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MADRAS RECORD OFFICE.

Government of Madras.

Finance DEPARTMENT.

G.O. No. <u>757</u>	Press Mis.
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Dated <u>25</u> <u>60</u>	1862.

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*Proceedings of the Madras Government, Financial Department,
25th October 1862.*

No. 78. Read the following Despatch from the Right Honorable Sir C. WOOD, Bart., Secretary of State for India; to His Excellency the Honorable the Governor in Council, Fort Saint George, dated London, 16th September 1862, No. 62.

I forward for your information and guidance copy of a Financial Despatch, dated this day, No. 158, which I have addressed to the Government of India, relative to the Establishment of a Government Paper Currency for India, and to the agreements with the Banks of Bengal, Madras, and Bombay, in reference thereto, and to the management of the Government Treasury business.

Despatch from the Right Honorable Sir C. WOOD, Bart., Secretary of State for India; to His Excellency the Right Honorable the Governor General of India in Council, dated London, 16th September 1862, No. 158.

1. I have received and considered in Council your Financial letters, dated the 25th March, 21st and 31st May, and 3rd July, 1862, Nos. 51, 71, 80, and 99.

2. These letters, together with the previous correspondence with your Government, may, I conclude, be regarded as furnishing tolerably full information relative to your arrangements,

1st. For transferring to Banks in India a considerable portion of the business hitherto transacted at the Government Treasuries; and,

2ndly. For introducing a Paper Currency into India.

3. These subjects are totally distinct in their character, and I was most anxious to keep them altogether separate, but they have been mixed up to a considerable extent in the measures which you have adopted or proposed, and still more so in the views contained in many passages of the papers received from your Government.

4. I shall endeavour, in the observations which I have to make, to keep them as distinct as possible.

5. I will first advert to the arrangements as to the transfer of Government business to the Banks.

6. I have concurred in your proposal to make use of the Agency of the Banks of Bengal, Madras, and Bombay for this purpose.

7. I observed, in my Financial Despatch of the 8th April 1862, No. 55, that the remuneration which you have agreed to give them seemed to me to be excessive. The Banks were, however, entitled to compensation for the loss of their existing circulation, and as the arrangement is made and is to last only for five years, I will make no further remark on this point.

8. You have, moreover, also conceded to them two indirect advantages:—

1st. The Bank is relieved from the obligation to hold one quarter of its liabilities in Specie.

2nd. They are, for the first time, allowed to deal in foreign exchanges.

I shall defer my observations on both of these points till after I have adverted to the Currency arrangements.

9. The two important questions as regards the Currency are:—

1. The principle on which the issues of paper are to be regulated; and,

2. The agency to which the management of the issues is to be entrusted, so as to obtain the best security for the steady maintenance of the principle of issue.

10. The principle for the regulation of the issues, contained in the Minute of Mr. Wilson, which was transmitted to me in a Financial letter from the Governor General, dated the 29th December 1859, No. 2, was, that Notes should be issued to the extent of three times the amount of the reserve of Specie. This principle was disapproved in my Financial Despatch of the 26th March 1860, and I desired that what I believe to be the sound principle should be adopted, *i. e.*,

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that, with a fixed amount of Notes issued on security, all the remainder must be issued only on Specie deposited with the Department of Issue. This principle was embodied in the Act, No. 19 of 1861, "to provide for a Government Paper Currency," and has received the full approbation of Her Majesty's Government.

11. As regards the Agency for the management of the currency, you have departed widely from the plans proposed by the Government of India in 1859, and which had been entirely approved by Her Majesty's Government.

12. I have seen no reason to change the opinions on this subject which were conveyed to you in my Despatch of the 26th March 1860, No. 47, and in my further Despatches on the same subject. I disapprove of the manner which you have arranged to make use of the agency of Banks for the purpose of the Currency, and I do not think that you have made sufficient provision for the conversion of the Notes beyond Calcutta.

13. In both respects, the safety and success of the measure seem to me to be endangered by your plan.

14. The proposals of Mr. Lushington and of Mr. Wilson, both of which were recommended by the Government of India, contemplated only Government agency, and this view was distinctly and repeatedly sanctioned by Her Majesty's Government.

15. In Mr. Lushington's note of April 1859, he suggested a plan for an issue of paper in three or four large circles in Bengal and the Upper Provinces of India, to be managed by Officers of Government.

