in the prices of the principal products, and that that reduction of the cost will cause an increased demand for the use of them?—You are applying that argument to the silver market? I should have to look into the figures, but I should say not.

9577. To put my point clearly, suppose that the increased price of silver encouraged a greater production of copper, the first stage might be a fall in the price of copper?—Yes.

9578. Do you not think that would be followed by an increased use of copper?—I think it would. I admit it is arguable that a considerable rise in silver might increase its production. But silver is the key to unlock all the trades of the Orient, and, as I say, of Africa too. I do not think you can ever get enough silver. Given free mintage the need of silver for legal tender money by the backward and bankless nations is illimitable. China is capable of absorbing immense masses, and I live in the hope that I will see all Africa under a single silver standard. It is an admirable money-metal. They are building railroads to-day in Africa with silver rupees. To my mind the metal, silver, is the metal of all transactions in Asia, and gold never will be.

9579. Having regard to this very large demand which you foresee actually existing for silver, and having regard to the fact that you do not think that the rise in price would increase the supply of silver out of proportion to the increased demand, are you of opinion that it would be a perfectly safe transaction now for two or three of the great buyers in combination with India to fix a price for silver which should gradually rise until the bullion in the rupee was equal to the face value of the rupee?—Yes.

9580. That is your object?—Exactly; to get the rupee to its melting point again. That is the bitter cry of India's natives. If the United States, Germany, France, and England approach this question in conference, the method would be, I think, Lord Goschen's proposal in 1891, of small notes secured by silver. We bimetallists fought it when he made the proposal as Chancellor of the Exchequer. We thought it was a cowardly makeshift. We were convinced we were about to get open mints and all the rest done. We were full of enthusiasm. At that time we had 150 Members of Parliament on the League list, and we brought a deputation to Mr. Goschen here and denounced his proposal. I found out a year afterwards from Sir Robert Giffen that Sir Robert and some orthodox gold men had been with Mr. Goschen the very same morning and for the same purpose. So Mr. Goschen, between the hammer and the anvil, dropped his project. The saturation point of silver is 13*s.*, that is to say, if you coin another 1*s.* a head it will not remain out in the circulation; it comes back. They find from long experience that as much silver as can be put into our tills and pockets is 13*s.* per capita. Mr. Goschen's view was that if 10*s.* notes were issued, secured by silver bullion lying in the bank, it might be possible to put a further 20*s.* per capita into circulation, to the convenience of the public and the great profit of the Treasury. If you could put another 40 millions sterling by means of small notes into our circulation, the demand for silver under any conceivable conditions of production must greatly advance its price. If the United States, France and Germany would do the same thing the exchange problem disappears. The Germans, I have no doubt, would; they are clever bankers, and they are making great silver issues now, as you know, to replace gold, which they are putting into their Spandau war chest, and I feel convinced that once the public here become accustomed to carry small notes, they will like them. In these days of old age 5*s.* pensions, the inconvenience attending the weekly collection of great masses of silver is very great, whereas the emission of 5*s.* notes would be a great convenience to take the place of small money orders, and in this way a great new market for silver would be created. The plan did not originate with Mr. Goschen, it was the proposal of the Royal Commission of 1888. In their Final Report, Part II., para. 137 (C. 5512), they say, "We think that the best suggestion in relief of "the tension of the existing situation is to be found "in the issue of small notes based on silver. These "might become the substitutes for the half-sovereign, "and if they came into general use they would afford a "remedy for those difficulties in relation to that coin to "which public attention has been prominently called. "Twenty-shilling silver notes might also be issued. If "these were put into circulation, they would probably "pass largely into use without any alteration of the "law of legal tender." The Goschen proposal also was to issue the notes with a legal tender limited to 40*s.* "The Government might issue these upon con-"dition of retaining silver capable of being coined "into an equal number of shillings. The market thus "opened for silver, might check the decline in price of "the metal, besides producing an economy in the use "of gold. (Signed) Herschell, C. W. Fremantle, "T. H. Farrer, Leonard H. Courtney, Louis Mallet, "Arthur James Balfour, Henry Chaplin, D. Barbour, "W. H. Houldsworth, Samuel Montagu." Our objection at that time to the Goschen plan was that it involved a contraction of the currency; that it was going to call in the half-sovereigns, which were a full legal tender, and in their places put these small notes, which were not. We said we were suffering already from a contraction of the currency, evidenced by the great fall of prices, and this was a further measure of contraction. But to-day there is much to recommend the plan to any Chancellor of Exchequer. The profit to-day of purchasing silver at 27*d.* and issuing it through the mint at 66*d.* is very large. And Mr. Goschen, the most orthodox of financiers, said of it, "There are no economic objections." Do you remember his statement at Leeds*?

9581. Yes, I re-read it lately. I am a little surprised to hear you favouring silver notes for this country, because I thought you took such a very severe view of what are, in fact, the silver notes of India?—No, not *quâ* notes; I am not taking a severe view of them at all, on the contrary, I think it is an admirable thing—the more silver you get into circulation through notes the better. I only objected to the 10,000-rupee notes being described as in active circulation; I think that is not accurate; I do not think notes of that size are really currency at all; at best they are certificates of deposit.

9582. I think the words "active circulation" are used there with a rather technical meaning; they do not mean that these 10,000-rupee notes are passing

* Reported on page 10 of "The Times" for Thursday, 29th January 1891.

daily from hand to hand?—No. They are absorbed for hoards, and it is a good thing that they should be. If I may be pardoned for a moment's digression, how are you to going to treat these enormous notes later on? The Fowler Committee, in their Report, contemplated a few years later the positive demonetisation of the rupee—I am afraid I have not got the reference.* But that Committee expressed the hope that in a few years they would be able to deprive the rupee of its legal tender prerogative altogether. Now, if you are putting out 10,000-rupee notes, and they are being accumulated by capitalists in India, do you still contemplate at some future time the demonetisation of those notes? You can hardly convert a 10,000-rupee note, while refusing the rupee piece itself the prerogative of legal tender. Is not the whole future of the currency of India full of pitfalls because of these pernicious experiments? Suppose there was to be a Mutiny in India, the very first thing the mutineers would do would be to set up a mint and coin the silver of the natives into rupees, which would be quite indistinguishable from your own. If, again, India were ever invaded by Russia or by Japan, the first thing the invaders would do, I suppose, would be to imitate the rupee, and make the profit themselves on the issue. I remember Mr. Gibbs, when he was Governor of the Bank, telling me that large numbers of half crowns forged in Barcelona had come to the Bank, and that they were so perfect in design that it was almost impossible to detect them. There was a native arrested in India the other day who had got a complete coining apparatus which he declared he had bought in the Bazaar. It was of Austrian manufacture, and they found on him a lot of freshly-coined rupees. What is to prevent me going to German East Africa, the rupee being already the legal tender currency of our Protectorate next door, and coining rupees in German territory and taking them across the frontier or shipping them to Bombay? It would be a most profitable operation. Who is to stop me?

9583. I led you a little astray by an observation on which I did not want to lay stress. I do want to ask you one question on the conclusion of your interesting statement. What it has led up to has been your advocacy of the summoning of a conference. As I understand, your view is that this Government should take the initiative in summoning a conference of certain of the great powers, to see whether an arrangement of the kind that you have foreshadowed could now be made, and it if could be made, you are wholly in favour of its adoption and think that it would be very much better and much safer than the existing system?—Yes.

9584. Does your support of that proposal depend upon the concurrence of the other powers? I rather gather it does. Or would you advocate, failing agreement with other powers, that India should by itself reverse the decision to close the mints and attempt, with the aid of such altered circumstances as you have described, to carry the whole burden of maintaining the parity?—I would not like to cross that bridge till I got to it. I would do my utmost to secure powerful partners. A few years ago the United States said that with France and India they were prepared to open their mints to free coinage. You must remember that the Democratic party, who were always the silver party, are now in power in Washington; and I have every reason to believe that France is alarmed at the great drain of gold to the East. There was no such drain of gold in 1897, and yet those great nations were then prepared to shoulder the burden—if it can be called a burden.

9585. Then I take it that, for practical purposes, at the present time your proposal to the Commission is dependent on the concurrence of these other powers?—Yes, it will be time enough to consider an alternative when France and the United States have said "No." I suggest a very limited monetary union. We have always broken down at these large monetary conferences. I remember at Brussels there came gentlemen from South America who had not seen a gold coin in their lives, but they were full of abstract currency views, and they did most of the talking. One delegate from, I think, Venezuela, occupied nearly a whole sitting. You do not want those gentlemen in a monetary union such as I contemplate.

9586. Sometimes people with the worst currency know most about the subject?—Yes, they do.

9587. Your point is that it would be a mistake to attempt to get a world agreement?—Yes, because it is not necessary.

9588. And that it would be amply sufficient to get the agreement, of, say France, Germany, and the United States?—Yes.

9589. With such an agreement, and with India included, those powers are sufficiently strong to shoulder the burden and to carry it to a successful issue?—That is my conviction.

The witness withdrew.

* C. 9390, para. 55 of the Committee's Report.

TWENTY-THIRD DAY.

At The India Office, Whitehall, S.W.

Thursday, 30th October 1913.

PRESENT:

The Right Hon. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

LORD FABER.
LORD KILBRACKEN, G.C.B.,
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEGBIE.
Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.

Mr. BASIL P. BLACKETT (*Secretary*).

Mr. VIDYA SAGAR PANDYA called and examined.

9590. (*Chairman.*) You are manager, I think, of the Madras Specie Bank?—Of the Indian Bank, Limited. They call me the Secretary of the bank.

9591. You are Secretary of the Indian Bank, Limited?—Yes.

9592. You have handed to us a memorandum* of your views which I think it would be convenient to you and to us to take as part of your evidence?—Yes.

* See Appendix XXX., page 635.

9593. I do not, therefore, propose to go over the whole of the ground covered by your memorandum, but only to ask you certain questions which arise out of it ?—I have marked a few small changes and have struck out one or two sentences from my Notes. I hope the Secretary has brought that to your notice.

9594. Yes. It will be printed in the amended form. As regards the balances you state that in your opinion they have been unnecessarily high of late ?—Yes.

9595. Do you attribute that to design or accident; do you think that the Government deliberately estimated for balances which in your opinion were excessive, or do you think that they made mistakes in their estimate, and that the revenue was more favourable than they had expected, and therefore the balances were large ?—From the results we see that they have been excessive; I cannot say how it has been caused.

9596. Estimating a Budget is always a task of some difficulty ?—Yes, it is.

9597. In the case of India is it not a task of special difficulty ?—To some extent.

9598. If the forecast of the Indian Government made at the commencement of the year had been realised, the balances would have been very much lower than they actually were; that is so, is it not ?—Yes, but we have seen that they have been larger for a number of years continuously.

9599. But in each of those years the estimate before the year commenced was for quite a moderate balance at the end of the year ?—Yes.

9600. You would not complain of the amount that they estimated for; you would not think that that was excessive, would you ?—I cannot speak of that.

9601. Assuming that the balances had not been so high, do you still hold the view that those balances ought to be retained in India ?—Yes.

9602. It is not merely because the balances were in your opinion excessive that you desire them to be held in India ?—Whether they are excessive or moderate, they should always be held in India.

9603. The Secretary of State must, I suppose, have some balance here ?—Only as much as is necessary for him.

9604. What are the purposes for which the Secretary of State has drawn money from India to London to which you object ?—He has drawn those Council Bills beyond his actual requirements.

9605. What do you mean by his actual requirements ?—For what they call "home charges."

9606. Beyond the immediate requirements ?—Yes, beyond his own immediate requirements, the Government requirements.

9607. But do you mean that he has brought money here which he will eventually have to remit to India again ?—Probably, but I think he has drawn more for the purposes of export and those who deal in exports, and for the banks, to help them in the getting of funds.

9608. He drew more than he required for the moment ?—He did.

9609. There we are agreed ?—Yes.

9610. Do you suggest that he drew more than he required ultimately ?—I think so.

9611. He had to meet the current charges of the year ?—Yes.

9612. He had also to provide for a capital programme ?—Yes.

9613. Having regard to that and similar considerations, do you think that he ever brought money over here which sooner or later he would not require to spend over here ?—Judging from the balances as published in the official reports, we find that they have been higher than he actually required them.

9614. Yes, they were higher than he needed at the moment ?—Yes, judging from those balances published in the Blue Books.*

9615. But did he bring money over here merely in order to lend it on the market here with the knowledge that he would have to remit it back to India again ?—I cannot say that, but this much I can say, that he has been doing that to meet the requirements of those who wanted to remit funds to India.

* *See* e.g., Cd. 7070, page 83.

9616. Why do you say that ?—In one of his speeches the Finance Member in India said: It is for the purpose of helping trade that we have been selling these Council Bills.

9617. Has it ever been put to you that the Secretary of State, though he brought over more money than he required at the moment, has never brought over more than he would ultimately need, and that the limit, therefore, of his sale of Council Bills has not been the requirements of trade, but the ultimate use which he had for the money in London; in other words, if he had not seen that he would require this money sooner or later in London he would not have sold so many Council Bills, even though trade required them ?—I think probably he has been doing it more for the convenience of the trade at that particular time than for his own requirements, or providing for his requirements in future.

9618. That is your inference from the facts ?—Yes, that is what I say.

9619. There is no other argument which you adduce in support of it except the size of the balances ?—I do not think it is so much to provide for his own future requirements as for the immediate convenience of those for whom they were drawn.

9620. That is, of course, not the view put before the Commission by the representatives of the Indian Government or the Secretary of State ?—It is possible.

9621. In your opinion, beyond the minimum immediately required by the Secretary of State no money ought to have been brought here to London ?—No.

9622. In that case the balances in India would have been even higher than they were ?—You should reduce those balances, and not keep so much for balances if you do not require them; do not have surpluses.

9623. How would you avoid the surpluses ?—By budgetting properly.

9624. By reduced taxation or by increased expenditure on reproductive or educational services—in one or other of those ways ?—Yes; if it is for educational purposes at the present time it would be all right.

9625. And you think that at the time the budgets were drawn it would have been quite safe to calculate upon a larger revenue than the Finance Minister did ?—Even if he were short of funds he could borrow.

9626. Then do I understand your view to be that it would be better for the Finance Minister to wind up with a deficit, and to borrow to meet it, than to wind up with such surpluses as he has had in recent years ?—Yes.

9627. That is your view ?—Yes.

9628. The balances having been in existence, you take exception to their use, I think ?—Yes, to some extent.

9629. Do I rightly understand that you think they ought to have been kept in India in order that they might be loaned out in India ?—No, not for that purpose, but as long as the balances are there—as long as there are surplus funds—they should first remain in India for India.

9630. You suggest that the Government of India should be prepared to lend, I think, to any bank ?—Any bank of standing.

9631. To what extent do you think the Government of India ought to lend ?—I think as much as they feel they can spare without in any way curtailing the amount required for their own purposes.

9632. They should lend everything above a minimum balance ?—Yes, any surpluses which are not immediately required for the time being.

9633. Have you in mind loans for long periods or only for a short time ?—Only for a short time.

9634. Three weeks, or something of that kind ?—Well, not beyond three months.

9635. Up to three months ?—Yes.

9636. How would you define the class of institutions to which the Government should lend ?—Those who can tender securities.

9637. Any bank which can offer them approved securities ?—Yes.

9638. Would you accept any individual who could offer them the same class of security ?—No, I would not go for the present beyond the banks.

9639. But you would make no distinction between one bank and another ?—No.

9640. Provided it was called a bank ?—No, not necessarily; provided it does proper banking business.

9641. Then the Government would have to enquire into the class of business done by the bank ?—Yes.

9642. It would have to make some selection among those institutions ?—Probably.

9643. Is not that a very invidious task for a Government to perform ?—But they have been doing it here.

9644. Even here it has led to some criticism ?—Yes.

9645. Might not it be an even more difficult task to discharge satisfactorily in the conditions of India ?—I do not think so.

9646. Passing to the sale of Council bills, you say in paragraph 15(*a*) of your memorandum: (Appendix XXX., page 638): "Council bills and transfers ought "not to be sold which in any way stop the import of "gold into India" ?—Yes.

9647. You go on to say: "Gold should be allowed, "and even encouraged, to come freely into India, and "every effort made to keep it in the country when it "arrives" ?—Yes.

9648. I want to have your reasons for those conclusions. Perhaps, in the first place, I may ask you: What exactly do you mean when you speak of Council bills and transfers being sold in such a way as to stop the import of gold into India ?—Where Council bills have been sold for the convenience of trade in England, and where rupees have been issued in India, that amount would have come in the form of gold to India if those bills were not sold.

9649. If I understand you rightly, you mean that in so far as Council bills are sold they prevent gold going in payment ?—Beyond the actual requirements of the Secretary of State—any sales of Council bills beyond his actual requirements.

9650. I suppose, as regards its effect upon the import of gold into India, it applies equally to the sale of Council bills to meet the requirements of the Secretary of State ?—That is necessary; you cannot help that.

9651. But you hold that he has sold in excess of his requirements ?—Yes.

9652. And you say that by so doing he has prevented gold from going to India ?—Yes.

9653. What do you think would have happened to that gold if it had gone to India ?—It would have remained there, probably.

9654. How would the trade debt to England have been settled ?—During these years, except 1907-8, there was no debt to England; the balance of trade has always been in favour of India.

9655. I am not talking about the balance of trade. A large part of the trade was settled through the medium of Council bills in those years ?—Yes.

9656. You suggest that Council bills ought not to have been sold ?—Yes.

9657. And in that case gold would have gone ?—Yes.

9658. I suggest to you that a great portion of that gold would have been returned to England in settlement of debts due to England. Do you agree ?—I do not think so—not quite.

9659. You think that by the simple method of refusing to sell Council bills in excess of the Secretary of State's requirements the amount of gold in India could be enormously and permanently increased ?—It would be increased; I do not say permanently, but it would be increased.

9660. If it is only temporarily increased, and if the gold has to come back to England, it has been a very costly transaction for the traders on both sides to have to remit the gold out there merely to remit it home again ?—Yes.

9661. And in that case nobody has benefited ?—No, I grant that.

9662. But that does not alter your view at all as to the propriety of that course ?—No.

9663. May I ask you to tell me why you desire to see the amount of gold in India actually increased ?—Because it would replace the silver which we are holding at present.

9664. Why do you wish the silver replaced ?—Because it is going down in value.

9665. Do you for that reason think that the rupee coinage is more unsafe than it was ?—Yes, it is.

9666. And your ultimate object, therefore, is to substitute gold coinage for the rupee coinage ?—Yes.

9667. Do you want to substitute gold for notes also ?—I should like to have gold notes—notes based on gold.

9668. For notes based on silver ?—Yes.

9669. The notes, of course, are token coinage as much as the silver ?—But the notes would be based on gold, not on silver.

9670. Then, if I rightly understand, your object, when you have got the gold into India, is not to have it in circulation, but rather to have it in reserve against a note issue ?—For both purposes, both for circulation as well as for note issue. If it is more for a note issue it will concentrate in the reserves of the Indian Government.

9671. If you have a token circulation, whether in silver or in notes, the convertibility of which or the exchange value of which is assured, do you attach any importance to having the actual gold in circulation ?—I would prefer gold in circulation.

9672. Do you think that gold is largely required in excess of the amounts now circulating in India for circulation ?—They would take more if it was given.

9673. Is not the sovereign rather a big piece for many of the Indian transactions ?—For small transactions it may be big, although on the whole it is not big; and for that reason I would make coins of smaller denominations.

9674. Gold coins ?—Gold coins or notes.

9675. The gold circulation in India at present is very partial, is it not ?—Yes, it is.

9676. I mean by that that gold circulates much more freely in particular parts of the country than in others ?—Yes. But it is increasing every day.

9677. Is it the case, as I put it, that at the present time it circulates very little in large parts of India and to a very considerable extent in other parts of India ?—Yes, it does.

9678. Am I to understand that your view is that the Government ought not merely to give people whatever they demand, but ought actively to encourage the circulation of gold among the people ?—Yes.

9679. That is hardly what is done in western countries, is it ?—I do not know much of that.

9680. You have not followed at all the currency questions in France, in Germany, in America, or in Canada ?—No, not much. Speaking about the circulation of gold, probably you have seen the latest report of the Bombay circulation of gold for 1913, in which it says that since last year it has trebled; the quantity of gold issued now is three times as much as it was last year.

9681. Yes, but I understand that in your opinion that process ought not to be left to develop itself on natural lines, but it ought to be the object of the Government to hasten it and increase it as much as possible ?—But the Government actively associating itself would not be unnatural.

9682. I do not want to quarrel about words. I only want to be sure of your view. Your view is that the Government ought to do its utmost, as I understand, to increase the amount of gold in circulation ?—Yes, to try its best.

9683. Do you attach importance to the maintenance of the exchange value of the rupee ?—I am not an exchange banker, and I cannot say anything about the exchange value of the rupee.

9684. But I should not have thought it was necessary to be an exchange banker in order to have some opinion as to whether it was important ?—If you mean the fixing of the value of the rupee, I cannot express an opinion.

9685. No, but in the present condition of things do you think it of importance that the exchange value of the rupee should be maintained?—For the present.

9686. In present conditions that is done, is it not, by the Gold Standard Reserve?—But I do not think it is quite enough.

9687. Perhaps we can come to that later?—Yes.

9688. If you lessen the circulation of rupees you stop the growth of the Gold Standard Reserve; is not that so?—Yes; it would disappear under my scheme.

9689. Your idea is that you should have a gold circulation in India, and that then no gold reserve would be necessary?—No Gold Standard Reserve, no.

9690. Do you think that a million sovereigns circulating in India are as useful for the maintenance of exchange as a million sovereigns in reserve?—For what purpose?

9691. For the maintenance of exchange. I will put it in another way; for the settlement of India's debt in a year when there is an adverse balance of trade?—Yes, as long as the present arrangements continue it is necessary to have those in reserve.

9692. But you think if sufficient gold is in circulation in India you need not have any Gold Standard Reserve?—No.

9693. What I suggest to you now is that you would require a very much greater amount of gold in circulation to make you safe than you would require if you had the gold in the Gold Standard Reserve?—Yes.

9694. There you agree?—Yes.

9695. Is not your proposal rather a wasteful one?—I do not quite follow.

9696. It requires a great deal more gold?—I do not quite follow.

9697. I will not pursue it, then. As long as there is a Gold Standard Reserve you suggest that that reserve ought to be kept in India?—Yes.

9698. The object of it is to maintain the exchange, is it not?—Yes.

9699. When the exchange is menaced where will it be required?—It can be given in India.

9700. If it is given out in India what will then have to be done?—It will be the business of those who want to send it where they like; it will be the business of those who want to remit it to anywhere outside India to make their own arrangements to send it to the destination.

9701. It will then in those circumstances have to be remitted?—Yes.

9702. In the main to London?—Yes.

9703. Do you think there is any advantage in keeping it in India, therefore, where it will not be required at the moment of a crisis, instead of keeping it in London, where it will be required?—Practically the Gold Standard Reserve is for the use of those only who want to remit money outside India, and there is no legal obligation on the part of the Government to give gold for the rupees which they are now issuing; so it is only keeping the standard at the expense of the taxpayer for the convenience of those who deal in foreign exchange.

9704. You think that India as a whole has no interest in the maintenance of exchange?—It has to the extent that they have to pay for it in money, but beyond that, as regards the general taxpayer, it is not his business to maintain a standard simply for the purpose of meeting the foreign exchange.

9705. Your view of the Gold Standard Reserve therefore is that it is a charge on the general taxpayer of India for the benefit of the export traders?—At present it is so.

9706. I think that you desire, in addition to the increased circulation of gold in India, to see it freely minted there?—Yes.

9707. On what terms do you propose that the Indian Mint should be opened to the coinage of gold? Would you charge a seigniorage?—No.

9708. Are you aware that the Australian Mint charges a seigniorage?—I am not aware of it.

9709. What gold would you expect to get for coinage at the Indian Mint?—African gold and the gold produced in India, both.

9710. Do you know whether the gold produced in India is under contract for sale to this country?—Yes, it was in the past, but I do not know what it is at present.

9711. I ask because we have it in the correspondence which has been submitted to us that that was so in the past, but you do not know whether that is so now?—I do not know.

9712. You think you would attract African gold to India?—Yes.

9713. By offering it more favourable terms than it would get in London?—I do not say that. I say we should open the Mint, and it is left for them to send it there or to London, wherever they think it most convenient.

9714. Would you buy gold for the Bombay Mint on more favourable terms than those on which they can sell it here in London for the English Mint?—I do not follow what you mean by "favourable terms."

9715. Do you contemplate that the Bombay Mint should underbid the Mint here?—No, I do not say that there should be any underbidding.

9716. Do you think that if they offered the same terms African gold would be attracted in large quantities to Bombay rather than to London?—Yes, it would be attracted more to Bombay. If London were nearer to South Africa probably it would go there.

9717. You think it would go to Bombay because Bombay is nearer?—Yes.

9718. That is, I suppose, on the assumption that India needs, and would retain, all the sovereigns, or whatever coin might be coined at the Bombay Mint?—Yes.

9719. What coins do you think should be coined there?—The present sovereign which we have got—the British sovereign.

9720. You do not desire to see a special gold coin?—No.

9721. Do you anticipate that the opening of the Mint would have any effect on the hoards of the Indian people?—Not in normal years.

9722. Only in times of famine or pressure?—Yes.

9723. In other years you do not think they would produce their gold bullion from their hoards?—I do not believe there is much gold in hoards.

9724. Would you say that the amount in hoards was increasing in recent years with the large imports there have been or not?—The total amount of gold is increasing. It is to a certain extent going into hoards.

9725. You do not think it would come out of those hoards under any circumstances except in times of famine or pressure?—As the circumstances now stand, but you see there would be a general circulation, and that would be always available.

9726. I do not quite follow that?—At present the amount of gold in India does not satisfy the requirements of holders.

9727. Then if I understand your answer you mean that there would still be the same amount retained in hoards, and there might even be more, but that under your proposals over and above that there would be a large amount in circulation?—Yes. You see, a certain amount of gold must remain in those hoards—what are generally called hoards.

9728. I gather that you do not anticipate that the opening of the Mint to the coinage of gold would have any appreciable effect upon the hoarding propensities of the Indian people?—No. You see, if we have a gold Mint in India there will be more coinage, the gold will be coming more freely, and then there will be more gold, beyond the requirements of those holders, and that will circulate, and that will have its effect.

9729. It will be the excess over the amount which they require for their hoards?—Yes, it would be.

9730. It will not be the hoards themselves that will come out and be turned into coin?—Except at the time of pressure.

9731. In such times I suppose a man trying to turn his small hoard into money would hardly himself in most cases go to the Mint or deal direct with the Mint?—No, the man will not.

9732. He will deal with a middleman?—Yes.

9733. The gold might perhaps pass through the hands of a series of middlemen before it reached the Mint?—In the case of those who hold in small quantities.

9734. Would the middleman holding a considerable amount of gold bullion find any difficulty in disposing of it under present conditions?—Yes, as long as he cannot have it minted he feels that difficulty. He has to sell it at the rate he can get for it.

9735. Is it your view that he would get a substantially better rate if he could tender it at the Mint than he could now get if he tenders it as bullion?—A better rate.

9736. I turn now to what you say in paragraph 21 and the following paragraphs about the Gold Standard and Paper Currency Reserves, paragraph 22 in particular (Appendix XXX., page 641). How far is your objection to keeping the reserves in England due to your fear that if reserves are so kept they will be invested in securities, because, as you say in sub-paragraph (4) of paragraph 22, owing to the control of London financiers, the Secretary of State is too often influenced in favour of the London market?—That has been the past experience.

9737. How far does your objection to keeping the balances in London turn upon that? If you could be guaranteed against an undue investment of securities, would your objection to keeping the balances in London, or the reserves in London, be removed?—To a certain extent it would be, but not altogether.

9738. Under present conditions, to what amount do you think the Gold Standard Reserve ought to be raised? Ought any limit to be fixed to its increase?—No.

9739. What amount of the whole do you desire to see kept in liquid gold?—The whole of it.

9740. No matter to what size it rises?—Until we have got a gold currency.

9741. And the moment you have a gold currency you think that then the necessity for the Gold Standard Reserve disappears?—Yes, I think it will disappear.

9742. In the meantime you desire to see the Gold Standard Reserve accumulated as rapidly as possible without limit, and all in liquid gold?—But I do not want any further rupees to be coined or issued.

9743. Then, how can it increase except by addition of the interest? What exactly do you desire? Do you desire the Government of India now to coin nothing but sovereigns or half-sovereigns?—Yes, I think we have got enough rupees at present.

9744. Suppose the public asks for rupees, and the stock which the Government hold in reserve is exhausted, is it your advice to the Government of India that they should tell the public "We have no more rupees, but you can have sovereigns"?—No, the Government cannot say that, but if they pushed the circulation of gold it would limit the circulation of silver.

9745. But if the people asked for rupees you think they ought to have them?—Then they must have them.

9746. And if the Government have not got enough of them, then they must coin more?—Then they must.

9747. But it comes back to this, that your desire is to see the Government of India push the sovereign or the gold coin in every possible way?—Yes.

9748. I do not propose to ask you many questions about the Central Bank; you have dealt with it fully in your memorandum (Appendix XXX., page 642). I gather that your general view is unfavourable to the idea?—Yes.

9749. Is that because of the difficulties you see in establishing such a bank?—No, it is more on account of the reasons which I have given in my notes than because of any particular difficulties.

9750. Because of intrinsic objections to the bank itself?—Yes.

9751. (*Sir Ernest Cable.*) I think you said the chief object which you have in view in establishing a Mint would be to enable bullion to be more easily changed by natives into sovereigns—that they should bring bullion to the Mint and get sovereigns in exchange; was not that so?—Yes.

9752. That was one of your principal objects in establishing a Mint, was it not?—Yes, by establishing a Mint gold could be easily coined.

9753. Would not the same object be served if the Government were to exchange sovereigns for bullion?—That they can do more easily by having a Mint on the spot.

9754. But that would meet your views to a great extent, would it not?—Not fully.

9755. (*Mr. Keynes.*) I think you describe yourself as Secretary of the Indian Bank?—Yes.

9756. Is that a different institution from the Indian Specie Bank?—Yes, quite different.

9757. You are not connected with the Indian Specie Bank?—No.

9758. I see at the end of your memorandum that you sign your memorandum as coming from them?—Yes, I pointed out to the Secretary that it leaves it to be inferred that I belong to the Indian Specie Bank by the way in which it has been printed, so in the proof I have set it right.

9759. That is incorrect here?—Yes.

9760. Would you urge Government to get gold into circulation to such an extent as to displace rupees which are now there?—As far as possible to displace them.

9761. What would you do with those rupees?—Melt them—dispose of them.

9762. And that, as you know, would mean a very heavy loss to Government?—For which we have got the Gold Standard Reserve.

9763. Would you dissipate the Gold Standard Reserve in meeting the loss on melting down rupees: that is a part of your proposal?—Practically it would amount to that.

9764. As you know, that only represents the profits on rupees coined since 1900?—Yes.

9765. So that if the displacing of rupees went very far, there would not be a sufficient sum to meet the loss, would there? The Gold Standard Reserve Fund would suffice to redeem those rupees which were issued since 1900, but it would not do more than that?—Exactly.

9766. So that the proposal is an expensive one?—Yes, it is.

9767. Do you think that there are advantages of sufficient magnitude to warrant such a revolution and so much expense?—Still, I think there would be a certain amount of rupees always for transactions.

9768. No doubt?—And I do not think we will have to go at present beyond the amount which is sufficient to cover the Gold Standard Reserve.

9769. But if your proposal were very successful it would mean the melting down of a certain amount of rupees, and that melting down you are prepared to face?—The part of the rupees coined before 1893, do you mean?

9770. Of the rupees now existing some might have to be melted down?—Yes.

9771. And that you are prepared to face?—Yes.

9772. With regard to the State Bank, upon which you make a number of interesting and pertinent suggestions, you point out at the beginning of that section of your memorandum (page 642 of Appendix XXX.) that no definite scheme has been formulated for its working?—No.

9773. But the criticisms which you make subsequently do presume some sort of scheme in your own mind, do they not?—No, it is not in my mind; it is based on the memorandum prepared by Mr. Lionel Abrahams.*

9774. It is based on that?—Yes.

9775. But you are assuming a system in which the Presidency banks are amalgamated but left private institutions to the same extent that they are now, are you not?—No, it will make a difference.

9776. They will be under Government supervision to some extent, but the bank will be substantially a private institution. You have described this new bank as a private institution?—Yes, a private institution.

* Cd. 7071, Appendix XIV., page 339.

9777. Or nearly as much a private institution as the present Presidency Banks?—Yes, it will be a private institution according to the scheme—according to what I can gather from the memorandum of Mr. Lionel Abrahams.

9778. And your criticisms are based on that hypothesis?—Yes, and also on what has been suggested by Mr. Hunter, of the Bank of Madras, who is probably in communication with the other Presidency banks. (Cd. 7071, pp. 594–5).

9779. You say, for example, that it will involve handing over to private persons profit which ought to be public profit—profit which ought to accrue to the Government?—So far as the paper currency is concerned.

9780. And that is on the assumption that the institution is a private one in which the Government does not share, is it not?—No, I am not in favour of handing over the currency to any private institution.

9781. The argument against handing it over to the bank is based on the assumption that the bank to which it would be handed over is a private institution in the profits of which the Government would not share?—Not that: it will set back the circulation; the circulation will suffer.

9782. A considerable part of that section of your memorandum which deals with the bank is in effect a criticism of the Presidency banks as they are now constituted?—Because the new bank would be the same thing, practically.

9783. And your objection to the new bank is that it would be strengthening the position of banks which you already dislike, or which you already think imperfect?—Certainly.

9784. That is the main ground of your opposition to it?—And it will exist if the new bank is formed on the same lines.

9785. In criticising it on that ground do you realise the other alternatives which exist? Either the Government must go on as it does now, keeping everything in its own chests (which some people think is wasteful), or it might hand its balances over to a greater extent than it does to the Presidency banks?—As for the balances which are already there, as I propose, they should go to all the banks, and I do not want any further balances to be kept with the Presidency banks than under the present arrangements.

9786. That is the plan which you would yourself prefer, but if the alternatives were before you of giving to Presidency banks more than they have got now, or of introducing an institution which would be to a greater extent under the State, which of those would you prefer?—An institution under the State with private capital, do you mean?

9787. With private capital, yes?—I am not in favour of any institution with private capital under the Government of India.

9788. Rather than that you would have the balances handed over to the Presidency banks?—No, to all banks.

9789. But suppose that was out of the question, what would your next preference be?—How would it be out of the question? I do not quite follow that.

9790. If that alternative is placed on one side, what policy would you then advocate?—I would rather keep it in the treasuries as they are—as the money is now.

9791. Unused altogether?—Yes.

9792. Rather than hand it over to the Presidency banks to a greater extent?—As they are managed now.

9793. Supposing that it were to be offered to all banks, as you propose, at what rate would the money be offered?—1 per cent. below the bank rate.

9794. Supposing that more was applied for on those terms than the Government had, how would they select amongst the different banks?—First come, first served.

9795. Would they advance this on the security of Government paper?—Yes.

9796. Suppose that they advanced it on the security of Government paper to banks which were not very stable institutions, in the event of a bank being unable to repay the loan it would be necessary to sell the Government paper, would it not?—Yes, but I do not think there would be that contingency.

9797. But that contingency would be an inconvenient one to the Government?—Yes it would be.

9798. To have a great deal of their own paper thrown on the market would be inconvenient?—Yes.

9799. You have a great knowledge of modern Indian banking. Would you say that it was a very improbable contingency that amongst all the numerous banks some might be found occasionally who would be unable to repay the debts and who would have to liquidate the paper?—That would be very small.

9800. A very improbable contingency?—The paper that would have to be liquidated would be a very small amount; it would not be so much as to endanger the position of the Government.

9801. If the existing banks are encouraged to hold large amounts of Government paper with a view to getting these loans from the Government, you think that the contingency in which they have to liquidate this Government paper is a very unlikely one if by liquidating I mean liquidating in large quantities?—You mean it will lead the banks to hold more paper and to speculate more?

9802. Obviously, if a bank can get these loans from the Government on the security of paper the banks will hold more paper than they now hold, will they not?—I do not think so.

9803. Is it not an inducement, if they can get 1 per cent. below bank rate—if any bank of any sort of standing can get money 1 per cent. below bank rate in the busy season?—Has it induced the bankers here to hold more paper in that way?

9804. But there is no such inducement here?—I beg your pardon; I think they have been getting money and they have been handing over securities.

9805. But here it is on a very small scale in proportion to the total business. In India is it your opinion that it would not induce banks to hold any more than they hold now?—To a certain extent it would, but it would not go beyond a safe limit.

9806. But as regards this Government paper which is held by all sorts of small banks, you think there is no risk of that being liquidated?—No, I do not say all sorts of small banks; I would not give, for instance, any amount under five lakhs.

9807. As regards banks in a position to take five lakhs, you think that their holdings of Government paper are of a very permanent character?—Yes, those who are in a position to give Government paper and take five lakhs are in a fairly good position.

9808. You see, I am not contemplating a case in which these banks actually have to be liquidated; I am only putting a case in which they have to turn some of their more liquid resources into money?—They will be in a position to do that.

9809. You express that as your opinion?—Yes.

9810. I should like to ask a few questions with regard to the relations of the newer Indian banks to the Indian money market in general. Those banks can keep a certain amount in cash. Is it very easy for them to keep other resources which are of a fairly liquid character?—I do not quite follow the question.

9811. Is it easy for the new Indian banks to employ their funds in loans which are of a liquid character, that is to say, easily realisable in case of an emergency?—Do you mean the new banks; are you asking whether they hold more funds in a liquid form?

9812. I am not so much asking you as a matter of practice, but is it easy for them to do so?—Yes, I think it is.

9813. What is the character of the transactions into which they enter of that sort; I mean if I were asking an English banker I should say to him: "After your cash resources what is your second line of defence?"—We keep Government paper or money at call.

9814. From whom is the money at call?—It is from big bankers.

9815. To what extent would you say that these banks do hold their money in that form?—The stable banks do generally hold sufficient money to cover their requirements.

9816. Do they hold any important amount in the form of bills of exchange?—Yes, they have bills of exchange.

9817. If they want to realise those bills before their maturity is it possible for them to do so easily—if they want to re-discount them?—At present there is not any arrangement for re-discounting of bills in India. They generally do not re-discount in India.

9818. Would it be an important convenience to them if they could?—Yes, it would be.

9819. It would make that part of their assets more liquid than before?—Yes, so far as they can convert it into cash.

9820. I notice that in your criticism of the power of the shareholders in the Presidency Banks you say nothing about the Bank of Bombay?—That is so.

9821. Have you anything to add about the Bank of Bombay?—As regards the Bank of Bombay, in the first place I have not much experience of the Bank of Bombay, and then it is not so rigidly exclusive as the other two banks; and, thirdly, we have two members here who can give you information on the lines suggested by me. That is why I have not touched the matter. It would be adding some more pages to my notes, but to a certain extent some of my remarks apply to the Bank of Bombay.

9822. There is only one other question I want to ask you. In the section of your memorandum headed "State Central Bank for India," in paragraph 27 of Appendix XXX., page 643, you give your objections to the formation of a State Bank, and in objection No. X you say: "On the other hand, the Treasury system has developed after half a century of working"?—Yes.

9823. Is that to mean that you approve of the existing system by which the Government locks money up? Is it that part of the Treasury system to which you are referring?—No, it is the facilities which are given to the public in the matter of converting notes into rupees and rupees into notes.

9824. You are not speaking there of the system by which Government locks money up?—No, not here.

9825. (*Sir Shapurji Broacha.*) You are not very familiar with exchange operations, are you?—No.

9826. You have recently gone to Madras?—I have been there for about six years now.

9827. From Bombay?—Yes.

9828. In paragraph 27 of your memorandum, sub-paragraph VII. (*a*), page 644 of Appendix XXX., you say: "The Presidency banks have responded to the "requirements of some of the large European trading "interests. They have financed some particular crops "which they found most convenient to their own ends. "So far as I am aware, they have no systematic "scheme or sympathetic desire to finance Indian trade "or industries. Their interest in Indian native "concerns has been only to the extent that it was "necessary to exploit them for their own gains." Are you speaking of Bombay in that passage, because you say, "the Presidency banks"?—I refer to the Bank of Bengal so far as my experience goes in the northern parts of India, and also in the case of Madras.

9829. I know that the Bombay Bank finances more natives than Europeans, and I think that five-sixths of its lending must be to native industries and natives?—It may be.

9830. And so, of course, you are wrong in your inference about the Presidency banks so far as the Bank of Bombay is concerned?—I do not know much about the Bank of Bombay.

9831. Do you say what you say of Madras from experience?—From my experience.

9832. Mr. Hunter writes to us* that out of the 732 lakhs of advances made by the Bank of Madras 588 lakhs are to natives and 144 lakhs to Europeans?—Yes, because they cannot help it.

9833. Which, of course, is just opposite to what you say about them here. In paragraph 40, sub-paragraph II. on page 651 of your memorandum you say: "It is said the proportion of advances of the "Bank of Madras made to Indians and Europeans is "6 to 1"?—Yes.

9834. That is wrong; it is quite the contrary?—I do not agree. You can say 6 to 1.

9835. This letter of Mr. Hunter's is a letter just received within the last few days, I think?—It is six times the amount as compared with the Europeans.

9836. No, I say it is six times to the natives?—Yes six times to the natives compared with the Europeans.

9837. How can you say that they do it partially, or that they do not do it in the interests of natives when five-sixths of the Madras Presidency Bank's capital and reserve of deposits are used by natives and one-sixth by Europeans? Therefore your inference is not quite correct when you say: "It is said the proportion of "advance of the Bank of Madras made to Indians and "Europeans is 6 to 1"?—I say that the amount of advances made to Indians is six times more than the advances made to Europeans.

9838. You ought to have said that it was 1 to one and 6 to the other. You say: "It is said the pro- "portion of advances of the Bank of Madras made to "Indians and Europeans is 6 to 1." You mean it is six times to the natives and one to Europeans?—Yes, one to Europeans.

9839. Yes, but that is not so; it is six times to the natives and only one to Europeans?—That is what I say.

9840. I think it is a mistake?—Probably the language is not quite happy.

9841. What you mean is that you have found that most of the money of the Madras Bank is lent to Europeans and not to natives?—No; I am sorry if my language has led you to think that.

9842. Then what do you mean by this: "The "Presidency Banks have responded to the require- "ments of some of the large European trading interests. "They have financed some particular crops which they "have found most convenient to their own ends. So "far as I am aware, they have no systematic scheme "or sympathetic desire to finance Indian trade or "industries." You are wrong there?—How?

9843. We find that the bank has advanced six times to the natives what it has to the Europeans, and I think it is assisting native industries much more than the European?—It is seeking investments of funds. It is not necessarily assisting the industries on any system.

9844. If language has any meaning at all it says that the finances are partial to Europeans and that much more goes to them and less to the natives. That is the meaning, I take it?—No, the loans are made more to the natives.

9845. Then where does the want of sympathy come in if the amount is more to the natives?—That is where the Foreign Exchange Banks come in—they must invest money there in their own interests. It would to a certain extent go to assist Indians with funds necessary to their own ends, but it would not make any systematic scheme for financing industries.

9846. What is a systematic way of doing it? Would it be giving money to industries which could not pay back the money?—Not necessarily.

9847. Then why do you call it unsympathetic and why do you say that the natives do not get the advances so much as the Europeans, and that the native industries are not assisted, when five-sixths of the money of the bank is lent to Indian industries and Indian natives and only one-sixth to Europeans?—I would expect 99 per cent. to go to Indians with a systematic scheme for the purpose of developing Indian industries.

9848. That is to say, without security?—Not necessarily.

9849. Then, which is the industry which has not been given the advance that you know of and which has been rejected, and yet is very sound according to the rules of banking?—I do not know whether the Presidency banks——

9850. You have made a statement——

9851. (*Chairman.*) Let us have the witness's answer to your question, Sir Shapurji. (*To the witness.*) Sir Shapurji asks: What is the industry which you think has not received the assistance which it ought to have done?—Do you mean the particular industry?

* See Appendix XLI. page 722.

9852. Yes? — I do not think any industry has received any systematic help.

9853. (*Sir Shapurji Broacha.*) I do not know in Bombay of an industry which has not?—In Bombay it may be so; it is quite possible; and there they have the cotton industry.

9854. The Secretary of the Bank of Madras says that five-sixths of the money is given to natives and one-sixth to Europeans, and you say that 99 per cent. ought to go to natives? is that it?—It might go.

9855. And yet it is not native money, even. In the Bank of Madras, according to you, four-fifths of the shareholders are natives and one-fifth Europeans? —But what is the proportion of the deposits in the Presidency banks?

9856. Some of it is native and some of it is European?—What part belongs to Indians?

9857. I think you can take it about two-fifths to Europeans and three-fifths to natives?—I do not know the proportions.

9858. Capital and everything with it?—I should think the Indian deposits would be more than that.

9859. No, there is no thinking, excuse me. On the contrary, I say it is so?—I have not got the figures.

9860. How are native banks' directors appointed, and how are any bank's directors appointed? For instance, take your bank. How are they appointed every year? You say that the directors are appointed by themselves?—Yes.

9861. And there are very few attendances?—Yes.

9862. How is it in the native banks?—There it is by the shareholders.

9863. In the Bank of Madras by the shareholders and in the Bank of Bengal ——?—But they do not attend.

9864. Should they be brought from their houses to attend? In your bank I do not think there is a quorum on the day of the meeting except there is a liquidation, or some fraud, or something, and then all the shareholders come and vote, but in all the native concerns, just as you say of the Bank of Bengal and the Bank of Madras, it is difficult to find a quorum?—That is not my experience.

9865. That is my experience?—It may be in Bombay.

9866. Madras is a different thing?—In my bank it is much better than that.

9867. I ask you: Do you appoint the directors?—The shareholders appoint them.

9868. In the Madras Bank who appoints the directors?—The shareholders are always absent.

9869. Why do you not write to them and get their attendance?—Keeping the value of the shares at a high figure reduces the number of people holding those shares.

9870. When you speak of gold certificates, against what are they to come—against gold?—I do not follow.

9871. You say that gold certificates should be issued against gold?—I do not think I say that.

(*Chairman.*) Will you quote the reference to the paragraph in the memorandum to which you are referring, Sir Shapurji?

9872. (*Sir Shapurji Broacha.*) In paragraph 19, sub-paragraph I., page 639, you say: "By the introduction "of universal currency notes redeemable only in gold"? —Yes, it is not certificates.

9873. How will you increase it?—Just discourage gradually rupee notes.

9874. Then suppose I tender 10 sovereigns I get 10 notes?—Sovereign notes.

9875. And then I take 150 rupees and ask for 10 sovereigns; what about that; how will they give it to me?—I want the Government to take that obligation of giving sovereigns for rupees.

9876. What will you do with the rupees? They will disappear?—They must.

9877. You would discard rupees and make a gold currency?—Yes.

9878. (*Chairman.*) I just want to ask one question before we conclude your evidence. In discussing the question of a central bank you discuss the suggestion that the note issue should be handed over to such an institution, and in paragraph 27, sub-paragraph X, page 645, you raise the objection that "People in India have "implicit faith in the British Government"?—Yes.

9879. "Bank notes, even with Government guarantee, will not be accepted"?—No.

9880. Do I understand you to hold that the addition of a new name to the Government name on the bank note would destroy confidence in it?—I think any change in the form would, and that it would create suspicion of Government guarantee if they were issued by another body.

9881. If there were a State Bank under a considerable measure of Government control you think that would not be sufficient to inspire confidence in the notes of the bank? — It will arouse suspicion and distrust.

9882. Do you think that would be difficult to overcome?—Yes.

9883. Do you think that it would be more than a temporary hesitation induced by the change?—It would take some time before confidence was restored.

9884. That would not apply to the introduction of a new form of note such as you are suggesting, a gold note?—No, because that is quite a different kind of thing, provided that the Government does it.

9885. Provided that the guarantee of the Government is direct?—Yes, undoubtedly.

9886. And indicated on the face of the note?—Yes.

The witness withdrew.

Mr. STANLEY REED, LL.D., called and examined.

9887. (*Chairman.*) You are, I think, editor of the *Times of India*?—I am.

9888. Would you mind telling me how long a time your Indian experience covers?—I have been in India nearly 17 years, and have been editor of the *Times of India* for nearly seven years.

9889. You have been good enough to supply us with a memorandum which, I think, indicates your views pretty fully. I propose to take that as part of your evidence;* I think it will save your time and ours. You lay great stress in what I may call the introductory portion of your memorandum on the great economic, social and political changes which have taken place in recent years?—Yes.

9890. I think the inference you draw, and wish us to draw, is that having regard to those changes a good deal in the financial management of India has got to be reconsidered?—I should say has to be transferred to India in the way of actual management, and I think these changes would induce a very much greater sense of stability in the matter of financial policy.

9891. That, of course, as you recognise, may involve very large legal and constitutional changes?—I had not looked upon it in the light of involving very large legal or constitutional changes; I regard it rather as a natural corollary of the policy which was adopted in 1909 of setting up a large Legislative Council in India of a distinctly representative character and making the Government of India more susceptible to organised criticism and more open to organised attack (if I may use the word) than it ever has been in the past.

9892. I want to be sure that I have not misunderstood you. I gathered that as part of that change or transfer, and indeed the main part, you thought that the Secretary of State must divest himself of a great deal of the control which he had hitherto exercised?—Yes.

9893. And that it must be transferred to the Viceroy in Council?—To the Governor-General in Council.

* *See* Appendix XXXI., page 662.

9894. That is what I had in mind when I suggested that your proposals involved very considerable legal and constitutional changes?—I should like to be shown where legal and constitutional changes are necessary to give the Governor-General in Council greater control over the administration of Indian finance.

9895. It may perhaps be largely a question of degree, but if the ultimate responsibility is to rest with the Governor-General in Council instead of with the Secretary of State, that would mean great changes, would it not?—It would, but that is not my proposal, nor could that be proposed by anybody cognisant of the supreme responsibility of the Secretary of State to Parliament for the government of India. The Secretary of State must of necessity retain the power of ultimate control, as he deliberately did in 1909, when against the recommendation of the Government of India he insisted on an official majority in the Imperial Legislative Council; so that although the powers and the numbers of the Council have been so largely expanded, the Secretary of State, as the spokesman of of Parliament, has still the right to enforce his decision on that Council at any time when he likes to call upon the official majority to carry into operation his will. I do not think that anybody could propose that those conditions should be changed, but subject to the supreme control of the Secretary of State, what I would venture to urge is that there must be larger discretion vested in the Government of India in the practical administration of Indian finance.

9896. I think I understand now the character of the changes which you suggest. I want to turn from those general considerations to some of the particular observations which you have made. In paragraph 12, page 666, of your memorandum you say: "The policy "now pursued, as disclosed in the evidence before the "Commission, is to hold all the surplus funds of the "Government of India, over and above the prescribed "working balance, at the disposal of the Secretary of "State, for him to remit to London through Council "Bills up to the maximum demands of trade." You have before you the paragraph from which I have quoted, have you not?—Yes.

9897. And the subsequent paragraphs which continue your ideas. I am not quite clear as to what your criticism is. Do you think that the Secretary of State gets more money over here than he can usefully employ?—That is impossible.

9898. If India has got money available—if there are large surpluses of revenue—in what way can it be better employed than by drawing it to this side for expenditure in reproductive work in India? — In raising the whole standard of administration in India and in pursuing that policy of continuous amelioration which has been well said to be the foundation of British rule in India.

9899. Then your criticism on these points is directed to the policy of financial railway development and irrigation work out of revenue?—Yes.

9900. And your desire is to see the whole of the surplus revenue devoted to educational or social amelioration?—I put it shortly as education and sanitation, using those terms in the widest sense. That, of course, involves practically every branch of the administration of the Government of India. You may take it as an established fact that there is no branch of the administration of the Government of India, and there is not one of the progressive and ameliorative agencies which is not, generally speaking, extremely short of funds. I have seen an estimate made that the whole of the normal growth of the revenue of the Government of India for the next ten years could be devoted to paying Government servants a living wage. That may be an extreme statement, but there is scarcely a branch of the subordinate establishment of Government which is not grossly underpaid; there is no branch of education, of sanitation, or of medical relief, which is not in need of incalculable funds—I will not say at this particular moment, because as the result of a series of surpluses the provincial Governments are well established with funds, but I lay it down as a general rule. That is the condition throughout the whole of India.

9901. I do not want to go into these matters in any detail, because, of course, they do not come within the terms of reference to us. I only allude to it because that is the reason, I understand, for which you propose, as a corollary of what you have just said, that reproductive works in India should be carried out by borrowing?—By borrowing.

9902. I think you say, shortly after the quotation which I have already made, that the Indian market should be used as largely as possible?—Yes.

9903. Do you think that it is possible to raise much more money in India than has been done by the Government in recent years?—I think it is possible to raise substantially larger sums, provided that there is simultaneously a reform of the system of treasury management. The two matters are closely interrelated, and you cannot have one to a very large extent without the other. I am informed that it ought to be quite possible to raise a loan of five crores a year in India as matters stand, but you cannot expect to raise large sums in the form of Government paper in India if the surplus revenues of Government are withdrawn from the market and locked up in the reserve treasuries, as one of the results of which there is a very high bank rate every cold weather, when Government paper is depreciated, and when it has been on occasions no security for loans. When I say "no security" I mean money has not been available for advances against it.

9904. Perhaps we had better pursue that subject a little further now. What do you suggest as a reform of the treasury system?—I suggest that the balances of the Government of India over and above their prescribed working balance, and over and above the budgetted demands of the Secretary of State for the financial year, shall be automatically released for the lightening of the money market.

9905. You say "automatically released." How would this automatic process take place?—You come to the question of the reserve treasuries. It seems to me that the whole question of the reserve treasuries which withdraw this money from use has passed entirely out of the original conception of reserve treasuries. The original conception of the reserve treasuries was to provide 2 millions—I do not know whether that was sterling or rupees—afterwards increased to 3 crores, as a reserve for Government; and as I understand the despatch,* the Marquess of Salisbury in sanctioning that procedure, did not contemplate that even this sum should be absolutely and arbitrarily withdrawn from the market. As I read the despatch, he intended that, at the discretion of the Government of India, it should be lent out on approved conditions. What has actually happened is that the amount in the reserve treasuries has grown out of all proportion to the original conception, while simultaneously there has been a great shortage of loanable capital in the busy season, and in the case of the current year almost before the busy season has arrived.

9906. I want to get rather closer to the facts if I can. When you speak of the money being withdrawn from the market you mean that the taxes are collected at that time?—The taxes are collected at that time, and the product of loans also is swept into the reserve treasuries, I understand.

9907. At the same time of the year?—Not quite at the same time of the year, because taxes are collected rather from December onwards, whereas Government loans are raised in the slack season; but there was very strong complaint, even in the current monsoon, of the rapidity with which the product of the Government loan was swept into the reserve treasuries, with the effect of hardening the money market.

9908. But the main complaint, as it has, I think, been presented to us—and possibly you would not differ from that presentation of it—has been that the Government sweeps into its treasuries at the busy season of the year a very large proportion of the taxation?—Yes.

9909. And that, as it has collected those taxes to meet its needs throughout the whole year, it does not

* Cd. 7070, pages 32-5.

pay the money out at once, but only dribbles it back by slow degrees?—That is so.

9910. Therefore, it is only in the sense that they collect their taxes at that period, and that they do not at once pay the money out, that they withdraw it from the market?—That is so.

9911. They cannot pay it out in fulfilment of their obligations at that moment, because their obligations have not matured?—No.

9912. Therefore, what you wish them to do is to lend, I think?—To lend the money.

9913. To whom are they to lend?—That question was discussed in some detail in August, when the Finance Minister of the Government of India was present in Bombay and met the Committee of the Chamber of Commerce on this very question. I am not a member of the Committee of the Chamber, and I can only speak really from second hand as to what actually occurred at that meeting, but I think I am correct in saying that although diverse interests were represented, it was the practically unanimous conclusion that the money should be lent through the Presidency Banks.

9914. And to them alone?—And to them alone. I think that the proposal which has been made, that money should be lent outside the Presidency Banks, is open, in the peculiar conditions of India, to rather strong objection.

9915. Will you particularise a little?—I will particularise in this way, that there has been a considerable extension of banking in India, and some of these banks conduct their business on different lines from other banks; and I think if you had a list of approved borrowers upon which banks were put, considerable pressure would be brought to bear on Government to include in that list banks of whose method of doing work purists perhaps might not approve. Of course, it is said that the security of one bank is as good as the security of another bank, but that, I think, is open to strong qualification. What the Government want when they advance, assuming that they advance against security, is not to have their own security thrown back on their hands, but to have their money back; and whereas one bank tendering Government paper might so employ the money that it would be readily returned when wanted, another bank might so employ that money that when the moment arrived it could only forfeit its security, which would be a source of considerable embarrassment to the Government. As security against the pressure which would, I am certain, be exercised in those circumstances, I do think that it is most desirable that such loans as are made in the existing conditions should be made solely and absolutely through the Presidency Banks.

9916. Therefore, you would not at all share the view which was expressed to us by another witness, that if the loans from the Government balances cannot be made to all banks capable of tendering a certain quantity of Government security, they should not be made to any bank at all?—Most decidedly not.

9917. I think it follows from what you have said that you assume that these loans would only be made against approved security?—I would rather suggest that this is a matter for negotiation between the Government of India and the Presidency Banks. Personally I should be loath—not that my opinion is entitled to much consideration—to lay down any hard and fast rule under which those loans should be made. I think that the Finance Member of the Government of India is perfectly competent, assuming he has the discretion, to lay down conditions under which these moneys should be advanced.

9918. You would not be inclined, therefore, to fix any rule or any relation to bank rate for these loans?—I would not be inclined to fix any rate whatsoever. I think I am right in stating that at the particular meeting to which I referred—I think it was in August last—it was also almost unanimously agreed that it should be something under bank rate; but having no interest whatsoever in the Presidency Banks, I think from the point of view of the general public it is far more important that these moneys should be released in the busy season than that Government should stick out for another quarter, or half, or even 1 per cent. I say that because I am interested to a considerable extent in industrial concerns in the west of India, and I am associated, either as director or, in one case, as chairman, with companies with a capital of nearly 700,000*l*. sterling, and therefore I speak with some practical experience of the difficulties which are raised by these abnormally or exceedingly high bank rates in the busy seasons.

9919. Your difficulty with regard to the bank rate in India—although I do not wish to underrate it—is a very temporary one, is it not?—The average bank rate is reasonable, but the busy season bank rate is high, and the proposal that Government should release its balances through the Presidency Banks has sometimes been criticised on the ground that it would bring the average bank rate so low that banks could not afford to offer terms which would attract depositors. To that proposal I demur for a very strong reason, and it is this. First of all, I think the season is of necessity made shorter when the bank rate is so high that people are forced to part with their produce because they cannot carry it; secondly, even in these conditions there is already manifest a tendency in India to spread the busy season over a greater proportion of the year. In order to make quite certain of that fact, I asked the Chairman of the Bombay Port Trust what his experience was, and he told me, and I have the figures here. They are rather subtle, but the general conclusion was that the whole tendency of trade was to spread itself over more evenly through the year instead of concentrating on January, February, March, April, and May, closing down before the monsoon. It seems to me that if you had a more even bank rate, or a more regular bank rate, the average bank rate in all probability would not decline, because you would have a greater demand for accommodation all the year round.

9920. Speaking generally, as far as your experience goes, would you say that, not for temporary accommodation in the busy season, but for accommodation spread over a longer period, the rates are otherwise than moderate in India?—For accommodation spread over the whole year rates are moderate on good security. Rates are distinctly moderate.

9921. And the difficulty is this busy period?—The busy season.

9922. To what extent would these loans to the Presidency Banks, if arranged on some such basis as you have sketched to us, reach all classes in India?—It is rather hard to say, because Presidency Bankers alone are competent to discuss that point. I think that they would certainly reach the exchange banks if they wanted the money; I think they would reach all the substantial swadeshi banks; and I think there is every reason to conclude that they would reach all classes who were accustomed to borrow on reasonable credit.

9923. Do you think the benefit of a reduced rate would really filter down to the cultivator? That is what I have in my mind. Perhaps I may say that I ask you the question because some witnesses have suggested that the benefit would not get very far beyond a limited circle if the loans were confined to the Presidency Banks?—Would you mind if I answered that at some slight length?

9924. No?—I am a director of the Central Co-operative Credit Societies Bank, with which Sir Shapurji is associated, which was formed for the special purpose of financing co-operative credit societies. That bank, or rather the movement of which it was the upshot (a movement started by the Bombay Government) was established because it was impossible to reach the cultivator through the ordinary mechanism of credit. Many years ago there was a strong demand in India for a State Agricultural Bank on the lines of the Egyptian Land Bank. I think it was the late Mr. Samuel Smith who came to India and pointed out at a meeting held to consider this subject that the demand was based on the fallacy that the agricultural conditions in India were at all comparable to the agricultural conditions in Egypt. He then showed that almost the whole of the Egyptian crop, being

an irrigated crop, was a certain crop. It might be a good crop or it might be an indifferent crop, but it was a crop. That is not the case in India. In the dry zone in India in any year you may be advancing on a piece of bare land which does not produce a blade of grass, and for that reason, as far as I can see, it is impossible to conceive of any land bank worked on the ordinary lines which can carry credit to ryots in the dry zone. The credit of ryots in the dry zone must of necessity come through the co-operative credit societies. The difficulty was—or rather the question was—how to get that money into the co-operative credit societies, and the bank of which I am speaking was started, not from philanthropy, because we hoped to make a dividend, but for the special purpose of bringing money to the co-operative credit societies; and I am assured that already it has been a boon in that direction. I do not know whether you understand the principle upon which this bank works.

9925. I think I do sufficiently for the purpose of understanding your answer?—We work partly upon Government guaranteed debentures, and all the profits over 6 per cent. are divisible between the shareholders of the bank and the societies. The cheaper we get our money the more there is to go back to the societies, so, in the first place, if we can get money from the Presidency Banks on our security as freely as we want it, there need be no restriction whatsoever on the amount of money we advance to the societies comparable to their security; and, secondly, there will be a larger profit divisible at the end of every three-yearly valuation, and consequently they will get their money more cheaply.

9926. So that in general terms your contention is that even if the loans were confined, as far as the Government was concerned, to the Presidency Banks, they would, through the different channels which you describe, filter down to all classes?—To all classes.

9927. And not be confined merely to assisting certain great houses or certain great industrial concerns?—I think that theory is absolutely untenable.

9928. Now I return to the point we were discussing when we diverged to follow up that enquiry. I understand that however much importance you attach to education and sanitary improvements, you do not desire to see the development of reproductive work stopped?—No.

9929. Am I right in thinking that the printed proposals which you have laid before us* are dependent upon the assumption that either in India or in England you can borrow sufficient to carry those works on?—Substantially, yes.

9930. I think you have intimated that in your opinion the Government could safely issue rupee loans in India under present circumstances up to—was it 5 crores?—It is not my opinion, because my opinion on a financial matter like that is valueless, but on inquiry amongst those who are cognisant of the state of the money market, that is the opinion that is given to me—that even under the present conditions the Government could reasonably raise 5 crores a year in rupee paper.

9931. I think that is putting it higher than the witnesses who have come before us have done?—It is the figure which was given to me just about the time I came away.

9932. You think that that figure would be further increased if there was less strain at the busy season on the money market?—Even if that figure was not further increased, the amount of money Government could take off or could attract from the market is capable of considerable expansion with a wider variety of conditions. That is particularly the case with feeder railways. After a very long fight we have now got down to reasonable terms for the construction of feeder railways, with the result that there are now proposals before the Railway Board for feeder railways to be constructed by private enterprise with an aggregate capital of $8\frac{1}{2}$ crores of rupees. I think in reasonably good years the amount of money that could be taken off the market for feeder railways on the present terms, provided schemes go through with reasonable expedition, is very large indeed, and I think I might also say that the greater part of the railway extension of India can be financed on feeder railway terms, leaving the direct Government borrowings for the needs of the open lines.

9933. When you have made full allowance for all the money you can obtain in those ways, what do you think would be your annual demand on London?—That is a question I could not answer.

9934. Should I be wrong in saying that it would still be considerable?—It would be considerable.

9935. Especially as, I suppose, you would like to see a great deal of irrigation work done as well as railway work?—Undoubtedly.

9936. Do you think it is safe to count on raising the whole of that by loan in India and not paying any portion of it out of revenue?—It seems to me that the economic condition of India to-day and the financial position of India to-day is almost without parallel in the world. At least, if there is any country which can show an equally good profit and loss account, I do not know it.

9937. I am not suggesting for a moment that the credit of India has deteriorated or is bad, but I was rather asking you whether you think that the money would be forthcoming even for such excellent purposes and with such excellent security?—Having regard to the figures of the export of British capital to countries whose credit is certainly not better, or ought certainly not to be better, than that of India, it seems to me that if India could not raise this amount of 5,000,000*l*. or 7,000,000*l*. a year (assuming that to be the sum) in London, there must be some defect in the way in which Indian credit is exploited in London.

9938. Do you think that they could count sufficiently upon raising the sums which would be required at the present rate, or are you contemplating that they would issue loans carrying a higher rate of interest?—That is rather a banker's question, but it strikes me in this way. You cannot raise loans on the general security of the revenues of the Government of India at a higher rate than $3\frac{1}{2}$ per cent. without depreciating your $3\frac{1}{2}$ per cent. paper, and in that way causing a serious injustice to those who have taken it up, but it seems to me that there ought to be many subsidiary stocks carrying perhaps a slightly higher rate of interest which could be put upon the market. More especially is it the case when, as I think I am correct in saying, practically the whole of the Secretary of State's borrowings in England are spent in England; they are not sent out to India in the form of money, they are sent out in the form of locomotives and rolling stock and rails. I should imagine that that would be a factor of some considerable importance in strengthening the credit of India in London.

9939. If these balances were made available for loans to the Presidency Banks, to what extent do you anticipate that the Presidency Banks would take advantage of them?—That is a question upon which my personal opinion is absolutely valueless, as I say, but I was at some pains to enquire amongst those who would be likely borrowers from the banks, assuming that this system was set up, and the figure which was given to me by a gentleman who is certainly of the very highest authority, was that, not in the first or second year perhaps, but if the money were available, the money market could take a sum up to 5,000,000*l*. sterling.

9940. For what sort of period do you contemplate that the Government would lend?—That is a technical question upon which, as I say, my opinion would not be worth having.

9941. I will not then press those questions any further, but I would just like to put a couple of questions to you about the Secretary of State's drawings. You would, I suppose, agree that he must withdraw from India whatever sums he requires to meet his home charges?—Undoubtedly.

9942. And you would include in his home charges, not merely his immediate necessities from day to day, but his prospective necessities as he can foresee them?—For the whole of the financial year, certainly.

* *See* Appendix XXXI., Section III., pages 666–7.

9943. Would you agree that it is his first duty to put himself in a position to meet those charges?—Up to his budget requirements for the whole of the financial year, certainly.

9944. And he must draw to meet those charges as he can?—As he can.

9945. I pass away, then, from that, and I pass to the reserves. You support the existing Gold Standard Reserve?—Entirely.

9946. I understand that you wish to see it increased as rapidly as possible?—I should like to see the whole profits on coinage, and the whole of the interest on the invested portion, accrue to this reserve automatically without limitation for as far ahead as we can see.

9947. And with regard to the treatment of the reserve, do you fix in your own mind any sum which ought to be held in liquid gold—in actual gold?—My own personal view would be that the whole should be held in liquid gold. Of course, the objection has been raised that it is an unnecessary waste to hold money in liquid gold, but I have very rarely found that objection advanced by Indians who, after all, would primarily suffer if there were any diminution of the revenues on that account. So far as I can understand the Indian position and express it, it entirely endorses the view which was put forward, I think, to the Commission by Sir Shapurji Broacha, that there should be no limit to the reserve for as far ahead as we can see, and that as much as possible, if not the whole, should be held in liquid gold.

9948. You say in your memorandum (p. 667, para. 17) that this process should go on until the reserve is at such a point as establishes beyond doubt that it is sufficient to meet all reasonable requirements. What, in your view, is the measure of the reasonable requirements?—I do not think that anybody is competent at the present stage to express an opinion. I do not think we have had enough experience, nor shall we have experience enough for 10 or 15 years——

9949. If you will forgive my interrupting, you a little misunderstand my question. I am not asking you to fix a limit at all, but I am asking you by what conditions you think the requirements of the fund are governed. For what purpose does the fund exist?—I take it that the fund primarily exists to support exchange in the event of an adverse balance of trade.

9950. Is the extent to which it ought to be accumulated then in some way dependent upon the growth of Indian trade? As Indian trade grows, and as the effect of a possible bad year therefore becomes greater, should the reserve vary in some proportion to that?—Certainly.

9951. Do you think that the amount of rupee coinage in existence has any bearing on the amount of the gold standard reserve?—That is a rather subtle point, because you open up the question then as to how far the volume of the token coinage conditions the drain on the reserve. The point has been put forward, and it seems to be a strong point, that more rupees are not likely to flow back upon Government demanding redemption in gold than are necessary to liquidate the balance of trade, but to that I think there is a very important qualification, inasmuch as we know that there are certain Indian investments abroad, and I think it is highly probable that with the increased yield from foreign stock those may grow larger; and I do not know if that estimate takes account of the considerable remittances that are made on private account. Therefore it is not an absolute rule, and the question is a rather more subtle one than I should care to offer a dogmatic opinion on.

9952. For a practical guide to the Commission for a moment, you say that no reserve that we can at present contemplate is too big?—Certainly.

9953. And no amount of actual gold which we can see the possibility of collecting is too great to hold?—No.

9954. Have you any opinion to offer to the Commission as to where that gold reserve should be held?—I think the gold in the reserve should be held in India. I think also it should be brought under statutory control by an Act passed through the Imperial Legislative Council.

9955. Let me take the two opinions separately. You say first that it should be held in India. Will you please give me your reasons for that?—My reasons are twofold. I think it can be established beyond reasonable doubt that the course of policy pursued with regard to the reserve has weakened the confidence we ought to feel in the reserve. I think it is a matter of primary importance to restore that confidence, and I think that confidence can be restored most quickly and most definitely by placing the reserve in India and under statutory control.

9956. Assuming that there were in any case statutory control, I understand that you still attach importance to the actual gold being kept in India?—I do, because it is difficult to conceive of a statutory regulation of the reserve unless it is in India. Acts of the Imperial Legislative Council are not binding upon the Secretary of State except so far as he thinks fit to be bound by them. I think that is the constitutional position. Moreover, even if the statutory control were made absolute, I should say as a matter of policy that it is desirable to keep that money in India, and I think that for this reason: There has been no doctrine more assiduously preached in India in the last 25 years than the drain of Indian resources to London. That doctrine has been preached in season and out of season for some 20 or 30 years, until a very large section of the community is saturated with the belief that all moneys drawn from India to London are a drain on India and that India's development is being restricted thereby. No amount of argument, I am afraid, will break that down, and although so far as the ordinary home charges are concerned, there is not, of course, a shadow of justification for it, I do think that the holding of any Indian reserves in London beyond those which are absolutely necessary in London is undesirable on that ground.

9957. I gather then that your reason for desiring the reserves to be held in India is what I may call a political rather than an economic reason?—No. I give that as an entirely subordinate reason. My main reason is that confidence in the reserve has been shaken, as I think will be admitted, and that it is most desirable to restore that confidence as soon as possible, and that that confidence will be most quickly and most firmly restored by bringing the reserve to India and placing it under statutory control.

9958. A great deal of the prejudice which you speak of as having been excited against the drain of funds to London is on the assumption that these funds when in London are used to benefit the London money market instead of the Indian money market. Is not that so?—When I speak of the drain theory, I am not speaking of the recent discussion about the accumulation of balances—I am speaking of the normal drawings of the Secretary of State for his home charges. It is one of those matters which have been widely misunderstood, partly, I think, because of the means by which it is done. I think there is a great deal to be said for the view that if the Secretary of State's remittances from India had been carried out by ordinary banking mechanism such as I understand remittances made by other countries to the places where they have to discharge their debts have been done, the drain theory would never have assumed the deep importance which it has assumed; but these drawings and these remittances being made every year *coram populo*, sometimes under conditions which excite comment, has focussed and exaggerated the importance of the drain theory.

9959. What I wanted to put to you was this: If you keep the whole of your Gold Standard Reserve in actual gold, whether it is kept in India or in London, it would be of no assistance to either of the money markets?—No.

9960. Therefore, if it were all kept in actual gold and no portion of it were lent out on security of any kind, it could not be suggested that the reason of bringing it to London was to ease the London money market?—No.

9961. On the other hand, its principal object as declared by you being the maintenance of exchange, where will it be wanted when the exchange crisis arises?—The actual debt which is not liquidated by the balance of trade, of course, must be discharged in London.

9962. So that if it were held in India and a crisis arose which forced you to have recourse to it, the first thing you would have to do with it would be to ship it to London?—Yes, certainly.

9963. Have you in your memory the course of events in 1908 and 1909?—Yes.

9964. There was some delay in making use of the gold resources which the Secretary of State and the Government of India then possessed?—There was.

9965. Do you think that that hesitation to use them was a mistake?—Undoubtedly. I think it was a most disastrous error.

9966. You think they should have been used at once and freely?—Without hesitation.

9967. Then might it not be desirable that at the next crisis this gold reserve should be in the place where it would be immediately wanted; that is to say, would it not be *pro tanto* a disadvantage if at the moment when you wanted it in London it was in India and you had to ship it home to London instead of finding it there?—It is rather a banker's question to answer as to whether the fact that the gold is actually in London instead of being on its way to London would exercise any material effect upon the market. It seems to me, as an outsider, difficult to believe that bankers would draw any material distinction between gold on the way and definitely assigned to them and gold in London which was being released by bills which were being brought by the mail steamer.

9968. I will take that answer. I am not a banker either, but I should have thought it sometimes depended upon whether you had the gold or only the promise of gold?—It is something more than a promise of gold, it is gold actually on the way. It is gold actually on the ship definitely consigned to a particular market for a particular purpose.

9969. Now let me go to the other condition which you set before us. You desire that the Gold Standard Reserve shall be under statutory regulation?—Yes.

9970. Can you tell me what statutory regulation you have in mind?—I have in mind an Act of the Imperial Legislative Council in India stating that the whole of the profits on coinage and the whole of the interest on the invested portion of the reserve shall be added to the reserve without limit: and I have in mind also a declaration that this reserve will be freely used for the support of exchange the moment an adverse balance of trade sets up. It seems to me, with a rather vivid recollection of the events of 1907–8 and 1908–9 in my mind, that the present position with regard to that reserve is an extremely dangerous one. You have the reserve, but there does not seem to be any very definite concrete assurance as to exactly how it will be used in an emergency. We have had the Secretary of State saying that it will be used, but I fancy not committing himself to the manner in which it will be used; and we have had a declaration by the Exchange Banks that they look upon the Secretary of State as bound to support exchange to the maximum of his powers when the time arrives. I think if you look back on the events of 1907–8, a great part of the drain of gold which took place then arose from the indecision with which the authorities acted when the emergency occurred. When the Exchange Banks asked if they could have gold, if they had been told they could have had gold up to five millions, six millions or seven millions, I am assured that they would not have taken gold; but when they were told that they could only have gold in small quantities, and when the whole position was extremely uncertain, they took all the gold they could possibly want so as to guard against being refused it later on: and it seems to me that any uncertainty with regard to the conditions under which the reserve will be used will be very likely to set up precisely the same conditions again, when everybody will rush to take every bit of gold that they can possibly get for fear that they may not be able to get it when they want it.

9971. I quite follow your argument, but I want you to help us by being a little more definite as to the practical steps to be taken. It is easy enough to say how the first of your statutory conditions, or the first two, can be put into a statute. You can easily say in a statute that all the profits on coinage and all the interest, if there be any interest under your proposal, on the accumulated reserve shall be added to the reserve; but what are the statutory conditions as to the use of the reserve that you have in mind?—I do not want to go into any questions of the mechanism of finance, because I am not competent to speak upon that, but, so far as I understand it, the ordinary way in which that reserve would be used would be by the sale of sterling bills at a rate to be decided upon, and if that is so, in whatever direction it has been decided that the reserve shall be made available, it should be embodied in a statute.

9972. Do I understand that you would try to define in a statute the circumstances under which the reserve should be used and the rate at which in those circumstances sterling bills should be sold?—If practicable, certainly.

9973. You do not think it an impracticable proposal?—I cannot express an opinion. It is a purely banker's question.

9974. Would your objection to the holding of the gold standard reserve in London be minimised if the kind of conditions which you have laid down for it in India were applied to it in London?—As far as I am concerned they would, of course, be materially minimised, but whether they would be minimised in the eyes of a large body of Indian opinion which is asking, and continuously asking, that that reserve should be held in India, I should doubt.

9975. It is in this connection that you have called attention to the fact that the Secretary of State does not at the present time number among his financial advisers at the India Office any with Indian experience. Would your objections to holding the reserve in London be mitigated if that were altered?—It would make a difference, because you would always have the conviction that the Indian point of view, whether right or whether wrong, was before the Secretary of State at the time he acted. That conviction does not operate to the same extent now.

9976. Then from the question of the reserve you proceed to the consideration of a gold mint. You desire to see the Indian mints opened to the coinage of gold, or a gold mint established?—A mint.

9977. The main ground upon which you advocate it is: "That it would provide the machinery for the "rapid conversion of the great stores of gold bullion "held in India into currency when they came out under "pressure of famine" (p. 667, para. 20). Do you think that there is a very large quantity of gold bullion hoarded in India?—May I first of all slightly modify that opinion? I would say, first of all, that the question of whether or not there should be a gold mint is really a matter which ought to be within the administrative discretion of the Government of India; I would say, secondly, that a mint would be a very valuable step towards the more automatic regulation of the currency of India. It would secure that the gold which came into India in liquidation of the balance of trade came in in whatever form was most convenient. The Indian mint would conceivably, if arbitrage conditions were sufficient, take gold from South Africa or take gold from Australia; but whatever the conditions were, it would secure that the balance of trade would be liquidated in the most natural conditions and would not be so largely confined to sovereigns. Thirdly, coming to the other point, I think undoubtedly no one can travel about India without realising how largely gold has taken the place of silver in the ornaments of the people. There is, and must be, a large amount of gold bullion stored in the form of ornaments.

9978. So I should have supposed, but I think the last witness rather expressed the opposite view?—I have travelled very extensively in India, and it is a most extraordinary sight to see to what an extent gold has taken the place of silver in the ornaments of the people.

9979. Do you think that at the present time the gold which is imported into India has its form in any way arbitrarily settled by the fact that there is not a mint open to gold coinage in that country?—If you bring in raw gold, so far as I understand—it is a point for bullion dealers—there is no market for it. The only bullion for which there is a market is the high touch gold which goes straight in for ornaments; but I speak with some reserve, because it is really a matter of which I know very little.

9980. There is really a considerable import of gold bars, is there not?—Yes. If I am correctly informed, those gold bars, which are high touch gold bars, come in a form which is very popular in India.

9981. But you think there is a demand for sovereigns which is not now satisfied, but which would be satisfied if a mint were opened for the coinage of sovereigns in India. Is that your view?—No, I should not say there was a demand for sovereigns which was not satisfied, because there are sovereigns in the Paper Currency Reserve, and there is a very large amount which is available there, but I do think it would settle the balance of trade in a more natural manner if gold bullion came in in the easiest and cheapest form, whether it was from South Africa or whether it was from Australia, instead of being necessarily confined, or to a very large extent confined, to sovereigns.

9982. That is really the opposite?—Yes.

9983. Do you attach importance to increasing the circulation of gold in India?—I do.

9984. For what reasons?—I think anything which tends to keep down the token circulation of the country must be a source of immense convenience to the Government. It must be a material step towards the automatic regulation of the currency, and must ultimately become a secondary buttress to exchange.

9985. Do you think that the gold which is at present in India would be much support to exchange in a crisis?—It is very difficult to say. The volume of the token currency is so large that it is very difficult to say if you would get down to the gold in any crisis which might develop at the present time.

9986. Perhaps you would think that I did not overstate the case when I said that at any rate under present circumstances a million pounds in the reserve would be much more valuable for the support of exchange than a million sovereigns put into circulation?—I should not think you were exaggerating.

9987. The only method by which the reserve can be increased, if your proposals for holding the whole of the existing reserve in actual gold are adopted, would be by the increase of the rupee coinage, would it not?—Yes, I think it would.

9988. Yet I think you are rather suggesting that it would be desirable to see gold replacing a part of that coinage, or any rate gold substituted for any growth of that coinage?—You have roughly 22 millions in the Gold Standard Reserve. I think to-day, and if there were no addition to the rupee coinage, you would have had 7 millions last year and 3½ millions this year and an indefinite sum in future passing into the active circulation of the country, which must by degrees build up a secondary reserve which will be available in emergencies.

9989. Do you think that on the whole the trend of currency operations among western nations is in the direction which you have indicated?—I should not like to express an opinion, nor should I like to draw any parallel, nor do I think any parallel can be drawn—I go further, and I say that any parallel which is drawn must always necessarily be defective—between western nations with a highly educated population and eastern nations with a literate population of some 5 or 6 per cent. I think an attempt to draw any parallel in economic conditions between eastern and western nations is necessarily bad. It not only affects currency, it affects all fiscal questions as well. It is necessarily suspect.

9990. If I pointed to a tendency therefore in certain advanced countries rather to withdraw their gold from circulation and to increase their reserves than to pursue the opposite course, you would reply to me that that may be wise for them, but it has no bearing upon a country like India?—I put it rather differently. It would not necessarily carry conviction to my mind, because I know of no western country where so large a proportion of the population is illiterate, where the same degree of suspicion exists, partly from existing political conditions and partly as a legacy from centuries of disturbance, and where the population by the very nature of their life is bound to so large an extent to a metallic currency.

9991. Yet in spite of all these objections the note currency has very much increased in recent years?—The note currency has increased and the cheque currency has increased. I think it is a rather remarkable testimony to the relative political health of the country that the note circulation and the cheque circulation have increased to the extent that they have.

9992. When you speak of your desire to see a larger currency of actual gold, do you carry your wishes so far as to desire that the Indian Government should actively stimulate the circulation of gold?—I should carry my wishes so far as to desire that the Indian Government should actively stimulate the circulation of gold and notes.

9993. And if it has to choose rather the one than the other, which should it press?—The Indian Government, if they had discretion in the matter, could not possibly choose between one and the other, because they would be so deeply imbued with the conviction that not only are both desirable, but that a metallic currency is equally necessary. I mean to say, if you follow the course of money from the bank to the ryot's house, you must see how absolutely essential it is for him, both now and for a generation hence, to be largely dependent upon a metallic currency. If a man took notes from a cotton centre like Amraoti or Khamgaon, and went to his village 25 or 30 miles away, they would be waste paper for him to a large extent. He would have nowhere to put them. If you go into a ryot's house you will see that he has got no strong box. If he has a chest of any sort, it is so flimsy that it is an invitation to the robber. If he puts his notes in his roof they are quite likely to be eaten by rats, because in an Indian household the rat lives in large numbers in intimate relation with the family. If he buries them in the ground, they might be destroyed by the monsoon or eaten by white ants or anything else. For that reason he must have metallic currency of some sort or other, because in nine cases out of ten he buries it in the ground. I think in that connection it is rather important to bear in mind the very great rise in the price of all agricultural produce which has taken place in India in the last 15 or 18 years, which has made the rupee a less—or I would rather put it a much less—satisfactory means of adjusting these transactions. When I went to India in the early part of 1897 cotton was sold on the basis of under 3*d.* a pound. The present price of cotton is 7·80*d.* per pound, and we were looking for a five million bale crop of cotton when I came away. If you consider the increased value of that produce and the large amount which the ryot must carry away when he takes his payment for it, I think you must also agree that some less cumbersome form of metallic currency than the rupee has become a necessity. I think that is one of the factors which have tended in the districts where large export crops are raised to the increased popularity of the sovereign.

9994. There is a difference between giving the public what they ask for and pursuing a policy which is intended to induce them to take one form of currency rather than another?—There is.

9995. I quite agree that Government must provide the currency which the people need, but you, I thought, suggested that Government should go further, and should specially try to increase the circulation of gold?—And notes. The Government are dealing with an illiterate population. The Government of India stands to the population in a very different relation from the Government of any other country towards its people, and inasmuch as, in my opinion at any rate, gold and notes are better forms of currency than token rupees, I do feel that it is up to the Government to encourage the circulation of both those better forms of currency.

9996. What is the Indian note? It is a rupee note, is it not?—It is a rupee note.

9997. It is encashable in rupees?—In rupees.

9998. But do you think that it is not open to the objections of the rupee token currency?—The Indian note is encashable in rupees, but there are an enormous number of sovereigns in the paper currency reserve, and I should imagine if these notes flowed back for encashment in very large volumes, it would be a matter of considerable satisfaction to the Government to be able to discharge them in sovereigns, particularly if the people had become habituated to a gold currency by an active circulation of gold.

9999. As you say, there is a great deal of gold in the paper currency reserve. There is some silver in the gold standard reserve. Have you any observation to make upon that?—It is one of the extraordinary tangle of incongruities which has focussed discussion so much on this currency question. You have gold in the paper currency reserve in London; you have silver in the gold standard reserve in India. That silver in the gold standard reserve was originally put there against the strong protests not only of commercial opinion throughout the whole of India but of Sir Edward Law who founded the reserve, and he wrote, not only in the "Times" (which was quoted, I think, by the Calcutta Chamber of Commerce) but in the "Nineteenth Century," in criticism of that proposal. It seems to me, to take another phase now, that the silver in the gold standard reserve, which was first put there to facilitate the provision of rupees, is kept there now to facilitate the sale of Councils, and that these successive steps and departures from the very clear and logical principles upon which the gold standard reserve was founded are very strong factors in inducing that unfortunate mistrust which undoubtedly exists to-day.

10,000. You will perhaps agree that the Indian Government has had very difficult problems to solve in relation to these matters, with very little experience to guide them?—That is so.

10,001. And that under those circumstances it is not altogether a thing to be surprised at if they have sometimes varied, and if their purpose or the methods by which they carried out their purpose, were not always perfectly clear or perfectly logical?—That would be so, but at the same time, I would venture to point out that what is now reckoned to be, or what very many influential witnesses have put before this Commission, as the policy to be followed, is the policy which has been pressed upon the Government of India by large bodies of commercial opinion from the very first.

10,002. I presume there are a good many people in India who would not mind admitting that they too have changed their minds in the light of later experience since this matter first came prominently before the public?—I think he would be a very rash person who said he had not changed his mind.

10,003. But I gather that in any case a good deal of the mistrust of which you speak, or of the uncertainty of which you speak, arises from the fact in your opinion that the Indian public has been unable to understand why things were done or to work out the principles upon which they were done?—It is undoubtedly the case that there has been a most unfortunate ignorance of the principles upon which certain measures which have been strongly criticised have been done, but at the same time, I think that even if those principles had been understood, there would nevertheless have been a strong demand for the modification of them on the general lines which have been indicated.

10,004. One of the principal reasons for which you desire that greater administrative autonomy in matters of finance in India of which you spoke at the beginning of your evidence, is because, as I understand, it would give the Indian public a means of inquiring and ascertaining what were the principles upon which the Government was acting?—That is hardly so. The Imperial Legislative Council as it is constituted to-day gives every reasonable person in the political conditions of the country every reasonable means of bringing his opinion to bear upon the Government of India, and of eliciting information from the Government of India; but if the Government of India have no power in the matter, if in some cases they have no knowledge, or if, when they are convinced by their critics that the point of view of their critics is right, they are unable to defer to that criticism, the use of the Imperial Legislative Council for the very purpose for which it was created is very seriously impaired.

10,005. So that if you do not contemplate any statutory alteration in the position of the Secretary of State, you at any rate expect that if your proposals were carried out he would feel himself in practice precluded from questioning the discretion of the Indian Government on such points as we have been discussing?—I do not think the conception of the functions of the Secretary of State for India, as modified by the Reform Scheme of 1908, can be more fairly stated than they were stated by Mr. Montagu in the House of Commons in the last Budget Debate; and a short excerpt from that speech I have given in the little memorandum which I have submitted to you (*see* page 666 of Appendix XXXI., para. 6). He said, and I think with perfect fairness and logic, that every step taken in increasing the political machinery in India and the means for bringing Indian influence to bear upon the Government of India, must be accompanied by a reduction of the control exercised from home; but we must always remember that in fundamental questions of principle the will of the Secretary of State must of necessity prevail.

10,006. And that being so, the constitution of the Secretary of State's Council here and of his Finance Committee will remain a matter of great importance?—A matter of great importance.

