1891/81

6/8/RH

M.R.O. 1—27,005—9-6-37.

(1) Number of pages _____

(2) Date of repair 17.7.38

(3) Initials of the Reference _____

MADRAS RECORD OFFICE.

Government of Madras.

Financial DEPARTMENT.

G.O. No. 349 Press
21-22. Mis.

Dated 4-7- 1869.

21-22 25/26

Not to be folded or roughly handled

Proceedings of the Madras Government, Financial Department, 4th July 1864.

No. 21. Read the following letter from C. A. LAWSON, Esq., Secretary of the Chamber of Commerce, Madras; to the Honorable A. J. ARBUTHNOT, Chief Secretary to Government, Fort Saint George, dated Madras, 4th May 1864.

I have the honor to hand you herewith copy of a Memorial addressed by the Madras Chamber of Commerce to His Excellency the Governor General of India in Council on the extension of the Indian Currency.

To the Right Honorable Sir J. LAWRENCE, G. C. B., &c.,
Viceroy and Governor General of India in Council.

The respectful Memorial of the Madras Chamber of Commerce.

Sheweth,

That the greatly extended and extending trade of India renders it most desirable the currency should be enlarged to meet the growing wants of the country.

2. That a Paper Currency from its economy and facility of transmission is suitable to a country advancing in civilization in which the operations of trade are yearly increasing, and that in your Memorialists' opinion India is prepared for such a currency on a widely extended scale.

3. That the existing Paper system has not realized the benefits which were anticipated on its introduction, owing, as far as this Presidency is concerned, to the Presidency District being the only Circle of Issue, and no effectual measures having been taken to facilitate the convertibility of Notes at the Mofussil Treasuries. The circulation has in consequence been of a very restricted character and of very limited advantage.

4. That a well regulated Paper Currency in the convertibility of which the people felt full confidence, would be generally acceptable to all classes, of incalculable advantage in the transactions of Commerce, and a source of profit to the State.

5. That whatever measures may be adopted it is submitted the end to be kept in view should be the ultimate circulation of Notes as a legal tender throughout each Presidency, by which alone can the full benefits of a Paper issue be obtained. There are doubtless difficulties in the way of the present adoption of such a general measure. Your Memorialists, however, are of opinion that the immediate creation of Circles of Issue throughout the country should take place and the Mofussil Treasury balances be made, as far as possible, available for the conversion of Notes.

6. That the acceptance of Notes in payment of Government dues everywhere should be at once authorized.

7. That the comparatively low wages of labor in India and consequent multitude of small payments, render it desirable the lowest denomination of Note should be reduced to five Rupees. It is believed such Notes would speedily come into very general use and extensive circulation.

8. That while the Chamber is of opinion that the extension of the Paper issue is of primary importance in the consideration of the question of an improved Currency system, it is also of opinion that the introduction of gold as a circulating medium would be of material advantage.

9. The greater convenience of gold as a coinage compared with silver, from its probability and facility of transmission from place to place, is obvious; and although from the comparatively small means of the mass of the people of this country, silver must continue to form an important part of the circulation, it is believed a gold currency if introduced would rapidly come into general use. A convenient sub-division of whatever gold coin might be adopted into halves and quarters for the purposes of small payments would be necessary.

10. The fact that at the present time a large quantity of gold yearly finds its way to India leads to the belief that a coinage of that metal would be generally acceptable.

11. That the imports of silver into India have of late years been constantly increasing, while grave doubts have been entertained whether the production of that metal corresponds to the increasing demand; on the other hand there is reason to believe the production of gold will continue to be sufficient for the wants of the world, and it is therefore desirable India should not be excluded from the use of it as a currency.

12. That while your Memorialists believe the financial embarrassments through which India has been passing have arisen from a sudden and unlooked for expansion of trade, and could not have been averted or prevented by any Currency system, they are nevertheless of opinion that the severity of the crisis would have been to some extent mitigated, and its duration shortened had gold been in use.

13. Your Memorialists having thus briefly and generally stated their reasons for believing the present currency might with benefit to the country be amended, respectfully but urgently solicit your Excellency in Council to give this important subject your earnest consideration, with a view to the adoption of measures for the early enlargement of the Paper issue, and the introduction of a Gold Currency.

(By order of the Madras Chamber of Commerce.)

(Signed) A. J. BYARD,
Chairman.

MADRAS, 30*th April* 1864.

No. 22. To the Secretary to the Government of India, Financial Department, dated Fort Saint George, 4th July 1864, No. 349.

I am directed by His Excellency the Governor in Council to offer the following remarks with reference to the Memorial which has been addressed to His Excellency the Viceroy and Governor General, by the Madras Chamber of Commerce, with reference to the Currency.

2. In the first place, I am to observe that the Memorialists are in error in supposing that the acceptance of Currency Notes in payment of Government dues has not been authorized. In this Presidency Currency Notes have been received everywhere in payment of Government dues since the 31st July 1862. A copy of the Circular issued on that date by the Acting Accountant General, under instructions furnished to him by this Government, is herewith forwarded.

3. The other points urged by the Chamber are: 1st, that Circles of Issue should be created throughout the country, and that the Mofussil Treasury balances should be made, as far as possible, available for the conversion of Notes.

2nd.—That the lowest denomination of Notes should be reduced to five Rupees.

3rd.—That the introduction of a Gold Currency should receive the consideration of the Government of India.

4. In regard to the creation of additional Circles of Issue, the Governor in Council concurs with the Chamber that until, several Circles of Issue shall have been established, at the centres of which the Currency Notes shall be legally convertible, there is no prospect of inducing that confidence in the Paper Currency which is essential to its free circulation. In the opinion of His Excellency in Council, the Madras Presidency, including Mysore, should be divided into six Circles, which might be arranged as follows:—

Centres.	Districts included in Circles.
Madras, including.	Madras.
	North Arcot.
	Cuddapah.
	Salem.
	Coimbatore.
	South Arcot.
Vizagapatam	Ganjam.
	Vizagapatam.
	Godavery.
	Kistna.
Bangalore	Mysore.
Bellary	Bellary.
	Kurnool.
Calicut	Malabar.
	South Canara.
Trichinopoly	Tanjore.
	Trichinopoly.
	Madura.
	Tinnevelly.

