

## Governors, Government, Board and Shareholders

Quite early in its career the Bank witnessed important changes in its top management. The change of Governor raised fundamental issues concerning relations between the central bank and the Government. These and several other matters mentioned below are of sufficient interest to merit a separate chapter. The elected members of the Central Board as a whole endeavoured to play an active role in the shaping of the Bank's policies, in maintaining its independence and generally in safeguarding the interests of the country. Some of the Local Boards were dissatisfied with the passive role assigned to them and made unsuccessful efforts to be entrusted with important responsibilities. Yet another aspect of some interest is the proceedings of the annual general meetings of the shareholders of the Bank.

### *Sir Osborne Smith's Resignation*

Sir Osborne Smith, Governor, tendered his resignation towards the end of October 1936. The resignation was accepted by the Governor General, though it became effective July 1, 1937, consequent on Sir Osborne's being sanctioned eight months' leave from November 1, 1936. The duties of the Governor were carried on by the 'senior'\* Deputy Governor, Sir James Taylor, who was appointed Governor, with effect from July 1, 1937. A few days earlier to Sir Osborne's resignation, that is to say, with effect from October 20, 1936, Sir Sikander Hyat-Khan had also resigned from the Deputy Governorship.

\* In the Bank's documents and publications, capital S has been used for the word senior; in the Reserve Bank of India Act, however, there is no provision for a Senior Deputy Governor, similar to that in some of the central bank Statutes elsewhere.

Sir Sikander's place was taken by Mr. Manilal B. Nanavati, who assumed office on December 21.

Sir Osborne's resignation aroused widespread interest in the press and in the Legislature, although newspapers and journals do not give the full story, apart from the fact that in such matters the complete story can seldom be known. This matter needs to be dealt with at some length. The brief reference to Sir Osborne's resignation in Sir Chintaman Deshmukh's Gokhale Institute address seems to put the matter in a nutshell:

While it would be obviously inappropriate for me to state the details of his conflicts with Sir James Grigg, the then Finance Member, and my predecessor the late Sir James Taylor, who was one of his deputies, I think I must permit my self to record that the main causes of Sir Osborne Smith's resignation were, apart from his temperamental incompatibility with the other two, the serious difference of opinion which arose between him and the Finance Member over the lowering of the Bank rate, with all its implications, and the management of the Bank's investments.

It would appear that besides the above two matters (that is, Bank rate and management of investments), there were also differences of opinion concerning the exchange rate of the rupee. Sir Osborne had for long, that is to say, even from his Imperial Bank days, been critical of the 1S. 6d. ratio and its deflationary consequences. Press reports also mentioned that Sir Osborne had proposed an export duty on gold to discourage the outflow of the yellow metal and that Government opposed it. Some reports even hinted at there being certain wild allegations against the Governor.

Apparently, the differences between the Governor and the Finance Member were not a matter of later development; they seem to have been brewing even before the Bank was inaugurated on April 1, 1935. For, in his letter of April 2, 1935, to Sir Osborne, Sir Purshotamdas Thakurdas expressed his perturbation at hearing from a common friend that there were differences between the Governor and the Finance Member. Sir Osborne was, it appears, a person who was keen on maintaining the independence of the institution he headed. Even in his Imperial Bank days, Sir Osborne used to complain of pressures from Government and the Secretary of State. Referring to one cablegram from the Secretary of State, he had remarked in 1930: 'anyone would assume that the Imperial was a department and a very inconspicuous department of Government' and he had told the Government people: 'so long as I run the Imperial Bank I will not be run by London or anywhere else, and further, that I would not tolerate interference with my business' Again, writing to Sir Purshotamdas in June 1936,

Sir Osborne complained that he was 'sick to death of Government's always attempted domination of the Bank'.

That there was temperamental incompatibility between the Governor and the Finance Member was widely known. The Indian Finance\* commented that it was 'an open secret' that:

