THE WAR TEARS: 1939-45

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Organisation, Management and Allied Matters

For the Reserve Bank of India, as for the Indian economy and indeed generally for central banks everywhere, the years of World War II constituted a distinct and important phase of history. To an extent the war interrupted the normal evolution of the new central bank. Yet the Bank had developed sufficiently to be able to face with reasonable success the numerous and complex problems created by the war. Not only did the war bring challenges but it also offered some opportunities. A landmark of the war years was the appointment of the first Indian Governor, though the opportunity for this came in a sad way, through the premature demise of the British Governor who, it must be added, had consciously worked for Indianisation; the predominantly Indian Central Board of the Bank played an important role in this matter, as in many others involving the national interest.

Although India was not an actual theatre of war except for a brief period on its eastern borders, the economic and financial problems it had to tackle were not dissimilar in character to those of the countries which were the scene of warfare. As a member of the British Empire, India was called upon to support the Allied war effort with men and resources. The country's contribution to the war effort, in fact, proved to be considerable.

The purchases of war materials and services in India by the Allied Governments resulted in a large accretion of sterling balances, posing problems of utilisation in a manner most beneficial to the country. The immediate problem was one of restraining currency expansion, which became automatic on account of the sterling-rupee link, and the upsurge of inflation, accentuated by acute shortages of domestic consumption goods and severe contraction of imports. These were the principal matters engaging the attention of the Reserve Bank during the war years, thus reversing the nature of the anxieties of the pre-war years. In the earlier period, the acquisition of sufficient sterling to meet the Home Charges of Government and the maintenance of the ratio of 1S. 6d. were not always easy matters; also, while reflation was very much needed, the Bank could not pursue a basically expansionary policy during those years because of the rigidity of the sterling-rupee link.

Its teething troubles by then over, the Bank was in a position to play its role as banker to Government in financing the war. But the efforts to combat inflation met with limited success; the additions to its sterling balances and currency in circulation were largely due to political and constitutional factors beyond the Bank's control. In these circumstances not much could have been achieved by an active monetary policy, especially through enhancement of interest rates; indeed, as in most countries the pursuit of cheap money policy during the war period became a well accepted objective. However, the Bank did employ open market operations fairly successfully; and in certain other spheres, such as the repatriation of India's sterling debt, the Bank played an important role and much initiative came from the Bank itself.

The war saw the introduction of exchange control in India. The Reserve Bank not only administered the control, but was also Government's adviser in this matter, as in all financial matters. Exchange control helped the Bank to familiarise itself with the practical operations of the world of international finance. In the realm of external finance, a significant development was the Conference at Bretton Woods in July 1944 for the establishment of the International Monetary Fund and the International Bank for Reconstruction and Development. The Reserve Bank played an active role in the consultations and deliberations leading to India's membership of these institutions.

In the sphere of banking regulation, although in a sense the enactment of comprehensive legislation was more urgent, its consideration was delayed and only ad hoc enactment of some urgent measures of regulation was resorted to. However, towards the close of the war, active steps were taken in hand for the enactment of the Banking Companies Bill.

As regards rural credit, the Bank's major contribution lay mainly in the field of study of and advice on such matters as the organisation of the co-operative movement, legislation to regulate moneylending, establishment and financing of land mortgage banks and setting up of licensed warehouses. But a beginning was made in respect of the grant of credit facilities to the co-operative sector, the credit being made available at a concessional rate. The Bank was also actively associated with the drawing up of post-war plans in the sphere of rural credit.

The Bank also played an active role in the formulation of proposals, as part of post-war planning, for the establishment of special institutions for the financing of industry.

A landmark in the Bank's organisational development was the establishment, in August 1945, of a full-fledged Department of-Research and Statistics and a Department of Banking Operations, as a preparation for the expanded and more active role the Bank was to play in the post-war years in the fields of formulation of monetary and public debt policy, regulation of banking and promotion of financial institutions and functioning as Government's economic and financial counsellor.

The war years were thus eventful for the Bank. Though there was not much scope for monetary experimentation, the Bank had to be very active in the performance of what may be regarded as the routine central banking functions of banker to Government, manager of the nation's currency and custodian of the country's international reserves; there was room for initiative on the part of the Bank in these matters. The war witnessed a substantial growth of banking and monetisation of the economy. The Bank's contacts with the money market and banking system also became more intimate.

All in all, it could be said that at the end of the war the Bank was organisationally ready to face the problems of transition to a peace economy, to weather the storms of partition of the country and to participate in the efforts to speed up economic growth through a series of economic plans.

It is convenient to cover briefly the developments concerning the Bank's organisation, management and allied subjects before dealing with those relating to the financing of the war effort and its consequences, and other important matters. Not all the developments are inter-connected but they are being mentioned together in one chapter for the sake of convenience. There are also some matters which are not of much current interest but which ought to find mention in a history. On the other hand, a development like the appointment of Mr. C. D. Deshmukh as Governor had undoubtedly a significant impact on the direction of the Bank's policies, not only in the matter of safeguarding India's interests but also in anticipating the expansion of the Bank's role in the task of development of the economy in the post-war period.

Exchange Control Department

To cope with the growing load and variety of work consequent on the war, the Reserve Bank had to expand its staff, open new offices and also create new Departments and Sections. The war, and especially its extension to the eastern hemisphere, called for special arrangements to safeguard the Bank's records, securities and cash.

The immediate organisational problem posed by the war was the establishment of an exchange control wing in the Bank. Although the exercise of control over transactions in foreign exchange was a function of the Central Government -they had assumed powers for such control under Part XIV of the Defence of India Rules -it was decided for reasons of administrative convenience that control in India and Burma should be exercised by the Reserve Bank, as their agent. Preliminary arrangements for the introduction of exchange control had been made well before the outbreak of the war but were kept secret. The necessary notices and circulars were prepared by the Secretary's Department of the Bank under the immediate supervision of the Governor. It was realised, however, that the work of control over all the foreign exchange transactions would necessitate the creation of a special department and a few days after the war started the Exchange Control Department was formally established. The Governor looked to the Secretary (Mr. Beale) for assisting in the organisation of the new Department. With the Bank of England's request for the return of Mr. Beale coming close on the heels of the Department's establishment and delay in Mr. Ram Nath, who was coming back from England, being available to relieve him, the question of finding someone to assume charge of this work became urgent. Mr. H. D. Cayley, who was working with the National Bank of India at Calcutta, was selected for this job. The deputation arrangement was continued by the, Reserve Bank till the end of February 1948,* so that his experience of exchange problems during the war might be available to the Bank in sorting out complicated post-war problems. Some of these arose out of the arrangements made with the British Government for the utilisation of the sterling balances; and others concerned the implementation of the policies of the International Monetary Fund and the International Bank for Reconstruction and Development, for which some measure of exchange control would be necessary for a number of years.

The headquarters of the Exchange Control Department were located in the Central Office of the Bank in Bombay under the immediate charge of Mr. Cayley who was designated Deputy Controller, the Governor being ex-officio Controller. (It was a generation later, that is, in February 1962, that the Officer in charge of the Department came to be designated as the Controller). In Calcutta, on account of the volume of work, a separate branch of the Department was formed under the charge of an Assistant Controller; at Bombay, all the regional

* Mr. Cayley later became the Chief General Manager of the National and Grind lays Bank Ltd., London.

exchange control work was handled by a section of the Exchange Control Department there placed under a separate Assistant Controller. At the other centres, the Managers were appointed ex-officio Assistant Controllers and looked after all exchange control matters ‘in their respective areas. At Lahore, exchange control work was taken up in 1940 with the establishment of a branch of the Banking Department, but at Cawnpore a beginning was made only on July 18, 1942. The system worked smoothly and ensured that applications for foreign exchange by the authorised dealers were dealt with expeditiously.

With the intensification of warfare in the Far East and growth in the volume of transactions, it was thought desirable that an officer with exchange control experience should be sent to the Rangoon Office of the Bank. For a short while the services of Mr. Claude E. Loombe of the Chartered Bank of India, Australia and China were available. Later, Mr. G. O. W. Stewart of the Hongkong and Shanghai Banking Corporation took his place. Mr. Stewart proved to be of invaluable assistance in the arrangements for closure of the Rangoon Office in 1942 and during all the stages of its reopening after the war was over.

Expansion of the Banking Department

With the institution of exchange control, it was considered desirable to make available fuller banking facilities at Karachi and so a branch of the Banking Department was established there on February 1, 1940. For the same purpose, a branch of the Department was opened at Lahore later that year, with effect from October 18. Besides organising exchange control work with respect to the surrounding districts, these branches maintained principal accounts of the scheduled banks and managed the Clearing House. The branches did not, however, take over Government business from the Imperial Bank as the existing agency arrangements at those centres were working smoothly and any change would have involved the question of the terms of remuneration of the Imperial. The Managers were, nevertheless, available to the Provincial Governments for consultations and were to serve as a link between the Central Office and those Governments in matters such as the floatation of loans, issue of Treasury bills and grant of ways and means advances.

The Bank’s policy to extend its banking activities found further expression in the opening of a branch of the Banking Department at Cawnpore on August 1, 1942, with restricted functions* as at Karachi and Lahore.

* The Department came to be entrusted with the conduct of limited Government business only as late as April 1966.

Administrative Problems caused by War

The outbreak of war with Japan in December 1941 rendered the eastern borders of India and Burma vulnerable and special steps had to be taken to protect the records, securities, cash balances, etc., of the Bank’s Offices at Rangoon, Calcutta and Madras, and even of Bombay as a precautionary measure.

At Rangoon, at the first signs of danger, arrangements were made for the duplication of records of balances and daily transactions and for the preservation of the duplicates at the Imperial Bank of India at Mandalay. Later, the surplus balances and securities which could be safely shipped to Calcutta were despatched there, while the records were sent to Mandalay. Simultaneously, all further consignments of notes and coins to Rangoon were stopped and steps were taken to reduce the balances of the outlying currency chests; soon afterwards, some of the chests were closed.