16. In his Minute, dated the 25th December 1859, Mr. Wilson expressed his conviction that the "only means" by which a Note circulation could be extensively applied to India, and made a legal tender, was through the Agency of the Government. He proposed that an establishment should be provided in connexion with the Mint, and should consist of a Currency Commission at Calcutta, its functions being confined to the manufacture of Notes, and to the exchange of Notes for Coin and Bullion, and that Bengal and the Upper Provinces should be divided into currency circles, with such stations as Benares, Allahabad, and Delhi as their centres, a Deputy Commissioner being appointed for each circle. The Notes were to be dated from the centre of the circles in which they were issued, and to be payable at Calcutta as well as at the place of issue. The Notes were to be legal tender, and receivable at the Government Treasuries in payment of taxes.

17. Of this part of Mr. Wilson's plan, the approval of Her Majesty's Government was

conveyed in my Financial Despatch to the Government of India, dated the 26th March 1860, No. 47, (quoted in the margin)* and it was therein stated, that the connexion between the paper issues and the Mint could not be too close, or be made too apparent.

18. The report of the Select Committee of

* Financial Despatch to India, dated the 26th March 1860, No. 47.

"Para. 6. Her Majesty's Government are of opinion that in India the agency for providing and maintaining a paper circulation can best be conducted by the Government."
"9. Mr. Wilson very properly separates altogether the proposal for introducing a paper circulation in India from the consideration of establishing any banking corporation there. It cannot be too generally or too clearly understood that it is the intention of Her Majesty's Government, in sanctioning the introduction of a circulation of Government paper, to keep it entirely and altogether distinct and separate from any banking operations whatever. What is to be done by the Government Establishment in India is simply what is done by the Issue Department of the Bank of England, viz., to exchange Notes for bullion and coin, and vice versa, or Notes of one denomination for those of another."

"10. Her Majesty's Government are of opinion that the proposed establishment of a Currency Commission, the members thereof to be appointed by the Governor General in Council, but not to be removable except with the concurrence of the Secretary of State, their functions to be strictly defined by an Act of the Legislature, with Commissioners at Madras and Bombay, and Deputy Commissioners in each of the currency circles into which it is proposed that the country should be divided, is well calculated to effect the object in view. They also approve of the intimate connexion which Mr. Wilson contemplates between the Mint and the Management of the paper issues, and they think that this connexion cannot be too close, or be made too apparent."

the Council of the Governor General on the Bill was subsequently sent Home, and the Financial letter from the Government of India, dated the 8th March 1861, No. 35, forwarded a copy of the Bill, as settled in Committee of the whole Council, together with the several Minutes of the members of the Government thereon.

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19. In Mr. Laing's Minute, it was stated that he considered that the best agency for issuing and paying the Notes would, generally, be that of the existing Banks, wherever they had establishments, or might be disposed to open branches; and that arrangements were pending for transferring to the Bank of Bengal the cash balances and part of the business hitherto transacted at the Treasuries of the Government, arrangements which, he thought, might, with great advantage to the Government, be extended to other Banks and Presidencies.

20. Mr. Beadon was in favor of making use "entirely of Government agency for the issue of Notes."

21. The Government of India expressed no opinion on the subject.

22. In my Financial Despatch, dated the 2nd May 1861, No. 75,* in referring to passages

* Para. 29. "It is provided by Clause IX. that notes shall be issued by the Commissioner to any person, in exchange for silver bullion or coin, at the prescribed rate, exactly, I presume, as silver coin would now be issued in exchange for bullion. I suppose that, under the arrangement proposed, the notes of the Bank of Bengal being by a given day withdrawn, Government notes will be issued to the Bank as to any other person, in exchange for bullion or coin, and that the Bank will then use these Notes precisely as it has hitherto used its own Notes; if this be what is intended, I do not see for what they are to receive a certain payment."

"37. You have provided for the creation of Deputy Commissioners of Issue in the different Presidencies, and you have, very properly, given the Government the power of establishing, enlarging, and altering circles of issue in any part of India, and I see no reason why this power should not be exercised by establishing Deputy Commissioners of Issue in large towns which you may deem to be the most suitable centres of issue."

"33. The assaying of the bullion must be done by the Mint, and I do not understand how the verification of the Notes can be entrusted to any but a Government Officer."

in the report of the Committee and in the Minutes of the members of your Government, I expressed very decidedly the opinion of Her Majesty's Government, that the issue of Notes should be kept quite apart from any Banking establishment.

23. I cannot understand how, with full knowledge of all the previous correspondence, and with the passages quoted in the margin taken in connexion with that correspondence, it could be supposed that I had given any sanction to the employment of the Banks as Agents of the Government, for the issue of the Notes, or of any connexion of the functions of banking and currency in one establishment.