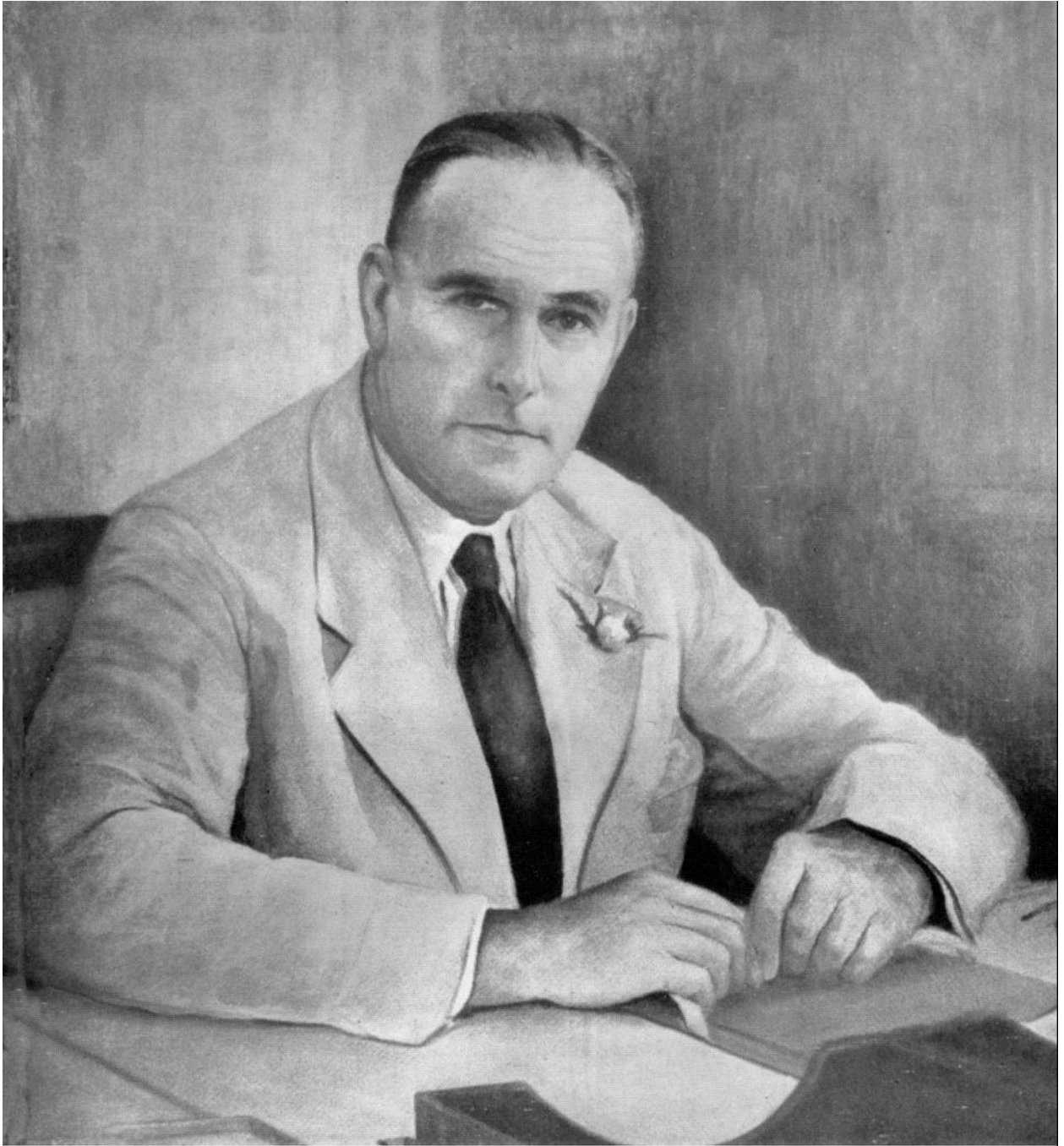
there has been a lack of that perfect understanding and instinctive cordiality that should prevail between the Treasury and the Central Bank . . . . At the head of the Treasury and of the Central Banking Institution, we have two men, each with a strong and pugnacious personality.

It would also appear that the relations between the Governor and his 'senior' Deputy Governor were not quite cordial. The Governor suspected that on a number of matters the Deputy Governor was dealing directly with Government without his knowledge. It is very probable that the difficulties which arose between the Governor on the one hand and his Deputy and the Finance Member on the other represented to a certain extent the traditional conflict between professional bankers and civil service personnel!

These conflicts perhaps explain why Sir Osborne was out of India for a good many months, even during his very short tenure of office. In 1935, proceeding to the U.K. in connection with arrangements for the opening of the London office of the Bank, he stayed for almost five months, though a part of this stay was in connection with his taking a 'cure'. When he returned, his 'senior' Deputy went on six months' leave for 'convalescence'. Shortly after the Deputy's return, Sir Osborne again went to the U.K. and returned after five months. During this period, apparently, decisions were taken regarding his resignation, which was announced by Sir Osborne at the meeting of the Central Board held on October 28, 1936. The Board recommended to the Governor General that Sir Osborne be granted eight months' leave from November 1, 1936 and 'the most liberal gratuity possible in appreciation of his successful organisation and initiation of the Reserve Bank'. The Board eulogized Sir Osborne's services in the following terms:

Resolved that the Board note with the deepest regret Sir Osborne Smith's resignation as intimated in the above letter. They place on record their high sense of appreciation of Sir Osborne Smith's single-minded devotion to the Bank's interest in organizing the affairs of the Bank from its commencement. The Board regret they must lose Sir Osborne Smith's assistance and experienced guidance in the affairs of the Bank hereafter and they cannot speak too highly of the services

\*June 20, 1936.