The situation worsened steadily and it was considered advisable to shift the Issue Department balances still at Rangoon to Shwebo, in northern Burma. The banks in Rangoon closed on February 20, 1942 and reopened at Mandalay five days later. Between these two dates, the Reserve Bank’s Office shifted to Shwebo, leaving a small staff to meet military and other Government disbursements. Two months later, that is, on April 21, the Government of Burma decided that the Bank’s Rangoon Office should close. On account of transportation difficulties not all the employees could reach India.

The war developments in Burma created problems also with respect to the maintenance of the Rangoon register of shareholders and the functioning of the Rangoon Local Board. Elections to the Local Board were due to be held towards the end of 1942 according to the roster. A majority of the shareholders on the Rangoon register were Indians who had transferred their domicile to India with the onset of the emergency and there was some prospect of arrangements being made for the Government of Burma to function at a centre in India in an attenuated form and possibly for a limited purpose. The question therefore arose whether an effort should not be made to comply with the requirements of the law by holding a shadow election in India but such a course was ruled out. Considering all the circumstances, it was decided to keep elections to the Local Board in abeyance; the members who were due to vacate office on the election of their successors were thus to remain in office only nominally. The Director elected to the Central Board was to continue in office in the same, way, after the expiry of his five-year term. As, in the nature of things, it had become impossible for the Local Board to carry out its functions, it was also necessary to suspend its activities and to empower specifically another body to perform them.

With the closure of the Rangoon Office, the Rangoon shareholders' register had also to be maintained at a suitable place in India. To give effect to these proposals, the Government of India issued an Ordinance at the Bank's request on August 21, 1942, authorising the Central Board to take the necessary action. The Ordinance also validated all action taken in respect of any matter pertaining to the Rangoon share register including the exercise of the functions of the Burma Area Local Board on or after February 1, 1942. In modification of the provisions of the Reserve Bank of India Act [Section 9(4)], the Central Government were to fix a date by notification in the Gazette of India for the election of the Director to represent this register. In terms of this Ordinance, the functions of the Rangoon Local Board were first entrusted to the Manager of the Rangoon Section in Bombay and later (in December 1942) to the Chief Accountant, Central Office, at Bombay, after the Rangoon Section had been almost completely disbanded and it was considered unnecessary to retain a separate Manager in charge of it.

As the war clouds spread further westwards, steps had to be taken to evacuate partially the Calcutta, Madras and Bombay Offices also. From Calcutta, the Public Debt Office and most of the Securities Section (dealing with the security deposits of insurance companies) were transferred to Cawnpore during March and April 1942, leaving a skeleton section to deal with such work as could not be conveniently transferred to a centre outside Calcutta. The Central Accounts Section, which maintained the main accounts of the Central and Provincial Governments, Railways and the Imperial Bank, was likewise shifted to Allahabad in April. In order to reduce the balances of the Issue Department at Calcutta as much as possible, a number of currency chests of the Calcutta circle were transferred to the jurisdiction of the Currency Officer, Cawnpore. Further, the supply of fresh currency notes and coins to the Calcutta Office as well as to the chests linked to it was drastically reduced and the quantities surplus to their immediate requirements were arranged to be held at Cawnpore.

Similar schemes were drawn up for removing the non-essential sections and departments at Bombay and Madras to safer places in the interior. The Central Debt (Accounts) and the Fund (Accounts) Sections of the Central Office at Bombay were shifted to Allahabad, where they commenced functioning from June I, 1942, under the Manager in charge of the Central Accounts Section there. The Securities and Share Transfer Departments, Public Debt Office and Issue Department Registration branch of the Madras and Bombay Offices were arranged to be shifted to Akola in Berar between May and July 1942. Some of the Madras sections including the Public Debt Office had been moved to Bombay a little earlier and were reshifted to Akola along with the corresponding Bombay sections; the other sections/ departments were shifted from Madras to Akola direct. Under instructions from the Madras Government, the remaining sections of the Issue Department housed in the Fort St. George, which it was essential to retain at Madras, were removed to leased premises inside the city; so was the Banking Department functioning at the First Line Beach. As at Calcutta, arrangements were made with the Nasik Press and the Imperial Bank branches in the interior for dispersal of the Issue Department balances as widely as possible.

Instructions were issued to all the offices for duplication of all the vital records and their preservation at places far removed from vulnerable areas, as well as for the safety of the Bank's secret codes. The Issue Department's holdings of gold were also shifted to an inland centre.

Various kinds of special allowances, benefits and compensation were sanctioned to the Rangoon Office staff in view of the extraordinary difficulties they had to face. The Bank also proposed to absorb, in one or the other of its offices in the country, nearly all those who were able to return to India eventually. The Bank came forward equally readily to give financial assistance to the staff at the other centres also, particularly those who found themselves obliged to leave their homes at short notice and go to other places of work. In Calcutta, where there was near panic as a result of the air raids, a special compensatory allowance was introduced, in order to encourage the staff to stand by their posts. On the other hand, the employees who deserted their posts in Burma during crucial stages of the functioning of the Office were dealt with sternly. Happily, such cases were very few.

Early in 1945, it became apparent that the Bank would shortly have to reopen its Rangoon Office. In March of that year, it was notified that the Rangoon register of shareholders and the Rangoon Office functioning at Bombay would be transferred to Calcutta in the first instance. The duties and functions of the Rangoon Local Board were also simultaneously entrusted to the Manager at Calcutta. Arrangements were thereafter put in train to reconstruct the different sections and build up the staff necessary to man the Office. As a first step, the Rangoon Section was closed at Bombay on the forenoon of March 22 and reopened at Calcutta on April 2. The re-establishment of the office was carried out in stages so as not to burden it with more work than it could cope with.

The Bank's building at Rangoon was not damaged seriously by the ravages of war but practically no furniture was left and all the vaults had been broken into. Mr. Brian Reynolds, War Correspondent of the Times of India reported* on the situation thus:

* May 9, 1945.

> In the large white-pillared Reserve Bank of India, where I was taken by a British officer now guarding it against further looters, the underground safes and strong rooms had been broken open. Millions and millions of rupee notes have been stolen. And one walks about the building knee-deep in them. Some of the vaults were not easily opened, but the looters, who appear to have been expert safe breakers, had bored holes in the thick concrete walls. Inside many of the safes were dead bodies of. Burmans slashed to pieces. They had apparently fought among themselves.

The building was quickly made serviceable and the Bank commenced functioning at Rangoon with effect from August 20, 1945. Conditions in Burma were not, however, considered sufficiently stable to permit retransfer of the Rangoon register and the Securities Department to that office; the repatriation was, therefore, to be held over until the return of the civil .Government. However, the Rangoon register remained at Calcutta throughout.

The conditions under which the Rangoon Office had to function when it was reopened were extremely trying. There was no water supply, no electricity, no sanitation and no telephone in the office premises. The exceedingly difficult living conditions in Burma prompted scheduled banks to put off their re-entry into that country till long after the Reserve Bank had established itself.

With the brightening of the prospect of Allied victory and the early cessation of the war, the emergency receded and the functioning of the various offices gradually returned to normal. The departments of the Madras and Bombay Offices which were functioning at Akola were repatriated to the respective home centres by the end of February 1945. Retransfer of the Calcutta sections at Cawnpore was completed by November 1945 and the sections of the Central Office located at Allahabad returned to Bombay in May 1946. The Central Accounts Section of the Bank at Allahabad, which was the last to close, reopened at Calcutta on January 29, 1947.

Economic Intelligence and Reorganisation of A. C. D.

The increase in the complexity and diversity of the problems handled by the Bank during the war time necessitated the collection and study of monetary, financial, banking and other data on an ever-increasing scale. The importance of this work for the Bank's normal functioning in the post-war period came to be such as to merit the establishment of a full-fledged department, with effect from August 1945. However, even prior to this, steps were taken to strengthen the section in the Agricultural Credit Department dealing with these matters.

Among the periodical compilations and reports prepared by the Bank, mention may be made of the monthly Statistical Summary, the annual Report of the Central Board to the shareholders, the annual Report on Currency and Finance, the Weekly Report to the Committee of the Central Board on financial conditions, the weekly Demi-official Letter to Government on the position of the money market, the Weekly Letter (it was issued monthly from December 1939) to the Empire central banks and the Review of the Co-operative Movement in India, commencing with the review for the year 1939-40. Many special studies were made on national and international finance. The important ones were the census of industrial share values in India since the beginning of the war, conducted late in 1941 and revised and brought up to date from time to time; and studies of sterling investments in India, repatriation of India's sterling debt, and issues relating to compilation of India's international balance of payments. There were studies on the budgets of the Central and Provincial Governments in India and Indian war finance, the post-war monetary plans, the effects of war on Indian banking, the war-time absorption of currency, wartime controls on commodities, the British Government budgets, the role and significance of the Bank rate in the U. K., the U.S.A. and India, distribution of world gold stocks, post-war planning, and the general relationship between central banks and Treasuries. Mention may also be made of statistical studies of the developments in public debt, revenue and expenditure of the Empire countries and the U.S.A.; a comparative study of war finance in the Empire countries; and comprehensive bibliographies of the literature on inflation and the principles and practices of price control.

The work of compilation and publication of the Statistical Tables relating to Banks in India and of the Statistical Statements relating to the Co-operative Movement in India w-as taken over from the Director General of Commercial Intelligence and Statistics; the first issue of the former, covering the years 1939 and 1940, was published by the Bank in July 1941 and the first issue of the latter, for the year 1940-41, came out a year later.

With the object of enabling the business sections of the country as well as the general public to obtain a clearer conception of the nature and range of the Bank's activities a comprehensive brochure entitled Functions and Working of the Reserve Bank of India was brought out in July 1941.