10,007. You are not satisfied with its constitution as it exists at present?—I would point to a rather curious inversion which seems to have been operating in the constitution of the Secretary of State's Council. As the importance of his giving weight to the opinion of the Government of India in these matters has grown in consequence of the stronger mobilisation of Indian opinion on the Government of India, his means of appreciating the position of the Government of India have declined. There has been a distinct change in the character of the financial advisers whom the Secretary of State has chosen. For many years I understand a representative of the Finance Department, a retired officer, was on the Secretary of State's Council. The records I have been able to study do not go very far back, but they go back to the days of Sir James Westland, and they go back to the days of Mr. J. F. Finlay, both of whom were former officers of the Finance Department. On another occasion there was Mr. Hardie, who was, I understand, a retired officer of the Bank of Bengal, and he sat for some years on the Council; but since the return of Mr. Finlay to India no representative of the Finance Department of the Government of India has sat on the Finance Committee of the Council, nor, I believe, since Mr. Hardie's retirement has there been any representative of the Presidency Banks, and for many years no representative of Indian commerce and industry.

10,008. I think your desire is that there should always be at least one representative of the Finance Department of the Government of India, one from the Presidency Banks, and you say one of commerce and industry as well?—If practicable, yes. I regard as the most important point the representation of the Finance Department of the Government of India, secondly, the Presidency Banks, and thirdly, commerce and industry.

10,009. I want to ask you one or two questions only about a State bank. I think you did suggest in an answer which you gave me earlier in the day that if the financial business now transacted by the Secretary of State were done through the means of a State bank, you think much of the criticism which his operations have excited would have been avoided?—I was speaking at the moment more particularly of the Secretary of State's remittances for his home charges, and I said that if those had been through the ordinary mechanism of a bank, as the remittances which so many other countries are making to London have been done, being less conspicuous and being one of the parts of the ordinary machinery, very much less criticism would have been levied in the direction of what is called the drain theory.

10,010. You have not yourself formed any very decided opinion on the subject, I gather?—I have not formed any decided opinion, because without a definite scheme before one I think it is impossible to express an opinion.

10,011. You have never tried to work out a scheme yourself?—I have not tried to work out a scheme, but I have tried to consider one or two definite principles which would have to be adopted if ever a State bank were carried into effect.

10,012. Will you tell us what those principles are?—I think that in the first place it would have to be a State bank; I think the idea of a central bank formed either by the unification of the three Presidency Banks or by the absorption of two Presidency Banks by a third Presidency Bank, is absolutely impracticable.

10,013. When you say that it would have to be a State Bank, you do not mean that there would be no private capital?—No, what I mean is that it would have to be a bank with which the Government was definitely and continuously associated. I am perfectly convinced that any scheme put forward by one Presidency Bank for the absorption of the others, with a body of directors elected by the shareholders in either one of the great cities in India, would be rejected by certainly one or other of the partners to the enterprise, and for that reason I regard that idea as absolutely impracticable. If a central institution is to come, it must be a State Bank put forward by the Government of India, and pressed to completion by and on the initiative of the Government of India. That, I think, is absolutely essential.

10,014. I suppose you take it in such a case that the Governor and some of the principal officials of the bank would be nominated by the Government of India?—Undoubtedly, and inasmuch as such a bank would have to be in constant association with the Government of India, and I take it that at least one or other of its high officials would have to be a high official of the Government of India, the headquarters of that bank would have to be certainly at the cold weather headquarters of the Government of India, and that is at Delhi. I say that particularly, because if you are going to have Government control and representation on that bank, it is very desirable that it should be the highest Government official like the Finance Member of the Governor-General's Council; because if you have a subordinate officer he would in emergencies have to refer to a higher officer for instructions, and that might involve very unfortunate delays.

10,015. Whatever the advantages of such a bank, they would not free the Government of India from such a responsibility?—No, but the Government of India is already in very similar ways at the present time exercising responsibility, and exercising it very well. For instance, the Government of India appoints representatives on the Port Trusts of Bombay, Calcutta, and I think of the other towns; it appoints representatives on the Bombay Improvement Trust, and I think on the Calcutta Improvement Trust, which are carrying out the urban improvements in those towns; and my own experience is that the Government representatives on those bodies are of the highest value, that they do work most cordially with all their colleagues, and I have heard it stated that they are regarded as certainly amongst the ablest members, and the most useful members of those mixed bodies; so it is not as if Government were strange to the idea of working in conjunction with semi-independent bodies of this character.

10,016. (*Lord Faber.*) I think you told the Chairman that you were connected with a co-operative bank in India?—The Bombay Central Co-operative Credit Society's Bank.

10,017. Will you please tell me what is the exact procedure with regard to lending money to a cultivator of the soil in India?—If a cultivator of the soil wants money he must be a member of the Co-operative Credit Society. That Co-operative Credit Society applies to the Registrar of Co-operative Credit Societies, who is a Government official, for a loan. If the Registrar is satisfied with the general status and management of the society he sends an officer of his own to make an independent valuation of the assets.

10,018. Do you mean of the assets of the society?—Of the assets of the members of the society, because it is of unlimited liability. The whole of these papers are then sent to our central bank in Bombay with a recommendation from the Registrar that such and such a co-operative credit society has applied for a loan of so much, that the assets of the society as disclosed on the appended sheet are so much, and the Registrar either recommends the loan, or, if he thinks the amount asked for is excessive, supposing it is 10,000 rupees, he says: "I recommend a loan of 7,000 rupees," and then the directors of the bank decide whether or not that loan should be granted.

10,019. Then you make the loan to one of the members of the society?—No, no members of the co-operative credit societies are connected with the bank. The bank is a limited liability company formed in Bombay City, and the co-operative credit society which applies for the loan may be five hundred miles away, right in the southern part of the Presidency. This bank was formed because those early societies found a difficulty in getting capital, and it was specially formed under special terms from the Government to facilitate the supply of capital to those societies.

10,020. May I take it that it is this way: that the bank lends to the co-operative society. What I want to get at is the further step. How does the co-operative society lend the money to the mere native on the soil?—It lends to its members; and it only lends to its members. I rather fancy under the Co-operative Credit Societies' Act they are not allowed to lend outside their own body. It is a little village community. You have the co-operative bank and if a man wants a loan of 50 rupees to buy a bullock he goes to the society and gets it from that society.

10,021. And does the fact of his being a member of that society put him in sufficient credit to take 50 rupees if he has nothing?—If he had not sufficient credit, I suppose he would not get it.

10,022. We have had this matter discussed very much in England during the last year or two, and the difficulty in England is this: If a poor man who has nothing wants to borrow to cultivate his farm, how is a banker to lend the money safely to him and get it back again? That has never been answered at all?—If he were a poor man with nothing, he would not be a member of the society.

10,023. Of course, it has been put forward in England, but I cannot see on what ground, that it is safer to lend to fifty men who have nothing, when they are bound together in a co-operative society, than it is to lend to one who has nothing. From the banker's point of view, I cannot see that you get much forwarder, to put it plainly. To lend to one man who has nothing is an equal danger to lending to fifty who have nothing, is it not?—I think you must take into account the peculiar economic conditions of rural India, particularly the Bombay Presidency, where you have ryotwari tenure, and where practically everybody in the countryside has something. He has his land, and he has his implements and cattle for cultivating that land. The proportion of inhabitants of rural India without any land whatsoever is very small, and there would be the landowners, the ryots holding under the ryotwari tenure, who would form the members of the co-operative credit societies, and the assets would be the land.

10,024. But you were good enough to inform the Chairman that in a bad year the land was worth nothing, and it absolutely grew nothing at all; and, therefore, if you hit on a bad year or two running, I cannot see that that risk would warrant the lending?—I see your point. I did not say that the land was worth nothing; I said that the crop was worth nothing. The land would still have a value over the next year, because the Government assessment is so light that the rental of land is anything from two to five or ten times the assessment; but if you have 50 men, you will find almost invariably in these co-operative credit societies there are one or two more substantial men who are prepared to accept unlimited liability for the whole community, in order to give it the credit which is necessary for it to work. Would you like a little more information about that?

10,025. I should, if it is not wearying the Commission, because this very thing was discussed in the House of Lords this last year?—A very important point occurred in Ahmednagar about a year ago. Ahmednagar is right in the famine district, and is a poor district, and it was very hard hit by the famine of 1911. When application came from one or two of the Ahmednagar societies for loans, the directors felt in some difficulty. They were anxious to advance money, because we never let what I may call rigidly commercial principles stand in our way, but at the same time where was the security? I know of one or two instances, of one particularly where a substantial shopkeeper worth 2,000*l.* or 3,000*l.* joined the society and accepted unlimited liability, and that gave the society a credit which it would not have had otherwise.

10,026. I consider that a man who will do that is a benefactor to the whole country—a man who will undertake unlimited liability, because he wants his fellow sufferers so to speak, in a sense, to get money. I think that was an act that we should not see readily done in England?—I do not think that is an isolated case. Of course, he has his control over the loans as a member of the society.

10,027. That is very interesting. Now with regard to the railways, private individuals are building what are called feeder lines in India now?—Private companies.

10,028. Do those feeder lines compete at all with the main lines, or do they merely feed them?—They merely feed them. There is only one case, as far as my recollection goes, where a feeder railway has been converted into a link.

10,029. With regard to Indian credit, I confess that I agree entirely with your view of Indian credit, that it appeared to me and many other bankers in England to be excellent on the merits. Many would-be investors come to banks in England to know what they are to invest in, and bankers in very many cases suggest such a thing as an Indian loan, which to-day pays 4 per cent. The answer of the investor 99 times out of 100 is the same: "I should certainly " take it if I was not afraid of the revolutionary " agitation in India." That has stopped the credit in this country to-day. In my particular line of business, of course, I see that very often, almost daily, and that 99 times out of 100 is the answer?—It is our unfortunate circumstance that we suffer from Indian events being seen through a wholly distorted perspective.

10,030. It is so, really?—You have 315,000,000 of people scattered over this enormous country, and now and again an isolated political crime occurs. That comes over the wires as the only item of Indian news, perhaps, for a week, and people forget the 314,999,000 odd people living in a peaceful law-biding country; but for anybody who has known India in the last seventeen years, and has seen the astounding changes brought about by the extension of railways and irrigation, and by the high prices of produce, to doubt the stability of Indian credit for the relatively very small borrowings which it has to make is really absurd.

10,031. Could anything be done to help in that in the way of proper information being given to the English markets? What I would call your attention to is the little weekly bulletin which is issued by the Agent-General for Canada every week which tells you exactly what is going on in Canada as regards trade and as regards loans, and so on and so forth. Could not something be done to put the real position of India before the investor in this country?—It might perhaps be easier if you had Indian representation on the Finance Committee of the Secretary of State's Council, when there would be somebody at hand who could really put these things in the proper perspective. But it is very difficult for me to say anything on a point like that.

10,032. With regard to Government loans to bankers, if Government were in the habit of making those loans year in and year out, would it not create a great deal of uneasiness in trade circles if for some reason or other in recent years the Government had not money available to lend? In a small market like that would not you get the commercial community hung round the neck of the Government, so to speak, and they would not be able to borrow anywhere else?—A good many figures have been put before the Commission with regard to the Government deposits with the Presidency Banks, but I do not know whether the Commission have taken out figures showing the percentage of Government deposits to other deposits with the Presidency Banks. If so, they are rather remarkable, and show really how relatively small a proportion of the working capital of the Presidency Banks are the Government deposits to-day. I had these figures taken out. In the Bank of Bengal, in 1872, the Government deposits were 145 per cent. of the other deposits; in 1912 they were only 11 per cent. In the case of the Bank of Bombay, the same proportionate figures had come down from 237 per cent. to 13 per cent., and in the case of the Bank of Madras from 53 per cent. to 10 per cent.; and in the case of all the banks taken together, from 179 per cent. to 11 per cent. On the figures of 1912, the Government deposits are only 11 per cent. of the other deposits at the banks.

Bank of Bengal.

Year.	(1) Government Deposits.	(2) Other Deposits.	(3) Cash.	Percentages.	
				No. 1 to 2.	No. 1 to 3.
	Lakhs.	Lakhs.	Lakhs.	Per cent.	Per cent.
1872	428	295	491	145	87
1882	245	262	247	93	99
1892	186	548	409	34	45
1902	179	796	404	22	44
1912	195	1,690	733	11	26

Bank of Bombay.

1872	409	172	387	237	105
1882	50	220	147	22	34
1892	91	407	255	22	35
1902	86	537	242	16	35
1912	138	1,065	444	13	31

Bank of Madras.

1882	40	75	61	53	65
1892	57	263	148	21	38
1902	48	304	130	15	36
1912	75	706	231	10	32

Summary.

1872	837	467	878	179	95
1882	335	557	455	60	73
1892	334	1,218	812	27	41
1902	313	1,637	776	18	40
1912	408	3,461	1,408	11	28

Note.—(1) The figures appearing in columns 1, 2, and 3 are weekly averages in the case of the banks of Bengal and Bombay, while those appearing in the same columns under the Bank of Madras represent the balances on 30th June.

(2) In the summary the figures for the year 1872 represent the totals of the banks of Bengal and Bombay only. No balance sheet of the Bank of Madras is available for that year.

10,033. You are talking now, mind you, as I understand, about five millions sterling of loans to the banks—or was it five crores?—Five millions.

10,034. Of course, that would be a biggish addition?—It would, but, on the other hand, I have put that same point to one or two people who would be likely to be borrowers from the banks, and they have not felt that it would embarrass them at all, particularly as they have means of seeing from the weekly returns whether Government is likely to have any money to lend or whether it is not.

10,035. Now, will you give me your opinion once more—I did not quite understand it—on this question of Government drawing on India? The question that was put to you was: Should Government draw for more than they want for the financial year; and your answer, I think, was: No, they should not draw for more than is wanted for their financial budget?—Might I just expand that a little? I say that Government, having made their budget of ways and means from April 1 to March 31, should adhere to that budget, and should not draw over and above it except in very special circumstances, but I think it is possible to conceive circumstances where there would be very large surplus balances in India, and when it was impossible to raise loans in London for a railway programme which was commenced and had to be carried on. In those circumstances I think it would be unreasonable absolutely to confine the Secretary of State to his rigid budget allowance; but his further drawings should take the form of a supplementary budget, which should be submitted to the Legislative Council at some time or other and formally adopted as part of the financial mechanism of the year.

10,036. What I have in mind is this: Suppose an ordinary trader wanted to buy exchange on London, and the Government had finished selling exchange, should you be in favour of the trader being left to look after himself and eventually being obliged to export gold to India?—I should.

10,037. (*Chairman.*) Even though, as the next stage in the proceeding, the same gold had to be re-exported from India back to England?—Yes. It is impossible absolutely to avoid inconvenience in any financial mechanism, and I believe almost every other country in the world which has remittances to make has some inconvenience to suffer. I think the inconvenience arising from that would be less than the inconvenience arising from sweeping the whole surplus revenues to London in anticipation of using them later on for the avoidance of debt.

10,038. (*Lord Faber.*) I have only one more question to ask. You said that you were in favour of the Gold Standard Reserve being kept in India because it would satisfy Indian opinion, and you went on to say that if it was necessary bills would be drawn on London, and they would go by the same ship that could take the gold to London to satisfy those bills?—As far as Port Said, yes.

10,039. The only thing against that really would be, commercially, the freight of the gold out to India and back again?—Yes, but the Gold Standard Reserve has been used once, I think, since 1901, when it was started, and if I read the economic conditions of India aright, although I should like to see the reserve automatically going on, I think the prospects of the reserve being drawn upon from famine apart from disturbance elsewhere are very much more remote than they have been at any time.

10,040. Because of irrigation work and so on?—Because of the extraordinary revolution in the whole economic condition of the people. Irrigation is only one part. The substitution of export crops for food crops is another.

10,041. (*Sir Ernest Cable.*) I have only just one question to put: You gave as a reason why the Gold Standard Reserve should be kept in India that the people were saturated with the belief that under our rule there was a drain of wealth from India to England. I remember that theory very well when it was started some years ago. Do you think it is held so strongly as it used to be?—It has not been quite so vigorously preached since one or two people who were foremost in pushing the theory are now not active in it, but it is very widely diffused, particularly amongst what we call the educated classes and the student classes. I am sorry to say I have not the slightest doubt that there is that feeling. I have come across most distressing evidence in many quarters showing how that belief has gone home and has warped the whole conception of the benefits of British rule in India.

10,042. I put that question to you because I was under the impression that really the belief was dying down with better education and more investigation?—I think you are right so far, that it is perhaps a little less acute than it was, but it exists. I wish I could feel that it did not exist.

10,043. Then you said that the Gold Standard Reserve being held in London has shaken confidence in India. Do you think that the confidence of well-educated commercial people is shaken?—I put it rather differently, I think. I said "the whole course of events with regard to the reserve"; and that included taking a million for railways, and also the formation of the silver branch of the reserve. I was not speaking specifically and solely of keeping the reserve in London.

10,044. (*Mr. Keynes.*) With regard to the State Bank, there are two views which can be taken. One view is that there really would be no great advantages in such an institution, and another view is that there would be great advantages, but that there are practical difficulties. I rather gather from your evidence that you think a State Bank would be a good thing to have if the practical difficulties did not prove insuperable?—Undoubtedly.

10,045. Do you hold that strongly?—Strongly.

10,046. Does it seem to you *primâ facie* that the sort of practical difficulties to which allusion is sometimes made are insuperable or not?—No, they are not insuperable if the principle adopted is a State Bank upon which strong Government control will be exercised. They are insuperable if what is meant is a Central Bank, formed by an amalgamation of the existing Presidency Banks with an elected board of directors sitting at one or other of the Presidency towns.

10,047. So that you think that the proposal deserves more careful and exact examination than it has hitherto received?—I think if any proposal is put forward at the present time which affords any reasonable promise of overcoming the existing difficulties, it will receive to-day the most cordial and appreciative consideration.

10,048. I turn back from that to points upon which it is possible to go into greater detail, because schemes are before us. With regard to holding the Gold Standard Reserve in India rather than in London, you realise, I suppose, that it would mean that telegraphic transfers could not be sold, as they are at present, on the occasion of a crisis?—Yes.

10,049. That is a disadvantage?—You mean if the whole were held in India?

10,050. Yes?—Yes, a disadvantage—well, that is a banker's question, and I could not say; I could not say whether it would be a serious disadvantage or what disadvantage there would be in the delay of three weeks in the arrival of your gold.

10,051. I suppose also if the Government of India received information leading them to think that dangerous times might be impending, they would begin shipping the gold home in advance, would they not? That would be the wise thing to do?—It is rather a hypothetical question upon which it is difficult for me to express an opinion, but the time of the transit of gold is short—it is only three weeks—and there would be the confidence which would come from the knowledge that it was on the water. I should like a banker to say whether it would make a material difference to credit.

10,052. In 1907 the acute phase of the crisis in India lasted very little more than three weeks; it was a short time?—Do you mean in 1907–8?

10,053. Yes?—The crisis never would have been acute if the Government of India and the Secretary of State had taken immediate and prompt action and said: "You can have gold." I have discussed this over and over again with those who were actively connected with the crisis, and I was in Bombay at the time. They said: "If we had known that we could have got gold, we did not want it." That was certainly the position in 1907. Whether it was quite so strong a position in 1908 is another matter.

10,054. I want to put these two alternatives. If the gold is in London the authorities in India can quietly and confidently sell bills up to a million pounds a week and put these on offer some weeks before they think the offer will be actually acted upon, so as to calm people and make them realise that it is available. If, on the other hand, the gold is in India, when the dangerous times come, the Government must at once ship large sums home, and that to everybody's mind would appear to weaken the position in India, and must excite more remark, and must rather stimulate anxiety than calm it?—Of course, it is a difficult position upon which to express a dogmatic opinion, but you know India is so used to the movement of bullion that I very much doubt if it would. For instance, a million and a half lightweight sovereigns were sent home the other day, and it excited no comment. Assuming that the reserve is brought under control, and that the gold is known to be freely available, I do not imagine that it will make much difference; but I say again that it is a banker's question.

10,055. Of course, this will happen in dangerous times, and what the public would see would be that the Government was suddenly shipping home five million sovereigns as quickly as they could. You do not feel that so far from allaying suspicion that might rather aggravate it?—I do not think so.

10,056. People will say: "If the Government is "shipping all that gold home, what about the con-"vertibility of our coins in India," and so forth—I mean the ignorant people. I should have thought it might excite dangerous remark?—I should not think so.

10,057. I turn from that to the proposal for a gold mint. You give two reasons, the first reason being that bullion coming out in time of famine could be converted into sovereigns?—Yes.

10,058. I suppose gold bullion coming out in these circumstances would be wanted for export?—It is very hard to say. It may be wanted for export or it may be wanted for currency; you may want to turn that bullion into currency.

10,059. That is very unlikely at a time of famine?—Perhaps I do not see your point. I do not quite follow.

10,060. Your argument is that the gold bullion would come out in times of famine?—Yes.

10,061. I am suggesting that that is just the time when currency would not be wanted, and when money would be wanted for export?—In time of famine currency is wanted. As a matter of fact, in time of famine there is considerable demand for currency in order to supply the needs of those on famine relief works.

10,062. But if I remember rightly, that is in the form of rupees and small coin?—It depends upon the amount you want.

10,063. There is no demand for sovereigns at that time?—Amongst the actual cultivators?

10,064. Yes?—No.

10,065. Would not this particular part of your argument be met equally well if the Government published a rate at which they would buy bullion, as they used to?—It might.

10,066. I do not say it would meet the whole of the argument, but it would meet that particular part of it?—It would to a very considerable extent.

10,067. I now turn to the other part of the argument, the more important part. You advocate the minting of gold because you think it would make the sovereign more popular?—It is not my opinion; it is the opinion which was given to me by a very experienced banker. He said that he was convinced that the minting of sovereigns in India would be a powerful factor in maintaining and increasing the circulation of the sovereigns which were actually absorbed at the present time. It would check the tendency for those to go into hoards, or whatever you like to call them, and not to come out for use as ordinary currency media; and his reason was that the sovereigns being minted in London—you are dealing with an illiterate population—the people would doubt, or some would doubt, whether an adequate supply would be forthcoming, and would adhere to those which they had; whereas if they were minted in Bombay, and it was known that an indefinite supply was available in Bombay, there would be less tendency to put these sovereigns into what you may call the inert currency than there is.

10,068. If we assume that that view is correct, the desirability of a mint really turns upon whether it is desirable to encourage gold in this way; I want to ask you a few questions directed towards that issue?—I should say that it was most distinctly desirable to keep in circulation the sovereigns which had actually been absorbed, and not to retain them in the inert currency, which would never come out for any purpose whatever. That argument applies, not to British sovereigns coming into circulation, but to sovereigns actually in the country at the present time.

10,069. I am not clear whether you want sovereigns to be stimulated to the extent of displacing rupees now circulating or only to the extent of forming new additions to the currency?—Only to the extent of forming new additions to the currency.

10,070. You are not afraid that if Government took active steps to popularise gold, it might go a little further than that?—Not so far ahead as we can see.

10,071. You would not wish it to go further than that?—I would not wish it to go further than that.

10,072. So that under the conditions which you are imagining, sovereigns would not form more than a comparatively small percentage of the total circulation, not more than 20 per cent. at the most within the next 10 years?—It would form a small percentage, but it would form a growing percentage.

10,073. One which would be small if one only takes a period of about 10 years ahead?—Yes.

10,074. In those circumstances, if there were to be a crisis, people would try to get rid of the less stable form of currency, namely, rupees, would they not?—The rupees would first come in, undoubtedly.

10,075. So that the coins which would come into the Government treasuries in return for the sterling bills which they were selling would be rupees, not sovereigns?—They would, until you had reached the period, of course, of a more diffused circulation.

10,076. So that within the sort of period that we can contemplate, these sovereigns would not be of any appreciable value as a support to exchange?—It is difficult to go so far as to say they would not be of any appreciable value, and it is equally difficult to say that they would be of considerable value.

10,077. The Government would have to redeem just about as many rupees as they would if this gold had not gone into circulation?—I would hardly like to go so far as that, because the whole of the official evidence which we have before us shows that the sovereign circulates so freely at the present time, certainly in the Bombay Presidency and Sind, that I do not think you are justified in saying that there will be an immediate and absolute embargo upon its advent in time of adverse exchange.

10,078. But you have agreed that the people would cling to their sovereigns, and, therefore, the sovereigns would not come out unless so much currency had come out that there would be absolutely not enough rupees to satisfy it?—I think, if I said that, I put it a little more strongly than I was justified in putting it. There would naturally be a tendency for rupees to come out in preference to sovereigns, but I do not think one would be justified in saying that all rupees would come out and no sovereigns, assuming a 20 per cent. proportion of sovereigns in circulation.

10,079. I do not wish to push the argument so far as that, but the number of sovereigns coming out would be very small?—I would not like to go quite so far as that. The number of sovereigns coming out would be smaller than the rupees, but if you had an active gold currency you would have a much larger number of sovereigns in your treasuries.

10,080. You would not maintain that if gold formed a fifth part of the circulation, a fifth of the amount returned to the Government would be sovereigns; it would be a much smaller proportion, would it not?—I do not think one is entitled to express any dogmatic view on that.

10,081. In spite of the fact that you have agreed that the sovereigns are what people would cling to in times when suspicion was aroused?—There naturally would be a preference to hold gold over rupees.

10,082. The Chairman suggested to you, and I think you agreed with him, that if all, or nearly all, of the additions to the currency are in the form of sovereigns, that puts an end to the growth of the Gold Standard Reserve?—Assuming that the whole of the reserve is simultaneously held in gold.

10,083. And you advocate that?—Yes.

10,084. So that whilst the liabilities of the Government would be increasing through the general growth of business in India, and the size of her external trade, and so forth, the Government resources would not grow under your proposal?—Are you not leaving out of account the paper currency reserve?

10,085. I will come on to that in a minute. Would you agree that apart from that they would not grow?—Are not you leaving out of account the fact that there would be more sovereigns in circulation, in the treasuries, and in the banks?

10,086. I am going on the hypothesis that all the additions to the currency are in the form of sovereigns. If a large amount are in the form of notes, then I agree that there is an addition to the resources?—I am glad you put that clearly, because I would never suggest that all additions should be sovereigns, to exclude notes.

10,087. So that the amount of sovereigns going into circulation is even smaller than we were supposing in the first part of our argument?—I am a strong advocate of the encouragement of the circulation of notes, because of the gold backing that they would give you, but what I am advocating is that sovereigns shall so far as possible take the place of rupees in the additional metallic circulation.

10,088. But you would still do nothing which would lead to their supplanting notes?—No, most decidedly not.

10,089. Does not the policy seem to you a little risky? We know that Eastern nations have a great natural love of gold. It would be easy to get into people's heads that gold was the right kind of currency to have in great quantities, and once started, might it not go further than you intend, and interfere not only with the growth of the Gold Standard Reserve, but also with the growth of the Paper Currency Reserve?—I do not think that is a reasonable apprehension.

10,090. Your policy is only safe in so far as it is unsuccessful. If the efforts of the Government to popularise gold result in very few sovereigns going into circulation, the difficulties I have been suggesting do not arise, but I am suggesting that if your policy is really successful, if you induce Indians to think that sovereigns are the right thing to have, that must be at the expense either of rupees or of notes?—Yes.

10,091. If it is at the expense of new rupees, it prevents the growth of the Gold Standard Reserve?—Assuming that the whole of the Gold Standard Reserve is held in gold, yes.

10,092. If it is at the expense of old rupees, it means that Government must melt down rupees at a serious loss?—I cannot conceive that it would be at the expense of old rupees.

10,093. I am just taking all the alternatives?—If so, they will be coming back into the treasuries.

10,094. If it is at the expense of the notes, that is a thing which you deprecate, and it would reduce stability through the corresponding diminution in the Paper Currency Reserve?—It would be a thing that I should deprecate, certainly.

10,095. So that the introduction of the sovereign would only be safe if it was on a very small scale?—I do not think you can say that when you have bought seven millions of silver last year, and three-and-a-half this year, and you have bought over fifty millions sterling worth of silver since the mints recommenced coining.

10,096. But, of course, it is out of the profits of that that the Gold Standard Reserve has entirely arisen. If you had had gold instead of that, you would have had no Gold Standard Reserve at all?—No, but you would have that amount of gold in circulation.

10,097. However, I may conclude that you would not wish to encourage gold if it had the effect of driving rupees now in circulation out of circulation, or if it had the effect of diminishing the note issue?—No.

10,098. And you do not feel that the natural love of Indians for gold is so great that your policy might be more successful than you imagine?—No, not so far as I can see.

10,099. You are in the position of only advocating an increase of gold in the currency on a small scale, and also allowing that as long as it is on a small scale, it does not really help the exchanges?—I do not advocate the increase of gold in circulation on that ground only. I advocate it because it is the only means of getting rid of the extraordinary artificialities of the present situation. I mean to say it is because the greater part of the increase of your currency is in rupees, that you have to keep the Paper Currency Reserve in London in gold, and the Gold Standard Reserve in India in rupees, and that you are in a position of constantly inviting silver speculators to corner the market against you, and are also in the position of always paying an outside price for the masses of silver which you have to buy. All those are very important factors in the situation, I think.

10,100. But the artificiality of the system arises out of the large circulation of rupees, and you cannot get rid of that unless you melt down rupees, which I do not understand you to advocate?—Does not the artificiality also arise from the fact that your additions to your currency are mainly in rupees?

10,101. You are alluding to something which is not usually regarded as an artificial part of the currency. I thought you meant what people usually call its managed side?—I do not quite follow you.

10,102. People usually call the Indian system artificial, because it is necessary to have the Gold Standard Reserve, and to sell sterling bills for the support of exchange, and so forth. All that apparatus for maintaining exchange is usually referred to as the artificial part, and I thought you intended that; but you do not intend that?—No, I am referring to the artificial part chiefly in the additions to your currency—the means you have to take for adding to your currency.

10,103. That is what it comes down to then, that these silver purchases would be avoided if you had a gold standard?—If you had a gold circulation.

10,104. I mean if you take it simply upon that basis, then I should have thought that the profits on silver coinage ——?—I do not put it on that basis alone. I say those are factors which must be taken into consideration.

10,105. But if the other factors are weak, you are taking it alone?—No, I am not. You take one factor here and one factor there, and say that I put it on that, but I do not; I take it as all part of the general system. If you have an active gold circulation, the additions to your currency are made in a perfectly automatic form, and that is, gold that comes out in settlement of balance of trade automatically passes into circulation, instead of being shipped to America to buy silver, which involves you in a lot of extremely artificial expedients; and also it is a gradually increasing second reserve to your gold standard.

10,106. I understand that you do not care to repose your case upon any one argument particularly?—No.

10,107. (*Mr. Gillan.*) You made some suggestions in the course of your examination by the Chairman, I think, about limiting the Councils by the amount of the Budget?—Yes.

10,108. You said you would not make that a hard and fast limit, but you would allow it to be revised; but you would subject the revision, as I understand, to some particular mechanism?—What I said was that assuming there was a very large surplus revenue in India for which there was no legitimate outlet in India, and assuming that the Secretary of State was unable to borrow for his capital programme, and assuming that if those funds were not applied capital works would come to a standstill, then I think it would be reasonable to place some portion of this surplus at the disposal of the Secretary of State for his capital works, but I say that should be done by a supplementary budget which should, if possible at the time, but, if not, subsequently, be passed through the Legislative Council.

10,109. Then do I understand that you think that that particular change in the budget proposals requires a different sanction, so to speak, from any other change? You know, of course, that as things go during the year various figures in the budget have to be altered to suit the changed circumstances?—I should say so, because my own suggestion is that the surplus revenue of India over and above the budget requirements should not be devoted to capital expenditure or to the avoidance of debt on productive works, and therefore if we make a departure from that principle it must be made in the form of a supplementary estimate to the budget, and it should not be, as it is now, that all these surplus revenues should be withdrawn to England in order to avoid additions to the productive debt, and taken entirely out of the control of the Government of India and the Legislative Council in the budget debates.

10,110. And that really is a wider proposal which really involves the whole disposal of any additional surplus which accrues during the year?—Yes.

10,111. As regards this particular matter of Councils, I think it would meet your view if you said that the matter had to be determined or re-adjusted in the course of the year with a due regard to the requirements of the Government of India as a whole, whether at home or in India?—Yes.

10,112. And that it is the requirements in India which ought not to be overlooked in making that adjustment?—I say it is the requirements of India, beyond the Secretary of State's budget demands, which must have the first consideration.

10,113. With regard to the Gold Standard Reserve, you made a recommendation, I think, that the whole of it should be held in gold?—That, I think, is the ideal.

10,114. You would, however, recognise, I suppose, that the amount to be held in gold must take some sort of cognizance of the character of any securities which may be held?—Certainly.

10,115. That is to say, if you have short-dated securities absolutely certain of their realisation, it might be unnecessary to hold the total in gold?—That is so of course, but when you say "absolutely certain of realisation," I think that is open to the qualification which the ex-Governor of the Bank of England gave to the Commission, and that is that even short-term securities are not absolutely certain of realisation in time of really acute crisis.

10,116. Quite so, but I understand that you do not hold the view that the whole amount should be held in gold without any consideration of the other elements which may possibly enter into the calculation?—Certainly not.

10,117. Then with regard to the gold mint, the first point, as Mr. Keynes put to you, which has been suggested in your memorandum was with regard to the amount of gold which may come out in time of famine or scarcity. He suggested to you that at that time the demand is not for currency, and you replied that a great deal of currency is required for the financing of famine operations, and so on; but the net result is shown, is it not, in the fact that at a time of that kind you generally have a return from circulation instead of an absorption?—Do you mean assuming famine brings about an adverse balance of trade which has to be liquidated by sterling bills; or are you speaking generally?

10,118. No, I do not think you need make that assumption. Supposing you have adverse times, the inference is, is it not, that rupees at a time of that kind come back to the Government instead of being drawn out from the Government?—You must know, and of course, if you say so, it is so.

10,119. What does more appeal to me in this matter of a gold mint is the second point which you mentioned to the Chairman. I want to be clear about it and to see if I quite understand that point. I think what you had in mind was that if you take the contrary set of circumstances, that is, in good times, then undoubtedly you have a big demand for currency, and you would have large imports then being made of gold in order to secure currency with that object, if you cannot get a sufficiency of Council Bills. At present the import of gold for that purpose is limited to sovereigns, and what you would prefer would be to enlarge the opportunities of India, so that it might get sovereigns or gold, as you said, from South Africa or any other place as might happen at the time to be convenient?—That is so.

10,120. That is your proposition?—Yes.

10,121. Now with regard to this question of the gold currency. I notice that you have referred to that point in your memorandum only incidentally?—Yes.

10,122. You refer to it as a point in favour of a gold mint: so that you have not had an opportunity of setting out your reasons for inclining to the gold currency at length?—No.

10,123. In replying to the Chairman, I think you put your reasons under three heads; they were first that a gold currency would reduce the liability of the Government; secondly, that it would do away with the artificiality of our present system and substitute something more automatic, and lastly that it would be a secondary buttress to exchange. Is that your position?—Yes.

10,124. Do you hold that exchange can be secured by means of reserves?—That is a very difficult question to answer, because I do not think we have enough data to go upon. I do not think we know yet what would be the demand made on those reserves. It is quite true, that so far as we have gone, those reserves have met the demand which was made upon them, but the conditions which obtained then were rather abnormal, and I think they have been brought out very strongly in the evidence of Mr. Cole, where he says that if the storm centre had been in London the securities which you held in your reserves might have been unsaleable, and then the question of whether you would have weathered that storm is another matter.

10,125. I quite recognise that that is relevant to the amount which should be held in the reserve, but what I mean is this: As long as you have any doubt about the sufficiency of your reserve you would rather go on building up your reserve than increasing your gold in circulation?—I would like the two processes to go on as far as possible simultaneously. I think I said in reply to Mr. Keynes that if the increase of the metallic circulation were in gold it would sweep away a lot of artificial expedients which you have to adopt, but I do not think we can reasonably look forward to the whole of that increase going in gold after the great absorption of rupees that has been going on, and consequently there would in all probability be some further coinage of rupees and some further additions to the Gold Standard Reserve. But so far as possible I should like to see the silver additions to the token coinage, which have been so strongly criticised by many witnesses before this Commission, kept down by the automatic passing of the gold which comes into circulation in discharge of the balance of trade instead of being converted into rupees.

10,126. (*Chairman.*) May I interject a question upon that point? If the gold went in as you have suggested, what would happen? Would not a great portion of it, at any rate, be tendered at the treasuries for rupees?—A certain amount might, but I think the official evidence which is before the Government of India goes to show that it would actually become a circulating medium in itself.

10,127. (*Mr. Gillan.*) Then you said that the increase in the gold circulation would reduce the liability of the Government. Is that true of at any rate the earlier stages of the process: is it true at the present time?—It is very difficult to say. It might be argued that inasmuch as the gold circulation would form so small a part of the total metallic circulation, it would not come out, but I do not think anybody is entitled dogmatically to say that it would not come out, particularly when you have the conclusive evidence of the Accountant-General of Bombay before you, that gold passes freely from hand to hand amongst the ryots in actual circulation. I had exactly the same evidence, curiously enough, from the Revenue Commissioner in Hyderabad, which is one of the most backward parts of India. He told me that gold was passing from hand to hand amongst the ryots in payment for their cotton, and when that is actually going on, I very much doubt whether you are entitled absolutely to say that none of that gold will come out when currency is flowing back to the treasuries.

10,128. I do not know that anyone says that none of it will come out. It is very much the point that Mr. Keynes put to you. The assumption is that when there are adverse times and the sovereign is at a premium you have two elements in your currency, one of which is gold, and it may be that at that time only a small proportion of that will come back, and the form in which the currency will chiefly return will be in rupees?—I say that is a question upon which I would not express a dogmatic opinion.

10,129. (*Chairman.*) Would it be too much to say that in such circumstances any man who had a debt of 5*l.* to discharge and who had 5*l.* in gold and 5*l.* in silver would be likely to pay his debt in silver rather than in gold?—Remembering that metallic money is the only money which the Indian possesses, and that he would have to keep a certain part by him to discharge his daily obligations, I would not like to say that the whole 5*l.* would come back in silver and leave him with five sovereigns, some of which, at any rate, he would have to change before he could carry on his daily economy.

10,130. (*Mr. Gillan.*) But suppose you go to the next stage and assume a collection of this amount in some centres with the local bunnias or somebody or another; have they opportunities of passing on the less valuable currency and retaining the more valuable?—You would know better than I; you have had more experience.

10,131. Suppose we assume that you have reached the final stage to which I think you look forward as a sort of goal of our currency system; that is to say, a system in which the currency consists very largely, or to a predominating extent, of gold. What will be the position then? On what will you rely for the maintenance of exchange in adverse seasons?—You will still have your Gold Standard Reserve as it stands to-day, plus such accretions to it as may have taken place. You would still have, I imagine, your Paper Currency Reserve, and I should conclude—as I say, I am not a banker, and I speak on this question with great reluctance—that you would have a large amount of gold in your treasuries and in your banks.

10,132. Are you relying upon what banks have?—You go much further when you say "am I relying," because I say that is one of those questions upon which my opinions are valueless. It seems to me to be a banker's question.

10,133. But at the same time you are looking forward to this increase in the gold circulation, because, as you say, it will be a secondary buttress to exchange?—Yes.

10,134. You are therefore relying in some form or another upon that currency?—Yes.

10,135. I had assumed that you had reached the stage which you wanted to reach, and that you had got a full-blown gold currency in the country?—And a subsidiary token currency?

10,136. And a subsidiary token currency; and therefore I presumed that you could rely upon being able to get that gold out of some source apart from the Government?—In time of adverse exchange?

10,137. In time of adverse exchange?—But there would be gold available. I should think that must be the case.

10,138. With whom—with the banks?—With the banks, and in your Government treasuries.

10,139. And partly rupees?—And partly rupees.

10,140. In the meantime the Government reserves in gold are smaller than they would otherwise have been?—Yes.

10,141. That is the point to which I have been working up. I put it to you that the final result is merely a dissipation of your reserve; instead of having it in one place you have it in a great many?—That is so, but what are you aiming at ultimately in the currency policy? The currency policy which you laid down was a gold standard supported by a gold currency. In every official declaration of currency policy precisely the same goal has been held out to the people of India, a gold standard supported by a gold currency. In the latest report of the Legislative Council in the Budget debate, Indian speaker after Indian speaker got up and said: "I press the Government to go on to the point that they said they were going to, a gold standard supported by a gold currency." If you are not going to move to that goal now, what are you actually aiming at?

10,142. We have to consider the arguments for and against this particular thesis, and the point upon which I wish to get your opinion is this: Do you think that the country will be in a stronger position to support exchange if you have gold partly with the Government, partly in the banks, and partly in the pockets of the people, than if you rely upon a central reserve?—And if you have in the meantime largely reduced your token currency?

10,143. That is assumed?—I think it would be.

10,144. (*Chairman.*) If you will pardon my interrupting, you are assuming that there is a large reduction in the token currency?—I am assuming that the token currency is made subsidiary, and that it is no more than is necessary to discharge those obligations for which the sovereign is too large a unit.

10,145. I understood you to say, I think, to Mr. Keynes, that you did not look forward to the reduction of the token currency, but merely to stop its increase?—It is undoubted that there is a steady wastage of the token currency, and if you stop its increase it must gradually be reduced.

10,146. (*Mr. Keynes.*) May I ask one question upon this. I suppose the first effect if you were to popularise gold would be that gold would gradually dribble out of the paper currency reserve and be replaced by rupees?—You mean that the gold in the paper currency reserve would be reduced?

10,147. Yes?—That is, that there would be more going out of the paper currency reserve than is coming in?

10,148. Yes?—I think that is a proposition upon which I would not like to express a definite opinion, because, assuming a favourable balance of trade is continued, there would be a steady addition of gold in the Paper Currency, would there not?

10,149. That might or might not be, according to the rate at which currency is increasing. In some years it does not increase at all; but that might happen?—That might happen.

10,150. (*Mr. Gillan.*) In reply to the last question, I put to you, did you say that in the position which I put to you exchanges would be better secured than by any system of a central reserve?—With a gold circulation and a subsidiary token coinage, yes.

10,151. Do you think that the system of a Government reserve such as we have in India really differs in essentials from the system which is possessed by any other civilised country? You talk of the Indian system as being managed. You have in view something which is more automatic. Is it the case that other currency systems are automatic as regards this matter of the support of exchange?—I am not a currency expert, but I think, as I said in reply to the Chairman, that a good deal of the criticism of the managed system has arisen from the fact that the Government of India, in the public eye by advertisement and announcement, manages the foreign exchange, and to that extent a certain amount of prejudice against what is called a managed system has been rather unjustly created; but at the same time, the methods which have to be adopted to control the currency seem to me under present circumstances to involve a large and continuous amount of management which affects the sales of Councils, which affects the purchase of silver, which affects the movement of bullion in so many respects that the element of management must be conspicuous until such times as additions to the currency are in the medium in which the balance of trade is liquidated.

10,152. I appreciate what you say about management, but as a matter of fact do you get away from this element of management in any other system of currency?—I could not say.

10,153. (*Lord Kilbracken.*) I do not know whether you have given us your views clearly about a note circulation as compared with gold. You spoke, I think, of a gold circulation as a sort of ideal to be aimed at?—Gold circulation so far as the metallic portion of the currency is concerned.

10,154. That is exactly what I wanted to understand; you do not ignore notes?—Certainly not.

10,155. That is important?—That is a most important factor.

The witness withdrew.

TWENTY-FOURTH DAY.

At the India Office, Whitehall, S.W.

Friday, 31st October 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord FABER.	Mr. ROBERT WOODBURN GILLAN, C.S.I.
Lord KILBRACKEN, G.C.B.	Mr. HENRY NEVILLE GLADSTONE.
Sir ERNEST CABLE.	Mr. JOHN MAYNARD KEYNES.
Sir SHAPURJI BURJORJI BROACHA.	Mr. BASIL P. BLACKETT (*Secretary*).
Sir JAMES BEGBIE.	

Mr. F. C. HARRISON, C.S.I., called and examined.

10,156. (*Chairman.*) You are retired from the Indian Civil Service?—Yes.

10,157. Will you tell the Commission briefly what experience of Indian finance you have had in that capacity?—I entered the Financial Department in 1889, and I believe I have had rather an exceptional experience, having served for a long time in every part of India. I was a couple of years in Calcutta, or near Calcutta, to start with; I was again there for four or five years, and I was again there for the last two years of my service. I was nearly four years in Madras, nearly four years in Allahabad, and nearly four years in Bombay, so that in one way and another as an Accountant-General I have had experience of all the principal money markets in India, and have had to look after the provision of the money there.

10,158. I think it would be convenient to the Commission, and probably to yourself, if I invited you to make a general statement on the subjects upon which you tender evidence, and then we could ask any questions as they arose on that, or at the conclusion of your statement?—As regards our balances and our budgetting in India, owing to our being subject to the changes of crops and the vicissitudes of weather, we always are exceedingly cautious in our budgets, so that the result is that in a normal year our receipts are generally considerably in advance of the figures at which we estimate them, that being partly a hedge against the weather, and partly, I think, it has an older origin, certainly in the old days. The Financial Department in India, the Finance Minister, is always in rather a weak position as regards the rest of his council. I believe it is the case in most countries. Other departments want to spend, and the man who holds the purse strings, and is responsible, wants to sit tight. In India the Finance Minister has always been in a position rather of weakness, and as the Council grows his position becomes weaker still, so the habit in India has, if I may say so, been, I think, to budget more cautiously than would ordinarily be wise. Showing low figures is practically buttoning up your purse strings. One department, either the railway or somebody else, wants money, and you say, "I am very sorry, I have not got it. Look at my estimates; it is not there"; and this was the method largely employed up to the time of Sir David Barbour. There has been pressure put upon us since to make our estimates more nearly in accordance with the facts, and I think Mr. Gillan probably will tell you that that is so. I can give a simple instance. Revenue in all the great branches of revenue is a progression: instead of taking the progression we nearly always take a figure based on the actuals of the current year. Generally speaking, the coming year's revenue will be a little greater. I do not think you can very well avoid that until the position of the Finance Minister is rather stronger. I think, human nature being what it is, the man in charge will always under-estimate, and the result is that you have greater surpluses than the public expect. As regards the time a few years ago when we had very large balances, that sort of thing must occasionally occur. The windfall from opium was considerable and we are all liable to err occasionally. A railway may estimate for certain expenditure, and is very reluctant to relinquish its grant. If the Public Works Department decline to admit its inability to spend money by March 1, the money is left there. Then that money is withdrawn to this country, and possibly the expenditure is not made immediately, and the result is an addition to the large amounts held in London. Our great difficulty, I think, in India, in budgetting, has been with the Public Works Department, because our system of lapse of grants is such that no spending department will voluntarily tell the Comptroller-General, "I am not going to spend so much," and there is always an unnecessary congestion of funds.

10,159. In that connection may I ask you what happens if a grant is declared lapsed? Suppose a railway company, having estimated to spend 200,000*l.* in the current year, were to report that owing to difficulties with contractors or delay in the preparation of plans they found they would only spend 100,000*l.*, what happens to the other 100,000*l.*?—Any money lapsing in the year we can re-appropriate to other objects. We cannot do that until the Department responsible says that it is going to relinquish it.

10,160. But what is the motive which causes them to withhold the information from the financial authorities? Is it the fear that the money will not be voted in a subsequent year?—Partly that, but I think really they have a sort of idea that they may be able to spend some of it. They do not like parting with the right to spend it.

(*Mr. Gillan.*) May I ask one question?

(*Chairman.*) If you please.

10,161. (*Mr. Gillan.*) I think in what you have said just now you were referring to the departmental estimates?—Yes.

10,162. It is the case, is it not, that the estimates are subjected to a check from the other side by the Comptroller-General?—Yes.

10,163. Which is with reference purely to the progress of actuals?—Yes, largely, of course, with ways and means, which is a separate system. I was rather referring to our budget estimates. Of course, we have to prepare ways and means estimates to see how much money there is to meet our liabilities.

10,164. And it does happen that on that Comptroller-General's check it is shown that the departmental estimates are in excess; that is to say, they estimate that they will spend more than they possibly can spend, and corrections will be made upon that basis?—We do make that correction, but it is a very unpleasant correction for the Comptroller-General to make, because it is entirely on his own responsibility, and if anything goes wrong they say, "We never told you that we could not spend that money."

10,165. (*Lord Faber.*) Cannot you get rid of the railway grant out of the Budget balance altogether? Can you not pay that over to the railways, or those representing the railways, instead of carrying forward a lapsed grant. Is there any reason why the grant should lapse altogether? Could it not be carried on into the railway for the next year and kept alive for the railway?—I think that is a very difficult thing to do, because the system of all budgetting is, is it not, that you take a period which is nearly always in the world 12 months, and for that 12 months you estimate what you are going to spend. If you allow a sort of overflow it leads rather, I think, to loose budgetting.

10,166. But it would be earmarked for the railways, would it not? It would be earmarked this year, and if the railway did not spend it this year surely the railway ought to be allowed to spend it next year. It ought to be earmarked and got out of the balances of the Budget?—But the theory is, of course, that the railways ought to know their own business, and they budget for their 12 months, and when they see that they cannot spend it in the 12 months, they have only to ask for it for the next 12 months, and as long as they ask for it in time it is in the Budget estimates for the next year.

10,167. This way of doing it I should have thought makes people wonder why there is such a big balance over in the Budget?—I quite agree with your suggestion, if it were feasible.

10,168. (*Chairman.*) As a matter of fact, you do habitually carry the sum forward in your balance, do you not?—No, I think under our system the grants lapse, and the extent to which the railways or anybody else can get money in the next year is the extent to which they estimate for the expenditure in their estimates for the next year. The guillotine drops, so to speak.

10,169. As a general rule, at any rate in these recent years, when there has been lapsed expenditure you either have not had knowledge of the lapse in time or for other reasons you have not reappropriated the money for some other purpose, but it has fallen into the balance?—Yes.

10,170. And therefore, in considering what you may spend the next year, you have taken account of the swollen state of the balance?—Yes, you have.

10,171. I just want to follow this a step further. I can quite understand from home experience the importance of maintaining the position that the current services of the year are to be paid for from the current revenue of the year, and for such current services the money is not to be held over from one year to another, but these railway grants are really capital expenditure?—Yes, I should think they are largely—mainly.

10,172. They are not recurrent in the sense that a grant for education is recurrent?—No.

10,173. Do you think that in the case of non-recurrent capital expenditure it is necessary to apply the same rule which you apply to current expenditure out of revenue?—No; I think it is essential for a railway to have a programme, but I should have thought you could have got at what you want more easily by trying to take railway capital expenditure out of the Budget altogether — out of the official Budget.

10,174. (*Sir Ernest Cable.*) May I ask whether the present system does not lead to reckless and wasteful expenditure on the part of railways towards the end of the period? You say the grant would lapse unless it was spent by a particular date. Does not that tend to make the railways recklessly spend more money than would otherwise be the case?—I take it that they have budgetted for the expenditure which they want to make. Possibly they might administer the expenditure badly, that is to say, entrust it to the wrong people, or make their contracts a little too hurriedly, but the money they want and the money they spend is for the objects for which they want it. The railways are, however, well administered. With the ordinary public expenditure of government, the spending departments, I think there is a real tendency to waste money, because they say: "We have got it this year, and heavens knows if we shall get it next."

10,175. But it is with other departments?—Yes, with other departments I should say it is.

10,176. (*Chairman.*) For the reasons which you have explained to us, the Budget balances have been unusually and abnormally high in recent years?—Yes. I think the tendency is to go on getting them closer and closer to our receipts.

10,177. You would desire, of course, that having regard to the circumstances of India, budgetting should be framed on the cautious side?—I think it must be so as long as we are so dependent upon the weather, and that will continue.

10,178. Possibly there has been a little excess of caution in recent years?—I, personally, do not think it an excess of caution, because I really think, as I attempted to foreshadow, that as long as the position of the Financial Department is weak I am afraid I would prefer always to go on keeping the money up my sleeve.

10,179. So that if you were the responsible minister this policy would really be deliberately adopted by you?—I think I should adopt it.

10,180. Let us then pass from the general subject of the balances to the question of the Treasury balances?—There, as I think evidence has been given to you before. We are in this position: The Government of India is very much in the same position *vis-à-vis* the Secretary of State as the Imperial and Provincial Governments are in India. There is always a contest of opinion in India as to whether the funds belong to the Provincial Government, and the Imperial Government should only have what is sufficient for Imperial budgets, that is to say, for that of the War Department and other Imperial departments. Similarly the same question arises *vis-à-vis* of the Imperial Government of India and the Secretary of State. The question is whether the balances belong to India and the surplusage should go home for meeting the liabilities of the Home Government, or whether you regard it rather the other way; viz., the liabilities in London are first considered, and India retains the residue. Under present conditions it is the Comptroller-General's business to run the treasuries of India, and in regard to any sums which he does not require for the public expenditure he informs the Government, and

they inform the Secretary of State of the amounts at his disposal for drawing. In other words, the funds which India does not immediately need are at the disposal of the Secretary of State for drawing. I do not know that I wish to criticise that. Obviously there is the other view, that the funds are Indian funds—Indian balances—and what should go to the Secretary of State are the sums he requires. I mean to say there is a difference in the attitude from which you regard the position.

10,181. In the way in which you put it to us there is almost a suggestion that the interests of the Secretary of State in London are different from the interests of the Government of India, indeed almost as if he were using the moneys for other than Indian purposes. You do not mean that?—No, I am not, of course, suggesting that for a moment. I merely mean that the difference is in saying: "Shall I give you "only what you want, or shall I only keep what I want "and give you the rest"?

10,182. Translated into actual terms does it not come to this: Shall we spend the money on improvement in education and sanitation, or whatever it may be, or shall we use it for development works?—No, I do not quite mean that. I am now speaking of cash balances, and the question is whether the till money which the Comptroller-General does not require for the moment to run my treasuries in India stays with him, or whether he only keeps what he wants and the Secretary of State gets the rest, or *vice versâ*. That is the only point I was making about that. Then we come to the question of our Treasury balances themselves—their amount. I believe that in India we run our treasuries with great economy. There is an infinite amount of brains and work and labour devoted to keep as little cash as we can. I think you have had quoted to you figures by Sir James Westland, which are of very ancient date, naming a certain sum which he considered sufficient. On a point of that kind Sir James Westland's authority, I think, would never be questioned by anybody who knew him; he was a past master in calculations of that kind; but times have changed since then, and probably if you accepted those figures you would have to add 25 or 30 per cent. to the figures which he gave. I think you have had figures before you; I think the Assistant Secretary to the Government of India in the Finance Department gave them.* His evidence was, if I may say so, extraordinarily good. He is a very capable man, he knows the subject extremely well, and he gave an extremely good exposition of it.

10,183. The general view which your experience leads you to hold is, as you say, that the treasuries are worked with the minimum balances which are compatible with the proper discharge of their functions?—I think it was my view generally expressed to the Finance Minister at the time, that they are worked a little too fine. That raises a rather difficult question—I do not know whether the Commission wish to go into it—as to the way in which we use our currency chests. We use our currency chests to economise our Treasury balances to an enormous extent, and that opens up the question of our currency policy. If we did not do that we should have to keep higher Treasury balances than we do. Then the question of Treasury balances leads into the question of loaning them, and so on. I think the Commission know very well that our present system in India was due to the failure of the Bank of Bombay in 1866. I happen to have had considerable knowledge of that, because my father held the same appointment as I did, and he was the person who inquired into that failure, so I have been accustomed to a great deal of this from my boyhood. The opinion was then formed, as I think you all know, rightly or wrongly, that it was unsafe for us to leave the ordinary cash balances of India with the Presidency banks, and so we withdrew them to our reserve treasuries, a system which you probably know is employed largely in America; America does the same thing very largely. We do not allow the Presidency banks the use of our Government balances beyond giving them a rather generous figure over what we are bound to give them under our agreements. I forget what it is that we give you, Sir James Begbie?

10,184. (*Sir James Begbie.*) 20 lakhs?—And the Bank of Bengal amount is how much?

10,185. Thirty-five lakhs?—I think as a matter of fact I usually left with you something more like 50 lakhs.

10,186. Yes?—And with the Bank of Bengal, I suppose, 80 lakhs; and similarly with the Bank of Madras. Apart from that, we lock our balances up. Now you get this curious position: The Secretary of State draws here what the Comptroller-General did not require; then those sums, being in excess of his immediate requirements, are lent to the market here and to the exchange banks. So you get this paradox that, although the exchange banks look to the Presidency banks in India very much as the banks in London look to the Bank of England as their ultimate safety in times of crisis, yet the banks to which they look in India have practically very little power to get our balances, whereas exchange banks get them in London. That may be an unavoidable anomaly, but I think it is a bad one.

10,187. (*Chairman.*) Would you yourself favour a proposal to make loans from those balances to the Presidency banks?—Not ordinarily, I think, either from the Treasury or from the currency. The cash balances of India are intended to meet its liabilities, and directly you bring in the question of lending those cash balances, you may be diverted from the correct attitude of regulating your cash balances according to your own needs. But I do think that our tendency should be to leave more of our balances with our bankers, which you say comes to nearly the same thing. I do think as time goes on we may go on leaving larger amounts with our bankers in India.

10,188. I understand that what you now leave with them is left free of interest?—Yes.

10,189. Is it your suggestion that that sum of money which they enjoy free should be simply increased?—Yes, but then it would be connected with further ideas, which I want to suggest to the Commission. I would prefer to see a reversion to the old days of the three Presidency banks, of their reverting somewhat more to Government management. In the old days the Comptroller General—I think my father was the last—was the official president of the Bank of Bengal. I would prefer to see either the Government holding the shares, or a system by which the Government have directors on the board, or a system by which you credit to the Government any dividend of the Presidency bank over a certain figure. At present, I think the Presidency banks pay about $4\frac{1}{2}$ per cent. on the price which they are quoted at. The actual dividend is 14 per cent. or 12 per cent. or something like that. If you allowed the present holder a return of about $4\frac{1}{2}$ per cent. on his money, say, 14 per cent. I think in the case of the Bank of Bengal, the dividends over that, or three-quarters of the dividends over that, or something of that kind might go to the Government. Under such a system I would leave more of our balances (and ultimately the whole) with the Presidency banks.

10,190. What you look forward to then would be either the acquisition by the Government of the three banks, or a partnership of the Government in the three banks?—Yes. A partnership is what I would prefer, or it may be a matter of contractual agreement, I take it. I would give them our balances and ultimately the management of our paper currency, and in return exact certain representation on the board and a share of their profits. There are many agreements which might be made.

10,191. Of course, there is a very great difference in regard to the constitution of the banks and the influence which Government exercises on them, but do you see any great difference from the point of view of the use of the money between your proposal and the suggestion which has been made, that these balances, in so far as they were not needed, might be temporarily

* *See* the evidence of Mr. Bhupendra Nath Mitra, C.I.E., Cd. 7069, page 194, &c.

lent to the banks?—Yes, because I think it has an element of danger, and I am suggesting that the element of danger is averted by the Government officials, the Comptroller-General, or possibly the Financial Secretary having a large voice in the management of the banks. I might say also—perhaps Mr. Gladstone might not agree with me—that in business circles in India partners move, as a rule, very quickly. We Government officials go out there for many years, but in a successful firm when a man gets to the top he stays perhaps a few years and then goes to England, and so the result is that we have not got the same personnel to choose from that the Bank of England has got in this country. I do not think that the heads of the firms will spare their time seriously to work on the Presidency banks. One of them is generally the President, but they will not give the time, I take it, which the Bank of England directors give the Bank of England business.

10,192. Now, leaving the question of such a reconstitution of the banking system for the moment, what do you wish to say at this point about the crisis of 1907?—That would rather come into the question of our currency arrangements. If I might, I would rather go on with the question of the balances.

10,193. Please make your statement in your own way?—Another reason for which I advocate very strongly some system by which we can give these balances to India is this: In the first place, I think they are primarily due to India; they are money which belongs to India, and I think primarily they should be used for relieving the Indian money market. Secondly, I dislike intensely the system by which we get any avoidable accumulation of these moneys in London. You get a very undesirable conflict of interest. I think it is very wrong that the balances of India should be administered in London at the India Office by gentlemen who are bankers. It is a wrong system, because their public interests and their interests as bankers must occasionally be in conflict. It is also bad for the City—and I believe that is the best opinion in the City—that there should be another King of Brentford who should lend money in the London money market, I will not say against the Bank of England, but not under its control, whilst the ultimate liability falls on the Bank of England. I think it is very undesirable. I should like eventually to clear the cash balances of the Government of India out of London, except so far as they are necessary for meeting their liabilities when they accrue.

10,194. You would, I suppose, think it right for the Secretary of State, foreseeing heavy charges like the usual annual expenditure, and perhaps for railway development, to make sure of getting his money over when he is in a position to do so, and not to run any risk by postponing it to a time when it might be difficult to make the transfer?—I have often thought of that, but I do not think that there is really a great deal in it. The amount of India's liability to England, that is to say, the Government liability, is very small in comparison with what trade owes India, and, therefore, if India, on Government account, owes England little, and trade owes India much, broadly speaking, there is not much danger, I think, of the Secretary of State being unable to draw his requirements. I quite agree that you should not be caught short; but the danger is not very great. I think you could hold a great deal less in this country than you do hold.

10,195. Let me ask one other question to elucidate your view on this point. Of course the London money market is a very big one?—Yes.

10,196. It has been represented that even in so big a market there is a little difficulty in loaning out satisfactorily such very large sums as were accumulated here recently?—Yes.

10,197. Suppose those sums had been retained in India, do you think that the Indian money market is of a size to find profitable employment for them?—No, in that exceptional case, I think, probably not I should think not. I am rather speaking, I was going to say, of counsels of perfection than of what we can really do. I should think for some time to come we shall have to employ Indian moneys in London, but I would rather not see them lent on the market; I would rather that we bought floaters, or something of that kind, or left it with the Bank of England, or asked the Bank of England to lend it.

10,198. That is rather a different point?—Yes, that is a different point.

10,199. For the moment I was merely trying to get your opinion as to whether or not the Indian money market would be able to find profitable employment for those moneys?—I agree; I do not think at present it would be safe, and the paradoxical position arises from my point of view that I would rather we left the largest balances with the Presidency banks when the need for it was less, that is to say, when they bore such a small proportion to the total banking business of India that it really did not much matter to them whether they had it or not.

10,200. The safety of the operation is very much dependent upon the proportion which the Government loans bear to the size of the money market?—Yes. There is only one other point which I would like to mention, and that is a very familiar one. We withdraw, of course, large sums of money from the pockets of the people at the time of our land revenue payments, and I think it is true—everybody admits it, I think—that if possible we should try to return that to the market as quickly as we can; and it would be useful to the market, because I think in Calcutta the period of pressure in the money market is very much at a time when we are wanting to draw the money in our own kists. Is not that so, Mr. Gillan?

10,201. (*Mr. Gillan.*) Yes?—I think so, but I am a little rusty.

10,202. (*Chairman.*) You were just saying that owing to the circumstances in connection with the land revenue you are obliged to withdraw these big sums, that is to say, you are obliged to collect these taxes just at the moment when trade is very busy?—Yes.

10,203. I want to put to you a suggestion, without indicating any opinion of my own upon it, in order to hear your opinion. In this country a large portion of our revenue comes in in the last quarter of the year?—Yes.

10,204. If we followed Indian practice, as I understand, we should carry forward a balance from the previous year sufficient to finance us through the first lean months of the new year?—Yes, that is so. We let it run off, so to speak.

10,205. What we do is the opposite. We borrow during the first nine months, and repay the market when the revenue comes in?—Yes.

10,206. Is that system applicable to India?—It is very interesting that you should put it. I was talking over an hour and a half on that subject yesterday to one of the most competent authorities in this country on that very question, and he put to me the exact point which you are putting, and in the same way. He said: "Now, could that be done in India?" I confess, to be honest, that my answer is that I have not considered it. I doubt it for the moment. I think the first answer probably of the India Office, and I think of Mr. Abrahams, would be: "Why should you borrow if you can keep your own "money; you have your own stocking, and if you can "keep your own money in your stocking, and have "enough to pay all you want to pay, why should "you borrow at any time?" I find it rather hard to meet that argument. Why should you ever borrow if you have enough funds of your own to pay?

10,207. It is sometimes more economical to borrow to meet your temporary wants than to hoard your money without interest in order to have cash at the time you want it?—Quite, but my answer rather would be that I should like time to consider whether I could see my way to something of the kind.

10,208. You would not like off-hand to express any opinion as to whether the resources of the Indian money market are such that the Government could count safely upon borrowing year in and year out on deficiency bills?—No. I quite understand the point. I am not prepared to offer an opinion off-hand.

10,209. Will you resume your statement?—The next question I think, comes really into our currency system. For many years I have been minuting and making notes for the Government of India, advocating strongly the necessity for holding a great deal more gold than it has ever been the custom to hold against our currency. The first instance that occurred, showing at any rate that some gold is necessary, was at that crisis of 1907. When that crisis occurred I was Accountant-General at Bombay, and the crisis occurred in Bombay, so that with this particular crisis I had more to do officially than anybody else. We had a certain amount of gold then in our currency note reserve, and the exchange bankers came to me. Exchange had turned against India, and they wanted gold for export. The orders of the Government of India were, I think, that I was not to give out gold except in parcels of £10,000 for internal use. I think those were the orders. I went on my knees almost to the Government of India saying how wrong I thought that policy, and that when exchange had turned against India the only thing to do was to give out every ounce of gold you held without inquiring who wanted it, or why it was wanted, but simply give it out. Possibly there was not enough—there was not enough, I think—eventually to arrest any drain of that sort. The bankers came to me and said: "Well, what can we do?" They wanted to remit. I am afraid my answer was: "I am in a very difficult position; my "views are not held by the Government of India, "and I think the only thing you can do is this: "You are very powerful in London; go to the "Secretary of State and urge your case"; and what happened was that the exchange bankers who were very powerful in this country, and all the big firms in Bombay (many of them very powerful also) wrote home to everybody that they could think of in this country; the senior partner in the biggest firm perhaps in Bombay was then or had been Governor of the Bank of England; and what they did was this: They went to the Secretary of State and said: "You have got to do something," and the result was that the Secretary of State then began to sell reverse councils. Then I was asked how much the trade wanted. I went to all the exchange bankers, or they came to me, and I asked: "Now, how much do you think you want?" and they gave the proper answer: "Not very much, but if you limit the quantity, a great deal." Then there was a contest whether it was to be five or six hundred thousand, or what it was to be, and my advice continued to be all the time that it should be absolutely unlimited. I said: "The larger the amount you are prepared to sell, "the smaller will be the amount taken." The result was that the banks took considerably more at the time than they wanted, and returned it afterwards, simply because the amount was limited.

10,210. Your primary object in the advice which you were tendering at that time was, I suppose, to maintain the par of exchange?—Yes, that is so, to let gold go freely wherever you had it, either in India or in England, to all comers without any restriction of any sort or kind.

10,211. And for that purpose it would in your opinion have been the proper course to use your gold at once and freely?—Yes, anywhere and everywhere.

10,212. Do you think that the giving out of the gold to all comers in India would be as effective for the maintenance of exchange (which you said was your primary object) as to ship that gold to London and to sell sterling bills?—No, I think it is unquestionable that at a time of adverse exchange where you have got to remit large amounts, it is simpler to take large amounts where large amounts are, and therefore at a time of adverse exchange the simplest way is to draw on a central reserve; but that to me is a very different thing from saying that the gold you hold elsewhere is of no use—that gold which you hold is of no use in maintaining your par. That I hold is a great heresy.

10,213. I am not dealing with that for the moment; I am dealing with a particular course which you told us you recommended. In the crisis of 1907 you had a certain amount of gold?—Yes.

10,214. You say that your object in using that gold was the maintenance of exchange?—Yes.

10,215. How could the gold which you held be made to go furthest in support of exchange? Would it be by the method which you seem to advise of giving it out to all comers without inquiring whether they were going to hoard it, because they were getting in a panic, or would it be better to ship it to London and offer to sell sterling against it?—I think I would rather let it go to all comers, because when the exchanges are unfavourable, I think what you want to do is to let your gold out, and I do not think it matters very much what the reason is which is actuating the man in asking for it; that is to say, if a man hoards it he is withdrawing the currency, which is raising its value; if he is going to spend it in ornaments, he is not taking it because he wants ornaments any more than before, he is taking it from the bullion which would have come from London or elsewhere to India. Therefore, that always seems to be a little like saying to a man withdrawing his deposit when there is a run on a bank, "What do you want it for?" I think the best thing is to let him have his money and not say, "Why do you want it?" I do not think that matters materially: but I am in agreement with the general opinion, that at the time of adverse exchange, it is more convenient to have gold in the central reserve to be drawn upon, but I would not have actually remitted gold from India for this purpose, viz., in order to be drawn on.

10,216. (*Mr. Keynes.*) You say that if a man takes it and hoards it, that reduces the volume of currency, and so alters prices, and so eventually rights the balance of trade?—Yes.

10,217. Everybody would agree with that, I think, as what would happen in the long run, but in a country like India that would take perhaps a year, or even longer, before it had its full effect?—Possibly.

10,218. It would have almost no effect upon the immediate crisis in hand; it would not steady exchange over those three months, probably, would it?—I do not think we are in much disagreement over that, but what I would rather say is, that the fact of the man taking that gold out for use simply has the effect of releasing the gold in London which would have been exported normally from London to India for use. As regards hoarding, I think the man is only hoarding very temporarily. That is to say, he is absorbing gold because it is rising in value; just as one buys securities when they are rising. This gold returns to the market, just as the security is sold, so soon as the hoarder can get a profit or realises that no profit is to be made. I am not speaking of permanent hoarding.

10,219. (*Chairman.*) Does that mean that he just withdraws it from the market during the crisis and that he brings it out again when the crisis disappears?—I think that may be true of a commercial crisis, and that is a point I wish to bring out in regard to Lord Goschen's scheme for 1*l.* notes, which has been so often quoted. In a commercial crisis, where gold is the foundation of a large superstructure of credit, I think that may be true—I have rather in view the question of protecting the exchange of India over a continual decline. My view is that gold withdrawn when the exchanges are unfavourable comes back quickly into the market for the holder to realise his profit or in his recognition that the exchanges are not in permanent danger. I am looking at the long view of exchange, so to speak, rather than the short view, because this is not necessarily a case of a sharp monetary crisis; it is a case of exchange slowly turning against the country.

10,220. (*Mr. Keynes.*) I should agree entirely in that, that to let out gold to people in India helps in the sufficiently long run to steady exchange, but if it is a matter of a monetary crisis, as it was in 1907, or if it is a matter of making people quite sure that exchange is not going to fall, then the immediate effect of releasing gold to the public in India is very slight, whereas using it to offer drafts on London is very great. You would agree with that. That is not the point at issue, is it?—I would agree that, if by a magician's wand I could have removed at that time the gold that was in the Currency Note Reserve in India into the hands of the Secretary of State, its liberation would have acted more quickly on an adverse exchange but that would be the extent to which I would hold that.

10,221. If you had said to the exchange banks, "The Secretary of State's reserves in London are to "be used for the cashing of drafts, and the gold I "have here will be put at your disposal," would that have had a more immediate effect?—I rather think that might have created a fear in the people's minds (which is what affects exchange temporarily). I would rather have said, "Take all the gold you want: have the gold; here it is." If we had had enough gold we would have stopped the fall entirely. The gold would simply have been exported.

10,222. But the people whose fears you wished to allay were not the people in the interior of India, so to speak, but people who wished to remit, or thought they might wish to remit, to England. They were the only people whose fears it was important to allay at the moment?—No, because I do not think this is a momentary crisis like a commercial crisis in the city. It is rather a case of exchange slowly moving against the country.

10,223. But if the exchange banks think that there is a little doubt about the maintenance of exchange, then it is very like a monetary crisis?—But then you have to consider also the people of the country, if they are suddenly refused gold. You are injuring the status of the gold currency in the country—if at a time of difficulty you say, "No, you cannot have any "more gold; the Secretary of State may want it, and "I am going to ship it."

10,224. But keeping to the exchange banks for a moment, at a time of crisis the amount of adverse trade balance which they must meet immediately is small, and as the exchange falls the exchange banks begin to get anxious as to whether they will be able to remit back in the event of there being a drain on their depositors in London, or something of that sort. They have a great deal of funds raised in London and used in India?—Yes.

10,225. They begin to get a little nervous whether, f they want to bring those back, they can?—Yes.

10,226. Therefore their tendency is to remit to England very much more than is required to meet the adverse balance of trade, which at the moment is very small, and the important thing to do first is to make them feel perfectly secure that they can bring the money back when they want to. When you have those conditions you have practically the conditions of a monetary crisis rather than a trade balance crisis?—I would put against that the fact that you will create greater annoyance and fear in the minds of the people (which will affect exchange) by withdrawing all gold from India when the exchanges are becoming adverse than by letting people take it without hindrance or questioning.

10,227. How will it affect exchange?—Because the people will not like gold if they find that when they want gold they cannot get it. What happened before 1907 was this: We were gradually introducing gold into the currency of India. When the exchanges went reverse the gold began to be exported. Now what you are in effect saying is: Sweep up practically all the gold you have in India and send it over to London to be drawn against by the exchange banks. I do not think that would be a good thing for our gold currency.

10,228. Are you arguing this way, that if you let out gold freely in India to all-comers it will not help that immediate crisis, but it will give the people of India confidence in gold which will, in the course of the next 10 years, increase the amount of gold which they keep?—Yes, partly.

10,229. And then in the case of a crisis you will be in a stronger position. That is the first part of your argument?—Yes, partly that. There is the argument also, that to the extent that they take the gold out which they are going to use in the arts it is gold taken from the country which would ordinarily be imported, and therefore you save this amount of gold from being imported. The gold taken into hoards comes out directly the price is attractive. In other words, each way is righting the exchange, and one rights it a little more quickly than the other.

10,230. Of those two parts of your argument the first is contingent upon the whole question as to whether a greater amount of gold in circulation does help exchange even in the very long run?—Yes.

10,231. The second part of your argument is not contingent upon that, and I should not think it would be disputed by anybody that if it hinders the importation of bullion from England which would otherwise have taken place it does in the course of the ensuing year help exchange?—Yes.

10,232. (*Sir Shapurji Broacha.*) Shall I help you? In 1907, when the crisis came, I see the Mercantile Bank asked permission to withdraw from the currency 20,000*l.*?—Was that for Ceylon?

10,233. You wrote, "Why do you ask?" You can take it from me. I think as a precaution you wired to Mr. Baker, and Mr. Baker wired back to you not to give the gold unless the gold was for internal use, and not for export, if I have the correspondence rightly?—My recollection is that one of the banks, it may have been the Mercantile Bank, asked for gold, and I was asked to ask why. I did what I was told, but all the time I expostulated, and I said it was very wrong. It does not, in my view, matter why it was wanted. I think it was wanted for Ceylon, and I was told to refuse it.

10,234. I think you gave an order and the order was countermanded, and I think you wrote and said that though the countermanding of the order had come, still they could take that amount?—It is possible that I took the responsibility of giving it and then asked for confirmation of my action, thinking it could not be refused, and it was refused. I do not remember, but it may be so.

10,235. Then at that time there were 4½ millions in the Currency Department in gold?—Yes.

10,236. You knew the crisis of exchange was coming?—Yes.

10,237. Instead of following your advice and giving out gold as much as was wanted without asking the reason, supposing you had put that gold into the Treasury and had not given it out, would not that 4½ millions have served to allay the panic in the exchange if you had only given that gold to the exporters? But as it happened you gave away the gold, at least, you practically gave the gold to Indians, and the result was that no gold was left?—I agree to some extent with Mr. Keynes. I think we took the very worst possible course, which was to give it to people who helped exchange least. I agree with Mr. Keynes on that point. It was the worst course we could have pursued.

10,238. And in the time of crisis, if according to your advice you give away all the gold, people know that there is only 10 annas worth in the rupee, and would not they try to secure the substance for the shadow?—I think that argument can be pushed too far. There is a certain volume of currency which is required to sustain the par which you are on, and it is really unthinkable that a very large quantity of that circulation can be presented for encashment.

10,239. You see, much gold had been absorbed before 1907—from 1901 to 1907?—Yes.

10,240. And by some management or other there was only 4½ millions left, and it did not take much time for people to take it away?—No. If your point is that we ought to hold a great deal I am entirely with you, but if you talk of there being a serious danger of the whole of the money of India being presented for encashment then I think you are wrong.

10,241. The working of the Indian mind is such that on the least alarm it will tender rupees if gold is is procurable?—I am in sympathy with a great deal of your view, but I do not hold it to the extent to which you put it, I think.

10,242. (*Chairman.*) Let me ask a question which I think is of practical importance in regard to the present situation. In what you have said you say you are eventually contemplating a much larger amount of gold being held in India?—Certainly.

10,243. And in the meantime you have only a limited quantity of gold?—Yes.

10,244. Do you think that as long as the gold is so limited it is wise to give it to all-comers at a crisis; or while your reserves are inadequate do you think it would be better to use it only for the purposes which immediately serve the maintenance of exchange?—I think that becomes entirely a quantitative question. If the amount is considerable, I would far rather run the risk and give it out to everybody. If the amount is clearly insufficient, whether you do or do not give it out, does not, I think, much matter. You will get your crash.

10,245. (*Mr. Gillan.*) You would like to have enough gold to sell for all purposes?—Yes; I agree with a good deal of what Sir Shapurji is suggesting. I think you create a certain amount of distrust if, directly anything happens, you immediately ship practically all the gold you hold in the note reserve to be drawn on in London. I think that would create a want of confidence. That is the argument which I am putting with regard to that. I quite agree with Mr. Keynes that it does not act on the spot so quickly as selling bills on a central reserve. I do not deny that for a moment.

10,246. But the drain for these internal requirements about which you have been talking might be very heavy in any case. I mean it might be 10 or 15 millions?—But why? I do not quite see why it should.

10,247. You think it would not get to that?—I do not see why it should. I do not see where the distrust should arise. That, again, depends upon how much liquid gold you are keeping. If you are keeping enough to meet all reasonable contingencies, I do not see why there should be a drain upon you.

10,248. You gave out 4½ millions in 1907–8, did not you?—Yes. I have not verified the figures; I have heard the figures given.

10,249. It might be a great deal more than that?—It might be.

10,250. I mean on another occasion it might be that a great deal more was taken out?—I do not quite see why.

10,251. (*Mr. Keynes.*) If you increase the taste for gold it might. In 1907 it was rather the beginning of the idea of using gold much in India. There has been a great deal of progress since that time?—I hope so. I have been working at it very hard since about 1901 or before.

10,252. (*Lord Faber.*) But the volume of trade and figures generally have increased so enormously since 1907 that I think you would have to be prepared for a great deal more than 4½ millions, or anything of that sort?—I should like to see an amount enormously more.

10,253. (*Chairman.*) Perhaps it would be convenient if at this moment I asked you to turn your attention to the gold resources of the Government of India?—Yes.

10,254. There is first the Gold Standard Reserve. I think you have indicated already what your view about it is, but I should like you to state it definitely to us?—I should like practically the whole of the Gold Standard Reserve to be held in liquid gold. I am not speaking of all eternity; a point comes when you would not require so much; but at present I would like every sovereign to be in liquid gold. Then the question arises where it should be located.

10,255. Before you come to that, just let me ask you this: would you under present circumstances fix any limit to the growth of the Gold Standard Reserve?—Might I take that later, because I was going to suggest something in connection with possibly amalgamating our note system and our rupee system which would touch that point; but taking the immediate position, I should like the whole to be held in gold. I think it is something like 22 millions. Then on the question as to where it should be held, I entirely agree with the view which I think has been the view of the India Office and of Mr. Keynes, that whatever is held should be held in London to be drawn on. My objection to advocating that hitherto has been this: We all know that England is the gold market for the world, and England holds extraordinarily little gold, something like 37 millions. It is very small as compared to what other people hold. If we held 22 millions in practically a safe deposit in the Bank of England, and that amount grew, as I think it should grow, to something like 40 millions, then I think what must happen is this: Instead of the City going on putting its house into order, and the big bankers keeping a larger reserve of cash over liabilities, and rather strengthening our gold position, there would be an inevitable disposition to say: "Oh, "well, we have got 45 millions of Indian gold locked "up at the Bank of England, and we need not bother "very much, because if anything very serious is going "to happen it can be utilised." I put that argument in very high quarters to a friend of mine in the City, and I think when Mr. Cole gave evidence here that point was put to him, and he rather repudiated it, but, with great respect to what Mr. Cole said then, I do not agree, because the position has not arisen, and if the position did arise, and the Indian Government did hold this enormous sum at the Bank of England, I think it would be inevitable, and rightly inevitable, that it should be utilised. It would be an enormous safeguard to England and to the Empire if anybody from within the Empire could lend that money. The Bank of France lent, I think it was, three millions to the Bank of England at the Baring crisis. If we had had those 45 millions then, it would have assisted us very much. Therefore I have always said that I would rather have that gold held in India, for the reason only that until the City had put itself into rather a stronger position I would rather the gold was held in India, so that it was not present to their minds that they had that to fall back upon—not so nearly; but I have thought it over, and I have spoken to a great many friends now about it, and they declare that they do not think it would make much difference, and, that being so, I am in accord with the view which Mr. Keynes would put and the India Office would put, that the gold should lie at the Bank of England rather than in India.

10,256. Of course, the three millions which the Bank of France lent was not in London, was it?—No, I do not think so.

10,257. It was not because it happened to be in London at the moment that London thought of having recourse to it?—No, I do not think so, but I believe the relations between the Bank of France and the Bank of England are generally pretty cordial.

(*Lord Faber.*) The Bank of France discounted bills for England.

10,258. (*Chairman.*) Just as we should hope that the relations between the Imperial Government here and the Government of India would be very cordial?—Exactly.

10,259. The point of my question being that, after all, the additional security, if any, which you get by holding gold in India would not be very great?—No; that is why I have altered the view which I have generally held, and expressed to the Government of India—never in public, but in minuting. I am inclined to think that it would be better to hold that gold in the Bank of England.

10,260. Passing then from the question of the location of the gold in the reserve, will you now give us your views about the two reserves?—On the question of liquid gold as against securities, may I just make a point which I wish to make about that? At present the traditional policy of the Secretary of State has been to hold practically nothing in liquid gold—a mere bagatelle of a million or a million and a quarter, or something like that. He holds the rest in securities, some short-dated and some long. I have the greatest dislike which it is possible to state to that policy, because when gold is wanted what you are doing is creating a demand for it. You are then selling securities and you are demanding gold, whereas if you have a reservoir of gold, which is what you really should have, of 22 or 40 millions sterling, and you begin to turn the tap on, it is exactly like turning on water in time of drought; you are making it cheap instead of raising its price against yourself, and therefore to hold a small amount of liquid gold and a very large amount of securities to me is madness.

10,261. Your view, I understand, is that when the time comes when you need to use the reserve, that course aggravates the crisis which the reserve is intended to avert or to mitigate?—Yes; and I should like to quote from what the Governor of the Bank of France, M. Pallain, has said. What has been generally said is: "Oh, yes, but we are in a very ticklish position. Therefore let us invest our reserve," but that is almost the same as saying, when a bank has got small till money against a large liability, "Well, it had much "better not hold that, for if it is invested it will grow "bigger." It is an argument really of that nature. M. Pallain, the Governor of the Bank of France, when that very question was put to him about investment before the National Monetary Commission of the States, said: "It is true France holds proportionately more specie than any other country"—this is a little condensed, but it is substantially accurate—and he goes on to say: "If it held, say, two milliards less, "and so obtained 80 to 100 millions as interest, "it would lose the advantage of the reduced rates of "interest which the character and extent of its "reserves enable it to maintain, and also the "sentiment of absolute security and financial inde-"pendence in a crisis." Then he added, which is very interesting, that "the balance of payments is always in favour of France." In India the balance is nearly always in favour of India, but M. Pallain maintains that view even in France, where it is always in favour of France.

10,262. (*Mr. Keynes.*) May I ask whether you agree with what he says there? It strikes me as most disputable?—Yes, I do.

10,263. And it seems an unlikely statement?

(*Lord Faber.*) You mean that the balance is always in favour of France?

10,264. (*Mr. Keynes.*) Both that and also the point that the steady bank rate in France is only kept up by the very large gold reserve which they keep?—That is in document No. 405, page 217, in the American Commission.

10,265. Yes, I know that view is expressed; but you are probably aware that the view ordinarily held is that the reason that the Bank of France can keep its bank rate so level is that it is not a very free market for gold?—I am afraid I deny that. The Bank of France has never charged a premium on redeeming its notes in gold, and I believe the Bank of France has never refused to give gold for export.

10,266. But it did so only the year before last. There was a premium of three-quarters per cent. in 1911, which is equal to about 3 per cent. on the bank rate?—All I can say is that I am quoting the Governor of the Bank of France, and he says—this was, of course, in 1908—"The bank has never charged a premium on redeeming its notes in gold."

10,267. (*Lord Faber.*) That is, notes in gold; but if you went to France and tried to get a large quantity of gold, unless you had their notes you would not get it. They would put every difficulty in your way?—I know that is stated, but unless you can give me the very clearest proof of it I do not believe it, because it is said of Germany, and Germany has categorically denied it. I can give you a much stronger quotation from the Bank of Germany.

10,268. (*Mr. Keynes.*) I think it is well known that the heads of these banks do say these things, but it is equally well known that they are not quite literally the case?—I have further statements of responsible officials. I can give you a statement of Germany: "The "Reichsbank never has taken, and never will take, any "steps, or suggest their being taken, to prevent the "export of gold, and considers such measures absolutely "wrong. Some banks so refused for wrongly under-"stood patriotic reasons, and were reproached by the "Reichsbank, which expressed the wish it should not "happen again." That is a statement by Von Glasenapp, the vice-president of the Reichsbank, and Von Lamm, another director; so that, so far as my information goes, it is entirely denied by the great banks.

10,269. (*Sir Shapurji Broacha.*) What date is that?—I am quoting from a document of 1908.

10,270. (*Mr. Keynes.*) You would not find any non-official authorities in this country to bear out that view, would you?—I do not know.

10,271. (*Lord Faber.*) Much water has run under the bridges financially since 1908?—Yes, but my point rather is that whether they do it or not—and they say they do not do it—they clearly express the view that it is wrong to do it. I maintain that—that they say it is wrong, and they say that they do not do it. I understand that some of you gentlemen say they do, but my point remains still clear. As regards the question of principle, they admit that it is wrong to do it.

10,272. (*Chairman.*) You did not have occasion to try to get gold in France yourself in the early part of this year?—No. As you are on that quotation there is another point, but I do not want to bother you. This was said by one of the directors of the Deutsche Bank: "We have so much money in gold in circula-"tion and in the pockets of our people that there is no "concern over the small cash holding in the banks, as "the public has the money in its pockets. Our "strength is in our Reichsbank."

10,273. (*Mr. Keynes.*) What is the date of that?—That is from the same document, document No. 405 of the Monetary Commission.

10,274. You are aware that since then the Reichsbank has deliberately reversed that policy?—No, I am not. The Dresdner Bank says the same thing, that they hold a great deal of gold in their pockets; and Dr. Salomonsohn of the Disconto Gesellschaft estimated the gold reserve in the pockets of the people at four thousand million marks, and went on to say, "It is "more satisfactory to have a reserve carried by the "people than the banks."

10,275. You are aware that when the Reichsbank was started there was a deliberate prohibition of notes under 5*l.* in order to get gold into circulation after the manner which you have described?—That might be.

10,276. But at the last revision of the Bank Act that was deliberately altered; small notes were introduced, and since then the amount of small notes which may be issued has very greatly increased, the authorities of the Reichsbank deliberately saying that they do this in order to get gold out of the pockets of the people into their own reserves. What you were stating was the policy of the Reichsbank from its foundation up to some time about five years ago, but they have altered their opinion since that time?—I take it from you. I am only speaking on the information I have myself.*

10,277. (*Chairman.*) Let us revert to the Indian case. I had asked you to give us your views as regards the two reserves generally?—Yes. For a long time I have been wanting to suggest to the Government of India—but having left India now one's interest has waned a little—that it would be worth considering the question of amalgamating our currency note system and our ordinary currency system. At present our rupee is really a note printed in silver and our note is a note printed in paper. We are undertaking the liability to preserve the whole on a parity with gold at 1*s.* 4*d.* By way of taking a figure as an illustration, supposing we will say there are 180 crores of silver in circulation and 60 crores of notes in circulation. I should be rather inclined to look at the question: how much gold should we hold against the two together, against the 180 crores in silver notes and 60 crores in paper notes; and do away with the Gold Standard Reserve. To take a figure by way of illustration, say

* I do not admit the relevancy of this argument. The German note issue system is in effect a hard money system. A gold note is therefore in effect pretty nearly a safe deposit receipt. I am not arguing—and I do not believe—that a 20-mark piece is better in circulation than a note for 20 marks against which the whole or nearly the whole is held in gold in the Reichsbank. On the contrary—with Lord Goschen—I prefer such a system, but I maintain that the best Continental opinion—German, Austrian, and Russian—is with me in holding that a gold currency is a line of defence against an unfavourable balance of trade.

that we hold 25 crores of gold against the 180 crores of silver, and say we hold 15 crores of gold against the 60 crores of notes, as a fact—I am assuming that at the moment—that would be 40 crores. Then what I would suggest is some plan of this kind: for every rupee we issue we keep the same proportion of gold, 25 to 180, or whatever is fixed, and similarly for whatever notes we issue we keep the same proportion of gold, *i.e.*, 15 to 60. That is the sort of system I would prefer, I think, to see introduced by the Government of India. I do not know whether I have made it quite clear?