*Sir James B. Taylor*  
*Gouverneur, 1937-43*

which he has rendered to the Reserve Bank and to India during the period of his connection with this country. The Board tender Sir Osborne Smith their best wishes for his prosperity and happiness in his future career.

The Government of India issued the following statement on October 30, 1936:

The Governor General in Council has received Sir Osborne Smith's application to resign from the Governorship of the Reserve Bank of India. He has accepted it with regret at the loss of an officer who has rendered invaluable service to India, both generally and in the establishment and conduct of the affairs of the Bank. It is with real regret that the Government of India, in deference to his own wish, part with Sir Osborne Smith's great experience and high capacity.

Sir Osborne was sanctioned a gratuity of Rs.50, 000, or the same sum as was mentioned in the terms of his appointment as Governor.

There were comments in the press and in the Legislature, too, on Sir Osborne's resignation. The Indian Finance feared that the resignation was calculated 'to cause grave doubts' about the independence of the Reserve Bank. The comment of the Commerce was that 'Sir Osborne Smith would never have taken such a decisive step unless the position had become impossible, which is a matter for deep regret, as his loss to the Reserve Bank at the present period is serious for the country'. The Secretary of the Indian Merchants' Chamber, Bombay, in a communication to the Finance Department, stated:

the Indian business community were becoming accustomed to believe that they could look with increasing confidence to Sir Osborne Smith for the protection of their interests. His outstanding ability, exceptional calibre and sympathetic understanding of Indian conditions engendered high hopes for the success of the Reserve Bank . . . . The commercial community are, therefore, seriously perturbed by rumours that serious differences of opinion with Government have driven Sir Osborne Smith to resign his position as Governor of the Bank. My Committee are very anxious that nothing should happen to impair in the slightest degree the position, prestige and independence of the Reserve Bank.

The demand was also voiced in several quarters including the Legislature, that Government must make a full statement explaining all the circumstances leading to the resignation of the Governor. The authorities, however, remained tight lipped over this episode.

It was necessary to dwell on the Governor's resignation at some length because of the importance of generally harmonious relations between persons at the helm of the Treasury and of the central bank, It is also important that relations between the Governor and the

Deputy Governors are characterised by cordiality, mutual confidence and loyalty. Perhaps the absence of this sort of relationship at different levels provide part of the explanation why the Bank did not make greater progress in its role as central bank in the pre-war years.

Sir James Taylor succeeded to the Governorship of the Bank from July 1, 1937, on the unanimous recommendation of the Central Board, made at its meeting in New Delhi on April 3, 1937. His term of office was five years; as regards salary, on the same principle on which the Deputy Governor's salary was reduced earlier, it was fixed at Rs. 7,500 per month as against Rs. 10,000 paid to the first incumbent. Sir James's background and eminent qualifications for entry into the Reserve Bank as a senior executive have already been mentioned in Chapter 4. The only point that was raised in some quarters was whether the appointment of one who was so closely associated with the Government was conducive to the healthy independence of the central bank. But it would seem that Sir James strove hard, and reasonably succeeded, to harmonise the interests of the Bank and the wishes of the Government as also to safeguard India's national interests without ignoring those of the ruling power. While his work as Governor will be referred to in later chapters, it was considered to be outstanding enough to be rewarded by the extension of his office for another term of five years, with effect from July 1, 1942, on the unanimous recommendation of the Central Board, though he was not destined to complete it.