A natural corollary to the enormous increase in the work devolving on the various sections of the Agricultural Credit Department was its substantial reorganisation in August 1945. From small beginnings, the Department had branched out into multifarious activities. In February 1937, a Statistical Section was started in the Department.

The Department was sub-divided a little later into three distinct sections, viz., (1) the Agricultural Credit Section, to deal solely with the problems arising out of agricultural credit and the co-operative movement and legislation in connection therewith, (2) the Banking Section, to deal with scheduled banks' statutory returns, balance-sheets, etc., bank inspections, the Bank's relations with the non-scheduled banks and indigenous bankers and matters relating to banking legislation, and (3) the Statistical and Research Section, to collate and record statistical information, prepare the Bank's Report on Currency and Finance and the Board's annual report to the shareholders and undertake special studies of various monetary and fiscal problems.

With an increasing part of the time of the Officer-in-Charge of the Department taken up in maintaining personal contacts with the Provincial Governments, and the growing specialisation in the work of the Statistical and Research Section, it became clear that there was need for a competent economist to be entrusted with the duty of collecting and maintaining all the varied statistical and economic material so essential for the shaping of central banking policy. A post of Director of Research to be in charge of this Section was therefore created early in 1941 and Dr. B. K. Madan who, since 1940, had been the Economic Adviser to the Government of Punjab became its first incumbent in the middle of that year. After holding higher positions like Economic Adviser and Executive Director, Dr. Madan became a Deputy Governor of the Bank in July 1964.

In the middle of 1943, the Research Section was expanded for undertaking a fuller study of problems of central banking and wartime fiscal and monetary developments as a background to the proper consideration of questions like controls, planning for reconstruction and development and international currency and exchange arrangements that were likely to arise in the post-war period. Towards the end of that year, the Bank arranged to obtain the services of Mr. J. V. Joshi, the Deputy Economic Adviser to the Government of India, on loan as Senior Economist for the purpose not only of advising the Bank on economic matters including currency and central banking, but also for reviewing and suggesting improvements to the existing machinery for collection' and co-ordination of economic intelligence; Mr. Joshi was later to become the Bank's first Economic Adviser. Mr. Joshi served the Bank for over a decade. After a four-month spell as Deputy Governor, in a leave vacancy in the latter half of 1952, Mr. Joshi worked as an Executive Director for two years, retiring in January 1955.

In the closing stages of the war, there was further increase in the work of this Section, associated with the collection and interpretation of a wide variety of economic data. Besides the examination of domestic financial problems which were bound to increase during the transition to a peace-time economy, the proposed international organisations, the International Monetary Fund and the World Bank, were expected to ask for a large mass of information from each member country, a considerable part of which would have to be compiled by the central banks of these countries. The advanced countries, e.g., the U.S.A., Canada and the U.K., had already expanded and geared up their research organisations, both official and non-official, to cope with the tasks ahead. In India, apart from the research work done by the Reserve Bank and one or two universities, the position was highly unsatisfactory; the financial and economic data available were both meagre and of poor quality. It was therefore imperative that the Bank expanded its own research organisation to be able to undertake the work on a scale that would be adequate for coping with' the growing responsibilities devolving on it.

Over the years, the work which the Banking Section of the Department had to undertake also grew enormously. There was a marked expansion in the work of supervision over banks, centralised in this Section. The work consisted of statutory duties under the Reserve Bank Act and the Scheduled Banks' Regulations, duties of an advisory nature such as advising the Government regarding the financial position of banks on their applications for inclusion in the Second Schedule and for the issue of capital under the Defence of India Rule 94A, banking intelligence covering maintenance of statistics regarding scheduled and non-scheduled banks, branch banking, publication of statistics relating to banks, and the study of banking conditions in India and abroad. Under the proposed legislation to consolidate and amend the law relating to banking companies, introduced in the Legislative Assembly on November 16, 1944, the Bank was being called upon to undertake several additional duties and responsibilities, especially in the matter of receiving returns from banks, inspection and liquidation. For the satisfactory discharge of these additional functions, it was felt necessary to expand this Section substantially and also to establish regional offices at important centres under the local Managers.

With a view to achieving these objects, the Agricultural Credit Department, which had by then practically become a loosely knit organisation of three separate units, was reorganised with effect from August 1,1945, and two new departments, viz., the Department of Research and Statistics and the Department of Banking Operations, were set up. The t first was to function under the general supervision of the Economic Adviser to the Bank, the first incumbent of the post being Mr. J. V. Joshi. The establishment of the Department owed much to the initiative of the Governor, Sir Chintaman Deshmukh; the detailed planning of this Department was the work of Mr. Joshi, ably assisted by Dr. B. K.

Madan who, for this purpose, visited important economic, financial and central banking research institutions in the U.S.A. and Canada in 1944, at the conclusion of his assignment as Secretary of the Indian Delegation to the Bretton Woods Conference. Even in many of the developed countries it is only in the last 10 to 15 years that the establishment of a full-fledged research department in the central bank has received impetus. The foresight of the senior executives and that of the Directors of the Central Board who enthusiastically supported the Governor's proposals, is indeed praiseworthy. The Department was conceived on very broad lines, to undertake research work and provide guidance to the authorities not only in the narrow sphere of money and banking but over a broad spectrum of economic problems. The Department was organised into three major Divisions, the Division of Monetary Research, the Division of Rural Economics and the Division of Statistics, the first Directors of the Divisions being Dr. B. K. Madan, Mr.B. R. Shenoy and Dr. N. S. R. Sastry, respectively. The Officer staff of this Department were recruited mostly from outside the Bank, through advertisement and selection by interview. Over the years this Department, like most others, has recorded a marked expansion reflecting the growth of the Bank's responsibilities in range and depth.

Till about 1951, that is to say, prior to the inauguration of the Five Year Plans, the Central Government's economic staff were on the whole small, and during those years in particular it was customary for Government to draw upon the Bank's expertise and personnel in the handling of various economic issues and in filling the Indian delegations to various international economic conferences. .

The new Department of Banking Operations dealt with all problems relating to the scheduled and non-scheduled banks, such as fixing credit limits for the scheduled banks, carrying out on behalf of the Central Government inspections of banks applying for inclusion in the Second Schedule and of those which prima facie appeared to be unsuitable for retention in the Schedule, studying the balance-sheets and other returns submitted by banking companies, rendering advice on banking and financial matters to banks and Governments, banking legislation, etc. In order that the Bank became fully conversant with the procedure for bank inspections adopted by central banks in other countries, Mr. T. V. Datar, who was the Officer-in-Charge of the Banking Section of the Agricultural Credit Department and became the head of the new department, was deputed to the U.S.A. in 1945 for a few months to study the system of bank examinations and bank supervision obtaining in that country.

The residual Agricultural Credit Department, which consisted of only the Agricultural Credit Section, was then left exclusively with the discharge of the functions arising under Section 54 of the Reserve Bank

Act and was thus organisationally better geared to play an active role in the sphere of agricultural finance.

Bank's Functioning in Burma

The Burma Monetary Arrangements Order, 1937, contemplated that at least for a period of three years from the separation of Burma from India the currency and exchange of both countries should be closely linked and managed by a common central bank. During the currency of the Order, the Reserve Bank was also to act as banker to the Government of Burma~ The Reserve Bank continued, however, to be the currency authority for Burma until June 1942 when it was divested of the liability for the note issue in that country. Its function as banker to the Government of Burma continued, though in an attenuated form, even after the Government moved their headquarters temporarily to India in the spring of 1942 under the stress of the Japanese war and the Bank's office in Rangoon was evacuated to this country. At the close of the war, the Bank undertook limited functions for a short while for the British Military Administration in Burma prior to the return of the civil Government. The Bank ceased to function as banker to the Burma Government with effect from April 1, 1947 only, on expiry of the notice of termination of the Burma Monetary Arrangements Order served by that Government.

By exchange of correspondence between the Bank and the Burma Government, it was agreed that the Government of Burma would maintain a minimum balance with the Bank of Rs. 85 lakhs on Fridays and Rs. 75 lakhs on other week days and that ways and means advances would be made whenever, required by them on lines similar to those adopted for the Provincial Governments in India.

Till 1942, the Burma Government did not, as a matter of fact find it necessary to take any ways and means advance. With the Japanese invasion, however, the finances of the Government were seriously upset and pending completion of long-term arrangements, the Bank agreed, in March 1942, to give ways and means advances, repayable within three months, in multiples of Rs. 25 lakhs so as to maintain the minimum balance of the Burma Government at Rs. 85 lakhs, and also offered to purchase their holdings of Government of India securities at the minimum prices fixed by Government. By early April, the total amount advanced had risen to about Rs. 2.25 crores. At the same time, however, in view of the indefinite and special nature of the responsibility to finance the Government of Burma who had hardly any income of their own, the Bank considered it necessary to get the British Treasury to guarantee the advances made by it. The British Government agreed to guarantee the Bank's advances. The minimum balance which the

Burma Government had to maintain with the Bank was reduced to Rs. 25 lakhs towards the end of May 1942. The maintenance of even this minimum balance was waived in March 1946, i.e., some time after the Government of Burma returned to their headquarters in Rangoon, and a different arrangement was devised to compensate the Bank for its services.

In terms of the Burma Monetary Arrangements Order, the Bank issued for some time after separation overprinted Government of India notes for circulation in Burma and in May 1938 the Bank began to issue distinctive Burma notes, which were not legal tender in India. Indian currency notes other than Government of India one rupee notes were deprived of their legal tender character in Burma after March 31, 1942, by a Government of Burma notification issued on October 29, 1941.