10,278. Yes, I think so?—The question of the surplus which they might hold would be separate. I refer to the silver held to ensure the encashment of notes in silver when preferred, and the holding of commercial bills or securities against the silver and note issues.

10,279. I think it is a somewhat practical matter, though it may look rather theoretical. Do you consider that the amount of the Gold Standard Reserve is conditioned by the amount of token money in circulation in India, or is it conditioned rather—I will not say exclusively in either case—by the course of the Indian trade?—I do not think you can very well dissociate the two, but I would say that theoretically there is a certain volume of circulation which has to be in existence to keep the parity of prices at 1*s.* 4*d.* for gold and silver. Will you assume for a moment that at present that is 180 crores. Now, ordinarily speaking, as long as that parity holds you would not require anything behind it, but if the value of gold should rise in terms of commodities, you may require something behind those 180 crores. Also there will be certain seasons when you sometimes require a little more or a little less; in other words, the amount really that should be behind that 180 crores need be very small, assuming no serious changes in the value of gold. I am not an advocate of it being very small, because I take no risks, and that is why I mention as an illustration the figure of something like 25 crores.

10,280. Am I to understand that your view of the Gold Standard Reserve is that it should be regulated on the same principles on which you regulate, say, the stock of gold which you hold for encashment on bank notes here?—Yes, I would let it stand simply on its own feet—that India has enough gold to back its silver and notes.

10,281. But India would have to get enough gold to meet any influx of token money in the shape of notes or rupees into the treasuries?—Yes.

10,282. And you would leave a sum sufficient to be on the safe side, but not more than is required for that purpose?—Yes. The question which arises as regards the balance of trade is rather different. When you have a currency and a certain equilibrium of prices, it does not very much matter theoretically whether the currency is made of bone or what it is made of; the danger arises when there is an adverse balance of trade and you have to export. I do not propose to go into the further questions which arise and the necessary readjustments of the exchanges and prices.

10,283. (*Mr. Keynes.*) Are you advocating that gold should be kept for the redemption of rupees when the gold is not wanted for export at all, and there is no unfavourable balance of trade?—Yes, I was saying that I should treat the rupee as exactly in the same position as the currency note. It is a note which is printed in silver.

10,284. Is not that a purely wasteful practice, and of no use to anybody?—No, I think not, because there is the danger in having 180 crores of rupees current at a value in excess of their intrinsic value.

10,285. Apart from the question of an adverse balance of trade and the exchanges is there?—Yes.

10,286. I thought you were suggesting that such facilities should be given to exchange rupees into sovereigns in India merely to satisfy somebody's whim to have sovereigns rather than rupees, and not to satisfy the adverse balance of trade by the export of gold?—No.

10,287. You do not think that gold is only wanted for the purposes of export?—No. Assuming you have certain counters which produce a certain price between the counters and the commodities, if there is a change in prices due to change in methods of business or a rise in the value of gold, you will require less of those counters. If those counters are bone you cannot reduce them. I mean if the counters are of no intrinsic value you cannot reduce them; they have a tendency to stick. You cannot reduce token currency, in other words, in the way that you can reduce a full value currency, which goes away until a near equilibrium is established.

10,288. If you redeem rupees for sovereigns and the sovereigns are kept in the country and not exported, the volume of currency is exactly the same as it was previously?—Yes.

10,289. Therefore there is no effect on prices?—But they may present more counters than you have gold behind. My point is that a full value currency seeks its own level, but a token currency cannot be contracted.

10,290. But whether they do or not, the question of whether you can redeem them in sovereigns or not does not affect how much currency there will be out, and, therefore, does not affect prices?—Surely that again is the question. My point is that you require a certain volume of currency in India to sustain the parity of prices at the par which you have got of 1*s.* 4*d.* and if you have got to export—if the change is such that the currency must be contracted, you cannot contract a token currency (except by destruction).

10,291. There I agree, but I thought you were saying that you wanted facilities for the exchange of rupees into sovereigns when sovereigns were not wanted for export. That is what set me off upon the other argument?—No, my view as regards that would be rather different. I maintain that it is better to have a gold currency for India because at present gold is too plentiful. What happens with extra supplies of gold is that instead of the gold being used throughout to keep a certain par of prices, we have used the counters, whereas if gold had been used both in England and in India there would have been a greater demand for gold, and that would have given a different range of prices, and would have been better for the world. Instead of the high prices from which we have been suffering, we should have had lower prices, because there would have been a greater use for gold.

10,292. But it would have been rather expensive for India. I agree that it would have been of advantage to the world?—I think India would prefer it to the present system. At present the position is that the Secretary of State has got about a million and a half in liquid gold against these huge liabilities. India would infinitely prefer to have the gold current.

10,293. (*Chairman.*) You do not base your whole argument on the small amount of liquid gold which at present exists in the reserve?—No.

10,294. Assume that the proposals which you have made in that respect are carried out, and that something of the kind is done, and that the amount of liquid gold is very largely increased?—The point I was just putting to Mr. Keynes was that I would rather see a gold currency in India because of the fact that gold has been very plentiful of late, and it has been a disadvantage to the world that the supply of gold has been so large and has not been utilised. I would rather have it spread over a greater area.

10,295. Apart from that general world interest, in which in your view India shares, do you see any special advantage to India in other directions in establishing a large gold currency?—Yes, I do not think India can very easily skip the stage of a gold currency. What happens in the world in currencies is that each nation begins to use the currency which is useful for its units of transaction. It begins with copper or iron or something of that sort. Then as a country becomes wealthier it uses silver, which is a bigger unit; as it becomes a little more wealthy the unit rises, or there is a larger unit, and it begins to use gold; and I see no reason why we should seek to arrest the natural course of events in India. For large units gold is more convenient and more portable.

10,296. Is your historical view quite universally correct? Assuming that it is true of the past, before private credit had been developed as it has been, do you think that the younger nations—take Canada, for instance—are following all the stages which the old world went through?—No.

10,297. Are they not rather taking advantage of the experience of the convenience of a paper currency to what you call skip the gold stage?—Yes, I admit that Canada is a very excellent instance against my argument, but I do not think that that is true broadly of the world. I do not think it is true of France, Germany, Austria, or Russia.

10,298. (*Mr. Keynes.*) By using gold, do you mean using gold as the predominant medium of exchange?—I rather put it as using gold when they want it; that is to say, when they find for their unit of payment it is convenient to use a thing which is of higher value than silver, they use it.

10,299. Would you maintain that any of the countries which you have named have ever used gold as the predominant medium of exchange? You may say that they have used as much as they want; but that, in point of fact, they have not wanted it. Which of those countries would you say has ever used gold predominantly?—The gold in France, according to Monsieur Pallain, was between five and six milliards of francs, of which the bank then held 3¼ milliards and the rest was in the pockets of the people; so I would have said of France that France has a very large gold circulation.

10,300. France has a gold circulation?—It has a very large gold circulation.

10,301. It has a large gold circulation, but, even in France, it has never been the predominant medium of exchange?—Naturally, because it is a question of the parities fixed by Government between gold and silver. From, I suppose, the middle ages, the parity between gold and silver has been continually altering to the detriment of silver, and as the cheaper metal drives out the worse, from about then until 1870 people have used silver. That was the reason for that.

10,302. That was the reason, no doubt; but the fact was that they did use predominantly notes and silver. If you turn to other countries, such as Germany, Austria, and Russia, which of those has ever used gold much?—I believe Germany uses a good deal. I believe, in 1907, the Reichsbank held 95½ million dollars in German gold coin. Austria and Rusia have also held considerable amounts.

10,303. In reserve?—Yes; and as I read to you just now, some of these authorities have an immense belief in holding gold.

10,304. (*Chairman.*) Are you not at the present time a little confusing gold held in reserve—held by a central bank reserve—with gold as a medium of daily currency?—No; I was using that merely as an illustration showing that there is a good deal of German gold coin in existence, and for the moment the only figure upon which I can put my finger—the only one of substantial amount—is the one in the bank.

10,305. None of us doubt that for a moment, but the question is whether the gold is the main medium of circulation?—My answer would be that the fact of these reserves being largely held in German and Austrian and Russian coin points to these countries having gold in circulation, otherwise they would consist of foreign coin or bullion. It is a very difficult thing to do to count the money in circulation, so that I can only put my finger on this gold coin held by the bank; and I merely give this as an illustration showing that as it is held in the banks the assumption, it appears, is that it is held elsewhere. That is what I meant. For instance, Russia held 12 millions in 1897 of new gold of their own coin. I am merely giving those as illustrations that gold coin exists in those countries, and I presume if it exists inside the banks it exists outside the banks.

10,306. I do not think that we need go into that any further?—It was merely that I wanted to say that I do not admit the position that the great countries of the world do not see the advantage of having gold in circulation. In fact, I entirely deny it. I admit that Canada is an exception.

10,307. I am not quite clear about the ultimate object in view in the proposal which you suggested for the amalgamation of the two reserves?—Because I think it is, roughly speaking, the same liability. I do not see why you should have one system for the note issue and another system for the silver issue.

10,308. At the present time the note issue is redeemable in rupees?—Yes. We give gold also for it if it is asked for, but we do not commit ourselves.

10,309. Are you looking forward to a time when the Government could undertake the obligations to redeem the notes in gold?—Yes, I should like to see the Government do that.

10,310. (*Mr. Keynes.*) And at the same time maintain its present obligation to redeem them in silver as well?—Yes, both.

10,311. So that you would have to keep a reserve twice as big?—Not necessarily at all. You have to estimate what the demands are likely to be.

10,312. It would mean keeping a larger reserve?—You have already a very large reserve which you are holding for exchange purposes at home.

10,313. (*Chairman.*) In regard to the Gold Standard Reserve as it at present exists, have you any observations to make upon holding silver in the Indian branch of it?—I think I would rather that it was not held there. In the first place I think it is a wrong entry. When you are holding gold against a token rupee, it seems to me to be wrong to hold in your gold reserve six millions of token rupees against a token rupee. Secondly, it is also—which is a smaller point—very wrong in accounting, because the six millions of rupees which you have not issued should be entered in your balance sheet as bullion. Until you have succeeded in issuing them at your parity of 1*s.* 4*d.* they are simply silver, and that six millions really should be counted as about four millions, say. But I look upon that as a sort of counsel of perfection. I do not think it matters a great deal. So long as you hold in the Gold Standard Reserve a great deal more than you ever require, there is not much harm in holding six crores of rupees, or anything else; but it is surplusage from this point of view.

10,314. Now, I would like you to turn your attention to the paper currency circulation and reserve to ask you for general observations which you wish to make upon that, and in particular to ask your opinion as to whether any greater elasticity is needed in that circulation than at present exists?—I think it would be very desirable. At present we keep a small amount of securities, about 14 crores, and the rest is held in hard cash. I think we might keep a good deal less in hard cash; but to meet your point as regards elasticity, I think it would be very desirable if we could do something to increase the volume of our note circulation, in fact, the volume of our currency, at times of active trade. In some of the notes which I wrote for the Government of India some years ago I made some tentative suggestions. There is one form in which I think we might do something. At present our method of managing our cash balance is after this fashion. Supposing an up-country treasury has to pay five lakhs of rupees, then it indents upon the Comptroller-General — upon us—saying it wants to make five lakhs of payments which it cannot make; it is deficient to that extent. Then we say, very much as a cashier says, "How will you have it?" and they say, "Well, we want five lakhs; we could pay a lakh of rupees in notes and the rest in cash." It is very possible that that treasury might be able to make a bigger payment in notes, but it is not going to take the responsibility of saying so because it might then be caught short of rupees. Everybody will take a rupee up country. Let us assume that it could have made payment of a lakh and a half in notes instead of a lakh. If the currency department in times of active trade issued notes to the treasury—to the cash balances—we could then send them up country and say, "I will send you 1½ lakhs in notes and the rest in rupees." If they find that the public will take that extra half a lakh they will be economising half a lakh of silver, and that will, of course, be available somewhere else. Broadly speaking, my idea is that as you require a larger number of counters in times of active trade than in times of dull trade it might be possible through our treasuries for us to put into circulation a

greater number of uncovered notes at that time and retire them when the strain decreased. I thought something of that kind might be worked out; and it is for one of those reasons that I would like, if possible, gradually to get to a system by which our treasuries are worked by the banks. If we took a share in the Presidency banks, the first thing I should like to see would be for our Government treasuries to be put under the Presidency banks. Possibly at first they would work them like a working company operates a railway company. Directly they do that and there are suitable arrangements about the sharing of the profits between the banks and the State, you can put your paper currency in their hands. I think if banks worked our treasuries in course of time we should probably get a large extension of our note issues, because I quite agree with what I think would be Mr. Keynes's view, and I think is the view of most of us, that theoretically and eventually I should like to see a large circulation in India of paper very much as you are seeing in Canada. (But not on the Canadian system.) I think that is the ideal that we are all aiming at. I am only questioning the times and the hurdles which you have to jump, so to speak, before you get to this state of things.

10,315. Do you think that the Government of India has ever had a consistent and persistent policy on this subject?—I think the first time that this was ever suggested was when I suggested it verbally about 10 years ago, and the last time when I made a tentative mention of this was in a note, I think, in 1909.

(*Mr. Gillan.*) May I ask, Mr. Chairman, whether you mean the elasticity or the general encouragement?

(*Chairman.*) I meant the general encouragement.

(*Witness.*) I thought you meant the elasticity.

10,316. No, I meant the general encouragement of a note issue?—We have taken an infinite amount of trouble, and we have doubled or trebled our circulation of notes, I should think.

10,317. It has grown very much, but has that been the result of a definite policy, or partially the result of a definite policy, by the Indian Government?—Yes, before about 1904—when did we make the five-rupee note universal, do you remember, Sir James Begbie?

10,318. (*Sir James Begbie.*) In 1905, I think?—Up to 1905 our note circulation system was in sorts of compartments. There were about five or six circles which issued their own notes. I think in 1900—I forget how it arose—the Government of India wrote round to all of us to make certain suggestions. I forget whether it was in connection with gold, or what it was. I then wrote a long note suggesting that we should try to increase our paper currency by making the five-rupee note and the 10-rupee note universal and allowing them to be cashed by all the circles throughout India. That was carried, oddly enough, in the teeth of the opposition of the Bank of Bengal and of the then Comptroller-General. Sir Edward Law got frightened in the end and only universalised the five-rupee note. Then in 1909, as soon as I got an opportunity, when I was in a position of more authority, I again made the suggestion and said: "Let us now be much bolder and take up to the 100-rupee note."

10,319. (*Chairman.*) That has been done?—Yes. It was originally agreed to take up to the 50-rupee note by the Secretary of State, but he allowed us power, if we found it a success, of including the 100-rupee note, and I think in a few months—six months or a year—we universalised the 100-rupee note, and this has had the effect of very largely increasing our note circulation.

10,320. Would you be inclined to carry that further now?—Not further as regards higher denominations of notes, but I would carry it further by multiplying the numbers of cashing centres.

10,321. Have you anything to say specially on the question of not universalising large notes?—Yes; just at this point perhaps it would be *apropos* of what might have been in your mind in saying, "Would you be inclined to carry that further"? The reason why we prefer in India to keep the 500-rupee note, and the 1,000-rupee note, and the 10,000-rupee note separate is that they are really media for remittances. If we made them universal, it would simply mean that a trader who wanted to take five or ten lakhs up country would simply take 10,000-rupee notes out of our offices in Bombay and present them up country, or across the Continent, for encashment. That is putting upon the Government the cost of moving trade money. Now Government has to do this, to a certain extent, owing to our having on our own account to bring money backwards and forwards throughout India, and from our various treasuries; so, as we have to do it, and sometimes our interests coincide with those of the merchants and the bankers, we do, therefore, a certain amount of this business, giving them money up country and taking it in centres and *vice versâ*. It is much more convenient for us to extend this system than universalise very large notes, because we then know where we are. If you govern the large movements of money, and people come to you and say, "We will come to you for one-sixteenth or three-eighths," we know then where we are, and we can place our money, whereas if we allow them to do this by these large denominations of notes, we do not know where we are. It is bad for the country, because we have to keep our reserves dissipated. I do not know whether I have made it clear.

10,322. Yes. Then I think we can now turn to the question of the character of the gold currency. Perhaps that should be preceded by another question: Do you favour the opening of a mint in India for the coinage of gold?—I would prefer it, because I prefer a 10-rupee piece to coining the sovereign, my main reason being that a 10-rupee piece is a more convenient unit than a 15-rupee piece; and my second reason is that the wear of gold coin in the world is much greater in the west than it is in the east, and there would be a danger of our being shot in India, so to speak, with the light sovereigns and half-sovereigns of the west, whereas in India the wearage is very very slow. The wearage of silver in India as compared with silver in the world is about one-third of the rate. As a sovereign wears at a much slower rate than silver, and as the gold would be much less used, and would change hands much less often, you may say that the honest wear of a coin in India would be almost negligible, even of a coin the size of a half-sovereign.

10,323. You would therefore like a mint to be opened in India for the coinage of gold because you would like to see a 10-rupee piece coined?—Yes.

10,324. On the other hand, I think you said just now that you were anxious that the note circulation should be encouraged and increased as much as possible?—Yes..

10,325. Have you no fear that the coinage of a 10-rupee piece would prove a dangerous rival to the note circulation?—Yes, a 10-rupee piece I personally believe would be popular, and I think that popularity would be partly at the expense of the 10-rupee note, but I should think mainly at the expense of the rupee. I admit that at once. But I think it is better to have your currency, so to speak, on its own bottom. That is why I prefer a gold currency.

10,326. You do not think there is any disadvantage in introducing a new coin into the Empire (assuming always that you are to have a coinage in India) instead of coining the same coin?—I do not think that matters in the least, because the 10-rupee coin in the markets of the world would be just as good as anything else. The 10-rupee coin as regards all the great banks, of course, is bullion, and, as you know, in the case of all the great banks their gold is held as bullion, and it does not matter where it comes from, whether it is Napoleons, 20-mark pieces, or whatever it is. In fact, the 10-rupee coins would be particularly good, because they would be very nearly their true weight from the absence of wear.

10,327. (*Lord Faber.*) Do you think that the circulation of the sovereign in India cements the Imperial tie at all?—I think it may do to some extent, but I do not think the 10-rupee piece would oust it very much. The sovereign would be used also just as it is at present.

10,328. (*Chairman.*) Do you think that there is any popular demand for the coinage of a 10-rupee piece in

India?—I put it rather the other way; I think that there is a general feeling in India that they are being put off with a poor thing; that is to say, gold is good enough for everybody else, but they have to use a token rupee; and I think from that point of view there is a popular demand.

10,329. I ask you because, though no doubt other witnesses have expressed themselves in favour of the opening of a mint for the coinage of gold in India, I think hardly one of them has answered the question, what coin should such a mint coin, in the same sense as you have; they have nearly all said that it should be the sovereign?—I would quote, I think, in confirmation of my view, the greatest authority on Indian currency matters, both scientific and practical, Sir David Barbour; his view, as you know, is in favour of the 10-rupee piece. In his latest book he reiterates that. It was his first view and it is his last view.

10,330. On the same ground that you have put it, that it is a more convenient coin for the transactions of the people?—I think that would be so; it is more convenient to use.

10,331. You have already said something to us on the question of what the view of the banking business of India should be. Would you care to develop that in general principles?—No, except as regards the establishment of a central bank. My only fear about a central bank has always been this: In the first place, where are you going to have its centre? In the second place, I doubt whether the very best people in business firms in Calcutta and Bombay can be spared to go from each of those places to Delhi, if the centre be there, or, if it be at Calcutta, to come across from Bombay. Again, I think if you have a central bank you are getting a lot of top hamper, because you would have a central bank board wherever it was, and then you would have your local boards in the three cities, and then again you would have a London committee, probably, whereas the essence of banking, I should have thought, is trusting the man on the spot to lend the money from his local knowledge of the conditions; and the more you multiply the people above him, the worse banking you probably get.

10,332. In the scheme which you foreshadowed to us, it is your idea that the three banks would remain separate, the Government being partners with each of them?—I think so. I say frankly one would like in these matters to meet a lot of friends and people acquainted with the conditions of India, and of Indian banking, and thresh it out, but that is how I should start my own view at a conference, and see what adherents it got. Our trade needs are so very different in India. Calcutta practically relies on the jute trade and the rice trade; Bombay on the cotton trade; the North-West Provinces and the Punjab trade is wheat and seeds; and Madras, oddly enough, is a sort of mixture of everything. I do not see how you can very well unite them usefully. To take what was, I think, Sir Everard Hambro's idea, I cannot think it is a right thing to increase the capital of a bank in order to get greater security. I should have thought it was just the reverse. You increase the capital of the bank when it is worth doing for its business, and if you increase the capital of a bank without knowing how you are going to make money, your position will be worse, because you will go into worse business in order to create your dividends.

10,333. Has the statement which you have made, and have your replies to the questions which have been put, covered the evidence which you wish to lay before us, or have we omitted any part of what you would like to say?—There is one thing which one would rather like to point out in explanation of present conditions: At present you have a sort of division of interests—of spheres—between Presidency Banks and the Exchange Banks. The Presidency Banks' business—I am not speaking quite so much of Sir James Begbie's bank, but I am speaking of the Bank of Bengal, it is not the case with Sir James's bank—consists of operations in the internal exchanges and of handling the internal banking of the country. The Exchange Banks' business is the bullion trade, the external exchanges of the countries, and the trade at the terminal ports. That has been a convenient arrangement between the two, but, of course, it avoids competition very largely. I think it is anomalous that the Presidency Banks should not have access to London as they are the banks who are the residuary trustees, practically, of Indian banking. They, therefore, are the people who should have the right of resort to London. On the other hand, the Exchange Banks would fight this desperately, because they say it would mean their competition in the external exchanges. Each, therefore, at present rather keeps its own sphere, and neither criticises the other. You will, for instance, hear the Exchange Banks say how admirably the Government manages its paper currency, because the alternative would be that it would be handed over to the Presidency Banks; conversely the Presidency Banks do not compete with, or express strong opinions about, the state of the gold exchanges, for, if they were stable, the Exchange Banks would have to employ their resources in competing for the business done by the Presidency Banks. One must always take opinions with a grain of salt, therefore, because personal interests are involved. Surely what we want from the point of view of the interests of India is to reduce the variations in the external exchanges, which I think occur by the manipulations of councils by this gold exchange standard system. I would rather see gold move backwards and forwards from India than have the rate of exchange altered much by the India Office. I would like to see the external exchanges vary within very small limits. So, too, in reducing the variations of the internal exchanges by what we are doing with notes and drafts we are cutting very much into the monopoly of the Presidency Banks. But my difficulty is this: Supposing we give the Presidency Banks eventually our paper currency, and they get access to London, and you are cutting down the external exchange, what are the Exchange Banks going to live on? What I would like to see personally is that the Exchange Banks should make their way up country and do ordinary deposit banking. At present we have all sorts of rotten mushroom banks started all over India. They are all tumbling down now, but what one would like to see would be the Exchange Banks going up country and going in for ordinary banking instead of relying largely on the external exchanges. This is, I think, the great problem before us now. If we can get them to do this we can solve the situation; otherwise there will be this constant antagonism between them and the Presidency Banks.

10,334. I am obliged to you for your statement. I do not think I have many questions which I want to ask upon it beyond those which I have put to you as you went along, but I will refer to one or two things to see that I have your meaning clearly. Take the question of what you call the till money, or disposition of the balances, under present circumstances. I want you to correct me if I am wrong, but I understand your view to be that after getting what you require in India as till money you would like to work to a time when that money should be left in India?—Yes.

10,335. Unless or until it was required over here?—Yes, with reasonable facilities. One does not want the Secretary of State to be in a hole.

10,336. But I also understood, and it was about that that I wish to be clear, that you did not think that under the existing circumstances that policy could be adopted to the full extent at once?—No, because I do not like the idea of lending cash except in times of crisis. I wish balances to be with the Presidency Banks as our bankers.

10,337. And unless some such proposal, or something else to the same effect, were adopted, do you think that there is a better way of using it than bringing it to London?—No, but I think there is a better way of using it in London than we have done.

10,338. I think you indicated that before, and we did not take it up at the time. Will you tell me what you mean by that?—I think it is a danger to the City that money should be lent by the India Office to the market and to other banks. If they have very large sums at their command it means that the Bank of England does not know where it is. It is the Bank of England which really surveys the question of the rate of interest on what moneys are being lent in the City, and if through any miscalculation anything goes wrong the brunt falls on the Bank of England. Then I think the difficulty is whether the Bank of England will take Indian moneys, and I suppose the only thing to do is to ascertain. I take it that the Bank of England would prefer the money to be invested in floating securities, but I suppose if it was pushed it might lend it out for India. You would no doubt get much lower rates.

10,339. As long as the balances have to remain in London, you would therefore like to see them administered on behalf of the Secretary of State by the Bank of England?—Yes.

10,340. Instead of by the present system?—Yes, unless you can have this, in which I fancy Lord Kilbracken would say there is great difficulty. I do not know the laws governing the administration of Indian affairs by the Secretary of State. Possibly you could have a committee in the India Office, or a body of people appointed *ad hoc* who would not be swayed by their other interests. This would be almost as good—not quite, because they would be still in some position, I will not say of antagonism, but their interests would be different from and unknown to the Bank of England.

10,341. One other question relating to another part of your evidence. You foreshadowed a time when you hoped that there would be a very much greater amount of gold coin in circulation in India?—Yes.

10,342. I understand that you do not want that greater amount of gold coin to be procured at the expense of notes; at any rate, not at the expense of existing notes?—I should rather look at it in another way, I think the ideal thing to do is not to force matters, but to let the people have what they want, that is to say, neither push the one particularly nor the other. I think at present we have too little gold, and what I would like, at present, is to push gold a little, but directly we get India on to what I consider a safer basis, then I should let the people have their choice; if they want a note, let them have it, and if they want gold let them have it.

10,343. I thought your view was that when a very largely increased amount of gold was in circulation in India the present dangers to the exchange, which the Gold Standard Reserve is there to meet, would be very much diminished?—Certainly. There is, of course, less that could be redeemed.

10,344. In the meantime there is a passage perilous to be crossed, is there not?—Yes.

10,345. You think that under present conditions the amount of gold in the Gold Standard Reserve is too little?—Enormously too little.

10,346. That being the case, what would be your immediate advice to the Government of India? Would it be to strengthen your Gold Standard Reserve first and then to press your gold coinage later, or would it be to press your gold coinage and leave the Gold Standard Reserve to take care of itself?—I think my answer to that would be this, that as far as circumstances permit I would keep the whole of that 22½ millions which we have at present all in gold. As regards the next question of what the currency of India is to be, what I personally would like to see is that Councils should be sold at such a rate that people would prefer to take gold to India for currency. You have your 22 millions, and I would prefer gold to go to India for use, so that we reduce our liabilities in India, but I would not stop the rupees if people wanted rupees. What you have to do, I think, is to give the people what they want. To the extent that they want rupees, of course, you are increasing your Gold Standard Reserve. I would go on adding to my liquid gold as long as I made rupees, and I would put no obstacle in the way of gold flowing to India if it was wanted.

10,347. At present the Gold Standard Reserve is fed from two sources, the interest on its vested securities and the coinage of new rupees?—Yes, but you would have no interest.

10,348. If your proposals were adopted, of course there would be no interest?—None whatever.

10,349. Then the only way in which the Gold Standard Reserve would grow would be by the coinage of new rupees?—Precisely.

10,350. If, however, you were pressing as far as you could the circulation of gold, you would to that extent check the growth of the circulation of rupees?—Yes. I do not quite like the word "press." The ideal that one is trying to aim at is to use what you like; if you want rupees you shall have them, and if you want gold you shall have it.

10,351. You do not think, then, that under the present conditions there is any need for the Government of India to encourage those steps by which it can quickest build up its gold reserve?—No, not at the expense of stopping the export of gold to India.

10,352. (*Lord Faber.*) Are you in favour of the India Council drawing enough bills for its yearly wants and no more than that? After that would you let gold go if there were no bills to be bought?—I think I would prefer that system, but I admit that it is more expensive, because you must give rupees to the Indian people as long as they require them. What that would mean is that the gold would on occasions be exported to India, India would export the gold back to London, possibly, and silver would be bought, and so on. I think really I would prefer that to variations in the rate of council drafts, but I admit that it is expensive.

10,353. Otherwise do you not get to this, that you are allowing the Council bills to be used for trade purposes and not for the Government needs? If they sell more than they want for Government needs, of course the Council bills which are bought in London are being used for trade purposes?—I confess, theoretically, I prefer the present system. My real objection to it is that I do not think you can get anybody to hold the balance level between silver and gold, but I do think the most economical system is the present one, which is to sell the bills for the silver which India requires, and if that could be done in heaven, so to speak, I should much prefer it.

10,354. Of course, for the moment, at any rate, that does prevent gold going from London very often?—It depends on the rate, clearly, but then it comes to the same thing, because the gold comes back when the silver is given. It is merely more expensive.

10,355. I think I am right in understanding that you would like the whole of the Gold Standard Reserve, which now amounts to 22 millions, to be held in liquid gold?—Yes.

10,356. And held in London; and it might be allowed to grow to 40 millions?—I named that rather as an illustration. One has not thought very deeply about the exact figure, but it would be something like that.

10,357. And that that gold should be earmarked and not touched without the permission of India?—One moment about that 40 millions; I am not quite sure that I think it would necessarily be 40 millions. I have always in my mind that we have in the Gold Standard Reserve included the gold which is held in the Paper Currency Department, which has come in in payment for notes. I would rather prefer to put it the other way, that I think India would be pretty safe if it had 40 to 50 millions of gold against its total currency liabilities. I do not know whether I have made it quite clear.

(*Lord Faber.*) It is quite clear; that is all I need ask you.

10,358. (*Mr. Keynes.*) I should like to ask one or two questions about that rather novel suggestion that the lending in London should be through the Bank of England. I suppose that would amount to the Secretary of State having to make a deposit with the Bank of England and getting interest on that deposit?—Yes, I should think so.*

10,359. That would be a very great reversal of the Bank of England's policy, would it not, which has

* I meant to say: Possibly or the Bank lending the Secretary of State's balances on his account.—F. C. H.

always been to refuse to pay interest on deposits?—I should rather like to be excused from giving evidence upon that point, because I have had many conversations with people, and what I have heard is more or less in confidence; but you can take this much from me, that I have not made that statement absolutely idly. I do not think I can say more than that. I do not know what the Bank of England would agree to.

10,360. I do not know whether the Bank of England would welcome a thing of that sort, because it would put them in a very difficult position with a great many other persons who would like to adopt a similar system and put money with the Bank of England and get interest on it?—I think they would dislike it, but the question is, whether they dislike the present state of things more.

10,361. Your argument is that the present system weakens the bank rate sometimes at a time which is inconvenient to the Bank of England?—I would rather put it that it weakens its control of the bank rate.

10,362. Would not putting money with them at interest have an almost similar effect, because the amount that the Bank of England lends in the market depends almost entirely on the bank rate. They fix their rate and lend as much as they are asked to lend at that rate?—Yes.

10,363. If they have to get more money out into the market they must lower their bank rate. If they did not, it would mean that they were paying money to the Government of India, and not lending any more in the market than they would lend otherwise, which would be a clear loss to them?—Yes. Well?

10,364. So that they could only prevent the Indian money from weakening the market by paying over to the Secretary of State a certain amount of interest, which would be a clear loss to the Bank of England as a commercial concern?—I do not quite follow that. The Bank of England is ready at its rate to lend openly, but only to the extent, of course, that people can borrow on the securities which they take, and if more money is placed at the disposal of the Bank of England by the Secretary of State it will enable them to lend more money, it might be at that rate or they might have to lower it; it depends upon how much people want to borrow, and what the Bank's resources are.

10,365. The point I am leading to is that the channel through which the money is lent cannot really make very much difference from the point of view of supporting the bank rate?—I think it makes an enormous difference. They would remonstrate; they would say: "It is an absolute nuisance your keeping "this money; you had better invest it—put it into "floaters."

10,366. If they could make the Secretary of State do that I agree it would make a certain amount of difference?—I think undoubtedly they would.

10,367. But they have either got to lend out all the money he puts with them, in which case things would be very much as they were before so far as the bank rate was concerned, or else they might lend out a less amount than he puts with them, in which case they are handing over to him for nothing interest on the balance?—I do not follow that. If you have more money to lend you can lend more, and it depends upon what people are asking for loans, and what they can offer. It is quite true, as you say, that the Bank says "the rate is 5 per cent.; now let them all come"; and then they begin to borrow. If they found that more were borrowing than they wanted, they would raise the rate.

10,368. (*Lord Faber.*) In fact, they would lend the Indian balances in the open market on securities?—I am suggesting that they would. I do not follow your argument, Mr. Keynes. If they have more money to lend, they have more money to lend, and it does not follow that the rate will depend upon how much people are wanting.

10,369. (*Mr. Keynes.*) My argument is that at present, after having fixed their rate, they lend to all-comers on good security as much as they want?—Obviously, but if it is more they will raise the rate. You are taking it as unlimited. If people come to them to take more than they can give, of course they raise the rate.

10,370. But the effect of having more money is, and must be, that they cannot get it out on the market at the old rate.

10,371. (*Chairman.*) I think Mr. Keynes is looking at the opposite contingency to the one you are looking at. You are suggesting that more borrowers may come than the bank has money to lend?—Yes.

10,372. And you say in that case they would raise the rate?—Yes.

10,373. Mr. Keynes is suggesting that the bank might have more money to lend than there were borrowers at the rate?—Clearly; I quite admit that that might be.

10,374. (*Mr. Keynes.*) That is so?—Either contingency may be possible.

10,375. (*Lord Faber.*) It would have to go with the market as a fact?—Yes.

10,376. (*Mr. Keynes.*) So that from the point of view of helping the bank rate, it does not seem to me that it would make very much difference unless the Bank of England was prepared to bear this loss and pay something over to the Secretary of State and not get it back by lending the balances itself?—No, I think, as the Chairman puts it, either contingency may arise. If the bank cannot lend the Secretary of State's balances at the rate it considered suitable, judging from the funds at its disposal, my view is that the bank would lower its rate or ask the Secretary of State to reduce his balances or require him to take them off the market by investing them.

10,377. (*Chairman.*) I take it that is really your answer. Your objection to the present system, or one of your objections to the present system at any rate, was that the Indian money broke the bank rate?—Yes, I understand the Bank says so.

10,378. Mr. Keynes's suggestion to you was that the Indian money would break the bank rate, whether it was loaned direct to the market or whether it was loaned to the market through the bank?—I admit that it might affect the bank rate.

10,379. (*Lord Faber.*) But we have got to look at the Government of India in this matter. Do we care very much what it does with the London market at the moment? It is a mere commercial transaction which occurs every day between a country bank and a London banker. A country bank has a large balance over, and it comes to its London agents and says, "Lend out this balance." The London agent lends it out at market rate. If that market rate is too little, the country bank says: "Buy bills with this balance or invest it. It is not enough for us"?—Yes.

10,380. He deals with the London bank in that way. If the rate that he can get from the market is not suitable, he tries to invest it somewhere else, and that is what the Bank of England would do with the Indian balance?—Yes.

10,381. Whether it would take it or not I do not know?—No, nor do I.

10,382. Only it is a very good account, and I should think the Bank of England might not care to run the risk of losing it?—I fancy the opinion would be that this is what is called bad money, that is to say, it comes in these very large amounts and it runs off at times which the bank cannot very well control. I do not think the Bank would take it with enthusiasm.

10,383. (*Mr. Keynes.*) Of course, even if they invested it it would not make very much immediate difference, because if they bought Consols, or whatever it was, off the market, it would mean that the market had so much more money?—I believe that the view I have given is the opinion of the City.

10,384. (*Sir Shapurji Broacha.*) You say that people have a preference for 10-rupee gold coins. Is it a general preference? Is it a theory or not?—Do you mean in preference to sovereigns or in preference to silver, or what?

10,385. I mean a 10-rupee gold coin instead of a sovereign?—It is a better unit. Obviously, as it has never been tried it must be a matter of opinion.

10,386. My question is: Is there a general demand for a 10-rupee gold piece instead of a sovereign in India?—I should have said that people who have considered the question, or people who would consider the question (which would be better), would probably advocate a 10-rupee piece. It must be a matter of theory.

10,387. Because I have come across contrary opinions, and all the witnesses have given their opinion in favour of the sovereign. You know, I think, that about 50 or 60 millions of sovereigns have already gone into India?—Well.

10,388. And the people have taken them?—Well.

10,389. Why alienate them from that taste and give them another coin?—If they do not want the sovereign they need not take it.

10,390. But it is a theory of some people?—It must be.

10,391. It is a theory that a 10-rupee gold piece would be more preferable; it is not an absolute want, an absolute preference which they have for a 10-rupee piece. You can put your hands on very few who have asked for it?—It must be a matter of opinion until it has been tried.

10,392. Then what I say is this: It will be inconvenient for me to take 5 or 10-rupee gold pieces to Italy. Can I have the same convenience for converting them as I should have for sovereigns?—Certainly not.

10,393. Then why have another coin in the Empire when one has already been taken very kindly to—so kindly that they have absorbed so many millions in the last 13 years—I think they have absorbed more than 50 millions? Does not that mean that they have taken a liking to the sovereign?—Yes.

10,394. If they have taken a liking for a coin of the Empire, what is the use of breaking it?—I am suggesting an alternative; I am not proposing to break it.

10,395. But is the alternative much preferable? You take a coin of the Empire and you give them a coin which is not convertible into the currency of another country easily, because they will have to weigh the gold and find the quality of the gold and so on?—Yes.

10,396. It is inconvenient, and for what purpose—what benefit?—Then they need not take it.

10,397. Then why should you do it?—Because I believe they will take it.

10,398. Shall we make an experiment of it?—I believe they will take it, and therefore I say try it.

10,399. (*Mr. Gillan.*) I think the witness's point is this: He is not doubting the utility of the sovereign, but he thinks that a 10-rupee coin would serve a further facility in addition to the sovereign. Is that the point?

(*Witness.*) Yes.

10,400. (*Sir Shapurji Broacha.*) But what facility would it give? It would not give any for exchange or for taking money to foreign countries. A sovereign is easier to change than a 10-rupee note, and if you have circulated 10-rupee notes why should you undergo all this inconvenience for a 10-rupee coin, which is theoretical, and the value of which we know nothing about or how people will take it. You want a gold currency as opposed to a gold standard reserve?—I do not advocate a gold currency as opposed to a gold reserve. I am in favour of a very large central reserve.

10,401. You say that it will reduce the liability of the Government?—Certainly.

10,402. Do you think it will reduce it to the extent of what has gone to India in the last 10 years?—To the extent of the currency, yes.

10,403. Has it lightened the liability of Government?—To the extent that sovereigns, whatever the amount may be, 20 crores or so, has taken the place of the currency, yes.

10,404. But the number of rupees remains the same?—No, the number of rupees would have been more.

10,405. If you take 10 millions of gold to India from here, the 10 millions go into circulation?—Yes.

10,406. They do not stay in the Currency Department to reduce your liability. The only reduction of liability is to the extent of the number of sovereigns which you have in the Currency Department?—And in circulation.

10,407. No, that is not reduction of liability?—Yes, because it would otherwise be rupees.

10,408. But at any alarm the sovereigns will remain in the pockets of the people. Even in this country sovereigns do not come to help the Bank of England, and yet it is on record that there are in the people's pockets something like 100 millions?—I do not agree for a moment that the sovereigns in the pockets of the people are not valuable as a protection against a fall of exchange. I do not admit that for a single instant.

10,409. I have here extracts from a speech by (the then) Mr. Goschen,* which have been sent round to us, and he says that it is no use at all?—Pardon me, that is where I would like to traverse that argument, which is not Lord Goschen's. Lord Goschen was talking of quite a different thing; he was speaking of the insufficiency of the gold held in London, in view of commercial or monetary crises, and he advocated, firstly, having 1*l.* notes instead of sovereigns, and his original suggestion was that we should hold two to one, I think it was—two in sovereigns and one in securities against the 1*l.*; and he finally changed that into four sovereigns to one of securities in the latest edition of the speech. He was not on the question of an adverse balance of trade, but he was speaking of preferring to have gold at time of monetary crisis in the centres rather than in the pockets of the people. I am not contesting, and I never would contest, that view. Should a crisis supervene the gold might be utilised, for it is the base of a large superstructure of credit, but I do not think Lord Goschen ever suggested, and I am sure Mill would never have suggested, that gold in the pockets of the people is not, in the ultimate resource, of value in liquidating an adverse balance of trade. It is exactly the same in the end as if you owe 5*l.* in India to London and you have got 5*l.* worth of coins in your pocket; you have to pay the 5*l.*; you may have 5*l.* in the bank, or you may have 5*l.* elsewhere, and it may be more convenient to take it from the bank to London; but if you send that money, that has got to go from the currency of the country, and that will go in gold from the pockets of the people if not otherwise obtainable. Whether it goes from the pockets of the people *viâ* a bank or not I do not care, but it goes.

10,410. For instance, suppose exchange is under par, and the balance of trade is against us, how could a gold currency support exchange? Against what will you pay that gold into the Currency Department to help it?—That means, surely, that India owes London money. When India owes London money it will first draw on its balances in the banks, and if a larger amount than the banks have is still owed they raise their rates of discount, and the money goes in from the people, and the result is that the whole of that money has to go when the liabilities ——

10,411. No, it would not go, because for one reason there is an alarm as to exchange, and gold is a more valuable substance, and if they have not paid their debts they will pay their debts in rupees?—But they cannot if they have to pay abroad, because the rupee is not current abroad.

10,412. It is the bank that has to pay abroad. They pay into the banks rupees. No sovereigns came out during the crisis of 1907–9; on the contrary, they were taken away?—Very likely. I would not admit, though, the relevancy of that.

10,413. Is not the credit of the country greater by having gold in reserve treasuries than gold in the pockets of the people?—Yes, I agree, but I would like to have it in the pockets of the people also.

10,414. Is it not now the policy of all countries to preserve gold rather than to diffuse it and waste it?—No, I believe not. I believe that the policy of Europe is both to keep gold in their central reserve and to use it in their currency. The great countries of the world have actually reduced the legal tender of silver. Germany restricts its silver coinage to 20 marks per head.

* Speech delivered by Mr. Goschen at Leeds on 28th January 1891 (see "The Times" for 29th January 1891).

10,415. It has increased it?—No, it has decreased the coinage of silver and restricted it to a maximum of 20 marks per head.

10,416. No, you will forgive me; it was only 6 marks per head, which they have increased by legislation to 15 marks per head in German silver coin to preserve gold as much as possible by using silver coin?—I entirely disagree. The object of the Continental banks has been to restrict the legal tender quantity of silver with the intention of promoting gold.

10,417. No, in Germany they have increased it to more than 100 per cent., from 6 to 15. It is more than double?—I am afraid we must leave it at that.

10,418. I think someone will bear me out. I know they have passed a law by which they have increased the silver coinage to 15 marks per head instead of the 6 marks which was the former amount?—I do not think if that were so it makes against my point.

10,419. That is to say, they preserve their gold in the central department—in the central bank?—My information and opinion is different.

10,420. I know you say it is your information, but I am stating a fact, so, of course, it does not matter?—I do not think you quite follow my meaning. Even if what you said were true it would not meet my argument. My argument is that Germany and the great countries of Europe have reduced the legal tender amount of silver in order to increase the use of gold. You say the limit has been raised. My point is that the Germans have fixed a limit, and the object of fixing a limit is to increase the use of gold by the people. The effect of fixing that limit is to increase the use of gold.

10,421. You mean like fixing it in England at 40*s.*?—Yes, they reduced it in Germany, and I think in Russia. It has been the tendency on the Continent.

10,422. My information is that the tendency is more to reserve gold?—It may be that what Mr. Keynes says is true, that in Germany the tendency may now be to prefer to hold gold in reserve and issue notes. I have no recent information. My information, as far as it goes, is the reverse.

10,423. You have no objection to gold being held for the Gold Standard Reserve by statute in England?—Why by statute?

10,424. That is to say, nobody can use it without breaking the statute?—I do not see any necessity for making a statutory provision.

10,425. So as to reduce the alarm of people who think that gold will disappear in this country?—I should not like to see it, because I think in times of great crisis it would be right to use it.

10,426. Is not India part of the Empire in a time of crisis?—Yes.

10,427. And do you think that in India gold is always safe?—I think I have said that my own predilection, for the reasons I gave, would be for holding it in India, but I am prepared to accept the policy of holding it in London.

10,428. (*Mr. Gillan.*) I want very much to get exactly what is in your mind about this gold currency question; it is not quite clear to me. There is a preliminary point first, but it has a bearing upon the argument. The present system has the merit, has it not, of economy?—Yes, but not quite so great, I think, as is made out.

10,429. That is precisely the point I wish to put to you: What weight ought one to attach to that? I mean, one may put the arguments in this way, that by having a reserve, and so on, you can earn a certain amount of interest?—Yes.

10,430. Put in that way it does not seem to have very great force, but there is another way of putting it, perhaps, in which it does acquire some force, and that is this: It might be said that India at present is a very poorly-developed country, that it has got urgent needs for the employment of its capital, and that if you are acting in any way to force a gold currency you really are diverting funds which might be more profitably employed, that is to say, you really are electing for a gold currency as an object which is more important than other objects to which the capital of India might be applied?—I admit that there is an economical waste in using a gold coin where you can use another of equal security, but I am rather taking the view which the Governor of the Bank of France took in the other case. I consider the advantage of having a currency which is safe beyond dispute is so enormous as regards the credit of the country and every other point of view, that I consider it outweighs that; but I admit that there is an economic waste in using a gold coin.

10,431. I just want to get at the weight which you attach to that argument?—I attach immense weight to it.

10,432. To come to the crux of the question, it seems to be this: Do you or do you not hold that it is possible to support exchange by a system of reserves?—Yes, I think it is quite possible to create such a large fund for the profits of a token coinage, say 40 millions, 50 millions, or 60 millions sterling, that it would be more than ample to stand any possible drainage. My objection, as I said, was firstly, on the ground that I think it is bad for the world, because I prefer to see gold more used——

10,433. I will come to that later?—That is one argument; there are two reserves.

10,434. I will come to that later, but you think it is possible to provide for the necessities of exchange by a reserve?—Yes.

10,435. I think it was Professor Conant, with whom you were associated in your investigation, who said that the gold exchange standard provides a means of removing the exchange difficulty without interfering with the domestic needs of the country?—Yes.

10,436. Do you agree with that?—Yes, we both agreed. That is our report.*

10,437. In that report which I have, you and Professor Conant said, with regard to the treatment of internal currency, that in monetary matters what the people need is only to be ascertained by experiment?—Yes.

10,438. And you went on to say that in matters of money you had a strong preference for following the line of least resistance, that is to say, giving the people what they need?—Yes.

10,439. That is your position?—Yes.

10,440. Is that position quite consistent, I do not say with your attitude, but with the attitude of those people who seem to wish to have a gold currency at all costs?—I do not want to have a gold currency at all costs.

10,441. If you look upon a gold currency as a necessary support of exchange, then in that case it would apparently be necessary for the Government to overlook the requirements of an internal medium and do their utmost in one way or another to convert the internal medium into gold?—No, I look at the ideal for India to have gold as a convenient unit for the purposes of their transactions—to have enough gold in its currency so that we can abolish this system of an exchange standard. When the balances turn against India the marginal gold can be exported, Government standing aside from these operations.

10,442. Quite so, but you do not regard it as essential for the support of exchange?—That it should be in circulation?

10,443. Yes?—No, I think it is more immediately efficient if it is in reserve. I quite admit that.

10,444. Then I take it your general position would be that the exchange standard is a good system, but that for a permanency a gold currency is better?—Yes, and I hold that for another reason. I say it is a pity that the monetary arrangements of a very large country should be dependent upon the monetary arrangements of another, and I think essentially the exchange standard system as hitherto worked has always been this, that England works practically the money of India, and I would prefer that the money of India worked automatically. That is my objection. My other objection, to which I think you said you were coming, is the question of your affecting the markets of the world for gold, that is to say, spreading the gold. I prefer that gold should be used in India because you are spreading the consumption.

* Monetary Reform for Nicaragua—Report presenting a plan of monetary reform submitted to Messrs. Brown Brothers & Co., and Messrs. J. and W. Seligman & Co., by Messrs. F. C. Harrison and Charles A. Conant, April 23, 1912.

10,445. That is a point which I think you have already put in answer to questions?—But it is really an integral part. You asked me why I wanted a gold currency. That is one of my principal reasons for wanting a gold currency.

10,446. Another point which you put in this report of yours is that at present the system is a managed system?—Yes.

10,447. Do you get rid of the element of management under a gold currency?—I think so, if it is considerable. The silver then becomes a true token currency. Silver would be coined just as you coin it, only on a larger scale, in this country, and in any other country where it is fractional, and people then bring their gold to the mint when they want money; and when the exchanges turn they export gold. They all do it themselves, and all you have to do is to provide enough silver for the wants of the people, which you provide, so to speak, as a departmental arrangement.

10,448. You cannot even then get that without some system of reserves?—No, a reserve has got to be held against the note issue, and so long as the token rupee is a serious menace—I mean to say when there is a very large quantity—then you require some gold held against that but, directly you hold a very large gold currency, your need of a reserve goes on decreasing as your currency increases, and you require less reserve.

10,449. If you had a country with no currency except gold, even then it would be necessary for the banks or somebody to keep a reserve?—Yes, but that is quite separate—against the note currency or against their banking liabilities. That is quite a separate matter, and that has nothing to do with the currency or the Government. That is a reserve which the banks keep against their liabilities.

10,450. It would be upon that reserve that you would have to come, if you had for any reason a demand for gold for export?—Yes, on private account; that would be the gold which would be held by all the bankers doing the business of the country. If anybody wanted to export coin he would go to his banker. It has nothing to do with the Government.

10,451. You would have that reservoir of gold somewhere apart from what the people have in their pockets?—No, I think not. If you are taking the case of no note circulation, no. There need be no reserve. The banks hold what they choose to hold against their liabilities, and if you have to make a payment you go to your banker and say, "Pay my liability," and the banker provides you with the gold.

10,452. Do you not get an element of management in the fact that it rests on the bankers to say how much they will hold in reserve?—Private management, not State management.

10,453. It is a matter then of private or State management?—Certainly, because the money of the world is always the business of the great banks or of the Government.

10,454. (*Chairman.*) Then when you object to a managed system, what you mean is not that it is managed, but that it is managed by the wrong person; it is managed by the Government and it ought to be managed by a financial institution?—Yes, you should leave it to private enterprise.

10,455. (*Mr. Gillan.*) Then I think that the last and perhaps the most important reason that you gave in this report for a gold currency was that under an exchange standard there is only one line of defence, the reserve fund, and with gold circulating or in hoards there will be two more?—Yes.

10,456. It is perhaps important from that point of view to consider that in India the position is rather different, or at least it seems to me to be so, and I want to ask you whether you agree. We have heard about waistcoat pocket money?—Yes.

10,457. There is perhaps a tendency to say that all money held by the people themselves in India is of that character?—Yes.

10,458. Would you agree that it really consists of two portions, one the coins which they require for ordinary transactions?—Yes.

10,459. And secondly, a reserve which they put by?—Yes.

10,460. That is to say, a margin?—Yes.

10,461. And that there are different arguments which would apply to those two portions?—Yes.

10,462. Do you hold that the portion which is required merely for ordinary transactions is available for export?—It must be available in the last resort if the demand continues. It seems to me these arguments come down to a question of the debt. If India owes England a certain sum, if the amounts which are in the reserves of the banks are sufficient, the liability will be satisfied. Beyond that the banks change their rate, and money then comes into the pockets of the people from their hoards, but finally all the money has to be exported as long as liability continues.

10,463. I am not talking about hoards at present. I am talking about the amount which is required for the ordinary transactions of the public?—I say it does not matter. It is no good your saying you require it for your ordinary transactions if you owe a debt. If you owe 5*l.*, it is no use saying "I want that in my pocket to pay a railway fare."

10,464. But is it not actually one of the very last things that would come out of the country? I imagine if there is an adverse balance of trade the people must get rid first of what they least require. That is what it comes to. This currency is one of the things they require most urgently and can least do without?—I do not think it matters what they require urgently. What you have to do is to export your currency until you get a fresh equilibrium. In the export of that currency you may so lower prices that instead of more bullion going commodities go, and you get a fresh equilibrium.

10,465. (*Mr. Keynes.*) In the event of an adverse balance of trade the persons who owe money abroad are a few merchants?—Yes.

10,466. What they try to do is to borrow from their bankers?—Yes.

10,467. If their bankers cannot lend to them they go bankrupt and cannot discharge their liabilities?—Yes.

10,468. The bankers raising their rate to 10 or 12 per cent. does not make the ordinary person in the street go to very great inconvenience to have less currency than he normally requires; the ordinary person in the country is not owing money abroad, and his funds are only available if those people who are owing money abroad can bring such pressure to bear upon him as to induce him to lend it to them?—As I answered Mr. Gillan, I think the money that is in the banks goes abroad, and if more money is required the banks raise their rates, so that loans are no longer renewed and money comes in, but eventually as long as anybody in India owes gold to England it has got to go. I do not say that necessarily the two or three pounds, or whatever it is, that a man has got in his pocket is going, but all I said was if the liability continues it has to go.

10,469. (*Mr. Gillan.*) It seems to me rather a partial view if I may say so, from this point of view, that when a country has got an adverse balance of trade it does not seem to me that it is very different from the position of the ordinary individual with whom things have gone wrong; he has either to increase his output of commodities or he has got to go without other things which he is ordinarily getting, that is to say, imports. In one way or another he has certainly got to square the balance, but my point was that this money which they need for every day transactions is one of the last things that they can do without, and there are a great many other things that they would do without first?—I would be disposed to agree with you generally, because what I think does happen is, when other amounts of gold go, that has the effect of contracting the circulation, prices fall, and that means that commodities can go which could not go before, and securities. I am only saying that, theoretically, you have got to pay your obligations. A position might arise where you may be able to pay your obligations in some other way, and, if so, then you are relieved from paying them out of your pocket.

10,470. It is not only in money that you meet them—in adjusting the balance?—That is what the adverse balance of trade means, of course.

10,471. Putting your waistcoat pocket money aside now, with regard to the rest you have a reserve with the people?—Yes.

10,472. You have some reserve, on your assumption, with the banks?—Yes.

10,473. You have some reserve with the Government?—Yes.

10,474. Do you gain anything by that dispersal of reserves? I think in answer to the Chairman you quoted from some continental authority who said that he considered that the money which was with the people was actually more potent than the money held in a central reserve?—Yes. I do not agree with that view myself, but I was merely quoting an extreme view in the opposite direction rather on the lines of my thesis. I do not agree with that extreme view.

10,475. To sum it up, it seems to me that there are two views, and I am not quite certain which you hold. One is that probably there will be a natural growth in the gold circulation as the country grows richer, and as you said a higher unit of value is required, and so on?—Yes.

10,476. And you would do nothing to interfere with that growth?—No.

10,477. That is one thing. The other is that this is really a very urgent matter for the support of exchange, and for one reason and another, and that we cannot get on without it, and that therefore Government ought to push it on?—I do not believe in pushing gold in the sense of asking a man to take what he does not want. I think it is the worst way. If it is your object it is the worst way of pushing it. The way of pushing gold is to show anxiety to receive it. If we showed ourselves anxious to receive sovereigns we should get more. As regards pushing gold, I would never do it by asking a man to take it; the way in which you can push gold in the sense of getting more into circulation is by giving facilities, that is to say, cashing sovereigns in silver up-country, and things of that kind, where we cash notes. There are many ways of that kind of making a coin more popular. You will never make a man take a coin he does not want, and it is the worst thing you can do to try.

10,478. But does it come to more than this, that you foresee this natural growth and would do nothing to stop it?—If anything, I would do something to encourage it. I would rather encourage it, because I would reduce the position which we are in of having this large amount of currency which is token. I would rather have that replaced by some currency which has intrinsic value. In other words, I would let people have the silver they want, and I would let people have the gold they want, and what profits I made from the silver they want I would put into the gold and keep my gold. I think the Chairman summed it up pretty clearly.

The witness withdrew.

TWENTY-FIFTH DAY.

At the India Office, Whitehall, S.W.

Thursday, November 6, 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord FABER.
Lord KILBRACKEN, G.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEGBIE.
Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.

Mr. BASIL P. BLACKETT (*Secretary*).

Mr. LAURENCE CURRIE called and examined.

10,479. (*Chairman.*) You are a member of the Council of the Secretary of State?—Yes.

10,480. And a member of the Finance Committee of that Council?—Yes.

10,481. When did you join the Council?—In July 1911. I succeeded Lord Inchcape when he retired.

10,482. I believe you have prepared a memorandum for our use, which we can print?—Yes (*see* Appendix xxxii., page 669.).

10,483. I would like, first of all, to have your views on the question of the management of the balances in England. I suppose we must anticipate that there will for some time be considerable balances?—At the present moment there are only about four millions, which is not much more than the normal. I think there always were between three and four millions before 1908–9.

10,484. That, I think, is the figure which is regarded as the minimum balance necessary for security?—Yes; I believe the Secretary of State does not feel happy if the balances go below that.

10,485. In recent years the balances have been very much larger, have they not?—Since 1909 they been very much larger.

10,486. Owing, I suppose, in the main to the exceptional prosperity which India has enjoyed?—Yes; it is mainly that.

10,487. I think you were going on to say, partly to other circumstances?—Partly, I suppose, to underspending.

10,488. The same causes might produce the same results in the future?—Yes, I should think quite possibly they would in the future.

10,489. It has been the practice for some years, I think, under those circumstances to lend from these balances to certain approved borrowers?—Yes. That has been done, I think, for a great number of years, even before the India Council came into existence. I believe the old East India Company used to do it.

10,490. Does your experience lead you to approve of the practice?—I fail to see what else can be done, unless you leave all the money at the Bank of England.

10,491. Let me ask you first in regard to the present practice. Do you think that the methods used for forming a list of approved borrowers are sufficient, or would you suggest any improvement or change in them?—I think the list comprises all the borrowers who would ordinarily be lent to by the Joint Stock Banks, and all those who would come and borrow money at the Bank of England when they could not get it elsewhere. I think we have got all the large houses.

10,492. I think one of my colleagues on the Commission observed to one of the earlier official witnesses that he himself had been in the City for some time, but that, until recently, he had not known at all of this system?—Yes; I read that. I think it was Mr. Gladstone who made that observation. (Cd. 7069. Qs. 1956–7.)

10,493. But you do not think there are many firms who are equally desirable as borrowers, but who, until recently, have been unaware of the practice of the Secretary of State to lend these balances?—I do not think that can be so, because it is always put in the newspapers.

10,494. (*Mr. Gladstone.*) Of course, I was perfectly aware that the India Office did lend these balances, but I was not aware of the system by which firms were placed on the list?—I understand. Any firm, if it is of sufficient standing, is put on the list. I think the only times when they have been refused are when the firms are not considered to be sufficiently strong.

10,495. (*Chairman.*) What was passing through my mind was this: In recent years the balances have been so high that you have had more money than you could place with the approved list of borrowers?—That has been so.

10,496. Did you take any steps at that time to see whether you might extend the list safely?—I personally was not on the Council at the time when it began, and I do not think at any time since I have been on the balances were quite as high as they were at the time when Lord Inchcape was chairman; so probably that is a question which had better be addressed to him. Looking over the people we do business with ourselves in the City, I find they are very much the same, and I do not think there are firms of any considerable magnitude who are not on the list; certainly if they have wished to be.

10,497. When the balances grew so large that the approved list of borrowers could not absorb them, they were then lent to certain banks?—Yes. The list eventually was seven, I think; but originally it was confined to three.

10,498. What is your view of that process?—I think I have stated in the memorandum (App. xxxiii., page 669) that I thought it was justifiable at the time, but I do not think it would do to make a permanent practice of it.

10,499. You observed in the memorandum that you have submitted that, while you think this was justifiable as a temporary expedient, you would not like to revert to it, and still less to establish it as part of the regular practice?—That is my view. I believe it was Lord Inchcape's intention that it should be quite temporary. It went on, I think, for about three and a half years.

10,500. Would you tell me on what, that view is founded?—I think, as a general practice or principle, perhaps it is undesirable for the Government to lend money in very large sums without security. I think, in these cases, they were absolutely safe, but I think, as a general rule, when they can get security it is better to have it.

10,501. Your objection to the practice of lending to the banks, as it prevailed, is the absence of security?—That is one objection. I think another point is that it is, perhaps, rather invidious to choose banks. Once it became publicly known that the India Council was lending in this way, it would become very invidious to keep out any bank, and yet there might be a time when it might not be desirable to have all the banks.

10,502. I quite follow that argument; but does that not apply also to the list of what I may call private borrowers, that is, the list of approved firms?—In their case they have security; so, even at the worst, if something happened to them, we should be left with the security.

10,503. That is quite true; but at the same time I take it that you would not wish to lend, and in practice did not contemplate lending, to everybody who might offer to deposit security?—No. We take great pains that nobody is on the list who we think is at all doubtful. At the same time it always may happen in a time of crisis that even some of the firms who were considered quite good may suddenly be unable to meet their engagements. It has happened twice, I think, and only twice in the history of the Council.

10,504. And then, though the security would be ample, it could not be realised at the moment?—That is so. It was before I was on the Council; but I remember one case was in reference to some people, that we ourselves had to do with in the City.

10,505. Having regard to that, is it not true that you have to exercise the same kind of selection with reference to the firms which you will take, as you do with reference to the banks which you will take?—Yes; but I think it would be very difficult if you had the banks and it was known you were lending to them, not to have, for instance, all the clearing banks on the list—it would be practically rather a slur if you did not. Yet there might come a time in regard to one or more of them when there might be reasons for not keeping them on our list, and then if you withdrew them, it would certainly be very damaging indeed.

10,506. I gather from what you say that you feel the whole responsibility is rather a difficult one to discharge?—Yes.

10,507. Or perhaps I should rather say an invidious one?—I think in the selection it would become very much so.

10,508. Have you ever considered in those circumstances whether it would be possible to relieve the India Office of a task (I do not wish to be thought to be criticising it at this moment) which is certainly invidious and difficult, and to transfer it to some other authority?—Such as to a State bank?

10,509. In the first place, I was going to suggest the Bank of England. Would it be possible to employ the Bank of England to do the work which is now being done by the Finance Committee through their broker?—Of course they do part of the work now; they look after the securities.

10,510. Could they look after the lending?—I dare say they could, but they would probably make a considerable charge for it.

10,511. Do you think it would be more expensive to do it through them than it is at the present time?—I should imagine so. It could no doubt be done in that way.*

10,512. I will not at the moment refer to your suggestion about the State bank, but I may come back to that later. In regard to the expense of this financial arrangement, has the broker's remuneration been under review in your time?—No. I have read the evidence which was given by Mr. Scott, and also by Mr. Badock on that point.

10,513. What is your own feeling?—My own feeling is that it is not excessive. Of course, he appeared to get a very large sum in those three years, but he had a good deal to do for it, and I do not think you could pay very much less to anybody who has got to do that sort of work. You see Mr. Scott belongs to a firm who make very considerable profits, and this part of it is only a comparatively minor part of the firm's profit, although it takes up practically the whole of Mr. Scott's time.

10,514. I see that he belongs to a firm which is engaged in other business?—Yes.

* *Note by witness.*—I doubt whether the Bank would care to undertake this work as it would at certain times compete with their own operations. In any case I am convinced that it would prove very much more expensive than the present method. The Bank would hardly charge less than ¼ per cent., and, taking the amount lent on the market in 1912–3, this would work out, approximately, at 35,000*l.*, as compared with something under 9,000*l.* paid to Mr. Scott.

10,515. I understand that he joined the firm—I think we had it in evidence—on the requisition of the India Office?—Yes. I imagine that was because it was thought desirable that he should be in a firm who, when we brought out loans, would be able to assist the Council both with advice and in placing them.

10,516. Does not that place him in rather an invidious position?—I have not heard that he has found it to be so. Do you mean that he is supposed to serve two masters, or what?

10,517. He has got Indian money to place, and his firm perhaps have new issues to place. Again, I must guard myself; I do not want you to think that I have in my mind for a moment that anything improper in that respect has taken place; but does not that put him in the same kind of invidious position which you feel the India Office is in if it has to select amongst banks?—We do not lend on Stock Exchange security; we lend on what are called floaters, so he would not be able to do anything very much if he wished. Any good firm who wished to borrow on what is called floaters could borrow. I believe it is not alleged that Mr. Scott ever favoured any one firm more than another.

10,518. I entirely agree; I have heard no suggestion of the kind. What I felt was that Mr. Scott himself, just like the Finance Committee of the India Council, was placed in a position in which wholly unjust suspicions might arise, against which it would be very difficult for him to defend himself?—I do not think that has really ever arisen. I have never heard in the City any complaint of the way that he has done the work. I think that occasionally he has not got perhaps quite the best rate, but that is quite a different story, and has nothing to do with favouring any one firm.

10,519. When I suggested that this work possibly might be done by the Bank of England—and I made the suggestion, not because I thought there had been any great abuses in what has happened, but because I think it is desirable to guard the Government and Government officials against even the possibility of suspicion—you said, I think, that the Bank of England might do it on terms, but their charges would probably be high?—Our experience of the Bank of England is that their charges are not generally low.

10,520. They do a good deal of business for the Finance Committee?—Yes, they do; and I do not think the charge they make is unreasonable.

10,521. Do you think the actual charge reasonable for the work that they do?—The balance has not increased of late years, and of course the work has increased very largely. The only charge perhaps that is rather high is the charge they make for printing the currency notes; I do not know whether you have had any evidence on that?

10,522. No?—That does not, I think, really come into this point, but we are at present engaged in asking them to reduce it.

10,523. As regards the class of securities on which you lend, do you think any changes are desirable there?—I have said in the memorandum (App. xxxiii., page 669) that if it became so large an amount that we could not lend it on floaters and Indian railway debentures, it might be desirable to take what they call bank bills; that is, such bills as the Bank of England would discount on the market or would lend on.

10,524. Is that a security which with your present financial organisation you are well equipped for judging of?—I think we should throw the onus on the Bank of England in that case. At present they have to see that the security is all right, and we should tell them only to take such bills as they would take themselves.

10,525. At the present time you lend only on securities inscribed at the Bank of England?—That is so.

10,526. And you do not lend on any securities inscribed at any other bank?—That is so. That is really for the convenience of the Bank of England, and it would rather complicate the work not to do that. I think Mr. Scott has explained the case on that point.

10,527. We did examine him on that point, and I would like to pursue it a little further with you, if you do not mind?—There is absolutely no objection, I think, to lending on other securities, such as those that are inscribed, for instance, with the London County and Westminster. The only difficulty, I suppose, would be to get the security communicated to the Bank in sufficient time in the afternoon for the Bank to be satisfied it was all right.

10,528. Would not a letter from the bank where the security was registered, stating that it was transferred into the names of the nominees of the India Office, be a sufficient guarantee for the Bank of England?—I suppose it would if you could get them to sign it. I do not know whether you could get bank managers to write such a letter; if all their customers asked them to do that it might be rather arduous. It has got to be done at once, you see.

10,529. I should have thought the India Office was a sufficiently important customer to have some attention paid to its wishes?—It is not a customer of the London County and Westminster, except that it sometimes has deposits there.

10,530. At any rate the difficulty would not arise in the India Office?—I think it would arise in the Bank of England. I suppose they would take as a matter of course a letter from the London County and Westminster, but that really is a point on which you would have to ask the Bank of England officials, I think, and ascertain how they would propose to deal with it. As I said, there can be no other objection as regards the security. It would not very much widen the number of stocks, though.

10,531. You yourself suggest in your memorandum (App. xxxiii., page 669) that if the balances did rise very high again you might extend your list of securities to bank bills?—Yes.

10,532. And you say that in practice it would probably be found desirable to restrict the loans against bills to the two discount companies and to two or three of the larger firms?—If you only took a certain quantity of them, I think it would probably be better to do that.

10,533. Do you not think that would involve the India Office in new criticisms or suggestions of partiality or favouritism?—I should not have thought so, but if it were thought desirable we could take a third from any of the smaller firms as well. I do not think there would be any great objection to that, and it probably would work out in that way.

10,534. Now I will turn, if I may, from the balances in London to the balances in India. You yourself are not inclined to favour the loaning out by the Government in India of their surplus balances?—It struck me that it would be better to loan from the Paper Currency Reserve, because then it would be less likely to fluctuate. I think it would be undesirable occasionally when balances are low, if you once began lending, to have to draw back.

10,535. Therefore, if any such assistance is to be given, you would prefer it to be given from the Paper Currency Reserve, on the ground that it would be a more stable and less uncertain source?—Yes. I do not think if the balance is very high there would be any objection to the other; but it would be unfortunate if, having once started it, they had to withdraw it.

10,536. I understand you see no objection to moderate loans from the Paper Currency Reserve?—None at all.

10,537. That might involve, and would involve, I think, some alteration in the present law?—Yes; I think it could not be done at the moment.

10,538. At the present time the fiduciary issue, I think, is of a certain fixed amount?—Yes.

10,539. What is your proposal? Is it that the law should be varied, so that a portion of the existing fiduciary issue should be issued against some form of securities that would give relief to the money market; or is it that we should increase the fiduciary issue?—I think they now hold in the Paper Currency Reserve a considerable number of securities, and I say, instead of holding those securities, I should lend if it was thought desirable to do so.

10,540. Do you think the time has come when the total amount of the fiduciary issue might be reconsidered?—I have not really considered that point.

10,541. As regards the Gold Standard Reserve, you have expressed the opinion that it should be held mainly in London?—Yes.

10,542. And you give as a reason for that, that it is in London alone that it can be used?—Yes, I think that is so.

10,543. I presume your meaning there is that it exists for the purpose of maintaining exchange?—Yes.

10,544. And that if an exchange crisis occurs, it is in London that it would be wanted?—Yes, otherwise you would have to ship the gold from India, which seems rather an expensive operation.

10,545. You support the policy adopted in recent years of accepting short-dated securities rather than making permanent investments in stock?—Yes.

10,546. And you would like to go further, and sell the irredeemable stocks by degrees?—I think I should as occasion offers.

10,547. Even if some loss were entailed in the present?—I am afraid it is inevitable that there must be some loss.

10,548. Have you formed in your own mind any idea as to the total amount which ought to be held in the Gold Standard Reserve, or as to the standard which ought to govern that amount?—Do you mean the total of the Gold Standard Reserve altogether?

10,549. In the first place, I mean the total of the whole Gold Standard Reserve in whatever form it is held?—The present limit is supposed to be 25 millions, but I think it might quite well be somewhat higher than that; and I should be quite ready to see rather more gold than five millions.

10,550. I would like to come to the question of how much is held in actual gold a little later. First, as regards the total amount, what, in your mind, are the conditions which govern the amount at which the Gold Standard Reserve ought to stand?—Primarily, the amount that might possibly be needed for exchange.

10,551. At what do you think that should be fixed?—We have only got a limited experience as to what might be required, and it must be a matter, I think, rather of guesswork.

10,552. I quite agree, but let me try and make my exact point a little clearer. Some of the witnesses who have come before us seem to think that the amount at which the Gold Standard Reserve ought to stand corresponds in some rather direct and immediate way to the number of rupees in circulation; while other witnesses hold that the amount of the Gold Standard Reserve should really be dependent rather on the circumstances of Indian trade, and the possible adverse balance which might arise in that trade?—I think the latter view is certainly the one I should favour.

10,553. Therefore, as trade expands and the possible difference grows greater, you would like to see the Gold Standard Reserve increased?—Yes.

10,554. In the same sort of proportion?—Yes; I think as the country grows richer it can afford it.

10,555. Now as regards the actual gold, have you formed in your own mind any standard as to the amount of actual gold to be held?—I should think the proportion probably that we have now is about right; we have about a fifth of the Gold Standard Reserve in gold.

10,556. Do you think that would be sufficient if you had got it?—I think if the reserve were about 25 millions, if the actual gold were a fifth or possibly something between that and a fourth, that would be sufficient.

10,557. Suppose the total reserve to be 25 millions, and you held from a fifth to a fourth in gold, that would be from five to six millions?—I think that would be quite sufficient, if the rest was in loans against securities or in short-dated securities which would be at once realisable.

10,558. That recommendation then, in your mind, connects up with the other recommendation, that the irredeemable stocks should be gradually disposed of?—Yes. I think what you really want is to have it quite liquid, and whether it is actually in gold or in securities which may be at once realisable is not very material. Of course, if you hold a great deal of gold it is rather wasteful.

10,559. On the other hand, I suppose you would agree that if such a reserve is maintained at all, the first requisite is that it should be sufficient to give you real security?—Yes, certainly.

10,560. And that it would be a penny wise and pound foolish policy to run after interest before you have got that security?—Quite so; but I do not think if you have short-dated securities you are really running any great risk.

10,561. Turning now to Council bills, I think you approve generally of the policy prevailing in regard to the sale of Council bills?—Yes.

10,562. I think you refer to Mr. Abrahams' evidence on this point in your memorandum, and practically accept it as your own view?—Yes; I do not think there is anything there to add.

10,563. You say in your memorandum, at the conclusion of paragraph 6, (App. xxxiii., page 669) which deals with this question, that any restriction of the sale of these bills would hamper Indian trade and bring about an unnecessary export of gold from this country. Some of the witnesses who have come before us have desired to see the sale of bills restricted for the very purpose of bringing about an export of gold?—Yes; but when it gets there it does not appear to go into circulation.

10,564. That is a point I wish to come to; I want to ask you what you think would happen to the gold if, by refusing to sell Council bills, you force this export to be maintained?—Probably all that would happen would be that it would not go into circulation.

10,565. Would it be tendered at the Government offices for exchange into rupees?—For the most part, if used at all, it would be used in that way, and then we should have to buy silver in this country to replace it.

10,566. And eventually to ship the gold back at your own expense?—Yes.

10,567. You are not at present in favour of coining gold in India?—No; I do not think there is a demand for it, at least not a serious demand, and the sovereign appears to be an extremely good coin for circulation.

10,568. Some of the witnesses who have come before us have, of course, called our attention to the recommendation of the Fowler Committee in that respect, and they have appeared to think that it was the necessary concomitant of a gold currency; do you think that is so?—That you should have a gold coinage?

10,569. That you cannot have a gold coinage without a gold mint?—I should not have thought that was necessary.

10,570. Experience in South Africa, for instance, does not bear that out?—No.

10,571. Do you think it is in the interests of India to press the circulation of gold?—No, I think if they want it they will take it, and if they do not they will not.

10,572. In so far as one form of coinage is better than another, do you think gold is better than a token coinage in silver or in notes?—I do not think it makes much difference as long as the trade of the country is good.

10,573. Token coinage will be the more economical?—Token coinage will be certainly more economical.

10,574. I suppose, and this has been the view of our witnesses, we are very far from the time at which under any circumstances gold will be the prevalent medium in India?—I imagine so. All the transactions are so small over the greater part of India that gold would be much too large to be the actual medium; you want a rupee there instead of a sovereign.

10,575. In the meantime, would you be inclined to say that, provided it was adequately secured, it was not of much consequence what the coinage was in India if the exchange was firmly maintained?—Yes; I think it is best to keep the coinage which the people have been used to.

10,576. Under present circumstances, will you tell me how you think gold can best be used for the maintenance of exchange?—Suppose Government had it in its power by various means which it could use, either to put five millions of gold into circulation, or to draw five millions of gold into their reserve, which would be most effective for the maintenance of exchange?—They could not very well get it into circulation, I think: I do not think that is possible.

10,577. Do you mind for the moment assuming that it was possible for them to persuade the people to take it?—I do not think any great advantage would be gained, even if it was so.

10,578. When is gold most useful for the maintenance of exchange—if it is in circulation or if it is held in reserve?—I think if it is held in reserve.

10,579. Now I come back to one question which you just touched upon in an answer to me, and which I think is the last I want to raise with you; do you care to express any opinion about the suggestion of a State bank?—I have thought a good deal about a State bank, but I did not say anything about it in the memorandum because it was written some time ago, and before the question had come up. Unless there is a very strong demand for it in India, I think it would be rather a mistake to establish one.*

10,580. Perhaps you would develop the reasons for your view a little?—I do not think the bank itself would probably prove as a bank as effective as the Presidency banks are, because it would have to be somewhat hampered by Government control, and that would probably result in its not lending. I should think, as speedily as the Presidency banks do now.

10,581. I do not know how far your own experience would make you feel competent to answer the question I am going to ask, and if you prefer to say that you have not sufficient knowledge I will take that as the answer: do you think that India is adequately banked at the present time?—I do not know enough about it at the present time to say. But I do not know that a State bank would add much to banking facilities.

10,582. There is one further question I should like to ask you: Until you joined the India Council, you had never been connected, I think, with the Civil Service in any official capacity?—No, not at all.

10,583. When you joined it, what was your general impression of the way in which the Civil servants in India or at home carried out their financial duties, in the light of your experience of the way in which financial duties are performed elsewhere?—Do you mean the management of the balances in connection with the Bank of England?

10,584. I did not put my question very clearly: You would claim without previous official experience to bring a business man's experience to the management of business concerns; judging as a business man, what did you think of the business capacity of the administration both here and in India?—In regard to India, I only saw what you see in the office here, but I should have said that Government Departments take longer about their business than an ordinary business house takes. I think the work here is very well done; but I cannot say perhaps that it is done with quite the same celerity as it would be done in a bank or in a merchant's office.

10,585. On the whole, do you think it is well done and thoroughly done?—Yes. Of course, there is a great deal of detail, and a great many papers which have to go through several committees, and probably that entails more delay than is absolutely necessary.

10,586. Apart from the criticism that it takes longer, which is no doubt true, because Government offices have to keep a record of a much more elaborate kind than a private firm, would you make any general criticism of the management of Indian finance as you have seen it in the India Office?—No; I think it is done with very great care. Beyond perhaps the length of time, I do not think it could be improved.

10,587. One criticism has, of course, come to our notice more than once—that is the suggestion that those who are responsible for Indian finance in the India Office are thinking much more about London than about India?—I do not think that is a very fair criticism, but it has been certainly made. There is one point I should like to mention. It was alleged that these large balances which were brought over here were brought to ease the London money market and to please the London bankers. As regards the London bankers, it would certainly have been much more advantageous to them to have been without these large balances, because then money would have been more valuable and rates would have been correspondingly higher.

10,588. (*Lord Faber.*) I think you have told us that there are only about four millions of balances in London?—I believe that is so at the moment.

10,589. What has become of the big balances that were afloat at the beginning of the year?—A good deal has been used in purchasing silver. We had to buy over three millions of silver, I think. Then a good deal has been employed in buying stores. I cannot give you the exact details.

10,590. I suppose they have been used in place of the loan which is generally issued at the beginning of the year, and which was not issued this year?—Yes. We had no loan; I should also mention that fact.

10,591. Now as to the currency reserve, I think you said that you would be disposed to sell part of the securities in that reserve, and to lend the money to banks; am I right in that?—Do you refer to the Paper Currency Reserve in India.

10,592. Yes?—I think if we thought it desirable to lend to the banks in India at all, that would be a better way of doing it than lending on the balances.

10,593. You say you would sell the securities of the currency reserve; would you invest that money permanently with the banks, or lend it, and, if so, for how long?—You would probably only lend it for about half a year.

10,594. The Paper Currency Reserve would lose a good deal of interest, would it not, by lending for half a year to the banks, and then having it thrown back on them?—Yes; but we get $3\frac{1}{2}$ per cent. on our rupee paper, and as we would get nearly 7 per cent., the loss on these loans to which you refer would not be very big, and it would probably be balanced by the advantage to trade.

10,595. Your point is, is it not, that by lending your money to the banks, you would get as much money in half a year as you do for the interest on your securities now?—Yes, I think that would probably be the case. I do not think there would be any harm in lending a small amount from the balances at present, but I should be averse to lending a large amount, for the reason that you might have to reduce it at any time.

10,596. In regard to the Gold Standard Reserve, do you consider it wise to sell irredeemable securities, say Consols, now after they have had this very heavy fall?—I do not feel any certainty that they will not have a further fall.

10,597. But we are getting to a safer basis, are we not? We are getting 3*l.* 10*s.* from an investment in Consols now as against 2*l.* 12*s.* 6*d.*, the return when the fall started?—Of course, the lower they go the safer you will be; but I am afraid that in case of a European war we should see them very much lower.

10,598. I suppose that in the case of a European war even the short-dated securities which the market favours now would not be certain to be paid when they were presented?—I imagine they would always be paid, but they might have to be renewed at a very high rate. Somebody else would probably take them on, but I think you would always be able to sell these short-dated securities.

* *Note by witness.*—I hope that a State bank would not be established until it is certain that there is a real demand for it in India. I doubt whether it would prove as efficient as the Presidency banks in their respective localities. I do not think that it would do the business of selling Council bills or the work done in London by the Bank of England any better, and I feel certain that it would prove vastly more expensive.

If a State bank should eventually be decided on, I think it should be modelled as far as possible on the Bank of France, which has in numerous great crises proved such an admirable institution. The dictum of its founder might well be borne in mind. "I wish the bank to be sufficiently in the hands of the Government, and yet not too much so."

10,599. It is rather a new security, is it not, in our market, having regard to the extent to which these short-dated securities are carried now?—Yes. Of course, we have got some South African bills amongst others.

10,600. And you have a great deal of first-class short-dated stock from the United States?—Yes: there is that on the market, but the India Council does not hold this stock. I am talking for the moment of what the India Council have got; we have some of the colonial short-dated securities, and we have, of course, Exchequer bonds and Treasury bills.

10,601. I am not certain in my own mind—I may be wrong here—that it is at all certain that a colonial security will be paid when it falls due, having regard to what I have seen lately. I do not believe they have all been paid, but, as you very rightly say, they have been replaced by other securities or by a new security carrying a higher value?—I do not think any holder has any difficulty in getting the money for them if he wants it. They have been replaced by others, no doubt, but then those others have a higher value, and that tempts the public to take them.

10,602. Arguing on that line, I suppose you would say that you would always be able to sell Consols?—You will always be able to sell them at a price, no doubt; but it might be at a very great sacrifice.

10,603. (*Sir Ernest Cable.*) I think in answer to the Chairman you said that Mr. Scott did not always get as high a rate of interest as he might have got on the loans?—That is what has struck me, and I have once or twice talked to him about it. Of course, he has had very great difficulties when he has had very large amounts to lend, because he has not been in the position of a banker who can say, If you will not take this lot we do not care; we will sit upon the money. His instructions from this office have always been to lend, and not leave more than half a million at the Bank of England. I think that occasionally that practice might have been varied with advantage, but that has been the rule here always, and they have not at present seen their way to depart from it.

10,604. If the loans were made through a bank, either through a State bank or through the Bank of England, you think you might secure higher rates of interest?—I do not feel certain that the Bank of England would always get the best rate if they did the lending.

10,605. (*Mr. Gladstone.*) You referred to there having been no issue of sterling loan this year; I think the rupee loan which was issued in India was larger than usual?—Yes, that was so.

10,606. Have you considered the feasibility of borrowing much more freely in India than has been the practice hitherto?—The Government of India has been asked to do that more than once since I have been on the Council.

10,607. At the present moment money can be borrowed on more favourable terms in India than in England, I believe?—Yes. The India rupee paper is, of course, $3\frac{1}{2}$ per cent.

10,608. And there is much more disposition on the part of the natives to invest in, for instance, railway stocks?—Yes. I should hope that it will become more and more possible to borrow in India. It obviously has a great advantage, not only from the fact that it relieves this market, but also it is much more strengthening to the country to have a great holding itself.

10,609. (*Mr. Keynes.*) We have had evidence that the broker is very seldom allowed to lend for longer than four weeks; is that a wise arrangement in your opinion?—I think that probably it is, on the whole, a good thing. We do not want to lock up our money indefinitely, as we might otherwise be reduced to borrowing at the Bank of England if we were found to be short.

10,610. That would be very unlikely, and it would not be a very desperate contingency if it did happen?—I think it would be less likely when the balances are over nine millions than when you have only got four millions.

10,611. Even when they were over nine millions there were not loans for more than four weeks?—Except, of course, to the banks, which were, I think, for two months. You could not get a very much better rate of interest than we get, taking the year all round.

10,612. Is it not the experience of bankers that on the whole the longer they can lend the money the more favourable the terms they can get?—It is so, of course, in certain times of the year, but not, for instance, at the beginning of the year.

10,613. If you are going to lend money for three months, to lend it in three instalments of four weeks each would be less remunerative than to lend it for the three months right off. It may be the case that the rate you may get for the first four weeks will be higher than what you may get for the whole three months, but when you have not only a second period of four weeks but a third period of four weeks, that brings the figure down. Would you not get more if you lent it for the three months right off?—That would not always be the case.

10,614. But there would be a likelihood of it?—I should think as a rule that would probably be the case, but, of course, we do not want at any moment to find ourselves short and obliged to borrow from the Bank of England, because that would be a very unprofitable business.

10,615. We have been told that the Accountant-General, when he is making a loan, goes on the hypothesis that there will be absolutely no receipts from Council bills whatever; is that not excessive caution?—That certainly has been the practice, and I should say it is very rigid financial virtue to take that line, but it errs, perhaps, on the side of prudence.

10,616. It is always the case, is it not, that, when the demand for Council bills falls off, it falls off as a rule gradually except at a time of great crisis, and of that there is a few weeks' warning?—Sometimes it falls off very much more suddenly than we expect; it certainly did last year. I think in February or March it fell off rather rapidly.

10,617. The Accountant-General's rule is of a cast-iron nature, is it not? It might be of useful application sometimes; but there must be times—for instance a month ago, say—when it must be exceedingly unlikely that there would be no receipts from Council bills whatever?—I do not think a month ago we had very good balances.

10,618. But on any occasion like that, would not this cast-iron rule work badly?—I think there would be no harm in modifying it.

10,619. You do not think it is a necessary rule, although it would be sometimes wise to act as if it were the rule?—It errs on the side of caution, as I have said, and I do not think it is absolutely essential. Do you think we could get on the average a better rate by lending for longer periods?

10,620. I should have thought that to be absolutely certain?—I think certainly in the days when we had the nine millions, it would have been desirable, and of course that practice was followed in the case of the banks.

10,621. This is an illustration, is it not, of the sort of cast-iron rules that are necessary when you have these things done by Government Departments?—I think possibly if any individuals were doing it, not through a Government Department, they would very likely do it in that way, just as a bank would.

10,622. With regard to the Gold Standard Reserve, on the question whether Consols or short-dated securities should be mainly held, I think you included under short-dated securities, securities which are payable within four years, did you not?—Yes, four years was the maximum, but I do not think we have at any one time a very considerable number of them.

10,623. In that event, a security payable four years hence would not be more saleable than Consols, would it?—I think it would be. I think anything that has a fixed date of payment would be saleable. That certainly has been the case within the last three or four years; when money has been tight, you could always sell things with three or four years to run at a very much more favourable price.

10,624. I do not think this is a thing that can be answered from past experience because, as Lord Faber has pointed out, these securities are new things, and there has been no crisis since they were started?—People have always been able to get rid of them.

10,625. Have they always been able to sell quantities?—Yes, without dropping anything, or getting low prices; whereas if anybody were to sell a million of Consols, that would certainly in the last three years have lowered the price.

10,626. If the rate of interest is going on rising over a term of years, Consols will go on falling, whereas short-dated securities will not?—That is so.

10,627. If you had had to realise Consols last year, you would have lost, would you not, because of that long-period movement?—Yes.

10,628. (*Lord Faber.*) If, as Mr. Keynes said, you had to-day to sell half a million of Consols, or half a million of four-year colonial bonds, I do not think you would lose more, would you, by the sale of Consols than you would by the sale of the four-year colonial bonds? You would drop Consols perhaps a half per cent., but no more?—Possibly so.