The Governor in Council is satisfied that the number of Circles here proposed is not greater than is requisite; but while he would strongly advocate the establishment of these Circles on the ground that any increase in the number of places at which the notes are immediately convertible will *pro tanto* tend to foster confidence in the currency, he is satisfied that the advantages gained will be inconsiderable, unless more use is made of the Treasury balances than has been done hitherto for the conversion of notes. This Government has recently directed that Currency Notes shall be cashed in all the Treasuries to the extent to which, in the opinion of the officers in charge, they may be re-issuable. The Governor in Council would be disposed to go further and to direct that Notes should everywhere be cashed to the full extent of the funds available. He believes that arrangements to that effect might without difficulty be made by the Accountant General in communication with the local officers; and he would submit that the adoption of this course is in no way incompatible with the object of keeping the cash balances at the lowest point consistent with the requirements of the State. When by this means public confidence in the Notes has once been established they will pass freely from hand to hand, and but a small portion of them will be presented for cash at the Government Treasuries. Unless by such subsidiary arrangements the convenience of the public is met and their confidence gained, it is to be feared that the number of circles as above proposed for this Presidency would be insufficient to promote any extensive circulation of the Government Notes. Thus, *e. g.*, no Native of the Vizagapatam Circle residing at Berhampore or Cocanada would take a note for which he could not obtain cash save at the town of Vizagapatam 100, or 150 miles distant.

5. The Governor in Council concurs in the opinion of the Chamber of Commerce that the lowest denomination of note should be reduced to five Rupees.

6. As regards the introduction of a Gold Currency, the Governor in Council thinks it questionable whether such a measure is needed in this Presidency. Any thing that is done in this direction should, he thinks, be done by way of experiment; as, for instance, by receiving Sovereigns in payment of Government dues at a certain value, to be determined periodically. If this should have the effect of bringing gold coins into circulation to a limited extent, the further step of declaring them a legal tender might then be taken.

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

Exd. J. Tulloch.

To

The Right Honible Sir John Lawrence G.C.B.
Viceroy & Governor General of India in Council

The Respectful Memorial of the
Madras Chamber of Commerce

Sheweth,

That the greatly extended, and extending trade of India, renders it most desirable the currency should be enlarged to meet the growing wants of the Country.

That a Paper currency from its economy and facility of transmission is suitable to a Country advancing in civilization in which the operations of trade are rapidly increasing and that in your Memorialists opinion India is prepared for such a currency on a widely extended scale.

That the existing Paper System has not realized the benefits which were anticipated on its introduction, owing as far as this Presidency is concerned, to the Presidency district being the only circle of issues, and no effectual measures having been taken to facilitate the convertibility of Notes at the Mofussil Treasuries.

The Circulation has in consequence been of a very restricted character and of very limited advantage.

That a well regulated paper currency in the convertibility of which the

people felt full confidence would be generally acceptable to all classes, of incalculable advantage in the transactions of Commerce; and a source of Profit to the State.

That whatever measures may be adopted it is submitted, the end to be kept in view, should be the ultimate circulation of Notes as a legal tender throughout each Presidency, by which alone can the full benefits of a paper issue be obtained; there are doubtless difficulties in the way of the present adoption of such a general measure, your Memorialists however are of opinion that the immediate creation of Circles of issue throughout the Country should take place and the mofussil Treasury Balances be made as far as possible available for the conversion of Notes.

That the acceptance of Notes in payment of Government dues everywhere should be at once authorized.

That the comparatively low wages of labor in India and consequent multitude of small payments, render it desirable the lowest denomination of Note should be reduced to 5 Rupees. It is believed such notes would speedily come into very general use and extensive circulation.

That while the Chamber is of opinion that the extension of the Paper issue is of primary importance in the

consideration of the question of an improved currency system, it is also of opinion that the introduction of Gold as a circulating medium would be of material advantage.

The greater convenience of Gold as a Coinage compared with Silver, from its portability, and facility of transmission from place to place is obvious, and although from the comparatively small means of the mass of the people of this country, Silver must continue to form an important part of the circulation it is believed a Gold currency if introduced would rapidly come into general use. a convenient subdivision of whatever Gold coin might be adopted into halves and quarters for the purposes of small payments would be necessary;

The fact that at the present time a large quantity of Gold yearly finds its way to India leads to the belief that a Coinage of that metal would be generally acceptable.

That the Imports of Silver into India have of late years been constantly increasing while grave doubts have been entertained whether production of that metal corresponds to the increasing demand; on the other hand there is reason to believe the productions of Gold will continue to be sufficient for the wants of the

world and it is therefore desirable India should not be excluded from the use of it as a currency.

That while your Memorialists believe the financial embarrassments through which India has been passing have arisen from a sudden and unlooked for expansion of trade, and could not have been averted or prevented by any currency System, they are nevertheless of opinion that the severity of the crisis would have been to some extent mitigated, and its duration shortened had Gold been in use.

Your Memorialists having thus briefly and generally stated their reasons for believing the present currency might with benefit to the Country be amended respectfully but urgently solicit your Excellency in Council to give this important subject your earnest consideration, with a view to the adoption of measures for the early enlargement of the Paper issue, and the introduction of a Gold currency.

By Order of the Madras Chamber of Commerce

A. W. Byard

Chairman.

Madras 30th April 1864.

Chamber of Commerce
Madras 4th May 1864.

To

The Honble R. J. Arbuthnot
Chief Secretary to Government
Fort Saint George

Sir,

I have the honor to hand you herewith Copy of a Memorial addressed by the Madras Chamber of Commerce to His Excellency the Governor General of India in Council on the extension of the Indian Currency.

I have the honor to be,
Sir,
Your most obedient Servant.

Chas. L. Lawson
Secretary

// Per steamer.

P.A. Nl.

Private.

J. D. Sim Esqre.

Secretary to Govt.

Madras.