24. I did not prohibit, in as many words, the employment of Banks by the Government as the Agents of Issue, because I never supposed that such a deviation from the consistent and uniform view contained in the Despatches from and to India, of the proper course to be taken in this respect, would have been made, before being submitted to me for my opinion and instructions.

25. It is, I believe, essential, in order to ensure an adherence to the established principle of issue, that it should not be left in the hands of a Bank.

26. The sound principle of issue may be said to have been established before the Committees of the two Houses of Parliament that sat in 1841, and was enforced by the Act of 1844.

27. The issue of Notes, however, was, from a regard to existing interests and long usage, continued at the Bank of England, though in a separate department, and subjected to regulations which, if adhered to, would have maintained the recognized principle.

28. Twice, however, since 1844 the demands on the discount branch of the Banking Department have been such, that the Government has been driven to authorize the Bank to depart from the recognized principle of issue, to infringe the legal restriction, and to issue Notes beyond the amount which the specie in the Issue Department warranted.

29. Such a demand could not have been made on a Department of Government merely exchanging Notes for specie and specie for Notes.

30. The experience thus acquired has shown that the best, if not the only, mode of ensuring adherence to the established principle of issue is by totally separating the issue from any Banking establishment.

31. It was a strong conviction of this that guided Her Majesty's Government in the measures which were sanctioned for establishing a Paper Currency in India, where there were no long established interests or usages in existence. They believed it to be wise to entrust to Go-

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vernment Agency, and to Government Agency alone, the issue of paper, as well as of metallic, money, combining, as far as possible, both measures in the same Department of Government, and to leave to Banks only the exercise of legitimate banking functions.

32. That Notes, however issued, should, to a great extent, be brought into circulation through the Banks always appeared to me to be the natural and inevitable course of things, and

* "I can quite understand, however, that the Notes may be more readily brought into circulation through the medium of bankers, or, indeed, of other traders."

I stated as much in paragraph 41 of my Financial Despatch of the 2nd May 1861, No. 75.* I did not confine my observation to Banks, but included all traders for the transaction of whose business the use of Notes might afford great convenience.

33. All money, whether coin or paper, is mainly brought into circulation by the operations of traders, and principally of Bankers. This would be the case more especially when there were existing Banks whose power of issue was taken away. The only Notes in circulation in Bengal were those of the Bank of Bengal. Those Notes had, on their first issue, taken the place of coin, which would otherwise have been required for carrying on the business of the Bank, and when the Notes of the Bank of Bengal were withdrawn, the Notes of the Government must, as a matter of course (of necessity, I may almost say), take the place of the Notes of the Bank of Bengal.

34. In this sense, I always contemplated, that it was through the Banks that paper money would, to a great extent, be brought into circulation, but this would be effected by the Banks, not as agents for Government, in respect of the currency, but in the exercise of their legitimate banking functions.

35. With regard to the practical arrangements for the issue of Notes at Calcutta, I understand you to have provided for the issue of Notes in exchange for specie at the Mint at Calcutta. I am of opinion that the office of the Commissioner of Issue, and the reserve of coin, as well as the means of verifying the Notes, should be established at the Mint.

36. It is scarcely practicable to give you directions as to what precise steps should be taken, but you will distinctly understand that the principle to be acted upon is, as far as is consistent with actual engagements, to separate all connexion between the Bank and the issue of paper money, and ultimately to constitute the Mint the sole place at Calcutta for the issue of paper, as well as of coined, money.

37. With regard to Notes in other parts of the country, there would, according to your proposed arrangements, be no place but Calcutta where coin could be legally demanded for them, and as the cash balances of the Government Treasuries are to be handed over to the Banks, who, by a further part of your arrangement, are relieved from the necessity of holding any proportion of their liabilities in specie, it seems to me that there is no certain provision for the convertibility of the Notes in places beyond Calcutta. Her Majesty's Government consider it indispensable for the success of the measure, that there should exist in certain important places through the country, the power of demanding coin for Notes, and it was with a view to this object, that the creation of circles was proposed.

38. Such an arrangement of circles in fact exists in England. At the branches of the Bank of England at Manchester, Bristol, Leeds, &c., Notes are issued bearing the name of the place of issue, payment for which in gold may be demanded at the place where they are issued, as well as in London, but cannot be demanded at the other branches.

39. This latter provision is necessary as a protection against an unforeseen run on any one of the branches, but practically the Notes issued by any one of these branches are cashed at any other, as well as in London, and the uniformity of the Bank of England currency throughout England is not affected.