Sir James appears to have had very cordial relations with the Board as well as with the Government. His advice was sought and highly respected by Government. This cordiality with the Government was not only on account of his having been a senior civilian in the Finance Department but also owing to the circumstance that he and the Finance Member, Sir James Grigg, were known to each other very well. It appears that in the British Civil Service Examination of 1913, Grigg stood first and Taylor second. In his autobiography, *Prejudice and Judgment*, Sir James Grigg has the following to say about the Central Board of the Reserve Bank and the skill and tact of Sir James Taylor as Governor:

Incidentally also I had inherited from my predecessor an obligation to set up an Indian Reserve Bank to take over the management of the currency and debt independently of the Government. This I did, but the results were quite other than its promoters intended, for the Central Board was, under the bank's charter, to be mainly elected by the shareholders, and within four years it came to be dominated by those Hindu big business men who were more than sensitive to suggestions from the Congress caucus, and some of whom had contributed largely to its funds. This might have had serious consequences. That it did not was due very largely to the skill and tact of Sir James Taylor, who was Governor for most of the time I was in India. In addition to his

admirably efficient management of the internal affairs of the bank, he showed the utmost loyalty to me, both officially and personally, and we became the firmest of friends. His death during the war was a great grief to me and a severe loss to the bank, though he had trained a gifted Indian deputy who was able to succeed him.

#### *Change of Deputy Governor*

Sir Sikander Hyat-Khan resigned his post as Deputy Governor, effective October 20, 1936, to return to politics in the Punjab. His successor was appointed fairly expeditiously. Apparently, in those years the Deputy Governorship of the Reserve Bank was regarded as a prize post. Apart from the salary (which was Rs. 5,500 per month in the case of Taylor and Khan but reduced in respect of later appointments), there was also a lot of prestige and halo attached to the top posts in the Bank. It would seem that about twenty-five people were in the run for the post vacated by Sir Sikander. These included some of the most eminent people who later became Members of the Viceroy's Executive Council, Dewans, Ministers, Ambassadors and Members of the Planning Commission. The person finally recommended by the Central Board of the Bank and approved by the Governor General in Council was Mr. Manilal B. Nanavati, a Naib Dewan of Baroda State. Mr. Nanavati had a rich background of administrative experience in the Baroda State in several important capacities, such as, Registrar of Co-operative Societies, Director of Commerce and Industries, Collector, Accountant-General, Revenue Commissioner and lastly Naib Dewan (Minister). Agricultural economics was his forte.

The appointment was for a term of five years. As regards Mr. Nanavati's salary, Sir James Taylor, in his memorandum to the Board, referred to the Joint Select Committee's view that though a higher salary might have to be paid initially, it should be possible to effect a certain reduction in the case of later appointments. Pursuant to this, the Board recommended a salary of Rs.4,500, the Government concurring in this recommendation.

#### *Search for a European Deputy Governor*

The vacancy of the post of Deputy Governor caused by the elevation of Sir James Taylor to Governorship was not filled. The Government of India and the Home Government 'felt that the interests of the Empire demanded also a European Deputy . . . who should primarily be a banker and who would have more or less to be chosen by the Bank of England, so that the Reserve Bank retained the goodwill and confidence of the Bank of England' \*. While Sir James Taylor did

\* Sir C. D. Deshmukh, op. cit.

make some effort to secure a European Deputy, apparently his heart was not in it and he managed to carry on without a second Deputy.

In 1937, the Viceroy sought the assistance of the Chairman of the Bank of Scotland for a suitable person. The Viceroy wrote as follows:

The main qualification required is good practical banking experience. In addition to ordinary banking experience and skill the position requires that its holder should be a man of calibre above the average and of high educational qualifications. . . . Experience in the London office and in the Bill Market would be of real value. . . . We are thinking of a comparatively young man, say, between 35 and 40 years of age. . . . Naturally, I am thinking of the Bank of Scotland first. . . . My own opinion is that this opening constitutes a great opportunity for the right man.

The Chairman of the Bank of Scotland could not suggest a suitable person. Sir James Taylor remarked that the search seemed likely to be difficult and that he was always doubtful whether he should be able to find anyone immediately available.

In a memorandum to the Committee of the Central Board, dated June 24, 1937, Sir James mentioned that during his last visit to London actually five persons had been suggested but the results were negative, as the persons considered *prima facie* suitable could not be spared by their principals.

While the search for a European Deputy was to go on, Sir James decided to obtain immediately the services of someone, 'whether immediately suitable for the post of Deputy or not', having a real knowledge of central banking. For this purpose, as already mentioned in Chapter 4, Mr. P. S. Beale of the Bank of England was brought in, in the middle of 1937, as Secretary of the Bank, after he had been interviewed by some Directors of the Central Board who happened to be in England.

In July 1937, the Governor again wrote to the Governor of the Bank of England, confirming that they needed a European Deputy Governor. The requirements were described as follows:

We are looking for a man of about 37 to 40, that is to say, a man who will have already established his position as a banker of ability and promise and yet who will be sufficiently young to adapt himself to new conditions and, what is possibly as important, to the very different climatic conditions in the centres in which he will have to work, that is to say, Bombay and Calcutta. His main task, as I see it, will be to organize the building up and co-ordination of the immense Indian banking system on modern and scientific lines and if he is to be successful in this he will obviously require both experience and the ability to apply it well beyond the ordinary.



