

MADRAS RECORD OFFICE.

Government of Madras.

Financial

DEPARTMENT.

G.O. No.	555	Press Mis.
Dated	30. 9.	1859.

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Not to be folded or roughly handled

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*Proceedings of the Madras Government, Financial Department,
from 24th September to 4th October 1859.*

No. 27. Read the following letter from C. H. LUSHINGTON, Esq., Secretary to the Government of India Financial Department; to the Chief Secretary to the Government of Madras, dated Fort William, 31st August 1859, No. 7572.

I am directed to acknowledge the receipt of your letter, No. 407, dated the 23rd ultimo, and its enclosures, relative to the question of the receipt at the Talook and subordinate Treasuries of the Madras Presidency, of notes of the Bank of Madras tendered in payment of sums due to Government.

2. The Governor General in Council concurs with His Excellency the Governor of Fort Saint George, in thinking, that the Establishment of a Government note circulation within proper limits and under proper regulations, is the best remedy for the evils complained of. A scheme for the issue of a Government paper currency has indeed already been laid before Her Majesty's Secretary of State, in a Despatch of this Government, No. 61, dated the 27th April last, and I am desired to forward a copy of that Despatch and of its enclosure for the information of the Government of Fort Saint George, with an intimation that this Government has submitted the question contained in the papers forwarded with your letter, to the Right Honorable the Secretary of State for his orders, with the opinion that the scheme already submitted to him is preferable to the one proposed by Sir Charles Trevelyan. The Governor General in Council does not see the necessity of absolutely restricting the issue of notes to so small an amount as 3 millions sterling, or of declaring the notes to be legal tender, or the propriety of allowing them to be received *generally* in *all* British Treasuries. This last measure, His Excellency in Council thinks, would be very likely to place the Government in difficulties in meeting the conversion of notes.

3. Should a Government paper currency not be introduced, this Government sees no insuperable objection to the restrictions now existing as to the receipt of notes of the Bank of Madras at the Talook Treasuries being taken off, provided (as proposed in the 36th paragraph of the letter of the Chamber of Commerce to your address) that such a reception of notes "be made strictly subordinate to the convenience of the Government's own financial operations." The interests of Government, His Excellency in Council observes, would generally be protected by the payments in notes being made by known and responsible persons, and it does not seem to him probable that the ryots would frequently be sufferers from the reception of forged notes, as they would at once cease to take them if they found themselves subjected to much risk. It would of course rest with the Government of Fort Saint George, to determine at what Talook and Hoozoor Treasuries the notes should be received, and at what Treasuries they should be refused; also, whether they should be received in full payment of revenue or in part payment only, according to the amount of Cash that might be required at the several Treasuries.

To

THE RIGHT HONORABLE LORD STANLEY,

SECRETARY OF STATE FOR INDIA.

My Lord,

We have the honor to forward, for the consideration of your Lordship, a copy of a note, dated 11th February last, prepared by our Financial Secretary, regarding the issue of a Government paper currency in India.

2. Such a measure would certainly be productive of advantages. It would prove convenient both to the public and to the Government; and it would afford eventually a very large saving to the State, as the *minimum* amount in circulation would be, in fact, a public loan, bearing no interest. But, on the other hand, it would involve very serious risks, which demand careful consideration.

3. In the first place, there may be risk of Government having the business of the transport of bullion thrown upon its hands. But this objection might, we think, be met by having several central treasuries at places where the largest disbursements are made, with not too large circles around them.

*General with a copy of the
letter to the Secy of India 29 Aug 1859
of its annexures -*

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4. In the second place, it seems to us that it would be unwise to introduce this measure at a time when there is reason to suspect that the security of the Indian Government is regarded with mistrust by the sensitive community with which we have to deal. A refusal, or even an unwillingness to receive the notes, or an eagerness to convert them, might become damaging to the credit of the Government, and seriously embarrassing.

5. Lastly, we believe that the convertibility of the notes, on demand, would not be a sufficient guarantee against over-issue. When once the paper currency is established in public confidence, the temptation to take dangerous advantage of this confidence will be very great in a time of difficulty, if the power of doing so is left in the hands of the Government of India alone. Restriction by law, either to a certain amount of issue, absolutely, or to an amount relative to the balances in hand, will, in our opinion, be necessary. We think, that such a law ought to be passed by Parliament, and not by the Legislative Council of India.

6. We do not consider it necessary to go into the details of a scheme of paper currency. Upon these we think that it would be expedient to take the opinions of some of the most intelligent and influential bankers and merchants in India, before any final determination is come to regarding them.