Con Dispe 1-7-64

Sir Charles Trevelyan Bart
Received 20 Feby 1863

Lieut Governor

Per 20 Jany 62 Nos 70-71
" 27 " " " 88 & 90
" 30 " " " 103-104
" 7 Feby " " 41-42
" 21 " Jany 63 " 55-56
" 20 March " " 70 & 72
" 8 May " " 10-11
" 25 Oct " " 78-79
" Act XIX of 61

Fort St. George 1864 Dept No 1

From

The Secretary of the Chamber of Commerce Madras.

Dated 4th
Rec'd 6th } May 1864.

Replies to 18th Augt 64
N° 444
515
Rec. 530

No 231

Forwards a memorial addressed to the Governor General of India, on the Extension of the Indian Currency.

21-22

C2 Lely
14 "

Rec'd 28-6-64

Simla -
June 13th 1862.

My dear Mr Sim.

It is evident from the stagnant state of the Madras note circulation that some new measure is required -

It has been already repeatedly explained both officially & privately that this cannot be done by Presidency Treasuries for cashing the Notes of the existing Circle because this would bring upon the Govt the burden of providing funds for carrying on all the private remittances of the country - & after all we should be constantly liable to local insolvencies, because we could not keep the Treasuries up to the maximum possible demand at all the points towards which the currents of private exchange might set. So far from attaining one main object of a Paper Currency - the Economy of specie - this plan of having more than one place for converting Notes would lead to an indefinite augmentation of our specie Reserves.

It has, therefore, been proposed to the Madras Govt of Currency, without any additional [illegible] to have selected

Govt to establish under the 5th & 7th Clauses of Act XIX of 1861 a separate Circle for the Western Districts of the Presidency, with Bombay as the head for its centre, in the same way as three new Circles at Allahabad, Lahore & Nagpore - have been cut out of the Bengal Presidency.

Under the orders of the Secretary of State, all new Circles are to be carried on under the direct agency of the Govt; & a large section of the former Calcutta Circle, including several Branch Banks through the agency of which the currency arrangements were previously conducted, have been absorbed into the new Govt Circle of Allahabad.

I have already asked your opinion whether it would be advisable to constitute Nagpore a separate Circle, & it is possible that a Northern Circle would be desirable with its chief office at Mazulipatam or Vizagapatam - I shall be glad to have your opinion on this point.

Of course, the formation of these new Circles will not meet the demands for remittance except so far as this may be consistent with the indispensable condition that the Notes will only be convertible at one place; but, nevertheless, it may be of material

benefit to the portions of the Presidency concerned to have a convenient note circulation based upon the absolute security of local convertibility. 15

The Governor General desires that all the arrangements should be made, as far as possible, in conformity with the wishes of the Madras Govt. I will request Captain Hyde to send you a Copy of the instructions which have been issued to the Deputy Commissioners of Currency at Allahabad, Lahore & Nagpore together with the Notification constituting the Allahabad Circle & the accompanying letter to the Lieut. Governor; & I shall be obliged by your returning them to me, through Captain Hyde, with any modifications that may seem to be required to suit them to the proposed new Madras Circles. The Districts to be included in the new Circles is one main point.

Under the 7th Section of the Act, the new Deputy Commissioners will be subordinate to the Commissioner at Madras who is himself subordinate to the Head Commissioner.

In the new Circles in Northern India we have, in each case, appointed the Local Collector & Officio Deputy Commissioner of Currency, without any additional salary, & have selected

an Uncovenanted Deputy Collector of the highest standing & character like his Permanent Assistant with a salary of Rs 1000 per mensem, & an understanding that if the new Civil succeeds it will be increased to Rs 12.000. There are, I know, several Deputy Collectors on the Madras Establishment who are well fitted for such a trust, & I shall be glad to hear from you which of them are considered best qualified for this duty.

Sincerely yours.

C E Trevelyan

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Confidential

MW

MINUTE

BY THE

HON'BLE SIR C. E. TREVELYAN, K. C. B.

It becomes my duty to submit my opinion upon the important subject of the arrangements for the introduction of a Government Paper Currency, upon which a final reference has been made for the instructions of the Secretary of State.

To a certain extent all who have taken part in the discussion are agreed.

It is agreed that the amount of notes issued on Government Securities should be maintained at a fixed sum within the limit of the smallest amount which experience has proved to be necessary for the monetary transactions of the country, and that any further amount of notes should be issued on coin or bullion, so that the mixed currency of notes and coin should vary in quantity exactly as if it were wholly of coin.

It is also agreed that "to obtain the conditions" (I am using Mr. Wilson's words) "of a safe and secure Paper Currency and to maintain its "value at all times to the full of the coin it represents, and so to prevent "depreciation, the great essential is that it shall at all times be convertible, "on demand, and at the will of the holder, into such coins on presentation "to the issuers of the paper."

Mr. Laing has expressed his opinion on this point as strongly as any of the other authorities, as will be seen from the following energetic expressions:

"I have witnessed the effects of an inconvertible paper circulation in "Austria, and nothing but actual experience can convey an idea of its ruin-"ous effects.

"An element of uncertainty and gambling is introduced into every "transaction of daily life.

"Every creditor is defrauded when paper falls in value; every debtor "suffers when it rises. Even the peasant who brings his coin to market, or "who buys a coat or pair of shoes, has to study the exchange quotations in "the price current, in order to know whether he is paying or receiving a fair "price, and it often happens that before he gets home a fluctuation in the "quotations has converted what he thought a good bargain into a bad one.

"In short, the effect of a depreciated and fluctuating small-note incon-
"vertible currency is utterly demoralising, and of all the expedients which
"a Government could resort to for raising money, this is unquestionably the
"most costly and the most burdensome.

"I assume, therefore, that in accordance with the opinion intimated by
"Sir C. Wood, the first consideration in introducing a system of Paper Cur-
"rency in India must be to place its convertibility beyond question."

The divergence of opinion has reference to the means by which this convertibility is to be maintained.

Mr. Wilson's proposition is "that the only means by which a paper
"note circulation can be extensively applied to India, such as shall be uni-
"versally current, and can be safely made a legal tender, is through the
"agency of the Government, and that it possesses means peculiarly favour-
"able for the useful exercise of such a function."