40. A similar arrangement was contemplated for India in the formation of circles. It was intended that Notes of the Government of India should be issued not only at Calcutta, but at

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Lahore, Lucknow, and other places, as the centres of circles, similar in all respects to Notes issued at Calcutta, but bearing on them the name of the place where they were issued, and for which payment in coin could only be legally demanded at the place of their issue or at Calcutta. The Lahore or Lucknow stamp on a Note would give it additional currency in its own neighbourhood, and the cases of Notes being carried to distant parts of India would probably not be to a very great extent.

41. It might be possible that, in order to shake the credit of the Government for some political purposes, an extraordinary number of Notes might be presented for payment at some one branch, as, for instance, at Lahore. In such a case, the power of refusing to cash a Note issued elsewhere as at Lucknow would afford a protection to Government, but in all ordinary cases a Lucknow Note would be cashed at Lahore, and *vice versa*.

42. What the number of circles should be, can be best decided by your Government, with the local knowledge at your command; but it does not appear how more than a very few large circles could be required.

43. I desire, therefore, that Deputy Commissioners may be appointed in such large towns as you may decide upon, and be empowered to exchange Notes for coin, and *vice versa*. It should not be obligatory by law for the Government Officers at any one of these places to give coin for Notes stamped or issued at other places, but in practice he should give it, if the coin in his possession would enable him to do so.

44. It should be obligatory, however, to give coin for all such Notes at Calcutta, as well as at the place of issue.

45. If, as I anticipate, the convenience of paper money shall be appreciated in India, it will be for the interest of the Banks to use the Notes so as to dispense with the encumbrance of large weights of silver, and with that object to obtain them from the Commissioners or Deputy Commissioners of Issue, and to keep them in circulation by cashing them in small amounts.

46. It is not by the Notes being actually converted, but by general confidence in their convertibility, in case of need, and by their being receivable at all the Government Treasuries, that I anticipate the Notes becoming part of the ordinary circulation of the country.

47. I apprehend nothing more is necessary to ensure an uniform currency throughout the Presidency of Bengal.

48. I have no wish to make any attempt to force the circulation of Notes, which attempt would assuredly and deservedly fail. I wish to afford to the people of India the convenience of a circulation of Notes, and I believe that an intelligent community will be sufficiently alive to the convenience of them, to be ready to avail themselves of the advantages thus placed within their reach.

49. I must now advert to a material point in connexion with the privileges conceded to the Banks of Bengal and Madras, and, I suppose, of Bombay, viz., the power of dealing in foreign exchanges.

50. It appears to Her Majesty's Government to be very objectionable to allow Banks so intimately connected with the Government as these Banks, and which are entrusted with the custody of the Government balances, to deal in foreign exchanges. The Bank of England does not transact business of that description, which is, in fact, not banking, but speculative commercial business.

51. By Clause 5 of Act XXVII. of 1855, the Bank of Bengal was authorized, according to the instructions, and at the risk, of their constituents to remit the principal, interest, or dividends of Government securities by public or private bills, whether payable in India or not, and to do all acts necessary or proper for the purpose of making such remittances. But the power to deal in foreign exchanges was not necessary for that purpose.

52. The question of giving a power to deal in foreign exchanges to the Bank of Bengal, which is now proposed, was formerly and on different occasions considered, and that power was always withheld. It is still more objectionable to give it when, as proposed by you, the business of issue is, in a greater or less degree, connected with the business of the Bank.

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53. Any Bank to which the balances and Treasury business of the Government are to be entrusted must be restricted to legitimate banking operations, such as those transacted by the Bank of England or by the Bank of Bengal as heretofore constituted.

54. This precaution is indispensable, for it cannot be conceived that a failure, on the part of the Bank entrusted with the business of Government, to cash a Government Note or bill, or to pay any legal demand on the Government, would be held by the Native community to affect only the credit of the Bank. Her Majesty's Government consider that any such occurrence would inevitably be regarded as a failure on the part of the Government itself, and the utmost care must be taken to guard against the possibility of such a contingency.

55. I must desire, therefore, that you will not conclude the arrangement which you were about to make with the Bank of Agra, which deals in foreign exchanges, and Her Majesty's Government cannot sanction the concession which you have made to the Bank of Bengal of allowing it to deal in those exchanges. I have not, however, advised Her Majesty to disallow the Act IV, of 1862, which gives effect to your intention in this respect, in order to give you an opportunity of making provision for the other objects of the Act.

56. Her Majesty's Government are fully sensible of the advantages that would probably arise from the extension of banking arrangements throughout India, but they cannot see that, in order to attain this end, it is necessary to entrust the Currency business to the Banks. They consider that the establishment of Banks or branches in connexion with Government Treasury business, in large towns throughout India, will materially further this object. They believe, also, that those establishments, in the transaction of their proper Banking business, will afford great facilities for the introduction of the paper circulation, as, on the other hand, the paper circulation will give great facility for the banking arrangements.