The Governor also indicated that the prospective candidate would be interviewed by one or more Directors of the Bank who happened to be in the U.K. at the time, if this could be done before October. A name was suggested in November 1937 and the candidate was just over forty and 'spare, active and wide-awake. He seems to be able to keep his head and sense of proportion, and to be tenacious and not easily abashed'. Sir James replied that none of the Directors was in the U.K. then and that on the other hand a visit to India of the candidate, which could not be kept secret, might provoke unfavourable reaction in the country. The idea was also mooted of bringing him in a temporary post in the following year. Sir James consulted Sir Purshotamdas Thakurdas about the candidate, suggesting that he (Sir P.T.) might also have a word with the Finance Member. Sir P.T. expressed the view that the candidate might not be suitable, which, he stated, was the view of the Finance Member too and so the proposal was not pursued. However, the idea of getting a European Deputy was revived towards the end of 1938, when, in the words of Sir Chintaman Deshmukh (in his Gokhale Institute Lecture),

India Office raised the question of management of the Bank should Taylor fall ill or take leave. The reaction from India was evasive, adducing the difficulty of finding the right type of European to import. As a short-term solution it was thought best to maintain a liaison officer to keep the Government of India closely in touch with developments by being Government's representative on the Board and also attending committee meetings. Against the contingency of Taylor becoming suddenly and permanently incapacitated, the Government of India thought a senior officer of the Imperial Bank would be most suitable.

The Liaison Officer selected was Mr. (later Sir) C. D. Deshmukh. He was nominated as Government Director on the Central Board in July 1939 and later, i.e., in October 1939, he was appointed as Secretary of the Bank. The story of Mr. Deshmukh's career in the Bank as Deputy Governor and Governor will be told in later chapters. Suffice it to say here that Sir James Taylor made conscious efforts to pave the way for early Indianisation of the Bank's Governorship.

#### *Role of the Governor and the Central Board*

The central banking institution of a country occupies a position of vantage in providing informed, well-considered and disinterested advice and guidance to Government not only on financial matters but also on various economic issues. Even from its early years the Reserve Bank played a significant role in this sphere of its work.

Over the years, on account of the increase in the number and complexity of the economic problems facing the country, many channels

of communication, at different levels, have developed between the Bank and the Government. But the principal responsibility for keeping the Government informed of important developments and of tendering advice has always devolved upon the Governor; this was particularly so in the first decade of the Bank's life. There were close personal contacts between the Governor and the Finance Member and his senior officials by his visits to New Delhi/Simla and their visits to Bombay/Calcutta. Although, naturally, the Bank's contacts were largely confined to the Central Government, with the inauguration of provincial autonomy under the 1935 Act, its advice was available to the Provincial Governments too.

Besides detailed correspondence on specific matters, the Governor initiated, in September 1937, the practice of writing, on Saturdays generally, a weekly demi-official letter to the Finance Secretary, containing a brief review of the money, exchange, bullion and commodity markets in India and abroad. In the pre-war and war years, happenings in the stock, bullion and share markets were of considerable significance to the monetary authorities. In these letters, the Governor also outlined the strategy regarding Treasury bill sales, sterling tenders, etc., etc. Till September 1937, the responsibility for keeping the Government informed on the state of the money and other markets was that of the Controller of the Currency; in fact, till that date, the Bank's official channel of communication with Government was the Controller. But, with the abolition of the Office of the Controller of the Currency from October 1937, this responsibility was taken over by the Bank.

In his letter of September 18, 1937 to the Finance Secretary, Sir James Taylor outlined the scope of the weekly D.O. letters as under:

In addition, I propose to write you weekly a confidential D.O. setting out informally any particular features of the week which I think would be of interest to you but without following any particular programme. It seems to me that the more and informal such letters are the better, and for this reason I should be glad if you 'would treat them as both confidential and ephemeral, that is to say, that they should be regarded as for the personal information of yourself and the Hon'ble Member so that they will not be circulated or recorded. This will enable me to write more freely and informally.

The Bank of England kept the Reserve Bank informed regularly, by letters and cables, of important developments in the London, European and American money, exchange and bullion markets. The Governor passed on the gist of these developments to Government, in the weekly letters.