Mr. Wilson also takes pains to show that the conditions for a legal tender paper money are inconsistent with the other business and obligations of Banks. "Banks of issue," he says, "have a variety of claimants, deposit-
"ors, holders of their drafts or bills of exchange, and note-holders. To set
"aside as large a portion of their assets in coins and securities as would be
"required to cover their note issues for the particular use and security of one
"class of their creditors, would be to reduce the security of the others, and
"in event of a failure, would lead to a direct preference of one class of cre-
"ditors to the injury of the others."

Sir Charles Wood, who, quite irrespective of his official position as Secretary of State for India, is one of the highest authorities on this class of subjects, entirely coincides in Mr. Wilson's view.

Mr. Laing, on the contrary, prefers the agency of Banks, and he says that if he had consulted his own views only, he should have appointed the Bank of Bengal sole agent of the Government in the Bengal Presidency, both for Treasury business and currency, and have put it in effect on the same footing as the Bank of England.

A modified arrangement was, however, adopted out of deference to the known views of the Secretary of State, by which Mr. Laing hoped that while the objects he had in view would be substantially obtained, the principle of a Government issue would be strictly upheld.

According to this arrangement the Master of the Mint at Calcutta is the Commissioner of Currency for the entire Bengal Presidency. The notes are all originally issued by him, and he holds the coin, bullion, and securities which the notes represent. But an agreement has also been entered into with the Bank of Bengal by which that Bank has been constituted, as it is

now described, not an agency for issue, but an agency for circulation after issue, and the Bank is allowed a commission of $\frac{3}{4}$ per cent. upon all notes in circulation for which it has paid coin or bullion. "For this commission," Mr. Laing explains, "the Bank undertake the whole of what may be called
"the retail work of issuing and cashing notes across the counter and for
"small amounts; the whole correspondence as to notes lost or stopped pay-
"ment; the whole risk of loss from forgeries, &c.; and what is the most
"important of all, they undertake to establish branches wherever desired by
"the Government, and to provide at them, at their own risk and cost, the
"means of cashing all Government notes which may be presented in the
"ordinary course of business."

Besides Mr. Laing's general preference of Banks to Government agency, he urges two special reasons for the arrangement recommended by him.

The first is that it was necessary "to ensure an uniform note currency
"for the whole Presidency, which could be attained in no other way than
"by an arrangement making it worth the while of the Bank to maintain
"considerable cash reserves at a number of Provincial Cities, and to run the
"risk of heavy expense in transferring coin rapidly from Calcutta to any
"branch where it was required." Mr. Laing elsewhere observes—"No one
"acquainted with India can doubt that the chief advantage looked for from
"a Paper Currency would be lost if it were not uniform. If a traveller start-
"ing from Calcutta for Peshawur had five or six times in the course of his
"journey to go to a Banker or money-dealer and get his notes changed, pro-
"bably at a discount, for notes of a new Circle, it is almost certain that he
"would prefer taking with him, as at present, a bag of Rupees. In India
"distances are great; communications imperfect; the Native population
"generally ignorant and suspicious with regard to monetary matters; and
"money-changers accustomed to exorbitant rates and anxious to retain their
"business. To divide India, therefore, into some 40 or 50 different Cur-
"rency Circles, would have been to create a state of things like that which
"before the general introduction of Gold existed in Germany, where the
"original Thaler or Florin of the unhappy traveller soon dwindled down to
"half its amount in exchanges, at the Frontiers of a succession of petty
"States."

The other reason urged by Mr. Laing is that the Bank agency is the most economical. "It is clear," he observes, "that the Government could
"not have established Commissions of Issue of its own for any thing like
"the sum which it pays the Bank. In the Presidency Towns a large build-
"ing must have been built or hired in the centre of business, with ample
"counter accommodation and a number of clerks. In the Provinces there

"could not have been fewer than 20 Circles of Issue, at the centre of "each of which in some large town, there must also have been a commodi- "ous Office and a separate establishment. This establishment could not have "been very cheap, for a Deputy Commissioner charged with the Currency "must have been a man of a superior stamp and well paid, and with large "cash transactions and stocks of notes, he must have had one or more well- "paid Assistants to act in case of his illness or absence. I doubt if a State "Currency Commission, to do the work of a Bank, could have been establish- "ed for less than £6,000 or £8,000 a year in Calcutta, and an average of "£1,500 or £2,000 a year for each Provincial Circle, in which case it must "have cost the Government at least twice as much to do the work as it will "pay by employing Bank agency."

According to Mr. Laing's arrangement the Branch Banks are not under an absolute obligation to cash the Government notes, but are only expected to do so "under all ordinary circumstances." "Practically," he says, "the Branch Banks would generally be "ready to cash Presidency "notes issued by their parent Banks as a matter of accommodation to their "customers, and thus the advantages of an uniform circulating medium "would be to a great extent attained." He even contemplates the case of a Branch Bank having, under certain circumstances, to suspend cash payments. "In the extreme case of a Bank being obliged to postpone "for a day or two, until it can receive a remittance from Calcutta, the "accommodation of cashing notes which is afforded to the Public as a "matter of convenience and not of legal right, the consequences are far less "serious than if the Government had failed in fulfilling a legal obligation."

Having thus stated as clearly as I can the main points at issue, it is time that I should express my own views.

I hold in the strongest manner the opinion that absolute, instant, never-failing convertibility is essential to a Government Paper Currency. We owe this to our subjects, whose specie and bullion we take in exchange for our promises to pay, and in reference to whom we invest with the character of legal tender, notes which would defraud them of their due if they were not instantaneously payable in specie. We owe it to ourselves that our notes should not be returned to their holders dishonoured in any quarter where there can be even a semblance of claim to receive their value in specie. And we owe it to Society at large, which has now for the first time an opportunity of seeing tried, on a large and favourable field, an experiment, to which many of the ablest and clearest thinkers on the difficult subject of Currency attach the highest importance. Conditional convertibility is hardly to be distinguished from inconvertibility. Suspension of cash payments is in every country justly regarded as a symptom of insolvency. An ill regulated Paper

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Currency is, as Mr. Laing truly observes, one of the worst evils with which a nation can be afflicted, and the absence of the most perfect convertibility is the most decisive defect in such a Currency. It would be far better to have no Government Paper Currency at all than to have one which was in any degree liable to this objection.