10,629. And you would have to drop more than a half per cent. on the others?—We should not, probably, have half a million of any one of the four-year bonds. The majority of our investments I think are quite short.

10,630. One is swayed by what has happened to Consols in the past, and not by the sale value to-day, I think rather?—That is so.

10,631. (*Mr. Keynes.*) Also there is another possibility: Other Governments, I think, which hold securities of this kind in reserve, only raise money on them, and do not sell them outright in the market. They pledge them to the Bank of England or some other institution?—We could always do that, if necessary.

10,632. If you had to do that, would it not be much easier to do it with Consols than with other securities?—Not with Exchequer bonds or Treasury bills.

10,633. No, but as against colonial securities?—I do not advise going entirely for colonial securities; I think that would be most undesirable. I think a very small proportion of ours are colonials; the majority of them are Exchequer bonds and Treasury bills.

10,634. You have expressed rather a feeling against Consols, and I was suggesting that this prejudice against Consols was due partly to the fact that they have fallen over long periods of time, and partly to the assumption that the Secretary of State, having to raise money, must sell out?—He would not necessarily sell out in a time of panic.

10,635. If he did not have to sell out, he ought to have that sort of security which he can most easily pledge?—Yes, and Exchequer bonds and Treasury bills would be quite good.

10,636. They are no doubt excellent, but there is a very limited supply of them?—That is so.

10,637. After them would you not say that Consols would take the first place?—If you do not want to realise them, certainly I think so; but every year you are likely to make a further loss on them, at least that has been the experience of the last five or six years.

10,638. If you act on that hypothesis you are, as it were, putting your opinion against that of the market. The market price at any moment reflects the general opinion on that point, does it not?—In the case of Consols.

10,639. You are saying practically that Consols are dear at their present price, and putting your opinion on that point against the opinion as reflected in the market price?—I do not quite follow you. Do you mean that the opinion of the market is that they are too dear?

10,640. If the general opinion is that Consols are going to fall in value, that would be reflected in the present price; it is only when they are going to fall more than people would expect that it would be disadvantageous to take them at their present price?—I see what you mean. There certainly is a danger of their falling, whereas there is no danger of Exchequer bonds and Treasury bills falling.

10,641. Could you compare Exchequer bonds and Treasury bills with other securities?—I should not advocate taking a large number of Colonial securities, but I think a moderate amount are less likely to fall in the long run than are Consols.

10,642. When speaking of loans from the Paper Currency Reserve you suggested, I think, that the Presidency banks might be prepared to borrow on the security of the Government paper for at least half a year at 7 per cent.?—I did not say that, but the average rate would be something considerably over 3½ per cent., would it not?

10,643. It would be nothing like 7 per cent., would it?—At times it would be 7 per cent. when the bank rate was 8 per cent.

10,644. But it would be nothing like 7 except on very exceptional and famine occasions?—What I ought to have said was that I imagine you could get through the whole year probably something equivalent to 3½ per cent., though in some parts of the year they would lend at 3 per cent. But I do not know enough about it to speak exactly.

10,645. There would not be any advantage to anybody concerned, would there, unless you increased the fiduciary portion?—Is it not the case that the banks at times would like to have loans from the Government?

10,646. No doubt; but your suggestion comes to the Government selling some of its present securities to the banks, does it not?—Yes.

10,647. And then lending against those securities to them?—Yes.

10,648. That leaves the total position very much as it was, does it not?—Yes. I think it might probably be better to increase the fiduciary issue instead of doing that.*

10,649. (*Sir Shapurji Broacha.*) You say that out of 25 millions in the Gold Standard Reserve one-fifth in actual gold would suffice to maintain the standard of exchange?—I think one fifth would probably be enough.

10,650. That is your view as a banker?—Yes.

10,651. The banks in London, I believe, now are asked to hold in cash 20 per cent. of their total liability, and I think that would be the advice of a banker, to hold five millions in gold out of 25 millions of total liability?—The Government is not in quite the same position as a banker.

10,652. Do you know that this 25 millions is only about 20 per cent. of the total liability—that it is part of a larger liability? In view of that do you think this five millions would suffice?—I think in time you might get a larger amount, but I should not suddenly go and turn it into gold.

10,653. If there was a crisis in London, and a crisis in India, and gold was wanted, do you think you would be able to sell off your securities and to realise 15 or 20 millions in gold at once? Would you not be burdening your London market at the same time?—I am afraid you would be burdening it, but I think that is inevitable, whatever you do.

10,654. So far as India is concerned, you do not care for the market?—I do not think India ought to be entirely governed by what is convenient to our London money market.

10,655. You wanted in the last crisis something like 15 millions?—Yes, I think it was something like that.

* *Note by witness.*—On further consideration I am inclined to think that the result indicated by Mr. Keynes would only be temporary, and that as soon as the securities became absorbed by the investing public the proceeds of their sale would, if lent out, bring relief. Perhaps a more serious objection is that the sale of any considerable quantity of rupee paper by the Indian Government would make it more difficult to bring out fresh loans in India: but I think that, if the sales were effected gradually, this would not necessarily be the case.

10,656. If there had been a crisis in London, would you have been able to realise that unless you had come down in price?—I expect in the last resort we might have borrowed from the Bank of England.

10,657. Do you call five millions an absolute security for the Government?—I think what I said was that a fifth of the gold reserve, whatever the total amount was, I should advocate keeping in gold. I think that when the reserve increases, the amount of actual gold should increase too. I do not think you can keep enough for any possible contingency that might arise; what you have got to keep is for what is probable.

10,658. I suppose it is with the idea of saving interest that you say that out of 25 millions only five millions should be in gold?—Of course interest every year adds to the gold; all the interest is now accumulated in gold.

10,659. The crisis will come one day, and we have to secure ourselves for that one day. What will you want then for the support of exchange?—I should have thought it was enough for any probable contingency that is likely to happen.*

10,660. (*Chairman.*) It has been suggested to us by some witnesses that the effect of holding the Gold Standard Reserve money here in London is to reduce the amount of gold which London's bankers keep to meet London needs, and that therefore the gold held here is, as it were, discounted by the London market. I should like to have an expression of your opinion, speaking as a banker, on that suggestion?—I do not think that is so at all. I do not think we pay any attention to what is held in the Gold Standard Reserve.

10,661. Do you consider that whatever the gold reserve of London is, be it sufficient or insufficient, it is wholly independent of what may be held here on account of India?—Yes. I certainly think that is the view a banker would take. I do not know whether Mr. Cole was asked that question, but I think he certainly would have said that was so.

10,662. I think we did ask him, and I wanted to ask you also?—I do not think in the London money market it is considered at all. Probably a good many people would not know what was in the Gold Standard Reserve. I do not think they really attach any importance to it

* *Note by witness.*—In replying to this question, I might have mentioned that the gold in the Paper Currency Reserve, or at any rate a considerable portion of it, might be utilised in case of emergency. I believe that this has already been pointed out by previous witnesses. Sir Shapurji Broacha appeared to think it desirable that the Gold Standard Reserve should be held entirely in gold. Apart from the effect that the locking up of so large an amount of gold might have upon the Indian money market and indirectly upon Indian credit, it seems to me that this would be to prepare for a contingency which is never likely to arise. If it ever did arise, it would be of so appalling a nature that no amount of gold which the Secretary of State could hope to obtain would suffice for his requirements.

The witness withdrew.

The LORD INCHCAPE, G.C.M.G., K.C.S.I., K.C.I.E., called and examined.

10,663. (*Chairman.*) You were for many years, I think, a member of the Secretary of State's Council?—Yes, for over 14 years.

10,664. For part of the time you were Chairman of the Finance Committee of the Council?—For about five or six years, I think.

10,665. When did you cease to hold that position?—When I retired in July, 1911.

10,666. Since then I think you have had no official connection with the India Office?—No, none whatever.

10,667. May I ask you first some questions about the Secretary of State's surplus balances? It has been the practice to lend those on the market against securities, has it not?—Yes, that is so.

10,668. That, I think, was a practice which had your approval?—Yes.

10,669. Would you tell me how the business was ordinarily carried out?—The broker was in touch with the Accountant-General as to the amount of surplus balance he had, and he arranged with him as to the amount to be lent out and as to the time of repayment. It was done through Mr. Scott for the last few years.

10,670. In the first place, in arriving at the amount which could be safely lent, we have been informed that it was the practice deliberately followed by the Accountant-General to exclude from his calculations any possible receipts from Council Bills?—In estimating for his requirements?

10,671. In estimating, I would rather say, his surplus balance after meeting his requirements; that is to say, he always keeps sufficient in hand to meet his needs quite apart from any sum he might secure by the sale of Council Bills?—Yes, he did.

10,672. Was that a necessary precaution?—It was slightly over-cautious, I think; but India did not suffer by that, because, assuming that he got half a million from the Bank of England by the sale of Council Bills on a Wednesday, that was immediately lent out; so there was no loss of interest by it, only he would not allow the balances to be lent out repayable at dates that would have been inconvenient to him if the sales of Council Bills had not gone through.

10,673. There was no fixed day in the week on which these loans were made to the market then?—No.

10,674. He would lend whenever he found himself able?—The moment he found that he had more than half-a-million at the Bank of England, which is the standing free balance, it was lent out in the market immediately.

10,675. As far as you have explained, the transaction was one which was made on the joint responsibility of the Accountant-General and the broker?—Yes, with regard to the loans to the market.

10,676. Did the chairman have no responsibility in that matter?—The Finance Committee had a memorandum of the loans made placed before them every week.

10,677. But that was after they were made?—Yes, after they were made. The lenders were approved by the chairman of the Finance Committee under the orders of the Secretary of State; that is to say, when I became chairman, I found a list of lenders, with the maximum amount to which they might get loans, and that list was to some extent altered once or twice. When I heard, or the broker heard, that there might have been a change in the partnership and money taken out of the firm, the amount to be lent to them might be reduced; for instance, if they were on the list to the extent of 50,000*l.*, it might be reduced to 30,000*l.*, or if they were on the list to the extent of 200,000*l.*, it might be reduced to 150,000*l.*, or perhaps 100,000*l.*

10,678. That change, I understand, was made on the responsibility of the chairman of the Finance Committee?—Yes.

10,679. And under the orders of the Secretary of State?—Yes. Whenever applications to be put into the list came to the broker, they went to the Accountant-General, and were referred by the Accountant-General to the chairman of the Finance Committee, who made suitable inquiries as to the financial standing of the firms who were applying, and he either accepted them or rejected them—also under the orders of the Secretary of State.

10,680. Was it generally known among firms in the city eligible for the list, that they could apply?—Undoubtedly.

10,681. And how to apply?—Undoubtedly.

10,682. Did you have many new applications in your time?—I think something like five or six, and I think during Mr. Le Marchant's time he probably had the same number. It was quite well known. On one or two occasions the capital was not considered quite sufficient, and they were rejected; then they would come along later showing that the capital had been increased, and they had got into a better financial position, and so they would be put on.

10,683. I understand that if a new firm was placed on the list by the authority of the chairman of the Finance Committee, or if any alteration was made in the way either of expanding or of diminishing trade in the case of a particular firm, that would be reported?—It was reported every week.

10,684. To the Finance Committee?—Yes, it was laid on the table and reported to the Finance Committee.

10,685. And similarly, when the broker dealt with any firm which was on the list, he would report his transaction after it was made?—Yes.

10,686. The instructions to the broker, I believe, in every case fixed a limit beyond which he was not to go with a particular firm?—That is so.

10,687. Therefore, unless he absolutely disobeyed his instructions——?—That he would never do.

10,688. I did not wish to suggest it; but it would be only by disobeying his instructions that anything could happen which had not been previously sanctioned and approved by the chairman of the Finance Committee and by the Finance Committee itself?—Yes, that is so.

10,689. I think a time came, in 1909 was it not, when the balances were so large that you were unable to deal with the whole of them through these approved borrowers?—That is so.

10,690. Will you tell the Commission the steps which you then took?—The Accountant-General brought to my notice, as chairman of the Finance Committee, that the balances were in excess of what the broker was able to lend in the usual way in the market, and that, in consequence, there would be a large sum lying at the Bank of England bearing no interest, and he asked if I could suggest any other safe means of employing the money. From my knowledge of what was taking place in financial circles in London, I knew that it was customary for other governments to make temporary deposits with joint stock banks, and I suggested that we might deal with the money in this way. The system of making these deposits was accordingly inaugurated, and a statement of deposits was made and was submitted weekly to the Finance Committee.

10,691. The initial step in deciding to make those deposits I presume was approved by the Finance Committee?—Undoubtedly.

10,692. And by the Secretary of State?—Yes. I accept the entire responsibility for the suggestion so to employ the balances in excess of what could be lent in the ordinary way on the market. As regards the system followed in fixing the rates of interest, the broker and I put our heads together and secured the best rates obtainable for short deposits. Being a Director of the National Provincial Bank of England, I was in fairly close touch with the money market in London, and as Mr. Scott practically lived in the money market, he was even more so than I was. We began depositing with the National Provincial Bank, the Union of London, the London County and Westminster, and as the deposits increased we brought in the City and Midland. I think deposits had been made with four banks when I left the India Office in July 1911. In regard to the deposits made with the Union of London and Smith's Bank, of which Sir Felix Schuster is Governor, I would like to say that these deposits were made with my sanction, without any reference to Sir Felix Schuster. Sir Felix Schuster and I never discussed the apportionment of these deposits, nor did we discuss the matter of rates.

10,693. Have you seen the evidence of Mr. Scott, which was published in our first report?—I think I did see it, but I did not pay much attention to it.

10,694. I want to ascertain quite clearly what was the practice in regard to making deposits with these banks; I understand that you in the first instance suggested the deposit with the banks?—That is so.

10,695. And certain banks being approved by the Secretary of State, deposits were thenceforth made as convenient with them?—Yes.

10,696. Did you, in these cases, also fix the maximum for any one bank?—No, I do not think we did.

10,697. You did not think that necessary?—I think we ran up to as much as 2 millions; it might have been more.

10,698. You had, as you have told me, personal knowledge of the rates for money?—Yes.

10,699. And the broker also had some knowledge?—More than I had, probably.

10,700. Did you act solely on your combined knowledge, or did you take any steps to test your view of what was the best rate obtainable by any system of competition amongst the banks on your list?—Assuming there was a quarter of a million to deposit, he would sound one or two of the banks, or perhaps three of them, and the deposit was given to the bank who gave the best rate.

10,701. Would he have sounded the banks before he came to discuss with you the rate that he was to demand?—I think the usual system was that I was communicated with by the Accountant-General, and I sent for the broker immediately and asked him what his view was as to the rate that could be obtained. I knew what was being paid in other quarters, and together, if we got an offer of perhaps 3 per cent., we would try to get 3¼ or 3½. We got the best rate we could for the money. The rates vary from day to day, and sometimes you may have a difference of half a per cent. in the course of two or three days.

10,702. What I am still not quite clear about is, how you would assure yourselves that you were getting the best rate on any particular day. Suppose a deposit with bank A of a quarter of a million fell due on a given day; I understand from Mr. Scott that he did not go round to all the banks on his list and say, I have got a quarter of a million, what is the price you will give me? but he probably went to the bank which had already got it, and tried whether he could get what he thought a satisfactory rate from them. I am not quite certain that I rightly interpreted Mr. Scott's evidence, but I should like to have from you how you think the transaction took place?—My recollection is this: If a quarter of a million was falling due on, say, the 15th of November, that was put on the record by the Accountant-General, and it was kept in view the week before. The market was watched, and the bank who had the deposit was sounded. The money market rate was perfectly well known, both to Mr. Scott and to myself. If the bank who had the deposit was prepared to give what was the rate of the market, that bank would be allowed to keep the money, and it would not be disturbed. That system was adopted, because in the long run I think it was better for the Secretary of State. If you go changing money about, and interfering with money and not letting the bank know that it is going to have a chance of keeping it, naturally it will not give you such a good rate. The bank would generally be told that it would be wanted, probably a week before, so that they also would know that they would not have that money to deal with, and it was not sprung upon them. We always made it a point, never to spring upon a bank the withdrawal of a deposit. If we were going to withdraw the money—and I think Lord Faber will understand this—we always let them know a few days beforehand, not only in the bank's interest, but in the interest of the Secretary of State.

10,703. Your reason being, I suppose, that the less inconvenience you caused the bank the better rate they would give you?—Yes, that is so.

10,704. Suppose you had new money, what would you do? I understand from what you have said that if you had a deposit already with the bank and that deposit fell due, you would certainly on even terms renew it with the same bank rather than transfer it to another?—Yes.

10,705. Now, we will suppose first that the bank was not prepared to give you the rate of interest

which you thought the market justified, what would you do then?—Then Mr. Scott would try to get a better rate from another bank, and transfer the money. That has been frequently done.

10,706. Supposing that in addition to renewing certain deposits you had new deposits to place, what would be your course then?—Assuming I was told that there were 500,000*l.* to be deposited of fresh money, the proceeds of Council Bills, say on the Wednesday, I would see Mr. Scott, and he would again sound the banks to ascertain if they would take the deposit for a month or two or three months. We had to be guided by what the requirements were to be according to the statements made. If Mr. Badock said we could deposit this for a month, he would get the best rate that was obtainable from any of the four banks for a month's deposit, and the bank that offered the best rate was the bank to get the deposit. It would frequently happen that one bank would offer 3 per cent. and another might offer 3⅛ or perhaps 3¼. I would say then, tell the London County and Westminster that if they will give 3⅜ they can have it. Mr. Scott would come back and say either that he had secured the rate or that the bank declined to give a farthing more. It was purely a matter of bargaining, and my business was to get the best rate I could for the Secretary of State, the same as one does in ordinary business from day to day.

10,707. Are you satisfied as a business man that you did in fact get the best rates—I will not say in every single instance?—I always did the very best I could for the Secretary of State. I put myself in the place of the Secretary of State, and I dealt in reference to his money precisely as if I were dealing with my own. I got the very best rate I possibly could. With regard to the deposits in the National Provincial Bank, I squeezed the very last penny out of them.

10,708. That was your own bank?—Yes, my own bank. It was the business of the manager of the bank to get the money from me on the best terms he could, and it was my business to get the best that I could from the manager of the bank. He knew that perfectly well.

10,709. (*Mr. Gladstone.*) That is when you are representing the British India Company?—It is just the same with my own money, British India money, or my firm's money. Even if you are the director of a bank you are not going to give that bank any better terms than you get from that bank's neighbour.

10,710. (*Chairman.*) Therefore in regard to that particular matter, there was no more divided interest drawing you in opposite ways, in your capacity as a bank director and in your capacity as a member of the India Council, than you are accustomed to in your business life, either as a member of your firm or as a director of a great company?—No, not the slightest.

10,711. You treated the business of the Secretary of State exactly as you would have treated the interests of your own firm, or one of your companies, under those circumstances?—There is not the slightest doubt about that.

10,712. As regards the periods for which those loans were made, I think in the case of the banks they were usually for a rather longer period than in the case of private parties?—Yes, as a rule they were. The periods are entirely a matter for the Accountant-General. He had his budget estimate framed. He had enormous disbursements to provide for, and he said, "I want the money deposited so that "it will fall in within a couple of days or one day before "I have got to disburse it; the first thing I have got "to consider is that I have got ways and means"—and of course he is quite right.

10,713. One thing put in answer to us was that any individual who has a particular responsibilty on his shoulders will guard that responsibility perhaps to the exclusion or the partial exclusion of all other considerations: do you think that possibly the policy pursued was sometimes over-cautious? Might you have got better rates without any real risk if you had sometimes lent for a rather longer period?—Sometimes you might have done that, sometimes you might not. For instance, you might be able to get a better rate if you deposited for six months; assuming that the market rate was 3 per cent. for three months, you might get 3½ for six months; on the other hand, by the time the three months had expired, it frequently occurred that there had been great changes in the money market and you were able to lend your money out at the end of the three months not at 3½ but at 4 per cent. So that if you take it on the average, I think, probably, Mr. Badock's system was no detriment to the Secretary of State.

10,714. In regard to the loans to the borrowers on the approved list, they were, I think, shorter still; I think they never exceeded four weeks?—I think they were about four weeks.

10,715. Do you think that was wise, or might it be extended?—I think that was quite wise. I think, as a rule, that was all they cared to take the money for. I do not think it suited them ever to take it for a longer period.

10,716. In lending to the banks you took no security?—That is so.

10,717. Do you think that Government ought to lend money without definite security being placed against the liability? I am assuming that it will not lend it except very safely?—It is an unusual thing for joint stock banks to give security for deposits.

10,718. Does not the London County Council get security?—I do not know. I do not know of any case where the great joint stock companies like the City and Midland, the National Provincial, the London County and Westminster, and the Union Bank, give security, and I doubt very much whether they would—I do not think they would bother with it.

10,719. Passing to the case of the private borrowers, there you did have security?—Yes, the private borrowers did give security.

10,720. Do you think that possibly you could have increased that market for your funds by extending the list of securities that you took?—The kind of security, do you mean?

10,721. Yes?—I do not know whether they had it to offer.

10,722. I will put a particular case as an illustration. There are very good securities registered elsewhere than at the Bank of England, but I understand that owing to the regulations now enforced, those are not available as security against your loans?—That is so.

10,723. Do you not think, as a business man, that it would be perfectly possible to give the Accountant-General such an assurance that the security has actually been hypothecated to the debt as could make it safe to lend?—It will entail a good deal more trouble.

10,724. At the present time you lend only on those stocks which are registered at the Bank of England?—You actually get the bonds in the case of what is lent.

10,725. Would you have any hesitation, as a banker, in accepting a certificate from another bank that they had transferred stocks standing in their books to the name of the Accountant-General?—No, none whatever.

10,726. Would there be any difficulty in getting other banks to do that for the purposes of such loans?—I think I may say that that was discussed once or twice, and the conclusion that was arrived at between the Accountant-General and Mr. Scott was, that the type of security that was got was the most convenient for our business and for the public. I do not think that ever came up very seriously before the Finance Committee.

10,727. Do you think it might possibly be worth while to consider it?—Yes, it might be worth while.

10,728. I myself asked Mr. Scott some questions about his remuneration for the services which he had rendered to the Indian Government. I think he told us that it had been revised on your suggestion, or at any rate at the time that you were chairman?—Under the instructions of the Secretary of State. I was the humble instrument of having it reduced by something like 50 per cent., I think.

10,729. I suppose I must take it that the arrangement then come to was, you thought, a perfectly fair one to the Secretary of State?—Yes. It was a tremendous knock to him, because at the time he had done the work very well and it was reducing his emoluments by one-half. He kicked against it, but he accepted it. Just at that time the amount that was being lent was something enormous, so that was an inducement to him to accept the lower scale.

10,730. He is paid by commission, I think?—Yes; but he gets his commission not on the principal but on the interest that he earns, so that in all the operations that are done by Mr. Scott, the more he can squeeze out of the borrowers or the banks, the more is his remuneration. That, I think, is quite a sound principle.

10,731. You prefer a commission, which involves the principle of payment by results, to a fixed salary, do you?—I think it has worked uncommonly well in the case of Mr. Scott, and also of his predecessor. It has sometimes been considered whether there might not be a paid official to do the work. The man who might be employed there would want a considerable office if you have got this tremendous amount of securities passing through, and he would have great responsibility. I do not suppose you could give him less than 1,500*l.* or 2,000*l.* a year. Besides the office he would require a staff; he would come to be pensioned and his staff would require to get pensions. Then I am not quite sure that he would be so closely in touch with all the movements of the market as a man in Mr. Scott's position is. The difference of an eighth—I think I worked it out at the time—on what we were lending, that is to say, if we had got an eighth less than he did get—would rob the revenues of India of something like 20,000*l.* or 25,000*l.* a year. I had the figures worked out at the time, and I thought on the whole that the revised arrangement made with Mr. Scott was quite a reasonable one for the Secretary of State. Of course it is not a permanent arrangement. Every arrangement of that kind requires revision from time to time just as it was revised when I was Chairman of the Finance Committee. The previous arrangement had been going on for a great many years, and naturally you can improve an arrangement if you reconsider it. No doubt the arrangement with Mr. Scott, if it is shown that he is getting more than he ought to get, will be subject to reconsideration again.

10,732. I think the India Office required that Mr. Scott, when he took up the appointment as broker, should join a firm?—That he should join one of the best firms in London, Nivison's.

10,733. That was in order to get him a standing and experience?—A standing in the City, and, of course, great knowledge. He has the benefit of Mr. Nivison's knowledge, which is very considerable, as we all know, in the London money market.

10,734. I do not wish you to think for a moment that I am suggesting that he has ever acted except with the most earnest desire to serve the interests of the Secretary of State?—I am quite sure of that.

10,735. But is not the arrangement open to criticism, just as the arrangement with bankers, as you know, has been criticised, on the ground that whether or not in fact they were wrongly influenced in any arrangements they made, at any rate they might have been, and therefore they were, laid open to suspicion, and it is undesirable that anybody acting for the Government should be even open to the suspicion of having a reason for doing a wrong thing?—I cannot conceive any man, knowing Mr. Scott or knowing Nivison's, and knowing the facts of the case, could have any suspicion.

10,736. I would rather, if I can get you to do it, ask you to exclude both Mr. Scott and his firm from your mind when you are answering my question, which is not directed against them. I am trying to put to you, in order that I may have your answer, a criticism of the system, not an attack upon an individual. I would like to say quite definitely that we have not had a word of evidence which suggests any criticism of the firm or of Mr. Nivison?—If I was in the position of Secretary of State for India I would certainly employ a man in the City to lend out my balances rather than a permanent official at the India Office, because I believe that man will do far better, assuming he is an honest man, for the revenues of India, paid as he would be on a commission, than a permanent official. That is my candid opinion.

10,737. Have you ever considered whether it would be possible to do the business through the Bank of England?—No. That has never been considered, but I should not recommend it.

10,738. Would not working through the Bank of England relieve the Secretary of State and his immediate advisers from a rather invidious task, if, instead of the Secretary of State having to make his loans through an officer of his—and that is what, in fact, Mr. Scott is—they were made through the Bank of England?—I should be very sorry to see them made through the Bank of England, from the point of view of the advantage of the revenues of India.

10,739. Will you tell me why?—The Bank of England has got its own business to look after.

10,740. You do not, therefore, think they would be able to get such good terms?—I do not think they would be able to get such good terms.

10,741. Is it the terms that they would get from the borrowers, or the terms that they would exact for doing the business, which are unsatisfactory to you?—If you were to entrust it to the Bank of England the Bank of England would have to entrust it to a broker, and that broker would be working not solely for the Secretary of State, but for many other interests. The Bank of England cannot do the work, they must do it through a broker, and that broker must be paid by commission on the interest that he has earned.

10,742. Would it be impossible to institute with regard to the money you had to loan, any system of tender?—No; but I think it would be extremely difficult and very awkward, and I do not think the results would be nearly so good for the revenues of India.

10,743. In connection with this question of loans, we have had it in evidence that the instructions to the broker were that he must lend the money—that he was to obtain the best rate he could, but that he must lend it. Would it not have paid the Secretary of State well sometimes to hold his money back if he could not get a good rate, and forgo his interest for the moment?—No, I do not think so. It would have gone piling up, and he would have been in a worse position than ever.

10,744. You think it was a right policy?—I think it was right. The other way it would have been speculating in the market. The Secretary of State would have had this money earning no interest in the Bank of England; if the broker were to hold it up and try to force the market to pay a higher rate I do not think he would have succeeded. If they were only offering us 2 per cent., we would lend for a fortnight only, on the chance of the market improving. I do not think it would pay him to pile the money up. He would have half-a-million to lend to-day and he would probably have another half-a-million on Monday when these Council bills are being sold in very large amounts; and then he has got a million to lend out instead of half-a-million. I should like to add that some discretion had to be exercised in the placing of these deposits, as it would not have been to the advantage of the Secretary of State to hawk them about and probably have refusals, as that would have undoubtedly led to a loss in interest. A letter which I wrote to Sir Edward Holden on January 17, 1911, will perhaps explain to the Commission better than anything else the procedure adopted in regard to the loans to banks. My letter was as follows:—"Private. London, 17-1-'11. Dear Sir "Edward Holden, the Secretary of State for India has "considerable amounts of spare balances which he "deposits from time to time with London banks, and "the business of arranging these deposits is entrusted "to me as Chairman of the Finance Committee. "Hitherto our deposits have been made with the "National Provincial Bank, the London County and "Westminster, and the Union of London—they run "into large amounts—and it has occurred to me you "might be glad to have the opportunity of securing "some of the business. I expect we shall have some "fresh money for deposit within the next week or two, "and if you care for it I shall ask our broker, Scott of "Nivison's, to call and see you when the time comes. "You might let me know. You will treat this com-"munication as confidential, Yours, &c., Jas. L. Mackay. "To Sir Edward Holden, Bart., London City and "Midland Bank, Threadneedle Street, E.C." A deposit of 500,000*l.* was accordingly made with the London City and Midland Bank for, I think, a period of three months, but when it fell due Sir Edward declined to renew it, on the ground that such deposits might be a source of inconvenience to the banks that held them and were liable to have to repay them at a fixed date.

10,745. (*Lord Faber.*) Why did Sir Edward Holden come to the conclusion that he did not care about renewing it?—I do not know. He wrote to me when the deposit fell in and said he did not care to renew it. He said these deposits might be a source of inconvenience to the banks that were liable to have to repay them at a fixed date.

10,746. (*Chairman.*) In recent years the balances have been abnormally high, have they not?—Yes.

10,747. Both in India and here?—Yes.

10,748. And especially here. It has been suggested, I think, in some quarters that that money is taken away from India and brought here for the advantage of London?—I have seen that stated; I think that is one of the attacks which has been made upon the system.

10,749. I should like to have your answer to it?—In regard to that it is sufficient to say that the increased taxation imposed in 1910 was initiated by the Government of India and was sanctioned by the Secretary of State in Council solely on the representations of that Government as to its absolute necessity, in view of the impending loss of opium revenue and the general state of the finances of India. The attitude of the Secretary of State in Council was one of reluctance throughout. As regards the transfer of the surplus revenues to London with the unworthy object of easing the London and starving the Indian money market which has been imputed to some of us, the policy of the Secretary of State has always been to meet the market and to get money home from India when he could and so long as the cash balances could pay for bills drawn on India. When the cash balances were insufficient to meet the demand for Council bills, since the closing of the mints, the Secretary of State has bought silver and coined it, and has met the demand for currency in this way as he is obliged to do under the law. It seems to me that the sale of Council bills on India by the Secretary of State, instead of denuding the Indian money market, has had quite the contrary effect. The Government of India balances were locked up in the treasury, and the moment bills were sold by the Secretary of State on the Government of India, either to the exchange banks or to merchants, these balances, to the extent of the bills sold, were placed at the disposal of the trade.

10,750. I should like to ask you, when you speak of the funds so released being placed at the disposal of trade, how far do they go towards the relief of any stringency in the Indian money market? Do they get beyond the external trade into the internal trade of India?—Undoubtedly; they go off immediately in payment of produce. Might I put it to you in this way: Take the Chartered Bank of India, or any of the exchange banks, if they buy bills in India for 10 lakhs of rupees, that money is immediately placed at their credit with one of the Presidency Banks, and they are then in a position to buy merchants' bills drawn upon Europe or America, or it might be for Australia, against produce, so that the merchant immediately gets the money he requires and he is enabled to pay for his produce. Therefore the money flows up country.

10,751. (*Lord Faber.*) By documentary bills, I suppose?—Yes.

10,752. (*Chairman.*) It has been suggested in some quarters that instead of selling in any one financial year more than the amount that he requires to meet his immediate needs for the home charges, he should shut down his sales at the moment he has covered those charges, what do you say to that?—Assuming that he requires 18 millions to pay his home disbursements in 1913-14, by December 1913 he may have sold bills on India which have realised him 18 millions, then the suggestion is that he should sell no more; that though he has lots of money on the other side he should shut down and people requiring money in India would have to send out gold. That gold would be immediately offered to the Indian Government, and rupees would be taken in exchange, and it would lie in the coffers of the Government. The Secretary of State is bound to sell, in fact he has given an intimation that he will sell without limit at 1*s.* $4\frac{1}{8}$*d.*; he must provide the currency as required, and that gold would have to come back to pay for the silver that he bought to provide the currency. So far as I can see there is nothing to be gained by it.

10,753. So that, in your view, when the transaction was completed it would mean that gold had been shipped to India merely in order to be shipped home, with a charge of freight, insurance and interest both ways?—Yes. It would suit our friend Sir Thomas Sutherland very well, and it would suit Mr. Gladstone, who is a director of the P. and O. It would also suit the insurance companies very well, and it might suit the British India Company, but I do not think it would suit any other body.

10,754. The interests we have to consider are the interests of the Indian Government and Indian people?—Undoubtedly.

10,755. And you do not think that they would be served by such a course of action?—I cannot see that they would be.

10,756. Some witnesses appear to consider that the Government, by selling Council Bills in excess of their requirements, force the circulation of rupees and deprive the people of India of the gold to which they are entitled; I should like to ask you in regard to that whether, in your opinion, the Indian Government have any power to increase artificially the circulation of rupees?—They have none whatever. Any man bringing 15 rupees to the Government can get a sovereign for them. They presented $12\frac{1}{2}$ millions sterling worth of rupees to the Government of India in 1907, and they got $12\frac{1}{2}$ millions of gold or the equivalent of it.

10,757. Are there any means by which the Government of India can put additional rupees into circulation, except in response to demands from the public?—Absolutely none.

10,758. What do you say to the statement that the Government, by selling bills freely, instead of forcing the banks or merchants to send gold to India, deprives the Indian public of the gold they desire to have?—In regard to that I say the demand is mainly not for gold to be put into circulation but for rupees, and when sovereigns are sent to India they are nearly always tendered at once by the importers to the Government to be exchanged for rupees. For instance, if I had 15,000 rupees in India to-morrow, and I wanted 1,000 sovereigns, all I have got to do is to go to the Treasury and get them.

10,759. In your opinion, therefore, there is no difficulty in getting sovereigns in India if there are any?—Not the slightest. We gave them up to $12\frac{1}{2}$ millions, and no doubt at the present moment you would give them up to 43 millions sterling worth.

10,760. (*Lord Faber.*) Does the Indian Government undertake to supply gold for rupees?—They do not undertake it, but they do. They cannot bind themselves, and they have never bound themselves, but what they have done is to say, we will go on and pay out our Gold Standard Reserve until it is exhausted, and when it is exhausted we will see what we can then do. But it never has been exhausted.

10,761. (*Chairman.*) Where have they said that?—The Government of India have made that announcement. They have shown it by what they have actually done. They have never refused to exchange rupees for gold.

10,762. Take the crisis of 1907 and the following year; they did not at once without hesitation pursue that policy, did they?—Sir Edward Baker held up gold for about 12 hours until he got orders from here. He would not part with his gold, and that was actually put a stop to by the Secretary of State. From the time he got his orders the gold was poured out until the whole of it was exhausted, and when the gold was exhausted we gave them sterling bills on the Secretary of State.

10,763. I should like to ask you in that connection, now that there has been further experience, what your view is of the correct policy for the Indian Government and the Secretary of State to pursue in case of another crisis; I presume you would say without hesitation that the gold in the Gold Standard Reserve in London ought to be freely used for the support of exchange?—Absolutely.

10,764. Would you say in the same way that any gold in the hands of the Government of India should be equally freely used?—Absolutely.

10,765. How do you think it could be best used? I am speaking now of gold in India. Would the best use in such a crisis be to pay it out to anybody who asked for it, or, on the other hand, would it be more efficient for the support of exchange if you at once shipped it to London and sold against it?—I would pay it out.

10,766. You would pay it out?—I would go on paying it out as hard as the people chose to put in rupees, and if there was not enough gold in India I would give bills on the Secretary of State and let him meet them from his gold reserve here, and when that is exhausted I should go on selling bills again, and I would sell every security I had until it was exhausted. When that is done, when you have got rid of your 43 millions, then you have either got to borrow to support your gold standard exchange, or you have got to let the exchange go by the board. That, in my opinion, will never happen. We had a crisis in 1907 which I do not think is likely to be very much exceeded—but you might have the same again—and then they only took $12\frac{1}{2}$ millions. I would not stop paying out gold for one moment.

10,767. Some of the witnesses who have come before us have certainly thought that that crisis was hardly the measure of the crisis which might come upon the Indian Government?—You had two severe famines then, and you had a financial crisis in America.

10,768. I think it was the Governor of the Bank of England who said to us in a phrase which remains in my memory, that if the storm centre had been in London, the situation would have been much more difficult to deal with?—Yes, it would. Of course, you cannot tell, but we have got now 43 millions sterling and we saw a pretty bad crisis through with $12\frac{1}{2}$ millions, and came out with $11\frac{1}{2}$ millions to the good. If we lost the whole of our gold and all our securities, we would only go back to where we were in 1893 before the mints were closed and when there was no Gold Standard Reserve.

10,769. I was rather thinking at the moment when I began this series of questions, about the best use of your gold. I do not know whether in saying that you would give it out freely in India, you are influenced by the fact that your gold resources or your sterling resources are so large now that you can afford to let the gold go out for whatever purposes it is demanded?—I think you must treat everybody alike. If you do not do that, you will not support exchange.

10,770. Suppose your resources were much more limited, would you not say for the purpose of maintaining exchange if you had, let me say, a sum of 5 millions, that it would be much more effective to send that 5 millions to London than to give it to the first comers in India?—No, I do not think so. I would not send it to London; I would give it up to whoever wanted it.

10,771. Taking those years, I think something like 4 millions were given out in India?—Yes.

10,772. And apart from the shipment of a lot of sovereigns made by the Government, I think we have had it in evidence that only about a quarter of a million could be traced directly as going to the support of exchange?—It must have had a considerable effect upon the support of exchange, although it could not be seen.

10,773. In preventing the import of gold, perhaps?—I do not see why the people who had paid for the rupees, and given a sovereign for them, or had given produce equivalent to a sovereign, should not get the sovereign back, as well as other people. I should go on and give the gold away to whoever wants it. If you do that then you are all right, and you have no quackery. You go on and give the money away to whoever brings you rupees, till you have exhausted your Gold Standard Reserve, and, when you have done that, you can do no more.

10,774. Do you hold the view that the Indian people are given to hoarding gold?—I do not think they hoard it much. I think they put it into ornaments; if they have a good season they like to ornament their womenkind.

10,775. That is a form of saving, is it not?—Exactly. There is no reason why they should not do that; it pleases them.

10,776. At a moment of crisis like that, if they have any gold put away, they are not very likely to bring it out, are they?—You will see that they will bring it out if they have got to buy clothes and food.

10,777. They will bring it out under the stress of famine?—Undoubtedly; or perhaps for a wedding, or perhaps if a man wants to go to Jeddah, as thousands go every year, on pilgrimage. If they have got no credit with the *marwari* then, naturally, they will sell their jewels.

10,778. At the moment when exchange is uncertain, and when you want gold to flow freely to its support, would that not be rather the time when men would be inclined to keep gold by them, and to pay out rupees? Would not the very fact that they were uncertain about the future of exchange cause them to hold their gold and increase it if they could rather than to produce it for the support of exchange?—There is no reason why they should not. If they are afraid of the rupees going down to less than 15 to the sovereign, naturally they will get rid of the coins they are alarmed about.

10,779. If they used up a large part of the gold resources of the Government of India in that way, would not that rather aggravate the crisis instead of ameliorating it?—No, because they only use up the gold resources of the Government of India by paying back rupees. If the Government of India get back four or five crores of rupees, it does not matter where they come from; they have made the currency that much less redundant, but it does not matter where the rupees come from if the rupees come in.

10,780. (*Mr. Keynes.*) If there was an adverse balance of trade of 20,000,000*l.* to meet, and if Indians, through distrusting rupees, replaced their rupees with sovereigns to the extent of 10,000,000*l.*, that would be a call on the reserve of 30,000,000*l.*?—I do not quite follow.

10,781. I am assuming, first of all, there is an adverse balance of trade which must be met of 20,000,000*l.* I am assuming also, that owing to the distrust of the rupee, Indians in India replace rupees with sovereigns to the extent of 10,000,000*l.*; that means, does it not, that the Government must find 30,000,000*l.*?—If you have an adverse balance of 20,000,000*l.*, and there is also a distrust of the gold value of the rupee to the extent of 10 millions?

10,782. I might put it like this: If the Government attempts both to meet the adverse exchange, and also to replace rupees for people who are getting afraid, they would need larger reserves than if they were only to attend to the exchange?—I think they are both the same. The adverse balance of trade undoubtedly would have a depressing effect on exchange.

10,783. But it does not help exchange in the slightest degree, does it, if persons in India replace

rupees by sovereigns and keep the sovereigns in India?—I am afraid I do not follow you.

10,784. Suppose a man who used to have rupees in his pocket, puts those rupees in the Government's chest and has gold in his pocket instead; that does not help exchange, does it?—Of course it does.

10,785. How does that help exchange?—Because you take rupees off the market.

10,786. But you replace them by sovereigns?—The rupees have been redundant, and therefore there are more rupees than are wanted practically, and they begin to go to a discount; is that not so?

10,787. Yes?—The Government buy them, and so they maintain the ratio, and therefore the rupees do not go to a discount.

10,788. (*Chairman.*) Am I right in understanding that in your view, if there is a crisis in exchange, the same circumstances which make that crisis will necessarily make the rupee circulation redundant and call for a contraction of the amount of rupees in circulation?—Yes; that is my view.

10,789. (*Mr. Keynes.*) Is it not the case that it is not the rupee in particular which is redundant, but that there is more circulation in the country than the country wants at the moment? If you simply replace rupees by sovereigns, that does not affect prices or anything else. If the Government refused to give gold for rupees in India, but sold sterling drafts freely in return for rupees, rupees would fall to a slight discount, but they would not fall to a great discount. The amount of the fall would be measured by the cost of bringing the money back again from London to India, would it not, and you could let them fall to a discount within that region without affecting things?—If a man has given a sovereign for 15 rupees, it would be quite wrong that you should not give him the sovereign back, but that you should give a man who happens to have an office in London a sovereign in London in exchange for 15 rupees.

10,790. May I put the point again like this: If there is an adverse balance of trade of 20,000,000*l.*, and the Secretary of State sells sterling drafts in India, that 20,000,000*l.* is the maximum he will have to sell; if he also agrees to replace rupees in the pockets of the people in India with sovereigns, he will have to supply more than 20 millions sterling?—If he sells bills on London for 20 millions sterling, he has mopped up the equivalent of 30 crores of rupees, has he not?

10,791. Incidentally, yes?—Not incidentally at all. He has mopped it up; he has got that before he has given up his bills.

10,792. And he has not replaced it by any other money in India; he has replaced it with funds in London, not in India?—He has replaced it in London.

10,793. Not in India?—Not in India.

10,794. He has reduced the currency in India?—Yes.

10,795. But in the second case he has not?—How do you mean that in the second case he has not?

10,796. In the second case, in which he replaces the rupees in people's pockets in India, and puts sovereigns in their place, he has not reduced the amount of currency in India?—I really do not follow you. He has given out sovereigns to the people in India——

10,797. (*Chairman.*) He has altered the form of currency?—Yes, he has.

10,798. But he has not decreased the total of the currency?—No.

10,799. (*Mr. Keynes.*) I am suggesting that if he is to do both things, he needs more resources than if he is only attending to exchange?—I would strongly recommend the Commission not to attempt any quackery of that kind. I say, pay out your sovereigns as long as you have got them in India, and then sell your securities when you have exhausted your gold. You will never come, as far as I can judge, to anything like 20 millions of the Gold Reserve Standard being required.

10,800. (*Chairman.*) That takes me to another point upon which I would now like to ask you a question. Have you formed any standard in your own mind for the Gold Standard Reserve?—For many years the idea was that the reserve should reach 12 millions; then, when we got up to 12 millions, we began to get a bit frightened—we are always a little afraid of touching the reserves, you know. We discussed it here at the India Office, and we thought we had better have it 20 millions. Then, when it got up to 20 millions, we left it alone and did not pay any attention to it, but let it run up. Now it has gone up to 43 millions. I think we have got quite enough now.

10,801. You are talking not of the Gold Standard Reserve alone?—It is all available for the support of the Gold Standard Reserve.

10,802. You are talking of the Gold Standard Reserve and the Paper Currency Reserve?—Gold is in the Paper Currency Reserve, and you can put rupees in there and take out the gold. In the Paper Currency Reserve, all you have got to do is to provide the rupees, and then you can take the gold out of the Paper Currency Reserve, putting in the rupees. So, practically for the support of the Gold Standard Reserve at the present moment the Government of India and the Secretary of State between them have 43 millions in gold and sterling securities.

10,803. For this purpose, you regard the two reserves as interchangeable or complementary?—Yes, and they always have been treated so.

10,804. Do you think there would be some advantage if in the Gold Standard Reserve you had a larger proportion of gold by transferring the silver which now is in that reserve to the Paper Currency Reserve? It does at first sight appear an anomaly that the Gold Standard Reserve, or Gold Reserve as it was originally called, should contain silver?—Of course, you know how that came about. They got a little alarmed, and there was a great demand for coinage, and they thought that they ought to have a little reserve of silver that they could draw upon immediately, so as not to have to wait until silver was shipped from home.

10,805. It has a little confused the purpose for which the Gold Standard Reserve exists?—Yes, it has. It was a suggestion of the Government of India. They anticipated a purchase, and then, having got the 4 millions or 5 millions that they have got there, they have been frightened to use it. Now, they say, we must always have that as a reserve. A most dangerous thing in the world is a reserve: the moment you get it, you are frightened to touch it.

10,806. I understand your view in regard to that would be the same that you have expressed in regard to the Gold Standard Reserve, namely, that when the moment comes, you should use it freely?—Of course.

10,807. And it is only there for that purpose?—Exactly. I think that is the best you can do with it.

10,808. (*Mr. Gillan.*) As a practical question, from your point of view would it be equally efficient for the support of exchange if we held all the gold that we may have in the Gold Standard Reserve in India, and gave it out, as you say, to the first comer?—For all practical purposes, I believe it would be just as good.

10,809. You would not reserve a certain amount to be held in London to meet sterling bills?—I think it is a matter of very little consequence where it is held. I do not think I would send it to India; I would not go to the expense of shipping out; but whenever it flows out, as it does from Egypt and from Australia, I should leave it in India unless it is required here. But, as I say, I would not go to the expense of shipping it out. It is no more use out there than it is here, except to pay out in times of crisis. I am not sure how much is out there now.

10,810. (*Chairman.*) In your view, then, it is a matter of indifference whether the gold of the Gold Standard Reserve is held in India or in London?—I do not think it makes much difference now that we have got so much.

10,811. Would you go so far as to say that it is equally efficient for the maintenance of exchange whether it is given out in London, or whether it is given out to every comer in India?—Undoubtedly.

10,812. Do you think that a million sovereigns issued to a series of first-comers in India at a time of crisis would be as effective for the support of exchange as a million sovereigns in London?—Do you mean as the sale of a million sterling of Government of India bills upon the Secretary of State?

10,813. Yes?—Undoubtedly they would be equally effective.

10,814. Looking on the gold in the two reserves as one for this purpose—and I understand that is your point of view—do you consider that there is an adequate amount of actual gold available?—Yes.

10,815. You take no exception to the investment of so large a proportion of the Gold Standard Reserve in securities of one kind or another?—No, I do not. Of course, it is cheaper to keep your reserve in securities, as then you are earning 3 per cent. interest. Undoubtedly there has been a depreciation, and if the securities were sold there might have been a loss of 3 or 4 or 5 or 6 per cent., or perhaps 7 per cent.—I have not got the exact figures, but I have had them, of course—in the last seven years. On the other hand, multiplying three by seven you have had 21 per cent. interest during that time, which you would not have had if it had been lying in gold.

10,816. You do not think there is a danger that in some severe crisis when there has been, say, not only famine in India, but a severe monetary disturbance in London, you would find it difficult to realise your securities at anything but a ruinous price?—Things then would be very bad indeed. You would all be "bust" up if it came to that.

10,817. From the point of view of realising gilt-edged securities, things have been very bad indeed, have they not—very much worse than anybody would have anticipated 10 or 20 years ago?—They have. The value of money has gone up very much, and naturally gilt-edged securities paying a low rate of interest have gone down. One is very rash to prophesy, but if we have a spell of bad trade or slack trade, you will see the securities away up again, assuming that we continue to have peace in the world.

10,818. I think the balance of numbers, at any rate —I express no other opinion at present—among the witnesses who have appeared before us has been in favour of holding a much larger proportion of the Gold Standard Reserve in gold?—I have never been in favour of that. That is, perhaps, because I have been so anxious to take care of the revenues of India.

10,819. It does seem to me as if in this particular respect the India Office has pursued a policy which indicates a different temperament to that in which it has acted in other capacities. Take, for instance, the loans of which we were talking; it has always acted on the side of extreme caution, so that it could not possibly be caught short?—That is so.

10,820. But in this respect it has rather invested up to the hilt?—Would you say that?

10,821. I gather you do not think that?—How much gold have they got now?

10,822. In the Gold Standard Reserve very little?—When you come to look at it, they have got 25 millions in gold and 18 millions in securities.

10,823. How much of that is in the Gold Standard Reserve?—The whole of that is available for the support of exchange.

10,824. (*Lord Faber.*) On the other side, how many rupees can come out against that in India?—That amounts to 43 millions sterling. You have got to multiply 43 by 15; it is something enormous.

10,825. But that is really the whole question, is it not—how many rupees can be thrown against it?—64 crores of rupees.

10,826. There are a great many more than that, of course, in India?—But they are not all going to come out. You cannot do without rupees to carry on the trade of the country, so they will not all come out. In the crisis of 1907, with a famine two years running and a financial crisis, when commodities dropped something like 50 per cent., only 18 crores came out.

10,827. Do not forget that the financial crisis was in America, and not in London?—A financial crisis in America, which cut down the price of commodities tremendously; that, of course, meant a tremendous fall in the value of the exports, and then on top of that you had two famines.

10,828. But it did not affect London in the way of making it difficult to get gold in London, as it would do to-day. If you had to get 10 millions of gold in London to-day, you would find it very difficult, would you not?—What is the reserve of the Bank of England? I think it is 28 millions of gold, and here a poor country like India has got 25 millions in gold.

10,829. (*Sir Ernest Cable.*) You said that the whole amount of rupees would not come out, but I suppose it would not be too high an estimate that perhaps a quarter of the rupee circulation might be presented in exchange for gold?—I cannot conceive it. I do not know how they would be able to carry on their business. If you give a poor man a sovereign, he has got to change it; as a sovereign it is of no use to him. Take the whole of the 300 millions of people in India; a sovereign would be of no use to them.

10,830. That is so, but we are speaking of a time of panic when the cultivator will go for gold in place of his rupees?—He will go for gold if he has got the rupees to go with, but not if he has not got them.

10,831. There are 200 crores in circulation, of which 25 per cent. would come to 50 crores?—I would not be afraid of it. I do not see how you are going to get on without the rupee circulation.

10,832. (*Lord Faber.*) Does the Indian Government undertake to pay gold for rupees?—No, but it does.

10,833. If it does not, then every farthing the Government takes in gold when it sells its rupees should surely go into the Gold Standard Reserve in liquid gold, should it not? The Government is selling rupees for gold, but it will not give gold for rupees?—It does not undertake to give gold for rupees, but it does give it.

10,834. Should not all the gold that it gets into its coffers by reason of the sale of rupees go into the Gold Standard Reserve more or less in liquid gold, because the rupees may come back and be thrown at them again?—That is the point. The India Office and the Government of India have thought it wasteful to keep the whole of this tied up in a chest.

10,835. I agree from one point of view that it is wasteful, but to my mind there is something beyond that, and that is the safety of exchange; in that I do not think any risk ought to be run?—I deposit 100,000*l.* with my banker in gold; he has got that in gold from me: should he keep it in liquid gold in order to be able to pay me back? He does not.

10,836. He ought to keep a proportion of all his deposits in gold?—He will lend it to Mr. Gladstone, say and get 5 per cent. on it, knowing perfectly well that when I want it back again he will get it from Mr. Gladstone. I think the Government of India are quite justified in putting a very large proportion of the reserves into securities which will bring in an income.

10,837. (*Chairman.*) I may take it generally, perhaps, from what you have said, that you feel amply satisfied that the resources at the back of the Indian Government and the Secretary of State are sufficient to meet any calls that are likely to come upon them for the maintenance of exchange?—I do, now that they have 43 millions sterling in gold and securities.

10,838. And even before quite as much as that was accumulated you felt sufficiently secure, in view of the urgent need for railway development, to recommend or be a party to the diversion of, I think, a million and a half of the money that would have gone to the Gold Standard Reserve, to railway construction?—Yes.

10,839. Looking back on it you see no reason, I gather from what you have said to us, to doubt the wisdom of that transaction?—Not the slightest.

10,840. Your mind has not been affected by any of the criticisms which have been directed to it?—Not in the slightest degree. As I pointed out, we had then $23\frac{1}{2}$ millions, we diverted 1 million, we had this crisis upon us and we were called upon to pay $12\frac{1}{2}$ millions,

and we came out of it with 11 millions. I think it was perfectly justifiable.

10,841. You did, I think, entirely deplete the currency reserve of its gold?—Yes, I think so. We paid away the whole of the gold we had, and we realised a lot of our securities.

10,842. (*Mr. Gillan.*) Do you not think if at that time we had had more gold in our Paper Currency Reserve in India, the total drain on our gold would have been much greater? We had to stop giving it out because we had none left?—But we did the equivalent, you know. We sold bills freely.

10,843. Would not the demand in India for gold have been much larger if the Government had been able to supply it?—I do not think it would have been. We did precisely the equivalent. All the banks who had over-supplied themselves and who found when the famine came that they did not require the money in India but wanted to get it home to meet their obligations in this country, took all the gold they could get out of the Government, and then we telegraphed out and said: Sell bills freely to any amount on the Secretary of State. That met the demand.

10,844. Do you think the total demand for gold was satisfied in one way or another?—Yes.

10,845. In spite of the fact that issues of gold in India were stopped altogether for quite a long period?—The gold was exhausted.

10,846. (*Chairman.*) Do you carry your approval of what was done in regard to diverting a portion of the Gold Standard Reserve income, if I may so describe it, to railway development, to the point of saying that under present circumstances you think the resources are so large that you would not accumulate further funds in the Gold Standard Reserve?—If I had the honour of being an adviser of the Secretary of State on the Council, I should certainly recommend that the profits henceforth, say from the end of 1913, from coinage should be no longer accumulated either in gold or in sterling securities, and that they should be applied in amplification of the money that is got for the building of railways in India. Railways in India, as of course you know, are the lifeblood of the country. Not only do I regard them as most important in view of developing the trade of the country, but also in view of preserving the life of the people. Take the famines; if you can get food poured into the districts by means of these railways, you can keep people alive who otherwise would be swept out of existence. Then think of the return that you get from them—$4\frac{1}{2}$ per cent., 5 per cent., 6 per cent., and even 10 per cent. some of our friends make on railways. You cannot get a better investment as long as we hold India.

10,847. I agree that it is a magnificent investment, and that there is a very large field for it; but what I wanted to have definitely from you was whether you thought that the means at the disposal of the authorities for the maintenance of exchange were now so ample that you could afford to divert the funds which have hitherto gone to increase these means, to the, at any rate, much more indirect way of preventing famine or supporting exchange which is afforded by railway development?—I do. Might I put it to you in this way: The Government of India are borrowing anything from 8 to 10 or 12 millions annually at the present moment for the construction of railways, and they are eating up their credit by doing that. If, instead of borrowing 12 millions they were to borrow 8 millions and they were to use 4 millions from the profit on the coinage for the building of railways, they would be again building up credit. After all, if you have a sufficient liquid balance to carry on your business, surely you had better apply surpluses to the reduction of debt or to not increasing your debt. After all, if this Gold Standard Reserve runs out, if the 43 millions are cleared out, where would the Government of India be? If they used up 20 millions of the coinage profit in building railways, they would have 20 millions less debt round their necks than they would have if they piled up this 20 millions in the Gold Standard Reserve and borrowed the extra 20 millions in the market; so at the end, with the 43 millions exhausted, if they had to go into the market to borrow 20 millions, they would be no worse off in order to support exchange than they would be if they did not do it. They would come out of it with 20 millions less debt round their necks and the Gold Standard Reserve exhausted. On the other hand, if they had the 20 millions in the Gold Standard Reserve, they would come out with that 20 millions, but with 20 millions more debt round their necks.

10,848. That is true; but does it not follow that the immediate charge they would have to meet in the crisis would be reduced not by 20 millions but by the interest on 20 millions? Their resources to meet the crisis would be reduced by the whole 20 millions which they had failed to accumulate, but the charges which they would have to meet would be reduced, not by the 20 millions, but by the interest on 20 millions?—I am afraid I do not quite follow.

10,849. Suppose they accumulate the 20 millions of which you speak in the Gold Reserve, then whenever a crisis comes they have 20 millions of reserve to meet the crisis; but, you say, they are burdened with an additional debt of 20 millions?—Yes, and the charges upon that.

10,850. But the charges are not 20 millions; the charges are $3\frac{1}{2}$ per cent.?—The charges are, say, a million a year.

10,851. We will call it a million a year. If they follow the one course and accumulate the 20 millions in the reserve, their resources will be increased by 20 millions and their obligations by 1 million; if they follow the opposite course which you recommend, their obligations will be diminished by 1 million but their resources for meeting them will be at the moment of the crisis diminished by 20 millions?—Do you mean the annual burden will be a million less?

10,852. Their annual charges will be a million less; but when the crisis comes their resources for meeting an exchange crisis would be 20 millions less. I am putting it not as a problem, which is the most economical transaction spread over a series of years, but what is the effect upon their power to meet a crisis at the moment when the crisis arises?—Their credit would be so much higher through having 20 millions less borrowed that they could borrow to meet this crisis. If the 43 millions was not enough to meet the demand upon the Gold Standard Reserve, they could always, if necessary, borrow, and they could borrow so much the better because they had borrowed 20 millions less than would have been borrowed otherwise.

10,853. (*Lord Faber.*) Do you think India's actual credit has much to do with the price it pays for a loan? Is that not governed by the state of the money market at the moment?—That is a very complex question. If you put out a loan of 10 millions in the spring of 1913 you might close it at $3\frac{1}{2}$ per cent. at 85—I do not think you would be able to do better than 85 just now.

10,854. You would not?—Then, if it is known by the time this loan is absorbed—by July or August, say—that you are going to have another 10 millions in the market again in February, you are bound to keep down the price—you cannot help it. If you reduce your borrowing the chances are that you improve the prices at which you are able to dispose of your loans. It is a very complex question, and I quite agree with you that the state of the money market at the time has a good deal to do with the price; but if you are a constantly borrowing Government, and there is always another 10 millions on top of you before the last 10 millions has been properly digested, when you come out with your next 10 millions you are bound to get a lower price.

10,855. Judging India on its merits I say its credit is far too low; it is a very rich country?—Yes. It is that constant borrowing which affects her; and you cannot get away from it if you are going to develop the country.

10,856. (*Mr. Gillan.*) Might not the crisis be of such a nature that a borrower, even with the best credit, cannot sell his assets?—He can at a price.

10,857. Yes, at a ruinous price?—If you have good assets you can generally get your money.

10,858. (*Chairman.*) Now I should like to pass from that and to ask you to give me briefly your views on a proposal, about which we have heard a good deal, for the opening of a mint for the free coinage of gold in India?—I have of course seen it stated that the absence of a mint for the free coinage of gold in India places the country under a disability, and while I have no objection to raise to the coinage of gold in India, I question very much whether the establishment of a mint there will make any appreciable difference, or be any advantage to the country. India produces only 2 million pounds' worth of gold every year, and even if the whole of this were to be coined in India, which to my mind is doubtful, the expense of sending this gold to England to be coined would be less than the cost of establishing and maintaining a mint in India. Sovereigns and half-sovereigns are legal tender in India in the ratio of one sovereign for 15 rupees. There is no difficulty in getting sovereigns. The Government of India, as I have pointed out, have 43 millions sterling (25,000,000*l.* in sovereigns and 18,000,000*l.* in securities) at their disposal, and they will exchange these for rupees as required, at the ratio of one sovereign for 15 rupees. For all practical purposes India has free coinage of gold now through the sovereign, just as Ireland has or Scotland or New Zealand or The Cape, though there is no mint in any of these countries.

10,859. Let me turn to yet another subject. Our attention has been drawn to the amount of the fiduciary issue of the Paper Currency Reserve; have you formed any opinions on that, as to whether the time has come for revising the limits now laid down?—I think perhaps there has been a little over-caution there too. If I remember rightly, the fiduciary issue of the Currency Note Department is fixed by statute at 14 crores, the amount having been increased by two crores a couple of years ago. I have always thought that the Government of India were perhaps somewhat over-cautious in this respect, and looking at the large proportions which the note issue have now reached, I think the amount issued against Government paper and approved securities might reasonably and without danger be increased to, say, at least one-third of the amount of notes outstanding. I mention this, however, with diffidence, and more as a matter for consideration than with any idea of forcing my views. I am no longer in any way responsible for the financial stability of the Indian Government, and I feel that this is a matter regarding which they must be the best judges. As to the amount of capital which could be raised in India annually, I think the time has come when this might also be reconsidered. Hitherto, from two to three crores was looked upon as the maximum of the actual amount which could be borrowed in India without unduly depressing the price of Government paper. But when it is considered that the 3½ per cent. rupee paper is standing at 95, and the 3½ per cent. Indian Sterling Loan is at 88, it would appear that there is not too much of the former upon the market at the present time.

10,860. There is another question about which I should like to have your opinion which arises in connection with the subject you were discussing just now, namely, the borrowings of the Government of India. I gathered from what you said that in your opinion it was important to restrict as much as circumstances permitted, having regard to the needs of Indian development, the borrowings of the Secretary of State in London?—As far as we possibly can.

10,861. Do you think that the needs for more capital could be more fully met by loans raised in India?—They have always been rather afraid in India to go beyond two or three crores, though I am not sure that we did not one year go up to four crores. The Government of India when they have been approached, as they have been approached every year, have always said they would like to make the loan as little as possible. They are rather afraid of the market going against them, and they are inclined to stick. I think myself they might try to get a little more money in India; I think they might go up to four crores a year. I am rather guided in my opinion here by the fact that the 3½ per cent. rupee paper, which has precisely the same security behind it as the 3½ per cent. Indian Sterling Loan, stands now, as I have said, at 95, and the Sterling Loan stands at 88 or 87. I just draw your attention to that fact as showing that the holders seem to be fairly sure about the exchange value of the rupee.

10,862. Now in regard to the suggestion for a State Bank; I do not know how much consideration you have given to the subject?—I cannot say I have given very much to it. I have heard the subject spoken of a good deal, and I have seen the very ingenious and very well thought out proposal of Mr. Keynes. Of course there is no difficulty about establishing a State Bank in India, but I am very strongly disposed to the opinion that there is nothing to be gained either from the point of view of the Government or from the point of view of the trade of the country by starting a State Bank in India. To put it briefly, the Government of India, through its district collectors and other public officers, receive the revenues and disburse the cost of administration, while the Secretary of State draws upon the Government of India for the funds required to meet disbursements in this country. The system, which has been a matter of evolution, works admirably, and it has the great advantage of being simple and not mixing up the Government funds in trade, and possibly getting the Government involved in some serious financial crisis, which might be the case if the country's balances were placed with an institution which lent them out with the object of making money, and found itself unable to get them back when required to meet the obligations of the Government. You get a bank rate running up to sometimes 8 per cent., but it does not stay there very long. The trade of India is a seasonal trade, and there is a rush for money to pay for purchases coming down from up-country, but that period is of very short duration. I think the exchange banks have done the work uncommonly well, and so far as my experience goes—some of the members of the Commission have had longer experience even than I have had of India—I have never found any difficulty in getting advances when I was able to offer good security. Of course you cannot get advances anywhere unless you have got assets to offer to your lender. I do not know what the Commission may do, but I think I would strongly urge them to leave the matter of the State Bank alone. I think the difficulty could be got over by letting the Presidency Banks have a little more of the Government surpluses (when they are available) at their disposal to ease the market. We have urged them at the India Office, on more than one occasion, to take some money from the Government and to lend it out in the market; but I think the Financial Member perhaps asked a little higher rate than the banks were disposed to pay, and I think only in one or two cases did they ever take the money. I think it would be very much better to leave the three Presidency Banks alone. If they do not have enough capital to finance the country, let them get more capital. There is not the slightest difficulty. The shareholders would double the capital to-morrow, or treble it, if it were required. They are paying very good dividends. There is no doubt that this proposal to amalgamate the three banks and turn them into a State Bank would be a very good thing for the shareholders, but I do not think it would be good for any other body. I would strongly urge that the Government of India should not go and mix their balances up with a State Bank. You have got no State Bank in this country; the bank you have got here does not lend out the Government money, but the Government borrow from them.

10,863. I have put this question to one or two other witnesses, and as your answer suggests it, I will put it also to you: At the present time the Indian budget is drawn on such lines as to provide the Government with sufficient funds at the time of year when it is poorest; if you take the English practice, we count upon borrowing from the market for a good part of the year, and repaying it when the taxes come in. Would you apply the English practice to Indian circumstances?—No, I do not think so.

10,864. I was not supposing that you went that length, but your answer seemed to justify the question?—I think the Secretary of State would find himself unable to draw upon India very often. He would not be able to meet his sterling obligations.

10,865. Of course, the Indian Government does have to administer many matters which we are apt to consider banking matters and which cannot fall within the direct and immediate cognisance of the British Government?—That is so.

10,866. For instance, the note issue and exchange?—Yes; but it is all done very economically, and it is all done uncommonly well.

10,867. That is a question I wanted to ask you: You are a business man with large experience; what opinion, after your Indian experience, have you, as a business man, formed of the business capacity shown by the officials who are responsible for this work?—I have often wished that I had some of them in my office.

10,868. There is one subject which we have not touched at all, and that is the purchase of silver for coinage purposes. The purchase operations of the Government of India have been very spasmodic, have they not?—Yes.

10,869. Do you think that is unavoidable, or could they, if they give attention to the matter, buy more steadily and not come on the market at intervals for such very large amounts?—I think they could. We suggested, while I was at the India Office, to the Government of India that we should go on buying steadily and quietly when there was no demand on the part of the Government of India for coinage; let them make the forecast well ahead as to what the requirements would be likely to be, and then place the orders in the market quietly and buy it up. The Government of India negatived our proposal and it went by the board; but I think it would be much better if it were adopted. That is what we all do in business. We build our ships when nobody wants a ship; that is the time to build your ships, and that is the time to buy your silver, when the market is dull. We know that the demand is coming—it is bound to come; if you provide for it beforehand, of course, you lose a little in the way of interest, but if I had charge over the way, I should certainly insist on the Government of India doing it.

10,870. Would you coin the silver as soon as you have bought it, and sell the coined rupees, or would you hold the silver in reserve?—That is a matter of no consequence. You could buy at home for delivery six months ahead, or three months ahead. You could just have a contract, and very often you would not have to take it up, as you could put off delivery.

10,871. At present all the purchasing is done in London?—Practically.

10,872. Would there be any advantage in purchasing in Bombay?—No; none whatever. London is the silver money market. By purchasing in Bombay you would be only playing into the hands of the speculator.

10,873. I was reading a suggestion this morning from a witness who is coming before us, that Bombay is a much bigger market and a much wider market than London for silver?—I should prefer to buy my silver here.

10,874. (*Mr. Keynes.*) With regard to that last question about buying silver in Bombay, a witness, whom we have not yet examined, has written a memorandum on the subject,* pointing out that in London the whole market is in the hands of about four brokers, whereas in Bombay it is in the hands of a great number of independent persons. He gives that as his principal reason; he thinks there is a more open market in Bombay than in London. What do you say to that?—I should think those independent persons would very soon come together.

10,875. With regard to the loans in London; we have been informed that for the purpose of loans in London, railway debentures are taken at par, although their market value may be below par?—Yes.

10,876. Is that a good system in your opinion?—These are short bonds, not debentures.

10,877. They are debenture bonds?—They are really promissory notes, dated say, 1st January 1914, and repayable on 31st December 1916 or 1918.

10,878. I am speaking of bonds which may perhaps be two points below par, not more, and yet they are taken at par, so that a borrower can get more money than he has paid out in order to get the securities?—He gets a trifle more. You see, the security is actually good, because they are repayable by the Secretary of State himself.

10,879. (*Lord Faber.*) It is subject to a three years' discount, and it is not worth its face value if it is only repayable three years hence?—That is so. In all the lending we have had in my 14 years here, I think we lost about 50*l.* or 60*l.* in the way of interest; so there has been no practical disadvantage.

10,880. (*Mr. Keynes.*) I think we have had evidence that there were two cases in which there had been defaults on these loans, and that they were both cases of bonds which had been taken above their market value?—I think there were either one or two cases. All the Secretary of State had to do then, was to retain them until they fell due, and then repay himself. The amount of interest lost was a mere trifle.

10,881. You do not think that the existing practice is open to criticism at all, then?—I do not think so. It had been going on long before I went there, and it was not disturbed.

10,882. (*Chairman.*) You say in that case all the Secretary of State had to do was to hold his own bonds and pay himself the interest?—Pay himself the principal—that is all.

10,883. (*Mr. Keynes.*) Eventually?—Yes. You lend to people who are supposed to have a very considerable margin in their own possession, beyond anything that is at risk. In this case, it was a man who turned out to be rather a scoundrel. When you come to think of the millions that have been lent on the market, I think you will see that the Secretary of State has done uncommonly well in having lost only that mere trifle. I do not think it amounts, at the very outside, to more than a couple of hundred pounds.

10,884. (*Chairman.*) It means, no doubt, that there is no ultimate loss practically?—There is no ultimate loss in capital.

10,885. Does it not mean also that the Secretary of State may have to go without his money at the moment that he wants it?—Of course, it has that disadvantage, and therefore you have got to be extremely careful to whom you lend. Of all the borrowers, there has only been this one man, or two men, by whom we had any loss.

10,886. (*Mr. Keynes.*) I notice, on reference to Mr. Badock's memorandum,* that India debentures, India bonds, and the guaranteed debentures of railway companies are taken at par, whereas Treasury bills and Exchequer bills are simply taken at market value, and then these various other securities are taken at a margin of 5 per cent.?—I think that has been in order to help the issues.

10,887. With regard to the remuneration of the broker, he gets a commission on the amount of interest earned, and you justify that on the ground that it is an incentive to him to use his best abilities to get the best rate?—That is so.

10,888. The interest he earns depends much more on whether it is a dear-money year or a cheap-money year, than on what he can do, does it not? Whether it is a cheap year or a dear year may make a difference of a thousand or two thousand to him, may it not?—Undoubtedly.

10,889. Whereas, when he is earning 7,500*l.*, if on all his loans by his ability he gets an extra ⅛th per cent., that makes a difference in his income of about 300*l.* only?—Yes.

10,890. That is a mere trifle. The extent to which he can increase his income by his intelligence and assiduity is, therefore, very small indeed, and his

* See Appendix XXXIII., pp. 685-6.

* Cd. 7070, page 319.

income is almost entirely dependent on the volume of business and on the general price of money?—Yes, that is so.

10,891. Would you say, in view of that, that the argument that it is desirable to remunerate him in this way in order to get the best work from him, comes to very much, and that it is a good thing to pay him by commission on his earnings?—I think it is always a good thing to pay a man who is doing that sort of business by results.

10,892. Even when his total income being 7,500*l.*, the utmost difference he can make is 300*l.*?—Yes, I still think that. I think the principle is a good one. It is what we do in business: invariably people are paid by results.

10,893. I am showing that very little of it is a payment by results, and that for the greater part of the payment it is not by results?—Do you mean that he gets paid, whether he is diligent or not?

10,894. That the amount of difference his diligence can make is a very small part of his income. (*Lord Faber.*) Mr. Keynes's argument is that the money market rules him, and that if that is good, he gets very well paid?—If you have a very cheap money market——

10,895. (*Mr. Keynes.*) He gets a hard time?—Would you not say then there is more incentive for him to do well?

10,896. I should say that his income is largely out of his own control. If money is ruling cheap he cannot help it, but his income goes down 2,000*l.* or 3,000*l* that year?—Surely, the higher rate that he can get from the borrowers, the more is his income.

10,897. I am arguing that the amount by which he can by his honesty increase his income is so very little. (*Lord Faber.*) Whether he is a good broker or a bad broker does not much matter. It is the money market that rules things. If he is a very bad broker, he gets 7,400*l.*, and if he is a very good one he gets 7,600*l.*?—In my own experience, I have not found myself any less keen, although my income has been going up. I have generally tried to get the best I could in working my business.

10,898. (*Mr. Keynes.*) That cuts against the whole argument of reward proportioned to results. If he is going to be keen anyhow, the argument that you must apportion his remuneration to his activity falls to the ground?—If you have a man like Mr. Scott working in the money market, and you find him constantly about with the Accountant-General and the Chairman of the Finance Committee at the India Office, you will find, I think, that he is doing his best the whole time.

10,899. But your impression is that if he had a fixed salary he would not do his best?—There would not be the same incentive for him to do his best.

10,900. I suggest that there is a very small incentive under the present system, and I think you agree to that?—Yes. I have not gone into the figures, but no doubt you have.

10,901. With regard to the length of time for which the loans have been made, as I understand the procedure, you, as chairman of the Finance Committee, did not go behind what the Accountant-General told you; he would say, I can spare so much for two weeks, and you would then do your best for that money and would not check his calculations in any way?—That is so.

10,902. You have suggested, I think, that he was possibly somewhat over-cautious, and that if you had been making these calculations yourself, you would sometimes have lent the money for longer periods?—He would show me a statement showing that at certain dates he had so much to pay, and that he must be in funds to meet that. I would say to him, you will probably be selling 100 lakhs on Wednesday, so you will be 700,000*l.* better off than you expect to be. He would say, I never do take that into account, but the moment I get the money I place it at your disposal to lend.

10,903. Was it not unwise to have a cast-iron rule of that kind? I can imagine that there would be some occasions on which you had to act on the hypothesis that you would get nothing from Council bills, but was it not wrong to have a cast-iron rule to that effect?—I have already expressed to the chairman my views on that point. On the whole, I do not think Mr. Badock in any way sacrificed the revenues of India by the procedure he adopted.

10,904. But that, you say, was a lucky chance?—No; I do not think so.

10,905. In general, if you had an opportunity—I do not say you actually did—for lending money for three months, would you not expect over an average of years to make more money than if you only had to lend it for four weeks?—I do not know.

10,906. (*Lord Faber.*) It would depend on which three months of the year it was, would it not?—Yes.

10,907. (*Mr. Keynes.*) I am not assuming that you would be forced to choose the rate for three months; but at any moment, if you have the choice whether you will lend for a longer or a shorter period, would you not be able to do better in the course of years than if you have not the choice?—As I explained to Lord Faber—at least, it did not require explaining to him, but as he agreed with me—sometimes you will find it better to lend your money only for a fortnight, in the hope that the rate will go up. You are only going to get 3 per cent. for the three months.

10,908. Sometimes you may find it advantageous to lend for a fortnight; on the other hand, you may sometimes find it advantageous to lend for three months?—There cannot be any hard-and-fast rule in arranging these sorts of things. You have got to go by the circumstances of the day and the circumstances of the hour.

10,909. You would not say it was never advantageous to lend for three months?—No; I would not say that.

10,910. So if you had the choice, it would be an advantage?—No, not necessarily.

10,911. It must sometimes be an advantage?—Sometimes it happens that a bank or a borrower will take your money for two months and give you a better rate for two months than he will for three. I think Lord Faber will bear me out there. You cannot tell; it all depends on the money market of the day.

10,912. *I think you miss my point. I am not saying* it would pay to be forced to lend always for three months, but if in every transaction you have the opportunity of lending for a short or for a long period, that must be an advantage. You would not say that if your bankers never lent for more than four weeks that would increase their dividends, would you?—No; but there was no question of being forbidden to lend for any particular length of time. The money was lent out for the period and at the rate that was current in the best market.

10,913. As I understand, there was a cast-iron rule which led to the broker being always informed that he must not lend for more than four weeks, or six weeks, except in the case where loans were made to banks?—No. Are you speaking of loans made to private firms?

10,914. Yes; I am suggesting that if he had had the discretion to lend for longer periods when he judged it advantageous to do so, it would have paid the revenues of India?—The chairman of the Finance Committee did not interest himself in the loans made in the market. That was done entirely between the Accountant-General and the broker.

10,915. That I understand. I am putting no more than the point that if the broker was told on some occasions by the Accountant-General: Lend for four weeks or six weeks or eight weeks, whichever you think is most advantageous, that would have increased the rates which the broker could have got?—I am not sure. I think probably the market would not care to take the money for a longer period very often.

10,916. Very often, perhaps not, but if there were ever occasions when the market would?—I never was mixed up with it, or practically had anything to do with the lending of money on the market, so I cannot say. I got the statement of loans made in the market every week, placed before me by the Accountant-General, and it was then submitted to the Finance Committee; but it was not the duty of the Chairman of the Finance Committee to interfere between the Accountant-General and the broker in regard to these loans.

10,917. Has your general banking experience never led you to consider this matter?—To tell you the truth, I am afraid I cannot say definitely how long he used to lend the money out for; I do not know.

10,918. (*Lord Faber.*) I think what Mr. Keynes means would be this: Suppose we in England had the option of lending money out in April of each year for a fortnight or for three months, we should certainly lend it for three months?—Yes.

10,919. On the other hand, if that same option was given to us to lend money out in October for a fortnight or for three months, we should lend it for a fortnight?—That is so.

10,920. It depends on the time of the year?—It depends on the time of the year entirely.

10,921. (*Mr. Keynes.*) I am simply suggesting that there are sometimes opportunities in which liberty to lend for longer periods is valuable?—I do not know—you probably know—for what period the money used to be lent out against these securities in the market.

10,922. It was very rarely lent for more than four weeks?—That may have been an arrangement which suited the market.

10,923. It was not done for that reason; it was done on account of this rule of the Accountant-General's?—That I do not know. I cannot speak to that.

10,924. You stated that some discretion had to be exercised in the placing of these deposits, as it would not have been to the advantage of the Secretary of State to hawk them about, and probably have refusals; I do not quite understand what was in your mind in making that statement?—If you go hawking money about all over the market, you cannot get such a good rate as if you have your own *clientèle* to lend it to.

10,925. Do you think that an extension of the list of banks, so far from increasing the rate you have got, would have diminished it?—No, I would not say that; but you have got to be very careful in your dealings. The list was extended, and I think after I went it was extended still further—it was raised to six or seven.

10,926. (*Chairman.*) Your meaning, I take it, is that if at a particular moment you have a particular sum to lend, and you try two or three people who do not want it and they refuse you, and that becomes known, that would place you in a worse position than if you had gone straight to the man who wanted it?—Yes, that is what I mean. You have got to be very careful how you work these things.

10,927. (*Mr. Keynes.*) I want to ask a few questions on this matter of the loans to banks which are connected with the India Council. It seems to me there are two questions which have to be kept in view, but which are quite distinct. There is the actual scrupulousness with which the business is transacted, and there is its appearance to persons who are ignorant of the character of the business involved, and of the details of the business?—Yes, that is so.

10,928. I do not think we have heard criticisms of the actual scrupulousness with which the business was transacted, but we have had criticisms of the appearance which such things would naturally present to the minds of ignorant persons. What is your opinion of these things from that point of view, in the light of the experience we have had since these things were done?—All that I would say in regard to that is that such a thing never occurred to me.

10,929. That is easily understood when we have not had the experience which we have had since; but in the light of subsequent experience, do you think that it is a wise policy for the Secretary of State to lend funds to banks which are represented on his Council—looking at it simply from the point of view of appearances?—I do not see any objection to it.

10,930. It would probably be possible to get as good rates from other banks on all occasions, would it not?—I think it would be a great misfortune if the Secretary of State were to be debarred from making use of a bank because a member of Council happened to be a director of it.

10,931. But if he could get equally good terms elsewhere, might it not be wise for him to go elsewhere?—No; I cannot see that it would, and I do not think that it would. If I were to agree to that, I should be condemning my former colleague and also myself. I really cannot see that there has been any harm done or that there is ever likely to be any harm done. As you say, it is ignorant criticism only that has been brought to bear upon this, and I think that ought to be absolutely disregarded. You know perfectly well that the whole thing, as you say, has been absolutely scrupulously honest, and it is ridiculous to go and say, because Sir Felix Schuster and Mr. Currie happen to be directors of two great institutions, there is to be no business done with those institutions. You will keep men off the India Council if you do that.

10,932. In these matters most of the critics are necessarily ignorant?—You cannot help that.

10,933. The details of the transactions are not of such a character that they must be apparent to everybody who is taking any kind of interest in the matter; and in such a case, when it is impossible to explain yourself to the critics, is it not wise to avoid things which even seem to require explanation?—You say it is not possible to explain; I think it is possible to explain.

10,934. It is a sort of point in which it is quite impossible to demonstrate that a given bank did not have the first offer or that it did not have much more favourable rates. Whatever the truth of the matter, if that criticism is made it cannot be logically rebutted; however untrue it is, there is no absolutely conclusive answer?—As I said, I think ignorant criticism of that sort ought to be disregarded in the interests of the revenues of India.

10,935. I have been very much interested in the position that you have put, that all the reserves ought to be regarded very much as one, and also that there is a danger of being extravagant in the matter of reserves. That is a standpoint with which I myself have very much sympathy, but almost every witness we have had has stated the opposite opinion; they have been inclined to distinguish the reserves rather sharply and to argue that there is much more danger of the reserves being too low than of their being too high?—I should call that ignorant criticism again.

10,936. I should like to suggest, in view of the very great prevalence of that sort of criticism, that perhaps the right thing to do is to keep the Gold Standard Reserve very liquid and very intact, and as time goes on to diminish the amount of sterling resources which one keeps in other ways. You have agreed, I understand, that 25 millions in the Gold Standard Reserve would not be enough if we had no other resources. Your argument is that as we have got 18 millions in the Paper Currency Reserve, 43 millions altogether is enough?—I do not go quite so far with you as that. You say I agree that 25 millions is not enough; but we withstood a very severe crisis when we had only 23 millions.

10,937. Still, you would not feel perfectly happy if there was not a sovereign in the Paper Currency Reserve and your Gold Standard Reserve represented the whole of your available resources, would you?—No, but that never was intended.

10,938. That being so, I suggest that a great deal more gold should be kept in the Gold Standard Reserve and less gold in the Paper Currency Reserve, that there should be no increase of sterling resources in the Paper Currency Reserve, and that as it became possible to hold more sterling resources in the Gold Standard Reserve the amount held in the Paper Currency Reserve should be correspondingly reduced?—I do not know what practical difference that would make.

10,939. It would make the difference that it would be intelligible to the ordinary critic?—There you are again. I would disregard him. If you want to make a change you can do so, but as far as I can see there is no practical gain. I think you admit that, do you not?

10,940. If there is no practical loss it is surely worth while to make your system more intelligible?—I do not see that it is. It is a matter of no consequence; you have got your 43 millions, and it does not matter where.

10,941. Now I should like to ask you a few questions on the proposal to have a State bank. You hold, I think, that the present state of affairs was perfectly satisfactory; the ordinary criticism of a State bank is that while there are many things that are unsatisfactory in the present state of affairs, there will be great practical difficulties in the way of improvement; you, as I understand, do not take that line, but you think everything is perfectly satisfactory as it is?—That is my experience.

10,942. You see nothing to criticise in the present situation, quite apart from the practical difficulties of curing it?—I have seen nothing.

10,943. You do not think that the very high seasonal bank rate is disadvantageous?—I think if you take the average bank rate in India you will find it very much like it is here in England.

10,944. I am not saying that the average bank rate is higher; I am saying that the seasonal bank rate is high, and I am asking whether that is not a disadvantage?—Are you going to get over that by having a State bank?

10,945. That is a further question. I am now asking you, Are there any disadvantageous features in the present situation, and I suggest that perhaps a high seasonal bank rate is one of them?—There is no doubt it would be an advantage to the trade of India if the bank rate never went over 4 per cent.

10,946. Would it not be an advantage if it seldom went over 6 per cent.?—It would be an advantage to the trade of this country if the bank rate never went over 2 per cent.

10,947. Would it not be an advantage to the trade of India if the bank rate seldom went over 6 per cent.?—Yes, but 4 per cent. would be better.

10,948. But 6 per cent. would be a great improvement?—To what extent? You have the bank rate sometimes 7 per cent. for a few weeks; I have not gone into the figures, so I cannot say for how long.

10,949. I have not got the figures before me, but there have been long periods when it has been 7 per cent.?—Sometimes you have had it at 8 per cent. also for a few weeks at a time, and then you have it down. I think it is very difficult to get over that. With a great rush of produce coming down, with the jute season coming on in a great lump, with the rice season in Burma, the cotton season in Bombay, and the seed season all coming on, it is extremely difficult to finance, as Sir Ernest knows—to get what money you require within a given time.

10,950. I will come later to the question of cure; I am simply suggesting that here, *primâ facie*, is an undesirable feature in the present situation?—There are many undesirable features, of course, in all business. From the point of view of the man who wants to borrow, it is very undesirable to have to pay 8 per cent.; but from the point of view of the man who has the money to lend, it is rather desirable to be able to get 8 per cent.

10,951. I am not suggesting that it is the only undesirable feature; I am rather suggesting there are many others. For example, in India, as you know, the Government balances are locked up, and apart from the United States of America there is no other country in which that occurs?—But they are only locked up for a time; they are made available the moment Council bills are sold.

10,952. But in no other way?—There is a certain amount of them left with the Presidency banks.

10,953. But there is a large amount which is locked up; and you think there is no objection to that?—Occasionally they are locked up when the money comes rolling in, when the revenue is collected, but that does not occur for very long, and the moment there is a demand for Council bills to finance the trade of the country they are thrown open to the public.

10,954. There are occasions on which a large amount has been locked up for long periods?—There has been no demand for money then.

10,955. There has been no demand for Council bills?—That is so.

10,956. It has happened nevertheless when the bank rate was fairly high?—Is that so?

10,957. That is so?—It cannot have been for very long, because the moment the bank rate goes over 5 or 6 per cent. you find a strong demand for Council bills; at least, that is my experience.

10,958. (*Mr. Gillan.*) The last cold weather was an example of the occasion Mr. Keynes is putting to you. Council bills were restricted, but at the same time there was a very heavy demand for money in India?—How were Council bills restricted?

10,959. There was not much demand for them?—That is it; there was no demand for money. Council bills were not restricted by the Government of India or by the Secretary of State, but because there was no demand for money. If there had been any real demand for money for the export trade you would have found Council bills selling quite freely.

10,960. (*Mr. Keynes.*) If there had been any demand for money for the export trade, yes?—Or for the moving of the crops.

10,961. No, not necessarily in that case?—Surely.

10,962. Supposing it is the Presidency banks who want the money; they cannot get hold of it by buying Council bills, because they are prohibited by law from doing so?—That is so, but the Presidency banks are not the only banks that finance the trade of the country.

10,963. It is difficult to ask questions in regard to fact, but may I put it in this way, that while occasions in which the money has been locked up and is wanted have not come to your notice—if I am right in suggesting there have been such occasions—that is a matter for criticism?—I think that could be got over, as I said in the course of the Chairman's examination of me, by the Government lending out their balances to the Presidency banks, or placing them at the disposal of the Presidency banks, at a reasonable rate of interest, perhaps a little under the bank rate. With the Presidency banks and their large capital and their resources, I think there would be very little difficulty in getting it back.

10,964. Do you think it would be wise for the Government to lend in such large quantities as to affect the bank rate and at the same time to have no responsibility for what the bank rate was?—I think they had better not mix themselves up with the bank rate.

10,965. (*Lord Faber.*) Large crops have to be moved in every country in the world, and then money rates go up; that is the cardinal point in the situation, is it not?—Yes.

10,966. (*Mr. Keynes.*) You would have them remain aloof from the bank rate, but you would, notwithstanding, have them lending on what might be a large scale?—Yes, on a reasonable scale to each of the Presidency banks. I would not mind doing that; in fact, that is the system which has been advocated from the India Office in years past.

10,967. Now I turn to the question you raised a short time ago of the possibility of cure for the high seasonal bank rate. You pointed out that the average charge for borrowing in India is nothing to wonder at, and that it is rather low?—I have not got the figures; could you tell me what it is?

10,968. People say that the average rate of money in India all the year round is something like $4\frac{1}{2}$ per cent. on good security, which certainly is not too high?—I have got two cotton mills in Madras and one in Bangalore, and they are financed to a very large extent, when they have got to buy their cotton, and, indeed, all the year round, at $5\frac{1}{2}$ per cent. It does not seem to me that that is out of the way. When you have got decent security to offer you can get your money; when you have got bad security, or no security, you cannot get your money.