Till about 1947, it was the practice for the Governor himself to write the weekly letter, except when he was out of India or indisposed. Subsequently, it came to be written by a Deputy Governor or an Executive Director, the change reflecting on the one hand the diminished importance of the stock and bullion market developments and on the other the substantial expansion in the range of the Bank's interests and responsibilities, many of which came to engage the Governor's personal attention.

The records reveal that in the formative years of the Bank the Central Board as a whole endeavoured to play an active role in the working of the Bank. The Directors endeavoured to safeguard the interests of the Bank and maintain the tradition of the independence of a central bank. The active Directors were mostly the Presidents of the local Boards of the Bank. The most distinguished and outstanding of these was Sir Purshotamdas Thakurdas. He was held in the highest esteem and confidence by both Sir Osborne Smith and Sir James Taylor as also the Deputy Governors, who consulted him on all matters of interest, major or minor. Likewise, the Finance Member and the Viceroy took him into their confidence on important matters relating to the Bank, including in particular the selection of Governors and Deputy Governors. His colleagues on the Central Board, too, looked to him for leadership. His policy as that of his colleagues on the Board was to co-operate on a constructive basis with the foreign Government in India, while trying the utmost to safeguard the Bank's and the country's interests. Sir P. T. was both a driving force and a restraining influence.

On various matters relating to the Bank's policies in the field of agricultural credit, indigenous banking, loans and 'discounts and recruitment of personnel, the Directors were active and alert, making suggestions to the Governor and the Deputy Governors, and discussing matters actively amongst themselves. Correspondence between individual Directors was not infrequent, canvassing support for this or that policy.

From the beginning some of the Directors showed themselves to be zealous guardians of the Bank's independence. At the very first meeting of the Central Board held on January 14, 1935, the Board adopted the following resolution moved by Sir P. T. and seconded by Dewan Bahadur (later Sir) M. Ramachandra Rao:

That in view of the statutory responsibilities of the Reserve Bank in the matter of credit generally and particularly of agricultural credit the Governor be authorised to express to the Governor General in Council the hope that Government will take the Bank into consultation on any legislative proposals relating to these matters.

On another occasion, the reply given in the Legislature in October 1937 by the Finance Member, Sir James Grigg, concerning the transfer of public debt functions to the Bank, prompted Sir P. T; to write to the Governor:

There was some question put regarding Government having adequate control over the Reserve Bank in view of the post of Controller of Currency being done away with. The reply of Sir James Grigg as I saw it in the papers was not only not clear but appeared to me to be somewhat unsatisfactory from the Bank's point of view. Surely, it cannot be Sir James's intention to exercise any control over the Reserve Bank which is not intended under the relative legislation. I wonder if you can throw some further light on this, because I do not think that the Bank should allow any wrong impression to exist in the minds of the public in connection with control of the Bank . . . .

The Governor's reply sought to put the matter in its proper context. He stated:

The Bill related to the final transfer of administrative duties in connection with the public debt. In the past we had to refer all matters to the Controller of the Currency for final orders. In future we can pass orders on any matter at our discretion but naturally Government reserve the right to give instructions on matters which may involve them in expense or loss, for example, law suits.

In the debate some speakers tried to raise the general question of the control of the Bank but Sir James Grigg made it clear that that had been settled and that all he was referring to was the subsidiary and routine matter of the administration of debt.

#### *Changes in the Central Board*

The Central Board also underwent changes during the period. A reference has already been made to the replacement of nominated Directors representing the Western Area (Bombay) by two Directors elected by the Local Board, which, however, did not involve any change in individuals constituting the Board. Consequent on the death of an elected Director, Mr. F. E. Dinshaw, there was a bye-election in the Western Area during 1936, and Mr. (later Sir) R. P. Masani was elected in the vacancy. The first election of Directors of the Central Board from the Eastern Area (Calcutta) took place in 1936. Rai Bahadur Sir Badridas Goenka retained his seat while Sir Edward Benthall, the other nominated Director, was replaced by Mr. B. M. Birla, who assumed office in January 1937. In May 1937, the Governor General nominated Mr. Satya Paul Virmani and Mr. C. R. Srinivasan to the Central Board from the Delhi and Madras registers, respectively, in the vacancies caused by the resignation of Sir Sundar Singh Majithia and the death of Dewan Bahadur Sir M. Ramachandra Rao. In the

same month, Mr. R. P. Masani resigned and Mr. Kasturbhai Lalbhai was elected by the Bombay Local Board in the vacancy.