7. Our present object is to obtain an expression of your Lordship's views in respect to an extension of the paper currency of India, in the manner proposed.

FORT WILLIAM,
The 27th April 1859.

We have the honor to be,

MY LORD,

Your Lordship's most obedient humble Servants,

(Signed) CANNING,
(") J. P. GRANT,
(") J. OUTRAM,
(") H. RICKETT,
(") B. PEACOCK,

(True Copy.)

(Signed) C. HUGH LUSHINGTON,

Secretary to the Government of India.

Note on the Extension of Paper Currency in India, by the Financial Secretary.

It will be admitted, I believe, that an extension of paper currency throughout India would be productive of many advantages; that it would prove convenient to individuals, to the public at large, and to the Government; and that the only question in which a doubt exists, is as to the manner in which the extension can best be carried out, and the time at which it ought to be introduced.

2. As a rule, it has been argued that it is better that the management of a paper currency should be entrusted to a Bank than to the Government, because of the greater security that is by that means obtained against the evils attendant on an excess issue of Notes, either with reference to the wants of the country or the amount of coin in possession of the Government, which, when the management rests solely with the Government, may be too probable during any period of embarrassment; and on this ground it may be said, that the best means of extending the paper circulation of India would be by the establishment of Branch Banks of the Banks of Bengal, Madras and Bombay, under the provisions of their respective Charter Acts, at several of the most considerable towns, on the understanding that the Notes issued from such Banks should be made payable at those places only from whence they might be issued.

3. But there is a great, if not an insuperable obstacle to the establishment of such Banks, in the uncertainty of their paying such a dividend as will make it worth the while of the proprietors to apply for an extension of capital, with a view to the establishment of them. The question has several times been considered by the Directors of the Bank of Bengal, and on one occasion an agency was actually established at Mirzapoor. But it was not found to answer; and as no solution of the existing difficulties is likely to be met with, under existing circumstances, or until greater advantages are offered for the transaction of Banking business, by the general in-

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roduction of Railways, the only chance of ensuring an immediate extension of paper currency seems to be by the issue of Notes on the part of Government.

4. The objection to this course to which I have adverted above, will, in a great measure, be met if the Notes are *receivable at the option of the public and convertible on demand*. Generally speaking, it is in cases in which Notes are *legal tender*, and thereby made absolutely to assume the place of a metallic currency, that seriously evil results are to be apprehended. It does not appear likely, that an excess issue of Notes to any very large amount would, under other circumstances, occur, and I see no reason to suppose, that it would be found impracticable to impose good and sufficient checks on the management of a Government paper currency of the description to which I allude.

5. Such checks being instituted, all that is necessary to the success of the scheme appears to me to be to ensure the ready conversion of the Notes in the interior, and at the same time to provide against the possibility of so many Notes being presented for payment at any one time and place as would render it impossible for the Government to meet the demand without retaining an inconveniently large amount of cash balance in the District Treasuries.

6. These difficulties might, I think, be met by the issue of local Notes, convertible only at a few large Treasuries, conveniently situated in circles of country from 300 to 400 miles in diameter.

7. The Districts of Oude, the North Western Provinces, and the Punjab, might, for instance, be divided into three circles, with a separate batch of Notes for each circle; and the Treasuries of Allahabad, Meerut, and Lahore, might be selected as the Treasuries at which the Notes of the several circles would be convertible into cash, with an understanding that the Notes of the respective circles would, in each instance, be received at a certain number of neighbouring District Treasuries, in full or part payment of Government demands, as is now done in Bengal in respect to Bank of Bengal Notes.

8. The issue in each circle might then be regulated according to the amount of cash balance, which it might be considered expedient to keep in each of the Central Treasuries to meet the demands for conversions; and as this demand would never (judging from results in the Bank of Bengal) be likely to be in excess of $\frac{1}{4}$ of the total issues, it is evident that a very large amount of paper might with safety be put into circulation without calling for any increase, over and above that required under existing circumstances, in the aggregate cash balances of India.

9. The Notes might be issued for 10 Rupees and upwards, (of as few denominations as may be consistent with convenience) payable on demand, with the name of the Treasury at which they would be convertible entered on the face of them, and also, if it is thought necessary, the names of the District Treasuries at which they would be received in payment of Government demands. They might all be signed by the Accountant General at Calcutta, and distributed to the several Collectors for issue, in much the same manner as stamps are distributed at present; and I believe if different colors were selected for Notes of different amounts, that there would be little chance of loss to Government from forgery.