I therefore prefer Mr. Wilson's and Sir Charles Wood's plan, because it secures the convertibility of the notes by a self-acting process. A moderate sum, below which the circulation could not by any possibility fall, would be held at the Presidency in Government Securities, and coin would be deposited at the Deputy Commissioners' Offices in the Provinces to the full extent to which notes would be legally payable there. This plan calls for no effort and occasions no anxiety. All that is necessary is that it should be maintained in existence as a matter of fact, and the Government Currency system will stand like a house founded upon a rock, whatever floods come and winds blow, and beat upon the Public Finances and upon Banking and Commerce.

Banks are acted upon by too many absorbing and deflecting circumstances primarily affecting them as such, to be a proper basis for so delicate an instrument as a system of Government Paper Currency. Twice of late years (in 1847 and 1857) the machinery constituted upon this principle in England has got out of gear, and is it likely that there will be no commercial revulsions in any of the Provinces of this great Eastern Empire, where most of the conditions are so much less favourable? It might not be easy to transfer coin rapidly from Calcutta to every Branch Bank where it was required. Commercial panics are epidemic. Indeed the causes which produce them generally affect the entire community in a greater or less degree. In what a position then should we be if the Government Currency were dependent upon Branch Banks which had a hard struggle to maintain their own solvency. The Government monetary system ought to be the main-stay to which all would look with confidence when storms arise. How different the result would be if that system were practically identified with the banking system, so that they must be involved in a common catastrophe.

But the inexpediency of this ill-assorted alliance does not depend upon the existence of commercial derangements. There is an ordinary condition which is decisive against it—the course of the internal exchange. It will be seen from the following passage of Mr. Wilson's Minute that he was fully aware of this peculiar feature of the Indian commercial and banking system, and carefully considered it, and made a suitable provision for it in the plan of the Government Paper Currency :—

"I reserve at present the question whether all notes may not be made "payable at the Presidency Capitals within which they are issued. I am

"inclined to believe such may safely be done without any chance of loss to "the Government; but the point requires further consideration. I mean "that all notes issued in Bengal, the North-West Provinces, and the Punjab, "should be payable at Calcutta as well as at the place of issue; and that "all notes issued in the Presidencies of Bombay and Madras respectively "should in like manner be payable in Bombay and Madras. I incline to "think that the course of the exchange between the interior and the ship-"ping ports is always such as would admit of this concession without loss; "and if so, it would be a great advantage to the circulation of the notes. "That the tendencies of the exchange will always be, as they in fact are at "present, in favour of the interior of India, is plain from the fact that the "quantity of produce which comes down for shipment is much larger than "of goods going up. At the present time, in the North-West, a bill on "Calcutta for Rs. 100 may be purchased for Rs. 98, showing a premium of "2 per cent. in favour of Up-country. Assuming then that it is safe to "make all the notes payable in the Presidency towns, the condition of the "circulation would be exactly that of Bank of England notes; the notes "would be payable for revenue everywhere; each note would be payable in "coin at the place of its issue; and all notes of the Presidency wherein "issued would be payable in coin at the Capital of the Presidency." Mr. Wilson plainly foresaw that it would be impossible to establish an uniform Paper Currency in the sense of making every note legally convertible into specie in every part of India, without transferring to the Government the expense of conducting the entire remittance and exchange business of this great Continent.

Some indication of the action of this current of the internal exchanges upon the Branch Banks in their relation to the Government Paper Currency may be gathered from the following passage of the last letter to the Secretary of State:—

"These notes have a private Bank mark by which they are recognized "at the Branches and at the Head Office; 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: the notes of "the Head Office being treated exactly in the same way, except that they are "cashed at the Branches more charily, and not if apparently employed solely "for purposes of remittance."

From this it appears, that, notwithstanding the $\frac{3}{4}$ per cent. paid on the whole of the Government Paper Currency, to make it "worth the while "of the Bank to maintain considerable cash reserves at a number of Pro-"vincial Cities," the Bank has established subordinate Currency Circles

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of its own *within the Calcutta Government Circle*, and that the "inestimable "privilege of an uniform currency" has no existence. Even the notes of the Head Office *of the Calcutta Circle* are "charily" cashed at the Branch Banks *within the Circle*, and are altogether refused "if apparently employed solely for purposes of remittance."* This may be prudent banking, but our Government Paper Money ought not to be subjected to such treatment at the hands of our Agents whom we pay expressly for the purpose of maintaining it in circulation. If our own Agents set the example of refusing to cash our own notes, how can we expect them to be freely taken by the Native Merchants and Bankers, who look upon them with jealousy both as novelties and as interfering with the large profits they have been in the habit of making from the internal exchange. The Bank of Bengal is obviously acting in two incompatible functions, and is under the necessity of doing, in mere self-defence as Banker, what in its capacity of Agent for the Government Paper Money does not admit of justification.

In one case only has the Bank of Bengal attempted to maintain the desired uniformity. It was hoped that the neighbouring Branch Bank of Dacca might be worked in real union with the Head Office at Calcutta. With what result may be seen from the following Extract from a Report from the Branch Inspector, dated from Dacca on the 14th instant:—"The "supply of notes received this week are being rapidly absorbed by the "Shroffs for remittances in return for advances on salt made in Calcutta. "If this Circle is to be kept up between Calcutta and Dacca as briskly as "heretofore, a tremendous balance in hard cash will be the result." Can there be a more decisive proof of the necessity of separating the functions of Bankers from those of Agents for the Currency? This useless accumulation of funds at Dacca ought to be stopped, and the Native Merchants ought to be made to pay for the accommodation of enabling them to make their remittances; but this should be done by the Bank in their capacity of Bankers, without its involving a breach of their obligations as Agents for the Government Paper Currency. If the hands of the Bank were untied by its ceasing to act as Agent for the Currency, it might make large legitmate profits by operating upon the internal exchanges.