With the occupation of Burma by the Japanese, the Bank's continuance as the currency authority for Burma was beset with many difficulties. The overrunning of the country by the Japanese placed them in possession of huge quantities of Reserve Bank Burma notes and the problem was how to prevent effectively their unauthorised infiltration into India and their being used by the enemy for fifth column activities in India. Of course, with the country under total enemy occupation and with no agency of the Bank or the Government of Burma functioning in that country, Part II of the Burma Order, which laid down the Bank's obligations in Burma in regard to payment of legal tender currency in exchange for its notes and doing various other things, could be considered as having ceased to have any legal effect. However, the Bank felt that this was not sufficient justification in itself for its refusing to honour in India the liabilities it had incurred in Burma. In the case of the commercial banks, although they could not statutorily be compelled to pay in India their deposit liabilities in Burma, they were anxious to do so for the sake of their prestige and good name. The Bank was itself following the same policy in respect of the banks' accounts with it, not to speak of the accounts of the Government of Burma. The Bank regarded that there was a moral obligation on it to honour the Burma notes if legitimately presented to it. In fact, since January 1942 the Bank's offices, and subsequently the Imperial Bank branches and certain Government Treasuries were authorised to encash Burma notes at a small discount. As such encashment was obviously undesirable on political grounds, it was essential that the import of Burma notes should be rigidly controlled.

The total of the Burma notes which the Bank had duly issued amounted to about Rs. 30 crores and the Bank had full cover against them. It was clear that not much of this would be presented for payment in India, even allowing for the currency percolating to India through enemy agents. There was, on the other hand, the liability on account of the note forms lost in the currency chests -estimated at approximately Rs.10 crores -which had to be deemed to have gone into circulation and had, therefore, to be fully covered by assets (cf. Section 33 of the Act) even though not all of these notes, too, would be exchanged in India. Such cover could only be provided out of the Bank's reserves and profits, i.e., at the cost of the Government and the Bank's shareholders. In March 1942, the Bank came to the conclusion that the best solution in regard to the Bank's note issue in Burma would be for the liabilities together with corresponding assets to be taken over by the Government of India and for the Bank to reduce the figure of note circulation to that extent; against this reduction of its liability, the Bank considered that in the existing emergency the simplest mode of payment by it was by cancellation of ad hoc Treasury bills for an equivalent amount. Thereafter, the Bank would pay Burma notes under Government's specific authorisation only. The notes lost in the chests would be Government's uncovered liability.

The Government of India fully agreed with the Bank's-views and pro.-posed to give effect to them by amending the Reserve Bank Act, but met with opposition from the India Office. The Secretary of State was sceptical about the need for any kind of action. The best method, he felt, was to leave everything unchanged save that the Government of India would give a. guarantee indemnifying the Bank against any loss that it might be faced with by encashing notes ' not duly emitted ' (i.e., those lost in the chests) under the Government's authorisation, to comply with Section 33 of the Act. If this was impracticable for any reason, the suspension of the Burma note liability was to be done in ' some more patently temporary form ' than that suggested by Government, perhaps in the form of a Defence Regulation providing that notwithstanding the Reserve Bank Act, the liability was pro tanto suspended until further notice or alternatively, in the form of an Ordinance suspending the operation of Section 34(3) * until such time as notified by the Governor General, assets for a like amount being transferred from the Bank on such suspension.

The Governor objected strongly to the Secretary of State's 'extraordinary dictum' that the Bank could be indemnified by Government in respect of claims on notes not issued properly. He felt that the suggestion to transfer the liability from the Bank to the Government offered by far the best solution.

The Government of India proceeded to issue the Ordinance and the necessary notifications on June 6, 1942, merely advising India Office

* Section 34 defined the liabilities of the Issue Department as being the total of the currency notes of the Government of India and bank notes for the time being in circulation. Section34 (3) read: 'In this section, references to bank notes include references to Burma notes.

Informal opening ceremony **of** *the new* **premises of** *the Bank at Lahow on February* **zr,Ig4o.** *Sir James B. Taylor, Governor* **of** *the Bank, with Sir* Henry *Craik* **(wearing** *the* **garland),** *the Governor* **of** *the Punjab.*

The front virw **qf** *the Bank's Lahore premises.*

*Rangoon building **of the** Bank*

Rs. 5 (Burma) 5" × 2 '! ɪ ***in size*** *and with peacock desip and K&g George VI's portrait, **jrst** issued **in** May ~&v9 under Gocernor Taylor's &nature. On the ieoerse, there is a forest **scene** with an elephant.*

that they were doing so with the concurrence of the Government of Burma and in consultation with the Reserve Bank. The Ordinance, called the Burma Notes Ordinance, 1942, prohibited the Bank from paying the value of any Burma note except to such persons and in such circumstances as might be authorised or decided by the Central Government, from such date as might be specified in this behalf by the Central Government; this date was, by separate notification, fixed as June 8. The Ordinance provided also that as from the notified date and until such date as the Central Government might direct, reference to Burma notes in Section 34 of the Act was to be deleted.

The actual amount of Burma notes in circulation for which the liability was transferred to Government in pursuance of the Ordinance was Rs. 28.69 crores; rupee Treasury bills for a corresponding amount (less the value of rupee. coin lost in the chests in Burma) were cancelled in reduction of the assets. The actual uncovered liability of Government for Burma notes lost in chests amounted to Rs. 6.44 crores. Burma notes purchased by the Bank's offices from then onwards were paid by debit to Government account.

With effect from July 15, 1942, the facilities which had been earlier granted to evacuees from Burma to encash Burma notes at all offices and branches of the Reserve Bank and the Imperial Bank of India as well as at Government Treasuries in the Provinces of Bengal, Assam, the U.P., Orissa and Madras at a small discount were withdrawn. From that date, the exchange facilities were restricted for genuine refugees to a few branches of the Imperial Bank and certain specified Treasuries in Assam and Bengal, besides the Calcutta, Cawnpore and Madras Offices of the Reserve Bank. The restrictions, which were varied from time to time by Government on the Bank's advice depending on the pace of exchange of the notes, were relaxed substantially with effect from May 1, 1945, following the reoccupation of Burma early in 1945. The, total amount of Burma notes encashed in India between January 5, 1942 (when the offices of the Bank were first authorised to encash these notes) and March 31, 1946 was Rs. 16.78 crores.

The question of what currency should be used in Burma on its reoccupation engaged the serious attention of authorities in the U.K. (e.g., War Office and India Office), the Government of India and the Bank as early as August 1942. On an enquiry from India Office whether the Bank had even 'provisional' plans in view, Sir James Taylor indicated, after discussion with the Burma Government who agreed with him, that the best course would be to use ordinary Indian currency (which, other than the one rupee notes of the Government of India, had ceased to be legal tender in Burma) for the requirements of the Army in the first instance. The Governor was firmly of the view that the introduction of a new separate Burma currency should not be considered until the political situation was perfectly clear. The Governor's suggestions found broad acceptance amongst Government and the Army authorities, as also India Office. It was decided that while the Indian notes would be used in the initial stages, the advancing forces would put into circulation, after some progress had been made and conditions stabilised, a special military currency of their own, with special military notes of annas eight and annas four.

The stage for the issue of distinctive military currency by the British Military Administration of Burma (B.M.A.) was set early in 1945 and a Proclamation declaring it legal tender in Burma was issued on May 1, 1945. These notes (other than the notes of annas eight and annas four) were ordinary 'India' notes of the Reserve Bank and the Government of India one rupee notes super scribed with the legend 'Military Administration of Burma -Legal Tender in Burma only'. Besides these, the Reserve Bank 'India' notes of all denominations, the Government of India one rupee notes and the Reserve Bank 'Burma' notes of Rs. 100 and below were to continue to be legal tender in Burma. The Proclamation also suspended all the provisions of the Burma Monetary Arrangements Order, 1937, relating to the rights as well as the obligations of the Bank in respect of the currency of Burma. The responsibility for the management of the B.M.A. currency which was initially with the Civil Affairs Staff (Burma) was taken over by the Bank on its return to Burma, in terms of an Ordinance issued in June 1945 empowering it to act as agent of the B.M.A. as indicated below; the liability for these notes continued, however, to be that of the B.M.A.

The Reserve Bank of India (Temporary Amendment) Ordinance, 1945, promulgated on June 9, 1945, temporarily amended the Reserve Bank Act by inserting a new Section 20A which authorised the Bank to (a) maintain the accounts of the B.M.A., undertake their exchange,remittance and other banking operations and generally afford to them facilities similar to those which the Bank afforded to the Government of India and (b) perform such functions in relation to the currency and coinage of Burma and in relation to other business of the B.M.A. as might be entrusted to it by the B.M.A. The Ordinance also amended Section 17(5) of the Act to enable the Bank to grant ways and means advances to the B.M.A.

In August 1945, the Bank reopened its Rangoon Office, which took over the functions of the B.M.A. Treasury at Rangoon immediately. On September 1, 1945, remittance facilities between India and Burma were reintroduced. On November 7, 1945, the Bank entered into an agreement with the Civil Affairs Staff (Burma) representing the B.M.A., laying down its functions in Burma as agent of the B.M.A., the agreement was deemed to have come into force on August 7, 1945. In view of the non-availability of banking facilities due to the reluctance of banks to reopen in Burma along with itself, the Bank undertook to accept deposits temporarily from the public, interest on which was debitable to the account of the B.M.A. In terms of the agreement, the Bank received from the B.M.A. by way of remuneration for its services during the period it functioned as its banker, viz., from August 1945 till the end of January 1946, the actual cost of maintaining its office in Burma plus 12½ per cent on its establishment charges to compensate it for any items of expenditure which did not enter the books of the Rangoon Office.

A detailed account of the termination of the Bank's activities in Burma, on the expiry of the Burma Monetary Arrangements Order on April 1, 1947, is given in a later chapter.

