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MADRAS RECORD OFFICE.

Government of Madras.

Financial DEPARTMENT.

G.O. No. 505	Press / Mis.
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Dated 8-8-	1863

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Proceedings of the Madras Government, Financial Department, 8th August 1863.

No. 10. 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 India Office, London, 16th June 1863, No. 38.

I forward, in the packet for your information and guidance, copy of a Financial Despatch,* which I have addressed to the Government of India, on the subject of the measures adopted by that Government for transferring the Government Treasury business to Banks, and for the introduction of a Government paper currency into India.

* Dated 10th June 1863, No. 103.

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 India Office, London, 10th June 1863, No. 103.

Paragraph 1. I have received your Financial letter, dated the 2nd January 1863, No. 1, replying to my Despatch of the 16th September last, No. 158, relative to the measures adopted by you for transferring the Government Treasury business to Banks, and for the introduction of a Government paper currency into India; and I have also received your Financial letter, dated the 15th April last, No. 46, forwarding minutes by the several Members of your Government on the same subject.

2. I have carefully considered in Council your observations in reference to the arrangements which you have made, for the employment of the Bank of Bengal and its branches in connexion with the issue and circulation of notes; but the perusal of them has not removed the objections which I have always entertained and expressed to such employment of the Bank.

3. A great defect of your arrangements is, that no adequate security is provided for the convertibility of the notes, especially in parts of India distant from Calcutta, although it is certain that the most complete confidence on this point is indispensable to the success of the circulation of the Government notes.

4. I pointed out, in my former Despatch, that your having relieved the Bank from the necessity of holding one-fourth of its liabilities, payable on demand, in specie, necessarily diminished the coin available for the convertibility of the notes.

5. Your arrangements have, however, a further tendency to diminish the coin available for the conversion of notes, for the explanation contained in your Despatch of the principle on which the payment of three quarters per cent. is to be calculated, shows that the Bank has every inducement to hold as little coin, and as large an amount of notes, as possible, in its reserve. You state that the three quarters per cent. is to be paid on all notes for which the Bank has given bullion or coin. It will be payable, therefore, on all notes kept in reserve by the Bank, whilst on coin so kept, it would of course receive nothing. It is obviously, therefore, the interest of the Bank to keep notes, and not coin, in its reserve.

6. With respect to the branches of the Bank of Bengal, the duty of cashing the notes is not even imposed on them. They are only expected to do so, as stated in your Despatch, "in ordinary circumstances," and in Mr. Laing's Minute, the cashing of notes at the branches is spoken of as "an accommodation to the public, as a matter of convenience," and not as "a legal obligation."

7. I readly admit that this is as much as can fairly be expected from a banking establishment, which is altogether unconnected with the currency, but it certainly is not the sort of security for the convertibility of its notes which Government is bound to provide.

8. You stated that one of your principal reasons for not adopting the system of circles, and for using the Bank as the Agent of the Government was, because you conceived that the latter course of proceeding ensured the advantage of an uniform currency, which would be impossible with different circles of issue.

9. I observe, however, that, under the system which you have adopted, even within a much more limited area round Calcutta, the notes of the branch Banks are put into circulation with a mark upon them, indicating the place of issue, "those put into circulation by each branch being "freely exchanged for coin *at their own branch*, and if sent elsewhere, and paid into any other "branch, or into the head office, they are immediately returned to the branch to which they "belong."

10. I do not see in what respect this system differs from that which I had recommended for the circles of issue, with one exception. The notes issued at each centre of a circle would have been legally convertible there, whilst, according to your plan, the notes are only to be freely exchanged at the place where they are put into circulation.

11. It is obvious that the same degree of uniformity exists in both plans, whilst according to my directions in regard to circles, actual convertibility at each centre of issue of the notes issued at such centre would be secured.

12. I remain, therefore, of opinion, that the only sound system for the management of the paper issue in India is, that it should be entirely in the hands of the Government, and that the Bank should have no connexion whatever with it, and I adhere to that which I conveyed to you in paragraph 31 of my Financial Despatch of the 16th September 1862, that it is "wise to "intrust to Government agency, and to Government agency alone, the issue of paper as well as "of metalic money, combining as far as possible both measures in the same Department of Gov- "ernment, and to leave to Banks only the exercise of legitimate banking functions."