The new institution cannot take root and grow under such conditions as these. Sir Charles Wood's opinion that sufficient provision has not been

* The agreement with the Bank of Bengal in reference to these Branches, which are all within the Circle of Calcutta, was as follows:—"That the said Branch Bank, during the continuance of "these presents, shall and will, to the utmost of their power, pay and satisfy, on demand, to the "holders, the amount of all Government Currency Notes duly issued within the Circle of Calcutta "under the said Act XIX of 1861, which shall be presented for payment or conversion into Cash at "the Office of the Bank."

made for the conversion of the notes beyond Calcutta has proved to have been well founded. The desire of Her Majesty's Government that every necessary facility should be given for the substitution of a currency of notes for that of silver as largely as the population will adopt it, cannot be accomplished while this obstacle opposes the extension of the new currency. The note circulation of the Bank of Bengal in January 1862 was £1,820,359, while the Government notes which had been issued at Calcutta in February 1863 amounted only to £2,430,000. The real comparison is even less favourable to the new currency than this, for the Returns of the Presidency Banks give only the value of the Bank Notes *in circulation* and do not show the value of the notes dormant in the tills of the Banks, upon which principle the circulation in Bengal is less now than in 1861, the average of that year having been £1,731,634 and the *active* circulation now being £1,608,000.

The Secretary of State in more than one place raises the question on what principle the ¾ per cent. for agency is to be paid. This question has assumed larger proportions. The agency is stated, in the last letter to the Secretary of State, not to be for issue, but for "circulation after issue." In the agreement with the Bank of Bengal for the establishment of the Branch Bank at Rangoon, (which is not included in any Government Circle of Issue,) there is no stipulation either as respects issue or circulation. The Government Paper Currency is not even mentioned in the agreement, and the same course is proposed to be followed in respect to intended new Branches at Agra, Allahabad, Lahore, Lucknow, and Nagpoor. For what service then is ¾ per cent. to be paid on the notes circulated through Branches in reference to which no agency exists? If the Bank uses our notes at these Branches, it will do so solely for its own profit, and in this respect it will be on the same footing as any other Bank which finds it convenient to employ our notes in the transaction of its business.

I have given my reasons for thinking, that, so far from its being for the public interest that Government notes should be introduced to these widely extended regions in the interior without the solid foundation of separate Government Offices of Issue, and with no better guarantee for their conversion into specie than the partial and uncertain action of Branch Banks, it would be a grave public evil. It must be remembered that, unlike Bengal Proper, those Provinces have no experience of a note circulation, and that the Managers of Branch Banks would be under much less effective supervision at those great distances than they are in Bengal.

Mr. Wilson's opinion on this point will be seen from the following passage of his Minute:—"But if the objections to a legal tender note circu-

"lation by Banks generally are so strong, in India they become much more "so. If it is desirable to establish in any country such Paper Money, it is "essential that it should be in general use throughout, and issued under a "single authority. We have only to consider how impossible it would be "for any banking establishment to extend its agencies over the greater part "of India, to see that no such Bank could possibly fulfil the functions of "conducting universally the circulation of notes."

In my opinion, therefore, a return should be made to the true principle of a Government Paper Currency. The management of the Government Paper Money should be entirely assumed by the Government. The Paper Money should be identified with the Government as completely as the Silver Money is, and the connection in the popular mind should be, not with Banks with their prevailing mercantile associations, but with the permanent character and inexhaustible resources of the Government. Certain places should be fixed at which notes would be exchanged by Government Officers for coin and coin for notes; and this limited obligation should be fulfilled absolutely, instantly, and without any liability of failure.

These places ought, however, to be as few as possible. Calcutta for Bengal Proper Benares and Mirzapoor; Cawnpoor for the North-West Provinces and Oudh; Nagpoor for the Central Provinces; and Lahore for the Lieutenant Governorship of the Punjab, will, I hope, suffice as regards the Bengal Presidency. As Madras and Bombay are more compact, and their Provinces are united by closer relations with their Capitals, it will not, I think, be necessary to have a second place of issue in either of those Presidencies.

The expense of these arrangements will be moderate. The system is so simple that the most extensive Government note circulation may be safely and effectively managed by a small number of persons. The Collectors of Cawnpoor, Nagpoor and Lahore, with the assistance of a few well-selected and well-paid Clerks, would do all that would be necessary in the three new Circles. The verification of the notes and the correspondence as to notes lost or stopped payment are duties which, however important they may be, do not take up much time. The risk of loss from forgeries has happily proved not to be great.

Although Banks are out of place as official Agents for the Government Currency, they have an important part to perform even as regards that Currency. For their own sakes, they will extensively use the Government notes, and in this sense they will be voluntary unpaid Agents for the Currency. This will be a relation of mutual benefit. The Banks will take

the notes as they want them, and will use them for their own purposes without the embarrassment of any Government connection.

The support given to industry in other countries by the Scotch Banking system shows what advantage may be expected from the extension of Branch Banks. In this country it would be productive of special benefit, because it would bring British honesty and intelligence and habits of business to bear upon the great Native population. India is not like America and Australia, where every thing has to be created. There are enormous ready-made resources here which only have to be brought into relation with European civilization, and if our Merchants and Bankers take up the position in India which has long been occupied by our Civilians and Military men in their own sphere, I do not see any limit to the prosperity of this great country. All our Banking Establishments at Calcutta will, I hope, seriously consider about forming branches in the interior in connexion with the Railways and under the protection of the new Police and of the improved judicial system supervised by the High Court.

I am also entirely in favour of employing Banks to hold the Government balances and make the Government payments, and the most obvious public convenience requires that, as far as possible, the same Bank should be so employed. The arrangement with the Bank of Bengal has, however, been framed on a novel and very inconvenient principle. Instead of making a payment to the Bank for service performed, and giving it the use of the Government balances, whatever they may be, a payment is made, and a minimum is also fixed with the understanding that if the Government balance falls below it, interest will be paid to the Bank on the difference. The consequence of this is a complication of account and a serious counteraction of the tendency to a concentration of balances which should be cultivated as an essential part of every sound system of Finance. We are now actually called upon to pay interest on a supposed deficiency at Bombay, although we keep up our balance there to the extent of our local wants, and our balances elsewhere are greatly in excess of our wants. It would be far better to increase the direct payments made to the Bank to the full level of the value of the service performed and to retain entire freedom in the management of our balances.