Banker to Ceylon Currency Board

There was also some widening in 1940 of the scope of the Bank's function as banker to a foreign currency authority. The Ceylon Government had for some time been considering a change in the currency arrangements in the island which, they felt, were unsuited to modern conditions. Although the Indian rupee was legal tender there, it was not actually in circulation, the currency in use consisting of Ceylon notes and small coin based on the rupee. This system entailed the maintenance of a substantial reserve of Indian silver rupees by the Board of Commissioners of Currency and occasioned large physical transfers of silver coin, making it unnecessarily cumbrous and expensive. The revised proposals announced late in 1939 envisaged the establishment of a Currency Board which would operate an exchange standard linking the Ceylon currency with the Indian rupee at par and also with sterling; the Ceylon Government's intention was that the link with sterling should not normally be operative.

The Ceylon Government approached the Bank with the suggestion that it should act as agent of the proposed Currency Board for the purpose of receiving and paying out Indian rupees against the corresponding transactions in Ceylon currency in Colombo. In view of the governmental character of the business and the fact that it was clearly in the interests of India that the Ceylon currency system should remain as closely linked with Indian currency as possible, the Bank readily agreed. Since, however, the Bank was empowered under the Act to undertake agency functions only on behalf of a bank which was the principal currency authority of any country and the proposed currency authority in Ceylon was to be a Board and not a bank, the Act [Section 17 (13)] was amended* in March 1940 to enlarge the

* The Reserve Bank of India (Amendment) Act, 1940, effective March 11, 1940.

scope of its operation. Simultaneously, the Bank was also empowered [by amendment to Section 17(4)] to grant temporary advances to the Currency Board against suitable security. The actual agreement between the Bank and the new Board of Commissioners of Currency, Ceylon, was executed nearly 1½ years later after an Ordinance had been promulgated in Ceylon on September 1, 1941 for the regulation of currency. Under the Ordinance the Ceylon rupee was linked only to the Indian rupee and had no direct relation with sterling. Under the agreement the Bank was appointed as the Currency Board's agent for the purpose of receipt and payment of monies on behalf of the Board in Bombay; the Board was to maintain an agreed minimum interest-free deposit with the Bank to remunerate it for the agency functions undertaken by it. The Board's funds were to be invested in Treasury bills and short-term rupee securities of the Government of India. The Bank was to make advances to the Currency Board against its rupee or sterling assets and discount the Treasury bills held on its behalf whenever required. The advances against the Board's sterling assets were to be liquidated by the transfer of sterling to the Bank's account with the Bank of, England. For the services rendered, the Reserve Bank was entitled to recover from the Board all out-of-pocket expenses incurred on its account and to charge commission at 1/16 of 1 per cent on all purchases and sales of securities made on its behalf.

The link between the Ceylon rupee and the Indian rupee continued till September rg4g when, following the devaluation of sterling, the Ceylonese Government decided to devalue the Ceylon rupee to the same extent and express its value in terms of gold. On the establishment of the Central Bank of Ceylon as the currency authority of Ceylon on August 28, 1950, the agreement with the Board of Commissioners of Currency was terminated and the Bank undertook to provide more or less similar services to the new central bank by virtue of the general authority the Bank had to provide these services to central banks.

Agreement between the Bank and the Imperial Bank

The terms of remuneration payable to the Imperial Bank of India for the conduct of Government business, under the agreement concluded between it and the Reserve Bank, fell due for revision on April 1, 1945, a decade after they came into effect. The Third Schedule to the Reserve Bank Act stipulated that the terms for the ensuing five years and thereafter for each succeeding five-year period until the agreement was terminated should be determined 'on the basis of the actual cost to the Imperial Bank of India, as ascertained by expert accounting investigation, of performing the said functions'. The Auditor General of India, who had been entrusted by the Joint Select Committee of the

Legislature with the scrutiny of the original proposals as embodied in the Reserve Bank Bill, was naturally the most appropriate authority to undertake the expert investigation. On the basis of the results of the scrutiny made by him of the data furnished by the Imperial Bank in an approved form for a period of several years, the rates of commission payable to the bank on the turnover of Government account for the quinquennium April 1, 1945, to March 31, 1950, were revised downwards with its concurrence as follows :

On the first Rs. 150 crores (in the place of the first Rs. 250 crores)	at l/16 of 1 per cent
On the next Rs. 150 crores (in the place of the remainder)	at l/32 of 1 per cent
On the next Rs. 300 crores	at l/64 of 1 per cent
On the remainder of the total receipts and disbursements on Government account	at l/128of 1 per cent

As the date for revision of the terms drew near there was public demand for replacing the Imperial Bank by another agency. There were also comments -mostly ill-founded -in various financial journals regarding the manner in which the Reserve Bank would comply with the requirements of the Third Schedule. To dispel all mistrust, the Reserve Bank issued in June 1945, after consulting the Imperial Bank, a press note publicising the revised rates.

As the Bank's agreement with the Imperial Bank was to remain in force initially for a period of fifteen years only [Section 45(1) of the Act], the question arose in 1950 whether it should be terminated after giving the bank the prescribed notice of five years, running from April 1, 1950. However, in December 1950 the Central Board agreed with the recommendations of the Rural Banking Enquiry Committee that the existing system for the management of cash work at Treasuries and Sub-Treasuries in Part 'A' and Part ' C ' States should remain undisturbed for the time being. So there was no point in discontinuing the agency arrangements with the Imperial Bank at that stage. Consequently, the rates of commission to be paid to the bank for the next quinquennium, i.e., from April 1, 1950 to March 31, 1955, were required to be determined afresh. On the basis of the expected annual turnover of Government business during these years and in the light of the data of actual commission paid vis-a-vis the cost incurred by that bank during the years 1945 to 1950, the rates of remuneration were revised upwards as indicated below:

On the first Rs. 150 crores	at 1/16 of 1 per cent
On the next Rs. 300 crores	at l/32 of 1 per cent
On the remainder of turnover	at 1/64 of 1 per cent.

This was subject to the proviso that if the total turnover exceeded Rs. 1,200 crores during any year, the rate applicable to the turnover in excess of this figure would be l/128 of 1 per cent.

Change in the Bank's Accounting Year

The accounting years of central banks and Governments show diversity. The appropriate accounting year for Government has also been a matter of some discussion in India in recent years. The change in the Bank's accounting year from January-December to July-June, which occurred in 1940, should be of some interest. The calendar year had been adopted earlier presumably on the analogy of the practice of many of the commercial banks, although the Imperial Bank preferred to hold its shareholders' meeting in August. This arrangement suffered, however, from several drawbacks. The end of December coincided with a heavy outgo of currency and at the same time, there were the Christmas and New Year holidays so that there was considerable difficulty in getting the accounts compiled and audited in time for the annual general meeting which had, under the Act, to be held within six weeks from the date on which the accounts were closed. Besides, it was inadvisable to prepare the Board's annual report right in the middle of the most active part of the busy season. A July-June accounting year would also make it possible to incorporate in the report Government's figures which were based on the financial year ending March 31, a matter which was specially important from the point of view of maintaining the statistical continuity of the Controller of the Currency's reports. Furthermore, the majority of the commercial banks closed their accounts on December 31 and if the Bank wrote its report in July it would have ample opportunity to study their annual balance-sheets.

Convinced of the desirability of the change-over, Sir James Taylor took the initiative in 1937 to secure the concurrence of the Board and thereafter of the Governments of India and Burma (who would be affected from the point of view of the Bank's surplus profits) and to sponsor the necessary legislation to facilitate its implementation. The Reserve Bank of India (Closing of Annual Accounts) Act, 1940, permitting the Bank to close its accounts on June 30, 1940, i.e., six months after the previous closing and to hold an 'annual' general meeting within six weeks thereafter for consideration of those accounts became law on March 11, 1940. Thus, the year 1940 saw the convening of two ' annual ' general meetings -one in February in the usual course for considering the accounts for the whole of the year 1939 and the other in August for considering the accounts for the half-year ended June 1940. The Bank has been closing its annual accounts on June 30 ever since.

Limitation of Dividend

Another measure which is now of purely historical interest but which then received much attention both from the Board and, fittingly, from the shareholders, was the promulgation of the Reserve Bank of India (Limitation of Dividend) Ordinance of June 30, 1943. Under Section 47 of the Reserve Bank of India Act read with the Fourth Schedule thereto, the Bank's shareholders were entitled to an additional dividend on a graduated scale out of the surplus profits remaining after payment of the fixed dividend of 3 ½ per cent, when the surplus exceeded Rs. 4 crores. The provision became operative for the first time with respect to distribution of the profits for the year ended June 30, 1943, when the surplus rose steeply to Rs. 7.52 crores from Rs. 3.24 crores for the previous year (see table below). The Ordinance superseded, for so long as it remained in force, the provisions of Section 47 of and the Fourth Schedule to the Reserve Bank Act, to the extent that it limited the aggregate of the rates of the fixed (cumulative) dividend and the additional dividend payable to the shareholders in terms of these provisions to 4 per cent per annum. The balance of the profits was to go to the Central Government. The Ordinance stated that an emergency had arisen making it necessary temporarily to limit the dividend receivable by the Bank's shareholders.