10,969. (*Lord Faber.*) You would have to pay that much at home?—We would. For something like 30 lakhs of rupees in and out all the year round $5\frac{1}{2}$ per cent. is what we pay in Madras, and have done for years.

10,970. (*Chairman.*) When you say all the year round, I suppose you do not mean that you are paying five per cent. for a 12 months' loan, but that that is your average payment for the money that you want?—We pay $5\frac{1}{2}$ per cent. all the year round. We are able to give them ample security in the shape of cotton stocks and cotton piece goods, probably 20 or 30 per cent. in excess of the overdraft and earmarked for them, and our over-drawn balance is charged $5\frac{1}{2}$ per cent. all the year round. I think that is a very good example of what you can get money for in India if you have got a decent security to offer.

10,971. (*Lord Faber.*) Do the banks there lend on piece goods?—Yes. We get 30 or 40 lakhs of rupees for the three mills, the Buckingham, the Carnatic, and the Bangalore. As for the security: our people tell them we have got cotton of such a value, and we have got twist and piece goods of such a value, and we always see that you are covered to the extent of 20 or 30 per cent.

10,972. Do you take warehouse certificates with you, or how?—No, they trust us absolutely.

10,973. Then it is what I should call an open loan?—It is an open loan on the *bonâ fides* of my firm and on the stocks that are there. There is no guarantee from the firm; it is simply on the stocks. They know that we are supposed to be fairly honest people and that we will not cheat. That has gone on for years—$5\frac{1}{2}$ per cent. all the year round.

10,974. (*Mr. Keynes.*) You agree with me then that the charge made for money in India is not high?—I do not think it is.

10,975. Therefore, your suggestion that the difficulties might be cured by new capital being raised by the Presidency banks is no cure at all, because they would have to employ this capital all the year round and there is no opening for employing a great deal more capital all the year round; is that not the difficulty in India?—I think there is an opening. There is the very case I have mentioned of these cotton mills and the woollen mill at Bangalore.

10,976. If they were to raise a very greatly increased amount of capital, there would be no particular opportunities for lending it at anything but rather low rates if they had to employ it all the year round. What is wanted is more capital just when the crops are being moved, not more banking capital in the slack season?—I maintain that that capital can be got by means of Council bills.

10,977. But there is no means by which the amount of currency in India can be increased from within India, as is the case in every civilised country in the world?—There is no means.

10,978. In France or in Germany when there is a temporary special demand for funds, the banks can supply that by issuing a greater quantity of notes?—I think the longer India keeps away from the German system of finance the sounder it will be for the country. I think it will be a very great misfortune for India if she gets into having her industries financed by a State bank such as the State bank in Germany.

10,979. I was not for the moment embarking on any so large a question as that. I was arguing that the high seasonal bank rate, which you admit is a disadvantage, is occasioned not by a shortage of banking capital all the year round, but by the complete inelasticity of the Indian system which makes it impossible to increase the trade purchasing power of the country temporarily when it is wanted?—Take the case of Egypt. What does she do when the cotton crops have got to be moved?

10,980. She is in the same state as India in the matter?—She does uncommonly well. You cannot get away from it—the money has got to go out, and the goods have got to come home; the goods have got to go to Europe, they have got to go to North America, they have got to go to South America, or to Australia or to China, and the money has got to be found by those countries who buy the produce.

10,981. (*Lord Faber.*) Egypt is worse than India, because, after all, Egypt has to import all the gold and then send it back again?—That is so.

10,982. (*Mr. Keynes.*) You say that the banking facilities in India are ample, and, as an illustration of that, you told us this morning that a man in your position, with ample security, can always get money. When people say that the banking facilities are not ample, I do not suppose they mean to deny that people in your position can get money on good security They mean something quite different from that?—What do they mean?

10,983. They mean that there are a number of places in India where the banking facilities are small, and that the proportion of the population to whom those facilities are given is also small?—I may say from my experience in India that I have never heard any man complain that he could not get money when he had some security to offer. Banking facilities may not be good for those who have no property to place against a loan, but otherwise, in my opinion, there is no difficulty in getting money if you have got securities. I think it would be a great misfortune for India if we were to try and bolster up a lot of speculative business such as we have seen lately in Bombay.

The witness withdrew.

TWENTY-SIXTH DAY.

At the India Office, Whitehall, S.W.

Friday, 7th November, 1913.

PRESENT:—

The Right Hon. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

LORD FABER.	Mr. ROBERT WOODBURN GILLAN, C.S.I.
LORD KILBRACKEN, G.C.B.	Mr. HENRY NEVILLE GLADSTONE.
Sir ERNEST CABLE.	Mr. JOHN MAYNARD KEYNES.
Sir SHAPURJI BURJORJI BROACHA.	
Sir JAMES BEGBIE.	

Mr. BASIL P. BLACKETT (*Secretary*).

Sir FELIX SCHUSTER, Bart., called and examined.

10,984. (*Chairman.*) You have had a long business experience and you are a member of the Secretary of State's Council and Chairman of the Finance Committee, I think?—Yes. I should like to say at once, if I may, that in any opinions I may express here I am speaking only for myself and giving my individual opinions. I have no authority at all to speak for the Finance Committee or for the Secretary of State in Council. As regards my business experience I have been engaged in a private banking business of an international character from 1872–1888. In 1888, I became a Director of the Union Bank of London, now the Union of London and Smiths Bank, and in 1895 I became its Governor (Chairman). I have been Chairman of the Council of the London Chamber of Commerce, President and Chairman of the Council of the Institute of Bankers, and am now Chairman of the Committee of London Clearing Bankers and of the Central Association of Bankers.

10,985. How long have you been connected with the Council?—I joined the Council in April 1906, and I have been chairman of the Finance Committee since July 1911.

10,986. I think I am right in saying that before 1906 you had had no official connection with the Government of India or the India Office?—Before then I had no connection with the India Office at all.

10,987. You are a business man; what is the impression that you formed on entering the India Office of the capacity with which the financial work of the office was transacted?—I came here, I think, expecting a good deal of what is commonly called red tape and unbusinesslike methods, which is perhaps a prejudice that prevails in the City and other quarters. I can say that I was very much impressed by the efficiency of the organisation and the great ability and businesslike manner with which the work was carried on by the officials. That first impression has been more than confirmed by what I have subsequently seen. I think I might take the opportunity of saying that after some 40 years' experience in the City, during which I have been in touch with some great business organisations, I do not think I can speak too highly of the organisation that I find here.

10,988. No doubt you would be struck by some differences in the way in which business is transacted. Perhaps the need for keeping records is more felt in a Government office and imposes some delay?—I do not think that I have ever found what can be described as unnecessary delay. The delay is inherent in the work itself, the great intricacy and the difficulty of the many questions that come before the Council and before the Finance Committee especially. It is absolutely necessary that precedents should be studied, and that each question should not only be dealt with on its own merits, but also in relation to the other questions that its consideration may involve. Some delay, of course, is necessary in looking up the precedents, and so on; and it is also unavoidable in consequence of the necessity of communicating with the Government of India from time to time. Frequently in our deliberations questions arise that we think we should like to have the opinion of the Government of India upon before we decide, and then there is some delay necessarily.

10,989. Do you think that more questions are brought before the Finance Committee than is really necessary? Could a part of the work which now comes before them be expedited by being left to be dealt with by officials?—That is my opinion. I think a great deal of time could be saved. There are a good many questions of minor importance which the officials are quite competent to deal with, and I should think that the Permanent Under-Secretary of State would have no difficulty in deciding what questions could be dealt with by the heads of departments and what questions should be brought before the committee, and in that way a good deal of time could be saved.

10,990. You will understand that my questions are directed always to the financial side of the business, with which this Commission, as you know, is concerned?—Certainly.

10,991. With a view to the delegation of the business, have you any recommendation to make as to the class of experience to be required among the officials?—I think that the Assistant Under-Secretary of State, or someone high up in the office, should be a man with considerable financial experience—not only the Financial Secretary, but also, if possible, the present system should be perpetuated in which the Assistant Under-Secretary of State is a man of considerable financial training, because there are a great many questions which do not come direct to the Finance Department but which involve financial questions of the greatest possible importance—such things as contracts for the Railway Companies, and so on.

10,992. Now I turn for a moment to the position of the Chairman of the Finance Committee; he, of course, derives his authority from the Secretary of State?—Yes.

10,993. And acts always under such powers as the Secretary of State may delegate?—He does; but he always acts in consultation with the Finance Committee, and with their concurrence. From time to time, in order to expedite business, certain very important powers are conferred upon the Chairman of the Finance Committee, such as fixing the price at which loans are to be issued, and in regard to the weekly sale of Council Bills the decision rests with him how many Council Bills are to be offered, say, on the following Wednesday, and so on. There have been some important questions in regard to which the Council has conferred considerable powers on the Chairman of the Finance Committee; but that is only to expedite business and to give him authority to act quickly when necessary. On all important questions of principle he would not think of acting on his own responsibility; he always acts with the concurrence of the Finance Committee and of the Permanent Under-Secretary of State.

10,994. I understand that when he acts on his own responsibility without consultation, he is in effect acting as the executive officer of the Committee on general principles laid down or approved by them?—On general principles approved by them. He acts, if I may draw an analogy, very much like the principal officer of a bank under his board. The Board decide on a policy, and they tell their managing director what line they wish to be followed. He is on the spot, and has to carry out that policy and to take decisions under their instructions, and then to report to them what he has done.

10,995. May I ask now some questions about the Chairman's responsibilities and action in regard to the loans which have been made from time to time, both to private borrowers and to banks. We had the advantage of Lord Inchcape's evidence yesterday, when he explained to us the system which prevailed in his time. I assume that that system is practically the one which now rules?—Yes, absolutely. Of course, I have not heard Lord Inchcape's evidence, but the practice is exactly the same.

10,996. I understood him to tell us, first, in relation to the loans to private borrowers, that it was the duty of the Chairman to consider and to report or reject any application which might be received from a firm to have their name placed on that list?—Yes, but not on his own responsibility. The applications are made to the broker in the first place, who reports to the office; then the practice is that the Accountant-General submits that application to the Chairman of the Committee, who makes his own inquiries; then he reports, and his report is submitted to the Finance Committee, who recommend to the Council; and then the recommendation is approved by Council. The Chairman of the Committee never admits anyone to the borrowing list on his own responsibility; he sends in his recommendation, which is generally carried out, but still he only submits his recommendation.

10,997. And his recommendation, and the approval given by the Council, would fix the limit within which loans might be given to that firm?—That is so.

10,998. In the case of the banks, Lord Inchcape told us of the circumstances which, while he was Chairman, led to loans being made to banks and to the steps which were taken to place certain banks on the list. I think your own bank was placed on the list at the time that Lord Inchcape was Chairman?—Yes, that is so.

10,999. Since you became Chairman, the names of some other banks have been added?—Yes.

11,000. Would you tell me exactly the procedure which you followed if the list of approved borrowers was, so to speak, full, and you still had money to deposit with the banks. How did you decide among the various banks on your list which one should be

given a particular deposit?—Until July 1911 deposits had been made with four banks. Very soon after I became Chairman of the Finance Committee, immediately after, I may say, it was found that the system which we thought was only a temporary one apparently was to go on for some little time. Then it was decided that three more banks were to be added to the list, and that the amounts on deposit were to be divided as evenly as practicable between all the banks. The practice was then for the Accountant-General to write to the broker and suggest an apportionment between the various banks. I never had the list and I never kept the list myself of the amounts on deposit at the various banks. That list was kept by the Accountant-General. No doubt the broker had a note of it, but I really could not dispose of the balances because I had not got the information. The practice was for the Accountant-General to write, A. bank has so much, B. bank has so much, and if you renew it would be better to place a little with C. or D. and so on. The broker came to me with those suggestions. Whenever it was possible to carry out the suggestions, that was done; but sometimes it was not possible, because the banks might not wish to renew the deposit at the given rate, and then we chose some other bank.

11,001. Suppose that the Accountant-General and the broker proposed to make an additional deposit with your own bank; what would be your position then?—Of course I considered myself in that matter as representing the Secretary of State and not my own bank. It was my duty to get the best possible rate for the Secretary of State. I, representing the Secretary of State, asked our manager or got the broker to ask our manager, What is the best rate you can allow for this deposit? I got that answer from him, without interfering myself in my position as a director of a bank. Having had that rate given by our manager I told the broker, Our bank will allow, say, $3\frac{1}{2}$ per cent.; now that is the best rate from them; you try and get a higher rate at other banks if you can. He did, and I got the information from him that he had been to A, B, and C banks who would only allow so much; if that rate was worse than our rate, our rate would be accepted, but if it was better our deposit would be paid off. On several occasions certainly we declined it because it did not suit us to take it.

11,002. I wish to put these questions very plainly to you, because I think as a matter of fact Mr. Scott's evidence was not very clear, and I think he did not express exactly what he meant always. I understand that the broker never had instructions from the Chairman to go to the Chairman's bank and offer money at a rate without an assurance that no better rate could be got elsewhere?—No, the instructions were really the reverse of that. He was instructed not to accept the bank's rate unless he was satisfied that it was the best rate that he could possibly obtain in the market, and he was invariably instructed to go outside and approach other banks to ascertain that no better rate was obtainable, although, as a matter of fact, I knew pretty well what the fair rate would be, and so would he. The margin of profit was a very close one, not more than $\frac{1}{8}$ to $\frac{1}{4}$ per cent. per annum. In placing these deposits with the banks which were chosen, we knew pretty well they could only invest them in one particular way. There is only one prudent and one safe way in which a bank would accept a deposit like that, that is to say, they would immediately try and buy three months' bank bills to cover their deposit. That is the only prudent way in which the bank would deal with large amounts. Perhaps I might say that it is rather an advantage to lend the money in that way, because when the deposit is finally paid back it is done with the least possible disturbance to the money market. The bank hold bills which mature by a date when the deposit is payable, and nobody knows when the money is called in. If you call in largely from other borrowers in amounts of 500,000*l.*, as it might be, at one time, it would create a disturbance in the money market if they had to borrow the money elsewhere, whereas the deposit with the bank being paid off as the bills mature, there is no notice taken of it.

11,003. So that in your opinion the rate which any bank could give was necessarily governed by the rate prevailing for three months' bank bills, or was largely influenced by that?—"Any bank" goes perhaps too far—it should be any bank with whom we place the money. We did subsequently make enquiries when deposits were coming to an end; the broker went round to the various banks where deposits had been made and asked as a favour whether they would tell us how they had used that money, and they every one of them, said there is only one way in which we should use that money—we should at once buy bills with it.

11,004. In the case of the private firms on your list, you never lent, I think, without security?—That is so.

11,005. In the case of the banks, you made the deposit without security?—Yes.

11,006. Of course, that was the practice which prevailed before your time, and it was continued under your chairmanship?—Yes. As you say, the practice prevailed before my time, but I quite accept the responsibility as a member of the Finance Committee. I was quite aware of what was going on, and I checked the rates. They were all submitted to the Finance Committee and the Council, and I knew the rate was the correct and right rate, and if I had not thought so, I should have made some remarks about it.

11,007. Do you think it is right—this is rather a difficult question—for a Government Department to place large deposits of public money with a bank, without taking security against them?—That is entirely a matter of opinion. We went by precedents with which we were familiar. I believe most colonial Governments, and I know several foreign Governments, follow that practice. They have deposits with banks without security and in the case of some foreign governments I know them to be for very large amounts. The deposits could not have been placed in that manner against security, as the banks would not have taken them. We were thus able to employ the money at a fair rate, which otherwise we could not have done.

11,008. Do you feel confident that if the India Office had said that, having regard to their public responsibilities and position, they could only make these deposits against securities, the banks would have treated them like a private customer who made the same demand, and refused to entertain it?—Yes, I am quite confident of that. Perhaps you have noticed on the list of approved borrowers on security there were two banks; as a matter of fact, they have never availed themselves of that. They have not taken these loans against security, and recently they have asked to have their names taken off. I saw in the evidence that Lord Faber asked a question with regard to the account of the London County Council at one of the banks. I am familiar with that instance. It must be remembered that the London County Council has with that particular bank a very large and continuous working account, which is no doubt a very profitable account to the bank in question. I also happen to know, on, I think, undeniable authority, that very frequently the amount of the balance which the London County Council has kept with that bank has largely exceeded the amount of security given. It is a very old arrangement, which I think dates from the time of the Metropolitan Board of Works. In any case, here is an account running, and a very profitable account, whereas with regard to these deposits, there is no profitable account connected with them at all, and they are merely temporary things. The inducements to the bank to go out of their way to give security in that case are certainly not large. Speaking for the institution with which I am connected and for other banks, we certainly should not have done it, because we do not think it right to create any preferential creditors, and we do not do it at all on our deposits. The practice of these deposits was always considered a mere temporary expedient: as soon as the balances fell back to their normal size, it came to an end.

11,009. I want to ask you one other question in relation to the securities which were taken from the private firms. They were confined to the securities that were inscribed at the Bank of England, were they not?—Yes until quite recently, when some slight retaxation of the rule was made.

11,010. Could you not have widened your list of borrowers, or their power to borrow, if you had been willing to take a similar class of security, but inscribed at one of the great Joint Stock Banks?—We have to be guided by the practice of the Bank of England entirely. It has been the rule, and I hope it will continue to be the rule, only to accept securities which are what are described as floaters by the Bank of England; that is to say, securities on which the Bank of England is ready to make advances at all times. We have to see, in the first place, that our borrowers are persons of good standing; secondly, that the securities are of a satisfactory character, and thirdly, also that in time of difficulty and trouble our borrowers, when called upon to repay, are borrowers who, when they have to go to some other channel, find the doors of the Bank of England open to them. For that reason, we ought only to accept such securities as are taken by the Bank of England for advances.

11,011. Is that quite what your practice has been? Mr. Cole, who was Governor of the Bank, in his evidence before us made this observation: (Q. 3365, Cd. 7069, page 157) "I see they"—that is India Office—"have put in Colonial Government securities. We, "at the Bank, have never accepted Colonial Government securities as floaters, and I imagine that those "Colonial Government securities have only been put in "because the India Office broker finds a difficulty in "obtaining sufficient other securities. In so far as "the Indian Government are taking those Colonial "securities, they are departing from the principle that "we have always held at the Bank, that those floaters "should be confined principally, though not entirely, "to British Government securities"?—Those Colonial Government securities were only added quite recently to the list, and they do not include all the Colonial Government securities, but only a particular class—those that are payable at very short periods—within the next five years, I think, is the outside limit for which we take them. That is a special class of securities which, in case the worst happened, we can see through. At the same time, that matter is at present under the consideration of the Finance Committee also. The general list until last April, I think, included only securities which are taken by the Bank of England; but in April we added these short-dated Colonial securities which are very favourite investments in the city, but only to a limited extent. Personally, I should be inclined only to take securities which are considered as floaters by the Bank of England. It has been suggested that loans might be made on the security of commercial bills. I should be strongly opposed to such a course. No Government department could undertake the responsibility of discrimination, and the duty could not be delegated to the Bank of England, even if they would undertake it, which is doubtful.

11,012. I want to ask you a question now as to the general system. I should like to preface it by saying that no witness who has come before us has suggested that anyone concerned in these transactions has used his position improperly in any shape or form; but you are aware that there has been a great deal of criticism of the size of the balances in England, and a feeling in some quarters that India was in some way unduly deprived of the use of this money, and that it was brought over to London rather for the convenience of the London money market and London financial interests than for the good of India. Though nobody has suggested, as I say, that any improper use has been made by anybody in an official position of his official position, it has been put to us that the very fact that the Chairman of the Finance Committee is himself connected with a large London institution, and that others have been in a similar position, gives colour to this belief. Do you think that any steps could be taken that would prevent such a suspicion arising in anybody's mind?—That involves the entire question of holding the balances in London.

11,013. Assuming that there are balances to be held in London, is it necessary that they should be loaned out by the Finance Committee and the broker of the India Office, or would it be possible to use the Bank of England to do that work? If it were possible, that would relieve the India Office of a rather invidious task, and that would make it impossible for anyone to say that any institution was unduly favoured, or that anyone was unconsciously influenced by his connection with a private institution?—I do not know to what extent the Bank of England would undertake the business. As far as I am aware, they would certainly not take money on deposit. That is entirely against their practice, and also against the tacit understanding that they have with other banks. I think that part of the business would have to be excluded altogether.

11,014. Could they act as agents for the Secretary of State in Council for the loaning of such money as was available for loans?—I think it would be very expensive if they undertook the business; it would be a far more expensive method of carrying on the business than the present one, and still I do not think it would dispose of the charge that has been made, that the Finance Committee and Council of India are loaning out money in the London money market which had better remain in India. I think that charge would have equal force if the money was lent through the Bank of England, who would only lend to the same parties that we are lending to and make a profit to themselves out of it.

11,015. Do you consider it any great advantage to the London money market, when the India Office has such large sums to place out temporarily with them?—Yes, I do distinctly: I do not think there can be much doubt about it. There are two considerations that arise out of this—the general advantage to the London money market and to the trade of the country generally, and the advantage to the banks with whom members of Council happen to be connected. I think it is undeniable that these large amounts being placed in the London money market have benefited the market and have benefited trade generally, because it lowers the rate of interest generally when large amounts, 10 millions or 12 millions, are on the market. It has a considerable influence, it lowers the general commercial rate for bills, and that is an advantage to trade generally, and to Indian trade incidentally. I think Indian trade benefits by that quite as much as the trade of the United Kingdom. It has also this advantage to Indian finance, that these loans are to a large amount made on Indian security; therefore it encourages the market to invest in Indian securities largely, particularly as they are placed in somewhat advantageous positions as regards margin and so on. Therefore, I think to that extent India has benefited to a very large degree along with the London money market; I think it has been an advantage to India, just as much as to anyone else. But when you come to the other question of the advantage to the chairman of the Finance Committee, or to the members of the Finance Committee who are connected with a Bank, then I would say it is distinctly to the disadvantage of the institutions with whom they are connected. They are really working against their own interest. The very fact that your rate of interest is lowered operates against their own private interest as bankers, because it lowers the general lending rate, and bankers being lenders of money, it competes with their own operations, because these borrowers, instead of borrowing from the Secretary of States's broker, would have to go to the bank and borrow from them at a higher rate. So that, to that degree, we have rather worked against our own interests.

11,016. I think Mr. Cole of the Bank of England told us this Indian money was not regarded as good money in the city?—I do not know that I would agree with that altogether. I think it has been very useful; in fact, we do get higher rates from brokers because they think that it is "good money" for some considerable time.

11,017. One other question that we have had to consider has been the desirability or otherwise of the creation of an Indian State Bank. It has partly been pressed upon our attention from the point of view that

it might relieve the Indian Government of some of what I may call its banking duties. I should like you to be good enough to give us your views on the general question of a State Bank?—I do not entirely agree with the view that the Indian Government is carrying on a banking business, except as regards the Savings Bank; that is the only banking business I can think of that the Government does at present. Under present conditions, I do not think that the Government can delegate certain responsibilities and duties to any bank. I know that the scheme has a great many attractions; it is a very attractive one to me in many ways. It is a minor point, but the lending out of the balances of which we have spoken at the present moment could, of course, be done by a London branch of the Indian bank with great advantage, and to a minor extent the Government would be relieved of certain responsibility. This is one of the attractions in the scheme, but that is only a detail and a small matter. There are two things, I think, which could not be delegated—the responsibility for the safety of the note could not be delegated under any system to the State bank, and also the responsibility for the maintenance of exchange. For these I think the Government of India, and ultimately the Secretary of State in Council and Parliament, must remain responsible. I cannot conceive of any bank note being issued in India for which the Government must not assume ultimate responsibility; nor can I conceive that the duty of maintaining exchange could be delegated to a bank; but if it was, and the bank did not carry out its obligations, the Secretary of State would be made responsible, and although he is ultimately responsible, he would have no authority to carry out his own policy. I cannot quite believe in Government Directors and so on. I think their functions would be very much hampered; they could not carry out the policy of the Government with such authority as the Secretary of State could do, and you would have responsibility with very much lessened and diminished authority. Then I think it is a question of capital. It has been suggested that the three Presidency banks should be amalgamated, but that would not give you a larger capital, and I do not think it would give more security to the deposits of Government funds with that bank. It has been suggested that a bank with very large capital might be organised; 14 millions was, I think, the figure that was given. In the first place, there would be a great difficulty in finding that large capital at the present moment, and there would be a very great difficulty in earning a suitable dividend for a State bank with such a large capital, unless that bank went into business—commercial business—which it is much more desirable for private institutions to go into, than for a State bank. Such business is much better done by a number of private banks. The functions of a State bank ought to be limited to certain transactions which are not of a very profitable nature, and I do not quite see how it could earn any dividend for a very large capital. Then you would at once have a conflict on the board and on the management between their duty to the shareholders and their duty to the State; such a conflict is not unknown nearer home—it does arise, and I think that would be much more pronounced in India.

11,018. I think you have expressed the view also that there would be difficulty in finding a competent management and directorate in a country like India?—I have no Indian experience, but I am informed that it would be even greater in India on account of certain local conditions there than it is at home, and I think at home it is not always easy to fill these offices satisfactorily. Then there is the great extent of country, and also the diversity of requirements in various parts of the country, which would strongly militate against the efficiency of a State bank. In the discussions which are now taking place in the United States on this great question of a central bank, I read that, so far, opinion has prevailed against the establishment of a central bank, because of the extent of the country and the diversity of the demands and of the habits of the people. The feeling certainly there all through the country is strongly against the establishment of a central bank. We have no central bank in the United Kingdom at all. There is the Bank of England, which only extends to England. In Scotland there is no State bank at all, and a Bank of England note is not a legal tender in Scotland. They have got their own banking system in Scotland. Then there is Ireland with its Bank of Ireland.

11,019. I do not know whether it is within your knowledge that some inconvenience is caused to the Government by the fact that there is no central or State bank in Scotland?—That may be so, but on the whole the trade of the United Kingdom has prospered very well under the present system.

11,020. (Lord Faber.) As regards the position in the United States, I rather read it in this way: There has been a conflict between one State bank and a State bank divided into several large pieces, if I may say so, and at present the one State bank is in the ascendant. That seems to be the quarrel now—not whether there is to be a State bank or not, but whether it is to be a State bank in one place only or a State bank divided into three or four places. I may be wrong, but that is the impression left on my mind?—It is very difficult to follow the whole discussion. I have tried to read the evidence which has been given, and I have had some private letters on the subject, and it is really from private information that I derive the opinion that I have expressed, that, although a good many advocate one central bank, the feeling generally all over the country is very strong against the establishment of one central bank. What is at present the official proposal is that there should be 12 different banks, and Mr. Vanderlip has strongly advocated the reduction of that number 12 to four. I think quite lately the Committee of the Senate, or whatever the body is that is deliberating on it, has by a very small majority decided to report in favour of the four rather than of the 12, but I do not think there has been any decision in favour of the one central bank.

11,021. (Mr. Keynes.) We all know there are great political difficulties in the United States. In the matter of banking would you hold up the United States as what you might call a model in these matters?—Certainly not; one would not hold up any country as a model. I think each country must devise its own system quite independently of the system that may prevail in other countries. I am very strongly in favour of each country settling its own affairs in its own way according to the needs and habits of the people. I had to give evidence before a United States Commission on that very point, and that is the one piece of advice I ventured to give them: Do not follow other countries too closely, but devise a system which corresponds to the needs of your own country. I think that applies to India quite as much as to the United States; in India too I think it would be a very grave mistake to follow other models closely.

11,022. I have always thought the general opinion in this country was that they had a very bad and indefensible banking system in the United States, but that there were great political difficulties in the way of altering it?—That is so, no doubt.

11,023. In the case of the Bank of England you say it only extends to England and Wales; of course that is true of the note issue, but for all intents and purposes it is the bank for Ireland and Scotland, is it not?—I do not think so.

11,024. Are not the banks of Scotland and Ireland in a crisis dependent on the Bank of England very much in the same way as the English banks are?—Inasmuch as it is the largest bank in the country, its interest would be to prevent financial crises in any part of the United Kingdom. It is really a matter for the Bank of England rather than for others to express an opinion upon, but I rather doubt whether the Bank of England would hold that in a crisis their duty towards the Scottish banks was equal to that towards English banks.

11,025. Do you think the relation of a Scottish bank to the Bank of England is different from the relation of, say, a Lancashire bank to the Bank of England?—Yes, I should say so.

11,026. It is quite new to me, and I am interested to hear that that is your opinion?—In practice of course the Bank of England would voluntarily do what they could to prevent a crisis in any part of the United Kingdom. Still we are rather discussing the question of the State bank from the point of view of the issue of notes and from the point of view of holding Government deposits. In Scotland the Government deposits that may come in are held, I believe, by the Scottish banks in turn; I believe every year there is a different banker of the Government. Therefore, to that extent you have not got a general banking system prevailing over the whole of the United Kingdom.

11,027. Of course in England the note issue is the least important of the bank's important functions. Would you not say that it would voluntarily extend help over the whole of the United Kingdom in the only things that really matter?—That involves a very difficult question as to the functions of the Bank of England in a crisis, and it is rather outside the scope of this inquiry, if I may venture to say so. When one is discussing banking and trade generally, the doubt is expressed whether the Bank of England now is in the same position that it was in, say, 50 years ago; and as the Commission are aware, bankers are now considering the question of additional gold reserves and matters of that kind which do not directly enter into their own province as bankers, but with a view to strengthen the general situation.

11,028. (*Chairman.*) I turn now from that question and come to the question of the gold mint, which perhaps we can treat more shortly. Are you in favour of the opening of a mint for the free coinage of gold in India?—Here again I speak with a certain amount of diffidence, because I think Indian experience is necessary to have a well-reasoned opinion on that point. Speaking from general observation, I am not in favour of it, because I do not see any advantage in it. I think sovereigns are freely provided for circulation under the present system without cost. The 10-rupee piece would not be suitable for export at all, and I think it would be a very expensive coin to put into circulation, because with the lighter coins, of course, the risk of loss of weight is very great. That 10-rupee piece would compete with the circulation of the 10-rupee note to a large extent. I think the policy should be to extend if possible the circulation of the notes rather than that of gold. I speak with a certain amount of hesitation when I express the opinion that I think the former practice of receiving gold bullion at a fixed price against rupees should be revived. My reason is that I think the only ground which I can see for a gold mint is that holders of gold bullion at present have no market for it when for any reason of panic and so on they wish to dispose of that gold bullion. I do not know whether that revival is possible or not, but it would remove a grievance. If they had a mint they could get the bullion coined, but I say, instead of having a mint, take the gold bullion at a fixed price as you used to do. If public sentiment in India is strongly in favour of a gold mint I should prefer — notwithstanding the cost — that sovereigns should be coined.

11,029. I think you said the object of the Government should be, in your opinion, the steady increase of the note circulation?—That is, I think the aim we should have in view.

11,030. Where actual coin is required, do you prefer that the coin should be gold or rupees?—Gold I should say. A certain amount of rupees must necessarily always be in circulation, because it is a much smaller coin; but as a matter of choice I would prefer gold. I think that that is the ideal which one would like to aim at. If sovereigns circulate to a large extent I think they will in times of difficulty come forth and even be available for export—at any rate the greater the amount in circulation the smaller the risk of a panicky run for gold in the banks and currency reserve.

11,031. I presume your reason for recommending a note circulation is that it is economical?—Yes.

11,032. To the Government?—It is economical generally.

11,033. Compared to gold a rupee circulation is both economical and profitable?—Yes, but I do not think the Government ought to make profit out of coinage. It is not really profitable, because hitherto we have used the profit to build up the gold reserve, and the only profit arises out of the interest which the invested part of the gold reserve earns.

11,034. Do you think there is a great disadvantage in what you call an artificial currency, that is to say, a token currency, employed in internal circulation, provided your reserves are sufficient to guarantee the stability of exchange?—Yes, I think there is a disadvantage in it. It is an artificial debased currency, if I may use the term. You can hardly call it a token currency as we do at home, because here your legal tender is limited to 2*l*., whereas in India you have got your silver currency legal tender to an unlimited amount.

11,035. That is in your mind a fundamental distinction between the two, is it?—Yes. It is an artificial currency, and that necessitates all this system of a special reserve and of special measures by Government to keep up your currency. The best system no doubt is where no artificial measures are necessary at all, but where your currency consists of coin the face value of which is its bullion value, which can be exported at times of pressure. That at once removes the whole structure of artificiality which surrounds and must surround your present system.

11,036. Before that point would be reached in the Indian system, there would have to be an enormous extension, would there not, of the gold currency?—I am reluctant to express any criticism on the system that you have at present, as I do not see that you can avoid it. It is in my opinion by far the best system that could have been devised, and I think it works admirably. I am speaking rather of an ideal to be attained in the distant future than of anything which you can arrive at within a measurable distance of time at all.

11,037. In the meantime, your view would be that stability of exchange must be provided for by the Gold Standard Reserve?—Certainly, but I would limit the coinage of rupees as much as I could. I do not think the additional coinage of rupees ought to take place until the public demand is very clearly demonstrated and brought home.

11,038. Does it ever take place except in response to a public demand?—It is very difficult to estimate the future public demand. If possible you have to estimate it beforehand and meet it. That has been one of the difficulties of the whole situation. It has been urged several times that the Government ought to buy silver regularly in fixed quantities year by year in order to avoid fluctuations. I do not think it possible to do that. We are in a period of transition now, and we have been for a number of years; we could not know, and nobody could know, to what extent the sovereign would take the place, or will take the place, of the rupee. Therefore, if you coin rupees in fixed quantities year by year you may have a redundance of that coin altogether, and the public may not want it. I think in 1906 too many rupees were coined, and it took some years to work them off; then the general opinion in India certainly was that no more coinage would be needed until 1912 came.

11,039. What would you say as between the regular coinage of so much silver a year without regard to the demand of that year and the present system, which has led to no coinage at all and no purchases of silver for a considerable period of years, and then a tremendous run on the silver market, with the consequent natural disadvantages to the Government as a buyer?—I would rather meet the demand when it is proved than anticipate a possible demand. I do not think the Government have any right to speculate in silver and say: We may have a demand at a future time. I think it is best to wait for it.

11,040. On the other hand, if they wait very long, does it not become clear to everybody interested in the bullion trade that they will soon have to be purchasers, and purchasers on a very big scale? It may be that under those circumstances the Government of India do not speculate, but does not everybody from whom they have to buy, speculate?—I think the Government of India should be in just as good a position as the speculator to estimate the possible demand. If the opinion of the Government of India is that this demand will arise, of course then silver will be bought in time, and I think it ought to be. Here we have always been guided greatly in that matter by the opinions of the Government of India; and I think in 1911, and until quite a late period, they were strongly of opinion that no further coinage was needed.

11,041. Arising out of that, I want to ask you a question which deals with a part of the reserves. There is in the Gold Standard Reserve a certain amount of silver, as you know?—Yes.

11,042. The original purpose of the Gold Standard Reserve was to maintain exchange?—Yes.

11,043. And the silver is not required for that purpose?—No, it is not.

11,044. It was put there, as I understand from the evidence we have had, in order to provide for a sudden demand for rupees?—Yes.

11,045. Why was it not used when the sudden demand came?—I confess when I came to the India Office I had very great difficulty in understanding that silver portion of the Gold Standard Reserve. I think the Government of India from time to time showed convincing reasons why that portion of the Gold Standard Reserve was kept in silver. I think you have had official evidence on the point, and I should not like to express any further opinion except to say that to my mind personally that subject presents a very great difficulty, and, of course, one would, speaking from a general point of view, rather see it in gold than in silver. I subordinated my individual opinion to the opinion of the Government of India in the matter that it has been desirable that it should be kept in that form.

11,046. I think we all agree with you that the presence of silver in the Gold Standard Reserve has presented probably a difficulty to everybody who has had to consider it for the first time, and it is perhaps responsible for some of the misunderstanding and mistrust which has existed in India. I do not want to press you to speak more definitely than you yourself feel inclined to do, but I would like to ask again whether, having regard to the fact that when this great demand for silver came, that reserve was not used, although it would have appeared to have been created for the very purpose of being used in such an emergency, you do not think the time has come when the silver in the Gold Standard Reserve might be exchanged for some of the gold in the Paper Currency Reserve?—That is my distinct opinion; I think it ought to be. I would like to see it replaced by gold and held in India and I would have it in the Paper Currency Reserve.

11,047. As regards the location and management of the general balances and reserve funds, you have seen, I think, from what you have said, the evidence of the official witnesses which we have already received and published?—Yes.

11,048. Do you concur in that evidence generally?—Entirely. There is very little I would like to say about it, but there are some points which perhaps have not been brought out so very clearly which have been always present to my mind, during recent years at all events, in regard to the conditions of the financial market generally. Our railways involve, as you are aware, annual borrowings of very large amounts, and of recent years it has been very difficult to carry out that policy with any satisfaction so as to keep up the credit of India. That always has to be borne in mind, and it was an additional reason for keeping balances on this side, so as not to be pushed and have to borrow whatever the market conditions might be. Then there was the European political situation, especially in 1911. I do not think our critics have paid any attention to the political situation which prevailed then, but it certainly was a time when one had to use every possible precaution in financial matters. In the year 1911 there was a deficient rainfall, there was a threatened famine, and there was exceptional expenditure in connection with the Coronation Durbar. I remember a discussion at the time in the Finance Committee very well. It was for that reason that certain India Bills were renewed for six months, which might, in the light of subsequent events, very reasonably have been paid off. It was a matter of doubt at that time, but with the possibility of a European war and great expenditure and a possible famine in front of us, we erred on the side of caution, as I think it was our duty to do at the time.

11,049. But, looking back on it, you would say that you might have been a little less cautious without injury?—Looking back on it, that is the only part where, I think, a different policy might have been followed, and we might have paid off certain India Bills a little sooner. But it was done with full deliberation and after full discussion in our Finance Committee, where we considered it from every point of view.

11,050. What is your feeling as to the amount of the balances which you ought to keep normally in hand?—I have a strong personal feeling that our balances ought to be larger than they are at the present moment. I should like to have approximately a year's prospective capital outlay on the railways in the balances, so as not to have to live from hand to mouth and be compelled to borrow in an unfavourable market. This is a view which has never been discussed, and has not been approved by the Finance Committee; I have not positively brought it forward, as it was not the time to do so. The magnitude of the balances in the last few years has been entirely explained in the evidence that has been put before you. It was due to windfalls in the shape of opium revenue, and to unexpectedly good revenue from railways, and also to the land revenue. There is another point in connection with the balances which ought to be considered, and that is that the liability of Government for the Savings Bank balances, which I believe amount to something like 12 millions or 13 millions, is a liability which is not provided for at all.

11,051. You mean which has no specific provision made for it?—It has no specific provision made for it, and in case of bad times there may be, I will not call it a run on the savings bank, but a natural demand for repayment, and then that amount will have to be paid out of Government balances, so I think it ought to be taken into consideration in estimating.

11,052. Therefore, in addition to all the other purposes which the Government balances serve, they are in fact the only reserve for all the money which lies on call at short notice in the savings bank?—Yes, that is so.

11,053. Now as regards the location of the balances, I understand that you agree with the official witnesses who have come before us, and who hold that the Gold Standard Reserve should be held in London?—Entirely.

11,054. Do you care to give your reasons for that view?—I really think the reasons have all been given by the official witnesses. The main reason for the necessity of keeping the Gold Standard Reserve on this side, and for also keeping here part of the Currency Reserve and a large balance, is the one of keeping exchange at par. The eventual disturbance of the ordinary course of trade through failure of crops, and possibly for political reasons, must always be borne in mind, and even the remote contingency of a war cannot be entirely disregarded. In time of difficulty the pressure would be felt here mainly for the purposes of keeping exchange at par. It is essential to remember that India is a debtor country and not a creditor country, though I think during the course of this inquiry that statement has been questioned.

11,055. A great many witnesses have insisted on the opposite view, so perhaps you would explain yours?—My definition of a creditor country is one which, given an even balance of trade, or disregarding trade altogether, can draw upon other countries for interest on invested capital. That is the position of England. A debtor country is a country which under similar conditions has to pay to other countries interest on borrowed capital. India belongs to the latter category, not only to the extent of the home charges of the Government and the interest on the public debt and on the railways, but as regards the profits of all the leading banking institutions, the foreign, that is to say, non-Indian, profits of trading firms, the interest on the deposits they hold, and so on. The exchange of such a country is in times of shortage of produce for export naturally much more vulnerable than that of a creditor country, especially where you have an artificial currency which is not available for export in times of pressure.

11,056. We have had it urged upon us from several quarters that as long as there are the large balances which we have seen, they should not be lent only in London but they should be made available also, to some extent at any rate, in India. What is your view of that suggestion?—As far as my personal opinion and the view of the India Office go, it has always been to carry out the views of the Government of India in that matter. If the Government of India at any time suggested the possibility of lending in India, certainly there would have been no objection on this side whatsoever; but I think at various times they have expressed an opinion that it is not desirable to do so. I think loans could be made from two sources, that is, from the Treasury balances in the first instance and also, I think, from the Currency Reserve.

11 057. Let me ask you first whether you have formed in your own mind any idea of the sum which could be safely and usefully lent out in India under those circumstances?—No, and I could not do it because I have not got the information.

11,058. Am I to understand that yon would confine the advances by Government to the Presidency Banks? —Here again I would rather not give a strong opinion of my own, because I have not the necessary information. It seems more natural that in the first instance, at all events, loans should be confined to the Presidency Banks, because once you go outside them it is very difficult to draw a limit. That seems to me to be the reason. I think it ought only to be made against security, and I think it ought only to be made at a date when there is a very high bank rate. It ought not to be made in ordinary times, because otherwise trade would naturally expect to have those advances from the Government, and I think trade might be disappointed in bad years when the amounts would not be available. It ought only to be made available to tide over a crisis. The advances should only be temporary, and only when the rate is high; otherwise I think the trade ought to supply its own needs.

11,059. There is some force, is there not, in the contention which has been put before us by a good many witnesses, that under present circumstances the Government of India is not quite neutral, so to speak, in the matter of the bank rate? It is put to us that, owing to necessity, they collect a large portion of their revenue, the land revenue, just at the moment trade is at its busiest, and the demand for money is greatest; that they are not able to issue that money to the market at once, as their obligations do not mature at once; and that it is not merely that they do not supply the market with funds, but that they withdraw funds from the market in the shape of taxation just at the moment when the market needs them most. Is there not some force in that contention?—There may be, but it has to be borne in mind that that is a condition which prevails in every country in the world. It prevails here to a very large extent.

11,060. Does it prevail here in quite the same way? Here, of course, the Government finances itself by Treasury bills, by borrowing for a large portion of the year; when, therefore, the mass of the income tax is collected, it does not remain shut up in the treasuries or the Bank of England, but is at once disbursed in paying off the debt which the Government have incurred?—That is so to a moderate extent. At the same time you have an abnormal condition in the money market at the time of the large revenue collections from January to the end of March. I think statistics will show that that is the time when the bankers' deposits are depleted; the money goes out of the balances all over the United Kingdom and flows into the Bank of England, and that has a dislocating influence on trade generally. It is the time when bankers cannot supply the trade of the country to the same extent that they can at other periods of the year, and the money is in the Bank of England, which uses it, but uses it in a different sort of way, and it does not flow back through the same channels. I do not wish to express an opinion on that system at all. I only mention that in reply to what has been said about India, in order to show that it is a condition which is almost inevitable when your collection of taxes takes place at a certain period of the year. You then collect a large amount of revenue, which flows into one channel, and it must take some time before it flows back into the ordinary channels of trade.

11,061. That is a very interesting view, and I am glad you have put it to us; but you do think, do you not, that some assistance might be give under proper conditions and restrictions?—Unquestionably.

11,062. Either from one or both of the two sources?—I think from the two sources.

11,063. That is, from the balances and from the Paper Currency Reserve?—As long as it does not interfere with the ordinary business of the Government and the ordinary policy of the Government as to holding their general balances, and also having regard to exchange policy, which I do not think ought to be interfered with. There is a certain advantage in it, but there are also some drawbacks. If one's trade generally depends upon Government action, the view which trade might take, that it can depend on Government action in times of difficulty and crisis, I think would involve a certain amount of risk and danger. It must not be taught to depend on Government assistance.

11,064. You think it must be quite clearly understood by everybody that the Government only lends when it can do so as a convenience and advantage to itself?—Yes, that is so, and that the advances could only be temporary.

11,065. Now as regards loans from the Paper Currency Reserve; at the present time the fiduciary portion of the Paper Currency Reserve is fixed by statute, as you know?—Yes, at 14 crores.

11,066. Do you think the time has come to reconsider that figure?—Yes, I think the time has come when you might have a more scientific system, that is, a system of proportions which does not depend on legislation at a given moment.

11,067. What is the proportion that you would suggest for consideration or adoption?—I have gone into the position of the leading banks of Europe during this last month of October, and I find that the proportion of bullion to circulation was in England about $65\frac{1}{2}$ per cent., in France 72 per cent., in Germany 71 per cent., and in Russia a little over 100 per cent.

11,068. Those figures relate to what date?—To the middle of the last month of October.

11.069. In the figures that you give in relation to the Bank of England, you have taken, have you not, the gross circulation of the notes?—Yes, and I think that is the right thing to do.

11,070. The net circulation was more than covered, was it not, by the gold reserve at the Bank of England, owing to the fact that the amount of notes in the reserve exceeded the fiduciary part of the issue?—I have considered that point, but I think for the present purpose it is necessary to take the gross circulation, because the notes in the banking department of the Bank of England I think for this purpose must be taken as part of the active circulation, as they can be issued at any moment.

11,071. Proceeding on those figures, what inference do you draw from them?—I should like to say that I also bear in mind that I think the present proportion of the fiduciary issue is about 20 per cent., that is, I think, the 14 crores represent that. I do not think in a country like India the fiduciary issue ought to be

quite as large as in a country where banking is very highly developed. I think you are exposed to greater risks there, and I would suggest that an elastic figure might be adopted, varying from 20 per cent. to 30 per cent., 30 per cent. being the maximum. I would invest the 20 per cent. permanently in Government securities, and the remaining 10 per cent. I would use in time of pressure in temporary advances, so that a certain power would be reserved to Government to make a fiduciary issue in that manner by temporary advances.

11,072. I pass now to the amount of the Gold Standard Reserve. Do you think that any limit could at the present time be wisely fixed for its growth?—I do not. You cannot limit the amount of trade. I believe and I hope that trade in India when railway and irrigation development is made will develop to a degree that is quite unexpected now; if it is so, and if there are large issues of silver currency, then I think your Gold Standard Reserve must be increased proportionately.

11,073. Therefore you would place no limit to the Gold Standard Reserve?—I would place no limit. At the present moment we are aiming at 25 millions, and when that point has been reached I think it ought to be very carefully considered.

11,074. As regards the amount of actual gold held in reserve, are you satisfied with either the amount at present existing there or the figure which has been for the present laid down?—No, I am not satisfied. Of course, if you add to it the amount of gold in our Paper Currency Reserve it represents a very large amount, but I do not think that is quite the right way of looking at it. I think that the two reserves must be considered as separate and independent of one another. In connection with that perhaps I might say, as the question has been asked whether the two reserves might not be amalgamated, that personally I do not think they ought to be; I think they serve a distinct purpose, and they ought not to be mixed up. You would get an erroneous conclusion, and the amount would appear so large that perhaps at some future time precautions which now seem necessary might be abandoned. I would like to keep them separate, therefore. I am only speaking of my individual opinion, but personally I do not think that the amount which we are now aiming at, 5 millions, is sufficient. I would like to see that amount increased to, say, 8 millions or 10 millions. If subsequently your Gold Standard Reserve was in excess of the 25 million limit, then I would fix the amount of gold held at a certain proportion of the total, say one-third of the total to be held in gold and the rest invested.

11,075. Are there any other observations which have not been brought forth by my questions which you would like to address to the Commission?—There is the question of the relations with the Bank of England.

11,076. Perhaps you would make any statement you desire to lay before us on that subject?—I am certainly very reluctant to deal with that subject at all, and I would rather have avoided it altogether. Mr. Cole, in reply to certain questions beginning at (Q.) 3512,* spoke of mistakes having been made which in his opinion ought not to have arisen. I think in justice to the India Office there ought to be some explanation given. There was an unfortunate misunderstanding as to the interpretation of certain correspondence which had taken place in 1906, but for this misunderstanding I do not think the India Office was to blame. A verbal arrangement had been come to between the Chairman of the Finance Committee and the Governor of the Bank of England for the time being, of which no one at the India Office in 1912 had any knowledge, and neither the note of the Chairman of the Finance Committee nor the official correspondence contained any reference to it.

11,077. Was this an arrangement in relation to the purchase of silver?—That was an arrangement in relation to the purchase of silver. I believe it is usual when a verbal arrangement is made that it should be subsequently set out in correspondence, and that what is set out in the correspondence shall be taken as the guiding principle in the matter. A verbal arrangement is only confirmed by the correspondence, and the correspondence at the time and the notes of Sir James Mackay, at present Lord Inchcape, contained no reference to that arrangement to which subsequently the Bank of England attached so much importance. Before deciding on the course which was eventually taken with regard to this transaction, that correspondence was carefully considered by the Finance Committee and the Permanent Under-Secretary of State, and legal opinion which we obtained subsequently confirmed the view that the contention of the Bank of England could not be sustained. I may add—again I confess I do it very reluctantly, but I think it is necessary—that in July, 1912, the matter was first mentioned by me in private conversation to the Governor of the Bank of England, before the public had any knowledge of it. He expressed his approval—perhaps expressing approval of the action taken might be too strong an expression, but he certainly expressed no disapproval—and he recognised the special circumstances of the case, and no reference was made to any breach of confidential relations at the time. I noted the words of that conversation and I reported them to the India Office orally at once, and in writing subsequently: "Before the facts of our purchases became publicly "known, I informed the Governor of the Bank of "England privately of what had taken place, and "after having carefully gone into all the circumstances, his only observation was that we could hardly "have done anything else, and that he would have "acted in precisely the same manner if he had been "in our place, or words to that effect." I went on purpose to the Bank of England before this matter became public knowledge, and I acquainted him with the whole facts, but naturally he would not attach the same importance to that interview that I did. I noted the words at the time, and probably they would not be present to his recollection now as they are to mine. But that was his first impression, and there was no reference to any breach of confidential relations at all. He thought it was a very natural thing for us to have done. I do not want to make too much of that, and, of course, we made no use of it in the subsequent correspondence that took place, because it was a private conversation and because he was not at that time himself aware of that verbal agreement which had been made. There was no note taken in the Bank of England at all, and I do not think he or any of the officials of the Bank of England were aware of it. Subsequently, I think some three or four weeks after that time, he said that Mr. Wallace, who had been Governor at the time in 1906, had communicated with him, and that he had referred to this verbal agreement which had been made with Lord Inchcape. When that was brought to the knowledge of the India Office, and was confirmed by Lord Inchcape, we at once reverted to the practice, and all future purchases of silver were made through the Bank of England, because the last thing we should have desired to do was to come away from any agreement, whether verbal or otherwise; but we had no knowledge of it at all, and our duty was to save the revenues of the Government of India. This matter was fully discussed at various stages in the presence of everyone in an official position, and it was discussed in Council; and I remember—I think it is the only occasion which I do remember—that in addition to the decision of the Council the resolution of the Council added the observation that the strictest secrecy must be observed in carrying out the transaction. We were bound by that entirely. Our duty was to save the revenues of India, and no other considerations could prevail. I believe we did save those revenues to a considerable extent.

11,078. I thought it was right to give you the opportunity to make that statement, as the matter has been referred to in Mr. Cole's evidence; but I may say, that the Commission did not consider it part of their duty to go into the details of the circumstances of that transaction—we are only concerned with the matter as it may affect the future policy of the Government of India?—As I said, I referred to it very reluctantly, and only in consequence of these remarks which had been made by Mr. Cole. As he said that mistakes

* Cd. 7069, page 165.

had been made that ought not to have been made, I thought it only right that our version of the matter should be given. In my opinion, nothing else could have been done under the circumstances. Perhaps you will allow me to make one remark, although it is outside your province, with regard to the secrecy which had to be observed in these transactions. A remark was made in the House of Commons when the matter was discussed, and it has not been denied at any time because I have had no opportunity of denying it, that while this matter was kept secret from the Bank of England it was made known to officials in the bank with which I am connected, because certain payments passed through our bank. There was no one in our bank except myself who had any knowledge whatever of these transactions until they became publicly known. No one could possibly draw any inference from the amounts that were paid into certain accounts, and no one had the least suspicion and there was no revelation made. Naturally I should not have thought it necessary to mention it, but that the charge has been made in the House of Commons.

11,079. I want to ask one more question, and then I shall have satisfied my curiosity. You have several times in the course of your answers said that on the particular subjects on which I happened to be questioning you at the moment, more Indian experience was needed for an answer than you possess. Do you think that on the Finance Committee for the work which it has to do Indian experience is sufficiently represented? Perhaps I might ask in the first instance how is Indian experience represented on the Finance Committee at the present time?—Until 1911 we had a member of the Finance Committee who was very intimately connected with India—we had Lord Inchcape. At the present moment we have Indians of considerable official experience, but perhaps not especially of financial experience. At the same time we know, I think, when our own knowledge is not sufficient to judge of the questions, and we have no difficulty in procuring the information. We always, before we decide on questions, when we think information is necessary, try to obtain it. I do not think we have ever had any difficulty in getting the necessary evidence and the necessary experience to judge of a question.

11,080. At the present time you have not available on the Committee itself any Anglo-Indian of financial experience and trade experience, have you?—No.

11,081. Either as civil servant or as merchant?—No, not at the present moment.

11,082. As we are asked to report upon the financial organisation of the India Office, perhaps you might be able to help us from your experience on another point. Do you think it would be an advantage in these matters to you as Chairman of the Finance Committee if you had an Indian Civil Servant trained in Indian finance as a member of that Committee?—It would be of considerable assistance to us, but at the same time I should think that the Secretary of State has a very complete power of appointing members of council, and I think it would be his desire always to appoint men of the best experience that are available. He also appoints the Committees, and naturally he would appoint men with large experience on the Finance Committee. If I may express an opinion, I think it would be undesirable to tie him down to appoint on the Council men who had held a certain position in India. I think it would be made too much of an established rule in time, as persons who had held certain positions might look upon it as a certainty that they would be appointed members of the Council, and I can conceive of circumstances in which that would be undesirable. I think the hands of the Secretary of State should not be tied.

11,083. I quite understand the desirability of allowing a wide discretion to the Secretary of State, and not tying his hands too closely?—There is another reason, perhaps, why I think a regular rule should not be established. Men come over with a certain experience, and they are not aware of the changes that take place and take place very rapidly. The man with a supposed experience, and the authority that is derived from such experience, who does not keep it up to date, is almost a greater danger than a help.

11,084. On the other hand, possibly, misapprehension between the Government of India and the Secretary of State and the Government at home, or the lack of information as to the reasons which have actuated the Secretary of State, might sometimes be remedied if Indian financial experience were more frequently represented in the Council?—I hardly think so. I do not think that would result.

11,085. Perhaps you do not think either that the suspicion which certainly has found expression in some quarters, that over here the interests of India are less considered than the interests of London, would be prevented, or at any rate modified, if India felt that she was more directly represented in the Committee where these matters are considered?—That is a matter of sentiment rather than a matter of practical advantage. I am quite sure that any Secretary of State would recognise the sentiment in the appointments which he was making.

11,086. (*Lord Faber.*) Alluding to the India Office in London, I think you said it was your opinion that finance had so much to do with the affairs of the India Office in London that you would if you could get an assistant secretary who was very well versed in finance?—Yes, an assistant Under-Secretary of State.

11,087. I put this rather difficult question to you: How would you get such a man? Would you take him from the business world? Could you go into the great business world and get a thoroughly up to date business man?—My answer is that you have got him now.

11,088. I mean as a usual procedure?—I do not say a business man; I do not think that is the word I have used. I think you should have a man of financial training in a Government office, and I think you can get him in a Government office. Certainly, I would guard myself in this way—I would not take in a man who had a commercial training—a banking training especially.

11,089. Could you get a financially trained man unless he were a business man as well?—I think our officials in Government offices are men of the highest financial training and experience, and that is the quarter where I would look for them. I would not go outside into the business world.

11,090. Now with regard to the procedure of the India Office in lending uncovered balances to the banks. You have explained quite clearly what that procedure is, and that the banks when they have this money generally take bills with it which mature in the next three months. Could not the Indian Government through its own banks take bills for itself instead of lending its money uncovered to the ordinary banker, if I may call it so, and the ordinary banker dealing with the money? Why should not the Indian Government take the bills itself through the Bank of England?—I am glad you have asked that question as I have strong views about it. I do not think it would be the business of any Government to go into commercial banking. I think the difficulty of discriminating, of choosing your bills, would be too great a burden to throw on any Government Department. You know from your own experience how difficult it is to discriminate between bills and how rapid the changes are. It would be too great a burden on the Government.

11,091. I should have thought it was the business of such a concern as the Bank of England to be thoroughly up-to-date in the bill world?—Do you mean to suggest that the Bank of England would buy the bills?

11,092. Yes, for the Government?—And endorse them and be responsible?

11,093. Yes; but they would be bank bills to start with, and they would have the names of two banks on?—I doubt whether the Bank of England would carry out the duty. If they were entirely responsible for the bill and made themselves responsible, that might be one way of disposing of your balances; but, at the same time, it would be a very cumbrous and difficult way of investing your money in bills, which do not all

mature in one day; we should have to watch the maturities, we should have to keep the bills at the Bank of England, for I suppose they would do the collection for us, and the money would come in day by day in irregular amounts when we might have no use for it, whereas now we fix the advances for definite periods to suit our convenience.

11,094. The Bank of England is there for that purpose, and it gets well paid for the account. I should have thought that was one of the first things it ought to have done for the Indian Government. It is the best security in the world?—They would certainly not do it without additional remuneration, and it would be very considerable remuneration. I think it would be an expensive matter. However, the question of deposits with the banks was merely a temporary measure, and is hardly likely to arise in the immediate future at all events. At the same time I think it would be rather a pity to shut the door to transactions which other Governments have found answer their purpose very well. We had, during the last spring, times when we could not very well dispose of our balances, and it is as well to have another channel instead of lending it all in one direction, as that checks the rate.

11,095. This is a question that I do not suppose you could answer at all, but if you feel inclined to answer I should be glad. Does the India Office get reasonably good terms and facilities from its present bankers?—I think the charge that the Bank of England makes is set out in the evidence before you. I think you have had a table showing the various payments that have been made. In the opinion of the Bank of England the account does not pay them at all.

11,096. I asked you for your opinion?—I do not think the whole profit of the Bank of England is revealed in these figures, because lately we have gone into the question of another issue altogether. The Bank of England are printers for the currency notes, and they make a very large additional profit out of that.

11,097. What I want to get your opinion on is this: Does the India Office get, as I say, reasonably good terms and facilities from its present bankers?—It must be remembered that the Bank of England has a very expensive staff and does its work in a more expensive way than perhaps private institutions do; also that it is put to greater charges. On the other hand, it must be remembered that we derive a very considerable benefit from the account, and that there is a great deal of work connected with it, particularly with the handling of the securities for our loans for which there is no payment made at all, but which is part of the account. I should say that they are very well paid indeed. We have again and again tried, sometimes successfully, sometimes unsuccessfully, to get our charges reduced, but we are in the position of being compelled to use them as our bankers, whatever the terms may be. Whenever we go for a reduction of their charges we have to go and ask for a favour, to go on bended knees as it were—Be good enough to reduce the charge—because we have no alternative open. We are bound by Act of Parliament to keep our banking account with the Bank of England, and no one would wish to alter that, so they have a monopoly. At the same time efforts are constantly being made to get the charges reduced. Of course they are very high charges.

11,098. Now with regard to the balances at home and in India; is it your opinion that it ought to be the Secretary of State's first care to lend out what he safely can lend in India and after that to lend the balances in London?—I think the evidence has shown that it is desirable to have the balances in London.

11,099. All of them, would you say?—As far as consorts with the convenience of the Government of India. If they show a reason why the balances had better be placed in India, such as loaning out the money at a time of difficulty——

11,100. I mean that?—Then, of course, it had better be used there.

11,101. Would you say first there and then afterwards here?—The first care of the Secretary of State and of all his advisers are the interests in India, and they always have been so considered whatever policy has been decided upon.

11,102. Now as to the State Bank, you made a very interesting statement, with which I may say I agree, but all people do not agree with your opinion that sometimes a State bank's duty to its stockholders and its duty to the State are in conflict?—It is so sometimes.

11,103. Why have stockholders if you are starting a new bank? Why should not the Government find the money and get the profit for the State? If you had a *tabula rasa* and were starting afresh in a fresh country, would you have stockholders or would you not?—What would the advantage be of a State bank then? You would only have another great organisation added to your present organisation, and the responsibility of Government would be much greater in looking after that.

11,104. The State bank in that case would be working only for the State, because the stockholders would be the State. I am only against the diverse elements telling one against the other. If you start a bank in which all the money belongs to the State, then the bank is working always for the State and never for the private shareholder?—I cannot think of any instance where that is the case.

11,105. Of late years, at any rate, before this question of a State bank arose, other strong banks have arisen, and it has been found better or more politic to take in those banks and amalgamate them under a State bank; I am trying to get your opinion on the merits of the case?—I cannot quite see the advantages that you would expect to get from such a State bank.

11,106. I think you rather misunderstand my question. I do not say there would be advantages from a State bank, and I am not on that point; I am on this point—that if you have a State bank, if you are obliged to have one, would you have it with stockholders or would you have it without?—I must consider the advantages of such a device before I can answer your question. I do not quite see who is to benefit by a State bank without stockholders.

11,107. The State?—That would be if they had a large business; and then you at once push the State into doing commercial business, which it is not the province of the State to undertake.

11,108. If I may, for the sake of argument, take one case, the Bank of England, which is not a State bank quite, but gets near to it, is there ever a conflict between the duty to the shareholders and to the money market generally in the case of the Bank of England?—I would say yes to that, but an unqualified yes may perhaps carry my meaning a little further than I intend. There are times when there must be a conflict between its duty from a mere point of profit and its duty of keeping proper and sufficient balances for, I will not say the money market, but the country at large. There must be; and it is very well and evenly balanced in the Bank of England, but the conflict is there. As to a State bank in India, I think if you had such a large institution, such an organisation, the expense of it would be so great that the advantage to the State, the profit to the State, would be rather less than the profit which it would lose on the present issue of notes. On the other hand, great expectations would be raised as to the duties of that bank. If you had a State bank started now, it would be expected to assist commerce and it would be expected to assist agriculture in an official way, and I think that would be very dangerous.

11,109. If you are going to call in the shareholder in the shape of other banks in India, you would be landed at once with a shareholder who was receiving 14 per cent., and who would expect the same dividend, naturally, as he is getting now. From my own point of view I cannot see why if you have a State bank you should not have the whole thing for the benefit of the Government. Did I understand you to say that as regards the Gold Standard Reserve you would keep one-third in gold and the rest in securities?—At the present time, my own individual opinion is that you ought to get more than a third. I would like to work up to, say, 10 millions. Subsequently, I think, supposing that the total was 40 millions or 50 millions instead of the 25 millions at which we are at present aiming, then I think a third would be sufficient.

11,110. (*Mr. Keynes.*) In considering what part of the note issue would be invested you quoted some comparative figures from other countries. In the case of France and Germany, for example, I suppose you are aware that the cash includes the whole of the banking reserves of those countries as well as the security against the notes?—Yes.

11,111. So that the note issue against which this cash is held corresponds to the active note issue in India, that is to say, excluding what the banks hold and what the Government holds?—Yes.

11,112. In the last few minutes I have worked out from the last report what the proportion of cash last year in India was to the active circulation, and I find it was 113 per cent. If your proposal were to be acted on, and the proportion that you suggested was to be to the gross circulation, it would not compare at all with the figures that you put before us?—How do you arrive at the active circulation?

11,113. The active circulation is the total circulation less that part which is in the Government treasuries or in the Presidency banks?—Then I would say my proportion was aimed at the active circulation.

11,114. Then your proposal is an enormously big one?—Would you mind giving me the exact figures of the gross and actual circulation?

11,115. In 1912–13 the average gross circulation was 65 crores and the average active circulation was about 45 crores, and the average cash held was between 51 and 52 crores as against an active circulation of 45 crores, that is, 113 per cent?—I think then I ought to correct the answer I have just given. It is the gross circulation I think that you ought to have a proportion of.

11,116. If you are speaking of gross circulation then these figures for England, France and Germany have no relevance to the question, have they?—They have some relevance, so far as they show what is taking place in ordinary circumstances without any special influence affecting the money markets.

11,117. They show how much cash is held against the note issue, for the requirements of Government, and as banking reserve; but in India separate sums are held by the Government and by the banks, so that the proportion as held against the notes alone ought not to be the same proportion that is held by these Governments for all three purposes together, ought it?—No, because you have a different system altogether. I think, as I said, in a country where your banking system is not so highly developed you must have a different proportion for your fiduciary issue, and I think a smaller fiduciary issue than is justified in a country where your banking system is very highly developed.

11,118. No doubt; I was only questioning the relevance of these particular figures as a guide to what was the sort of proportion other countries had found reasonable?—They are not a strict analogy, and I admit that fully. They are only given as instances.

11,119. There is this very important difference, that the cash in other countries includes bankers' reserves, and in India it does not?—Are the bankers' reserves that are held in India very large? I do not know.

11,120. They are considerable; the average holding of bank notes by the Presidency banks would be 7 or 8 crores?—Are the reserves held in notes?

11,121. Not the whole of the reserve, only part of the reserve is held in notes. I see, on referring to the tables, that in 1912–13 the average for the year held in notes by the Presidency banks was 7 crores, and at one time of the year it was more than 10 crores?—I do not wish to put forward these figures as of very great cogency. I only wish to show what is the proportion which I think one could reasonably aim at. As I said, I think the problem must be studied according to local conditions entirely, and I do not think any analogy really can help you very much. But I do think that for the purpose of arriving at the right proportion of the fiduciary issue, the gross circulation must be the basis; notes held in the reserves of the Treasury or the banks may become part of the active circulation at any moment, in the same way as notes held in the banking department of the Bank of England.

11,122. A witness whom we are to examine later today has put in a memorandum* in which he suggests that the Government of India might consider buying their silver in Bombay instead of in London. The reason he gave for that is that in London the market is a very narrow one, being in the hands of four brokers, and in Bombay it is a wider one; also that Bombay is in close relation to the two places where there are great stocks of silver, namely, Shanghai and London. What have you to say to that suggestion?—I think you have greater experience on this Commission than I can command. The great difficulty in these matters is secrecy, and whether, if the Government begins to buy in Bombay, that fact could be kept secret I am not prepared to say.

11,123. At present it is only under exceptional circumstances that the purchases are kept secret in London, is it not?—I think it has only been during one period that they have been kept secret.

11,124. So there is not much to choose on that score in general?—But it has been demonstrated that they could be kept secret.

11,125. I put it to you that there are certain attractions in the proposal for buying in Bombay. One of the things which is open to criticism is that the Government is bringing money across in anticipation of silver purchases, and if they bought their silver in Bombay it would not be necessary for them to do that, as it would be done in the ordinary course of business?—I am only speaking from memory now, but I think there is no abstract objection to these purchases being carried on in India, and I think from time to time the Government have received tenders in India and have accepted them. That is my impression.

11,126. That has not been done recently, has it?—Not recently, but I believe it has been done, and there is no objection to it.

11,127. It has been regarded recently as wholly a matter for the India Office, has it not; I mean the officials of the Government of India have not even considered on what terms they could get silver in Bombay?—I do not think that is so entirely. I think there is correspondence between the Government of India and the India Office as to the best manner of conducting the purchases. I think it has been certainly considered from time to time whether it would not be better to invite tenders, and I have no doubt that it will be considered again. I do not admit that the London market is a narrow one—it is the largest in the world.

11,128. (*Sir Shapurji Broacha.*) The maintenance of exchange at 1*s.* 4*d.*, I suppose, is a condition precedent to the proper management of the gold reserves?—Absolutely—I mean round about 1*s.* 4*d.*, and within the two gold points.

11,129. Suppose the Government were to announce that they were responsible for maintaining exchange at 1*s.* 4*d.*, do you not think it would allay fears as to the way in which they manage the gold in their reserves and other gold?—Do you mean by that that they should undertake to sell gold in India against rupees?

11,130. No, I mean that they should not allow the exchange to go below the par of 1*s.* 4*d.*?—That is the policy of the Government altogether, and they have done the best they could to secure that.

11,131. They have refused to do it, and witnesses that we have heard have said it is not right for the Government to do it?—Surely, during the crisis, the one object of the Government was to maintain the exchange, and they have done it.

* *See* Appendix XXXIII., page 686

11,132. I think you can see from the correspondence how hesitating they were; after a good deal of haggling I must say that they ultimately did the right thing, but they did not commence with the right?—I think I must demur to that statement, certainly as far as the action of the India Office is concerned. At the commencement of an unexpected crisis which had never arisen before perhaps there is a kind of hesitation which when it occurs the second time, will not take place. But beyond a certain amount of immediate indecision at the time on the part on the part of the officials, I think, when the Government took the matter into consideration, that exchange crisis was stopped and proper measures were taken.

11,133. I have nothing to say about their considered action afterwards, but they were not very sure of their ground at the beginning, and Lord Morley wired to India not to give gold?—That involves another question; what do you mean, giving gold or keeping up exchange?

11,134. What I mean to say is that in fact they gave no direction at all at the beginning. They talked of 10 lakhs and 25 lakhs and all this and that, until they came to their right senses, and by the advice of the India Council they maintained exchange at 1*s.* 4*d.*; but if they had taken the same course some 15 or 20 days earlier, the exchange might not have gone down as it did?—At the same time, ultimately the proper action was taken.

11,135. Ultimately I agree it was?—My point is that this was the first time a crisis of that kind had arisen, and perhaps the machinery was imperfect for dealing with it immediately. I think, now that experience has been gained, that experience will be taken advantage of in future.

11,136. You are in favour of giving whatever gold is asked for in India to the people as they come with their rupees for it?—I would give whatever gold is asked for up to the last penny. At the same time, I should not be prepared to announce to the public at large that at all times we would give gold in exchange for rupees. I should say We will give it up to the extent of our resources. On the other hand, we are always prepared to keep exchange at 1*s.* 4*d.*, but that is a different question.

11,137. You say, speaking of loans from the Treasury balances, "Advances might be made to the Presidency " banks against security when the bank rate is high— " 6 per cent. or 7 per cent.—at 1 per cent. below that " rate, provided that the balances are sufficiently high " to admit of their being made without interfering " with the general policy of the Government as regards " exchange and reduction or avoidance of debt." That is giving them a rather large pretence for refusing, is it not?—I think the general policy must not be interfered with. You assist trade when you can, but you do not make it your primary business to assist trade.

11,138. You always think that balances lent in this country to the extent of 20 millions are absolutely safe, but are you certain of that?—I am perfectly confident, humanly speaking, that the balances are safe.

11,139. If 2 or 3 millions were lent in India, would not the Government have perfect confidence in their being returned when wanted?—I have not the slightest doubt about that either. At the same time there is this difference: A calling-in of balances here in this market in a time of stringency, would take place without any personal consideration at all, for the individual from whom the money is called, or for the condition of the market. The condition that prevails here is purely one between the borrower and the lender, and the lender would in time of crisis be in a position to ask for his pound of flesh. But turning to India, when the money has been lent out there, for the distinct purpose of assisting trade or avoiding a difficulty in trade, then the Government in critical times would be placed in a very difficult position, because by insisting on repayment at the period when it is due, they might aggravate a crisis at the time, and therefore they might hesitate. For that reason, I think your money is not so immediately available when it is lent out in India as when it is lent out here.

11,140. I think you are mistaken, and that without disturbing the market, when money is borrowed by the Presidency Banks on the security of Government paper we can rest assured that it will come back on the very day it is wanted. But it is not certain that one of your seven banks, taking these deposits without security, would not fail; it is possible that one of those banks might fail, and then you would be left without security. If a Presidency Bank fails, still there is the Government paper. Therefore, I say you have absolute security if you lend 3 millions in India, and the lending of the money should not be hampered by conditions about exchange and the reduction or avoidance of debt?—As far as I know no security is now given by the Presidency Banks for the large Government balances. The question to which I am referring is the question of temporary advances from the Treasury balances. All I say is that if the Treasury balances are sufficiently high they might be lent, if they can be lent without interfering with the general policy of Government as to its future expenditure, and as to its general manner of disposing of its funds. They might be lent for temporary purposes instead of being locked up in the Treasury. You raise the whole question of the balances being held in London and not in India; I think that has been dealt with very thoroughly in the official evidence, and I think very good reasons have been shown why it is preferable to hold them here

11,141. Suppose the reduction of debt were to wait for the three months, what great harm would be done to the Government? You remember that the Secretary of State was very nervous about sending money out from England in 1906, and offered to the Government of India many alternatives. Suppose a reduction of debt were to wait for three months, and the money were to be used by the people from whose pocket the money has come, where is the harm?—I do not say that three months would make much difference.

11,142. The combined balances of the Secretary of State and the Government of India have for many years never fallen under 12 or 15 millions, and I think any Government could go on for three months with that?—Yes, but I think I have shown there is a reason why the balances should be larger. I do not think 10 millions or 12 millions as a combined balance is enough.

11,143. It would avoid invidious criticism against the Secretary of State. To turn to another point, you say that the Bank of England notes do not run in Scotland?—That is so.

11,144. So, of course, the Bank of England is confined to a very small space, namely, England and Wales?—That is so.

11,145. Do I understand that the Bank of Ireland also has notes of its own?—Yes.

11,146. When your kindred people like the Irish and the Scotch will not allow the Bank of England notes to run in their little territories, I suppose you can have some consideration for the vast and divers populations of India?—I have ventured to express the opinion that we should have that consideration. At the same time, when you say the Bank of England does not run in Scotland, I think you would have no difficulty in getting rid of a Bank of England note there and getting value for it.

11,147. But a Bank of England note is not legal there?—No, it is not.

11,148. There is no great harm in taking Bank of England notes even though it is not legal tender, so it must be a question of prejudice with some people, and they do not like the Bank of England to be supreme over Scotland; it must be some such sentimental reason and nothing else?—It is a system which is the result of gradual evolution. I do not think, judging from the Scottish character generally, that they would like to change. They have a highly efficient banking system which works very well.

11,149. I suppose that the initiative of the purchase of silver comes from India, does it not, or does it come from the Government here, or do both watch ?—It is the business of the Government of India, certainly, to watch their currency reserves and to suggest purchases when the time has arrived.

11,150. We have a witness coming who says* Bombay is a larger market than London in silver, and that the silver should be purchased in Bombay. Lord Inchcape told us yesterday that it should be purchased always in London. Suppose the initiative comes from India, why should not India take advantage of the best market at the time, whether Bombay or London ? It would be less known if bought in the Government of India alone, and they bought in India, and less published. I should say ?—I think I have given my answer to that question already. In answer to Mr. Keynes I said there is no objection in theory, nor has there ever been an objection raised by the India Office as far as I am aware, to silver purchases being carried on in India.

11,151. I know that in 1904–5 I got a large amount of silver in Bombay on an order from the Comptroller-General, but the Home Government stopped any such action in future. Therefore India has been deprived of any benefit of the silver market that she has ?—I was not at the India Office in 1905. I only know from the conversations we have had frequently on these questions that the possibility of buying in India has never been excluded.

11,152. I know for a fact that 2 or 3 millions could have been bought last year in India at 2*d*. lower than it was bought in London ; in fact, I think I know that 2 millions were offered by a native banker ?—I have seen that statement made, and the point has also been raised in Parliament ; in fact, I believe a question was asked about it. No such offer was ever brought to the knowledge of the India Office, and we have had no information about it at all. When the question was asked in Parliament inquiries were made in India, and the answer of the Government was that they could not trace such an offer.

11,153. Do you know it was sold as silver to the Government here ?—When ?

11,154. Just now. The Government bought 4½ millions, or something like that; of that quantity 3 millions belonged to an Indian owner, and I gave a million. Therefore I think Indians are unjustifiably debarred from being allowed to take advantage of their silver market. I think it is probably the largest silver market in the world. At any rate, it is certainly the Bombay price that makes the exchange in the East ?—I have already answered that there is no objection in the India Office to these purchases being carried out in India. What we shall try to do as long as we control the purchases of India is to buy in the cheapest possible market and with the greatest advantage to Indian revenues. That will be our business.

11,155. (*Sir James Begbie.*) There is one point I am not quite sure that I caught your meaning about, and that is with reference to the reserve against savings bank balances. Talking about the balances held in London, I understood that you would regard them as reserves against the Savings Bank balances in India ; was that your meaning ?—No ; I was referring to the general balances, the total balances, both in India and in London, the question of holding balances at all, and the criticism which has been raised that the balances altogether have been too large, whether in India or in London. I said that one of the points which has to be remembered is that there is no special balance or reserve held against Savings Bank deposits, and that is a liability of the Government which they might have to meet, and which ought to be considered.

11,156. (*Mr. Gillan.*) The position as it is generally understood is, is it not, that the management of the balances of the Government in India rests with the Government of India ?—Yes, that is so.

11,157. I think you said in answer to the Chairman that as regards loans from those balances the Secretary of State would be ready to carry out the ideas of the Government of India ?—Certainly.

11,158. I want to make that position absolutely clear if I can, and to do so I will refer first to some correspondence that took place on the subject in 1899.* You will remember that in that year the Government of India made a definite proposal to the Secretary of State that it should be "recognised as part of the "ordinary business of management of the Treasury "balances to lend money to the Treasury banks at "1 per cent. less than the declared minimum rate of "discount of the borrowing bank." The answer of the Secretary of State to that proposal was that, as the Government of India had pointed out, it might interfere with his Council Bill operations. He regretted, therefore, for that and other reasons, that he could not accede to the proposal. He said : "It is im-"possible to prescribe any specific amount which must "be retained in the Reserve Treasury or be otherwise "at the command of the Comptroller-General on "short notice, in order to meet not merely the dis-"bursements of your Government in India but also "the probable amount of remittances to England ; and "it is essential that an adequate provision should be "made for these purposes. Subject to this being "maintained, I see no objection to your lending "money to the Presidency Banks on the security of "Government paper, at such rate of interest from "time to time, and for such periods, as you think "best. I am inclined to think that the rate should, "as a rule, be not below Bank rate." That is to say, on that occasion he negatived the proposal of the Government of India, and he gave them a certain direction as to the rate of interest that he thought they should charge. The position, as I think it has been put before us, is something like this : The management of the balances in India is said to rest with the Government of India, but when it comes to a matter of the lending out of those balances they find themselves up against the policy of Council Bills, and the Government of India on their part have understood that the direction of the policy of Council Bills rests with the Secretary of State. Would you accept that statement ?—I am not very familiar with the correspondence that took place in 1899, or with the policy that prevailed at that time. I would rather rely on the official evidence which has been given by the official witnesses than on any views which I can express. I think temporary advances might be made against security when the bank rate is high, provided the balances are sufficiently high to admit of these advances being made without interfering with the general policy of the Government as regards exchange and other matters. I do not think you make a very strong point of the 1 per cent. below bank rate, or do you attach much importance to that ?

11,159. I will come to that later, if I may. The point I wish to make at present is that there seems to have been a certain amount of division of responsibility. I will say, in the matter of the direction of this policy of loans in India and of Councils. The one is supposed to be done in India and the other at home. Has the Secretary of State in the past actually consulted the Government of India as to the amount and time of his Council Bills ?—I should not like to speak positively as to official enquiries being made in official correspondence. I can only speak from recollection, but I do know that it has been the invariable practice to enquire from the Government of India what balances are available, and what balances they think they have got to keep in India, and how much will be available over here. That is the policy.

11,160. It is assumed, that whatever is available in India may be drawn away from there, is it ?—Unless the Government tells us that they prefer to keep so much for loans out there.

11,161. Let us go to the recent occasion on which this matter of loans came up. The other day the Government of India again put forward certain proposals* for lending out their balances in India ?—That is so.

11,162. The Secretary of State then suggested* that, instead of giving loans at 1½ to 2 per cent. below bank rate, they should be given at 1 per cent. below bank rate ?—Yes.

11,163. The point I want to get at is, not what is the proper rate to fix, but that the rate fixed would in any case affect the extent to which the offer of the Government to lend money was taken advantage of in India, according as the rates were more or less favourable ; is that not so ?—Would it ? The bank rate is, say, 7 per cent. That means, if I understand the position rightly, but I am not quite familiar with the position, that the Presidency banks charge 7 per cent. for their loans, and if they could get the money at 6 per cent., or if they could get it at 5½ per cent., the difference represents only an additional profit to them, but not an additional amount available to the community.

11,164. To that extent they might be more inclined to take advantage of the offer ; that is what I meant by saying if they were given more favourable terms ?—They might, but the public would not benefit.

11,165. The Presidency banks would ?—The Presidency banks would benefit, but not the public. As the policy is one which is intended to benefit the public at large, I think it is equally carried out with the 1 per cent. margin as with the 1½ per cent.

11,166. (*Mr. Keynes.*) If the Presidency banks took more, then the public would get more ?—They would not get more, but the Presidency Banks would get it at the higher rate.

11,167. If the public got more at the lower rate, that would be more satisfactory to them ?—The question is, why should the Presidency banks get this large profit at the expense of the Government ?

11,168. Mr. Gillan put it that if you offer the Presidency banks better terms, they will take more money, and if they take more money, more money will reach the public ?—I am not quite sure that I agree with that, because I think some of the correspondence shows that at one time the Presidency banks were quite willing to take it at the bank rate, because they were not going to work for profit, but simply to have the money available for lending. Now, if they can get it at 6 per cent., surely they will take as much as they can lend at 7 per cent.

11,169. (*Mr. Gillan.*) I am not suggesting at present that the proposal of the Government of India was right, or that the decision of the Secretary of State was right, but merely that the amount taken in India would probably depend on the terms offered ?—I cannot quite agree with that.

11,170. Would you agree in any case that there is, so to speak, a sort of competition between the demands for Government money in India and the demands for it, or the uses to which it can be put, in London ; that is to say, do the loans in India to a certain extent compete with loans in London ?—I do not think that is a consideration which has ever been taken into account here.

11,171. But there is that competition, is there not, and the more money you lend in India the less you have to lend at home ?—That is so, unless it was followed up by an addition to the currency.

11,172. I do not quite see how that follows. This is a matter of the balances of the Government ; if they have got so much and they have lent out more in India, then they have less to lend out at home ?—Yes. At that time, if the Treasury balances were not sufficient to meet Council drafts, then silver would have to be shipped and coined.

11,173. I think that gets on rather a different point ?—Yes, it does. Speaking broadly, I agree with you that the more there is lent in India the less there is for home, but it will be only temporary, because it is only to be lent for temporary purposes.

11,174. That being so, I must put this to you quite plainly : Is the position of those members of the Secretary of State's Council not rather invidious who have to decide on the distribution of the Secretary of State's balances as between India and London ?—No, I cannot accept that view at all.

11,175. You cannot understand that there should be in India a feeling that they would like to have some direct representation of Indian interests on the Council, since questions of this sort involving a divergence of interests do come up ?—I can quite understand that there may be such a sentiment in India, but that was not your first question nor do I admit that there is a divergence of interests. I think your first question was : Did it place the finance members of the Council in an invidious position ? I really think that it does not, because they only do try to look, and they do look, at those matters from the Indian point of view, and not from the London point of view.

11,176. That I quite understand ?—There is no difficulty when you are acting in this capacity here, I think, in looking at matters from that particular point of view.

11,177. What would be your position with regard to this sentiment that I have mentioned ? I think we were told yesterday by Lord Inchcape that he thought any sentiment of that kind might be quite safely disregarded, and you mentioned it this morning in answer to the Chairman as a matter of sentiment which is rather apt to prejudice any proposal in the financial world ?—Personally I think you ought to meet sentiment whenever it is consistent with the general policy. If that is the general feeling, I see no reason why some consideration should not be shown to that sentiment, provided you can get the same services from the person who is looked upon as representing Indian interests ; but I should be very sorry to see an element of conflict introduced into the Council or the Finance Committee, and to say that one particular member is there to represent Indian interests, and another member is there to represent London interests. I think that would be very undesirable indeed. We are all there for the one purpose, and that is for Indian interests alone, and for nothing else.

11,178. I quite see your point, but at the same time is it not important to make sure that there is a representation of Indian interests, and that there is someone whom the Indian public would recognise as being there to support their case or the case of the Government of India ?—I think it is a great pity that it should be considered necessary to prove that to the Indian public. I should have thought that, after all, the interests of India can be shown to have been sufficiently safeguarded in every possible way. Looking at the last 10 years, India has been very prosperous, her trade has progressed ; she has developed wonderfully ; railways have been built and debt reduced, and I do not think, in the face of that, it could be said that her interests have not been sufficiently safeguarded in the management of her financial affairs.

(*Mr. Gillan.*) I am not suggesting for a moment that they have not been safeguarded. As Mr. Keynes put the point to Lord Inchcape yesterday, that should be shown visibly, so that no one can make any possible mistake, or be under any possible misconception or misapprehension about it ?—It depends very much upon what importance you attach to this sentiment.

11,179. (*Lord Faber.*) I understand you to say that, everything else from the business point of view being equal, you would pay due attention to sentiment ?—Certainly, and I am quite certain that the Secretary of State, in selecting his members of Council, would have regard to that sentiment, and select men of suitable experience. But I can only repeat what I have said : I am afraid it would be a retrograde step to appoint one particular member on the Council of India to represent Indian interests.

11,180. (*Mr. Gillan.*) I will put it to you this way : Lord Inchcape's position, I think, was this, as he put it to us yesterday ; he said : "Make sure, in point of "fact, that the interests of India are safeguarded, "but, having done so, you may disregard any outside "sentiment," which he looked on as uninstructed. Is that your position ?—Yes, more or less, I think it is. There will always be a certain amount of outside criticism. Any Government will be criticised, and the question is whether the criticism is reasonable or not.

* See Appendix XXXIII. page 686.

* See Cd. 7070 pp. 49–64.

* See Appendix XXXVII., pages 701–5.

I think there is a considerable amount of well-informed criticism, and I am quite sure that it will always be regarded. The best men should be selected—men representing India in all her aspects, financial as well as others. I think the Secretary of State would desire to have men of Indian financial experience on the Council, but I do not think he ought to go very much further, and I should almost look upon it as a calamity if one member was appointed especially to look after Indian interests on the India Council, which suggests that those interests are not sufficiently considered and other interests are taken into consideration. But have Indian experience by all means.

11,181. I do not think I have quite got your mind on the subject yet. Looking to the political development of India, and the relations of India and England, do you think it would be wise to advise the Secretary of State to pay no attention to the appearances of things?—If it is only the appearances of things, then I think we can disregard them.

11,182. I will go on now to the matter of the management of Council Bills. With regard to the recent large balances, I take it your view has been that there were various reasons why large balances should be held. We have heard of the condition of the financial market, the difficulty of borrowing, the difficulty of the situation, and so on; that seems to me to be a justification for large balances, but I do not see that it is relevant to the question of holding them in London; that is to say, the Government, in view of these conditions that you have mentioned, ought to have large balances, but not necessarily at home. Is that not so?—I think I also say that while there are reasons for the desirability of keeping large balances, the fact that they grew to this extent is not due to any policy, but is due to accidental circumstances which have been explained. The only case in which I think the balances might have been decreased, as I mentioned this morning, was the case of the India Bills, which might have been paid off six months before they actually were.

11,183. (*Chairman.*) Mr. Gillan is now on rather a different point. He is not questioning for the moment, I think, the amount of the balances, but he is putting to you that you had not explained the reasons for which you thought that the balances, or so large a proportion of them, whatever they were, ought to be kept in London, rather than in India?—It is mainly a question of exchange, and of the liabilities of the Government being due in London, rather than in India. The payments have to be made here for purchases, and for all the home services, and eventually the pressure of keeping up exchange would fall on London. Also up to this time we have really had no useful methods of employing the balances in India. There is more of a profit-earning prospect if you have them in London than in India in the Treasury balances.

11,184. (*Mr. Gillan.*) That is a point I was coming to. What you have said just now refers, I think, to the ultimate object for which the balances are brought home?—Yes.

11,185. The critics of Government, when they are driven into a corner, do not, I think, deny that those objects are right. What they say is: Even granting the objects are right, the fact remains that you have brought home your balances too soon, and you had at any time during the last three or four years in London a great deal more money than you had immediate use for?—Than it turned out eventually that we had any immediate use for; but a crisis might have arisen at at any time which would have called for the use of them.

11,186. You were keeping them as a sort of emergency reserve in case something might happen then?—In case we could not borrow money at all, or in case of a sudden exchange crisis, or something of that kind. As I stated before their magnitude was to a great extent due to accidental circumstances.