The first elections of Directors from the Madras and Rangoon registers [which comprised one register for the purpose of Section 15(4)] were held in 1937 and Mr. C. R. Srinivasan and U Po Byaw, who were the nominated Directors, retained their seats. The election of Directors from the Delhi register was held in November 1938 and Lala (later Sir) Shri Ram and Mr. Satya Paul Virmani, who were nominated Directors under Section 8(1) (b) and Section 15(3), respectively, were elected. The former replaced Khan Bahadur Syed Maratib Ali, who was one of the nominated Directors representing the Delhi register and who did not stand for election. Subsequently, Khan Bahadur Syed Maratib Ali was nominated in place of Lala Shri Ram under Section 8(1) (b). Mr. J. W. Kelly, the Controller of the Currency, who was the Director representing Government of India, was replaced by Mr. (later Sir) A. J. Raisman, I.C.S., on October 1, 1937; the latter was replaced by Mr. K. Sanjiva Row during June-November 1938. In March 1939, Mr. (later Sir) C. E. Jones, I.C.S., was nominated in place of Mr. Raisman and in July 1939 Mr. C. D. Deshmukh, I.C.S., was nominated in place of Mr. Jones. Mr. Jones was renominated as Director in November 1939.

#### *Local Boards*

The general interest shown by the Local Boards on certain questions of policy has already been referred to at appropriate places in the earlier chapters. Under the Act, besides the election of Directors to the Central Board, the Local Boards were to advise the Central Board on such matters as might be generally or specifically referred to them and were to perform such duties as were assigned to them by the Central Board. However, broadly speaking, the primary duty entrusted to the Local Boards related merely to the registration of transfer of the Reserve Bank's shares. Some of the Local Boards were dissatisfied with this narrow role and expressed desire for greater responsibility in the consideration of policy issues before the Bank.

The Calcutta Local Board, at its meeting held on January 2, 1936, resolved to request the Central Board to reconsider its direction that Local Boards meet only once a quarter. The Local Board desired to have monthly meetings and to be furnished with a copy of the proceedings of the Central Board. Further, it wanted the Central Board to draw up a comprehensive list of powers which it proposed to delegate to the Local Boards and furnish such a list to them for their consideration and suggestions. Later, in April 1936, it made the suggestion that Local Boards should have the power to examine and frame recommendations

in respect of all applications for rediscount. The management or the Central Board said 'no' to all these requests, stating, 'the functions and powers delegated to the Local Boards are already set out in the General Regulations and the Central Board does not consider 'it necessary to make any further delegation at present'. Obviously, disposal of applications for discounts was too important a matter to be left to the Local Boards.

Likewise, in April 1936, in its report to the Central Board on its working for the first three months, the Madras Local Board complained that no question of policy or procedure had been referred to it till then. 'Important questions have arisen of which no knowledge has been vouchsafed to the Local Board'; this was obviously a reference to the Darling Report on agricultural credit. The Local Board, the report went on, had also no knowledge as to what was intended to be done in the matter of grant of accommodation to scheduled banks. Citing these two instances, which were intended to be merely illustrative and not exhaustive, the report urged that the time had arrived for entrusting to the Local Boards work of a responsible character. The Madras Local Board also desired that proceedings of the Central Board be made available to members of the Local Board.

The reply of the Bank was to justify the status quo. The letter began by saying that 'the work of the Central Board and its Committee is itself largely of a routine character' and so no useful purpose would be served by devolution of authority. The hope was expressed, however, that 'there is no reason, however, to anticipate that this state of affairs will be permanent, as the activities of the Bank develop'. The Bank also said 'no' to the request for circulation of proceedings of the Central Board as they were 'confidential'. However, shortly thereafter, the Governor relented and recommended the circulation of the proceedings of the Central Board and of its Committee to members of Local Boards for their perusal and return, to which the Central Board gave its concurrence.

Again, the Madras Local Board in its quarterly report for April-June 1936 referred to the proposals for the revision of election regulations and complained that the Local Boards should have been consulted about the matter. Its request in January 1937 that in suitable cases the Local Boards be permitted to take legal opinion in the matter of transfer of Reserve Bank shares was turned down; the Bank management was of the view that, in the interests of uniformity, this matter had to be dealt with in the Central Office of the Bank which, as already mentioned, used to move between Bombay and Calcutta, in the pre-war years.

There was also some correspondence among Directors on the subject of increased responsibility for the Local Boards. Thus, Mr. C. R.