(Rs. lakhs)

	Year ended December	Year ended June				
	1939	1941	1942	1943	1944	1945
Income	122.95	381.76	456.45	919.19	1200.43	1667.52
Expenditure	100.45	102.53	114.91	149.38	173.85	178.25
Of which						
Establishment	35.92	36.39	39.08	43.41	51.70	61.14
Net Balance	*22.50*	*279.26*	*341.54*	*769.81*	*1026.58*	*1489.27*
Of which						
(a) Dividend	17.50	17.50	17.50	20.00	20.00	20.00
(Rate)	(3 ½ %)	(3 ½ %)	(3 ½ %)	(4%)	(4%)	(4%)
(b) Surplus paid	5.00	261.76	324.04	749.81	1006.58	1469.27

In a press communique issued simultaneously, Government set out in greater detail the considerations that weighed with them in taking this action. It was explained that the profits of the Bank had swollen very abruptly as a result of the increase in the income-earning securities held as backing against note circulation which had expanded enormously due to the large Allied war expenditure in India, and that the normal operation of the provisions of the Act would result in a sudden increase in the rate of dividend payable to the shareholders. Government believed, the press note added, that a stabilization of dividend was in the Bank’s own interest and would be welcome to the shareholders as it would discourage undesirable speculation in the Bank’s shares. The measure was also ‘eminently reasonable in the light of their anti-inflationary policy ‘. Further to appease the shareholders, they explained that ‘the incidental gain to Government is likely to be only a few lakhs and in no way influenced Government in coming to this decision’! While there is no doubt that Sir James was consulted about this -it is not improbable that the initiative in this matter came from him -the Bank was not formally consulted on the issue of the Ordinance. However, when the Bank’s accounts for the year ended June 30, 1943 were placed before the Board at its meeting on July 20, no protest was recorded. Instead, it resolved that ‘ Government be moved to give an undertaking that, in the event of the Bank’s profits in any future year falling below such level as would suffice for maintaining stability of the dividend rate at the present or any higher level, they would be prepared to make up the deficit to the extent of the additional amount they have received as a result of the Ordinance, and would promote such amendment of the law as would ensure that the sum so restored to the Bank is wholly available for distribution as additional dividend ’ ! Government’s reply was that while they could not give any long-term commitment to the Bank in this behalf, a good case in equity would exist for their making up any deficiency in the Bank’s profits to the extent to which they had benefited as a result of the operation of the Ordinance, should the profits fall ‘ in the not too distant future ’ below the level required to maintain a dividend of 4 per cent or such higher rate as they might consider to be reasonable and appropriate in the circumstances.

While public opinion was not averse to the measure which ensured that ‘ no unduly large benefit is passed on to the shareholders who have done precious little to cause the increased profits of the bank ‘, the Bank had to answer a volley of letters from its shareholders protesting against it. One of them accused the Government of violation of the terms upon which subscriptions to the Bank’s capital were invited. The shareholder reasoned that since Government did not come to the rescue of the shareholders when the shares declined below their paid-up value, they had no right to deprive the shareholders of higher dividends within the limits of the Statute. If they could not immediately raise the rate to 5 per cent as visualised by the framers of the Act, the extra dividend, he demanded, should be kept in deposit and refunded by Government at the end of the first year after the conclusion of hostilities. The matter was repeatedly raised at the annual general meetings also and the Governor took pains to explain to the questioners the rationale of the decision and the Board’s efforts to secure from Government an assurance to maintain the stability of the rate of dividend.

The Ordinance was not revoked by Government even after the end of the war and the rate of dividend stayed at 4 per cent till the Bank was nationalised on January 1, 1949.

Concentration of Shareholding

Even before the Bank had completed two years of its existence, a matter which had been debated at great length by the Legislature during the passage of the Reserve Bank Bill was to engage the attention of the Central Board. Sir Purshotamdas was concerned about the increasing tendency for big blocks of shares to get into the hands of certain individuals and the consequent sterilisation of votes and felt that the Board should ' come to a definite decision regarding the policy they wish to adopt before it gets too late'. In November 1936, he brought up the issue before the management of the Bank and insisted on its being placed on the agenda for discussion at a Board meeting. Sir James Taylor was, however, of the opinion that it was premature to suggest any limitation on the size of the individual shareholding which required an amendment to the Act. He pointed out that the amendment that no person should be allowed to hold more than 200 shares had been rejected by the Legislative Assembly by a majority of 49 to 48 after a two-day debate, the argument against the amendment being that any such restriction would militate most seriously against the marketability of the shares and that in any case the danger was not serious, inasmuch as the limitation of the maximum voting rights to ten would increase the actual voting power of the shares held by small holders, if a large number of the others were sterilised. In his reply to the debate, Sir George Schuster had also expressed a strong belief that the very wide distribution of shares, which the provisions for their initial allotment were designed to ensure, would continue to prevail in the future. The time, Sir James Taylor felt, was also not ripe for any remedial legislation to arrest the other phenomenon of gradual accumulation of shares on the Bombay register at the expense of the other registers. The position did, however, require careful watching and the Central Board, at its meeting held on December 1, 1936, decided that the Local Boards should submit annual returns showing the total number of shareholders on their registers when the registers were closed for the issue of dividend, along with the number and names of shareholders holding more than 50 shares. Monthly statements were also to be submitted to the Committee showing the distribution of shares amongst the various registers.

On receipt of the Local Boards' reports, the Central Board examined the question again in January 1937 and concluded that it was not necessary yet to report the position to Government. The Committee was asked to keep a close watch and the Governor was requested to submit an annual report to the Board for its consideration.

Within a couple of months, however, on perusal of further reports from the Local Boards, the Board thought that the matter had become sufficiently serious to warrant a report to Government. A recommendation was therefore made to Government in. April 1937 for initiating early action for amendment of the Act to lay down a ceiling of 200 shares on individual holdings. It was pointed out that the number of shareholders had fallen to 66,273 in January that year from 92,047 when the Bank was established and that out of a voting strength of 100,000, approximately 13 per cent had already been sterilised. Government's attention was specifically drawn to the debates in the Assembly and to the Board's view that the existing Section 56* of the Act did not provide any remedy against undue concentration and the resulting sterilisation of the shares. If the process was allowed to go on, it was quite conceivable that a situation might be reached where the voting power would be so restricted that it would become liable to undue manipulation. The experience of the Bank of France in this regard was then cited. The Board's opinion that 'considerations of marketability' should not be allowed 'to prevail against the paramount desirability of having a widely distributed electorate for the Bank' was also conveyed to Government.

Government acted on the suggestion immediately and tabled an amending Bill in the Simla (summer) session of the Assembly but the Bill was unfortunately crowded out. The Finance Member (Sir James Grigg) appears to have anticipated opposition from 'some important groups (besides the Europeans!)' so that 'it was no good expecting to get the Bill through in a few hours'. Sir Purshotamdas Thakurdas was constantly in touch with the Finance Member in connection with enactment of the amendment. His anxiety would be obvious from what he wrote in May 1937 to the Indian Chamber of Commerce, Calcutta, which requested him to express his opinion on the proposed amendment Bill:

> I am convinced that it was never the intention of the Legislature to offer in the form of Reserve Bank shares merely good investment for the public but it was their intention to give the public an instrument by which they may have their say in the Reserve Bank of India, and, in addition, get a small but reasonable return on their investment. The premium at which these shares are being quoted is, to my mind, deplorable. If it goes down, I do not think that anyone can feel that avoidable harm is being done to the investor . . . . The only power left to the shareholders is to express their opinion at annual meetings, . . . wherever circumstances justify to pass a vote

* It empowered the Local Boards to call upon any shareholder to furnish to them particulars of all shares registered in his name.

> of censure against the Central Board or the Governor, as the case may be, in case of something anti-Indian being done by either the Governor or the Central Board . . . . If this opportunity of preventing Reserve Bank shares from passing into unknown hands in this manner is lost, I am afraid the control of the Indian public opinion on the Reserve Bank will be permanently lost.

It was, however, almost three years before the Bill was actually passed: the Reserve Bank of India (Second Amendment) Act 1940 (Act XIII of 1940) restricting the number of shares to be held by a shareholder to 200 by the addition of a new sub-section to Section 4 came into effect on March 26, 1940. Despite the amendment, the decline in the number of shareholders continued. It came down to 57,192 on December 31, 1939; as on June 30, 1945, the number of shareholders was 46,640 and as on June 30, 1948, 44,400. There was also a continuous gravitation of the shares towards the Bombay register, which could only partly be explained by the extension of the war to Burma and the transitory arrangements made for the maintenance of the Rangoon register in India.

Fresh Elections of Local Board Members and Directors

On the expiry of the five-year terms of the Directors representing the various Local Boards, fresh elections were held to the Local Boards, commencing with the Western (Bombay) Area Local Board in 1940. These were followed by fresh nominations to those Boards by the Central Board and the election of fresh Directors of the Central Board by the newly elected members of the Local Boards. The Local 'Board elections were keenly contested in view of the prestige attached to a seat on the top management of the central bank. Apart from the standing of the candidates, success in the Local Board elections appears to have depended to a substantial extent on the candidate's organisational ability for collecting proxies which were solicited actively. There were instances where specific areas or groups of shareholders were also earmarked among the candidates for the canvassing of proxies, though it would appear that these understandings were not, always observed. As for elections to the Central Board, when competition was keen and there were prospects of a close fight, not infrequently understandings were reached between the contestants for serving on the Board by turns and these were generally honoured. In some instances, candidates were induced to stand down by offers of appointments on Boards of large companies!

In regard to the elections to the Bombay Local Board, it would appear from correspondence between the Directors that Sir P. T., Mr. R. P. Masani, Mr. (later Sir) Chunilal B. Mehta, Mr. Kasturbhai

Lalbhai and Sir Sultan M. Chinoy issued a statement, stating that proxies given to any of them would be treated as proxies given to all of them, as they desired to work together. They requested the shareholders to give their proxies to the representatives of any one of them. The proxies were to be collected together and the votes were thereafter to be recorded according to an agreed arrangement. Eventually, no election was held as there were only five candidates for the five seats.