11,187. You could have brought them home at short notice, could you not, if you had held them in India?—It depends how they were placed in India.

11,188. I think the point of the whole of this criticism which has been brought against the Government is that they say: Admitting the objects for which you brought them home, in the immediate disposition of your balances, do you really consider at any time what you could do with them in India? Has that been considered in the last four or five years?—I do not think it has in the official correspondence, but I believe it has. I think it is in evidence that more than a certain comparatively small amount cannot be placed in India, that that can only be placed for a certain period of the year, and that at other times it is money which would be used to a greater advantage in England than in India.

11,189. When was this last discussed?—I am afraid I cannot answer you. I do not know when it was last discussed officially; I only know the question has always been present in our minds when the matter was before us.

11,190. To pass from the question of loans in India from Treasury balances, you suggested that they should be made when the bank rate is high, 6 per cent. or 7 per cent.; is your position that which used to be taken in these discussions, that lending money in India is a resort which should be brought into play only in case of emergency, so to speak?—My position is this, and I think I tried to explain it this morning, that the lending by Government for purposes of trade is a rather hazardous proceeding, and liable to become too much of a practice, as trade may depend on that Government assistance, which may fail just at the critical time. For that reason the lending of the balances in a different quarter is safer. I will give you an instance from the Canadian banks; they employ their surplus balances, not in Canada but in the United States, because at any time, if a crisis arises in Canada, they can call it in freely from the United States and London.

11,191. Is it your argument that trade should depend on its own resources?—Yes.

11,192. Is not that an argument that applies rather more to permanent loans than to short-dated loans?—Yes, certainly.

11,193. Assuming that the Government of India has at times a balance in excess of its requirements, is the lending out of that excess subject to this objection that you have mentioned?—No, not as long as it is a temporary purpose, and acknowledged to be for a temporary purpose.

11,194. You mentioned another condition which you think should apply to those loans, and that is that they should not interfere with the general policy of Government as regards exchange or as regards reduction or avoidance of debt. I am not clear what is in your mind about the general policy of the Government there. We may agree, as I said just now, as to the objects for which remittances are made to England, but there still remains the question as to the time of the remittances, and whether you should make them immediately or in a few months or next year?—I think the time of the remittances is immaterial, but the general policy has been to accumulate balances here, and to that extent to lessen the amount of the loans that have been issued; that is to say, to reduce debt or avoid debt; otherwise the balances would hardly be necessary at all, and you could reduce taxation. The surpluses have been used and remitted over here to pay off debt or avoid debt.

11,195. This is really the point Sir Shapurji put to you. It might be a question whether you should bring home money in January or keep it in India for a few months, use it there, and bring it home, say, in May?—The only thing is that it would be more expensive to bring it home in May than in January.

11,196. I am giving you that as an instance. Should not the time of these remittances be decided after consultation between the Government at home and the Government in India?—The time of the remittances really depends on the demand for Council Bills. You cannot fix a certain time when they have to be brought home. Surely it is your Council drafts that bring the money home.

11,197. But you can decide to what extent you are going to make use of it?—We can up to a point, but we are bound to give Council drafts when the exchange goes to 1*s.* 4$\frac{1}{32}$*d.*, are we not?—We are compelled to do so.

11,198. Within those limits, one has a considerable discretion?—Within those limits there is a discretion. Then, of course, we have to consider the convenience of trade in another direction, as they will clamour for these Bills.

11,199. Very much in the same connection you refer to the connection between the London and Indian money markets generally; you point out that conditions lately at home have been abnormal, and you look forward to a time when, under more normal conditions, money will flow freely into India?—Yes, that is my opinion.

11,200. Through what channel will it flow into India?—I think there are many channels; through the banks, through the private firms. If money is usable at 6 per cent. in India, and its value is only 3 per cent. in London, and the lender is sure of his exchange, then the money is sure to flow into the market which gives the higher rate. I do not know what the precise process is—whether the London banks would send to the Indian banks certain deposits, or whether private persons would send through their private correspondents or the exchange banks would attract deposits here to a much larger extent. I think it is only during the last four or five years, perhaps, when the European money markets have been in this abnormal condition, that the rate of interest has not been materially lower in Europe than in the newer countries. But that condition will surely be restored, and I think it is only then that this stability of exchange which has been established will bear fruit, and then I think it will tend to minimise the difference between the value of money in India and in European markets.

11,201. I was wondering whether you had chiefly in mind as the channel of communication, so to speak, the exchange banks?—There are the exchange banks, no doubt, but there are many other channels.

11,202. What was in my mind about that was that the exchange banks have other connections and other interests in other countries, and so on, and it may be more to their advantage to employ their money in some other country, not in India; what would be your view about that?—They employ their money in the country which offers the highest rate of interest. Suppose that a bank which has branches in India and China can use the money to better advantage in China than it can in India, it will send all its deposits to China and not to India. At the same time, I think the British public at large will wish, under those conditions, to have the money lent out in India, and that they will use channels which will place it there.

11,203. Is it your view that apart from the exchange banks the channels of communication are sufficient?—Yes, I should think so.

11,204. I think you said, in answer to the Chairman, that the Paper Currency Reserve and the Gold Standard reserve serve very distinct objects?—Yes.

11,205. You would say, perhaps, that one of the objects which the Paper Currency Reserve has to discharge is to find specie for the notes, if there happens to be a run on the Reserve?—Yes.

11,206. Leading out of that, I want to ask what your view is about the amount of currency reserves to be held in England?—I am afraid I have not really a very definite or well-reasoned view on that point as regards the precise amount.

11,207. Assuming that the security of exchange was sufficiently provided for in the Gold Standard Reserve, I think you look to the Paper Currency Reserve to support the exchange?—I do; and as you know, I am not altogether satisfied about the Gold Standard Reserve. I wish to see that larger.

11,208. I understand that. If the purposes of exchange were sufficiently provided for in that reserve, would you say that, on the whole, it would be better to hold very little of the Paper Currency Reserve in London, and to hold most of it in India?—It is very difficult to answer that question. It is very intricate. We have to consider the effect of a crisis, what would happen in a crisis, or what would happen in the event of that gold being drawn away as it will be when the next crisis comes. The first thing will be, the public will demand the gold out of the Currency Reserve in exchange for rupees. Will that gold be hoarded and locked away, or will it come forward for the purposes of exchange? I am afraid that is a question which I am not competent to answer, and indeed it is a very difficult question to answer. Suppose it is not available for exchange, then it will be very desirable to have some gold over here, but in that case, of course, you will not be able to pay gold away in India to such an extent as you otherwise would.

11,209. Your position, then, is that you are rather doubtful as to the effect of gold given out in India?—I am.

11,210. For that reason you prefer to keep some of the Paper Currency Reserve gold in London as a support of exchange?—Yes.

11,211. You have referred to the Indian demand for gold as probably having a serious effect on the London money market, which again affects the Indian money market and Indian trade, but you come to the conclusion that the flow of gold to India need not have these injurious effects that are anticipated?—That is so.

11,212. That reads rather in this way, that supposing the effects were going to be of the kind that you anticipate, then you think that possibly some steps should be taken to interfere with this flow of gold to India?—No. I am glad you have called my attention to that. I did not draw up the memorandum from which you are quoting for publication in any sense; if it had been for publication I should have amplified that. I really drew this up as my own notes of the general lines of my argument. I should certainly otherwise have inserted a sentence here and said, this is not a consideration which should enter into the minds of the Secretary of State and his advisers at all; and I do not think it has.

11,213. (*Chairman.*) I did not ask you any question which enabled you to make the statement contained in that part of your précis, but I think it would be convenient if you were to make a general statement of your views on this point, and then Mr. Gillan could put his questions upon that?—It has been urged in several quarters that the Indian demand for gold, which has been experienced in the last few years and which is likely to continue, may have a serious effect on the London money market, and of course any disturbance of the London money market necessarily affects the Indian money market and Indian trade generally. This is a consideration which is expressed from a London point of view mainly, and I do not think the London point of view ought to be taken into consideration by the Secretary of State without qualification. I think it is the Indian point of view that he must consider in the first place, particularly as regards currency questions. He must not look upon the convenience of the London money market at all; he must base his currency policy entirely and solely upon Indian interests and upon what is considered right with regard to them. At the same time, in carrying out that policy, naturally he would consider the London money market, which affects his own interests as well as others, but only in a secondary place. He would act exactly as foreign Governments do now. London is the chief source of supply of gold for the whole of the world, and foreign Governments in considering their policy make up their minds what they are going to do when they take gold in large quantities, as Germany has shown this year. She has taken large quantities. They call for that gold and withdraw it from this market in a considerate sort of way, so as not to create monetary conditions here which will reflect unfavourably on their own monetary conditions. That is all, in my opinion, that the Secretary of State can properly do.

11,214. You yourself, I rather gather, are not greatly impressed with the danger?—I am not impressed with the danger at all. I do not think it will have that injurious effect, and I do not think it will continue on an increasing scale, as, in prosperous years, the imports of India are likely to grow as well as the exports, and the balance of trade will be paid in commodities rather than in gold when once there is a sufficient amount of gold in circulation. I think that is what we have seen this year. There has been a large increase of imports of commodities, which has rather militated against the import of gold; and it is a natural thing that as soon as a country gets prosperous, even a country like India, it will not hoard all the gold away, but will go and buy goods with it. There have in recent years been large withdrawals of gold from here. Germany has added 20 millions to her gold reserve. I think within a year—I am not quite sure of the figures, but I think what with her war chest and the reserve in the Bank of Germany they have increased it by 20 millions; then there have been accumulations elsewhere, in Brazil, in Argentina, and other countries. There is, therefore, not the slightest reason why India should stand out in order to protect the interests of the London money market. I do not think the effect would be so great, but it leads on to the conclusion that the present system in India is an uneconomical currency system. Great quantities of gold circulate or are hoarded, and what can be reasonably done should be done to increase banking facilities.

11,215. So as to keep the gold in circulation effective for the purposes of exchange?—Yes.

11,216. And not to have it garnered up in hoards?—That is so. If money could be got out from hoards and placed with banks it would be useful to the community, it would be more economical, and it would certainly stimulate trade very much indeed. The strongest argument I have heard in favour of a State bank was the possibility of its drawing away these inoperative hoards and getting some profitable use for them. That was the one thing that would have determined me; if I had felt sure that that would be the effect of a State bank, then I should have been very much more inclined to be favourable to the proposal of a State bank. But if the deposits are to be placed with a State bank that would expose the bank to very large and sudden risks. I think the risks of a run in difficult times would be greater in the case where the deposits consist, not of ordinary trade balances but of single hoards which are merely put there as hoards and which in a moment of panic or fright will be drawn at once. Then, and this is a question on which I am not prepared to give an answer, I do not know what opportunities there are in India for the investment of the assets of such a bank. There is, as far as I know, nothing corresponding to a short loan market, where you can place money at call, or to a bill market, and I am thinking particularly of bills. The assets of a bank holding large deposits liable to sudden calls ought to be invested in very short advances and bills and short loans. I am afraid, as far as I know, that the Indian money market does not present the facilities which are unique in London, where we have this large short loan market which does not exist in any other part of the world. In India certainly there would be great difficulty, even if you had a State bank, and if this bank got the deposits, for them to use them with advantage and with safety.

11,217. (*Mr. Gillan.*) When you were speaking about these loans that were given to joint stock banks without security, there was one point that was not quite clear to me. The exchange banks are on your list of approved borrowers, are they not?—Some of them are.

11,218. Do they not give security?—Yes, they do.

11,219. I do not quite understand the reason for the distinction between them and the other banks?—There is a distinction between the clearing banks and the exchange banks. For one thing, the clearing banks confine their business to England alone, while the exchange banks have their assets out in India and other parts and they are not available here. Clearing banks have a different position altogether; they have very large uncalled capital, much larger than is in the exchange banks, and they are on a different scale altogether.

11,220. Do you mean that there is a difference in the status of these two classes of banks, so to speak, which makes it necessary to take security in the one case and not in the other?—I think, without wishing in any way to say anything that might affect the status of the other banks, there is no doubt at all in the mind of the City of London that the status of a purely English bank, a London clearing bank, doing its business in England alone and having its assets in England and a large uncalled capital, is different altogether from that of a bank doing its business abroad with a great part of its assets in the Colonies or abroad. There is a distinction in the market, and the acceptances of such banks rank differently.

11,221. I think you said you would not be in favour of loans in London being given against commercial paper?—Yes.

11,222. Was that with reference to loans from the Treasury or from the Paper Currency Reserve, or altogether?—It was simply with reference to the security which we take against our loans to the market generally. We had a difficulty in placing those loans as has been explained. At one time the market had not sufficient security to give us, and that was the reason why deposits were made with the banks. Then it was suggested that the range of security which we take should be widened, and amongst other suggestions it was said that we might lend to these people on the security of commercial bills. My opinion is that it would be very undesirable to do so.

11,223. The reason I am putting this point is that it has a bearing on a question about which Mr. Chamberlain asked you, namely, the abolition of the silver branch of the gold standard reserve in India. One reason, as I understand, for the retention of that branch would be that it allows transfers between England and India without ear-marking gold. It was suggested to us that the purpose which the gold standard reserve serves at present might be fulfilled if, instead of ear-marking gold in London, the Secretary of State were allowed temporarily to invest part of his paper currency reserve; and I think the suggestion was that the investment might be in the shape of advances on commercial paper?—My remark had no bearing on that point at all. It was not made with reference to that suggestion, which is new to me.

11,224. But you think that suggestion is open to objection?—I do, if I understand it aright. I do not know where the advance would be made. I do not quite understand the drift of the suggestion.

11,225. I only wanted to bring out that there was a connection between the two?—That was not in my mind at all. I referred to a suggestion for the enlargement of the list of securities which we accept, and I think it would be undesirable. I would strongly object to any part of the currency or gold standard reserve being either invested in commercial bills or employed in advances on commercial bills in London.

11,226. (*Chairman.*) I want to ask one other question which arises out of something which you said in answer to Mr. Gillan on a point that has come before us once or twice in the course of our enquiry. You said that the gold standard reserve was, in your opinion, at present not sufficient, and you desired to see it greater and that that being so, it was desirable to have a part of the gold of the currency reserve in London as a support for exchange in a crisis. You said of the gold that you might give out in India, that you would give out. I understand, all the gold that you had there, and you could not say what part would come to the support of exchange and what part would be swallowed up in the internal needs or in hoards?—That is so.

11,227. That raises a very important question. What is the proper use, the best use, to make of the gold that you have in India if an exchange crisis comes upon you? If you give it out in India, you cannot be certain how much of it will be really efficient for the support of exchange and how much will go into hoards. Under those circumstances what is the best policy for the Indian Government to pursue—to give the gold out as long as it lasts to all comers in India, or should they ship it to London and sell bills against it?—My view would be to deal with the crisis boldly. I think that always has been the best policy in dealing with any bank crisis. I would pay away the gold as long as it lasts in exchange for rupees in India, and not enquire what is to become of it. But for that reason, as has been pointed out, you must be sufficiently well armed to meet the exchange demand. My opinion is that in case of a real grave crisis (a graver crisis than we had in 1907–8, because that, although it was serious enough, is not the gravest crisis that it is possible to imagine, and I think there are circumstances which might have aggravated it) we ought to be better prepared. Then what will happen is that all your gold in the currency reserve will disappear.

11,228. All the gold in the currency reserve, if the crisis were sufficiently prolonged, would flow out?—And I do not think it would be available for protecting your exchange at all. It is for that reason, that I should like to see the gold standard reserve larger than it is at present.

11,229. In spite of the fact that you think if given out in India where there is no legal obligation it would not be available for exchange, you still think that with a view to the restoration of confidence it is more important to give it out in India than to ship it home and use it exclusively for the maintenance of exchange?—That is my opinion. Of course the more gold there is in circulation at that time the less will be your run on the gold in the currency reserve. If you do not give it out freely you are pretty certain to have none available for export; if you give it out freely it may reappear again and be available.

11,230. (*Mr. Keynes.*) Would it not be the case that the more the people were familiarised with gold the more likely they would be to run after it? Fifteen years ago, when sovereigns were not familiar things in India, it was a very improbable thing in a crisis for the ordinary Indian to go after gold. If you got him into the habit of thinking gold was the right coin to have, that would increase the likelihood of his hanging on to it in a time of difficulty?—It is a very speculative question. It is very difficult to follow the mind of the native, but I should think, if he has not got the gold at all and he thinks it is a thing that is very desirable to have, he will run for it. If there is plenty of it in circulation, well, there is some to be had, and I do not think he will come for it to such an extent as he otherwise would; and, further, I think, if he gets a slight premium for it for export you will find it will come out again.

11,231. Is it your experience that when there is a slight premium a man does not hold?—I cannot say it is my experience. It is only my hypothesis. I am afraid I have no experience of such a contingency in India, and one can only judge from what one has read about panics generally, and human nature is pretty much the same everywhere, I fancy.

11,232. (*Sir Shapurji Broacha.*) Did you say that so long as the Secretary of State and the India Council think that they are going the right way and doing right they need not care for the sentiment of India?—No.

11,233. If I misunderstood you, I beg your pardon?—I do not think I went that length.

11,234. Mr. Gillan quoted Lord Inchcape to you, and then asked you whether that was your opinion also?—I think I have said repeatedly that I would certainly consider Indian sentiment, but if that sentiment should appear to run counter to the opinion of the Secretary of State then he must do the right thing independently.

11,235. You would not go against the sentiments of the people?—No, but then you must consider that sentiments are very varying things. You might have a strong sentiment for two months and then a change of feeling.

11,236. If you said that, it might be very much commented on in India that the India Office does not care for the sentiment of the whole people of India so long as the people in the India Office think that they themselves are right?—That is certainly not my opinion, and I do not think it is the opinion that I have expressed.

11,237. You know we are governed by sentiment and not by financial considerations?—I wish to pay due deference to Indian sentiment wherever we can.

11,238. (*Chairman.*) Is there anything that you desire to add to make your position clear that we have not drawn out?—The bank with which I am connected has a subscribed capital of 22,934,000*l.*, of which 3,554,000*l.* is paid up. This has been until quite recently the largest subscribed capital of any bank in the United Kingdom, and I believe in the world, and in proportion to liabilities is still the largest. The bank does about 18 per cent. to 20 per cent. of the whole of the clearing business of London. Long before I joined the India Council the institution had been bankers to 11 leading Indian railways, most of them being guaranteed by the Secretary of State. It was, therefore, not a surprise to me, considering all these circumstances, that it was one of the banks selected by Lord Inchcape as one of those with whom deposits were made. The fact that two members of Council were connected with banks on the list was specially submitted to the Secretary of State in Council and approved. From the statement on page 552 of the Appendices to the Interim Report (Cd. 7071), which, I believe, is based on a statement made in the House of Commons on the 6th November 1912, it is clear that the maximum amount of deposits with the Union of London and Smith's Bank in 1912 was lower than that of any other of the banks. It has been suggested that it would have been possible to let all the clearing banks know that the Secretary of State was prepared to make such deposits and to let them apply for the same. Such a course would, I think, have been quite impracticable. It would have been equivalent to inviting tenders, and this course would have disclosed to the public all the transactions, and would, in my opinion, have lowered the rate of interest. As to the precedent for Government deposits being made with banks without security, I believe that it is the practice to do so with several of our colonial governments, and I know it is with several foreign governments, who often have very large amounts on deposit with leading London banks; the Government of India itself has large balances without security with the Presidency banks. With regard to the evidence which has already been taken, I should like to say, on the point raised in question No. 1870* as to lending on Indian railway debentures at par, and not at market value or with a margin, that if a new system had to be devised, of course, the existing practice would not be adopted, but it hardly seems worth while to make a change now. It is very desirable that the market should take up these securities readily when they are offered. The risk is infinitesimal, as these debentures have only four or five years to run, and they are secured on Indian revenues. It is difficult to ascertain the exact market value, which is always a matter of negotiation. In view of their early redemption they never can go much below par. The answer to question No. 2109† is not clear. There are no Indian debentures running as far as 1930. The Exchequer bonds referred to are British Exchequer bonds. As to the general policy of holding reserves in other countries for the purpose of maintaining exchange, I would especially mention the case of Japan, who is known to keep very large balances in the London market, and of Russia, who generally has very large balances in Berlin, Paris, and also London. One further point I have not before mentioned is the desirability of increasing the amount of rupee loans issued annually in India. It seems to me better that the large hoards that are known to exist should be used for investment rather than by way of deposits in banks which are liable to sudden calls in difficult times.

* Cd. 7069, page 101. † Cd. 7069, page 111.

The witness withdrew.

Mr. DADIBA MERWANJEE DALAL called and examined.

11,239. (*Chairman.*) You are, I think, senior partner in the firm of Merwanjee and Sons, stock, bullion, exchange and finance brokers at Bombay?—Yes, that is right.

11,240. You have been good enough to supply us with a very interesting memorandum of your views on some of the questions that have been before us, and I propose, as with other witnesses who have done the same thing, to treat that as part of your evidence, and to print it in the appendices to our report*; that will, I think, lead to economy both of your time and ours?—That is right.

11,241. Under the circumstances, I do not propose to take you through the whole of it, but only to ask you some questions on points about which I want to be clear. I understand that this memorandum was written some little time ago?—Yes.

11,242. And possibly before you received the report of the evidence which we have already taken?—That is so, but that has not modified my views in any way.

11,243. That was a question I wished to ask you—whether there was anything at the outset you desire to modify in the light of the evidence which has already come before us?—No, I keep to my original memorandum.

11,244. In the course of your memorandum, you say, in para. 3, page 671, "It is necessary to avoid as far "as possible fresh rupee coinage"; what is your reason for that?—Because the amount of rupees already circulating is large, and you have to take the proportion of the silver coinage to the gold coinage, as is done in England or France or America or Germany.

11,245. Is that quite so?—Yes. I have taken out the figures for those countries.

11,246. I am not asking now as to the exact proportion in the different countries, but I am asking whether you are correct in suggesting that the proportion of the gold to the silver in India ought necessarily to be the same as the proportion in this country?—In all gold standard using countries the proportion of gold money should be larger than the proportion of silver money. The silver money is only token money.

11,247. You mentioned England; do you take account in England of the enormous part played in our currency by paper?—I know that you have a perfect cheque system, but at the same time, while you have 177,000,000*l.* in gold, you have 29,200,000*l.* in silver, while in France there is 300,000,000*l.* in gold, and 102,775,000*l.* in silver; in the United States, 449,900,000*l.* in gold, and 183,975,000*l.* in silver. If you take the proportion in India, the silver rupees outnumber the gold. We have 120,000,000*l.* worth silver rupees, and only 61,000,000 sovereigns altogether.

11,248. Is it your object to get the same balance between gold and silver in India as you find to exist in these western countries?—That is unavoidable on a gold standard basis.

11,249. When you say it is unavoidable on a gold standard basis, do you mean that it is essential to a gold standard, or do you hold that it is the right thing to do apart from any theoretic definition of what a gold standard is?—It is right from the practical point of view.

11,250. For what reason is it in your view right from a practical point of view?—If we have in our currency a large number of sovereigns, it does away with the so-called exchange question.

11,251. And it is with a view to ultimately dealing with the exchange question by the form of the currency, and without reference to any special reserve, that you recommend this proposal?—Yes, that is my idea.

11,252. India, of course, is in the meantime a very long way from that position?—The gold acquired by a nation cannot be accumulated in one or two years. It is laboriously collected by working for it for 20, 30, and 50 years, and unless this Commission lays down a programme that the future coinage will be more gold and less silver, we can never reach the proportions.

11,253. What, at the present time, in your view decides the question of what the coinage in India is to be? Suppose that to-morrow the Indian Government found itself short of currency, what, in your view, decides what they should coin?—They should do their utmost to persuade the people to take gold, which is full-value money, and not silver; the silver rupee is only tenpence bullion value.

11,254. It is token money?—Yes.

11,255. At the present time, is it not the case that what they do is to give the people whatever they ask for; that is, they provide the coin that the people want?—You must recollect that the people are ignorant people; 93 per cent. of the people in India are illiterate. When they handle rupees, they believe that they are the same rupees as their father handled or their grandfather handled. They do not thoroughly understand the difference between a full-value coin and a token coin, and a Government like the British Government should endeavour to push gold into circulation.

11,256. Are the people of India injured in any way by having a token coin in internal circulation, as long as the Government maintains exchange, so that if they want to change the token coin for exchange purposes, they can turn it at its face value into gold?—The exchange question does not affect the masses of the people; it only affects a very small percentage of the population. When a Government like the British Government has to provide a currency, it must provide a full-value currency for the people, the more so as they are an ignorant people.

11,257. I am not sure that we should all of us accept that doctrine as the duty of our own Government in England?—The duties of the Indian Government are more parental. They have to guide the people, and they have to protect the people.

11,258. I quite agree that they must protect the people. What I do not quite follow is in what respect you think the people are injured by having a token currency. I suggested, that if they were protected when they wanted to use their currency for exchange purposes, by the Government maintaining the exchange, they would not suffer loss. Your reply to me was, that hardly any of them were concerned with exchange at all; and I quite agree with that. Now, take that great mass of the people who are only concerned in transactions within India, what is the advantage to them of having a gold coin over having a token coin?—Because it is a full-value coin, and they pay for a full-value coin. If they pay for a bottle of champagne and they are given a bottle of beer, that is not the same thing.

11,259. But if they take a sovereign, can they buy more for it than they can buy for 15 rupees?—Not as long as the present arrangement lasts, but from the bullion point of view they cannot get so much.

11,260. As long as the present arrangement lasts, that is to say, as long as the exchange is protected, can they get more for a sovereign than they can get for 15 rupees?—No; they cannot at present.

11,261. You go on in the same paragraph (page 671, para. 3) to say, and I am not quite certain what you mean by it, that "to secure the confidence of the Indian "people, currency notes should be made bullion certi- "ficates pure and simple"?—There should be no investment reserve; the whole reserve should be metallic.

11,262. Do you mean that for every note that is issued, there should be silver or gold of an equal amount held in reserve?—Yes, that is so. If you take a Bank of England note as it is in your pocket or my pocket to-day, the Bank of England has more gold than would be demanded if every note that is sent out from the Bank of England, except in its banking department, is presented; that is in the Bank of England there is an excess of gold against these notes.

11,263. But the Bank of England has a fiduciary issue of notes?—It is all covered by the notes which are held by the Bank itself. There are two departments.

* See Appendix XXXIII., page 670.

11,264. That may be so at any given moment?—That is their record since 1893. It is referred to in the banking calendars and elsewhere.*

11,265. It is not a legal obligation?—It is not a legal obligation, but in practice the people have the confidence that it is so.

11,266. In your opinion, in the case of a country like India, or perhaps in the case of any country, it is unsafe to have any portion of your note issue on a fiduciary basis?—The American Monetary Commission has been going into this question very thoroughly, and they have come to the conclusion that the notes should be based on metallic reserves and discounts, not on metallic reserves and Government debts like consols or rupee paper.

11,267. Now you are introducing another subject when you speak of metallic reserves and discounts. Do you suggest that any portion of the Indian note issue should be based on discounts?—When the people are able to understand them further, and when they are quite prepared to take the notes freely. They do not accept the notes in India as freely as they do in European countries at present.

11,268. Who would settle what discounts shall be accepted?—When note issues are analysed, you will find that the current notes which are in France and in Germany are based on bullion and on discounts; it is only in England, America and India that the notes are mainly based on metal and Government securities.

11,269. Do you contemplate that the management of the note issue ought to be entrusted to a bank; I think in your memorandum you say the opposite?—The bank can manage it, but they should only be brought in as managers.

11,270. Do you mean the bank should manage the discount part?—Speaking of India, you should remember that it is not the note issue of a homogeneous country like, say, Germany, where every man is ready to accept the Government notes. Then notes in India are not like the notes of the Bank of France, where every man has to accept them, and where they fully accept them, in preference to metallic money. In India the whole preference and the whole demand is for metallic money.

11,271. The circulation of notes has risen very largely, has it not?—You have to take the proportion when you examine the circulation of notes. You have to ascertain how many fresh rupees have been put into circulation; how many sovereigns and how many currency notes. If you take the active circulation of the notes, you will see that it has not made any remarkable proportionate progress, although the notes are more numerous now than they were.

11,272. I am not quite certain that I rightly understand you, but I gather that when the Indian people are educated up to that point, you would hope to see a great extension of the note issue?—Yes. It should come from within, and it does come when the people are well united, when education is spread, when industrial demands require more money and so forth; then they will come to that stage.

11,273. But you think that until they are much more highly educated they will not trust to notes for which there is no visible bullion held in the reserve?—That is what I think is the position.

11,274. Therefore, in your opinion, no portion of the currency reserve ought to be invested?—Not for the next few years—not until the people are advanced.

11,275. The statements in this paragraph are, to a certain extent, dealt with in the later portions of your memorandum, but they are summarised here. I now proceed to the next one, which is that "the metallic "reserves should be located in India" (para. 3, page 671). Do you mean that to apply both to the reserve for currency and to the reserve for exchange?—Yes.

11,276. That is to say, to the paper currency reserve and the gold standard reserve?—The paper currency reserve is undoubtedly required only in India. It has no function to perform in this country.

11,277. Do you mean it to apply to the gold standard reserve also?—The gold standard reserve, I think, should also be in gold and wholly in India.

11,278. I think, from what you have said, you are looking forward to a time in the future when perhaps a gold standard reserve might be dispensed with, owing to the large circulation of gold coin in India, but in the meantime I take it you would quite agree that there must be a gold standard reserve?—There must be a gold standard reserve in the meantime.

11,279. I think you would like to see it larger than it is at present?—Yes. I have stated the amount in paragraph 50 (page 680).

11,280. You say there, "If the reserves of the "paper currency are made entirely metallic and con- "sist mainly of gold, then 25,000,000*l.* of gold in the "gold standard reserve fund would be ample." Therefore you feel that the amount of gold in the present gold standard reserve is inadequate?—Unless you bring it up to 35 millions; if you have the fiduciary portion removed, 25 millions would be sufficient.

11,281. There are not 35 millions there now, are there?—We have at present 20 millions in the gold standard reserve.

11,282. Therefore, in the first place, you want to see it increased?—Yes. It can only increase if silver rupees are coined; it cannot increase automatically. There must be at present a gold coinage and a rupee coinage concurrently, but the Government should take care that the gold is more pushed into circulation.

11,283. That brings me to a question that I want to put to you: Let me take an extreme case; suppose the Government pushed gold so much that no more rupees were coined, then the gold standard reserve would not grow, would it?—Exactly; if no rupees are coined there is no growth of the gold standard reserve.

11,284. Yet it would be some years before the amount of gold that was in circulation would be sufficient in your view to maintain exchange unaided by the reserve?—Yes. If active measures are taken from now, then in a certain number of years we become quite independent of the gold standard reserve.

11,285. But in the interval?—In the interval the reserve should last.

11,286. In the interval you want a bigger reserve than there is at present?—Yes; 30 millions to 40 millions are quite ample to the present proportions of trade.

11,287. Suppose the Government had got a million sovereigns, and suppose it rested with them to put into circulation rupees to the face value of a million sovereigns or that same million sovereigns; I understand you would say that you would prefer to see them put the gold into circulation?—Exactly.

11,288. But in proportion as they did that, they would be unable to strengthen their resources. Now, where would the million sovereigns have been most useful for the maintenance of exchange—held in a central reserve like the Gold Standard Reserve, or scattered up and down India in circulation, and possibly some of it in hoards, if you will allow me to use that word?—A bird in the hand is worth two in the bush, but if you fill up your aviary with gold birds, you can always catch them when you want them.

11,289. For immediate purposes, and until India is what I may call saturated with gold, would you agree that gold in reserve is more effective than gold in circulation for this particular purpose of maintaining exchange?—For this narrow purpose, as I would call it, it is good; but the Government should take a broad view of the whole currency position, and should build it up in such a way that we should have an excess of gold and less of silver.

11,290. Do you think that the general policy of the nations to which you have referred is based upon those lines?—Yes.

11,291. Do you think that they direct their policy to getting as much gold into circulation as possible? Would it not be rather true to say that they endeavour to build up a great central reserve of gold,

* See column 53, page 1206, "The Banking Almanac" (Waterlow and Sons, 1913 edition). Also see page 300, Professor Andréade's "History of the Bank of England" (P. S. King and Sons, London, 1909).

but are increasingly using token coins for the purposes of daily exchange?—It has not been so in England.

11,292. I am not quite certain; but what about France?—In France they guard their gold as much as possible; they will not throw it away.

11,293. They do not try and force it into circulation?—Whenever they have it they give it with great pleasure, but not for export.

11,294. Do they give it with great pleasure?—Yes.

11,295. Have you ever tried?—Lately, when they had not enough gold, and when there was a chance of gold crossing the border, they blocked it; but ordinarily they would give the gold.

11,296. At any rate, lately they were trying to keep their gold in their reserves, and were not giving it out freely?—Owing to the Balkan troubles, and to the hoarding demand for gold.

11,297. Now take Germany; do you think the recent trend of currency operations in Germany has been in the direction of forcing more gold into circulation? Has it not rather been in the opposite direction, of attracting more gold to the reserve, and substituting other forms of currency for it?—They want to substitute notes; they do not want to substitute silver.

11,298. Your objection to silver, I understand, is that the bullion in it is not worth the face value of the coin?—Exactly.

11,299. Does that not apply *a fortiori* to a note?—The notes are in Germany based on gold and discounts, and that is the most scientific money you can have.

11,300. You give us some very interesting information about the suggestion that India hoards gold; in the true sense of a hoard, you declare that there is no such thing as hoarding gold in India?—That is so.

11,301. I think you point out to us, as other witnesses have done, that certain Indian customs lead to great gifts of gold ornaments on marriage to the women of the family?—In the Hindoo community.

11,302. That, I suppose, is in itself a reserve, and it is intended as a provision for the woman to whom it is given?—It becomes her marriage settlement.

11,303. From the point of view of currency, that is as much withdrawn, is it not, as if it were placed in a box which was then locked up in a chest?—That is only a trade demand for gold. Every country has a currency demand for gold and a trade demand for gold, and the trade demand of India, as I have shown in a special section, is nothing abnormal compared with the population.

11,304. Do you include that gold as part of her trade demand?—That is a part of the trade demand for gold. The gold in ornaments is gold used in the industrial arts. Every country has these two compartments.

11,305. Are the dowries so given drawn upon in later life by the woman, or does she hand them down in the form of gold ornaments to her heirs?—I do not know much about the Hindoo people, being myself a Parsee. If the woman can manage to give it to her own daughter, she will do so, but if necessity requires it, she can part with it. There is a special book, called the Law of Stree-dhan, which describes all this.

11,306. I wanted to ascertain roughly to what extent that was regarded as a reserve, not to be drawn upon in ordinary circumstances, but such as would be drawn upon in times of pressure or for any special needs?—That is the woman's property, and if she elects to give it up, it can be used, but otherwise it cannot be touched by creditors or by any other person.

11,307. You hold the view that the Currency Reserve should be held in India?—Yes, wholly.

11,308. I think the Currency Reserve exists primarily to guarantee the encashability of notes?—Solely for that purpose.

11,309. And they will be presented, if presented at all, in India I suppose; therefore it is in India that you think the reserve which is held against them should be kept?—Wholly in India.

11,310. Now when we come to the Gold Standard Reserve, I think you hold the view that that also should be kept in India?—That is my view.

11,311. The Gold Standard Reserve exists for the maintenance of exchange, does it not?—At present.

11,312. Suppose an exchange crisis arises, where would the gold be required?—The gold would be required in England, but there would be many warnings before the crisis comes. You get weather reports, you get crop reports, you get customs reports, and after that you begin to see that a crisis is likely to come.

11,313. And when you see that, you will begin to ship gold, will you?—Such portion as is required to make up the India Office demands.

11,314. What is the advantage, in your mind, then, in keeping the gold in India in the meantime?—It can form a war chest; it can form also an emergency reserve. The Government of India has enormous demand liabilities in connection with the Savings Bank and other deposits, and they have nothing against them. The gold being India's gold, it should be located in India.

11,315. Are there obligations on the Savings Banks to pay in gold?—They are to pay in cash, but the Government cash is limited. If you look into it, you will see there is a Savings Bank balance of 13 millions sterling, against which there is no reserve whatever.

11,316. If I rightly understand your meaning—and you will correct me if I am wrong, because I do not want to put words into your mouth that do not express your view—you regard the maintenance of exchange as only one of the functions which have to be performed by the Gold Standard Reserve?—Yes.

11,317. Perhaps even not the most important or most urgent?—It is important in the eyes of the Government, but not of the public.

11,318. Do you mean by that answer that it would be of little consequence to the public if the exchange broke, or do you only mean that they do not appreciate the importance of maintaining the exchange?—Out of the 315 millions of people in India, 300 millions do not know about exchange questions, and they are perfectly deaf to them.

11,319. That I perfectly understand; but your answer left me in doubt as to whether you thought that if the exchange gave way, if the attempt of the Government to keep exchange stable broke down altogether, that would be a matter of actual indifference to the whole people of India, and whether in your view that would cause any injury to them?—It would cause injury to the trade of the country, but not to the whole mass of the people.

11,320. Do you think that the mass of the people have no interest in the maintenance of exchange?—They have no personal interest whatever.

11,321. Not only no conscious interest, but in fact it does not matter to them what the course of exchange is?—They never understand it and do not study it. The foreign exchange is only of interest to a very limited number.

11,322. I can understand that they do not study it, but you have studied it, and what I want to get at is your opinion, not theirs. I dare say if I were to ask an Indian ryot the questions I am asking you, he would not know what I was talking about. What I want to know is whether in your opinion it is a matter of absolute indifference to the welfare of the Indian peasant whether exchange is maintained or not?—It is of great importance to the Government and to the mercantile community and to the trade of the community.

11,323. But not to the mass of the people?—They are not conscious of it.

11,324. That is not the question; I am not asking you whether they are conscious of it. I am asking whether in your opinion their welfare would be affected if the Government said, we are not going to maintain exchange?—The troubles of the Government are the troubles of the people. It naturally affects them.

11,325. Then you would agree, at any rate, that one of the objects of the Gold Standard Reserve is to maintain exchange?—That is the object.

11,326. And that must be one of the first things that the Government have in view in the management of the Gold Standard Reserve?—Yes.

11,327. You would agree, I think you said, that in so far as the Gold Standard Reserve was required for the maintenance of exchange it would be required in London when the crisis in exchange came?—Yes, when it comes. But it may not come within the next 15 years, and why keep the gold all the time in London? We can supply it when required. When exchange goes down France will send out gold, Russia will send out gold, Germany will send out gold, the United States will send out gold, and India will send out gold. Why let it remain all the time in another country when we may have a use for our own gold?

11,328. You think, as I understand, that the Gold Standard Reserve ought to be kept in India in the meantime because you might wish to draw upon it for purposes quite apart from exchange?—Yes, if it becomes necessary. Government has used it already for that purpose.

11,329. For what purpose? Are you referring to the use of the million and a half for railways?—I am referring to page 224, Appendix VII., paragraph 33,* where it is stated generally by one of the officials of the India Office.

11,330. It says there "the portion of the Gold "Standard Reserve held in rupees in India has been "utilised on one or two occasions in the past as a "resource from which the Government of India might "borrow"?—Read the closing sentence, please.

11,331. "But it has been recognised and put on "record in a despatch by the Secretary of State to the "Government of India that such utilisation of the "Gold Standard Reserve funds in their hands must "be treated as entirely exceptional and only to be "resorted to in cases of extreme emergency." The use to which reference is made there is the use of the silver portion of the reserve "as a resource from which "the Government of India might borrow, paying "interest on the loan, in order to meet the Secretary "of State's drawings when it has not been convenient "to meet them from Treasury Balances or through "currency"?—It has been used for that purpose, and not entirely for exchange purposes; and it can be used, if a war breaks out, as a war chest. If the people demand the Savings Bank balances the Government will have to borrow or to raise the money by loans if they have not got it in their own hands.

11,332. You do not at all desire, I gather, to see the Gold Standard Reserve maintained merely for exchange purposes?—That is its main function, but in very exceptional circumstances it can be broached in India for other Government purposes. I do not recommend at all that it should be used for any ordinary purpose.

11,333. You would use it only exceptionally?—Very exceptionally.

11,334. If you had the Gold Standard Reserve money in India I presume you would desire to see it kept in gold?—It can only be kept in gold there.

11,335. You have no idea of having it in short-dated investments there?—No.

11,336. What is your view as regards the silver in the Gold Standard Reserve?—I think there should be no silver in the Gold Standard Reserve. I think that branch should be closed.

11,337. You are anxious, I think, to see a mint opened in India for the coinage of gold?—That is so.

11,338. You desire, as I understand, to coin sovereigns?—From the Imperial point of view I think the sovereign is the better coin; from the national point of view a 10-rupee gold coin is the better coin.

11,339. Might not the 10-rupee gold coin seriously interfere with the circulation of the 10-rupee note?—I do not think so, because those who want metallic money will only take metallic money.

11,340. You do not think there are any number of people who now take notes who might be tempted by the 10-rupee gold piece?—They will not be tempted.

11,341. I am not quite clear from your memorandum what amount of gold you think would come to the Indian mint to be coined; do you think that the produce of the Indian mines would all go to the Indian mint?—I think it must go ultimately.

* Cd. 7070.

11,342. Some time ago, when communications were passing between the Secretary of State and the Indian Government on this subject, I think it transpired that those mines were under contract to sell their gold in London?—The gentlemen who manage these companies are practical business men, and if they can get a better return by tendering the gold in India they will not transfer it outside India, as the shareholders are sure to complain.

11,343. You do not know whether they have any such contracts running now, or for how long their contracts exist, do you?—I have no personal knowledge of that.

11,344. What other gold, do you think would come to an Indian mint?—When exchange is at gold import point, gold will come from many countries to India. The Governor of the Bank of England in a written statement to the American Monetary Commission said that when they raised the Bank Rate to 7 per cent. on November 7, 1907, 24 countries sent gold to London; so, when we have a strong balance of trade in our favour, we will be receiving gold from many countries. If gold is being discharged from Germany or France or Italy, it can come to India if we have an open mint.

11,345. Do you understand the statement that you have read—I have only just heard of it from you—to mean that it was always uncoined gold that was sent to the Bank of England?—It may come in the form of uncoined gold or any kind of coins; the Bank of England is ready to take anything.

11,346. If it comes to you in the form of gold coin you do not propose to melt it down and re-coin it, do you?—If a buying authority for gold is constituted in India like the Bank of England or the Currency Department it is at their option whether to keep it in the shape of sovereigns or in the shape of bars. The Bank of England does not send all the gold it receives to be melted down into sovereigns; it keeps the gold for re-export if required.

11,347. What are the practical advantages which in your opinion would accrue to India from the possession of a mint for the coinage of gold?—It is an inseparable portion of the financial system.

11,348. In what sense is it inseparable?—What is India's standard of value? What is the value of an ounce of gold in India to-day? You have two authorities established in England. The Bank of England is bound to buy it at 3*l*. 17*s*. 9*d*. under the Bank Charter Act of 1844; and the Mint is bound to coin it at 3*l*. 17*s*. 10½*d*. into sovereigns within 15 days. The standard of value, therefore, is 3*l*. 17*s*. 10½*d*. for an ounce of gold in England, but in India we have no standard of value.

11,349. There is no mint in South Africa?—That is so. In order to appreciate the facts you have to see what is the amount of circulating gold and silver and notes in South Africa. In South Africa they produce an enormous amount of gold, but they require very little for their internal purposes. They would be losers by having a mint.

11,350. Is there any standard of value in South Africa? Does the presence of a mint create a standard of value and the absence of a mint imply that there is no standard of value?—The presence of a mint does create a standard of value. In India, for instance, if you want to sell an ounce of gold to-day nobody is bound to buy it; the exchange banks will buy it for export to a gold standard country, but they will first charge their own commission, and then take off the cost of transmission and all the loss of interest that they suffer by locking up their money.

11,351. Do you think there is a great deal of uncoined gold in India which would be tendered for coinage at the mint if it were opened?—A certain amount of gold will turn up for coinage, and it will happen, as it happens in this country, that gold will be tendered for coinage, and I believe it will be brought in on the other side for trade purposes.

11,352. As regards the sale of Council Bills, is your position that the Government has brought too much money to this side, or is it only that it has brought the money unnecessarily soon and that it should have left it in India as long as it could?—By the method of selling extra Council Bills the Budget is not carried out.

11,353. May we go a step further back? Is it not the fact that either the revenue is greater than the Budget estimate or that the expenditure is less than the Budget estimate? Is it not owing to one of those two facts, or to both of them in combination, that there are funds in India against which additional Council Bills can be sold?—Yes, there is a surplus in the Budget, and then these additional Council Bills can be sold. But should they be sold?

11,354. Do you think that when once the Budget requirements have been satisfied no more Council Bills should be sold?—Not by the India Office, without the matter being discussed in our Legislative Council, and then being brought up in Parliament. The Budget has to be carried out as a budget, but under these arbitrary powers the programme of the Budget is not carried out.

11,355. Your objection, then, is not so much to what is done as to its being done without a preliminary discussion in the Legislative Council of any alterations from the original estimate?—Yes. If my suggestion is adopted it will lead to an accurate estimate being formed. At present they underestimate, because they are afraid they cannot raise loans in London, and then they convert the surplus into building railways.

11,356. But when they realise a surplus——?—Then the distribution of the surplus must take place as settled by the Legislative Council after full discussion.

11,357. Your objection to the present system is not, as I understand from what you are saying now, so much to the fact that they have brought additional money to London, but that they have done so without the sanction of the Legislative Council?—That is one portion of my objection.

11,358. That is, if I may say so, rather a political than an economic objection?—No; it is as much economic as political.

11,359. What is the economic objection?—If the revenues are in excess the surplus must be applied for the benefit of the people. In England you have an enormous debt—your National Debt is 724 millions and your deadweight debt is 674 millions. We have only a deadweight debt of 12½ millions, and if they go on at the present rate they will extinguish it in a year or two. It is necessary for Great Britain to cut its deadweight of debt year after year, but it is not at all necessary for India.

11,360. Do you object to the application of surplus revenues to capital developments?—It must be in proportion to the other requirements of the country. You cannot devote the whole proceeds entirely to the railways. There is the demand for railways and there are the other demands—the demand for education, the demand for sanitation, and the other practical purposes for which India is requiring money.

11,361. (*Mr. Gillan.*) What would you have diverted the money to in the last three or four years?—The first thing is, why is an excess produced?

11,362. Having the excess, what would you have done with it?—You can spend it for improving the people in a thousand ways.

11,363. Have you any doubt that the Government has, as a matter of fact, enormously advanced their expenditure on education and sanitation in the last few years?—You should judge it by the proportion of the results.

11,364. Do you think they could have gone on faster with that programme?—They could have gone on faster with that programme and with other programmes.

11,365. (*Chairman.*) Would you have desired to see them do less railway development?—No. If they can build railways with borrowed money they can build them to the full extent, and instead of a 12-million programme they can have a 20-million programme. If England will supply us with 20 millions we could certainly take that money and build up our railway and irrigation systems.

11,366. If I understand you rightly, your view is that railways ought to be built out of borrowed money and that the surplus ought to be left for non-remunerative expenditure—I mean expenditure like education and sanitation, which is not directly remunerative?—There is no doubt that the Government allow a million of the Savings Bank deposits to be converted into railways, and then there is a famine fund from which half a million is converted into railways. What is required is to get borrowed capital for the railways either from England or India.

11,367. I am asking you these questions because nearly every witness who has touched on this subject at all has urged the need for a much larger expenditure in railway development?—I can quite think that, but the India Office should raise that money, and they should not tax the present generation in order to build the railways.

11,368. Do you think that they could have safely raised in recent times much larger sums than they have borrowed?—Every year in England, 200 millions are given out for investments, but the India Office is only able to secure for us 6 millions or thereabouts. If you take the years 1909–10 to 1913–14 you will see the amount borrowed was 32,873,000*l.*, which gives an annual average of 6,574,640*l.*

11,369. Do you suppose that without breaking their rate and without paying much higher they could have raised very largely increased sums in England in recent times?—That is a question for the India Office to answer.

11,370. I thought your memorandum was based upon the supposition that they had only to apply to the London money market, if they wanted 10 millions where they now take 5 millions, in order to get it?—They may or may not get it. It is how they work the India Office. Canada gets enormous sums of money.

11,371. At 3½ per cent.?—I do not know exactly the rate, but if you take the destination of the capital that is exported from London you will see that very little comes to India.

11,372. Do you think that more money could be raised in India by loan?—If the Government helps properly to build up the money market, then year by year we will have a broader basis.

11,373. What do you mean exactly by "if the "Government helps properly to build up the money "market"?—If they do not lock up the money in their reserve treasuries; if when the loans are floated they let the proceeds be absorbed gradually by the money market. If they recast their whole financial machinery and put in modern machinery, then the whole thing can be expanded.

11,374. Would you like to see them lend from their balances when they had sufficient sums available?—I would like to see them bank their surpluses entirely with the Presidency Banks.

11,375. And place the whole amounts with the Presidency Banks?—Yes; they should keep no reserve treasuries.

11,376. Should they give that money free of charge to the Presidency Banks?—They should give it free of charge to the Presidency Banks, and they should compel the Presidency Banks to open more branches. What India at present wants is a number of branches of the Presidency Banks.

11,377. Do you think that it would be safe for them to place the whole of their balances with the Presidency Banks without security?—That is my opinion.

11,378. And that they would be richly remunerated for doing so by getting more branches open throughout the country?—That is my opinion.

11,379. (*Mr. Keynes.*) There are a few small questions of fact, not very important, that I should like to ask about. You quote an estimate of there being 40 million sovereigns in circulation in India at the present time, on the authority of the Comptroller-General a year or two ago. My impression is that 60 crores would represent the absorption of gold, and there is no evidence that that amount is circulating?—It is a Government estimate, and I put in the Government's exact words in the second paragraph of my note (pp. 670–1 of Appendix XXXIII.).

11,380. Does that mean that you think it is an accurate estimate?—I think it is approximately accurate.

11,381. You argue in para. 13 (p. 674) that if the Comptroller-General's estimate is correct then only 600,000 sovereigns have been melted on the average each year; does not your experience as a bullion broker lead you to suppose that far more than that must have been melted over the whole of India?—It is cheaper to melt the gold bars that are imported than it is to melt sovereigns, and so the people will not melt sovereigns. If you take the report of the British mint and see how much gold is missing in the average circulating sovereign, you will come to the conclusion that it is much cheaper to melt the gold bars that are imported by the bankers.

11,382. For some purposes I understand that is so, but we have always been told, as I think the Comptroller-General himself has reported, that when sovereigns are only wanted in small quantities in up-country places, it is often a convenience to melt down sovereigns?—I have no knowledge of up-country.

11,383. In para. 15 (p. 674) you quote an assertion that 60 millions in gold was hoarded on the Continent during the Balkan disturbances; nobody knows how much the hoarding was, but was not the greater part in the form of notes?—No, in the form of gold. If you read the *Economist* of this year you will see there are some letters and statements about it.

11,384. I know it was stated, but is it not almost certain that it was not the case? Was it asserted in Austria and Hungary that notes were at a discount?—The notes went to a very heavy discount. There was a special letter written two or three months ago about it.

11,385. The notes have not been at a discount in the country itself, and what the people hoarded must have been notes because there was no gold for them to hoard. These figures refer to the amount of money that had been hoarded and not to the amount of gold?—We had a telegram in Bombay quoting these words of the Chancellor of the Exchequer, and I put them in. That is all I can tell you.

11,386. Then you say that there is no rebate on the export of silver which has paid a tax on import; is that so, because I did not know that? In para. 23 (p. 676) you imply that if silver is imported and a tax paid, on re-export the tax cannot be recovered?—Not the full amount; they cut off a portion of it.

11,387. How much do they cut off? When the duty is paid on silver, of the silver re-exported how much is allowed back?—One-eighth is taken by the Government. If you pay 15 per cent. and they take one-eighth of it, it is a big slice, is it not?

11,388. What is the reason for the Government's policy in that particular; has it been explained?—I cannot tell you. Mr. Gillan will be able to tell you.

11,389. In para. 35 (p. 678) you speak about light-weight sovereigns, and you complain that these sovereigns have to be remitted back to London. I suppose the reason for that was that the English Exchequer is willing to bear the expense of the loss of gold, and that if they were sent back to England that loss would fall on the English Government. Do you propose that it should fall on the Indian Government instead?—If we had a gold mint it would have saved us twice 13,600*l.*

11,390. In that case you would have borne the loss through the deficiency of weight?—I do not think the deficiency of weight will come to so much as compared with the cost of remitting the coin.

11,391. Your proposal is, anyhow, that the Government of India should bear the deficiency in the weight and not the British Government?—There should be an agreement between them how the loss on the coinage is to be proportioned.

11,392. It is a difficult question, because in one report of the Comptroller of Currency he states that these light-weight sovereigns were mostly sovereigns from Egypt, and that they had lost their weight in Egypt through a certain amount of sweating which goes on there. Would you propose that the Indian Government should bear the loss on such light-weight sovereigns as may be imported from Egypt, or that they should be sent back here as at present?—If it is legal tender money the Government is bound to accept it.

11,393. They are bound to accept it, but at present they throw the loss on somebody else?—They cannot throw the loss on somebody else. They can issue it as long as the coins are of legal value, but when they are below legal value they have to dispose of them as best they can.

11,394. If they ship it back to London, losing the freight that way, they can then recover this loss from the British Exchequer; but you are in favour of their abandoning their present privilege of throwing this loss on the British Exchequer?—If you are circulating gold in your own country you must purify the coinage, but we are not allowed to coin gold. If we have a gold coinage we must keep it pure, the same as the British Exchequer does.

11,395. In answer to the Chairman, you said that the Indian standard was non-existent, because there was no authority which undertook to buy gold at a fixed rate. Up to 1906 the Government of India were compelled to do that without anybody taking much note of it; after that date they ceased to do it. Is it your opinion that the whole nature of the Indian standard was changed by the withdrawal of that notification?—Very much so. In 1893 they issued a notification that Government will buy any amount of gold at a standard; in 1900, when gold began to fall in, they said they would not pay for the gold for 60 days. You will see that stated in Appendix V., p. 110, para. 4 (Cd. 7070). That means that they blocked gold altogether from 1900 by imposing the 60 days' penalty.

11,396. In your opinion was that a very vital change?—It was a retrograde change undoubtedly.

11,397. If they reversed that policy and expressed their willingness to purchase gold, would that not meet your point?—The Government should not only buy gold but they should mint it also.

11,398. Why should they mint it if they were willing to buy it; what good would that do?—The Government is not a bullion dealer, is it? If they buy gold, what will they do with the gold?

11,399. (*Chairman.*) Look at paragraph 38 of your memorandum, p. 678, which is headed "The Government to buy and sell gold"?—That is concurrently with the mint, the same as the Bank of England does. You have to remember that the Bank of England is prepared to buy any amount of gold at 3*l.* 17*s.* 9*d.*, and the British Mint is bound to coin any amount of gold at 3*l.* 17*s.* 10½*d.*

11,400. Do you not recommend in that paragraph 38 that the Government of India should become bullion dealers?—Combined with the open mint, yes; but if it is without an open mint then the Government would embarrass itself with a quantity of gold.

11,401. You say in that paragraph "From the gold "held in the Paper Currency Department the Govern-"ment should manufacture, and sell as near cost price "as possible, gold of various fineness as is required "for ornaments by the Indian people"?—That is what the Americans do through the American mints, and the American assay offices; to prevent coins being melted, they supply the goldsmiths with gold for this purpose.

11,402. Just now Mr. Keynes asked you whether you did not think it would be desirable that the Government should reissue their notification that they would buy gold?—That they should buy it concurrently with an open mint.

11,403. And only if there is an open mint?—There should be both together, otherwise the Government becomes a trader, and will interfere with banks and others.

11,404. Do they not become a trader when they sell gold for trading purposes?—When it is done concurrently with an open gold mint it is just a very small portion of the work.

11,405. (*Mr. Keynes.*) You propose that gradually India should get rid of her rupees, and have sovereigns instead; would you push that to the point of melting down rupees?—No. The present currency is 200 millions; by 1950 it will be near 500 millions. You must build up a big gold currency with a smaller rupee currency.

11,406. Your proposal is based on the hypothesis that there is going to be a very large increase in the circulation, but not in the form of notes?—Yes. Even if there are notes, there is at the back of them gold and silver.

11,407. You do not suppose that by 1950 there will be a certain amount of credit currency development in India; you are assuming that while there will be this enormous increase in wealth and development, nevertheless there will be a complete absence of credit currency, as there is at present?—As time progresses people will take more notes. The notes is the first thing that I recommend. The second thing I recommend is gold; preferentially notes, of course, because they centralise the gold and put it into the control of the Government.

11,408. The encouragement of gold might stand in the way of notes, and if it did not, if the notes went on as one wished them to, then it must get in the way of rupees?—I have not caught the question.

11,409. (*Chairman.*) Mr. Keynes said that the extension of the gold currency must stand in the way of notes, or if it did not stand in the way of notes it would stand in the way of rupees?—It will only stand in the way of rupees, not in the way of notes, because those who are willing to take the notes will take them. But the larger portion of the country only wants metallic currency, and my suggestion is that gold should be pushed into the currency, and certainly not silver.

11,410. Mr. Keynes suggests that, under those circumstances, it might result in the existing rupees coming in from circulation?—They will not come in from circulation, because a large portion of the people of India are not even at present able to use legal tender money. I am referring to half-rupees, rupees, sovereigns and notes. A large portion of the people have only copper money, bronze money, nickel money and 4-anna and 2-anna bits.

11,411. (*Mr. Keynes.*) You feel sure, then, that the use of gold cannot possibly go very far, except after a great number of years?—The use of gold will continue.

11,412. But it cannot be used to any preponderating extent for many years to come, you think?—If the Government properly regulated its currency, the demand would go on. If Government pushes gold in place of the valueless rupee, it is better for the whole country.

11,413. If the existing number of rupees remains in circulation, you must have some arrangements like the existing ones to maintain your parity: if gold replaces that, then you must melt them down?—Gold is not going to replace the present rupees. When the less civilised people become a little more civilised, they begin to use rupees, and the other people will begin to use gold and notes.

11,414. Your assumption is based on two hypotheses, first, that there is no danger of gold being a rival to notes, and secondly, that there is no danger of gold turning out existing rupees; are not those your two hypotheses?—If gold becomes a rival to notes, it does not cause any damage, because the notes are based on gold.

11,415. You suggest in one part of your memorandum (para. 54, p. 680) that the Gold Standard Reserve should be held in liquid gold, and in para. 60, p. 682, you propose that the Currency Reserve should also be held in liquid coin, and that the present securities there should be transferred to the Gold Standard Reserve?—It is only because we have six crores or four millions sterling of rupees belonging to the Gold Standard Reserve, and six crores or four millions sterling of Consols. I am saying that the Consols should be given to the Gold Standard Reserve, and the rupees should be put into the Currency Reserve.

11,416. That is inconsistent with your other proposal, that the Gold Standard Reserve should be held all in reserve?—I am saying that the Gold Standard security should be liquefied. Will you kindly look at para. 54 (p. 680).

11,417. Do you mean that these Consols, as soon as they have been transferred, ought to be sold?—Yes.

11,418. (*Mr. Gillan.*) I take it that you do not approve of the use which the Government of India have made recently of their balances in devoting so much to capital expenditure?—That is so.

11,419. I want on that point to read you the remarks that were made by the Finance Member in introducing the financial statement last year. He said: "There are enthusiasts for education and enthusiasts for railways; the Government of India have to hold the balance between them and endure the disparagement of both. I have always been opposed to any hard-and-fast rule. The distribution must be determined on consideration of requirements at the time of the allotments" (H. of C. 130 of 1913, p. 19). I take it that your view is that there should be a hard-and-fast rule, and that in no case should any part of the surplus be allocated to capital expenditure?—There should be a reasonable proportion. I am a believer, and a great believer, in the development of the Indian railway and irrigation systems, but that should not be done at such a price as to outrun the progress of the community in other directions.

11,420. Do you think that too much has been given to capital expenditure?—Too much has been given to railways, or too much taxation has been taken from the people.

11,421. Do you think that the policy of the development of education and other improvements of that kind has been unduly delayed in consequence? Would you have been prepared to allot more for education than has been allotted in the last three years?—Yes. I think it would have produced better results.

11,422. These things cannot be done in a day?—No. There was Mr. Gokhale saying that they had made an educational Budget so that in 30 years or 40 years all the people will be educated, but if they go on at the present pace they will not be educated for 70 or 80 years. I remember reading some such discussion on education in the Imperial Legislative Council, in which it was urged that you should speed up education and a great many other things. Even in England you had a Development Commission two or three years ago, and they reported and a great many things have been done. Every-day you read how the people in England are uplifted, and you see that the Chancellor of the Exchequer is now trying to uplift the agricultural labourer, and all these people. What are the efforts that are being made in India?

11,423. Is it not the fact that in respect of these departments, education and sanitation, the provincial Governments have very large balances ear-marked which they have not yet been able to spend?—Yes, for those purposes, but the uplifting of a nation can take place in a great many ways, not only on those points that you have just mentioned. The chairman can describe to you how a nation can be uplifted, how these political people in England work for it and strive for it. The same processes can be applied to India. Any amount of money can be spent in India if you want to spend it.

11,424. Do you remember any other scheme involving large expenditure which has been urged on the Government and which has been refused?—No. My contention is not that way. I say that too much money is raised for capital expenditure from the pockets of the people.

The witness withdrew.

TWENTY-SEVENTH DAY.

At the India Office, Whitehall, S.W.

Thursday, 13th November 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

LORD FABER.
LORD KILBRACKEN, G.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEGBIE.
Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

Sir GUY D. A. FLEETWOOD WILSON, G.C.I.E., K.C.B., K.C.M.G., called and examined.

11,425. (*Chairman.*) You have been good enough to attend here to-day by request to give us any assistance that you can. We have had a very full account of the detailed working of the Indian budget system from official witnesses, and I do not think that I need trouble you with any questions on details of that character, but there are two or three large questions of policy on which the Commission would be glad if you could give them the benefit of your experience. May I take first the question of the establishment of a gold mint in India. I have had an opportunity of reading some references to the subject which you made in your last financial statement,* but it would be of assistance to us if you would tell us what your attitude is towards that proposal. I may say that there has been a very considerable divergence of opinion among the witnesses that have come before us, and therefore we should like to hear your views on the subject?—One of the three things which struck me rather forcibly when I first took up my appointment in India was the possibility of coining gold on a modest scale, if it were considered advisable to do so. I consulted all those Indians who I thought would be able to give me guidance in the matter, and I think one of your colleagues, Sir Shapurji Broacha, with whom I became a great personal friend, will tell you that the whole of my attitude whilst in India was to endeavour to get in close touch with Indian opinion. The impression that I received was that there was a distinct and strong desire on the part of Indians, not perhaps quite so much amongst the English but certainly amongst the Indians, to be able to mint a gold coin. Sir Shapurji Broacha used a very happy expression, which has become historical; he called the sovereign the Cement of the Empire. I adopted that very term myself, I think, in my last financial statement. My desire at first was to mint a sovereign on the lines of the Australian sovereign, which this Commission will remember has the word "Australia" printed across it. I never proposed to go beyond that, that is, having "India" instead of "Australia." I think that would have met a distinct and a strong desire on the part of India to have their own gold coin. As time went on, I considered the alternative of coining a smaller coin, which struck me as advisable, because the sovereign is rather a large denomination for the ordinary Indian to deal with. I should have stated my views rather more fully and rather more emphatically on the last occasion in India, had it not been for the fact that I did not think it would have been respectful to this Commission, which had just been appointed, to dogmatize on a subject which was obviously removed from my purview to your purview; therefore I tried to place the matter in an academical form, so to speak, before the Legislative Council.* I think that a very exaggerated view has been taken of what I originally intended to do. I think that an exaggerated view is taken now in many quarters as to the volume of this coining. My own impression is that it would always be of a very limited character, and that by it you can meet a national sentiment which I think is a legitimate one and which I think without large expenditure could be met. I think that the amount of bullion would be small, which would be taken to be minted, and I think that under certain conditions the Mint might extract a certain amount of gold which is now tucked away in the form of ornaments or of bars, not, of course, from the great holders of bar gold like Mysore, Hyderabad and the other large States, but I do believe it to be the practice in the case of the large zemindars, especially in Bengal, where they are almost princes in the sense of incomes, and of the small States, that they put by for a rainy day a certain amount of bullion and a certain amount of gold in ornaments which never see daylight. They are old-fashioned ornaments, very heavy gold bangles and so forth, which the ladies of India no longer care quite so much for, their taste having changed in favour of more modern jewellery and precious stones. I may be wrong, but the impression I have received is that those would be under certain conditions brought out on certain occasions. The Indians are invariably liable to a considerable degree of personal outlay on three occasions, the marriage of a daughter, the coming of age of a son, and funerals. I am speaking in the presence of people who have experience of India, and they will correct me if I am wrong. On these occasions the practice of a great many of these rich zemindars is to pledge their gold bullion to the marwaris and the bunnias, in the hope of getting it back. Some of the smaller men spend more than they can afford, and do not get it back, but it goes back in that form somewhere else. I believe myself, though it is impossible to prove it, that these reserves—I think it is a misnomer to call them hoards—are nowadays very much like the reserves of a very rich man who hangs very valuable pictures on his walls. I think if it were held in liquid sovereigns, the tendency would be to let them out much more readily, and I think perhaps even more lavishly, and then they would more or less remain in circulation. To that extent, I think it would be an advantage in hard times or in times when special expenditure faced the holders of these small reserves: I think then the tendency would be to bring it out. However, I quite admit that that is an argument which, after all, is based on personal opinion, and I would not advance it as a sufficient reason for coining gold in Bombay. The main reason is that I think there is a strong feeling in favour of an Indian gold coin. That is certainly my impression, and I have done my very best to make myself acquainted with the feelings of Indians on the subject. I have done my best, and I think my relations were intimate with the Indians; I may be mistaken, but certainly the impression I received is that there is an almost national desire to have an Indian gold coin. They are very tenacious and very touchy about the differentiation between India and the colonies, and I think that is a little grievance in India, and if you can remove this sentimental grievance, it will be a very advantageous thing to do so. I would give them a small mint in Bombay, so that, just as they now boil

* *See* H. of C. 130 of 1913.

down their jewellery and sovereigns into gold bars, they could have the opportunity of reversing the procedure and turning such gold bars and gold ornaments as they possessed into gold coins.

11,426. I think I am right in understanding that the national sentiment of which you have spoken, would, in your opinion, be satisfied by the coining of an Indian sovereign?—I think so. Perhaps they would prefer to coin a specially Indian coin which would appeal to Indian sentiment, but I think the breaking down of this denial, so to speak, of their right to coin gold would have a good effect; and I think it would quite satisfy them if they had any coin which was especially Indian. I did propose coining the sovereign, and the Government accepted my views and a despatch was sent home advocating it, because we thought on the whole that it perhaps was better than embarking on an unknown quantity such as a 10-rupee piece. But the 10-rupee came to the forefront again, owing to the difficulties which do exist and which are quite legitimate difficulties, as I need hardly tell an ex-Chancellor of the Exchequer, in regard to passing sovereigns. That raised the question of handing over the Indian Mint to the English Mint, or to its control at any rate. There you at once create a greater objection than now exists. They are most tenacious about English interference with the departments in India and if there is one department which is thoroughly satisfactory in India it is the Mint. The Mint produced during my tenure of office a new rupee, and I have had an opportunity of submitting that new rupee, to numismatists in Germany, in France and in Italy, and they all tell me it is a very remarkably fine specimen of minting. We have built up the Mint with great labour and great trouble, and we are most loyally served by conspicuously able people in the Mint, and I think it would be downright cruel not to recognise that. They have produced two coins which I am assured are second to none, and I think they are a marked improvement on some of our English coins. The 1-anna piece—what I call the fluted anna piece—we were assured by every Mint Master in the world could not be beaten. I happen to have two coins here; I do not know whether the Commission would like to see them.

11,427. Perhaps you will be good enough to hand them round?—Certainly. The 1-anna piece is admitted, I believe, to be one of the very best coins that ever was made. We have got over the difficulty of punching it by adopting this fluted condition without spoiling either the obverse or the reverse. I produce a specimen of the silver 1-rupee, a nickel coin of one anna, and another coin which is the result of the effort of the English Mint to produce a 2*s.* piece of a creditable character. I confess I adhere to the view which I expressed to my old friend Macartney, when I told him that I thought it was a disgrace to his institution. The Indian rupee is a beautiful coin.

11,428. I would like to ask you a question which arises out of what you have said. What you have said has impressed me very much, but at the same time I confess to a reluctance to see a new gold coin made in the Empire, which would, I suppose, have a rather local circulation, at the expense of a coin which is the coin of the whole Empire?—Are you alluding to an Indian sovereign, or a specific Indian coin?

11,429. I am alluding now to a specific Indian coin. I should be very reluctant to see a specific Indian coin and not the sovereign minted?—I agree with you. That was my original attitude in regard to the matter. I think all things considered it would be advisable to have a coin with merely something on it to show that it was coined in India.

11,430. Would it not be the case if we coined a 10-rupee piece that whatever advantages it might have it would have this disadvantage, that it would probably enter into serious competition with the Note issue?—I do not think so. I know that is the official view taken, but I believe, although it sounds a paradox, that it would strengthen the 10-rupee note. If they had any doubt about their 10-rupee note and they could get its equivalent in gold over the counter, I think it would strengthen the position of the note. I do not think, therefore, that the 10-rupee piece would compete with the note, while I think it might reduce the tendency to keep the notes in the background.

11,431. You have said that quite legitimate difficulties arise in the way of the Treasury abandoning their control over the other Mints of the Empire in respect of the gold coinage; but do you think that the conditions which the Treasury propose are prohibitive?—I think, if the Treasury would be satisfied to have an Inspector of Sovereigns, if I may so put it, merely to pass the sovereign as satisfactory to the English Mint, without his interfering in any way except having the power of rejection, that that would strengthen the position of the Indian Mint, and I can see no objection to it. It would lead to friction if the individual selected was likely to produce friction, but I do not think it would do so otherwise. My experience of Indian officials, Anglo-Indian as well as Indian, is that they are very willing to have the assistance and advice of English experts from England. I do not think there would be any difficulty in that; whether it could be done from the practical standpoint, whether a man could pass sovereigns, I do not know; I should think he could pass a certain number. I should think the easier plan would be that which is adopted in the Ordnance Factories, and I had that in my mind at the time. When I was at the War Office it was the practice, and I have no doubt it is now, to watch the Ordnance in the course of manufacture. An expert from the War Office, for instance, is present when the steel ingots are tested; he does not interfere with the factory testing, but he watches it and tests also. That testing is laid down by the War Office, and the testing here could be laid down by our English Mint obviously. I see no difficulty in an official from the English Mint being present during the process of testing and assaying the gold and testing the sovereigns once made, without interfering with what I may call the administration of a department of which India is justly proud. I cannot see any objection to that myself, but then of course I have never been Master of the Mint.

11,432. I have been, but I am afraid my recollections of its duties are a little vague at the present time. What I have in my mind is that these are statutory obligations, that it is not a mere question in these matters of Treasury regulations, but it is a question how the Master of the Mint can fulfil the statutory obligations which are laid down?—I quite recognise the difficulty, and I only threw out the suggestion that it might possibly be overcome by the delegate, a representative of the Master of the Mint, being present at all the necessary tests, who would satisfy himself that these tests were in strict accord with the English standard. Unless there is a statutory objection to it, I do not see why something of the sort should not be done.

11,433. (*Lord Faber.*) Even if there a statutory objection to it, that could be altered by a short Act?—There you have the difficulty of short Acts, which very often take up more time in the House of Commons than longer ones. My experience is that an Act of three lines is a very difficult matter to carry, but you might find there would be little difficulty about it if you tacked it on to something at the end of a Session.

11,434. (*Chairman.*) I think at the present time the Master of the Mint must nominate the Deputy-Master for any other Mint that is established?—I suppose he could do that. It was the same sort of thing with me; I was the nominee of the Secretary of State at home, but I became an Indian official independent of the Secretary of State—but very subordinate, it is true.

11,435. Now I would like to turn to another subject. We have had before us on many occasions, I may say constantly, the demands made on behalf of the Indian authorities on the London Money Market for the purpose of Indian railway or other development?—You mean in the case of loans?

11,436. Yes. There has been a general consensus of opinion (I think I am correctly summarising the evidence) that you might well spend much more money on these development purposes, if it were available. There has also been a considerable body of opinion, at any rate, which has thought that the less you had to have recourse to the London money market for those purposes the better. That brings me to a question I want to ask. It has been the custom for some time to raise a part of the capital you require by rupee loans in India. I want to ask you whether in the years that are now before us you think the Indian Government could safely count upon raising a larger sum in India in rupee loans that it has done in past years. India is developing very much in wealth, perhaps, and is also developing the spirit of investment; I take it that what has been done in the past is not necessarily a measure of what might be possible in the future; so I should like to know whether you think there will be a larger market in India for rupee loans than there has been?—I am a little afraid of travelling over too much ground and of unduly taking up the time of the Commission, but with your permission I should like to explain, as leading up to my answer, what my personal attitude in regard to that point has been.

11,437. Please do?—What I felt very much was that, having received an assurance in this room, or at any rate in a room in this office, that I should find a surplus of half a million when I arrived in India, five weeks after I landed in Calcutta I found myself faced with a deficit of 3 millions and, I think, three-quarters or thereabouts. That naturally made me very cautious.

11,438. I have great sympathy with you, as I succeeded under similar circumstances?—I therefore adopted what is usually termed a conservative policy of finance. One of the things which I endeavoured to do was to strengthen the credit in India of the Indian Government, and to keep as a reserve the borrowing power of the Government of India, and the lending capacity of the country. I was especially encouraged in that attitude, because, as time went on, I had large surpluses to deal with. It appeared to me to be unsound finance, and hardly an honest transaction to borrow money on a large scale, when I was in possession of large sums of money. It has been done, but I did not think it was right to do it. Accordingly, at one time, when there was a plethora of money, I had in my mind almost to suspend borrowing in India; but I think it is recognised that to do that sometimes has the effect of what you might call killing your market. Therefore, I endeavoured to keep a middle course, that is, to borrow sufficient to keep in touch with the lending market, but not to borrow more than I could really deal with. It was for those reasons that I kept my loans as low as I could. They averaged, I think, about $2\frac{1}{2}$ to 3 crores a year. I think it is very important, in a country like India, where one week of delay in the monsoon may produce a condition of affairs which will result in the greatest possible shortage of money, to keep your borrowing more or less as a reserve. At the same time, if you put to me the question, giving full consideration to the state of the market here and there and assuming a fairly good cycle of monsoons, I certainly would rather increase my rupee loans than my sterling loans. I think there is room for it in India, and I think India will give you more money if you want it. This expression of opinion on my part, without the previous explanation which I have endeavoured to give, might appear to clash with my conduct when I was responsible for the borrowings. I wish to sum up by saying that I wanted to keep as much as possible a virgin market, if I may so call it, in reserve, against calamities such as I had to face when I first went to India, and which will most certainly recur, and the huge prospective expenditure on education and sanitation. At the same time, if you have a continued advance in prosperity, some development of industries, and fair monsoons or good monsoons, then, I think, my tendency would be to borrow in India rather than to borrow in England, at any rate, to increase my Indian borrowings and decrease my sterling borrowings. It must be remembered that the condition at the present moment may be an abnormally prosperous one, and I think with anyone who has gone through the anxiety which I did in the first two years when I was in India, the tendency would be to create a conservative feeling in dealing with the reserves of strength. But I repeat that, given all the conditions which I have indicated, I would rather increase the borrowing in India and decrease the borrowing in England than otherwise.

11,439. I would like to say that any prefatory statement that you would like to make in answer to a question of mine, we should be very glad to have. I feel that one ex-Chancellor of the Exchequer does not want to cross-examine another on the details of all his administrative acts, but if you would like to supplement your answers to any of my questions by further statements which you think would be useful to us, please do so. I now want to turn to another question which, I think, had not come to the front in a very practical form while you were Finance Minister, but which has occupied a good deal of our attention. We have been forced to consider, in connection with the subject matter of our inquiry, suggestions for a State or central bank; may I ask you in general terms, for, I think, that would be the best way, whether you would care to express any opinion on that subject to the Commission?—As you are aware, it was not my desire to offer evidence before this Commission, but the moment I heard that you would like me to do so—I gathered from Mr. Blackett's letter that it was the feeling of the Commission that I should—I naturally placed myself at your disposal, and any question which I have not dealt with very fully in India, and which you think right to put to me, I should consider it my duty to reply to, and if I can do so with any advantage, I should be very glad indeed. The question of a State bank never came up in India in a practical shape while I was there. Three subjects struck me. The first was the gold mint, the second was the universalisation of notes, and the third was a State bank. Very soon after I took office, I was greatly struck by the absence of a State bank in India. I call it a State bank because I do not know of a term that would better convey my meaning; I mean a Bank of England in India, so to speak. My desire was to bring about those three things, a gold coinage, the universalisation of notes, and a State bank, if I may so call it; but I do not want the word "State" to be taken as meaning too much; I mean a big central bank. I devoted a great deal of thought to it. I consulted a great many people on the subject, and I did all I could to come to a quite impartial and definite conclusion. The conclusion I came to, regretfully, was that it is quite impossible to establish such a bank. Further, I came to the conclusion that if you did establish anything approximating such a bank, you would merely create a fifth, sixth, seventh, eighth, ninth, or tenth wheel in the coach, according to the number of directors. You would increase friction, and you would render the position of the Finance Minister nearly untenable. I think, too, that you would probably find that you might embarrass the authorities at home and even your markets at home through the action of that bank. I was sorry to come to that conclusion, but that is the conclusion I did come to. I take it that the only thing in the way of a central bank of that character would be something in the nature of a standing committee of finance, because it is perfectly evident that you must have a representation from all the Presidency banks. As it takes the best part of 14 days to get to and from Madras, it would be very difficult for the head of the Presidency bank from Madras to attend once a fortnight or even once a month. The Calcutta man would be equally unable to come up; and the Bombay man would be equally unable to come up. I am assuming that Delhi would be the centre, because if not, you would let loose the most fearful internecine warfare between the three Presidencies, and you would never come to any conclusion at all as to which was the best place to establish your bank in. Bombay is certainly the financial hub of India, I think Calcutta may claim to be the commercial hub of India, and Madras is a placid and well-conducted Presidency which is not so aggressive as the other two. You could not satisfy the three by putting the bank in any one of those three places. Then it must be in touch with the Government and the Finance Departments, and so it would have to be at Delhi. The only thing I can suppose worth consideration would be to have a man detached from each

Presidency bank. I do not know whether that is in the minds of those who suggest this bank, but it seems to me that that is the sort of thing that might perhaps be brought about. You would then probably have three men who in a very short time would be entirely out of touch with, I will not say the actual cash position, because that they can be in touch with it telegraphically, but with the inner financial position which in each Presidency varies tremendously, and you would gradually find that they would fossilise up at Delhi, which is quite out of touch with business. The same would apply to your Government representatives. You would put on probably two men, who had been secretaries, in the Finance Department, or something of that sort. They would soon lose touch with the work in the Finance Department, they would sit round a table and after a certain amount of discussion would evolve certain proposals, and those would go to the Finance Department, who would in the nature of things, probably criticise them; and that would lead to friction and difficulty. I do not see what advantage you could get out of it. That institution would be entirely out of touch with London and entirely out of touch with London markets, and I think that you would have nothing comparable in India to the English situation where you have the Bank of England. Even in regard to that, your Bank of England does not operate in Scotland, it does not operate in Ireland, and I think it hardly operates in the provinces. Your whole machinery here is really a machinery which enables you to get the best opinion in the city of London, or what is held to be the best opinion in the city of London, together, to guide the destinies of the finance of London and to lend money to the Government when the Government want money. That is practically what it is, is it not? I do not see that this Indian bank, constituted as I think it would have to be constituted, would be otherwise than a fifth wheel in the coach. Having said that much, I should like to add, as part of my answer, that I think the present system must be changed, and that rather than continue the present system of a Finance Committee in the India Office, I would accept a bank or anything else; but I do not think your bank could be a workable institution, and I think it would lead to friction and difficulty, and I do not believe it would last. For that reason I have with great reluctance given up the idea of a central bank in India. It must be remembered that India is an enormous country. It is a country the size of Europe less Russia, and really to have a bank which operates at the same time in Portugal and Norway, is rather more, I think, than we would contemplate in this country or in Europe anywhere. I think that what is wanted is a complete change in the relations between the Finance Department in India and the finance branch of the India Office. I do think such change is essential, but I do not think that the advantages of the Indian state bank would be at all commensurate with the disadvantages.

11,440. Your answer to my question is very complete, but it has raised other very important questions; one is the connection between the Finance Department in India and the Finance Department in the India Office, and the other, which was only mentioned incidentally by you but which I should like to deal with first, is the question of the universalisation of the notes. What is your view on that latter question?—When I went to India I was handed a bundle of notes by Messrs Grindlay, and I went as an honest man to pay my debts with them Wherever I went they were rejected. They said, "Yes, these are Government notes, but they do not belong to this circle." I lost my temper, and I thought it would be advisable to take up this matter seriously and at once. I found that these notes did only operate in certain "circles" as they were called; and it appeared to me that that was the best way that human ingenuity could conceive to stop the note circulation in India. In India you will never work on the cheque system, and the only alternative was then, and is now to a great extent, bags of rupees. They are inconvenient, and, of course—I speak here subject to correction—a bullion transaction is more wasteful than a paper transaction. I devoted I will not say all my energies, but some to universalising notes. I have received the greatest possible assistance from the Civil Servants of India, and I could not have existed for five minutes in India without that assistance. Their loyalty is proverbial, but they are extraordinarily obstinate, and nothing on earth would induce them to contemplate the possibility of universalising any notes over 5 rupees. After the most fearful struggles I succeeded in carrying Anglo-Indian opinion with me. I was led to suggest the universalisation of somewhat larger notes. I was met by passive resistance in the India Office, and Mr. Abrahams communicated to me the opinion that he thought there was a grave danger in going beyond 10 rupees. However, after a great deal of trouble, and, I think, two solid years' experimenting with the result of a 10-rupee note, I was allowed to go somewhat higher. My own feeling is that you ought to go certainly up to 500 rupees; I would have denominations of 100, 200, 300, 400, and 500-rupee notes; and I foresee the time when it would be very advisable to go higher. The notes are being very well received, so well received that representations were made to me privately from various places in India that my accounting officers would not issue notes, that the people wanted them and could not get them. I found this was the case in certain instances, and the reason was not far to seek. It gives less trouble to hand out a bag which has been weighed and tied up containing 1,000 rupees or 100 rupees than to take out a note, enter the number in a book, and pass it through the various proceedings which a note entails on the cashier. I think—I hope Mr. Gillan will forgive me for saying so—that what was behind a great deal of this opposition to universalising the note, was the extreme comfort and convenience of having all the rupees bottled up in large sealed boxes in the vaults of Fort William, instead of having them peppered about the country to meet the possible demand on the notes. However, it has been done, and I think this uiversalisation of the notes would really save the situation in India if it were well carried out. I am in a position to state that it really is liked by Indians now. I have asked even the working Indians, and they say, "Yes, we like it, because we can herringbone"—I think that is the ladies' term for the stitching—"these notes into our "loincloth or into our turban, and then we never leave "them." The practice of the little people there is to put their rupees in an earthen pot and either dig a little hole under their bed and sleep on it, or hide it in the thatch of their cottages or their huts. The result is inevitable. Their little earthen pot is eventually stolen from under the bed, or it is burnt when the hut catches fire, which usually takes place once a year, and perhaps oftener. They do feel that the notes are secure. They have them on them when they go to their work; they have them when they travel; and I have myself seen the natives when they arrive at a station, undoing their waistcloth and pulling out the notes. I think as time grows they will freely and gladly take notes. In Burma I received the information that they could not get as many as they wanted, and I went there myself to see about it.

11,441. I may take it then that you yourself are in favour of increasing the note circulation as much as possible in India?—Yes, I am strongly in favour of that.

11,442. I think the universalisation has been carried out under your auspices up to the 100-rupee note?—Yes.

11,443. Would you like to carry it further?—I think you could quite safely carry it up to the 500-rupee note.

11,444. The objection which has been put to us to the universalising of the larger denominations is the fear that Government would be put to great inconvenience in encashing notes?—That is an argument which was brought to bear, precisely the same argument, with some acerbity even, with regard to the lesser notes. Of course I would not at present recommend the universalisation of 1,000-rupee notes. It is very important to accustom your public gradually to what you are doing, and not to spring anything on them. I say there is no more difficulty in meeting the 200-rupee

note than the 100-rupee note, and in point of fact in India you generally find that if a man wants rupees for a 100-rupee note or 200-rupee note, if he cannot get them on Monday he is perfectly satisfied to come for them on Tuesday. I do not think any difficulty would arise, and if it did, it would only arise as a political combination. One of the reasons why I was rather anxious to do anything which tended to increase the gold circulation, was because, if they could have the experience which proved to them that by tendering a note, if there were any doubt about it, they could get the sovereigns, which is of course the summit of stability and which it is their ambition to hold, I think that would strengthen the notes very much more even than giving rupees.

11,445. You do not suggest that the Government should be under any obligation to pay its debts in gold?—No.

11,446. You would merely suggest that it should give the gold if it is convenient to do so?—If there happened to be gold in the Treasury. I think you might tell the cashiers that if a man wanted to encash notes it was wise to give him what he asked for, if possible. I should be inclined to say this much to him, where I had a reasonable man to deal with: If you find a man has any doubt about his note, talk to him reasonably and tell him it is perfectly sound—never do more than that, but give him gold if he wants it. I never would force any currency, and I would only issue gold when opportunity offered to show what a very sound thing the paper was. One danger of the notes, the only one, is forgery. In regard to that it may interest the Commission to know that the most perfect forgery I have ever seen was a Japanese pocket-handkerchief. It had a very light margin which was specially woven, so that it tore off with great ease, and the centre of the pocket-hankerchief was an absolute facsimile of the 10-rupee note. I am old enough to remember when metal coinage in Italy was non-existent, when there were 1-franc notes, 50-centime notes and 25-centime notes; I am speaking now of 45 years ago. What happened was that the place was flooded with forgeries. That was a matter of police detection and it did not injure the popularity of the notes. I remember going back to Italy and I could not get them to take a 20-franc gold piece; they preferred the notes. They were quite satisfied with their notes. I personally am not quite satisfied with our note; I think it might be improved. It is a class of note that rather lends itself to forgery. I think the first thing to do would be to make it a better note and a less-easily forged note. (*Showing note.*)

(*Lord Faber.*) You want something better than this?—Yes, you want it more on the lines of the American notes and the French notes. We are not allowed to make our own notes in India, and that is the best effort which could be made at home.

11,447. (*Chairman.*) Now I would like you to turn to an even more important subject, which arises out of your previous answer. I think you stated that you were convinced that it was necessary that there should be a change—a complete change, I think you said—in the relations between the Finance Department in India and the Finance Committee of the India Office?—Yes. I should go further and say that it is part and parcel of the relations between the various Departments in India, and the Secretary of State's Council at home.

11,448. May I interject on that point that, as of course you will realise, this Committee is appointed to investigate certain financial questions or currency questions, and we do not desire, as we are not entitled, to go outside our reference. Anything that you feel necessary to say to make your position in regard to the financial question plain to us we should be glad to hear, but it is with finance that we are concerned?—Perhaps you will be so very kind as to stop me if I go beyond that line; I might unintentionally do so. I should like to preface my remarks by saying that anything which I place before the Commission—and I say so, emphatically—must not be taken as evidence of any desire on my part to reflect in any way whatever on any individual person. I am dealing with the situation and not with individuals in any way. I presume that it is the wish of the Commission that I should treat them with absolute frankness?