We should, I think, enter into arrangements with the Bank of Bengal on this principle for their doing our business wherever it would be for our mutual advantage that it should be so done. I am only doing common justice to the Bank of Bengal in saying that it is at present managed in a very able and public-spirited manner. The strictures it has been my duty to make have been entirely confined to the official

agency of the Bank for the Government Currency *as a system*. The individual action under that system is entitled only to praise. I should be sorry if the proprietors had to complain of any loss in consequence of changes made at my recommendation. I am persuaded that it will not be so.

In the observations I have ventured to submit, I have argued with as much freedom as if we were not bound by any instructions. Although I have carefully reviewed the pre[illegible] subject are not of recent formation, a[illegible] them, it will not be diminished by their be[illegible] dour. It has, however, been seen that my views coincide on all main points with the instructions of the Secretary of State. By acting on these principles an uniform Currency will be secured to the fullest extent consistent with safety. When it is remembered that the Government notes will be a legal tender, that they will be everywhere receivable in payment of Revenue and other Government dues, that the notes, wherever issued, will all be payable at Calcutta, and that Banking Companies, some of which already have branches at the principal places on the route, will certainly use them for their own advantage, I shall be surprised if a traveller has to change his notes between Calcutta and Peshawur, except in payment of his expenses. My reasoning of course applies 'mutatis mutandis' to Madras and Bombay as well as to Bengal.

CALCUTTA,
February 28, 1863.

C. E. TREVELYAN.

Sp 3/4 9 Jul 72
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Exports of Bullion and Specie for the Official Year 1863/64.

	By Government				By Individuals							
	Silver Valued in Rs		Silver Valued in Rupees		Gold Valued in Rupees.							
	Bullion	Specie	Bullion	Rupees	Foreign Coins	Total	Bullion	Sovereigns	Foreign Coins.	Total	Total Private Exports	Grand Total of Bullion & Specie.
Pondicherry	"	"	"	10,000	"	10,000	"	"	"	"	10,000	10,000
Calcutta	"	2200000	"	3006186	"	3006186	255500	"	"	255500	3261686	5461686
Ceylon	"	"	50000	738335	"	788335	"	"	"	"	788335	788335
Chittagong	"	"	"	268600	"	268600	"	"	"	"	268600	268600
Mauritius	"	"	"	"	"	"					"	"
Arabia	"	"	"	"	"	"	"	"	"	"	"	"
Bombay	"	13503000	"	1046331	94462	1240743	28000	"	2723	30723	1271466	14774466
Yanaon	"	"	"	1000	"	1000	"	"	"	"	1000	1000
Akyab	"	"	"	67300	"	67300	"	"	"	"	67300	67300
Balsein	"	"	"	41100	"	41100	"	"	"	"	41100	41100
Kyaukse	"	"	"	25000	"	25000	"	"	"	"	25000	25000
Great Britain	"	"	"	20	"	20	"	"	"	"	20	20
Hongkong	"	"	"	"	"	"	50000	"	"	50000	50000	50000
Aden	"	"	"	22	"	22	"	"	"	"	22	22
New South Wales	"	"	"	"	"	"	"	2000	"	2000	2000	2000
Penang Singapore & Malacca	"	"	"	105200	"	105200	"	"	"	"	105200	105200
Balasore	"	"	"	91450	"	91450	"	525	"	525	91975	91975
Arracan	"	"	"	214655	"	214655	"	"	"	"	214655	214655
Moulmein	"	"	"	89200	"	89200	"	3350	"	3350	92550	92550
Rangoon	"	"	"	45375	"	45375	"	"	"	"	45375	45375
Total	"	15703000	50000	5749774	94412	5994186	333500	5875	2723	342098	6336284	22039284

Madras.

Imports of Bullion and Specie for the Official year 1863/64

From	By Government: Silver Valued in Rs. Bullion Rs	Specie Rs	Silver Valued in Rs. Bullion Rs	Rupees Rs	By Individuals: Rupees Gold Valued in Rupees Foreign Coins Rs	Total Rs	Bullion Rs	Sovereigns Rs	Foreign Coins Rs	Total Rs	Total Private Imports Rs	Grand Total Bullion & Specie Rs
Pondicherry	"	"	"	201558	"	201558	"	58078	"	58078	259636	259636
Calcutta	"	430000	2000	7945300	"	7947300	1076731	273358	6006	1356095	9303395	9733395
Ceylon	"	"	"	4846850	53382	4900232	1007231	2941365	"	3948596	8848828	8848828
Mauritius	"	"	"	"	"	"	"	79521	660	794181	794181	794181
Arabia	"	"	"	57000	8500	65500	"	10250	11100	21350	86850	86850
Bombay	"	4000000	15127	1727297	"	1742424	60912	239992	607537	938441	2680865	6680865
Cutch	"	"	"	31000	"	31000	"	4100	"	4100	35100	35100
Goa	"	"	"	122430	"	122430	"	"	2090	2090	124520	124520
Honkaw	"	"	"	22900	"	22900	"	"	"	"	22900	22900
France	"	"	76800	"	357520	1126120	229700	192730	1087084	1509514	2635634	2635634
Great Britain	"	"	1816558	5082	127320	1948960	387200	206429	231901	2681530	4630490	4630490
Hong Kong	"	"	"	"	"	"	20225	"	"	20225	21225	20225
New South Wales	"	"	"	"	4500	4500	1731830	26000	"	1757830	1762330	1762330
Penang Singapore Malacca	"	"	20415	252138	76620	349173	90362	360	"	90722	439895	439895
Lucadeeves	"	"	"	887	"	887	"	"	"	"	887	887
Total	"	4430000	2622700	15212442	627842	18462984	4604191	6602183	1976378	13182752	31645736	36075736