Sir Purshotamdas Thakurdas, Mr. B. M. Birla, Sir Shri Ram, Mr. Satya Paul Virmani and Mr. C. R. Srinivasan were re-elected as Directors and remained to shape the Bank's policies throughout the war. Mr. Chunilal B. Mehta who was elected to the Central Board from the Bombay Local Board in January 1941 resigned in January 1942, when Mr. Kasturbhai Lalbhai took his place. The latter resigned in July the same year and Sir Sultan M. Chinoy was elected in his place. Sir Sultan did not however stay long; he made way for Mr. Kasturbhai Lalbhai again in February 1943, shortly after Sir James Taylor died. It appears to have been a result of mutual understanding that Mr. Kasturbhai Lalbhai should stand for election to the Board in his place in order to strengthen the Board's hands for sponsoring Mr. Deshmukh's candidature for the Governorship. Mr. Lalbhai then stayed on until expiry of the term of office of the Directors representing the Bombay Local Board in December 1945. Dr. Narendra Nath Law, the other elected Director from the Calcutta Local Board, resigned in February 1944 and Mr. A. K. Ghose was elected in his place in November 1944. There was no election by the Burma Local Board in December 1942 when it became due and U Po Byaw continued as an elected Director representing the Rangoon register until his resignation in September 1946 consequent on his nomination as a member of the Burma Legislative Council.

All the nominated Directors, namely, Sir Homi Mehta, Mr. (later Sir) Arthur A. Bruce, Khan Bahadur (later Sir) Syed Maratib Ali and Khan Bahadur Adam Hajee Mohammad Sait, were renominated by Government for a further period of five years on the expiry of their term of office at the end of 1939. They were again renominated for another five-year term with effect from January 1, 1945.

As for the Government Director on the Central Board, the post was successively held by Mr. (later Sir) Cyril E. Jones, Sir P. Raghavendra Rau (who died in January 1942), Mr. A. C. Turner and Mr. K. G. Ambegaokar. For a very short while, in 1939, Mr. C. D. Deshmukh was also Government Director.

A reference may also be made in this section to some modifications concerning meetings of the Committee of the Central Board. The constitution of the Committee of the Central Board was modified in July 1942 so as to include not only the Directors of the area in which the meeting of the Committee was held but also Directors of other areas who might happen to be present there at the relevant time. The Governor felt not only that it was discourteous to exclude the other Directors who might be available at the venue of the Committee meeting, but also that it ought to be within the discretion of the Governor and the Committee to invite one or more Directors of another area to attend a meeting where a matter of importance to that area was coming under review. While not detracting from the powers of the full Board in any way, this would, he felt, 'provide a more elastic and informal, and yet effective, method of dealing with matters of more than current administrative importance'.

Another amendment to the General Regulations related to the election of a substitute Director by a Local Board to attend a meeting of the Committee of the Central Board in the absence of the elected Director: the amendment brought the procedure in line with Section 12 (2) of the Act by providing that the election was to be by the elected members of the Local Board and not by the entire Local Board.

Indianisation of the Governorship

Perhaps in no other sphere of the Bank's activities during the war years was there greater drama and excitement than in the matter of appointing a successor to Sir James Taylor which came up with his sudden and premature demise after a short illness on the night of February 17, 1943.

Sir James had been reappointed as Governor for a second term of five years, on the expiry of the first, at the end of June 1942. Notwithstanding his outstanding abilities, this had to be carefully planned; the good offices of a Director like Sir Purshotamdas Thakurdas had to be secured by the Finance Member for the purpose. Clearly, the Board had established itself as a body to be reckoned with; even greater proof of its influence and authority was to be had very soon in connection with the selection of Sir James's successor.

Sir Purshotamdas Thakurdas found, of course, that the reaction of the other elected Directors was entirely favourable to the reappointment of Sir James; in the words of one of them (Mr. C. R. Srinivasan) :

> There can be no two opinions on the extension of Sir James Taylor's term. He has acted to the best of his lights in office and the knowledge and experience that he has picked up in the service of the Bank should not be lost to it at a critical occasion like the present.

The Board's recommendation for the reappointment was unanimous. Government's announcement of the reappointment on February 16, 1942, nailed the wild speculation that the post had been earmarked for Sir Jeremy Raisman, when he vacated the office of Finance Member.

Commenting on the subject, 'the Ditcher' said in his 'Diary' in the Capital (of February 26, 1942):

> And in any case the Bank possesses a most excellent Governor in Sir James Taylor who has rendered it yeoman service from the time when it was nothing more than a scheme on paper. . . . Like Sir James Grigg, the new Minister of War, Sir James Taylor is also 51 years of age, and his appointment for a further term of five years is not only testimony to his personal qualities but to the smooth and continuing influence the Bank exercises upon India's economy . . . . Sir James' reappointment as Governor of the Reserve Bank is an earnest that the monetary problems which will inevitably arise (in the post-war era) will be resolved realistically, and on the basis of past experience. Quite properly, the office will ultimately pass to an Indian banker. Till then Sir James Taylor can be relied upon to put India's interests first in all the Bank's transactions.

Little could anyone have then imagined that the passage of the high office to an Indian would be as difficult as it actually turned out to be.

Sir James Taylor's untimely death, and that too at a time when the country was beginning to feel more than ever before the impact of the large war expenditures both by the Indian and Allied Governments, was widely mourned. While the Government of India were 'understandably unnerved ', Indian sentiment acknowledged Sir James's identification with the country's interests and expressed profound regret at his passing away. The Committee of the Central Board met in a special session on February 18 to pass a condolence resolution. The full Board expressed its grief at its meeting on April 5, in the following resolution:

> That the Board record with the profoundest sorrow the premature death of Sir James B. Taylor, the Governor of the Bank, and desire to express their deepest sympathies to Lady Taylor.
>
> The Board also wish to pay a tribute of admiration and gratitude to Sir James B. Taylor for the invaluable assistance which he rendered in organising the affairs of the Bank as Deputy Governor and for his masterly handling of them as Governor. They cannot speak too highly of his single-minded devotion to the Bank's interests and the fairness and understanding which invariably characterised his relations with the Board. They mourn the loss of an admirable colleague and consider that by his death the Bank has lost an administrator of the highest calibre and India a very good friend.

Illustrative of the esteem in which Sir James was universally held, it should suffice to give extracts from the eulogy of his trusted deputy Mr. C. D. Deshmukh:

Sir James Taylor was among the most remarkable men that it has been my good fortune to know. His intelligence was like a lambent

> flame which illumined everything that it touched and purged it of dross, and he had a catholicity of interest, a breadth of outlook and a warm humanity which I have seldom seen equalled. His political views were most liberal and fair-minded . . . . It was his firm conviction that the indispensable condition for the achievement and maintenance of self-government for India was a strong, efficient and honest administration through Indian personnel . . . . He was, therefore, an ardent champion of a rapidly progressive Indianisation of the administration with the final goal of complete Indianisation being kept steadily in view. Communalism he regarded as a canker in the body politic, and it was his opinion that communal electorates must go if there was to be any practical political advance at all in India . . . . In financial matters he was, even in his Controller of the Currency days, a vigilant watch-dog of India's interests . . . .
>
> His relations with the Board of Directors were generally cordial and he commanded their respect and willing co-operation, except where, in their opinion, the interests of the country called for disagreement. " I must carry my Board with me ", he often used to say . . . .
>
> It was well understood by the Directors that the Governor was very often consulted by Government in his personal capacity in matters which were outside the sphere of the Reserve Bank, but which, nevertheless, impinged very closely on it. They relied on him to take them into confidence at the proper time, whenever necessary, and, generally speaking, I know of hardly any instance where this mutual confidence was abused on either side.*

In the ordinary course, the Government of India should have had no difficulty in the choice of a successor to Sir James Taylor, as they had on hand a Deputy Governor, Mr. C. D. Deshmukh, who had been in office for 14 months and had had an impressive record of service, but this matter took a tortuous course. First Mr. Deshmukh's career, his entry into the Bank and his appointment as Deputy Governor in succession to Sir Manila1 Nanavati, may be referred to briefly.

Born in January 1896, Mr. Chintaman Dwarkanath Deshmukh had a brilliant academic career, topping it with a first rank in the open competitive examination of the Indian Civil Service held in London in 1918. He signed his covenant in November 1919 and was posted for service in the Government of the Central Provinces and Berar, where he held several important posts; in the year 1932 he became Revenue Secretary and in 1934 Finance Secretary to the Provincial Government. Prior to his joining the Reserve Bank in July 1939, for a very short while he was the Joint Secretary in the Department of Education, Health and Lands of the Government of India.

As early as in 1936, Sir James Taylor had written to Mr. Gordon, the Chief Secretary of the C.P. and Berar, that he was looking for 'an Indian who might in due course be found suitable for promotion to one of the two Deputy Governorships-a man of good general

* Central Banking in India-A Retrospect.

financial knowledge and experience -and from this point of view Government finance was nearly as useful as banking or commercial experience -but primarily of energy and administrative capacity and presence'* and had asked for his opinion whether Mr. Deshmukh would adequately fill the bill. Mr. Gordon considered Mr. Deshmukh suitable for the purpose but added that the Provincial Government would not agree to relieve him as his services were needed for tackling the multifarious problems that were likely to arise under the new, Constitution. Sir James Taylor renewed the enquiry two years later but Mr. Deshmukh was not available.

Mention has already been made of the efforts to bring a European Deputy Governor to succeed Sir James Taylor when he was appointed Governor in 1937. The question of having an able Englishman close at hand to take the reins of the Bank's management in the event of the Governor's sudden illness or during his absence on leave never ceased to worry India Office and the Bank of England. The Government of India who were not very confident of being able to find the right kind of man thought of resolving the problem temporarily by arranging to maintain a Liaison Officer with the Bank. Sir James suggested Mr. Deshmukh's name for the post of Liaison Officer early in 1939. This suggestion was not acceptable initially to the Finance Member (Grigg), for he feared that ' (1) the Board might not be prepared to recommend him in due course for Deputy Governor as they were predominantly businessmen and he a Mahratta, and (2) even if they did there was the danger that they would later want to make him Governor, and as there was no European Deputy Governor the Bank would be completely Indianised '*. However, with the good offices of Sir Jeremy Raisman, the next Finance Member, the Governor was able to get Mr. Deshmukh over as Liaison Officer in July 1939, the attempts of the Bank of England a little earlier to secure the appointment of a European Deputy Governor not having materialised.