11,449. Please?—If I do that, it is possible that I may give some offence in some quarters, and I should like to say that nothing is further from my desire, and that nothing will cause me greater sorrow than that such a situation should arise. I must point out, dealing strictly with the position of the Finance Minister in India, and his relations with the India Office, that under the present arrangement his position is not only a very difficult one, but it is an unnecessarily and an unduly difficult one, inasmuch as he is practically debarred from communication with anybody in the India Office who can really keep in touch with what I should call, for want of a better term, the mind of the Secretary of State and his advisers in regard to finance. Before I went out to India I had the honour of presenting my respects to the then permanent Under-Secretary. I asked him whether it would be in accord with practice and precedent, and would meet with approval, if I wrote to him when in doubt or in difficulty. I need hardly say that he received me in the kindest manner, but I gained the impression that it was not considered advisable, and "that you had better not adopt the practice." When he retired, Sir Richmond Ritchie succeeded him. Sir Richmond Ritchie was an old friend of mine, and we had run neck and neck in the service almost. I wrote to him from India—I had then been in India a little time—and I represented to him my great difficulty, that being that I was very often working in the dark. I could consult my colleagues, and so long as I had the confidence of the Viceroy, who, after all, is everything in India, I had very little difficulty there. I am very glad to have this opportunity of bearing testimony to the great kindness, the support, and the free hand which was accorded to me in India by my Indian colleagues and by the two Viceroys under whom I served, in matters of finance. But I was always in doubt as to whether I was working on sound ground from the English standpoint. I had served abroad in other conditions. I was in South Africa, and I was in Egypt. On each occasion it was permissible for me to communicate freely with home, and I remember very well the kindness with which Mr. Chamberlain, your father, treated me on one of those occasions. I fully recognise that there can be no question of a member of the Council communicating with the Secretary of State, because it would very obviously place the Viceroy in a somewhat difficult position if his members of Council corresponded direct. What I did feel was that if I could correspond with the Permanent Under-Secretary of State, who, in every Department of the State except the India Office, is the philosopher, guide, and friend of everyone connected with the work of that Department, I should be materially helped. Accordingly I wrote to Sir Richmond Ritchie and asked him whether he would allow me to write to him. I explained to him that I should not dream of taking up his time with trivialities or frequently, but if I was in difficulty, such as for instance, on a question of increased taxation or any of the larger issues, I thought it would help me very much if I could be allowed to write to him so that he might tell me, to use a colloquialism, how the land lay here. In India everything gets out, and if you have a proposal it has gone a good way ahead in public knowledge before probably you have got your answer from England; and therefore it is very advisable to know how you stand. I got a perfectly courteous letter from my old friend in which he said he would prefer I should not do so, because it was not in accord with India Office custom. The only way in which I could communicate with the India Office and the Finance Committee was by means of what we call the semi-official or demi-official weekly communications between the Government Secretary for Finance and the Financial Secretary here. I had the good fortune to have two Secretaries to Government who were not only men of conspicuous ability but were the very soul of loyalty. I do not think they wrote without letting me know what they wrote, I do not think they ever received answers without letting me know them; but they need not have done it, and I know of cases where it is not done. Under those conditions, the unfortunate Finance Minister, and for that matter the Head of any other Department in India is absolutely isolated as regards knowledge of what would be approved or disapproved until he gets an official communication. I think that is on the face of it a very unfortunate state of affairs to exisit. What you want is the closest sympathy, the closest intercommunication, and the fullest interchange of views, before you formulate them in an official form; and I think that something must be done to produce that. I do not think it would have been possible for some of the little incidents which have occurred to have occurred if I had had an *alter ego* here that I could correspond with. I contend that the right way to work it is for a member of the Secretary of State's Council to be the Finance Member of the Secretary of State's Council, and although he could not pledge his Council or his Secretary any more than the Finance Minister could pledge his colleagues and his Viceroy, still that intercommunication between them would of immense value and assistance, I think, to the Government there and to the Government here as well. I think it is on those lines that you must make your change rather than having a State bank. You will not want your State bank then because you will be in close touch with the whole situation. I constantly wanted to know what the condition of the market was here in regard to Indian securities. You will not get the same thoroughly confidential answer in an official communication; it is a laboured process and it takes a long time. If you can write fully before you frame your budget to your *alter ego* here and say, These are my ideas, these are the lines I am inclined to go on; you will produce a very much better result. As it is, the unfortunate Finance Minister—it occurred to me on two occasions—within three weeks may have to alter his budget from top to bottom; and even then you do not know whether you are in accord with what I may call the inner mind, the inner consciousness of the India Office, and of the people at home. There are a hundred things to be considered, there is the condition of the Treasury, the attitude of the Chancellor of the Exchequer in regard to loans, and so forth, and doubt in regard to everything. If you had on the Council of the Secretary of State a Finance Member and he could be the analogy, so to speak, of the Indian Finance Member, I think you would at once get a thoroughly satisfactory intercommunication between them and produce a very much better result. There would be no question of either of them being able to pledge their Councils. It is a matter of information and of being in touch, and the assistance to the man out in India who is always very isolated would be enormous.

11,450. Do I understand that the Finance Minister in India can have no informal communication with the India Office at the present time?—I certainly received the strongest intimation to that effect; I had it in writing and I have got the letter. It was a very brief letter and very courteous, but it was only about six lines and it said that he thought the practice would be inconvenient, and he would rather I did not, except in conditions of very extreme urgency or something like that.

11,451. So, at the present time there is no recognised semi-official machinery of communication?—The only recognised channel is what is usually a weekly letter which passes between the Secretary out there and the Secretary here. As a rule these letters deal with matters of detail rather than with big questions of principle, and you might have a condition of affairs in which your Finance Minister might not agree with his Secretary, in which case he might want to know which view was taken at home and thereby avoid an *impasse* in India.

11,452. Could you tell me shortly—I was very unfamiliar with these matters until I came to sit on this Commission—what is the position of the Secretary of the Finance Department in India?—He is all-powerful in the Finance Department.

11,453. Is he independent of the Finance Minister?—No, he is not independent; but he knows so much that his position is very strong. He has certainly a weekly access to the Viceroy and conducts the business of the Department directly with the Viceroy; whereas the Minister only sees the Viceroy either when the Viceroy sends for him or when he himself formally asks for an interview. The whole of the financial transactions are carried out by the Secretary with the Viceroy aside of the Minister. I should add that the Secretary is Secretary to Government, and not only Secretary to the Finance Department.

11,454. Is his title "Secretary to Government"?—Secretary to Government for the Finance Department, or Secretary to Government for the Commerce and Industry Department, as the case may be. I think it is a remains of the time when the members of the Government of India were not in charge of a Department, when they were a consultative body. After that they were given their Departments and became heads of their Departments. The situation there now is very much what yours would have been had the Secretary of the Treasury dealt directly with the King and behind you on matters concerning your budget. Of course I do not imply the slightest reflection on the individual, because, as I have already said mine, I am happy to think, were part and parcel of myself. I think Mr. Gillan will bear me out in that; I do not think either he or Sir James Meston have had a difference of opinion with me.

11,455. That I quite understand. What is of course important for us to know is, what are the permanent *effects of the system*?—If you will pardon me, I should not call it necessarily even a defect. I should accept that side of it if only you gave the unfortunate Minister somebody to communicate with here, so that they might know how he stands, and he might be able to represent fully his own personal views at home, which he is now debarred from doing.

11,456. My word was "effects," not "defects"; however, the answer can stand?—I misunderstood you; I am very sorry.

11,457. I suppose I am right in thinking that the amount of Indian criticism, meaning by that criticism originating in India?—Not native only?

11,458. Whether native or Anglo-Indian, criticism of all kinds originating in India which is brought to bear on the actions of Government Departments, the Finance Department amongst others, has grown, and tends to grow?—It has grown enormously. On that point I should like, with your permission, to say one word. One of the great difficulties that I had to contend with in India was the failure, or partial failure, in this country to realise what an extraordinary change has taken place during the time when I was in India. I delivered my first budget statement to the old Council, and I have in a speech which I do not suppose anybody here has seen, described what took place. There were very few people; they were all nobles or Zemindars of very high degree, and they were all fast asleep from beginning to end. It was a very hot day, and so hopeless was the situation that I fell asleep myself while I was making my own financial statement. All of a sudden there burst upon India a really representative body which expressed the opinions of educated Indians. It came as a great shock to a great many people, and I do not think I could possibly have coped with it—I daresay I did not cope with it happily—at any rate I struggled there with it—had it not been that as a private secretary I had had to sit under the gallery of the House of Commons for year after year during the debates. It was really a small House of Commons, composed of men with brilliant intellects and men who were extraordinarily hard working. The mind of an Indian will assimilate knowledge rapidly, their receptive capacity is good, and it is really a very serious matter to cross swords with them in debate. It must be recognised that educated Indian opinion is an opinion which must be viewed with the greatest possible respect and regard. It is a very important item in the administration of India now; though it used not to be. Its criticisms of financial transactions are of the gravest and the soundest character very often; and it will become daily more important for a Finance Minister to be perfectly sure of his ground in dealing with them.

I have a case in my mind at the present moment where I was made to give an undertaking two years running which was not fulfilled at home. I do not wish to dwell upon it, but there it was. That is of course a source of embarrassment, not only to the Finance Member, but to the whole Government; and it is apt to create a two-fold impression on the Indian mind, the first that they are not being frankly dealt with, which is disastrous from a political standpoint, and the other that the member is not accorded much consideration by those over him, which is also a bad thing.

11,459. From the evidence we have had before us I have gathered that, whilst of course the Secretary of State in Council is in the last resort the supreme authority under His Majesty for the Government of India, there was a certain recognised division of labour in matters of finance between the authorities in India and the authorities in London. Take a matter like the raising of loans in London, which, after correspondence between the Indian Government and the Secretary of State in Council, is decided here and remains for action on this side; I suppose that in the Imperial Legislative Council the Finance Minister may be asked the question why a particular loan was issued at a particular moment?—Certainly. I may refer you to the questions put by Mr. Armstrong, who represented Bombay in the Council, on 12 March 1912, in regard to the non-clearing off of debt in England.

11,460. Such cases must recur. In a case like that what is the position of the Finance Minister in India?—I think the position of the Finance Minister in India is a perfectly sound one having regard to the difference of authority. The placing of loans in England, for instance, is entirely a matter for the Secretary of State in Council and his advisers. My attitude would have been to say, I cannot answer your question because it has nothing to do with me. The Finance Minister accepts his appointment under the distinct division of responsibility and of power. I do not think that I should have gone beyond that answer; in fact, so closely did I adhere to that line that when I was pressed by Mr. Armstrong in regard to the question which I alluded to, I telegraphed home. I said I cannot answer you. I telegraphed home and asked the home authorities here to telegraph out textually what answer I was to give, and the answers I gave I told them were the answers from the India Office and not from me.

11,461. In respect to such matters as that, I can conceive that the responsibility must remain with the Secretary of State, clearly?—I think certainly.

11,462. Do you think that the Finance Minister, in regard to the discharge of the duties of his office, either in the office itself or in the Imperial Legislative Council, is hampered by lack of knowledge of the reasons which actuate the Secretary of State in any particular decision?—I think I would like you to indicate what sort of decision, because it is a good deal affected by that.

11,463. I take the particular case I took before: a loan is raised at a particular moment and at a particular rate in England; some question is raised in the Imperial Legislative Council as to whether it was necessary to raise the loan, whether the moment was propitious for raising it, or whether the rate was the best that could be obtained. Is it sufficient under present circumstances, as far as your experience goes, that the Finance Minister should say, That is a matter which is left wholly to London, I have no knowledge of it; or must he, as you did in the particular case you have mentioned, obtain knowledge to enable him to answer the question?—If a general attack were made on the policy of the loan and so forth, then, I think, the proper attitude of the Finance Minister, the correct attitude, and I think the useful one, would be to say, It does not come within my province, and I can only say that it was done by the Secretary of State in Council and is outside discussion in this Chamber. Where a member representing, as Mr. Armstrong did, for instance, Bombay, a most important community, puts down on the notice paper specific questions, then I think he is entitled to have them answered, unless you say for reasons of State you cannot answer them. It is exactly the same thing as in the House of Commons. I think the proper course to adopt is the one which I adopted, which is to say, "This is not my business; "will you kindly tell me what you wish me to ask, and "I shall refer the questions to the Secretary of State." I do not think that is embarrassing.

11,464. Therefore, when you said that your great difficulty was that you were very often working in the dark, that did not refer to any answers that you might give in the Imperial Legislative Chamber to questions asked about the action of the Secretary of State?—Not at all; I wish to make that very clear. What I referred to was rather with regard to my own work and my proposals in the future; also whether my action in the past had met with approval, and so forth; in fact, that class of inter-communication which is generally described as keeping touch with your department. It had nothing whatever to do with the attitude in the Chamber, because the proper course there would be for the minister to represent his difficulty to the Viceroy, and he would communicate direct with the Secretary of State.

11,465. Now I want to turn to two wholly different subjects which have occupied a part of our attention, and of which I have been reminded while I have been examining you by colleagues on the Commission. It has been made quite clear, I think, to all of us, that whilst budgetting, that is, forecasting revenue and expenditure, in any country is a difficult task, there are circumstances connected with the monsoons every year which make it an extraordinarily difficult task for the Finance Minister and his department in India. The suggestion has been made to us that that task would be certainly made less difficult if the date of the financial year was altered. The date which has been most often suggested, I think, has been that you should take the 1st of October as the beginning of the financial year. It has been suggested that in that case sufficient information as to what I think I may call the major monsoon would be available to give the Indian Government at any rate a much greater basis of fact for their estimate than they have at the present time. I should be glad if you would tell me whether you think that suggestion useful?—I think it would be very advisable to alter the date. I think that the financial year *quâ* India is the most inconvenient you could have. It really is hardly an exaggeration to say that it doubles the difficulties of budgetting in India. I do not know, and I am not in a position to say, how far it would be possible, in connection with the financial arrangements of the India Office at home, to make a change. If, however, it can be done, I strongly advocate a change, but I would not make a change to October; I should greatly prefer to have it from January to December of the calendar year. I think that is more reasonable, and it would be easily understood in India. Any change has a very unsettling effect on public opinion there, and, I think, it would be difficult to explain a change to October. In point of fact, January gives you a better date. You could begin seeing your budget, so to speak, in October if you had your ending in December, and so you would get your advantage without fixing an awkward date. I strongly advocate, subject to any objections which may exist in England, with which I am not acquainted, changing the financial year, which is from April to March, to from January to December.

11,466. I come now to the last subject on which I want to ask you a question. A good deal of the discussion before us has turned upon the sale of Council Bills, as it is generally expressed, in excess of the requirements of the Secretary of State. I think I must add that that is a loose expression which, as used by at any rate the more thoughtful of our witnesses, is not intended to convey that money is brought over here which has subsequently to be returned to India, but that money is brought over here in advance of the time at which it is required here. Would you care to express from the Indian point of view any opinion either in favour of the continuation of the present practice, or against it?—The only thing I should like to say in regard to councils is that I think it would be well to keep the sale of councils within reasonable limits, but I do not think you can tie them down to a fixed figure. After all, the India Office has its difficulties to contend with, and there is no doubt that this Council system is very popular in Calcutta. I think it is popular because we are doing work for nothing which is extremely convenient to the mercantile community. As long as you have the process, I do not think I should like to lay down any hard-and-fast rule. I do not like the Secretary of State selling Councils, when there is a slump in exchange, more than he can help. I think that is certainly a mistake. I should like to see the sale of all councils in excess of the Secretary of State's actual requirements kept within very moderate limits; beyond that I do not think I should feel competent to express an opinion.

11,467. (*Mr. Keynes.*) You suggested that if more informal communication could be maintained between the Finance Minister and the India Office, the proper person in the India Office to whom the communications should be addressed is the member of council who is particularly concerned with financial matters; would that be satisfactory to you?—There is no such person that I am aware of at present.

11,468. The member of Council who is chiefly concerned with financial matters, that is to say, the chairman of the Finance Committee under the present system, or the member attached to the Finance Department under the proposed scheme, is the person you suggested, is he not?—I did not mean to put it that way, and I do not know that I did. What I wished to indicate was that if you could have a member of the Secretary of State's Council in as nearly as possible the same position as the Finance Member of Council in India, and you could allow the one to communicate with the other, then I think you would not require a Finance Committee, and you would not want a State bank, and I think things would proceed satisfactorily, because the one would be a check on and a help to the other; at any rate it would be a great help to the Finance Member.

11,469. If one is merely considering the point you put, that the Finance Member in India does not now know quite how he stands, would it not be satisfactory if that right of informal communication was granted with the Permanent Under Secretary of State or the Permanent Assistant Under Secretary?—I do not think it would be quite so useful. I can only speak of the Permanent Under Secretary from the standpoint of my experience of Permanent Under Secretaries in other departments. The Permanent Under Secretary, properly speaking, is the narrow neck of the bottle, through which everything goes up to the Secretary of State, and I think that he would have neither the time nor the inclination to enter into financial disquisitions and correspondence on finance with the Finance Member in India, and I think he would in many cases have to refer to what I should like to see, the Finance Member of the Secretary of State's Council, before he could give an answer. I do not think it is quite the work for a Permanent Under Secretary. I asked the Permanent Under Secretary for the simple reason that I knew of no one else to ask; but I think it would be more satisfactory if the Finance Minister could correspond with the Member of Council who was at the head of the Finance Department here, and was as nearly as possible the analogy of the Finance Member in India. I do not think you could expect the Permanent Under Secretary, if you had that state of affairs, to embark on such a correspondence, because he would have to do it with everybody.

11,470. Of course that would presume a rather radical alteration of the organisation of the India Office?—It would.

11,471. With any sort of organisation resembling the present, what would you suggest?—I think I have suggested all that I properly can in view of the guiding remarks of the Chairman, who desired me not to travel outside finance.

11,472. (*Chairman.*) We here are concerned, of course, with the financial organisation of the India Office?—I do not think I can give an answer without extending my answer in regard to the rest of the Council, because it is obvious that a Permanent Under Secretary could not embark in correspondence with all the members of Council on all their subjects.

11,473. (*Sir Shapurji Broacha.*) Suppose the Commissioners of the English Mint were to remove their objections and make easy the coining of the sovereign, with a distinctive mark such as the Australian sovereign has; would that suit your purpose?—I have endeavoured to indicate that it would.

11,474. (*Lord Kilbracken.*) You referred to a suggestion which you made twice over of correspondence between the Finance Member of Council and the Under Secretary of State on matters of financial policy. You said on each of those occasions the proposal was discouraged or declined; but I suppose you do not think that those answers were given by the Under Secretaries of State on their own proper motion?—I do not think it is proper for me to form an opinion; I cannot tell.

11,475. I suggest that it is perfectly competent for you to form an opinion of what is likely?—Then I say, to assume the opposite would be obviously to assume that the Under Secretaries of State gave me an answer off-hand, which I do not wish for one moment to assume.

11,476. If that is perfectly understood, I am satisfied. I asked the question, because, although you mentioned the Under Secretary and the Finance Committee and the Council of India, you hardly referred to the Secretary of State; but I presume the Secretary of State would have something to say on the subject?—I never contemplated the possibility of corresponding with the Secretary of State.

11,477. But he would have something to say about the question whether it was advisable for the Finance Member of Council to correspond with the Permanent Under Secretary upon matters of financial policy?—That is a matter of the internal economy of the India Office. I really do not know, but I presume that everything in the India Office, as it is in all other departments, is subject to the approval of the Secretary of State.

11,478. What I noticed was that the effect which might be produced by the establishment of a correspondence of that kind upon the relations between the Secretary of State and the Viceroy in India was hardly present to your mind at the moment?—It was fully present to my mind, if you will allow me to say so, and I think I rather indicated it. At any rate, I repeat what I said, that such correspondence could be only demi-official; and that any opinion expressed or letters sent by the Member here could not possibly be binding on his Council or the Secretary of State, any more than any letters from the Finance Member in India would be binding on the Viceroy and his Council. All I ask is that there should be that inter-communication between the two members and the two councils which now exists between the two secretaries.

11,479. Between the two secretaries?—Yes, between the Secretary to Government in India and your Secretary here. I was debarred from doing what my Secretary was empowered to do.

11,480. Of course you are aware that the Secretary of State and the Viceroy correspond very fully every week and are constantly exchanging telegrams?—I am also aware that the Viceroy, having the whole burden of the Government of India on his shoulders, and having very lengthy and weekly correspondence and daily telegraphic inter-communication with the Secretary of State, could not possibly be expected to waste his time or devote his work to ascertaining for me, in a way which I should be empowered to ascertain for myself informally, what I had better do in my own Department. It would be most unreasonable to ask him to do it, though I had to ask him to do it on more than one occasion.

11,481. I hope you understand that I am not expressing any opinion as to the advisability or inadvisability of the proposal which you made. I am simply calling attention to the fact that the Secretary of State might have, and undoubtedly would have, an opinion of his own on the subject as to whether he thought it advisable to have this correspondence going on in addition to his own?—It is obvious that it could only be done with the approval of the highest authority, and that is the Secretary of State. I assume in any remark I make that the Secretary of State represents the Cabinet; the Cabinet under the Constitution governs us all, and you cannot go outside that.

11,482. (*Chairman.*) I want to be quite certain that I appreciate exactly your view on this question. You, of course, had served for a great number of years in the British Service before you went to India?—Yes, 44.

11,483. You are familiar—more familiar even than I am, though I have had some experience—with the working of our system here. Shall I rightly interpret your views if I put it this way: that you want the Finance Minister to be able to communicate unofficially, to sound the ground?—Demi-officially I think is the usual term in India.

11,484. Demi-officially, then, to sound the ground, or to gather information?—And to receive guidance.

11,485. Subject always to the supreme authority of the Viceroy in his own case?—Certainly.

11,486. And the Secretary of State in the case of his correspondent; in the same kind of way that the Permanent Under Secretary of the War Office or the Admiralty will write to the Permanent Secretary at the Treasury and inquire, how would such and such a proposal be viewed if his office were to make it?—You have quite correctly interpreted my views.

11,487. The difficulty which you felt in the position of Finance Minister in India was that you could not unofficially sound the ground before making a formal proposal?—I think that what the Finance Minister in India wants is an *alter ego* in London. Then you could get interchangeability of views and mutual assistance and co-operation, which would result in benefit at both ends.

11,488. One further question on that. You spoke of the Permanent Under Secretary as the person that you had sought permission to correspond with on these matters: do you think that the Permanent Under Secretary is, so to speak, the opposite number of the Finance Minister?—No, certainly not. There is nobody here that I know of who is the *alter ego* of the Finance Minister. But that is what I want; I want an *alter ego* here, and I want an *alter ego* here for every member of the Council in India.

11,489. Would you like to see a Member for Finance on the Council here?—Yes, and let him be personally responsible for the finance here in regard to India, and then you would know whom to hang if it went wrong, just as you could hang me if it went wrong in India.

11,490. That is the member you would like in future to correspond with?—That is the man with whom the interchange of views and the close relation should exist.

11,491. (*Lord Kilbracken.*) Do I understand you would like the Member of Council to be responsible for finance in this country?—Instead of the Finance Committee, I would; that is, such responsibility as attaches to the Finance Committee I would attach to the Finance Member of Council in England.

11,492. Responsible to whom?—Obviously to the Secretary of State. Everybody is responsible to the Secretary of State.

11,493. When you spoke of hanging him I thought you meant responsibility to the public?—I take it that it would be responsibility to the Secretary of State. I do not say that it has occurred at the India Office, but I have known cases of a Secretary of State seeking whom to hang, and not finding the proper person to hang.

The witness withdrew.

Mr. LIONEL ABRAHAMS, C.B., recalled and further examined.

11,494. (*Chairman.*) You first appeared before the Commission at its opening sitting for hearing evidence, and you gave us, partly in evidence and partly in memoranda, a great deal of very valuable information which has been of great service to the Commission in its subsequent sittings. In asking you to come again to-day I do not, of course, propose to travel over all the ground that we travelled over in those early days; but there are one or two subjects on which I should like to ask for further explanations from you. I think you then expressed an opinion that it was inadvisable that any attempt should be made to purchase silver regularly for the purposes of coinage?—Yes.

11,495. Since you made that statement I think you have had an opportunity of seeing such of our evidence as we have already published?—Yes; but I ought to add that my ordinary duties have been so heavy that I cannot say I have read all the evidence. I should have done so if I possibly could have managed it, but the work has been such as to make it impossible.

11,496. I can quite understand that. I would only like to ask you whether you still adhere to that opinion, or whether you would be disposed to say that, on a moderate scale, regular purchases of silver might help to avert some of the difficulties which the spasmodic purchases create, without creating any greater difficulties in their turn?—I hold to the opinion which I originally expressed. My reasons are these. In the first place, it is not merely uncertain how much we shall want in any year—it is uncertain whether we shall want any; and indeed it is uncertain whether we may not have a great flow of silver back from circulation into the Government Reserves. If we had, say, a million or two in hand in view of possible requirements and then found that, as happened in one year to which I drew the Commission's attention, 12 millions or so came back from circulation, it would be to some extent a calamity, even if, at the time, we were strong financially. But, in the circumstances supposed, we should at the time be weak financially. The back-flow of rupees from general circulation comes, if at all, when the sterling resources are either not very strong, or when, even if they are strong, the demands upon them are likely to be exceedingly heavy. At a time like that, if we had locked up any appreciable amount by buying silver in advance up to, say, two millions, which is a very moderate amount, I do not say that the consequences would be exceedingly serious, but they might be embarrassing at a time when we wanted every sovereign of our sterling resources in order to support exchange. Might I add this? The difficulties of buying silver as it is required can easily be exaggerated by anyone who has mainly in his mind the very peculiar circumstances of 1912. I do not think anyone would deny that there was then a speculation for the rise of silver carried out by very determined people and on a very large scale. I cannot say that such speculations are not going to occur in the future, but I gather, from the little that I have been able to observe, that the experience of the speculative group—I do not use that term in a disparaging sense—has probably not been so satisfactory to them as to encourage them to repeat in future what they did in 1912 and the preceding years. If there was no speculative holding I think that with a certain amount of care we could buy our silver without creating any disturbance that is appreciable enough to be deterrent to us or to any other existing concern.

11,497. We had from the Chairman of the Finance Committee in the evidence which he gave to us that there was, in his opinion, no objection to making purchases of silver in Bombay if other circumstances seemed to render that desirable; do you quite agree in that view?—Yes.

11,498. You do not consider the India Office bound to make the purchases in London if it can make them any better or on equally advantageous terms elsewhere?—I agree with that view. There would be a little more brokerage to be paid; and owing to the comparative smallness of the stocks usually held in

Bombay, I think it would be less easy than in London to purchase secretly, if secrecy were desired; but, subject to that, I see no objection to buying in India.

11,499. Do you hold that view in spite of the fact alleged by one witness who has been before us, that the dealers in Bombay are so much more numerous than the dealers in London, that anything in the nature of a ring is much more difficult to be made there?—So far as that statement is correct, about which I do not know, that would be rather an extra reason for buying in Bombay. If I understood you correctly, the effect would be that Bombay has rather a freer market, a market less likely to be cornered.

11,500. That was the suggestion of a witness that whereas there were, I think, only four firms of brokers in London, there was a very considerable number of dealers of different kinds in Bombay, and they could not form, in his opinion, the kind of combination which was possible amongst so limited a number as four firms?—I very much doubt the correctness of his facts, for various reasons; but if his facts are correct, that is a reason for, not against, buying in Bombay. I should like to add, in justice to the firms in London with whom we have certain relations, and, as a rule, friendly relations, that I do not think that they do form anything in the way of a ring. I think that, as is happily the case in most financial business in London, they do their business in a very high-minded, honourable manner, and that if a principal employs a London firm of silver brokers, they would never act against the interests of the principal for whom they were at the time doing business.

11,501. (*Mr. Gillan.*) I think in the past silver has as a matter of fact, been purchased in India?—Yes. That passed through my mind and I ought to have mentioned it, but I was anxious not to extend my answer. I think occasionally we have bought from the native States. I think at one time we made a purchase from Gwalior; I am not sure whether it was bar silver or rupees that we got.

11,502. That was one particular case, and I think silver was purchased on other occasions too. I do not know whether you could tell us how the purchases were distributed on those occasions between Home and India?—If you remember the correspondence that we put in, which was printed in one of the Appendices,* you will see that we there reviewed the purchases that were made in 1907, when it has been alleged, and not without some show of reason, that we bought more silver than we ought to have bought. You will find that in that year the Government of India from time to time asked the Secretary of State to buy silver, and he did so, but every now and then we heard from the Government of India, "We have bought so much in India in addition to what you are buying for us." All the details of that were left to the Government of India. That is my recollection, and I think it is correct.

11,503. (*Chairman.*) I think in the earlier evidence you gave to us you explained to us the nature and the conditions of the two Reserves, the Gold Standard Reserve and the Paper Currency Reserve?—Yes.

11,504. Incidentally, in that explanation you dealt with the silver holding in the Gold Standard Reserve?—Yes.

11,505. If I rightly understood your view, that silver was held in order to meet the exceptional demands for currency?—That, I think, was the reason given when the silver holding was established. I think that, as years have gone on, we have seen that the function which can be served by that holding is rather different from what was contemplated when it was first established.

11,506. How would you define its present function?—I have endeavoured to define it in my Memorandum on the Gold Standard Reserve,† but I might briefly remind you of what I put there. At certain times the Government of India have enough rupees in their various reserves, but their treasury balances or free balances are rather low. And it is not possible for them to take rupees out of the Paper Currency Reserve, except by cancelling some of the notes that are in their free balances or treasury balances, and *ex hypothesi* they have no notes to spare. Therefore, it is a difficult matter to get the rupees into circulation. They are in the Paper Currency Reserve, and they are locked up there, and the only way of unlocking them is by transferring gold to the Paper Currency Reserve in England. I think I explained that at the time, and I hope I made it clear. Sometimes there is no objection to transferring gold in that way, but at other times it is rather serious, both directly for the London market and indirectly (but with equal importance) for Indian trade. By holding a certain number of rupees in such a form that we can get them out and put them into circulation without going through this process of ear-marking, we give elasticity to the Indian currency which it would not otherwise possess. If other schemes are under consideration for giving elasticity to the Indian currency, then I think the last usefulness of this silver holding in the Gold Standard Reserve has passed away—or rather it will pass away, if any such scheme is adopted.

11,507. What a little puzzled me was this: You had this silver in the Gold Standard Reserve for certain contingencies, and you had a great demand for silver, and some difficulty in purchasing it in the then conditions of the market without adversely affecting the price; why did you not use the silver in the Gold Standard Reserve at that moment?—There was no objection to using it. The reason for purchasing, if I may give an answer, which, though it may not seem to be so, is really an answer to your question, was this: We had made calculations which, I think, have been justified by subsequent experience, as to the total amount of rupees that we ought to have as a rule in the various reserves at the beginning of the busy season. In 1912, when we bought silver, we reckoned out how much we should have in all the reserves, including the Gold Standard Reserve, and found that on the best calculation we could make we should not have enough to open the busy season with. Therefore, we bought silver so as to bring the aggregate amount up to the standard. Whether one began meeting the demand by taking rupees from the Gold Standard Reserve, or by taking it from the Paper Currency Reserve, was, I think, a matter of comparatively slight importance, except that I should add the Government of India have always attached what, perhaps I might, without disrespect, call a somewhat unreal importance to holding the rupees in the Gold Standard Reserve as a last line of defence.

11,508. A last line of defence against what?—Against a very great demand by the public in India for rupees. Perhaps I may put it this way: We have to meet a demand on the part of the public; I do not think it matters very much whether we first of all meet it by paying out the rupees from the Gold Standard Reserve and then from other resources, or whether we do it the other way round. The Government of India—I think Mr. Gillan, who knows their mind, will confirm me—have always attached importance to beginning with the other resources and ending up with the rupees of the Gold Standard Reserve.

11,509. What was the total amount of silver that you purchased in 1912?—Approximately 7 millions.

11,510. What was the amount that you had lying in the Gold Standard Reserve at the beginning?—At the beginning of the busy season in 1912 we had less than the usual amount; I think it was between three and four crores, but I daresay you have the figures available. We ended up that season by paying into the Gold Standard Reserve a certain proportion of the profits of coinage realised during that season; we put them in in rupees. That was in order to meet the wishes of the Government of India to have that branch of the Gold Standard Reserve up to its usual strength.

11,511. The net result was that, having a reserve of rupees in the Gold Standard Reserve, and having a large, and, I think, almost unexampled demand for rupees, you met that demand wholly by fresh purchases in what, I think, you would describe as an unfavourable market, and did not touch your reserve?—I think that that requires some qualification.

11,512. If you think it requires qualification please correct the statement; it may have been in rather an affirmative form, but I put it to you as a question?—May I put the justification for the purchases that were made? According to my recollection, when we began purchasing we had somewhere about 13 or 14 crores in the Paper Currency Reserve—I have not the exact figures—and rather less than 4 crores in the Gold Standard Reserve; that was 17 crores in all. We wanted to begin the busy season with 24 crores; the distribution, according to my judgment, did not matter much, but we wanted to have the 24 crores and we bought for the purpose of bringing our stock up to that aggregate.

11,513. I had got the impression, perhaps wrongly, that these rupees in the Gold Standard Reserve were intended as a sort of cushion to break your fall upon the market under certain conditions; but you do not accept that view?—No; I would put it in this way, which expresses what has certainly been said by the Government of India, and I think accepted and recently accepted by the Secretary of State: If we begin with our 24 crores, which is the standard figure, then as the season goes on our stock falls and we may or may not be able to purchase fast enough to replenish it. If we are not able to purchase fast enough to replenish it, then in the latter half of the busy season we should take out the six crores, or whatever the amount might be, in the Gold Standard Reserve, and use it as a cushion at that stage and not at the beginning of the busy season. The whole question, and I think the Government of India regard it as very important, is in respect of the time at which we are to use this extra resource.

11,514. I want to ask you one other question about the use of coin or bullion in the reserve. I have not recently refreshed my memory of what you said when you were here before, and I may be asking you to repeat yourself; but when an exchange crisis occurs again and the Government has a certain holding of gold in India, as it is certain to have, how do you think the gold should be used? I take it that in the first place, if such a crisis arises, you think that the gold resources of the Government at home and in India should be freely used?—Freely and boldly used.

11,515. Without hesitation?—Without hesitation.

11,516. Now I come to the particular resources which may be in India, and which are in India under the present circumstances. What should the Government of India do with them? Should it issue the gold in its possession to all applicants as far as that gold will last, or should it ship the gold home and sell bills against it?—From the point of view of exchange, the first alternative would certainly be a bad one; I think one can say dogmatically that it would be a bad one, although there might be some advantage, if our other resources were sufficient, in allowing anyone who wished to have gold up to a moderate amount for use in India to have it. To refuse it would be to deprive him of a certain minor advantage which he has been accustomed to expect; but if one gave him the advantage, one would be doing it, in my opinion, at the expense of a somewhat greater interest, namely, the maintenance of exchange. Assuming that your first alternative is rejected on that ground, there are two other alternatives. I think that you put only one, viz.: Shall the Government ship gold itself?

11,517. Yes?—It might do two things. It might either ship the gold itself and sell bills against it, or it might issue it to exporters, having satisfied itself that they really wanted it for export, and then it would no doubt serve to a considerable extent to support exchange. That latter alternative has this weak point, that there might be a difficulty—I do not know how great it would be—in genuinely satisfying oneself about the *bona fides* of the persons who asked for gold and said that it was for export. Therefore, I think the safer course is to adopt the second alternative that you mentioned.

11,518. For the Government to ship the gold and to sell bills against it?—Yes.

11,519. Some witnesses, and witnesses whose opinion is entitled to great weight, have strongly taken the other view. I do not think that they would dispute what you say, that for the Government to ship gold to England and to sell bills against it, is the most directly effective way of maintaining exchange, and would give you the greatest exchange value, if I may so express myself, for the amount of gold, whatever it was, that you had; but they have urged upon us that any appearance on the part of the Indian Government of being unwilling to part with gold to the first-comer as long as their resources lasted would tend to lack of confidence, and so might indirectly aggravate a crisis of exchange; and though they admit that the whole of the gold you gave out, or at any rate very large portions of it, would never go to the support of exchange, yet they think the moral effect of giving it out would be a greater support to exchange than if you refused. I put that to you in order to know whether you have considered that view, and whether you hold the opinion that on balance that is illusory?—I have often considered that view. Since our currency system was established there has been a vast amount of discussion about confidence, moral effect, people's nerves, people's imaginations, and so on, in these matters. My belief, very largely based on the experience of 1908, is that when gold or any other form of sterling money is demanded from us for the support of exchange it is demanded in order to satisfy a genuine trade demand. I do not think that panic of the kind that is suggested did occur in 1908, from which we draw most of our experience, or is likely to occur, because there is really no reason why anyone should go out of his way to get any form of gold or sterling remittance from the Government unless he wants to pay a debt which can only be paid by sterling money.

11,520. One other question, which I think we dealt with in your examination when you came before us some time ago. If it were found convenient from the Indian side to change the date of the budget year, would there be any serious difficulties, as far as you can see, on this side?—Do you mean from the point of view of the India Office or of Parliament?

11,521. From the point of view of either the India Office or Parliament; the India Office, let us say, first?—I am sure that the India Office could adapt itself.

11,522. Would there be any difficulty from the point of view of Parliament if the Indian year ran, not as now, from April 1, but either from October 1 or January 1?—There would be some little difficulty: but as a rule, I will not say invariably, Parliament is very considerate to the India Office. There would be some little absurdity, perhaps, in introducing an Indian financial debate, which is called the Indian budget debate, many months after the beginning of the Indian financial year. If the year began on the 1st October, as is likely to be the case if any change at all is made, and if the debate could not take place until the following June or July Parliament might feel that there was some unreality about it. But, as I daresay you have noticed, the so-called Indian budget debate tends more and more to be a debate about Indian questions generally, in which the financial part is not of preponderating importance. Then there is a question about the date at which loans would be issued. It would require a little care to decide what would be the best time to issue a loan in order to meet the requirements of a year which began in October. Probably we should issue the loan rather late in the financial year, but if there were some special reason for doing otherwise, we could issue it in anticipation. We have done that before, and I do not think there has been any serious disadvantage. The only disadvantage is that our closing balance looked rather high when we did it, but there is not very much in that, I think.

11,523. Now I turn to quite a different subject. Since you came before us, we have had a great deal of information supplied to us about the proposal for a State bank; for my part I do not desire to examine you in any detail on that subject, but I should like you to state broadly your views upon it?—I am in favour of a State bank for two main reasons. By far the more

* Cd. 7070, App. V., pp. 207–9.
† Cd. 7070, App. III., p. 94.

important is that a part of the balance now in the reserve treasuries should be placed at the disposal of trade: and to do this by increasing the already very large deposits with the Presidency banks as at present constituted, is open to certain objections on the ground of safety, on which I had the opportunity of saying something during my earlier examination. Another reason, though less important, is that so far as some business now done by the Government is of a banking character, it would be better to transfer it to a State bank. We are all so used to the existing arrangement that we are apt to overlook its defects and its singularity. It occurred to me that one could best see how singular it is if one considered the instance of two foreign nations, one of which does a certain amount of banking business which is done by a minister and his subordinates, the minister being the representative of a Party, and liable to be attacked by the representatives of the opposite Party; while in the other nation the same kind of business is being done by a bank which, though under some kind of control, is definitely not a Government institution. I think that if one were considering two foreign nations, the latter method would commend itself more to the general judgment. I think there is some danger that those who are in favour, as I am, of a State bank, may exaggerate the importance of the advantages which it presents. I am very anxious not to give it more support than it deserves. The addition to the banking resources that it would involve—and when I say banking resources I mean the amount that would be placed at the disposal of trade—is fairly well measured by what could be taken from the reserve treasuries while leaving them with an emergency reserve of, say, 1,000,000*l.* or some such sum. One of the papers I handed in shows that very often in a busy season, when a million is held in the reserve treasuries, there is not much left to place at the disposal of trade, so that the advantage of a State bank would not be always on a very large scale.

11,524. (*Sir Shapurji Broacha.*) I think you prepared a scheme for a State bank in response to questions put you by the Commissioners?—I handed in a memorandum, if you remember, in which I defined the functions of a State bank*; but I have not done anything further since that.

11,525. Anyhow, there is no request from the Indian Government to have a State bank?—No.

11,526. All the witnesses from the Indian Government have said that they do not think it is practical politics, and they were rather surprised that this question was pressed on the Commission. It has not been brought before us as a request from the Secretary of State?—No.

11,527. And it has not come from the people of India. Why should we have a State bank if those most concerned in it do not require it?—I am afraid that occasionally the Government takes the initiative in proposing changes which other members of the Government organisation do not initiate, and which perhaps the people of India have not felt the need of. I might give you a rather striking illustration, if you will spare me a minute, of the way in which the Secretary of State is sometimes extremely useful in taking the initiative in matters of this kind. I have recently been refreshing my memory about the history of the Bank of Bombay, which failed in 1868. It interested me to see that the first step which was taken to examine into the affairs of the bank, and to check the bank on its headlong course to destruction, was taken by the Secretary of State, acting on his own initiative and in response to no suggestion made either by the Government of India or by the Government of Bombay or by the people of India. I merely put that in as showing that, because a suggestion originates in this Office, it is not on that account to be regarded as bad or uncalled for.

11,528. We have had here two distinguished financial members of the Indian Council, and whenever we asked them questions about a State bank, they were against it. If the Secretary of State wanted to take any initiative in the matter, he might have spoken to us about it?—I explained at the beginning of my memorandum* that the Secretary of State was good enough to allow me to put before the Commission such views as I personally had formed after having been connected with Indian finance for many years. I think it would have been scarcely proper, in his position as a final Court of Appeal, to take any active steps or even to indicate a strong opinion at this stage.

11,529. In your scheme you both bless it and ban it equally?—If there is one virtue that we officials try to practice it is the virtue of fairness and impartiality. I thought it right to mention the drawbacks, just as now, when I was explaining to the Chairman that on the whole I am in favour of a State bank, I thought it right to explain its limitations.

11,530. But it is is not one of the subjects given to us?—We gathered that the Commission was interested in the matter, and we thought that such views as the India Office could lay before the Commission ought to be laid before it. If the Commission had decided not to take the matter up, of course, the India Office would have had no say in the matter.

11,531. If they take it up, it will be on their own initiative, and not on account of something they are asked to do. Would it not be thought very officious of the Commission to force something for which neither the people, the Government nor the Secretary of State have asked? We might make many other suggestions which are not within the mandate of the Commission?—I do not quite agree with you, for this reason, that the question of the State bank is *ejusdem generis* with the other questions that have been definitely referred to the Commission by His Majesty's Government. It is so closely connected that I think it would scarcely have been possible for the Commission to avoid considering it in one way or another, in the same way that the Fowler Committee of 1898 did also consider it, though not with very great minuteness.

11,532. But those who were very great enthusiasts at the time of the Fowler Committee have refused to come and give evidence, because so many of the Indian conditions have changed now?—I can quite understand your attaching weight to that consideration, but I attempted to form an opinion, on a review of our Indian financial system as it now stands, regarding the advantages and disadvantages of the State bank: and since I understood the Commission was interested in the matter, I thought it natural that those who have studied the matter should lay their views before you.

11,533. We have had a witness in the person of the Finance Minister himself, who has just left office and returned to this country, which was to the effect that a State bank would make the position of Finance Minister almost untenable—he went so far as that, and he has the latest experience of any?—He is the latest Finance Minister, but I think it is fair to say that he has not had a very long experience of Indian finance. I think that if you get the same opinion expressed by men like Sir David Barbour, who was many years in the Finance Department, it would carry a great deal of weight, but I do not think that four years' experience is quite enough.

11,534. He has had five years?—It is less than five years. Sir Guy Fleetwood-Wilson went out in the autumn of 1908; he left in the summer of 1913, and in that period he had taken, I think, six months' sick leave—unfortunately he had to.

11,535. He may have had simply five years in India, but he had many years before that in which he was gaining experience of financial subjects, and was engaged in the discussion of financial matters; whereas the experience of Sir David Barbour would be ancient history, just at present?—I agree with you that it would be so on many points, but I think that on this question of organisation, and the relations of the Financial Department of the Government of India to a State bank, the old experience is still valuable.

* Cd. 7071, App. XIV., p. 339.

* Cd. 7071, App. XIV., p. 339.

11,536. You know the request was made about twelve years ago; that request has not been repeated, and it could not, therefore, have been very earnestly made?—I certainly do not wish to criticise more than I have done the older schemes for a central bank or a State bank; but I think I may fairly say that the very slight sketch which I put forward in my memorandum, and the fuller sketch Mr. Keynes has put before the Commission,* are both of a bank of a much more practical kind than was contemplated in 1898. I do not think the kind of central bank that was contemplated by Sir E. Hambro or Mr. Alfred Rothschild ever had much of a chance either of being established or of succeeding if it were established.

11,537. (*Sir James Begbie.*) I was very much interested in your scheme of a State bank. There is one point I would like to put before you, that is, if the bank is to pay interest on the Government deposits in the shape of a share of the dividends, that would mean, would it not, that the bank would be compelled to employ the whole of the Government money, as the bank could scarcely pay interest on the money without employing it?—I felt when I wrote that portion of the memorandum, that it was the part with which I was least satisfied. I wrote it under some pressure of time, and I think I indicated that that particular part of my scheme was put forward very tentatively. I have not the memorandum before me, but I quite agree with you that it might be disadvantageous from one point of view for a bank to take from the Government all through the year money that they could only use during part of the year, and that in respect of the total amount or the average amount of the money so held it should pay a certain fraction of its total earnings. I have always considered, as one does with so many contracts, that when one knows that both parties are anxious to make a contract of some kind or other, one will be able to get over that particular difficulty, but I have no desire to minimise it now.

11,538. It would be a matter for discussion if the scheme is carried further?—Yes. I think there is much weight in your criticism.

11,539. (*Mr. Gillan.*) I am not clear about what you said to the Chairman about the use to which the gold should be put that we hold in India; I think you said that it ought to be shipped home by Government?—I think that that is by far the safest way of ensuring that it will be used for the support of exchange; that is to say, to pay the foreign debt of India which for the time being is the cause of a fall in exchange.

11,540. It involves not letting out any gold for internal use; it involves stopping it, does it not?—If it is carried to the last extreme, it involves stopping it. I think when one is balancing against one another the two considerations which I put in reply to the Chairman, one should have a certain amount of regard to the magnitude of the sterling resources available to support exchange. If one had so vast a sum in London that it was enough to meet all likely demands, then one could safely say to anyone who wished to have gold for internal purposes in India: We will not interfere with you. If, on the other hand, one was doubtful as to the sufficiency of the other resources, I think perhaps one ought to harden one's heart and say, For the time being you must refrain from taking gold from the Government for home purposes. But I should be very unwilling to say anything dogmatic on that point, because, as I say, it is a question of balancing two considerations, both worthy of considerable regard.

11,541. Suppose you feel at any moment that your sterling resources in London are sufficient, then at what sort of point would you stop the outflow of gold in India?—I think the answer to that is almost of a psychological nature. So long as you are absolutely confident that you have had enough in London, then you would not deprive anyone who wished for gold for internal purposes in India of the advantages of having it. As soon as you were doubtful, you would then mobilize your gold resources to be used for the most pressing purpose. I dare say that sounds a little indefinite, but I think it is as definite as the circumstances allow.

11,542. I want to see if we can put it in any practicable form for the Government of India. Suppose you have a crisis; your resources in London may be all right to start with; sometime subsequently perhaps you get a fear whether they are going to remain all right. In the meantime, if you have done nothing in India, the probability is that any gold you had there has run out?—I think that one would be guided by the events of each day, or at any rate, of each week. Let us assume, for instance, that at the beginning of what appeared likely to be a not very severe exchange crisis, you parted with a million sovereigns in a week, and only a trivial proportion of that was exported, then I think, having lost your million, you would probably say: We must now stop the issue of gold for internal purposes. I do not think that you could decide what you are going to do more than a week or two ahead, and possibly you might have to change your decision in the course of one day.

11,543. You would not be in favour of stopping the outflow of gold the moment, for instance, exchange began to droop or anything of that kind?—Of course, one would be guided by circumstances. Supposing that the resources in London were fairly strong, and the gold held in London was so considerable that one need not be afraid of losing such a sum as a million, then I agree with you I would not stop it at once.

11,544. Supposing, after the crisis had developed, one of the exchange banks came to the Comptroller-General and said that they could export gold, we will say, to the Far East, would you let the bank have it?—Yes, I would regard that kind of exportation as one which either directly or indirectly would support exchange.

11,545. You would not be at all rigid in what you are suggesting as to the shipping by Government of the gold to London?—No; I would not be rigid. Let me explain the way I should regard it by the analogy of the way in which we arrange during the busy season whether to buy silver. At the present moment there is no harm in my mentioning that, having bought 4½ millions of silver, the Secretary of State is undecided whether to buy more, and we are constantly telegraphing to the Government of India on the subject. Our last word to them was "We will watch "events for a few weeks, and then we will decide; but "we do not want to take the risk of doing something "rather important which may turn out to be wrong "owing to the uncertainty of future events, and so we "will wait until the time comes when a decision is "necessary." In much the same way, I would deal with the question of stopping or not stopping the giving out of gold to the public for internal purposes in India. I think I am right in understanding that my answer is on much the same lines as your question; I mean my view is much the same as you were putting.

11,546. (*Mr. Keynes.*) In 1900 the proposals that were brought forward were for what one could justly call, I think, a central bank as distinguished from a State bank*?—Yes.

11,547. Are you in favour of a State bank or a central bank?—A State Bank. In fact, I think that the general outcome of my memorandum was that if there is to be a central bank at all it must be a State bank.

11,548. Do you attach importance to this State bank, though under the ultimate control of Government, being independent of Government from the point of view of day-to-day transactions?—Yes. I entirely agree with what you put (and if I may say so, put very admirably) in the memorandum† which I have read. I want to clear up a possible misunderstanding. In your memorandum you have proposed that the central board should consist of a Governor, who would be appointed by the King, a Deputy-Governor, to be appointed by the Viceroy, and the Government's

* Printed as an Appendix to the Final Report.

* *See* App. XV. (p. 355) in Cd 7071.

† Printed as an Appendix to the Final Report.

representative; you also mention in the Appendix to the memorandum the practice of certain Continental State Banks, and you leave it to be understood or misunderstood that they are the models which your scheme follows. I believe actually that you do not wish an Indian State Bank to be an instrument of Government in the same way that the Continental State Banks are the instruments of their respective Governments, and that this appointment by higher authority of the Governor, Deputy-Governor, and Government representative, is not intended to subordinate them to the Government, but to make, at any rate, the Governor and the Deputy-Governor independent to a very great extent both of the shareholders and of the Government. It is on that understanding that I give my general agreement to your memorandum, and I mention it merely because the other view might easily be taken by anyone who read your memorandum rather hastily.

11,549. I may say that what you have said is the right interpretation of what I meant. Is there anything of a general character that you care to say about the relation of the executive officers of the bank to the shareholders?—My general view would be that the shareholders must have a considerable amount of influence on the behaviour of the executive officers of the Presidency Banks at the Presidency head offices as distinguished from the central board; but the influence ought not to be of such a nature that it entirely controls the action of the Presidency head offices. One wants practically the real government to be to some extent by shareholders and to some extent by the Government representatives.

11,550. If the supreme power of the Bank is in the hands of a central board which is distinct from the Presidency head offices, is it possible, do you think, to obtain that degree of decentralisation which is required for the dispatch of business in different parts of the country?—Yes. That is one of the problems which it was the object of your memorandum to solve, and I think you have solved it—I ought not, perhaps, to express too enthusiastic an agreement with you—extremely well. I was absolutely satisfied with your solution.

11,551. What is your feeling as to the position of the Secretary of State in the event of the establishment of a bank of this kind, particularly in his relations to Parliament?—There again I can do little more than express my agreement with what you have put. You have explained that there are many subjects on which the Secretary of State would be able to say: This is a matter for the Bank and not for me. Of course that would not apply to the biggest subjects, I mean large questions of policy, but it would apply to everyday questions. I think that what you say about that is obviously correct; at any rate, to my mind it is absolutely convincing.

11,552. Do you think that the Secretary of State would be in a more favourable position than he is now in the event of criticism of financial details, or not?—I think he would be in a more favourable position. He might have more questions put to him, but he will have better answers to them.

11,553. I suggested that if there was an establishment in India in a position to buy sterling bills on London, some part of the Secretary of State's floating resources in London might be held in the form of sterling bills having an early maturity; what is your general opinion with regard to that suggestion?—I have no objection to that, provided it is accompanied with what I understood you to contemplate, a limitation of the bills to those which bear the names of firms or institutions of very great repute.

11,554. Bank bills?—I think they would be bills either drawn, or accepted, or endorsed by the exchange banks. If it became a question of holding bills, the names on which were names of private firms, about whom it might be difficult to get information, then it would be undesirable that the State Bank should hold such bills; but you do not contemplate that.

11,555. If that were done, do you think it would do anything towards meeting the criticism against holding a great deal of Indian money in London, and using it for the general support of the London Money Market, and only indirectly for the support of Indian trade?—I think it would have some effect. I do not attach quite so much importance to it as you do in your memorandum, for two reasons. I do not suppose that the exchange banks would bring all their bills, perhaps not even the greater number of them, to the India Office, or to the State Bank in India, to be rediscounted; and I do not suppose that the State Bank would wish, on its side, to be regarded as the one regular resource for the re-discounting of bills, which would set up the idea that it undertook a greater obligation towards the exchange banks than it really wished to do. Perhaps I might mention this consideration, which no doubt you have not overlooked—that the chief difference between the present method of the Secretary of State making his remittances, and the new method which is proposed in your memorandum, is that at present the Secretary of State gets the money before he pays out rupees: he gives no credit, but credit is given by the Bank to the Government. Under your method, the State Bank would be giving credit, and would be making payment before it received the equivalent. Although that is quite reasonable, one does not want to do it to an unlimited extent.

11,556. If it is an alternative to lending money at short notice in London, what it amounts to is substituting the holders and backers of the bills for the brokers who now get the money, is it not?—The firm that now borrows money pledges not only its own general resources, but specific resources as well. That would not be the case if the State Bank re-discounted the bills for the existing bank.

11,557. But you would not maintain, would you, that there was any appreciable risk in taking bank bills of that sort?—No, I should not say there was much risk; but when many millions were involved, you do not want to take even small risks. I am not arguing against doing what you propose; I am only arguing that it might not be advantageous to do it on a very huge scale.

11,558. I should like to ask your opinion with regard to some of the main criticisms against a State Bank which we have heard. The one which I think we have heard most frequently from witnesses is that India is too large and various in local customs to be worked by a single bank?—I am not much impressed by that. I ought to be, perhaps, because I know many critics with a very great knowledge of India, like Sir Shapurji Broacha, attach very great importance to it. But if one considers how widely spread are some of the great banks, for instance, the Chartered Bank of India, Australia, and China, or the Hong Kong and Shanghai Banking Corporation, it does not seem to me that there ought to be any insuperable difficulty in having one bank which does business in various parts of one country. The same criticism, if there was any force in it, would apply to the Bank of Bengal, which has advanced certainly as far East as Burma, and as far West, I believe, as the United Provinces, but I do not know what is its westernmost extremity.

11,559. (*Mr. Gillan.*) They go into the Punjab?—If the same bank can operate in Rangoon or Mandalay, and in Lahore, I should think it could not be impossible for the same bank to operate in Calcutta and Bombay.

11,560. (*Mr. Keynes.*) The criticism, perhaps, of next importance, or at any rate, which we have heard most frequently, is, I think, that the local jealousies of Calcutta and Bombay are too strong for them to agree to work together in a common institution of this kind?—I have seen in the papers many indications that the Bank of Bengal, the Bank of Bombay, and the Bank of Madras are all prepared to look favourably on this scheme. I think that is really the best answer I can give. It would be useless for me to try to estimate the local jealousies. I have never been in India, as you know; perhaps, when I come back from India a few months hence, I shall have an opinion on the subject.

11,561. During the negotiations in 1900–1 a good deal of emphasis was laid on the position of the exchange banks in the event of the establishment of a State Bank; do you think there is anything which interferes in an unreasonable way with the interests which those banks have established in the sort of proposals we are contemplating?—Nothing at all. I have read the evidence given by Mr. Toomey and Mr. Fraser. They were evidently contemplating a State Bank which would take exchange business out of their hands.* They very much disliked the idea, and I think any of us being in their position would have disliked it. But I should imagine that when they read the memoranda which you and I have drawn up about the State Bank, which provide most tenderly for the interests of exchange banks in respect of exchange business, they will probably feel that their only objection had disappeared. Perhaps I am rather confident, but it seems to me that the only substantial objection that they put forward is absolutely met by those memoranda.

11,562. I think you have already, in answer to Sir Shapurji, dealt with the argument that there is no popular clamour for the bank, and also in an earlier answer to me in regard to the position of the Secretary of State. There is one other argument, the historical argument, which is held to prove the experiment of semi-State Banks was not fortunate; is there anything that you care to say in regard to that?—The common argument is that the failure of the Old Bank of Bombay shows that the less the Government have to do with a bank the better it is. I have been through the Report of the Commission of Enquiry into the failure of the Old Bank of Bombay and also some other documents and books connected with the matter. It is as clear as daylight to my mind that the one lesson which is to be deduced from all that history is that it is most desirable that in such a matter as banking, especially in a country like India, the Government should exercise a certain amount of effective control over it. I noted in reading through the Report what were the chief causes of the failure of the Old Bank of Bombay. One set of causes was a number of defects in the Acts and Byelaws which governed the Bank. They, as a matter of fact, have since been removed, and one need not dwell on them, except to say that at the time of the failure, and shortly before the failure, too much discretion was given to the Bank and its officers in granting advances. Now the constitution has been improved, and there is a reasonable amount of discretion, but not an excessive amount. Apart from those constitutional defects, the causes of the failure of the Bank were personal causes. In the 60's, owing to the American Civil War, there was first of all a great accession of prosperity to Bombay, owing to the demand for Indian cotton, and then when the war was coming to an end the prosperity of Bombay received a very sharp check. It was within that period of sudden prosperity and sudden cessation of prosperity that the failure occurred. In those very difficult times the bank was managed by a number of people whose qualities are very fully described in the Report of this Commission, published in 1869. It was a very strong and good Commission. They mentioned, if I may quote a few pages I copied out, that the secretary of the bank was a person of imbecility and weak moral character. He accepted allotments and shares from promoters of almost all companies started in Bombay, and embarked on large share speculations on his own account. He concealed from his directors the fact that he was lending money on personal security, and his concealment is quoted by the Commission as showing that he was dishonest, and deceived those by whom he was trusted. They mention one of the Government directors who attended the bank only on board days, and presided at meetings of the directors, and looked in once or twice a week, but who otherwise would be absent at very critical periods. He was absent entirely during three months in the critical year 1864. It is mentioned that he said he was ill during this period, but was not too ill to attend at his office or at the bank when he chose to do so; notwithstanding failing health, he was busy at this time procuring allotments in the best companies that were brought out—as you know, it was a time of the flotation of very many speculative companies—and selling such allotments at the proper time to secure good profits. He made within a certain period by successful speculation of this kind 37,000*l.* They end up their remarks about him by saying that his whole administration, after the passing of the Act of 1863 which altered the constitution of the bank, was remarkable for nothing but idleness and incompetence. The third person who is mentioned is one whose name, I think, can scarcely be omitted, because it was so famous in his day, a certain Premchund Roychund. I believe he was a man in private life of very high character. But he was a great, and for a time, successful speculator, and had a most persuasive personality. For some years, the Commission say, the bank practically was his; he said what was to be done, and it always was done by the officials of the bank. They say of him that he acted without any sense of responsibility or duty, without honour or principles himself, that he corrupted the secretaries, never disclosed to his brother directors the business the bank was doing, and used its money for his own purposes and for the ruin of the interests of the bank. Besides using the bank's money for his own purposes he also procured large amounts, so I gather from another authority,* for his partners in speculation, and the balance due from him when the bank broke up was about a quarter of a million. I mention those facts because I think they show that the dangers and troubles which led to the failure of the Bank of Bombay are partly such as are not likely to recur; I mean that it is scarcely thinkable that at the present time, there should be such a collection of incompetent, dishonest, and wildly speculative people in charge of the bank. But, although troubles of this kind are not likely to recur, it is clear, I think, that if there is any slight tendency in the same direction at any time in a speculative period, it is an advantage that the Government through officials who are notoriously of a very non-speculative disposition, should have some slight power of control. I was going to mention in this connection, but I have already mentioned it in answer to Sir Shapurji, that such useful work as was done in stopping the bank before its troubles became even more serious than they actually became, was done by the Government, and, as I mentioned, to some extent by the Secretary of State. In summarising these facts I do not know that I have brought out the conclusion which I deduce from them, but it is that so far from supporting the view that the Government ought to have nothing to do with banking, this history supports exactly the opposite view—that Government control, if wisely exercised, is very salutary in regard to the management of a great bank.

11,563. (*Lord Faber.*) Do you think that any rules you could lay down over a series of years would prevent the existence of rogues?—No. One of my reasons for wanting Government directors is that, if you do not have them, you have to rely merely on rules, and I entirely agree with you that you want something more than rules—you want personal contact, knowledge, and supervision; and I think it is only by some Government participation in the management of a bank that you can have that.

11,564. (*Chairman.*) In this particular case you did have a Government director, but the choice was unhappily so unfortunate that he involved the responsibility of the Government without protecting it?—He, to some extent involved the responsibility of the Government. In the end the Government had to put money at the disposal of the bank in order to meet pressing creditors, and I think that would have been equally the case if there had been no Government director. I should like to mention that so far as I know—I ought to have made certain of this, but I

* Cd. 7069, Q.A. 2621, &c.

* See *Premchund Roychund, His Early Life and Career*, by D. E. Wacha (Bombay), 1913, p. 160.

have not had time—I believe the Government director was not an official.

11,565. *(Mr. Keynes.)* I was on the point of asking that: you rather implied by saying that he was able to attend at his office, that he was a private merchant?—He was a private merchant. I really to some extent pin my hopes of the good management of the State bank on the Government director being an official with the good qualities and the limitations that go with the official training.

11,566. I have not any further questions to ask on the State bank, but there is one other that I should like to raise. In the evidence which you gave us some months ago, I think you laid a good deal of stress upon the possibility of the reserves being allowed to increase to a wasteful level, by which you meant the reserves getting bigger than ordinary prudence required. That view was strongly supported last week by Lord Inchcape, but I should say that the majority of the other witnesses we have heard rather laid the emphasis the other way and took the line that there was much more danger of the reserves being too small than of their being too large. In taking that view do you hold that it is the total sterling reserves in all forms which might be wastefully large, or that the Gold Standard Reserve taken by itself might be wastefully large?—I do not think that I would draw a very sharp distinction between the two views. If I may put my view it is that when we have provided in whatever way a sufficient amount for the maintenance of exchange, then other resources that might be held in reserve for the maintenance of exchange should not be so held. But I think that there is great convenience in having a somewhat definite idea of what particular reserves are to be used for the maintenance of exchange. If I follow your question you were contemplating the possibility, although I quite agree that you did not put it as your view, that one might at each time consider what are the total resources, including the cash balances held by the Secretary of State, available for the maintenance of exchange, and then decide about the management of the Gold Standard Reserve on the basis of such a review. That does not much commend itself to my mind, because one has to distinguish between the reserves which are permanently held for a particular purpose, and those which, though large in one year, may be very small in another year.

11,567. I was arguing rather on these lines: I quite agree that there is a risk of the total reserves being too big, and that would be a most unfortunate thing for so poor a country as India: but there are two possible ways in which excessive reserves might be avoided: Assuming that the reserves outside the Gold Standard Reserve were to remain at about their present level, you might on that hypothesis fix the total for the Gold Standard Reserve; or, on the other hand, you might fix no total for the Gold Standard Reserve, and leave it to the administrators of the country to diminish the amount of sterling resources held in other ways as the amount of the Gold Standard Reserve gradually increased?—I think as a working rule—a rule which it would be easy to work from the Government point of view, and easy for the public to understand—it is better to adopt a certain assumption as to the other resources including the gold in the Paper Currency Reserve and the cash balances, and to say on that assumption that the Gold Standard Reserve ought to be of such and such amount, and then that policy having been set forth, when certain profits of coinage accrue and they are in excess of what is required for the Gold Standard Reserve, one could use them for other purposes, and say to the public that all this is in accordance with the policy which has been clearly set forth, and which is generally accepted and understood.

11,568. But you would agree, would you not, that the amount of the reserves outside the Gold Standard Reserve is very fluctuating, and depends not upon any formal rule or statute but upon the actual policy pursued in a great many different particulars at a given moment?—That is so to some extent; partly, I think, because there has been so much difference of opinion at different times between different authorities as to the right method of handling such reserves as the gold in the Paper Currency Reserve. Supposing that this Commission adopted the view that it is advisable to have in England so many millions of gold, 5 or 10 or whatever it might be, in the Paper Currency Reserve, I think there would be no difficulty in keeping up to that; it might fall a little below at one time and might rise a little above at another time, but one could fairly confidently work to any standard which the Commission recommended.

11,569. If you were drafting a recommendation of this kind, how would you put it? Would you say, assuming there are 20 millions in gold in the Paper Currency Reserve, then the Gold Standard Reserve should not exceed 25 millions—I am taking the figures hypothetically? Would you frame your recommendation in that sort of way, or how?—I should be much more explicit and peremptory than that. I would say the wise course is to hold in the Paper Currency Reserve in England so and so many millions—it is no good giving a figure now—and it is wise also to hold a Gold Standard Reserve to which the profits of coinage up to a certain amount, 25 millions was the figure I mentioned, should be regularly added, together with the interest on the securities and to which, after the total of 25 millions had been reached, only half the profits of coinage would be added. I should assume as one fairly could assume, that the first part of that double recommendation would be carried out.

11,570. Would you leave out of account the gold which is held in India?—I was assuming for the moment, to illustrate rather the form than the substance of the recommendation, that that was being left out of account, but I see no reason why it should be entirely left out of account. As I say, my main reason for not mentioning it was what I explained, and in addition to that the amount is peculiarly fluctuating. We can regulate the amount of gold held in the Paper Currency Reserve here much more closely than we can regulate what is held in India.

11,571. If you more or less neglect the gold in India, and only take formal account of the Gold Standard Reserve and the gold in London, you would say that the limitation of the gold in London, plus the Gold Standard Reserve, is a practical issue? Are we within measurable distance of such a limit as you would fix?—Yes, I should say so. According to my view, if we had 30 millions in the Paper Currency Reserve in London and the Gold Standard Reserve combined, we should have enough to provide for all needs for which it is wise to provide. As you say, I attach great importance to it—I hope I do not weary the Commission too much by expressing my views on that matter—but I think that the India Office is in a peculiarly favourable position for regarding Indian finance as a whole. The currency position is a very important matter, but, of course, it is not the whole of Indian finance, and I feel very much from my experience that there is a danger, unless the general principle that Mr. Keynes has mentioned is duly regarded, that India will be making great sacrifices unnecessarily to appease the quite unreasonable fears about the sufficiency of the supports for exchange; and India, above all countries, is a country which cannot afford to make such sacrifices. If one offers up several millions to a sort of idol or fetish, it is a matter of very great regret.

11,572. You would attach very great importance, then, to some limitation—I need not settle on, the precise figure—of the sterling resources held in London?—Yes. I should attach great importance either to a limit being suggested by the Commission, or else—which would be almost as good for my purposes—to the Commission very definitely and strongly recognising the fact that at some time or other, even if not now, a limitation is required in order to avoid waste, which India cannot afford.

11,573. *(Sir Shapurji Broacha.)* You lay great stress, in your memorandum in favour of a State bank,* on there being directors appointed by Government. You have given an account of the failure of the Bank of Bombay. The regulations, which were changed in

* Cd. 7071, App. XIV., p. 339.

1863, were not very strict then, and the bank departed from the rule in lending on securities of a very speculative kind; but there were two Government directors on the board, and they made no remonstrance?—That is so.

11,574. I suppose human nature has not been changed much since then?—I do not know whether you noticed that, in reply either to the Chairman or to Mr. Keynes, I mentioned that the Government directors were, I believe, not officials.

11,575. I believe that the failure of the Bank of Bombay was inevitable, as some people even had predicted, when the regulations were relaxed, and the Government allowed the Bank of Bombay to lend on speculative shares?—May I interrupt you to say that, if my recollection is correct, it was the Bank of Bombay which wished the clause to be inserted allowing loans on speculative shares. The Government ought to have refused to agree. I think we should all be at one on that.

11,576. Many attributed the failure of the Bank of Bombay to lending on these speculative securities, but that was done by Government sanction, and the blame was divided between the Government's directors and the Government. Turning now to another bank, the Bank of Bengal was not permitted by a statute to lend to any person more than a lakh of rupees. There were two Government directors on that bank. I will read you what is said about this:—"Meanwhile the Bank and Calcutta generally had been passing through difficult times. Between 1829 and 1832 there were several severe commercial panics consequent on the failure of some of the largest of the Calcutta houses. The bank itself appears to have been in no great danger, but stepped in to protect one of the most important firms which still remained, and in so doing deliberately infringed its Charter. To this firm the Board directly or indirectly advanced more than 23 lakhs, the extreme permitted by the Charter being one lakh. After the advances had been made they accepted some indigo concerns as collateral security, though the Charter prohibited the lending of money on the security of immovable property. Finally, when the firm failed in December 1832, the Directors worked the indigo factories themselves, being unable at the time to sell them to advantage. This again was contrary to the provisions of the Charter, which expressly prohibited the Bank from engaging in trade. The Government Directors had concurred throughout in the action taken, without apparently even mentioning the matter to the Government, and when, after all was over, an explanation was called for, they joined with the mercantile Directors in defending their course of action as the only policy they could properly have pursued. 'The occasion was one,' they said, 'which called for extraordinary and prompt aid, and though they were aware of the literal objection in the Charter Deed to an advance in excess of one lakh of rupees to any one party on simple personal security, they did not decree the spirit of the Charter to be opposed to a contingency which it could never have contemplated.' Elsewhere it is stated that the rule limiting advances to one lakh had been 'avowedly and openly contravened from the first.'" How can you pass any statute or any charter for a concern of such a vast magnitude?—There is a substantial point here on which I should like to say one word. I quite agree that you cannot rely upon a charter or statute or byelaws to secure the proper regulation of a bank. You might say, pointing to what happened in 1832 and 1868 in Bengal and Bombay respectively, that you cannot rely on officials because if you ask them to look after a bank they will not do it properly. My whole reason for thinking that Government supervision or participation in the management is desirable now, is—I hope it does not seem too self-satisfied to say so—that official work is done incomparably better now than it used to be done. If you will allow me I will mention one fact which will interest Lord Kilbracken, as he was in the India Office. When this Act of 1863, which allowed loans on securities of all kinds, came to the India Office to be examined, I gather from the Report of the Commission of Enquiry that there was only one India Office official who wrote anything on it.* He was the Assistant-Secretary of the Judicial and Public Department of the India Office, who had it through his hands because it was a legislative question in form, though it was financial in substance. He wrote two words in pencil on the margin of the draft Bill, and that seems to have been the only thing that was done by any permanent official of the India Office. I think the Secretary of State himself wrote a few words, but below the Secretary of State those were the only two written by anyone. This official was apparently the only one who did anything with it. I think Lord Kilbracken will tell you that things are not done in that way now.

* *See* Parliamentary Paper of 1869, "Bombay Bank Commission, Report of the Commissioners," p. 5.

The witness withdrew.

TWENTY-EIGHTH DAY.

At the India Office, Whitehall, S.W.

Friday, 14th November 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. *(Chairman).*

LORD FABER.
LORD KILBRACKEN, G.C.B.
SIR ERNEST CABLE.
SIR SHAPURJI BURJORJI BROACHA.
SIR JAMES BEGBIE.

MR. ROBERT WOODBURN GILLAN, C.S.I.
MR. HENRY NEVILLE GLADSTONE.
MR. JOHN MAYNARD KEYNES.

MR. BASIL P. BLACKETT *(Secretary).*

MR. LIONEL ABRAHAMS, C.B., recalled and further examined.

11,577. *(Chairman.)* We want this morning to examine you on the financial organisation of the India Office, which is one of the subjects referred to us. I suppose that in the last resort the Secretary of State in Council is supreme in all matters of Indian Finance?—Yes.

11,578. Under him will you tell me what has been the recent organisation of the Office in that respect?—Shall I begin from the top and go downwards?

11,579. Whichever way you prefer?—I think on the whole the more convenient way is to begin from below. There is a Financial Department which consists of the Financial Secretary and certain subordinates whom I need not particularise. He is responsible in the first instance at least for putting forward financial questions which have to be considered. Then above him there was until two years ago, between him and the Secretary of State in Council, practically no one except the Permanent Under-Secretary of State, because the Assistant Under-Secretary of State took very little part in financial work. Anything that was put forward by the Financial Secretary would be considered by the Permanent Under-Secretary, and then would go, if it was of importance, to the Secretary of State himself.

11,580. (*Lord Kilbracken.*) If I may interrupt for a moment, I think a great many papers, especially important ones, were also seen by the Parliamentary Under-Secretary on their way to the Secretary of State?—Yes. When I was Financial Secretary it was not within my knowledge what happened between the time when the papers went from the Permanent Under-Secretary to the time when they reached the Secretary of State, but I have no doubt it is the case, as you say, that they were seen by the Parliamentary Under-Secretary.

11,581. It was a matter of arrangement between the two Under-Secretaries that the Parliamentary Under-Secretary always saw certain papers which he wished to see on their way to the Secretary of State, and any important paper would certainly be among them. I will put it in the form of a question: Have you any reason to doubt it?—No, I have no reason to doubt it. I did not mention it because really, as I say, it was not within my knowledge. One noticed that you, when Permanent Under-Secretary, would sign a paper, showing that you had seen it, and then the next signature which appeared on it was that of the Secretary of State, showing that he had had it before him. The Secretary of State referred it to the Finance Committee as a rule. Then the Finance Committee made its recommendation as to whether what was proposed should be accepted, and then, if I may disregard certain minor details of machinery, it went to the Council, over which the Secretary of State presides, to be considered there: and the Council, with the Secretary of State presiding over it and directing its proceedings, would be the final authority.

11,582. I think it went back from the Committee to the Under-Secretary, did it not?—Yes; when I said that I omitted certain details of machinery, those were the details which I omitted, rather to abbreviate.

(*Chairman.*) I think those are of sufficient importance to be put in if there are any details of that kind.

11,583. (*Lord Kilbracken.*) It came back from the Committee to the Under-Secretary of State with the recommendations of the Committee?—Yes.

11,584. Which might or might not be very important; and it was then in the discretion of the Under-Secretary of State to take such steps with regard to that paper as he thought proper; he might send it at once to the Council, he might refer it back to the Secretary of State, or he might do other things?—Yes.

11,585. I do not think that step should be altogether omitted?—No.

11,586. (*Chairman.*) I am not quite sure what would be the first stage when a paper dealing with finance came into the office?—It would go to the Financial Secretary's Department.

11,587. And then from him it would go to the Permanent Under-Secretary?—Yes, with probably a draft of a despatch, or a telegram, or whatever was necessary.

11,588. From the Permanent Under-Secretary to the Parliamentary Under-Secretary and on to the Secretary of State?—Yes.

11,589. (*Lord Kilbracken.*) It would be seen by the Parliamentary Secretary on its way to the Secretary of State?—Yes.

11,590. I do not think the Parliamentary Secretary ought to be altogether left out, but he was not responsible, as a rule, for the passing on of the paper if the Permanent Under-Secretary was there?—No, quite so. The reason I left him out was this. It is perhaps not a matter of great consequence to explain, but I want to make it clear. I, as Financial Secretary, would send a paper to Lord Kilbracken—or Sir Arthur Godley, as he then was—and I would notice the initials "A.G." written on it, together with some expression of approval or disapproval if that was thought necessary. Then I would notice that the next initials on it were those of the Secretary of State, and I was not aware that at that time it was a regular practice that the Parliamentary Under-Secretary, though he did not write anything on it, even his initials, should actually see it.

11,591. (*Chairman.*) We will take that from Lord Kilbracken, I think. Then the paper going from the Permanent Under-Secretary, being seen by the Parliamentary Secretary, is laid before the Secretary of State?—Yes.

11,592. Does the Secretary of State always refer it to the Finance Committee, or would he in some cases deal with it without thinking it necessary that it should go to the Finance Committee at all?—In some cases, especially urgent cases, he would deal with it himself. You will find in the statute certain provisions for dealing with urgent cases.

11,593. But unless there was urgency the ordinary course would be that the Secretary of State would refer the paper to the Finance Committee?—Yes.

11,594. It goes, therefore, to the Finance Committee after going to the Secretary of State, and not, as a necessary part of the routine, before it goes to him?—If the paper were not very important, the Permanent Under-Secretary would mark it direct to the Finance Committee, but I think that your question refers to really important papers, and, if so, what you say is correct.

11,595. Going down to the bottom of the scale, you say that there is a Financial Secretary with certain officers subordinate to him?—Yes.

11,596. What officers has he to help him—what First Division Clerks?—He has first an Assistant-Secretary, then he has at the present time one Senior Clerk, as we call that class: they would be called First Division Clerks in the Treasury. There are also two Junior Clerks—what you would call in the Treasury Second Division Clerks—and then there is a number of clerks of the lower grades.

11,597. You have not mentioned in the organisation of the Finance Department the Accountant-General?—No.

11,598. Does he stand outside it?—Yes, he is the head of a Department separate from the Financial.

11,599. Can you broadly indicate to me how the functions of the Financial Secretary and his Department are separated from those of the Accountant-General?—The Financial Secretary deals with questions of policy, and obtains the decision of the Secretary of State in Council. The primary function of the Accountant-General is to make payments and to receive moneys which have to be made or received respectively in pursuance of the decisions arrived at by the Secretary of State. Then naturally connected with that work is the work of preparing accounts of expenditure and receipt of each year, and preparing estimates in anticipation of the financial year. Another important duty of his, which is not in all ways necessarily connected with what I have mentioned, is to superintend the lending of our balances. I think generally that sums up the work of the Accountant-General. To make it quite complete I should mention that some years ago we arranged that the administration of certain funds managed in this office—funds for pensions for widows and orphans, and so on—should be transferred to the Accountant-General.

11,600. The Accountant-General, therefore, with a possible exception of the loaning out of balances, does not deal with questions of policy?—In connexion with the funds he now does, but subject to those exceptions it is as you say.

11,601. And it is no part of the practice of the Office that all financial proposals should pass through the Accountant-General's hands?—No; occasionally an important question of account-keeping is involved in a financial proposal, and then it would be referred to the Accountant-General in the same way that there is special provision for that in the Treasury, I think. You have an officer of accounts who advises on such matters.

11,602. I am asking these questions because with a little experience of other Offices I am, perhaps, very liable to be misled into supposing that the same name connotes the same authority or duties?—I know great confusion arises from people assuming that an Accountant-General here does the same work as an Accountant-General in India, for example. There is a very striking difference.

11,603. I think you said that until two years ago the papers on finance commonly went from the Financial Secretary to the Permanent Under-Secretary, and that the Assistant Under-Secretary took very little part in financial business?—That, I think, was the case. Lord Kilbracken will confirm it, I think.

11,604. But that has been altered in recent years?—Yes. I had some observations to offer on that, but they would, perhaps, come at a later stage.

11,605. I want to get the facts first?—Yes.

11,606. I understand that when you were appointed Assistant Under-Secretary, you having had special experience in finance, and being so long Financial Secretary, continued to deal with financial matters?—Yes.

11,607. And accordingly at present the papers would go from the Financial Secretary to the Assistant Under-Secretary?—Yes.

11,608. And from him on through the course which you have already described?—Yes.

11,609. Now, as regards the Finance Committee, that is, I presume, nominated by the Secretary of State?—Yes.

11,610. How is it composed?—As a rule the Chairman of it is what we call our City Member. He was for some years Mr. Le Marchant, and then Lord Inchcape—Sir James Mackay, as he then was—and now Sir Felix Schuster.

11,611. Let me just ask a question upon that point to get the matter quite clear. The Chairman is nominated as such by the Secretary of State, is he not?—Yes.

11,612. He is not chosen by the Committee?—No, he is appointed by the Secretary of State. Then there is usually on the Finance Committee a Member of Council who has had general administrative experience; he would be usually a retired member of the Indian Civil Service. There is also, as a rule, a military man, because naturally in all Government finance military expenditure plays a very large part. At the present time, for that reason, General Sir Charles Egerton is a member of the Finance Committee. It is also customary, and certainly very convenient, that one of the members of the Finance Committee should be a Member of Council who is also a Member of the Public Works Committee. I think that would almost explain itself: the public works business is so closely connected with financial business that it is well to have one member who is a link between the two Committees. That, I should say, is the normal organisation of the Finance Committee, but it varies a little. At one time, for example, quite recently, we had two Members of Council of general administrative experience; there was not only Sir Steyning Edgerley, to whom I have just referred as the member of the Indian Civil Service, but also Sir Krishna Gupta (also a member of the Indian Civil Service) who has general administrative experience, and also may be held to look specially carefully after questions in which natives of India are interested. He, this year, is not a member of the Finance Committee; but he might be in any future year.

11,613. I think that gives us the outline of the organisation. Now I should like to ask your opinion about some details of it. I go back first of all to the Financial Secretary's own branch, the specialised branch of which he is the head. Does your experience lead you to think that he has in that branch assistance of the amount and of the character which he requires?—Yes; when I was Financial Secretary the then Permanent Under-Secretary was extremely generous when I made any request for additional assistance, and I had, and I think my successor feels that he has, quite as much in the way of staff as can reasonably be asked for. Of course, the quality of it depends upon the Civil Service competition system generally, and the quality on the whole is, I think, exceedingly good.

11,614. I presume I may take it that the civil servants who enter the India Office are very much of the same class as those with whom I have become familiar in other offices?—Yes.

11,615. And that on entry men posted to your branch would probably have no special experience of financial affairs, but they would acquire that experience in the office?—Quite so. Of course many of them would have had an interest in the study of economics during their University days.

11,616. Then we come to the Financial Secretary, on whom, I think, from what you have said, a large weight of responsibility must rest for the proper preparation of papers for the consideration of the higher authorities?—Yes.

11,617. Has he time for that?—In the remarks which I mentioned that I should like to make, I wanted to set forth that he is under the normal organisation——

11,618. Let me interrupt you. If you like to read the paper which you have, by all means read it?—I think this a suitable moment, if I may.

11,619. Read any part which is relevant to your answer to my question?—"Speaking from my experience since 1902, I am quite sure that so far as "concerns the permanent establishment the normal "financial organisation of the India Office"——

11,620. I do not know whether you would like to preface it—I think you had better—by the paragraph which you put at the top of the paper?—I should have preferred to, but I thought you would like me to shorten it. If you will allow me, I will read it from the beginning.

11,621. Please read it?—"Lord Crewe has authorised me to submit to the Commission such "observations regarding the financial organisation of "the India Office as are suggested to me by my "experience of the Financial Department. Under this "authority I should like to say something regarding "the permanent establishment. Questions relating to "the scheme for modifying the duties of the Council, "on which Lord Crewe spoke in the House of Lords "on the 31st July last, are beyond my province. "Speaking from my experience since 1902, when I "became Financial Secretary, I am quite sure that, so "far as concerns the permanent establishment, the "normal financial organisation of the India Office (as "distinguished from that which exists, almost acci-"dentally, at the present time) fails to provide as "adequately as might be done for the efficient con-"duct of business. I am also quite sure that the "defect can be easily remedied. To make my meaning "clear, I should explain how the normal organisation "differs from that which happens to exist at the "present moment."

11,622. You have described the general organisation, and I understand that the difference which exists at the present moment really lies in the fact which my examination has elicited, that the late Financial Secretary is now Assistant Under-Secretary, and having special knowledge of finance he continues to aid in the work of finance?—Yes. It might perhaps be put in a less personal way if I said that instead of there being one official who is primarily responsible for financial work there are two; that is to say, the numerical strength has gone up 100 per cent.

11,623. I think you had better go on with your paper from the words "Normally the duties of the latter"?—Would you allow me to go on from where I left off?

11,624. Yes, if you like?—"The general arrange-"ment of the permanent staff, consisting of nine "departments and two higher officials (of whom one is the Permanent Under-Secretary of State, the other the Assistant Under-Secretary of State and Clerk to the Council), is explained in the memorandum* that I have submitted on organisation and procedure. Normally the duties of the latter of these officials are dignified but not of very great importance for the disposal of business; and the main work of supervision is done by the Permanent Under-Secretary of State. He may be familiar or unfamiliar with finance. Even if he is familiar with it, the time that he can give to financial work, when supervising practically all departments, is limited; so that such work, so far as done by the permanent staff, tends to fall normally on the Financial Secretary and his subordinates," with the exception of the work done by the Accountant-General, as you elicited. "This means that the burden falls almost entirely on one man and his staff, since as a rule the Finance Committee and the Council participate in the work only when questions are laid before them at a stage when they are ripe for decision. The burden is heavier than one man should bear. He may have to deal with large questions when jaded and pressed with conflicting duties; he cannot attempt to keep up as he should his general financial and economic knowledge; he is likely to break down at intervals from overwork. These are the defects of the normal organisation." The organisation which exists at the moment is one about which I have given full information, I think, and it seems to me to be a much better one, "since it relieves the Permanent Under-Secretary and the Financial Secretary and, by doubling the number of responsible persons charged with financial work, increases the chance that it will be well done. This present organisation, as I have indicated, is different from the normal one. It originated in the fact that Sir Richmond Ritchie, the late Permanent Under-Secretary, proposed its introduction in 1911, when Mr. Campbell, my predecessor, died. But for his untimely death the present organisation would not be in existence; and there is nothing to secure its permanence." That is a criticism of the present. Now shall I go on and read the suggestion that I make?

11,625. Please do?—"The suggestion that I venture to make is that the organisation of the India Office, so far as concerns the higher members of the permanent staff, should be based on the recognition of the fact that the work of the Office as a whole falls roughly into two halves, the one administrative and general, the other (including the work of the Financial, Public Works, Accountant-General's and Stores Departments) of a business nature. The recognition of this would naturally involve that one of the two higher members of the permanent staff should be regularly charged with the supervision of the financial or business work of the office, and chosen as being qualified for this duty. Such a scheme would correspond roughly to the practice that has been in force during the last two and half years. If, which is what my experience suggests as desirable, the present practice were definitely recognised and made permanent, certain minor changes of organisation would naturally follow, but, though such changes are of some practical importance, it is scarcely worth while to take up the time of the Commission by going into them." Then I have a further remark as to how far what I have said would apply in the event of a large scheme being introduced for the reorganisation of the Council. Shall I read that?

11,626. Yes, please make that observation?—"What I have said is, of course, the outcome of experience under the Council as now organised and working through committees. It would be equally valid, in my opinion, under a scheme in which the connexion of Council with the permanent staff was maintained through individual members of Council instead of through committees, provided that the tenure of office of a member of Council were limited to seven years, as now, or to a shorter period, but if the Financial Member of Council under any new scheme held office on the same tenure as a permanent official, the need for the arrangement that I have sketched would be much less, as some at least of the duties that I have mentioned as those of one of the higher members of the permanent staff might then be discharged by the Financial Member of Council," who would really be a permanent official, and scarcely to be distinguished from any other permanent official of equal status.

11,627. I understand from what you have said that I am not to look to you for information as to Lord Crewe's scheme of reorganisation?—No, Sir Thomas Holderness will speak about that.

11,628. Then I set that on one side, merely noting your opinion that the suggestion which you have made is equally applicable to such a reformed scheme as to the existing scheme?—Yes, provided that the tenure of the Member of Council under the reformed scheme is a short tenure—a definitely limited tenure.

11,629. Having asked about the organisation of the Finance Department and about the duties of the Financial Secretary and the Assistant Under-Secretary, I now come up to the Committee again. Do I understand that it is the practice that every Member of the Committee must be a Member of Council?—Yes; the Committee is a Committee of the Council.

11,630. Is it a statutory obligation that the Members of the Committee should be Members of the Council?—What the Statute provides is that the Secretary of State may, if he so wishes, divide the Council into Committees for the more convenient conduct of business, and the Finance Committee comes into existence through the exercise by the Secretary of State of that power.

11,631. On the composition of the Committee as described to me by you, one question naturally occurs to my mind. I put it to you, but if you consider it outside your province to answer it I shall take your reply, and I shall put the question to Sir Thomas Holderness. I do not observe that the constitution as described by you has actually provided for any representation of Indian financial experience on the Committee of the Council in recent years?—No; the practice varies. For some years there was a Member—in fact, at one time there was more than one Member—possessing experience either of finance or commerce gained in India. At one time there was Sir James Westland, the late Finance Member of the Governor-General's Council. When he died, Mr. Finlay, who had been Financial Secretary in India, was appointed a Member of the Council; and then, in addition, there have been such men as Mr. Robert Hardie, who occupied in the Bank of Bengal a position similar to that which Sir James Begbie occupies in the Bank of Bombay. Then Lord Inchcape, whom I think I mentioned as the City Member, would perhaps have been more properly described as a Member recommended in the first instance for appointment on account of his experience in India. I think he was 20 years in India, and he was a very prominent member of the Indian mercantile community. Of course, in his later years, because he was a bank director, we got into the way of regarding him as a City Member, but perhaps it was not quite appropriate to describe him so.

11,632. He combined more than one qualification?—Yes.