10. The effects of the measure would be the concentration, in a few large and well defended Treasuries, of the great bulk of the cash balances throughout India; a consequent saving of risk to Government, from the plunder of small Treasuries; a further saving of risk to Government in obviating the necessity that now exists for the remittance of large sums in cash from the District to the Central Treasuries; a saving of risk to Zemindars in the transmission of their Revenue Instalments in the District Treasuries; diminution in the rates of discount on Bills of Exchange; and greater facilities for the conduct of remittance transactions generally to all classes of the community.

11. I advocate the issue of Notes for 10 Rupees and upwards in preference to Notes of lower denominations on much the same ground that the issue of Notes for five pounds and upwards has been advocated in England, in preference to one pound Notes.

12. It has there been held that the issue of five pound Notes detracts very little from the actual amount of metallic circulating medium; that if they were suppressed, their place would be

Acct. General with a copy of it

Letter to H. for India 29 Jul 1859

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filled up, chiefly, if not entirely, by Cheques and Bills of Exchange: that they may therefore be considered as to their effects on the currency merely as so many ready made Cheques or negotiable securities; and that while they diminish considerably the trouble of transacting business, they reduce in a very small degree only, the amount of Gold and Silver which the suppression of them would throw into the general circulation of the country.

13. The issue of one pound Notes, on the other hand, is held to have a very different effect. It is said that no Cheques or Bills of Exchange are drawn for one pound; that such a mode of transacting business is too troublesome and expensive, that one pound Notes drive the metallic currency out of circulation; that Gold, in consequence, becomes more valuable abroad than at home; that it is sure therefore to be exported as a commodity; and that on the occasion of panics, the consequences are most disastrous, from the paper securities ceasing to be negotiable and from the supply of Gold being altogether unequal to the demand.

14. The same results would be likely to follow the introduction of a Note of less than 10 Rupees in this country; nor do I think that any advantages which might be gained by a suspension of cash payments on occasions of revolt, would be enhanced by reducing the minimum of the paper circulation to a smaller amount. I believe, on the contrary, that the wisest and soundest policy is to make as large a portion as possible (with reference to the convenience of the public and the Government) of the medium actually circulating metallic; and on that ground, I consider that the issue of Notes for less than 10 Rupees ought carefully to be avoided.

15. With regard to the amount of Notes which might with advantage be put in circulation, it is difficult to form an opinion. The issue should be commenced on a small scale and the effects of it watched with the greatest care. But, judging from the issues of the Bank of Bengal, I do not think that less than 3 or 4 crores of Rupees worth of Notes would be sufficient for the eventual requirements of the Upper and Lower Provinces, and the Punjab, and if the saving* of interest on these sums and a probable eventual circulation of 7 crores more in Bengal, Madras, and Bombay, is taken into consideration, there can be no doubt that, independent of every other advantage, the immediate profit to Government, from the introduction of the measure, would be very large, after accounting for all extra establishments that might be required.

16. Should the plan be approved by this Government, it might be forwarded for the sanction of the Home authorities.

17. It will, of course, be understood that the Notes which it is proposed to issue, will be similar to ordinary Bank Notes, bearing no interest.

(Signed) C. HUGH LUSHINGTON,
Secretary to the Government of India.

(True Copy.)

(Signed) C. HUGH LUSHINGTON,
Secretary to the Government of India.

No. 23.

ORDER THEREON, 30th September 1859, No. 555.

Resolved, that a copy of the foregoing letter and its enclosures be furnished to the Madras Chamber of Commerce, with reference to their communication, dated the 12th April last; and also to the Accountant General.

(Signed) T. PYCROFT,
Chief Secretary.

Exd. A. P. W. Begbie.

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My dear Mr Pycroft,
I agree that it
would be desirable to
forward copies of these
Papers to the Chamber of
Commerce, but are
we at liberty to do so?
If there is doubt we
might telegraph to ask
since you
W. C. Mulgrave
21 Sept 59

19X
Financial Department

Proceedings of the Madras Government.

Read the following
letter from the Secy to the
Govt of India.

(Dated 31st August 1859 No. 7572)

Order thereon. 30 September 1859 No. 555

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-countant General together
with the papers to which

the letter is a reply

To Chamber of Commerce

Acct. General with a copy of it

Letter to Govt of India 29 Aug 1859 } Supd. 16
+ of its annexures

Am. Bond H. Co.
 7th Avenue E. 1857 Dep't of

No. 555

Proceedings of Court

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