Madras

Exports of Bullion and Specie during 1863/64

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	By Government	By Individuals		Total
	Silver valued on Rs	Silver valued on Rs	Gold valued on Rs	Rs
United Kingdom	"	20	"	20
Arabian Gulf	"	"	"	"
Bourbon	"	"	"	"
Ceylon	"	188335	"	188335
China	"	"	"	"
France	"	"	"	"
Mauritius	"	"	"	"
Penang, Singapore & Malacca	"	105200	"	105200
Persian Gulf	"	"	"	"
New South Wales	"	"	2000	2000
Java	"	22	50000	50022
Arracan	"	214655	"	214655
Bombay	13503000	1240743	30723	14774466
Calcutta	2200000	3006186	255500	5461686
Chittagong	"	268600	"	268600
Concan	"	25000	"	25000
Balasore	"	91450	525	91975
Goa	"	"	"	"
Akyab	"	67300	"	67300
Indian French Ports	"	11000	"	11000
Moulmein	"	89200	3350	92550
Rangoon	"	45375	"	45375
Bassein	"	41100	"	41100
Total	15703000	5994186	342098	22039284

Madras

Imports of Bullion and Specie during 1863/64

	By Government	By Individuals		Total
	Silver valued in Rs	Silver valued in Rs	Gold valued in Rs	Rs
United Kingdom	"	1948960	2681530	4630490
Arabian Gulf	"	65500	21350	86850
Bourbon	"	"		"
Ceylon	"	490232	394896	885128
China	"	"	"	"
France	"	1126120	1509514	2635634
New South Wales	"	4500	1757830	1762330
Mauritius	"	"	794181	794181
Penang, Singapore & Malacca	"	349173	90722	439895
Persian Gulf	"	"	"	"
Lucadives	"	887	"	887
Sumatra	"	"	"	"
Hong Kong	"	"	20225	20225
Arracan	"	"	"	"
Bombay	4,00000	1742424	938441	6680865
Calcutta	4,30,000	7947300	1356095	9733395
Chittagong	"	"	"	"
Concan	"	22900	"	22900
Cutch	"	31,000	4100	35100
Goa	"	2430	2090	124520
Indian French Ports	"	201858	58078	259636
Moulmein	"	"	"	"
Rangoon	"	"	"	"
Sinde	"	"	"	"
Total	44,30000	18462984	13182752	36075736

despd 5/7 to Simla.
with Disp: to Calcutta.

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Financial Department

No. 349.

To The Secretary to the Government of India
Financial Department

Sir,

I am directed by His Excellency the Governor in Council to offer the following remarks with reference to the Memorial which has been addressed to His Excellency the Viceroy and Governor General, by the Madras Chamber of Commerce, with reference to the Currency.

2. In the first place, I am to observe that the Memorialists are in Error in supposing that the acceptance of Currency Notes in payment of Government dues

dues has not been authorized. In this Presidency Currency Notes have been received Everywhere in payment of Govern-ment dues since the 31st July 1862. A Copy of the Circular issued on that date by the Acting Accountant General, under instructions furnished to him by this Government, is herewith forwarded.

3. The other points urged by the Chamber are, 1st, that Circles of issue should be created throughout the Country, and that the Mofussil Treasury balances should be made as far as possible available for the Conversion of Notes.

2nd - that the lowest denomination of Notes should be reduced to 5 Rupees.

3rd - that the introduction of

of a gold Currency should receive the Consideration of the Government of India

4. In regard to the Creation of additional Circles of issue, the Governor in Council Concurs with the Chamber that until several Circles of issue shall have been Established at the Centres of which the Currency Notes shall be legally Convertible, there is no prospect of inducing that Confidence in the paper Currency which is essential to its free Circulation. In the opinion of His Excellency in Council, the Madras Presidency, including Mysore, should be divided into six Circles, which might be arranged as follows:-

Centres	Districts included in Circles.
Madras, including	Madras North Arcot Cuddapah Salem Coimbatore South Arcot.
Vizagapatam	Ganjam Vizagapatam Godavery Kistna
Bangalore	Mysore
Bellary	Bellary Kurnool
Calicut	Malabar South Canara
Trichinopoly	Tanjore Trichinopoly Madura Tinnevelly

The Governor in Council is satisfied that the number of Circles here proposed is not greater than is requisite; but while he would strongly advocate the

the Establishment of these Circles on the ground that any increase in the number of places at which the Notes are immediately convertible will pro tanto tend to foster confidence in the Currency, he is satisfied that the advantages gained will be inconsiderable unless more use is made of the Treasury balances than has been done hitherto for the Conversion of Notes. This Government has recently directed that Currency Notes shall be cashed in all the Treasuries to the extent to which, in the opinion of the Officers in charge, they may be re-issuable. The Governor in Council would be disposed

disposed to go further and to direct that Notes should every where be cashed to the full extent of the funds available, and he would submit that the adoption of this course is in no way incompatible with the object of keeping the Cash balances at the lowest point consistent with the requirements of the State. Even by this means Bank Notes can once be established by compulsion to pass current from hand to hand and be a small portion of them will be presented for cash at the Govt Treasuries. Under such circumstances must economise the use of the precious metals and this consideration against this measure. The Chamber of Commerce of Bombay has also declared itself favourable to the measure. The Governor in Council thinks it questionable whether such a measure is needed in this Presidency. Any thing that is done in this direction should, he thinks, be done by way of experiment; as, for instance, by receiving Sovereigns in payment of Government dues at a certain value, to be determined periodically. If this should have the effect of bringing Gold coins into circulation to a limited extent, the further step of declaring them a legal tender might then be taken.

5. The Governor in Council concurs in the opinion of the Chamber of Commerce that the lowest denomination of Note should be reduced to five Rupees.

6. As regards the introduction of a Gold Currency, the Governor in Council thinks it questionable whether such a measure is needed in this Presidency. Any thing that is done in this direction should, he thinks, be done by way of experiment; as, for instance, by receiving Sovereigns in payment of Government dues at a certain value, to be determined periodically. If this should have the effect of bringing Gold coins into circulation to a limited extent, the further step of declaring them a legal tender might then be taken.

Fort St George
4th July 1864.

Financial 1864. Department

No. 349

To
The Secretary to the Government
of India

F/P 515- 530

D/4 "July 1864.-

Creation of Circles of
issue throughout the Pre-
sidency reduction of the
lowest denomination of
Notes to 5 Rs & the intro-
duction to a small extent
of a Gold Currency Re-
commended to the Govt
of India -

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