11,633. But some years ago there used to be on the Committee a member with administrative experience, and there used to be there an unofficial member with Indian financial experience?—Yes, certainly; when Mr. Finlay and Sir James Mackay, as he then was, were together on the Committee, as they were, I think, for some years, what you describe was the case. I do not think it has been a regular rule, but it has sometimes been the case.

11,634. (*Lord Kilbracken.*) As a matter of fact, have not both the unofficial Indians and the official Indians been represented on the Committee for thirty years until just the other day?—I do not think so. When I first came to the India Office, the one member of the Finance Committee who had financial or commercial experience in India was Mr. Robert Hardie. I do not think there was anyone corresponding to Sir James Westland or Mr. Finlay; I mean there was no one who had held high office in the Government in the Financial Department. At least, that is my recollection, and I think yours must confirm it.

11,635. I cannot remember the succession, but I remember that we had two or three ex-Finance Members of the Council. When I first came to the India Office, Mr. Drummond and Sir William Muir, for example?—My recollection, and I think it can easily be confirmed, is this: There was for a time Sir John Strachey, who had been a Finance Member of Council. When he retired there was an interval of some years before a similar member, in the person of Sir James Westland, was appointed.

11,636. But there was always General Strachey?—No. General Strachey had retired before I joined the India Office. It is possible that the interval between Sir John Strachey and Sir James Westland's appointment was smaller than I think, but if there is an India Office list available, I can easily verify that. (*Same handed to witness.*) This is what I was thinking of: Sir John Strachey left the Council in 1895; then Sir James Westland was appointed to the Council in 1899; and I feel sure that I am right in saying that between 1895 and 1899 there was no one who had that special experience to which you are referring.

11,637. (*Chairman.*) Do you mean that during that period there was no one with Indian financial administrative experience?—Gained in the Financial Department of the Government of India?

11,638. Yes?—Yes, that is what I mean, and I think I am correct.

11,639. Was there during that period, when administrative financial experience gained in the Financial Department of the Government of India was lacking a representative of the lay financial opinion, the non-official financial opinion, of India?—Yes, during the earlier part of that period Mr. Hardie, whom I have mentioned, was on the Council, and then I think it was about the time when Mr. Hardie retired that Sir James Westland was appointed.

11,640. Do you know whether there was any special reason for dropping the representation of Indian financial opinion, whether official or unofficial, in recent years?—I recollect that on one occasion of a vacancy occurring the Secretary of State or the permanent Under-Secretary at the time, did me the honour of consulting me, and we tried to think of a suitable man for the appointment having that particular experience. It so happened that the best men who had served in the Financial Department in India had gone to other positions in India, from which it would have been undesirable to take them away, and there was no one who could be thought of; and at the present moment if one wanted to choose anyone with recent Indian experience of the kind that you have mentioned who is generally recognised to be very well qualified, it would be no easy task.

11,641. (*Lord Kilbracken.*) As to the non-official Member, there has been a continuous succession of non-official Indians on the Council from about the year 1880, if not earlier, until 1911. The Chairman's question might equally refer to that?—Yes. I understand that the Chairman's question referred to both kinds, and that he included among the qualifications recent experience. I should, for example, exclude Sir Ernest Cable, who has had a long commercial experience of India, because his regular residence in India ceased some time ago.

11,642. (*Chairman.*) You must put the Members of the Commission out of your mind?—I think, certainly, there was no one who was marked out by his repute and position in the way that Sir James Mackay was marked out when he was chosen.

11,643. Would it not appear to you an anomaly that on the Finance Committee of the Council—if I correctly describe it as the Finance Committee?—Yes——

11,644. —there should be almost as a matter of course a representative of Indian army experience and of public works experience, but that on the Finance Committee there should not necessarily be any representative of Indian financial experience, whether official or unofficial?—Yes, I think it is an anomaly. I should like to guard myself by saying that I do not think it is a very harmful anomaly so far as concerns the efficiency of the work done. I think that its disadvantages are of a somewhat different kind.

11,645. As regards the work done, I presume that if you were in doubt as to how you should advise the Secretary of State on a particular matter which concerned the management of Indian finance on this side you could always have recourse to the Chairman of the Finance Committee and talk the matter over with him before you wrote upon the paper?—Yes, or with any other Member of the Committee, or indeed, of the Council, or with any of one's colleagues in the India Office.

11,646. Suppose you were doubtful on the Indian side, was there anybody to whom you could go under those circumstances?—There would be no individual with that particular kind of experience. On the other hand, the amount of written experience which the India Office contains is enormous, and the number of individuals who are extremely familiar with the written experience is quite satisfactory. I think I may say that there is no important subject of Indian Finance on which we have not the considered views of the Government of India, which have come to us in the course of the continual discussion which is going on.

11,647. I suppose even the Government of India sometimes changes its views. It would not always care to be represented by its opinions of five years ago?—I was coming on to that. In addition to that, when we are considering any important question, we are in the fullest communication with the Government of India all the time.

11,648. I should like you to develop that a little more. Do you refer entirely to official communications and despatches passing backwards and forwards, or, when you speak of "the fullest communication with the Government of India," do you include semi-official means of communication?—Lord Kilbracken always told us, and I think with perfect correctness, that there was no such thing as a semi-official communication. A communication is either official or non-official. That is the doctrine in which I was brought up, and I refer to communications official and private. At most times there is a considerable flow of private communications to and fro, but in dealing with important matters one very often has to rely on the official communications, merely because it is very unusual to telegraph privately. If you are going to get the latest views or information by telegram, the telegram is almost necessarily an official telegram, but a good deal in the way of explanation and suggestion comes home and goes out in the form of private letters.

11,649. Let me ask you your general experience. Taking your general experience as Financial Secretary, and looking back on it, do you think you suffered often from failing to understand what was in the mind of the Indian Government? That is a difficulty which must be present to anyone who has had to arrange business with people at a great distance by formal correspondence or by telegrams. However clear you try to make your despatch or your telegram, you do not always make your meaning perfectly plain to a correspondent several thousand miles off?—I do not think that there is any appreciable amount of trouble in that way; and perhaps a way of proving it is this. It often happens that when a subject has been the matter of discussion, or even controversy, between the Secretary of State and the Government of India, one of the high officers of the Financial Department of the Government of India will come home on leave, and look in on me, and we talk out the subject of our differences. I sometimes find that our differences remain unresolved at the end of the discussion, but I do not think that I ever found that in any important matter they were due to that cause which you men-

* App. XXXIV., p. 687.

tioned, viz.: failure to understand what was in one another's mind.

11,650. I think I only want to ask one other question. I understand from what you and the other witnesses have told us that the preparation of the Indian budget is a matter of very careful joint consideration by the Government of India and the Secretary of State in Council at home?—I should like to explain in what sense it is joint consideration. So far as concerns the preparation of the estimates of what existing sources of revenue will yield, that is entirely the work of the Government of India, or almost entirely. When we come to proposals for imposing or remitting taxation, then the course is that the Government of India make their proposals to the Secretary of State, and then he, in Council, passes his decision on them; and he, of course, is necessarily responsible for the drawing up of the details of capital expenditure and of the way in which the money required for capital expenditure shall be borrowed in England, if the English market is to be the source from which the money is to be obtained.

11,651. Before the Indian budget is introduced in India, the relative shares of capital expenditure—what money can be provided out of Indian revenue, and what sums must be borrowed in London, or paid off in London—have, I understand, been discussed between the Indian and the Home Government?—Yes, very fully discussed.

11,652. If in the course of the year the revenue receipts should turn out much more favourable than was anticipated at that period, is the London programme ever the subject of reconsideration with the Indian Government? To make my meaning plain I will add a little more to my question. Suppose at the beginning of the year the Indian Government had said: "We estimate for a revenue of five millions greater," that would have affected the proposals which the Secretary of State would have made for borrowing or paying off debt at home?—Yes.

11,653. Supposing they did not foresee the 5 millions at the beginning of the year, but that when half of the year had gone by they had good reason to think that their estimate would be exceeded by that sum, would communications then be re-opened with the Secretary of State as to the London programme?—Not in that form, but the same effect would be produced in this way, that after the summer holiday we should ordinarily telegraph to the Government of India when the busy season is about to begin and when the result of the monsoon is fairly well known, asking them to revise their estimate of the amounts that could be remitted home in the form of Council bills, because it is that rather perhaps than the total revenue which affects the possibility of reducing the loans to be issued in England.

11,654. Of reducing the loans or increasing the programme?—Quite so, of reducing the loans or increasing the programme. Then on the basis of that information the Secretary of State might decide, and has decided at times, that a particular loan which he contemplated issuing was not necessary and should not be issued, or that some India bills which he was going to renew should instead be paid off; and occasionally it has happened, as you mentioned, that the Government of India have said: "Our revenue is doing much "better, we can remit home more than we expected, "and we propose that a million sterling extra shall be "added to the railway programme to provide wagons "or engines, or something of that kind." That kind of communication is a regular part of our business.

11,655. Mr. Mitra, who gave us very interesting evidence of the budget practice in India, indicated to us, I think, that in his belief information of any change of the kind would necessarily be supplied to the home Government in returns which would be forwarded in the normal course, but that no opportunity need necessarily be given—I will not say that he put it so high as that no opportunity was ever given, but that no opportunity need necessarily be given—to the Indian Government to make any suggestion for a revision of the programme in view of the altered circumstances?—No, I do not think that the specific question would be put to the Government of India: "Do you propose, "say, that the East India Railway debenture loan of "2 millions sterling which is in the budget should be "withdrawn or should be reduced to 1 million sterling"; and I think the reason is very clear, that supposing the Secretary of State is well informed about any addition that he may expect to his resources, he is on the whole in a much better position to decide what use to make of the addition than the Government of India. You see, they are in no touch with the London investment market, so that usually they have taken, and I think very properly, the view that they are not very keen on interfering with matters about which they cannot fully inform themselves.

11,656. I gather that before the commencement of the year their opinion would be taken, though, no doubt, in the last resort, if it came to that, the authority of the Secretary of State would have prevailed, and his knowledge, and the knowledge at his disposal, of London money market conditions would be the governing feature; but still, before the year began, it would be the practice to talk these matters over as between the authorities in India and the authorities here?—May I explain what we are doing this year, because a concrete case is always very helpful. Recently the Government of India telegraphed home to the Secretary of State saying that they proposed to draw up for the coming year, 1914–15, a railway programme of various specific amounts, provided the Secretary of State could undertake the responsibility of borrowing such and such an amount in London towards the carrying out of it. After much consideration the Secretary of State decided that he would take that responsibility, and the Government of India were informed accordingly that their budget arrangements could be drawn up on that basis. Now, it is not the intention to ask the Government of India about the details of the borrowing programme by which the sum of money to be raised in London is to be provided. It would give the Secretary of State no useful information, it would bother the Government of India, it would waste their time, and I cannot see anything that could be gained, when we had once settled the important question of the amount, by discussing the details.

11,657. Now let me put a little different supposition to you. I appreciate what you say as to the Secretary of State's responsibility and greater knowledge in these matters, but suppose the Secretary of State had been forced to reply: "I am unable to undertake to "borrow the X millions which you suggest, I can only "borrow X minus Y, and your programme must "therefore be curtailed accordingly"; and suppose that at the end of the summer holidays next year the Indian Government found their revenue coming in much better than they had expected, and that the millions which the Secretary of State had not been able to raise in London were available in India, would there not be communication between the two Governments as to what should be done with those millions, or would the Secretary of State draw them to London without communication with India?—I think I indicated, in reply to an earlier question, that in the ordinary course I think they would come to London, but at the same time the Government of India would have an opportunity of saying, as they have in at least two years within my recollection said: "We recom"mend that so much extra money shall be spent on "railways"—it is usually railways, I may say; perhaps you think I have mentioned railways rather frequently, but they are very important in our financial arrangements. The Government of India would say: "We "recommend that so much extra should be spent on "railways," and the Secretary of State would usually agree. I think the last occasion when that happened was in 1912. The details of it are given in some of the statements which I have already submitted.

11,658. (*Lord Faber.*) I only want to ask one question, but it touches very nearly the questions put to you by the Chairman just now; do the delays arising from Government methods, and more or less unavoidable delays because of the distance of India from home, lead to the impossibility of making changes

in the coming budget, say in the last three months of the financial year, although such changes may be very advisable because of the then commercial outlook?—No, I think that if the Government of India find that in the last three months of the year they are doing much better than they expected to be able to do, or, indeed, that they are doing much worse, there is no reason why the information should not reach the Secretary of State on the same day upon which it reaches the Finance Department of the Government of India, and in the normal course anything of importance in that way would be telegraphed home. Of course, it might happen that just before the Government of India had telegraphed home that they had an extra million which they could count upon, the Secretary of State had issued a loan in order to gain that million, which he did not expect to receive through the Government of India, but that is incidental, you may say, to all human affairs, that you may do a thing which, if you had waited three days or three hours longer, you would not have done.

11,659. (*Mr. Gladstone.*) In regard to the financial organisation of the India Office, you did not make any reference to any Audit Department. Is there an audit officer?—Yes. I do not know whether you have read this memorandum which I handed in called "Memorandum on the Financial Organisation and Procedure of the India Office" (App. XXXIV., p. 687). I briefly summarise there the position of the auditor, who is appointed in a way provided by the Act, and has the position of authority and comparative irremovability that an auditor ought to have. His tenure is much the same as that of the Comptroller and Auditor-General in the United Kingdom.

11,660. (*Mr. Keynes.*) I think your only serious criticism of the existing internal organisation of the India Office was that the Financial Secretary was apt to be overburdened, and to have too little freedom from routine work?—Yes, under the normal organisation.

11,661. And you suggested as a solution for that that one of the two senior permanent officials should always be a person of some financial experience in the office?—Financial experience or financial aptitude. I should not like to narrow it down too much, but he ought to be a man who could properly be appointed to a post involving financial duties.

11,662. Do you think that it would be possible to go somewhat further in lightening the Financial Secretary's burdens by splitting his office into two and having one official for what I may describe as technical financial work and one official for treasury control, that is, criticisms of proposals of spending departments and correspondence about expenditure with other offices in England?—That idea is very attractive to me. Whether the two officers would be of equal status or whether one should be called the Deputy Financial Secretary, with responsibility for doing certain work without consulting the Financial Secretary, I do not know. I daresay that the better method is what you have suggested, that there should be two Financial Secretaries, one technical and one administrative. Certainly that kind of relief I think would be advantageous. The desirability of it is illustrated by some papers which you probably have seen—they have been sent to the Royal Commission—on the charges for currency notes. I do not know whether they have been circulated. For some years we went on paying at certain rates for the currency notes supplied to us by the Bank of England, and we were paying too much, and I think the fact that we went on paying without scrutinising the basis of the charge was probably due to the Financial Secretary having too much to do. I think if he had had more leisure he would some years ago have looked into the question whether the payment was suitable; and the amount involved there is very large. The fact that that kind of extra work would be done, and well done, through the organisation which you propose, commends the idea to me specially.

11,663. Do you think that the work which I have described as treasury control, together with cognate duties, is enough to occupy one secretary?—That is hard to say. I think that he would not have a post nearly as onerous as that of the Financial Secretary now is. Whether he would be underworked I cannot say until experience has been gained.

11,664. I suppose that is a type of work which can be done by any competent civil servant without special financial experience?—I think so. Of course, one would want a certain spontaneous activity on his part. I mean his function would be largely to see things that were not quite obvious, and to think of things which a man with less financial acumen might not think of.

11,665. Whether or not the officer who was responsible for treasury control would have enough to do, do you think that the officer who was concerned with technical finance would have too great or too little leisure?—Of course, I have a very high standard of the number of hours that the Financial Secretary ought to work. Judged by my standard, I should say that the technical Financial Secretary would have rather an easy time, but, on the other hand, I attach much importance to this: he ought not to be too overburdened, because he ought to be able to read economic literature to some extent and to know what is going on both in this country and in other countries. One of the gravest consequences, I think, of the system under which I worked was that when I became Financial Secretary I practically ceased to read economic literature, because I had no time; I had read it assiduously until then; so that I think a certain amount of leisure is desirable.

11,666. It is your opinion, then, that the growth of technical financial business has been so great in recent years that it might be worth considering whether it ought not to be separated from the treasury control work with which it has actually become associated in this Office?—Yes, I think it is well worth considering, and, as far as I can see, the arguments are on the whole in favour of the separation.

11,667. I want to ask a few questions now which perhaps would be more properly addressed to Sir Thomas Holderness. If that is so, no doubt either he or you will interrupt me. Is it your opinion that the Finance Department can do without the variety of experience and of advice which they obtain under the Committee system?—They could do without it, but I am much impressed by the advantage which they obtain from the variety of experience that the Committee system gives them. It is not only a variety of experience; it is a variety of standpoint. Suppose that we are dealing perhaps with some question of re-organising a big service; take the Public Works Department. There may be someone on the Finance Committee who is very familiar with public works, and is very keen on efficiency, perhaps it may be efficiency at any cost; there is a financial member who says, "We must not pay too heavily for efficiency"; there is perhaps a native of India like Sir Krishna Gupta, who says, "Your scheme is "very well up to a point, but it does not provide "sufficiently for bringing Indians into the service of "Government; you want to be more liberal in this, "that, or the other way for that purpose." I have always found that having these different points put and considered by a Committee as one body has been very advantageous indeed. Of course, I do not wish to be understood as in any way criticising Lord Crewe's scheme, which would be far beyond my province, and very unconstitutional, but since the question is put I ought, I think, to give my experience of the advantages of the Committee system.

11,668. If a scheme were adopted by which the number of the Council was reduced and the Committee system abolished, does it follow that the Financial Committee need be altogether destroyed? Could there not be some kind of committee, not all the members of which were members of Council?—I think that is possible. It would introduce an unsymmetrical element into Lord Crewe's scheme, as I understand it, but, of course, symmetry is not everything.

11,669. If Committees of Council were abolished, would you be in favour of retaining some sort of Financial Committee partly made up of persons who are not members of Council?—Yes, I should like big financial questions to be considered by a committee of some sort before they go to the meeting of Council to be finally decided on, and I think there is a good deal to be said for having persons who are not members of Council on the Committee. At present I might explain—perhaps I did not make this clear—that when the Finance Committee sit, there are round the table Members of Council and the Financial Secretary and Sir Thomas Holderness and myself; Sir Thomas Holderness and myself and the Financial Secretary have no vote, but for all other purposes I think I may say we are almost equivalent to Members of the Committee; I mean we speak quite freely. Of course, it is by the courtesy of the Committee that we can be heard at all, but they have never failed to extend that courtesy to us.

11,670. (*Mr. Gillan.*) May I ask one question? As far as the departmental views are concerned to which you referred—I mean the views of the Public Works Department or any special Indian Department—those could be obtained, even if you had not a Committee, by circulation among the Departments, could they not?—Yes, they could be obtained on paper.

11,671. Or by a meeting of the officials concerned in the different departments?—Yes, but I am impressed by my experience of the India Office with the advantage of a meeting of the Committee where the different views are expressed and different standpoints are presented by various Members of the Committee, and there is the feeling that the Committee at one time or other must come to a decision after giving due consideration to those different views and standpoints.

11,672. (*Mr. Keynes.*) Assuming that some access for the Financial Department to City advice is advisable, do you think that that advice ought necessarily to be obtained from someone who is a Member of the Council?—No, I do not think so. I think if you had asked me that question say twelve years ago I should have answered in the affirmative, because it so happened that there was no one then in the India Office who had very much experience of financial work of the kind to which you are specially referring, and if the India Office had had to consult an eminent man outside there would have been on the India Office side no one who was a very competent intermediary; but now for the last twelve years several of us in the India Office have had a very great deal to do with this kind of City work, and I think there are several of us who are quite competent to go to some eminent City person and ask his advice and to judge how far it ought to be followed and how far not.

11,673. Is the need for City advice more or less continuous, or is it a thing which arises on comparatively rare occasions, such as when you are floating a loan?—I should say that it is continuous. I might explain what I mean by that. We consider perhaps in the autumn what sort of railway programme the Secretary of State will sanction: I mean we consider the kind of telegram to which I referred in answer to the Chairman (question 11,656), and we have to form an opinion whether we shall be able to borrow next year X million or Y million pounds. At that time one wants to be very well informed about City matters. Then perhaps a railway programme is sanctioned, and practically during all the early parts of the year we are looking about for a good opportunity of floating a loan; we have to consider terms, amount, and form, and so on; and it is really only for a few months that one could safely, as it were, wash out of one's memory all that one has learnt of City affairs.

11,674. An outsider, then, to whom resort was made occasionally, would not meet the purpose?—It depends who is the person to whom the resort is made. Suppose that we had in the India Office a permanent official who, not being a City man, yet knew a good deal about City affairs, and then the Secretary of State said to him, "Well, we shall have to issue some loans; before "deciding how much, go and ask such and such an "eminent financier, and report to me what his opinion "is, and what is the value of his opinion," and that from time to time as other questions came up, the opinion of the eminent outside financier was obtained through the supposed capable official: under a system of that kind one would do extremely well, provided, of course, one could trust the advice which was given by the outside man. There is no reason that the eminent City man should be inside the India Office provided the channel of communication is suitable.

11,675. Would it be convenient, do you think, for the India Office to be consulting in this confidential way some person who had no formal position, but who was just selected on the authority of some official inside the office?—I think that one could consult people who, without being inside the India Office, had formal positions. Supposing we were going to issue a loan next week (which it is not our intention to do) we should go to the Bank of England, probably, and the Governor of the Bank of England would probably summon into his room the chief member of the firm of Government brokers—you know the firm [Messrs. Mullens, Marshall & Co.]; and probably so long as we have a broker of our own, that is until he is swept away by a State Bank, we should continue, as at present, to ask a member of the firm of our brokers to attend, and then perhaps Mr. Newmarch, I, the Governor of the Bank, and these two leading brokers would discuss what was to be done. That is the way in which we should get advice. I mention these particular firms in order to answer your point; it is not irresponsible advice.

11,676. I had not understood that that was the kind of thing you were contemplating. You do think, on the whole, then, that the kind of advice which is now got from the City Member of the Council of India could be got through other channels?—Do you mean regarding the issue of loans, or are you putting your question in the widest possible sense?

11,677. I put my question more widely than that?—The one thing for which I think the City Member, under our present arrangement, is indispensable is the lending of loans from our balances. I think it would be very difficult, if we are to grant them at all, to grant them otherwise than through a broker, and if there is to be supervision exercised over the broker, it would be very difficult to exercise it save through a City Member of the Council of India. I need scarcely say that I am quite incompetent to judge whether a broker ought to have got one-eighth per cent. more on the loans which he granted, or whether such and such a firm ought to be admitted on to the List; and I never shall be competent; and if I did acquire the knowledge it would, on the whole be a great waste of my time.

11,678. (*Lord Kilbracken.*) And the sale of Council Bills?—I think we could do that without him. I may say, if Sir Thomas Holderness does not mind, that I venture to differ a little from one remark only in his note. I think we could sell Council Bills very conveniently without the City Member. I think Sir Thomas Holderness took the opposite view—that the City Member was almost necessary for that.

11,679. (*Mr. Keynes.*) I should like to ask two questions on a different subject, the subject of intercourse with India. Sir Guy Fleetwood Wilson, whom we heard yesterday, raised two points. The first one was that he found himself liable to be upset in his Budget arrangements by criticism from the India Office, very much at the last moment. Is the explanation of that the short period which elapses between the framing of the estimate and the date at which the Budget is normally introduced into the Legislative Council, or is there some other explanation? I might, perhaps, expand my question. The reason I raise this is that when we have been discussing Budget dates it has been brought to our notice that the Government of India are great financial purists in the matter of the date at which they introduce the Budget, and that, therefore, there is great hurry at the last moment?—Yes.

11,680. I wondered whether this short period was, possibly, the explanation of the late date at which criticisms from the India Office reach the Financial Member?—Perhaps I might explain what happened on the one occasion within my recollection that corresponds to what he describes. I should like to mention the course which was followed. In 1910 it is quite true that the proposals for the Budget of 1910–11 which were made by the Government were not entirely accepted by the Secretary of State; they were proposals involving, in an acute form, questions of the very greatest importance, and the Secretary of State, having considered them, found that there were some things put before him to which he could not agree. I remember that on that occasion everyone at the India Office took the very greatest possible care to let the Government of India have the Secretary of State's decision as soon as it could be arranged. Every one of us, from Lord Morley downwards, thought that we ought not to put the Government of India to any inconvenience which could possibly be avoided in an anxious time when they had to prepare a Budget.

11,681. If I may interrupt, I think this is not quite an answer to my question. I was asking merely whether you thought the existing system of introducing the Budget at the beginning of the financial year was responsible for this particular inconvenience to which I refer. I was not going further than that?—If you ask that question, then I have to answer that whenever you introduce a Budget containing very important proposals, your proposals are based mainly on the facts of the immediate time. I mean, supposing you introduced your Budget in October instead of in March, then you would be mainly guided by the facts of July and the following months.

11,682. I am not speaking so much of the date of the Budget, although it was in connection with that, but I am speaking of the practice (in which the Government of India differs from the Government of this country), of introducing their Budget into the Legislative Council, not at the date which is most convenient to them administratively, but at the very first possible date, very nearly at the beginning of the financial year. You cannot begin making your Budget until you know what your estimates are; you cannot know what they are until very near the beginning of the new financial year; and therefore if you introduce your statement very early in the new financial year you must necessarily have a very short interval in which to consider your Budget proposals?—The only advantage of putting off your Budget, say to a time some weeks after the beginning of the financial year is if during those weeks no important change is likely to take place; but if at any time before you actually introduce your Budget changes are likely to take place in the general situation, and you may have to modify your Budget accordingly, then it is inevitable that you make your final proposals under pressure of time.

11,683. I am now suggesting that there might be an advantage in postponing the date in order that there might be full time for the discussion of new proposals for taxation or for the remission of taxation between the Government of India and the Secretary of State?—Yes, but supposing that, while the discussion was going on in a leisurely way, the circumstances altered considerably, then the final decision would still be reached under pressure of time. I think that the only advantage which can be gained to mitigate inconvenience is, if possible, to choose for the period of consideration such a season of the year as is not likely to bring about great changes in general conditions.

11,684. I am considering the case in which there is no reason to anticipate changes in conditions, but there is reason to anticipate a possible difference of opinion between the Secretary of State and the Government of India. At present that difference of opinion has to be got over in a very short period?—I do not think so. If I may revert to this case in 1910, I remember that very well. We got from the Government of India proposals, I think, in January 1910, and we had had an advance statement sent privately or demi-officially, so that we were able to begin the consideration of what had been put forward. The Budget had to be published, I think, towards the end of February. I think we had, if my recollection serves me, about seven weeks in which to discuss what had to be discussed, and, of course, all the communications after the first were naturally by telegram; and when special meetings of the Council could be called so as to expedite matters, and so as not to delay the approving of a telegram until the normal weekly meeting, all that was done; so that I should very much doubt whether the pressure in the Finance Department of the Government of India was greater than the pressure to which the Treasury are accustomed when they are preparing their Budget.

11,685. The other point to which Sir Guy Fleetwood Wilson referred was a different one; he stated that the Viceroy and the Secretary of State were accustomed to have a large private correspondence, and that the Secretary in the Finance Department in India could communicate unofficially with the Secretary in the Finance Department here, but that the Finance Member was in an isolated position, and had no corresponding person in this Office with whom he could keep in close touch?—Did he say that he did not correspond with anyone in this Office as a regular practice?

11,686. I could not quote his exact words.—Did he say there was no person in this Office with whom it was the regular practice of the Finance Member of the Governor-General's Council to carry on a correspondence?

(*Sir Ernest Cable.*) Yes, semi-official or private.

(*Chairman.*) I think that is the effect of his evidence. I have a transcript of it here. What he said he thought the Finance Minister needed was an *alter ego* in London with whom he could correspond?

(*Sir Ernest Cable.*) Semi-officially.

11,687. (*Chairman.*) I put the question to him: "So at the present time there is no recognised semi-"official machinery of communication"?—(*A.*) "The "only recognised channel is what is usually a weekly "letter which passes between the Secretary out there "and the Secretary here. As a rule, these letters "deal with matters of detail rather than with big "questions of principle, and you might have a "condition of affairs in which your Finance Minister "might not agree with his Secretary, in which case he "might want to know which view was taken at home, "and thereby avoid an impasse in India"; and later he corrected a phrase of mine about communicating unofficially, and said: "Demi-officially; I think that is the usual term." Then I said: "You want "to correspond demi-officially, then, to sound the "ground, or to gather information"?—(*A.*) And to "receive guidance.—(*Q.*) Subject always to the "supreme authority of the Viceroy in his own case? "—(*A.*) Certainly.—(*Q.*) And the Secretary of State in "the case of his correspondent, in the same kind of "way that the Permanent Under-Secretary at the War "Office or the Admiralty will write to the Permanent "Secretary at the Treasury and enquire, how would "such a proposal be viewed if his office were to make "it?—(*A.*) You have quite correctly interpreted my "views"?—I have listened to what you have read with great astonishment, because it seems to me to be most directly at variance with the practice which has existed in the India Office, certainly for the last thirty years. It was the practice of my predecessor, Sir Henry Waterfield, and of myself, and it is still the practice of Mr. Newmarch, my successor, to carry on a correspondence with the various Financial Members of the Governor-General's Council. We still have upstairs, in the Financial Department, a great deal of correspondence between Sir Henry Waterfield and such eminent men as Lord Cromer, Sir Auckland Colvin, and Sir David Barbour, which we read with great interest, and which was at one time very voluminous indeed. I do not know that my correspondence, when I was Financial Secretary, with the Financial Member of the Governor-General's Council, was quite so voluminous, but there was certainly a regular stream. Perhaps I would write eight or ten letters a year, and sometimes the opportunity of such communication was extremely valuable. I think I mentioned in my earlier examination that one very important change—I may give this as an illustration—in the management of the Gold Standard Reserve, the purchase of short-dated securities, instead of consols, was first made by the Secretary of State on a suggestion which Sir Edward Law conveyed to me in a private letter; and just as Sir Edward Law wrote every now and then to me, and I to him, so Sir Edward Baker used occasionally to explain his views, and I would explain my views, or the views of the Secretary of State. Then I am very much surprised to hear that Sir Guy Fleetwood Wilson contemplated a difference of opinion between himself and his Secretary. Again and again I have received most valuable letters, more especially from Sir James Meston when he was Financial Secretary in India. He said: "The honourable member desires me to " write to you about" so and so.

11,688. Possibly I have not made Sir Guy Fleetwood Wilson's position clear by the extract which I read, but please take it from me that he expressed the greatest gratitude to the gentlemen who had occupied the position of Secretary in the Financial Department during the time that he was Financial Member of the council, and he carefully guarded himself against any thought that he was making a complaint against them. In the passage which I have read I think he only meant to say that it was possible under the system that differences might arise, but they had not arisen between him and his colleagues?—But then I think the understanding is that supposing the Financial Member in India holds one view and the Financial Secretary in India holds a different view, the Financial Secretary in India would certainly never write home to the India Office stating: My view is so and so. His duty and loyalty to his superior would prevent him from doing that. Then if the Financial Member wished to put unofficially before the India Office certain views he might either write himself, which has been a very usual practice, and in that case he would write to the Financial Secretary, or he might direct the Secretary to write a letter which, though written by the Secretary, would contain the views of the Member, which might be exactly opposite to those of the actual writer. I understand that that is the practice. Mr. Gillan, of course, has had experience, and can say whether I am right or not.

11,689. I gather from your answer that in your view there has always been free semi-official or demi-official and unofficial communication between those responsible for the finances in India and those in the Finance Department here at home?—The only exception that I would take is to your phrase "in your view"; it is not a matter of opinion, it is a matter of fact. There has been no obstacle to communication, and there has been a good deal of correspondence; and perhaps I may add here that sometimes I have wished to write to the Financial Member in India explaining this, that, or the other thing, but the burdensomeness of my duties has prevented me from writing on the mail day, and then a week has passed, and one has thought: "Well, one will leave it alone," but it is only that kind of obstacle which has existed.

(*Mr. Gillan.*) I think there is a circumstance which is not present to Mr. Abraham's mind in answering these questions. I think what Sir Guy Fleetwood Wilson laid stress on was that there is no recognised system of correspondence with the Financial Member. He would not probably deny that there is a practice of such correspondence, but you will remember he said that he practically asked that the system should be recognised when he went out to India, and the answer he got was a discouraging one, so that the practice was dropped; at least, that is as I understand the situation.

11,690. (*Chairman.*) In point of fact, I think Mr. Abrahams's evidence is that the practice continued?—The practice of correspondence, which, strictly speaking, is private correspondence, has continued for many years. Now I understand from what Mr. Gillan says that Sir Guy Fleetwood Wilson would like a certain recognition of it. I think, if I understand what Sir Guy means by it, that is scarcely possible. Correspondence, as I ventured to say before in another connection, must be either official or not official, and certainly no Secretary of State would allow himself and his Council to be committed even to half-approval of a particular course of action because a particular individual in the India Office happened to write to a particular individual in the Government of India and said: "This seems a very wise proposition"; it must all be of a non-committal and personal nature; and if the only difference between my statement of the facts and Sir Guy Fleetwood Wilson's statement is that he says no regular and official recognition is given to this unofficial correspondence, then our last difference is removed; I agree with that statement, and I say it is not given and coituld not be given.

11,691. You probably are aware that as between offices here in London it is not an unusual thing for the Permanent Under-Secretary or the head of a branch to come across, let us say, to the Treasury to inquire whether, if they put forward a proposal, it would be likely to be favourably received. They would go to their opposite number or to the Permanent Under-Secretary, as the case may be, and if there is any doubt, he will unofficially — or I should say informally, not unofficially — consult the Chancellor of the Exchequer or the head of his office. It is sometimes a great convenience, because there are proposals which he would not like formally to make and formally to have rejected. Very often the success of your request may depend upon the particular form the proposal takes, and it may be important to know which form would most commend the request to the office which has to grant it. That kind of informal communication constantly goes on between public offices in this country without in any way committing improperly the chiefs of the offices. No doubt they have to rely, but they do rely and can rely with perfect confidence, on the discretion of the permanent officials of their departments. Is there any regular means of communication by which the financial authorities of India can in that sort of informal way sound the ground and ascertain whether a proposal is likely to be acceptable before they formally put it forward with the risk that information about it may leak out in India, and that if, having been put forward and discussed in India, it is rejected, great harm is done then?—There is undoubtedly a channel of communication, namely, those private letters which I mentioned, but it is fair to say that it is not very often used for rather a simple reason. If the Government of India were to be told that such and such a proposal is likely to find favour with the Secretary of State, they would be told that to no good purpose, unless one had obtained the information of the Secretary of State and the Council. As a rule, the most convenient way of letting the Secretary of State and the Council form an opinion on the merits or demerits of the proposal is to put before them in its best possible form, that is to say, in its final form, a statement of the reasons of the Government of India for making the proposal; and at the time that they have completed their statement of the reasons there is nothing gained by not sending it forward officially except occasionally, as you have mentioned, for reasons of secrecy, which would always be respected, or occasionally that they may like to avoid rebuff. I do not think that often happens. Lord Kilbracken's experience is much longer than mine, but I can remember very few cases in which the Government of India have wished to send their statement unofficially first; but certainly there would not be the slightest difficulty if they did wish to do it.

11,692. (*Lord Kilbracken.*) The Chairman has referred to a practice which is common in this country, by which members of the different offices exchange views, exchange notes, or come across to the other office; but would it not be rather a different thing if those members, say two Permanent Under-Secretaries, were systematically to exchange a letter every week, or nearly every week, upon matters of policy at issue in their different departments? Would not that give rather a different complexion to the intercourse?—It depends on the nature of the letters. I mean, supposing the Permanent Under Secretary of one office said to the Permanent Under Secretary of another: "If you send in a proposal to do so and so, you may take it from me that it will be approved," then that would be something certainly not suitable to our conditions, and I should say not suitable to the conditions of any Government office.

11,693. Perhaps I might explain that Sir Guy Fleetwood Wilson told the Commission yesterday that he had, when going out to India, proposed a systematic correspondence between himself in India and the Permanent Under Secretary of State in this country, and that he was discouraged, but furthermore, he said that after some experience in India—I forget how long—he had made another formal proposal to the then Under Secretary of State, Sir Richmond Ritchie, of a similar kind, and that it was distinctly declined. That shows that he intended something quite different from the informal correspondence which you have described?—I find it very hard to imagine what he really did intend, because either letters which you or Sir Richmond Ritchie might have written to him if the proposal had been accepted, would have been non-committal letters, only expressing your own views or suggestions—in which case they would have been much like the letters that I might have written, only they would have come from a person higher up in the official hierarchy—or they would have been authoritative, in which case you would have been taking on yourself, which I am sure you would have been very unwilling to do, some of the authority of the Secretary of State in Council.

11,694. But if Sir Guy Fleetwood Wilson, without making any formal proposal, had, after reaching India, written letters now and again to the Under Secretary of State, or anybody else in a responsible position in this office, do you not think that those letters would have been answered as a matter of course, and that whatever was really needed could have been done in that way?—Not only do I think it would have been done, but since he did me the honour of writing a great number of letters to me, I can say that I certainly answered them and gave him the most useful answers that I could; but it would no doubt have been more gratifying to him if, having regard to the relative positions which you and I occupied, he had been able to correspond with you instead of with me. As far as I can tell, that is the only improvement that he could have wished for on the system which actually prevailed.

11,695. (*Sir Shapurji Broacha.*) Do the Permanent Under Secretaries sit upon the Finance Committee?—They are not Members of the Committee, but they are present at the meetings.

11,696. They watch?—They not only watch, they take part in the discussion; or rather, I should say, he takes part in the discussion, because there is only one.

11,697. Suppose demi-official correspondence should come from someone in India in a very important position, I suppose the Under-Secretary could talk on those matters with the Secretary of State if it were a matter of policy, or some vast change of policy as to which his opinion was asked unofficially?—Yes.

11,698. He could?—Certainly, and he would.

11,699. Who decides the amount to be borrowed here, the Council or the Secretary of State?—The Secretary of State in Council, that is to say, the large decisions which are taken in the India Office are taken at meetings of the Council at which the Secretary of State presides and exercises very great powers; but the recommendation which comes before such a meeting is, as a rule, one made by the Finance Committee, and the Public Works Committee.

11,700. There are two native councillors here. Is either of them on the Finance Committee?—Sir Krishna Gupta was on the Finance Committee, I think, for about two years, and then in the ordinary course of changes he has ceased to be this year, but he has been put on another committee of great importance instead.

11,701. For the last few years the Indian loans have been under-written at a commission of 1 per cent. to the under-writers, I think?—Yes.

11,702. That is a deviation from the old rule of tendering them to the public?—Yes, it is necessary, and we had to adapt ourselves to present circumstances.

11,703. In a Government loan 1 per cent. commission to the takers of the loan would look very high. Do you not think that to a certain extent Indian credit is lowered by adopting the market ways and not the ways which prevailed before?—No, I can assure you that with the solitary exception of the British Government, every government, or everybody of very high standing, who issues a permanent loan has to underwrite it. Practically—I can leave out the word "practically"—all the Colonial Governments, however high their credit, when they issue a loan have to get it under-written, and for the most part they get it underwritten through the same firm which takes part in our under-writing.

11,704. Do you know that the success of the China loan, the five-power loan, was owing to their not allowing it to be under-written?—In the case of a very special loan of that kind I daresay it would be so, and no doubt the attraction is that the people who actually subscribed would get every possible penny of advantage and profit.

11,705. But what caused the original practice to be departed from?—Simply that we felt that if we did not under-write our loans we should find one day that a loan was not subscribed and that the whole of the administration of at any rate the Public Works and Railway Departments of the Government of India was thrown into chaos because we had entered into very great commitments which we could not meet. Even in the days when it was our regular practice not to under-write we had a very serious failure of a loan once.

11,706. But I think in India it would be a permanent failure if the system were adopted?—You mean the system of underwriting?

11,707. No, in India if Indian loans were floated on that system of getting them underwritten I do not think next year they could be floated at all.

11,708. (*Lord Faber.*) May I ask one question about that? You know that the question of underwriting is quite a modern one?—I know.

11,709. There are two opinions about that, and the best opinion to-day is that you had better put out a loan of the class of an Indian loan without underwriting. The public now wait, because every time that an underwritten loan comes out the underwriters have to take it; the public do not apply then, and they wait until it falls to a discount, and then take it from the underwriters?—Yes. I do not know if the Commission wishes to go into this matter, but I should like to say that I personally have a rather strong view about whether we should underwrite loans or not. In any other branch of buying and selling the producer naturally sells to the wholesale buyer and then leaves it to the wholesale buyer to peddle out the produce to consumers in small amounts as their desire to get the product shows itself. Now, it has been a very paradoxical arrangement for many years that if a Government which has produced so many millions of Consols or India stock wants to sell them, instead of going in the normal way to a wholesale dealer, that is to say, to an underwriting firm, and selling to him, it has gone direct to the consumer and has hoped that the consumer will want to buy just at the moment when the producer wants to sell. This arrangement of selling through the wholesale dealer who can afford to hold the stock perhaps for three months, six months or even a year, besides being very much safer and more convenient for the issuing Government, is in accord with the normal practice of all other branches of business.

11,710. The producer only goes to the wholesale man because he cannot do anything else; it is so very difficult for him to get at the actual consumer. If he could, he would never look at the wholesale man?—I know. In former days there was such a demand for India stock that when we had produced some—I use the phrase in the way you will understand—there were a great number of people who wanted to buy 100*l.* worth, or 1,000*l.* worth, or 50,000*l.* worth, and we could deal direct without any middleman's profit with our own consumer. Now the appetite of the consumer is so jaded and uncertain that if we stake our arrangements for the year on the assumption that at a certain day when we offer 5,000,000*l*. in the way of a loan there will be consumers bidding for it, we are liable to very grievous dangers.

11,711. (*Chairman.*) In effect, what you do is to pay a premium of insurance to guard against disaster?—You can either describe it in that way or as the middleman's profit for holding the commodity until the consumer is ready for it. I think either description is equally correct.

11,712. (*Lord Faber.*) The result is that the public dislike that system so much that the loan generally fails?—I know that in a certain sense it tends to make the loan fail, but it only does so if you assume that success means that the general public comes in and that the underwriter need not take any of the loan; but perhaps what you regard as success is not what should be so regarded; you might say that a loan is successful if the underwriters take it, and then within, say, the next six months or eight months, they sell it at something of a profit.

11,713. A loan is only successful, to my way of thinking, if it is properly placed in its last home, as they call it?—But I think when the general public talk of a loan failing, they mean that at first the underwriters have to take a large proportion, and the consumer only takes a little, and I think that is a very narrow sense in which to use the word, and very misleading.

11,714. It is a difficult question, but it bears a deal of consideration now as to whether the underwriting system has not broken down. I think that if you had a committee of financial city men, they would tell you that it has broken down. That is my opinion; but it is worth discussion?—I may say that we are always considering this kind of question, and when anyone with Lord Faber's experience gives us his opinion, we are very grateful for it. I mean even if I do not agree with you at the moment ——

(*Lord Faber.*) I do not assert that my opinion is right; do not think that for a moment.

(*Mr. Gladstone.*) I am afraid I am of a different opinion.

(*Lord Faber.*) But it must be fully considered.

11,715. (*Mr. Gillan.*) Who was Chairman of the Finance Committee before Lord Inchcape?—Mr. LeMarchant, who gave evidence, you will remember.

11,716. Then allowing for the fact which you pointed out to the Chairman that Lord Inchcape had an Indian qualification, you have had in succession three city men at the head of the Finance Committee?—Four, because before Mr. Le Marchant there was Mr. Bertram Currie, who was also a city man.

11,717. I understood you to say, in answer to the Chairman, that it was the practice that the Chairman of the Finance Committee should be a city man?—Yes.

11,718. Were you not putting that rather too definitely?—From the time that Mr. Bertram Currie became Chairman, which, I think, was about 1880, there has always been a city man as Chairman of the Committee.

11,719. Since 1880?—Yes, I think that is so. It is round about that date.

11,720. (*Lord Kilbracken.*) No, it was rather later than that. When I came to this Office here Mr. Drummond was Chairman?—As a matter of fact, I have the book open here, and I can tell you when Mr. Bertram Currie was appointed. He was appointed in 1880, but I suppose that he did not become Chairman at once.

11,721. No, not for some years after that, five or six years, I think?—Mr. Drummond left in 1885, so I suppose Mr. Bertram Currie succeeded him as Chairman of the Finance Committee; if so, it dates from then.

11,722. (*Mr. Gillan.*) At any rate, there seems to be something in the conditions which favours the appointment of a city man as Chairman of the Finance Committee?—I do not know that there is very much advantage in it. I may mention that I was discussing it with Sir Felix Schuster, and he rather inclined to the opinion that it would be better if the City Member were a member of the Committee, and there to give his advice and knowledge when it was required, but were not Chairman of the Committee. I think I agree with him. It is not a point to which I attach very much importance.

11,723. (*Lord Kilbracken.*) May I ask you a general question. Are you satisfied on the whole with the working of the present system?—Do you mean the Council system or the system in its broadest sense?

11,724. The system of financial organisation as it now stands?—As it now stands—and you will remember my distinction between that and the normal organisation—I think it is a very good organisation. There are very small defects; I mean, for example, a meeting of the Finance Committee is sometimes rather long and rather tedious, just as a meeting of any committee may happen to be, but no one would attach serious importance to that kind of defect. I believe that the work is well done, and on the whole expeditiously done. Certain improvements undoubtedly could be made in our governing statute to secure greater expedition, but they are all small points.

11,725. Under the law as it stands the Secretary of State could greatly facilitate business, could he not, on any special occasion?—Yes.

11,726. He can put a measure through very quickly if he chooses?—Of course, there are limitations to his powers of acceleration. If I remember the Statute correctly, he cannot deal under the Urgency Clause, to use a phrase which is very familiar to you, with any matter which requires expenditure.

11,727. Certainly, but he can have a committee meeting whenever he likes?—Yes.

11,728. And he can summon a Council on the shortest possible notice?—Yes, quite so.

11,729. And he can send a matter from the Committee to the Council without more than an hour's delay?—Yes, or indeed he can summon a Council and dispense with the Committee stage altogether. For the moment I had forgotten that besides the weekly meetings of the Council he can have as many meetings of the Council as he wishes.

11,730. Or he can have a special meeting of the Council at any moment?—Yes.

11,731. Then the financial system of the Office may be regarded as specially strengthened at this moment owing to the fact that the Assistant Under-Secretary of State has had special financial experience in the Finance Department; but Mr. Keynes suggested to you that that might be done, but that the system might be strengthened by an addition to the strength of the Financial Department?—Yes.

11,732. As between those two systems have you an opinion to give?—There is really very little competition between the two, and, I think what Mr. Keynes meant, was that both things might be done. Certainly I understood his question in that way.

11,733. That is to say, that first of all the Financial Department should be strengthened?—Yes.

11,734. And then furthermore, that either the Under Secretary of State or the Assistant Under Secretary of State should always be a person having special financial experience?—Yes, or financial aptitude.

11,735. Do you think that is necessary? Do you think it would not be possible to produce the desired effect by merely strengthening the Finance Department?—No; if I had to choose between the two methods of alteration, I have no doubt that I should choose having someone with financial aptitude or experience above the Financial Secretary; and perhaps you will allow me to explain why. The defect of the normal organisation, which has for the moment passed out of existence, is that you have a Financial Secretary who has to deal with questions of the greatest possible importance, and where there is a very great liability to error, unless one is exercising the full power of one's brains. When he has said what he has to say, and made his proposals, if the only guidance from above that he gets is that of the Committee, and does not include that of a member of the permanent staff who has financial knowledge, there is always a possibility that some big mistake will be made. The possibility or the probability will to some extent be lessened, if the Financial Secretary has rather less

work to do, owing to the bifurcation which Mr. Keynes suggests, but the remedy of having two good brains brought to bear on each of the big questions, in addition to the attention of the Finance Committee, is a much safer one, I think.

11,736. Does not that apply equally to all the Departments—to the Political Department, for instance, which sometimes has the most important questions of all?—I think the conditions are really different in finance, and I can speak with some experience, because, as you know, when the Permanent Under-Secretary is away I have to try to supervise all Departments. I think that anyone who has a general knowledge of affairs, and common sense and industry, can usually master the chief points in a political paper, whereas one might have all those qualifications but be very much at sea when trying to master the points in a financial paper. I think that the distinction, owing to the technical nature of the financial business and the usually non-technical nature of the political business, is very clearly marked.

11,737. Then you think that both of these changes, if I can call them changes, are required: the strengthening of the Finance Department and also a regular understanding that either the Under Secretary of State or the Assistant Under Secretary of State is to be a man of financial experience?—I think that the latter is required. I think the former (which would not have occurred to me but that Mr. Keynes suggested it) would be rather a useful change. I certainly do not think that it is a necessary change. I think it would be useful, and I think that its expense would be so inconsiderable that it would be worth doing. The extra expense involved would probably be at most the difference between, say, the pay of a senior clerk and the pay of a secretary, that is to say, 400*l*. a year; and probably the amount involved would be rather less than that.

The witness withdrew.

Sir THOMAS W. HOLDERNESS, K.C.S.I., called and examined.

11,738. (*Chairman.*) You are Permanent Under Secretary of State in the India Office?—Yes.

11,738*a*. You have been good enough to supply us with a memorandum on the constitution, powers and duties of the Secretary of State in Council, and his establishment, which I propose should be printed with our Report, and may therefore be taken as part of your evidence.* I gather from what you have written there that you would concur in the evidence which Mr. Abrahams has just given that it is desirable that the Assistant Under Secretary or the Permanent Under Secretary, one or the other, should have had financial experience in his previous career?—Yes, I concur with that, and chiefly, I think, for this reason, that in addition to the Financial Department proper there are several other departments which have more or less financial work; there is the Stores Department, there is the Accountant-General's Department, and there is the Public Works Department. In the Public Works Department especially there are very intricate questions of finance in connection with railways. All those four Departments seem to me to want to be pulled together, and I think on the whole it is desirable that one of the two Secretaries, either the Under Secretary of State or the Assistant Under Secretary of State, should have such financial knowledge as to be able to take those departments definitely under supervision.

11,739. I would like to illustrate or explain my next question by referring to my first official experience, which was at the Admiralty. In that Department it was a rule that if any proposal was made involving expense, the papers in which it was contained must go to the Accountant-General for his observations before the papers came before the Members of the Board of Admiralty. I understand from what Mr. Abrahams has told us that the position of the Accountant-General in the India Office is quite different, and that that practice would not be followed here. If a proposal originates with the Public Works Department and involves, as it must frequently do, financial considerations, how is the control of the Financial Department secured?—By a system of reference. The Public Works Department would deal with the case first; it would then come up to the Under Secretary, who would send it on to the Secretary of State, or mark it to a Committee; but probably before it came to the Under Secretary of State, it would have been referred by the Public Works Department departmentally to the Financial Department, and any differences of opinion would have been hammered out between the two Departments. It would then come up to the Permanent Under Secretary.

11,740. Would it be possible under the system which prevails for proposals not primarily financial, but having serious financial consequences, to go to the Secretary of State, or to the Council, without their having been submitted to and reviewed by the Financial Department?—No, the Under Secretary of State would see that they had been so submitted.

11,741. And the Financial Secretary really takes the place in the India Office which I have described as being allotted to the Accountant-General in the Admiralty?—Yes.

11,742. (*Lord Kilbracken.*) And I think that when a paper of that kind has been to the Committee which corresponds to the originating department, it is generally referred afterwards to the Finance Committee, is it not?—Yes, the Finance Committee is the final reference.

11,743. (*Chairman.*) As regards what I may call the minor organisation of the Financial Department, are you satisfied with it as it at present exists?—I think that probably it requires to be strengthened. That is a very small matter. There is one Assistant Secretary at present, but I think that probably a Deputy Secretary between the Financial Secretary and the Assistant Secretary is desirable; but that might be partly counter-balanced by a reduction, say, of a senior or junior clerk in the same Department.

11,744. In the Financial Department itself?—Yes.

11,745. Would the object of the creation of the new post of Deputy or Assistant Secretary be to set free the existing Assistant Secretary to deal more fully and more exclusively with financial matters?—I think the object would be to relieve the Financial Secretary of the burden of what may be called the reference work, that is to say, the references from the other Departments; and the Deputy Secretary and Assistant Secretary should take those, with the exception of any important ones, which, of course, he would let the Financial Secretary see before he dealt with them; but I think I should free the Financial Secretary as much as possible from that ordinary routine work of departmental reference.

11,746. That is the only change in that matter which you suggest?—As regards the Department itself, that is the only change.

11,747. And perhaps a matter which is more easily and better dealt with within the office than by the Commission?—Yes.

11,748. If for any reason an Assistant Secretary were appointed who was not conversant with finance, you would then feel that some additional assistance must be given in the Financial Department, I understand?—An Assistant Under Secretary?

11,749. Yes. In that case it would have to be assistance at the top of the Financial Department, not at the bottom; it would have to be the highest class of assistance?—Yes; I do not see my way to improve the Financial Department in itself further than I have already suggested, with the Deputy Secretary. As regards the necessity for having an Assistant Under Secretary with financial experience, I think that partly

* App. XXXV., p. 692.

depends upon what is done with regard to the Council. If on the Council there was a permanent financial member, then the burden of responsibilty above the Financial Department, and between the Financial Department and the collective Council, would be somewhat lightened.

11,750. I think it will be convenient if first of all we discuss the position as it exists, and see what would be required if the organisation of the Council were not altered?—As things are at present, the only improvement that I can suggest is that the Assistant Under Secretary should be definitely recognised as an Assistant Under Secretary for financial duties. I think in the War Office there is such an appointment.

11,751. I should like to turn to the composition of the Finance Committee of the Council as it stands. You were present while we were examining Mr. Abrahams, and you heard the questions we put to him. It appears that, for one reason or another, there has been a change in the composition of that Committee in recent years; that is to say, that whereas in former years Indian experience of one kind or another was available on the Committee, at the present time there is no Indian experience available there?—You mean Indian financial experience?

11,752. Yes, Indian financial experience; that is so, is it not?—Yes, Indian special finance experience is at present wanting.

11,753. I put to you the same question as I put to Mr. Abrahams: Does it not appear to you anomalous that with a Finance Committee you should take pains to secure special representation of Indian military experience and special representation of Indian public works experience, but that there should be no representation of Indian financial experience, either official or unofficial?—I think that is a defect, but I would rather consider that that defect has been unavoidable at times. The only way in which you can draw that special Indian financial experience is from the Finance Department of the Government of India, and the supply of ex-Finance Ministers, for one reason and another, has been at times very short. If you go back, and take the instances of Lord Cromer, Sir Auckland Colvin, Sir David Barbour, and Sir James Westland, the only man who was available among those four was Sir James Westland.

11,754. Are there any circumstances which render it impossible to seek modern Indian financial experience outside the list of ex-Finance Ministers? It may be a question of the remuneration at present attached to a Council post?—That is to say, outside of official circles?

11,755. No. I want for the moment to confine myself to official experience. I quite understand that at a particular moment an ex-Finance Minister may not be available, but all experience of Indian finance is not confined to Finance Ministers, past or present. Is there anything in the organisation of the Committee or of the Council which makes it impossible, in such a case, to consider whether there might not be an official representative outside the ranks of the Finance Ministers?—The Secretary of State could select as a Member of Council an officer who had been Comptroller-General, or who had been Secretary to the Finance Department of the Government of India.

11,756. (*Lord Kilbracken.*) Mr. Finlay?—Mr. Finlay, for instance, yes.

11,757. (*Chairman.*) How would it affect his career, supposing the Secretary of State desired to call to his Council for the Finance Committee specially a member of the Civil Service now serving in India?—I do not think he would have any difficulty. He could get a Comptroller-General or a Secretary to the Government of India who has served his time for pension in India, and he would have no difficulty in finding a man to take the Council.

11,758. You say in the para. 20 (3) of your memorandum (App. XXXV., p. 697): "The Secretary of State has "given much consideration to the question whether a "salary of 1,200*l.* a year and a tenure of office limited in "the first instance to seven years—the terms proposed "for members of Council generally—may not be found "to restrict unduly his choice of a finance member. "The terms practically limit the field to Indian public "servants who have completed, or are on the point of "completing, their Indian service, and who would "have their Indian pension in addition to the salary "of a member of Council." What I wanted to ascertain was whether it was desirable that the field should be so limited?—I think in any amendment of the Government of India Act it might be well to take power to make an appointment without the restrictions which apply to the rest of the appointments.

11,759. There has been a good deal of talk in connection with some other branches of the Public Service of interchange of officers. Has that ever been discussed in the India Office?—As regards the establishment of the Secretary of State, there are certain posts, such as the Military Secretary, the Revenue Secretary, and the Judicial Secretary, which are listed under section 4 of the Superannuation Act as appointments which may be filled outside the Civil Service by persons possessing special qualifications. In that way from time to time Indian civilians have been brought into the office. I was brought in in that way myself. As regards exchange the other way, from our Office to India, I have thought about that, and I have never seen my way clear to do it. I do not know really how you could employ a man straight from this Office in the service of India except in one or two very special capacities, those capacities involving a knowledge only of the English language.

11,760. I was thinking a little of the reverse process—whether it might not conduce to the smooth working of the Indian Government if men who had passed the main portion of their lives in the Indian Civil Service were sometimes selected to come over here for a period to see to affairs with which they had dealt, shall I say, from the other end of the telescope?—Then you would have to fit them into one of the Departments of the Office.

11,761. Of course, we are concerned only with financial organisation?—Yes.

11,762. Would it be well, in your opinion, or not, that from time to time some rising officer of financial experience in India should be brought home for five years to serve here, and then go back to resume his Indian service?—No, I do not think it would work very well. Judging from my own experience, when I came from India to this country, it took me two or three years before I quite understood the ground in which I worked here, and the atmosphere; it is quite different from the Indian one. A man sent for five years from India would be two or three years in learning that. Then there is also the difficulty of finding a special appointment vacant for him. If he is a supernumerary you have to feed him with work, and if he is to take the place of somebody in the regular line, then it is not always that you have a place vacant, and promotion is not very rapid in this office, and it would cut somebody else out from promotion.

11,763. Of course, there have been in recent years considerable political changes in India, into which I do not wish to enter except to the extent that it is necessary in connection with financial organisation; but I suppose you would say that one result of those changes has been to bring a greater light of publicity to bear upon all the financial operations, both of the Government of India and of the Secretary of State?—Yes.

11,764. And that educated public opinion in India is concerning itself much more than it used to do, or a wider section of it is concerning itself than used to be the case, with what is done in financial matters both at home and in India?—Yes, that is the case.

11,765. Do you think that the interchange of opinion, which may have been quite sufficient in the old days, between the authorities here and the authorities in India, is quite sufficient when the authorities in India are liable to so much more public criticism, and not only that, but are obliged to give answers to the public criticism in the Imperial Legislative Council?—I think the fullest possible interchange of opinions is desirable, but I do not know that that would be facilitated by bringing a comparatively junior Indian civilian for a short period into the Finance Department.

11,766. As regards the extent to which communications pass at the present time, you have heard the passage which I read from Sir Guy Fleetwood Wilson's evidence yesterday, and I should like just to read you one other or two others, which perhaps make his view a little more clear. He said: "I must point out, "dealing strictly with the position of the Finance "Minister in India, and his relations with the India "Office, that under the present arrangement his position "is not only a very difficult one, but it is an unneces- "sarily and an unduly difficult one, inasmuch as he is "practically debarred from communication with any- "body in the India Office who can really keep him in "touch with what I should call, for want of a better "term, the mind of the Secretary of State and his "advisers in regard to finance"; and further on, after expressing his gratitude for the confidence which the Viceroy placed in him, and for the support and kindness which were given to him by the officials in India, he says: "But I was always in doubt as to whether "I was working on sound ground from the English "standpoint. I had served abroad in other conditions. "I was in South Africa, and I was in Egypt. On each "occasion it was permissible to communicate freely "with home"; and in another place he said, as I think has already been quoted, that he was "working in the dark." What do you say about that as a criticism, not of individuals (which he was anxious not to make it), but as a criticism of the system?—As far as unofficial correspondence goes, I think that the Finance Minister in India is free to correspond with anybody in this office, either a member or the Permanent Under Secretary or the Assistant Under Secretary or the Financial Secretary, but it must be regarded as private, unofficial, non-committal correspondence. I do not quite understand the statement that he was working in the dark, because it is not supported by any particular instances of matters in which he was working in the dark.

11,767. He did mention it; he did say: "As it is, "the unfortunate Finance Minister—it occurred to me "—within three weeks may have to alter his Budget "from top to bottom on two occasions"—that is how the words have been taken down, but I suppose it should be: "It occurred to me on two occasions "within three weeks that he may have to alter his "Budget from top to bottom," and he goes on "and "then you do not know whether you are in accord "with what I may call the inner mind, the inner "consciousness, of the India Office and of the people "at home." The suggestion which underlay all this part of Sir Guy Fleetwood's Wilson's evidence was that the organisation of the India Office should provide what he described as an *alter ego* to the Finance Minister in India—what I think we often in slang terms call an opposite number—with whom he would naturally carry on an unofficial correspondence in which doubtful points could be cleared up, or the ground could be sounded before him?—I think that is done with other Departments of the Government of India. In India the Commander-in-Chief, who is also the Member in charge of the Army Department, is in constant communication both with our Military Secretary, Sir Beauchamp Duff, and also with General Sir Charles Egerton.

11,768. You see no reason why, under the present system, it should not be done, so far as it is required and within due limits, by the Finance Minister?—Yes, and any very important matters, where the Indian Government are contemplating, say, a large increase of taxation or a radical alteration of certain important branches of revenue, would ordinarily be mentioned by the Viceroy to the Secretary of State in his weekly letter, or in reply to a private telegram. The Finance Minister would thus be able to reach the most authoritative source and find out what the Secretary of State thought of the proposal, and whether he would be able to support it.

11,769. Still, assuming that the present organisation continues, I think you have said that in your opinion it is desirable, other circumstances being equal, that Indian financial experience should be represented on the Finance Committee?—Yes.

11,770. Would you agree that where possible it is desirable that unofficial Indian experience should also be represented there?—If you have a large enough Council to find a place for it.

11,771. You do think it important that as far as possible Indian experience should be represented in the one capacity or the other?—Financial experience. I think it is desirable; at the same time, I have never looked upon the Council as a Council of specialists. I think the aim of the Secretary of State has always been to select the best man available at the time, and as such persons will be practised administrators and will have had to do in the course of their service with questions of Indian finance, they are not without a certain amount of financial knowledge.

11,772. But, proceeding on the same lines of choosing the best man without regard to the representation of special interests, can you conceive of a Secretary of State's Council upon which there were no military men?—No, I think that there are certain things which he should look to. The three essential things generally are civil administration, military affairs, and finance and commerce. Those are the three things which ought to be represented in the Council, but as against a third-rate finance man, the only man available, and a first-rate administrator, I would take the administrator.

11,773. On the whole, therefore, it comes to this, that you think it one degree less necessary to have direct financial representation on the Council than to have direct military representation?—Yes.

11,774. If you were ever unfortunately reduced to a condition of things in which your choice was between a third-rate military member and none, you would still take the third-rate military member?—If such a condition of things existed.

11,775. In recent years, whilst Indian financial experience has not been directly represented on the Council, you have had London experience continuously represented there?—Yes.

11,776. You would I suppose, agree with Mr. Abrahams that it is important that London experience should be available in that form to the Secretary of State?—As long as the functions of the Council are as at present.

11,777. The evidence which has come before us has shown in some quarters a great deal of jealousy and suspicion, much of it, I think, unfounded, of the supposed influence of the City of London over the action of the Secretary of State. You would probably feel that that criticism has been rather fed by the absence of any representation of Indian financial experience in recent years?—Yes, that is so.

11,778. And perhaps it has been still further fed by the fact that the Chairman of the Finance Committee has been in recent years a prominent City banker?—Yes.

11,779. Do you think that on the whole it is desirable that the Chairman of the Finance Committee, if the Finance Committee were to continue as at present, should be a City banker?—No, it is not at all necessary, and I can see some advantages in another system.

11,780. Now I would like to turn to the changes which are contemplated. Of course, we have nothing to do with those changes in their non-financial aspect, but I am not quite clear, and perhaps you can make clear to us, what would be the natural financial organisation as part of the general scheme which Lord Crewe sketched to the House of Lords?—On the Council I should hope to see a member possessing Indian financial experience, and I suppose that he would be attached, so to say, to the Finance Department; that is to say, the cases which now go to the Finance Committee would normally go to him. As to whether there would be a Finance Committee to which cases would always be referred, of which he would be the Chairman, it is difficult at present to say, but I should think that if there were not a standing committee for all important cases there would be *ad hoc* committees.

11,781. I think we have got it from you that you feel it desirable to combine, if possible, Indian financial experience and London financial experience?—On the small council which is contemplated of, say, eight members, it is rather difficult to find room for the City member as well as the Indian finance member.

11,782. That is what I thought?—We must have an Indian finance member, because he must necessarily be a whole-time member, and a City man cannot be that; and again, the City man, as I have explained in the memorandum,* is not conversant with a great deal of the detailed finance work of India; he knows only the English aspect of it.

11,783. Lord Crewe has invited an expression of opinion from us on these changes as they affect finance. If they are carried through, will you be able to combine your access to City experience with your new organisation?—I think that is a point upon which he would be glad to be advised by the Commission. If it is necessary to have a City member recognised as a half-time member, he would have to be over and above the complement which otherwise we should consider necessary. If we had eight members without a City member we should probably have nine members; but Lord Crewe would be glad, I think, if any plan could be suggested by which we might be able to have access to advice of the kind otherwise than by adding a City member to his Council, because the Council which he contemplates is a whole-time Council, and the City member in those circumstances would be rather abnormal; also because on a small Council he would have voting power—increased voting power as compared with what he has now.

11,784. Do I understand that in the general organisation of the Office the Committees which at present exist would disappear under the new scheme?—They would probably disappear, I should think, as a machine for taking all the cases, but I imagine they would be resorted to a great deal just as they are in the Admiralty.

11,785. That is to say, at any moment the Secretary of State might set up a Committeee to deal with a particular proposal, or a particular set of suggestions?—Yes. In the Admiralty they have a large number of committees, some standing, some *ad hoc* committees, and I can quite imagine a system under which we should have committees for important work—small committees. There might be a standing Finance Committee.

11,786. Suppose it were desirable to establish a standing Finance Committee, does that involve any alteration in the legislation which now governs the Council? I understand the present Finance Committee must be drawn from Members of the Council?—Yes.

11,787. Suppose it were desired to constitute a permanent standing Finance Committee of whom the Chairman only would be a Member of the Council, would that require legislative sanction?—I think when the India Act of 1858 is amended it will be amended in such a way as to leave the Secretary of State to deal with the committee question as he chooses. He could, of course, constitute a Committee consisting of others than Members of the Council. The only difficulty I see is that a recommendation of the Committee would be made by others than Members of the Council, and the deciding power ultimately is the Council.

11,788. That would not be at all a novelty in our Government, would it?—No, I do not think it would.

11,789. Nor in business affairs?—No.

11,790. (*Lord Faber.*) If you had a small committee of that sort and they came to a decision and recommended that decision to the Council, I suppose you would allow them to put their views to the Council personally, and not merely to present a report to the Council, because it would make a difference if you did not see the men and talk to them?—Under the Council system the only persons who can take part in the discussions are Members of the Council.

11,791. I think that is a drawback, because written advice under certain circumstances is not nearly so powerful, or so useful, as when you see the men themselves and talk to them?—No.

11,792. (*Chairman.*) You would have the Chairman of the Committee, of course, present at the Council; but, of course, he might not agree with the recommendation of the Committee. Would there be any difficulty in such a case, if the Secretary of State thought it well, in inviting the attendance of the other members of the Committee before the Council in order that the matters might be argued by the Committee in the presence of the Council?—That would be possible, but it is hardly compatible with the system established by the Act of 1858.

11,793. Can you tell me (because I think it is important from our point of view in considering the financial organisation) what is the object of this reorganisation? Is it expedition?—Expedition, and an increased individual responsibility.

11,794. Such a reorganisation would, I think you said, necessarily involve that the member of the Council charged with finance should be a whole-time servant?—Yes.

11,795. I am not quite clear what his relation would be to the existing Finance Department?—My idea is that it should be rather similar to what prevails in the Admiralty. The financial work would come to the Under Secretary first, or would go to the Secretary of State if it was important enough for him to see in the first place, and then it would be marked on to the finance member. If it affected two departments, or three departments, it would be marked to those two members or three members.

11,796. Would not the Admiralty routine be a little different; would not a paper there go in the first instance to the financial authorities and only come up to the First Lord after the Financial Secretary had expressed an opinion on it?—Probably that is the case, but the Secretary of State at present is solely responsible for the administration of India.

11,797. Yes, I think he is very much in the position of the First Lord of the Admiralty, as I understand. The First Lord is responsible to Parliament, but he may allot business within certain limits as he pleases in the office?—Yes, it would be a question of procedure whether it should go to the Secretary of State. I think in really important cases it ought to go first to the Secretary of State

11,798. Then as regards the other parties now represented on the Finance Committee, you have there a representation of military experience and of public works experience. Of course, it is obvious that both military questions and public works questions must constantly involve very serious financial questions. How would that experience be made available under such a reorganisation as you have described?—Any military case would be marked first to the military member, and then afterwards to the finance; and similarly with the public works. I suppose those two members in dealing with it would meet and talk over the matter.

11,799. Practically the result would be that in each case the place of the Committee would be taken by an individual?—Yes, so far as the committees are not permanently constituted.

11,800. But it is not incompatible with the scheme that attached to a Member of Council like the Finance Member there should be a standing Committee of Finance?—I think that would be quite compatible with the scheme, and I think I could understand a Secretary of State preferring that.

11,801. I think in your memorandum you draw our attention to the fact that all these proposals might be seriously modified if a State bank were created (para. 20, p. 696)?—Yes.

11,802. That is to say, if a State bank relieved the Secretary of State of the management of the balances and of the sale of Council bills, and so forth, then you would propose a different organisation altogether?—Not necessarily. I think it would only follow that the City Member might no longer be necessary, or might not be necessary to the same extent that he is at present.

* App. XXXV., para. 20 (1) and (2), pp. 696-7.

11,803. In that case you would rely in the Financial Department wholly upon the Civil Service, whether Anglo-Indian or English, and would not need the kind of outside assistance which is now required from the City?—That, I think, is our view.

11,804. (*Lord Faber.*) Considering how very difficult some of the finance connected with India is, do you not think it would be wiser rather to enlarge the Committee and make room for the two members suggested, one a member with Indian financial official experience, and the other with up-to-date London experience; because after all, if you get the right financial men, I apprehend that their opinion with the general Indian opinion on the Council would be valuable too. At any rate, I think you cannot afford, can you, to ignore the financial side of this very important matter, because it is very difficult even to men like myself who ought to know a little about finance. I think it is important that you should have two financial men there of the kind that you intimate?—That makes the reduction of the Council rather difficult, and we should have two men who are not charged with any departmental work, that is to say, the City Member and the non-official Indian Financial Member, if that is what is suggested.

11,805. You would, but, as I understand, the Indian Member with Indian experience you would be able to make use of in the office itself, would you not?—As consulting members a City Member and a member with non-official Indian financial knowledge would both be very useful, but they could not be specially attached to a department to be responsible for the work passing from that department; they would have to be attached to the official Finance Member in some form or other.

11,806. (*Chairman.*) Of course, if you had an Anglo-Indian official you could make him a whole-time servant, I understand?—Yes.

(*Chairman.*) What Sir Thomas Holderness is saying is that if you brought home an Indian merchant or an Indian banker and invited him to come, you could not make him a whole-time servant.

11,807. (*Lord Faber.*) I do not propose to do that. My view is, I think, the view held by the Chairman, that you should have one Indian with official financial experience. He would be attached the whole time to you. The London City man would not be attached, but there are many men who would value a position of that sort, and would do the necessary work very gladly. It would not be a question of what the man was paid at all?—No, I could conceive a small council with finance only represented by an Indian official, and an outside organisation which you may call an advisory committee.

11,808. The objection to that is the objection which you made yourself, that they are not in touch with the Council in person?—They are not in touch with the Council in person, and they would not be charged with the direct responsibility which lies on a Member of Council.

11,809. I would rather have a Member of Council who could lay his views before the Council and who has London experience?—Then he must be brought into the Council, and you must accept the fact that he would be a half-time man only.

11,810. (*Mr. Keynes.*) You contemplate, I think, that the Member of Council who is attached to the Finance Department should always be an ex-Indian Civil Servant?—I would not say always, but I cannot well conceive any alternative.

11,811. In spite of your view that it is not always easy to get such persons?—Quite so.

11,812. If the project of the small Council were adopted, you would have neither your Member of commercial Indian experience nor your Member of City experience; both of them would be eliminated?—That is assuming that we do not have a City Member.

11,813. It is rather an important point—I think you answered it, but I want to be quite clear—as to the relationship between the member attached to the department and the permanent head of the department. Will the permanent head of the department have the right to send papers forward to the Under Secretary and the Secretary of State before the Member of Council has seen them, or after?—My view is that they should be sent to the Permanent Under Secretary invariably in the first instance before they go to the Member.

11,814. That is exceedingly important if one is thinking what the position of the permanent head of the department will be, is it not?—Quite so. The constitution has not been finally worked out, but my view is that the proper procedure is that the papers in all cases should go from the department to the Permanent Under Secretary before they go to the Member.

11,815. (*Lord Kilbracken.*) The Member of Council would simply take the place of the Committee; is not that so?—That is my view.

11,816. (*Mr. Keynes.*) So far as the object is to expedite financial business, is there any reason why at present the Finance Committee should not meet twice a week?—It is quite possible.

11,817. Is any useful purpose served by the practice of leaving papers on the Council table for an interval of a week, I think it is, after they have passed through the other formalities?—It is the alternative procedure to putting them before a meeting of Council, and with unimportant papers the simplest way is to table them instead of putting them before a Meeting of Council. For pressing matters there is an urgency procedure by which we can get papers out at once.

11,818. I do not know what the early history of the Council is, but is not the existing procedure largely based on the hypothesis that Members of Council are not in very regular attendance at the office?—Yes, as regards Committee work.

11,819. And also that papers must lie on the Council table for a good long time if it is to be certain that every Member of the Council is to have an opportunity of looking at them?—I suppose that was the idea. I think an interval of some days was considered to be necessary to give all the Members of Council an opportunity of seeing them. It is provided by the Government of India Act of 1858. The practice is of very old standing.

11,820. But if the assumption were made that Members of Council are in very regular attendance at the Office, a great deal of the present procedure could be expedited?—There would be no difficulty at all in shortening the period of seven days to three days, or some similar period, but it would need an alteration of the law.

11,821. And also increasing the frequency with which Committees meet?—Yes, that is within the discretion of the Secretary of State. He can require a committee to meet every day.

11,822. Is the possibility of expediting business very much involved in your mind in the new proposals, or do you think there are other ways of effecting it?—It would be expedited in this way, that a great mass of unimportant business instead of going before the Committees, and being discussed at length and probably remanded for a week or a couple of weeks, would be dealt with by a single Member, probably in the course of a day.

11,823. But you would always have that, would you not, if the Chairman of the Committee were empowered to mark papers on and to take the view that his Committee would not wish to see them in detail?—That arrangement, no doubt, would be possible if the present statutory requirements were modified.

11,824. I wanted to ascertain how far there were other objects. It appears, *primâ facie*, that it is rather a far-reaching scheme if the only object is to expedite business?—To expedite business and also to fix individual responsibility to a greater extent than is the case at present.

11,825. (*Sir Shapurji Broacha.*) How many members of Council has the Secretary of State?—At present?

11,826. Yes, independent of finance?—Including everybody there are at present 10 members.

11,827. And there are 10 members on the Finance Council, I suppose?—On the Council of the Secretary of State there are 10 members.

11,828. (*Lord Kilbracken.*) What is the maximum by law?—Fourteen under the existing Act. We are now at the minimum.

11,829. (*Chairman.*) On the Finance Committee how many are there?—Five members at present.

11,830. Five out of the 10 existing members of the Council form the Finance Committee?—Yes.

11,831. (*Sir Shapurji Broacha.*) You do not call the Chairman of the Finance Committee a member of the Council, do you?—Yes, he is a member.

11,832. Including him there are 10?—Yes.

11,833. And then there are 10 members now on the Finance Committee?—No, five members of the committee and 10 members on the Secretary of State's Council.

11,834. Is the composition of the Committee periodically considered?—Every year the Committees are reviewed and alterations made in the constitution of the Committees.

11,835. Of course, those who have financial experience are sent to the Finance Committee?—Yes.

11,836. You have two Indian Members on the Council?—Yes.

11,837. Are they selected for any particular qualification?—Selected for the Council, do you mean?

11,838. Yes?—They have no special financial qualification.

11,839. But what qualification have they?—They are not selected for any special business; they are selected as probably the best Indians available. The selection is that of the Secretary of State.

11,840. The best Indians available for what qualification?—For advising the Secretary of State generally on Indian business.

11,841. Or is it because they are safe and must belong to a certain community?—Certainly both the great religious communities of India are represented.

11,842. If there is another community there with a member of fit qualification, I suppose he is not taken from it, but from the two large communities, Mohammedans and Hindus?—One of the Members happens to be a Mohammedan, and the other happens to be a Hindu, but there is no reason why these two appointments should always be distributed in that way.

11,843. I think in both communities there are people of good financial ability. Why not select one with financial ability to give confidence to the large number of articulate people of whom the Chairman just now spoke?—The appointment of Members rests wholly with the Secretary of State, and in making an appointment he has to consider many things.

11,844. Of course, we know that all the appointments are made by the Secretary of State, and we are considering what appointments should be made on the Finance Committee, and we are considering what selections should be taken from India. Could not that be done? Could not you select as one of those Indian Members a man with financial experience?—I have no doubt it might be desirable, but at the same time I do not see how you can fetter absolutely the discretion of the Secretary of State as to the selection of the Members.

11,845. You have been talking of a State bank. Will a State bank reduce the expenditure in the office in any way?—Not materially as far as I can see.

11,846. I do not think it would in any way. I do not think you want to extinguish any department?—No.

11,847. (*Mr. Gillan.*) It is the case, is it not, that the Secretary of State's powers are different in financial and in non-financial matters?—Yes.

11,848. In non-financial matters he acts for himself?—He can overrule the Council.

11,849. In financial matters—or is it in matters of expenditure—he acts as Secretary of State in Council?—In financial matters he is bound by the majority of votes of the Members present at the meeting.

11,850. There is another distinction which suggests itself as possible; I do not know whether it is correct. It may be put in this way, that in non-financial matters the Secretary of State is really considering the action to be taken by the Government of India—, that other Departments, non-financial Departments in fact, in the India Office, are not executive Departments, and that the Finance Department is executive in the sense that it has to do the whole of the home business of the Government of India?—I do not think that distinction really holds.

11,851. You think not?—No. There may be administrative matters not touching finance; for instance, an alteration in the Code of Criminal Procedure or the Penal Code, or a number of things in which you are touching the whole administration of India, but which have no financial aspect.

11,852. That is hardly my point. In those matters the Secretary of State could give directions for certain action to be taken in England?—Yes.

11,853. But in financial matters there is a large field in which he has himself to take action here in England?—That is true, but that is not the reason for the distinction in the Act.

11,854. No, I was putting it as another distinction?—Yes, it is a distinction, certainly.

11,855. What was in my mind was this, that, whatever reasons may be given for adopting representation of members in charge of other departments, possibly there might in that distinction exist a special reason for taking that course in regard to financial matters?—Yes, but there are many Indian matters besides finance that concern this country as well as India with which the Secretary of State and the members of his Council have to deal.

11,856. You think there is not much in that distinction?—I do not think there is much in it.

11,857. (*Lord Kilbracken.*) You said that you did not attach much importance to the principle of representation on the Council?—No, not representation by specialists.

11,858. But is it not the case that that representation has generally been recognised as rather important?—In its main outlines; that is to say, you want to provide for the civil administration, for the military administration, and, if you can, for the finance.

11,859. I am speaking now of the past. Official Indian experience and non-official Indian experience would generally be thought important enough to have representatives on the Council?—Yes, that is so.

11,860. A[illegible] City has had representation for more tha[illegible]
—To a cert[illegible]

11,861. I [illegible] Presidencies are represented now?—Yes, they are, but as regards the civil administration, the main consideration with the Secretary of State has, I think, been to select the best men available in India.

11,862. Of course, a great deal of importance is attached to that, but still, the idea of representation is distinctly recognised?—Yes, in the early stages of the history of the Council.

11,863. In all those points which I have mentioned—military, finance, Indian administration, Presidencies, City, and official and non-official Indian financial experience—that has been the practice, has it not?—I am not sure whether very much importance has been attached to Presidency representation. It is clear you cannot represent all the Provinces.

11,864. No, but the Presidencies?—The three Presidencies probably would have representatives on the Council.

11,865. Are you in favour of a system of whole-time Members of Council?—I am in favour of it to this extent, that I think Members ought to understand that their time is at the disposal of the Secretary of State.

11,866. Has not that been understood in the past except with regard to the City Member, who stands on a somewhat exceptional ground?—It may have been loosely.

11,867. What you want is a little speeding up?—More or less a daily attendance, I think.

11,868. Would you be in favour of increasing the pay?—I think the pay ought certainly to be brought back to its old level of 1,200*l.* per annum.

11,869. Do you think that the present pay of 1,000*l.* a year for seven years is sufficient to attract the best men from India?—Not always. I have known instances to the contrary.

11,870. As to the Finance Committee which you sketched out, which used to be composed of the Finance Member as Chairman and of other individuals, what sort of Members were you thinking of besides the Chairman?—Do you mean as at present?

11,871. No, under the new scheme?—It is not yet definitely decided whether we should have Committees or not, but, assuming that there is a Finance Committee, the Committee would, I suppose, be constituted of the Finance Member and of, say, two other Members, one of whom would be the City man; or you might have four Members altogether.

11,872. But what sort of men have you in your mind?—You would have to take them out of the Council.

11,873. I thought they were to be outsiders. I am speaking now of the Finance Committee. On it, of course, you would have the Finance Member as Chairman?—Yes.

11,874. Who would the other Members be—what sort of men?—The other Members would be Members of Council.

11,875. But no outsiders?—No outsiders. That was only a suggestion which I threw out to Lord Faber, that it might be possible to have an Advisory Committee for certain matters of finance; but I do not think there is very much in that suggestion. It is open to many objections.

11,876. Do you attach importance to the Committee system—to the discussion of measures in Committee?—In the larger questions I certainly do, but there is a great deal of work which goes before the Committees, and which has to go to them under the present system, which need not go, in my opinion.

11,877. Why do you say it has to go? No business need go to the Committee unless it is sent there by the Secretary of State or the Under Secretary?—No, but if the alternative procedure is adopted, and it is marked, say, to the table, it lies there for seven days.

11,878. It need not; it might be marked to the Council?—I was thinking of the unimportant matters which need not really go to a meeting of the Council. The alternative then is to table the case—to put it on the Council table—and if it does not go to the Co[illegible]nd is simply passed on to the Council [illegible]e risk of having some of the Members [illegible]ers which are proposed to be issued, and [illegible]et a greater delay than if you send the case at once to the Committee.

11,879. If you do not send it to the Committee, and do send it to the Council?—If you do not send it to the Committee but put it on the Council table, you run the risk in the seven days of having your orders objected to.

11,880. But I suppose the great majority of papers which are sent to the table are papers as to which it does not matter in the least whether they lie for a week or for three days?—Yes, a great many papers do go there without going to the Committee, but I am referring more particularly to certain other papers which ought to be seen by one member of the Council at least, and which go to a Committee at present, and which are often talked over at very considerable length.

11,881. But as a rule the discussions in Committee are extremely useful, are they not?—Yes, I agree.

11,882. Do you consider that there is any single member who would be an adequate substitute for the Committee?—In the smaller matters I think he would. In the larger matters it is possible that Committees may be desirable, and even if they should not be considered desirable, there will be under the contemplated new procedure in nearly all important matters the opinions of at least two members, because all important matters touch two departments, or generally do.

11,883. Yes, but two members are hardly enough to form a Committee to begin with; and would you suggest that those two members should always meet and discuss business in the way that Committees now discuss business, or would it all be done under hand and seal?—That would depend upon the regulations which the Secretary of State in Council might make.

11,884. But we want to get some idea of how it would work. Are you dissatisfied with the present system of transacting business as it stands?—No, on the whole I think it is good. There is a certain amount of unnecessary delay and formalism in various ways which is due to the Act.

11,885. But still, a good deal could be done without amending the Act in any way?—Yes, a good deal could be done, but the Act is a pretty stringent one.

11,886. The business which has to be transacted generally has some reference to the mails, has it not? I mean most of the business is with India?—Yes.

11,887. And therefore, if there is a mail, you have a week?—Yes, and for that reason the Council meeting generally is in the early part of the week, so that we have three clear days to get off despatches to India.

11,888. But that rather affects the question of urgency, does it not; I mean you cannot proceed with the same despatch in your correspondence with India as you can when you are corresponding with another Department in this country?—Not when you correspond by despatch; but we do a good deal of the work by telegram.

11,889. And arrangements are made largely with reference to the Indian mail, I suppose?—We endeavour to make our procedure as expeditious with regard to mails as we can.

11,890. You think that an amendment of the Act is required, but probably only in small matters, matters of form?—The present procedure could be improved by an amendment of the Act in small matters, but the view of the Secretary of State is that a larger and more radical amendment of the Act is required if he is to get increased efficiency and more rapidity out of his Council.

11,891. (*Chairman.*) I should like to ask one or two more questions. I can quite understand the objections which I think you have pointed out to us to being obliged to send many matters of mere detail before the Committee, and to the delay which is consequently caused. If you could deal more expeditiously with such minor points, and eliminate the reference to Committee in their case, would you be satisfied to retain the Committees for the larger questions?—Yes, I think the Committees would be very good for the larger questions, but I am not sure whether a system of *ad hoc* Committees might not in many cases be preferable.

11,892. I am not quite clear what you mean by a system of *ad hoc* Committees?—I would have Committees constituted for the occasion in the larger cases.

11,893. Do you think that you would deal with finance in that way? Take the kind of questions upon which you frequently want advice at the present time: How much can the Secretary of State count upon borrowing; at what time should he borrow; in what amounts, and at what rates should he underwrite his loans? Do you contemplate the appointment of a Committee *ad hoc* for each operation?—No, I think there is a special reason for a standing Finance Committee.

11,894. Is it compatible with the general scheme of reorganisation that the standing Committee should be composed, as I think you said just now to Lord Kilbracken you would prefer, of Members of Council?—It is quite compatible with the scheme of a standing Finance Committee composed exclusively of Members of Council.

11,895. And it would be compatible with the scheme that in that Finance Committee there should be, not merely a whole-time Civil Servant of financial experience, but that there should also be a representative of City finance?—Quite compatible. That is, if we had a City member he would naturally find his place on that Committee.

11,896. It would not destroy the plan which the Secretary of State has had in mind if he found himself obliged, in order to constitute his Finance Committee successfully, to have at least two members of the Council chosen specially for financial knowledge?—It might require him to make his Council rather larger than he at present thinks desirable, but he will take powers to have a maximum and a minimum number of Members, and I suppose within the maximum it would be possible to provide for these two men.

11,897. Would you agree that the usefulness of the City representative would be diminished if he were treated as a pure specialist in finance, and summoned only to a Finance Committee, and, if he did not have the opportunities, which he now has as a member of the Council, of informing himself generally of the progress of Indian affairs, and listening to, and taking part in, the discussions which take place on general questions of Indian administration?—I think if he is placed in the Council at all he must be admitted to the whole of the business.

11,898. One more question: If he were not placed in the Council and summoned only to a Finance Committee, do you think he would be as useful even on the Finance Committee as he would with the wider experience which under present circumstances he obtains?—No. His knowledge would be as useful, but he would not speak, as far as I can see, with the same sense of responsibility.

11,899. (*Lord Kilbracken.*) Do you think that it is possible to reduce the Council below ten?—I think under the system contemplated it might be possible to work it with eight.

11,900. Including the two Indians?—Including two Indians.

11,901. Then there will be only six non-Indians on the Council?—Yes. That, of course, is not providing for the representation of the City or of Indian mercantile interests. If those are both to be provided, then, I think, you would have to have more than eight.

11,902. At present there are two City members?—Yes.

11,903. And the suggestion is that we should do without them in future?—That is the suggestion that has been made.

11,904. (*Lord Faber.*) There is no reason, is there, why what we call the City Finance Member should not have a very good opinion on general matters connected with India? Because he is a finance man there is no reason that he should not have considerable ability in other directions?—We have had very great help from our City members in the past.

The Commissioners conferred with the witness in private, and the witness thereafter withdrew.