Srinivasan, President of the Madras Local Board, sought to mobilise the support of Sir Purshotamdas Thakurdas for the fuller utilisation of the Local Boards. Sir P. T. replied that his opinion from the very start had been that the Local Boards would be in the nature of a fifth wheel to the coach of the Reserve Bank but he agreed that something should be done to make greater use of these Boards. Writing again to Sir P. T., Mr. Srinivasan remarked that even fifth wheels were no longer being treated as clogs but as controls. Sir P. T. thought that perhaps after some years, when the Bank had settled down to its functions, this feeling of disappointment would disappear; in his opinion, Local Boards should have been brought into existence at this later stage.

Since 1943, applications for opening of new banks and for increase of capital by existing banks came to be referred to the Local Boards for their recommendations, while since 1946, in view of their knowledge of local conditions, their advice was sought on the reports of inspections of banks and on applications from banks for opening of new branches.

In subsequent years too, the question of the place of Local Boards was raised and at one stage, in the year 1956, an unsuccessful attempt was made to abolish them.

#### *Annual Meetings of Shareholders*

Annual meetings of shareholders are, generally speaking, a tame affair all over the world. The meetings of central bank shareholders are not very different. Under the Reserve Bank of India Act, the main function of the shareholders was to elect members of the respective Local Boards. So far as annual meetings were concerned, the two items of business were (i) consideration of the balance-sheet, the profit and loss account and the auditors' report and (ii) the selection of auditors and the fixing of their remuneration. The dividend to be paid was fixed by the Governor General in Council. The main item of interest in the annual meetings of the Bank was the address of the Governor, supplementing the information contained in the Report of the Directors and discussions on some of the important matters engaging the Bank's attention.

The first annual general meeting was held on February 3, 1936 in Calcutta. 2,677 shareholders were present, 66 in person and the rest by proxy. (In this connection, it is interesting to mention that at the shareholders' meetings of the Bank of England, prior to nationalisation, the attendance of shareholders did not exceed about a dozen.) The Governor's address was devoted mostly to explaining the various items on the assets and liabilities sides of the statements relating to the Banking and Issue Departments and little else. The first meeting appeared to have been rather lively, with some points of order raised by shareholders, by way of complaints regarding late circulation of accounts

and balance-sheets. There were also requests for various items of information. However, general satisfaction was expressed at the 'successful working of the Bank' and 'for the large profits made'. The profits for the nine-month period covered by the report amounted to Rs. 56 lakhs, out of which dividend was paid at the rate of 3½ per cent, the surplus of Rs. 43 lakhs being transferred to Government. The figures of income and expenditure for the first four years are given in the table below\*:

(Rs. lakhs)

	1935 (9 months)	1936	1937	1938
Income	125.92	155.49	127.11	136.70
Expenditure	69.86	102.07	99.20	98.25
Of which				
(a) Establishment	22.50	33.17	34.86	34.34
(b) Agency charges	17.26	24.13	24.96	25.13
Net Balance.	56.06	53.42	27.91	38.45
Of which				
(a) Dividend at 3 1/s per cent. .	13.13	17.50	17.50	17.50
(b) Surplus paid to the Central Government	42.93	35.92	10.41	20.95

In the next three years the net balance was not as much as in the nine-month period of 1935. Cheap money conditions affected the Bank's earnings. However, during these three years the establishment expenditure remained fairly constant, around Rs. 34 lakhs. The dividend remained unaltered at 3½ per cent, which meant that the surpluses paid to Government were smaller.

The second annual general meeting was held on February 8, 1937 in Bombay. 424 shareholders were present either in person or by proxy. This was presided over by the 'senior' Deputy Governor, Sir James Taylor. The Chairman's address contained a review of economic and financial trends and a discussion of the problems before the Bank. It would appear that only three shareholders spoke. One of them enquired about the reason for Sir Osborne Smith's 'retirement' from the Bank. The other made a request that copies of the report and accounts might be supplied to every shareholder of the Bank by post. The third criticised the form of the balance-sheet of the Bank and enquired 'why the Bank had maintained the same rate of 3 per cent for so long and why they could not reduce it to a lower figure'. The shareholders also passed unanimously a resolution, expressing their 'deepest regret' on Sir Osborne's retirement and placing on record 'their deep sense of appreciation of Sir Osborne Smith's single-minded devotion to the

\* Till 1939 the Bank's accounting year was the calendar year.



Bank's interest in organising the affairs of the Bank from its commencement '.

The third annual general meeting was held in Delhi on February 7, 1938, attended by 512 shareholders, present in person or by proxy; there were neither questions nor comments by the shareholders. The same was true of the fourth annual general meeting held in Madras on February 6, 1939, the attendance being 514 shareholders either in person or by proxy.