57. Mr. Wilson truly observed that his scheme of Currency was not inconsistent with the establishment of a large Bank like the Bank of England. It certainly appears to be preferable that the arrangements of Government should be made with one great Bank, with Government Directors, cognizant of all its transactions, because, in that case, a certain control of Government would be exercised, through the Government Directors, over all the proceedings of the Bank, in its branches, as well as at Calcutta.

58. You have not stated on what ground you have relieved the Bank from the necessity of holding one-fourth of its liabilities in Specie. The effect of this step, taken together with the transfer to the Banks of the Government balances, which were always held in Specie, is to diminish the coin available for the convertibility of the Notes; but as the measures for ensuring that convertibility are, in my opinion, ample, I shall not interfere with what you have done.

59. There is one other point put prominently forward in recommendation of that part of the scheme which relates to issuing Notes on gold, *i. e.*, that it will effectually contribute to the introduction of a Gold Currency in India, on which I must make some remarks.

60. How that result is to be produced is not explained. All that can take place under this provision is, that gold may be deposited with the Issue Department, and paper money issued thereon. The gold will remain in deposit until it is required by the public for consumption in trade, or for export. When so required, it will be taken from the Issue Department, and the Notes taken out of circulation. In no case will the gold form part of the Currency.

61. The only effect, therefore, likely to arise from that provision, if acted upon to any extent, is, that the paper circulation of India will be subjected to variations which would not have occurred with a circulation of silver, and of paper based on silver.

62. The question of introducing gold into circulation in India is a very important and very difficult one, but it has nothing to do with the issue of Notes on gold.

63. The difficulties are of a practical nature, arising mainly from the uncertainty of the relative value of gold and silver, which is not likely to be determined while fresh discoveries of gold are being made.

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64. If, by any change in the relative value of the precious metals, the Sovereign and 10 silver Rupees should become of equal intrinsic value, the introduction of gold would be of comparatively easy accomplishment. At present, however, Her Majesty's Government do not consider that it would be expedient to take any step with a view to that object.

65. The papers now received do not contain any explanation on a point referred to in my Financial Despatch, dated the 8th April last, *viz.*, how it is proposed to ascertain the amount of Notes kept in circulation by the Agency of the Bank. It is obviously easy, if the Bank were the only place of issue; but your scheme contemplates the possibility of issue in other ways, and I am, therefore, desirous of being informed how it is proposed to distinguish the Notes kept in circulation through the different Agencies. I do not understand that you contemplate allowing $\frac{3}{4}$ per cent. to any other person who may apply for Notes, or, indeed, to the Bank of Bengal, for Notes beyond those already issued to them and kept in circulation by them, according to the terms of your agreement with them. Any such further allowance certainly ought not to be made.

66. I am not aware of any other point which calls for remark.

67. It is unnecessary for me to give precise directions as regards Madras and Bombay, as the same reasoning and the same principles apply to those Presidencies as to Bengal. I do not quite understand in what state the arrangements are at Madras and Bombay, but Her Majesty's Government is desirous that the same course should be adopted for those Presidencies, as has been pointed out for Bengal. A copy of this Despatch will be sent to the Governments of Madras and Bombay, for their guidance in this respect, and in order that they may be in possession of the views of Her Majesty's Government.

No. 79. ORDER THEREON, 25th October 1862, No. 757.

Resolved, that a copy of the foregoing Despatch and its enclosure be furnished to the Accountant General and the Mint Master.

(Signed) T. PYCROFT,
Chief Secretary.

Exd. T. O'Connor.

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Financial Dept.

Proceedings of the Madras Govt.

Read the following
Despatch from the R. H.
The Secretary of State for India

(Dated 16 Sep. 7/62 - No. 62.)

Order thereon 25th October 1862 No. 157.

Resolved, that a copy
of the foregoing despatch
and its enclosure be for-
warded to the Assistant
General & the Mint Mas-
ter.

JP

16 Oct 62

To the Asst. General. }
" Mint Master. } deep 27

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4th Dec. 1862
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Proceedings of Govt
Dated 25th Oct. 62

Views of the Secretary
of State on the establish-
ment of Paper Currency
in India and on the
agreements with the
several Banks in refer-
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on the arrangements
of the Madras branch
communicated to the
Officers concerned.

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Sept 25th

Proceedings of Board

Sept 25 Oct 4 1862

Views of the Secretary
of State on the establish-
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