13. I am equally certain that, in the exercise of its ligitimate functions, the Bank would essentially promote the circulation of notes, as I pointed out to you in the subsequent paragraphs of that Despatch.

14. I have, therefore, to desire that you will, at the earliest period in your power, take measures for carrying into execution the instructions contained in that Despatch,—

1st.—That the notes in Calcutta should be issued by the Commissioner at the Mint, and that the means of verifying the notes and exchanging notes for bullion and coin, *vice versâ*, should be established there.

2nd.—That at certain places, which probably need not exceed five or six in Bengal and the Upper Provinces, offices should be established for the issue and exchange of notes.

3rd.—That these notes should differ from the Calcutta notes only in having the name of the place of issue marked upon them; should be convertible of right only at the place of issue or at Calcutta; should be receivable *everywhere* at Government Treasuries in payment of taxes, and should be converted at any other place of issue, if the Officer anticipated no risk in doing so.

15. I merely point to these general measures, and for any further details I need only refer you to my former Despatches, and especially to my Financial Despatch of the 2nd May 1861, requesting you to keep in mind the fundamental principle that the Bank is to have no part in the management of the currency.

Financial Letter to India, dated 2nd May 1861, No. 75 :— Extract, paragraph 32. "The issue of notes should, therefore, be kept quite distinct from any banking establishment, and the supply of notes to any Banks must be on precisely the same terms as to any other person."

16. An obstacle may exist in the agreement with the Bank of Bengal for the management of the issue and circulation of notes, receiving a payment of three quarters per cent. on the notes taken over by it. As the agreement is only for five years, and as by the change above directed the Bank will be relieved from considerable expense and responsibility, they may not be unwilling to come to an arrangement for cancelling the agreement and dispensing with the payment, and I shall be ready to view favorably any proposal which you many make for this purpose.

17. I entirely approve of your placing the whole of the Treasury business in the hands of the Bank of Bengal and its branches, as pointed out in paragraph 57 of my Financial Despatch of the 16th September 1862. I am also in favor of your encouraging the Bank to establish branches in different parts of the country, to which the Government Treasury business of the place may be transferred.

18. I apprehend that, in confiding to the Bank of Bengal and its branches the management of the Treasury business, you will be able, without detriment to the public interests, to extend

Proceedings of the Madras Government, Financial Department,
8th August 1863.

such advantages to the Bank as will fairly compensate it for any loss to which it may be exposed from the withdrawal of the three quarters per cent. on the currency business. I should hope, therefore, that you will not find much difficulty in this matter.

19. I cannot, however, give up the condition on which alone any Bank can be entrusted with the Government business, and that is, that it should be debarred from dealing at all in foreign exchanges.

20. I believe that, by the establishment of a great Bank entrusted with the business of the Government, important advantages may be secured, not only to the Government, but also to the public and to the Bank itself; that, without loss or danger to the Government, great benefit may be obtained by the Bank, from its connexion with the Government, but it is essential for the security of such operations that the business to be conducted by it should be legitimate banking business, and that it should abstain from all speculative commercial transactions.

21. The same course should be adopted also in regard to the Banks of Madras and Bombay, and probably but little difficulty will be found in those Presidencies, as the arrangements have not proceeded so far as in Bengal. Copies of this Despatch will, therefore, be sent to the Governments of Madras and Bombay for their guidance.

No. 11. ORDER THEREON, 8th August 1863, No. 505.

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

(Signed) A. J. ARBUTHNOT,
Chief Secretary.

Exd. T. McMootry.

Financial Department.

7 82

PROCEEDINGS of the MADRAS GOVERNMENT.

Read despatch from the Rt. Hon: the Secretary of State for India

(Dated 16th June '63 - N°38)

Order N°505 of 8th Augt: 1863.

Resolved that a copy of the foregoing Despatch be furnished to the Accountant General & Mint Master.

To Accountt general
— — Mint Master } 3 desd 12/8/63 L&D

Finl 1863. Department.

No. 505

PROCEEDINGS OF GOVERNMENT.

Dated 8 "August/63

A further Despatch from the Secretary of State Commenting on the measures adopted by the Supreme Govt for transferring the Treasu business to Banks and for the introduction of a Govt Paper Currency into India com. municated to the Accountant Genl and Mint Master