On the outbreak of the war, Mr. Beale, Secretary to the Central Board of the Bank, was recalled by the Bank of England. Mr. Ram Nath had just relinquished his appointment as Manager of the Bank's London Office and was expected to take Mr. Beale's place, but the arrangement did not materialise as the former had to be sent to Calcutta to look after exchange control work. This left the post of Secretary vacant. The Governor could think of none other than Mr. Deshmukh to fill it up, as the incumbent had to be a 'senior officer of administrative and organising experience '. Mr. Deshmukh had, in addition to his assignment as Liaison Officer, been appointed Custodian of Enemy Property for the whole of India since the middle of September 1939 but Government released his services to the Reserve Bank on the usual

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

deputation terms. It should also be mentioned that during a visit to the U.K. on leave in 1940, Mr. Deshmukh spent some time at the Bank of England to get acquainted, in what was then the world's most important financial centre, with problems of central banking, monetary management and international finance.

Mr. Deshmukh appears to have been considered a natural successor to Sir Manilal Nanavati whose term of office as Deputy Governor was ending in December 1941. Indeed, it would seem that even as Secretary Mr. Deshmukh was to an extent functioning de facto as an additional Deputy Governor. While in a section of the press the candidature of a Muslim was canvassed, the Central Board of the Bank unanimously recommended Mr. Deshmukh for the post at its meeting held in Madras in October 1941. This was accepted by Government, who fixed the term of office at five years, effective December 22, 1941. However, the India Office now wanted that a European should be sent over to hold the second post of Deputy Governor which had been lying vacant for over four years, but Sir James Taylor was able to parry the move. Sir James and Mr. Deshmukh would appear to have made an excellent pair, and as narrated by Mr. Deshmukh, Sir James ' himself deliberately worked towards making me fit to carry the responsibility in succession to himself. He taught me all he knew of Central Banking and the currency and exchange and bullion problems of the country, withheld no confidences and pressed on purposefully with my training'

Sir James Taylor's death occurred so suddenly that Government were caught unprepared. Even the Ordinance [entitled the Reserve Bank of India (Governor's Powers .and Functions) Ordinance, 1943] to empower Mr. Deshmukh to exercise the powers and functions of the Governor until the appointment of a new Governor was issued only on February 22, though this was made effective from the time of Sir James's death. Apparently the Government were not sure of wanting to entrust to Mr. Deshmukh even the temporary exercise of the Governor's functions. It would appear that Government were also not in a hurry to have a meeting of the Central Board convened for selecting a new Governor. At the meeting of the Central Board held on February 8, 1943, it had been decided to hold the next meeting on April 5 and neither the Government nor any of the Directors asked for an earlier meeting. This interval naturally gave time to the, Government as well as the Directors to consider the matter and mobilise support for the candidates favoured by them. The elected Directors of the Central Board, in particular Mr. B. M. Birla, started working actively for the candidature of Mr. Deshmukh forthwith, under the leadership of Sir Purshotamdas Thakurdas. Among these Directors only one seemed to favour a non-Indian banker being appointed as Governor. But later, he also decided to join the others in supporting Mr. Deshmukh.

Sir P. T. apparently waited for some lead to come from Government before the Central Board meeting of April 5. However, no initiative seems to have come from Government, though the Directors got from reliable sources the report that Government were thinking of a candidate other than Mr. Deshmukh. At first, the name of an eminent London financial expert (who had also handled an important assignment in India) was mentioned as the Government's choice. Later, the name of the Managing Director of the Imperial Bank was mentioned, and when this too seemed unacceptable to the Board, Government 'sought to make terms with them by pledging themselves in advance to appoint Deshmukh as Governor after three years, during which period the banker they had selected was to be the Governor. They also attempted to induce Deshmukh to stand down in the public interest, which, in all humility, Deshmukh declined to do as it would have amounted to spiking the guns of the Central Board '.* By the time the Board met on April 5, the elected Directors had reached a unanimous decision among themselves to support the can didature of Mr. Deshmukh.

At the meeting of April 5, Sir P. T. moved a resolution, which was seconded by Mr. C. R. Srinivasan and supported by Mr. B. M. Birla and Sir Shri Ram, that Mr. Deshmukh be appointed Governor and that he be paid a salary of Rs. 7,500 per mensem. An amendment to the resolution was moved by Sir Homi Mehta and seconded by Sir Syed Maratib Ali and Sir Arthur Bruce that, in terms of the suggestion of the Central Government communicated to the Board through the Government Director, Mr. A. C. Turner (who was present at the meeting), Sir William Lamond (then Managing Director of the Imperial Bank of India) be appointed Governor for a period of three years on a salary of Rs. 10,000 per month and that Mr. Deshmukh ' continue to hold the post of Deputy Governor with a. view to his being appointed as Governor on that office being vacated by Sir William Lamond '. The amendment was rejected by a majority of seven against three and the original motion of Sir P. T. was carried by the same majority.

The Government of India were obviously nonplussed and kept the matter pending; however, it would appear from the correspondence among the elected Directors that fairly soon after the Board made its recommendation the Government were more or less reconciled to Mr. Deshmukh's being the Governor. It was clear to Government that the elected members of the Board were absolutely firm and united in their desire to secure Mr. Deshmukh's Governorship. The quid pro quo which Government desired to have for Mr. Deshmukh's appointment was that the Board should agree to have a Muslim and a European

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

as Deputy Governors. This was 'a novel suggestion'. The elected Directors tried unsuccessfully to persuade the Government not to bring in the question of a European; however, it appeared that a compromise in this matter would be to agree to the .appointment of a senior European Officer of the Reserve Bank as Deputy' Governor. The general reaction of the Directors to the Government's 'counter proposals' was best summed up in the observations of Mr. Srinivasan, President of the Madras Local Board:

> On the question of personnel, it is a pity that Government think of it in terms of communal preference, but so long as the appointments actually made can be justified on grounds of merit, I shall not quarrel about the genesis of the proposals. I agree that if we win the first round, we should not put our strength to the test again so soon on a matter of secondary importance.

Mr. Srinivasan was however keen that the new Governor should be in full control of the affairs of the Bank. So he advised his colleagues as under:

> There is only one position to be safeguarded and that is to make sure that the powers of the Governor are not sought to be short-circuited by the appointment of a Deputy Governor, who possesses more contact, and perhaps more confidence, with the Government of India.

Something of this kind, he apparently believed, had happened before and this possibility would be stronger with the Governor an Indian and one of the Deputy Governors a European.

Some delay occurred in locating a suitable Muslim candidate who was agreeable to take up the job. A few declined, but finally a person was selected. Now that the matter was more or less settled, the Government wrote to the Bank on June 28, 1943, that they were unable to pass orders on the Board's resolution of April 5 until they were in possession of the Board's views regarding the filling of the existing vacancy of Deputy Governor and also of the other vacancy that would be caused in the event of acceptance by Government of the Board's recommendation for the office of Governor. Promptly, at the meeting of the Central Board held on July 20, the Board recommended Mr. Wajahat Hussain and Mr. C. R. Trevor for the two posts of Deputy Governors on a salary of Rs. 4,500 per month each. On July 24 the Governor General cabled the Secretary of State to say that they proposed to accept all the recommendations of the Central Board and sought his approval. The Secretary of State's approval was received on August 9 and Government's order, approving the appointment of Mr. Deshmukh as Governor and of Mr. Wajahat Hussain and Mr. Trevor as Deputy'Governors, was issued on August 10.

There is a mistaken impression in some quarters that the proceedings of the annual meeting of shareholders held on August g had a crucial influence on Government’s decision to appoint Mr. Deshmukh as Governor. At that meeting, two shareholders (Messrs Bhagwati Prasad Khaitan and G. L. Mehta) referred to the Governorship, inquiring the reasons for the delay in the appointment and expressing the hope that the appointment would be made at the earliest possible date. From the sequence of events narrated above, it is clear that the decision had been taken much earlier. What happened was that the cable of approval from the Secretary of State was delayed; to use the Secretary of State’s words:

> I regret owing to circumstances that have still to be investigated this telegram which ought to have issued several days ago has been delayed.

Mr. Deshmukh assumed office as Governor on August 11, Government having fixed his term at five years. A similar term was fixed for the two Deputy Governors, both of whom assumed office on August 16.

It would seem that the earlier opposition to Mr. Deshmukh’s appointment was more pronounced in the case of the Government of India who were ‘ more royalists than the King himself’ and that Mr. Deshmukh’s eventual selection was due to ‘ the rare sense of fair play and statesmanship ’ displayed by the Secretary of State. While reviewing these events some years later, Mr. Deshmukh, or Sir Chintaman Deshmukh as he had then become,* stated that the Finance Member was the first ‘to bow with grace to the inevitable ‘, whereas the Finance Secretary and the Economic Adviser ‘were a little less forthcoming and more censorious’.† For some weeks the Finance Department went so far as to suggest that in every important case the Governor should also ascertain the opinion of the Managing Director of the Imperial Bank. This practice was, however, abandoned soon ‘when they found that in no case was the second opinion different from mine ‘.t Having said all this it must be said in favour of the Government’s stand that, to use Sir Chintaman’s own words, ‘it is notoriously dangerous to change horses in mid-stream, and the anxiety of the Finance Department to ensure that the new mount would not sink with them in the stream was understandable’.

word about the new Deputy Governors. Mr. Wajahat Hussain, who was 49, entered the Indian Civil Service in 1919 after a brilliant academic career ending with study at Cambridge where he was a contemporary of Mr. Deshmukh. Besides his experience in various capacities with the Government of the United Provinces, he had been a Minister in the Jammu and Kashmir State and a delegate to

* Mr. Deshmukh was knighted in January 1944. † op. cit.

the Third Session of the Indian Round Table Conference in London in November 1932. At the time of his appointment as Deputy Governor, he was Commissioner of Gorakhpur Division in the U. P. Mr. Cecil Russell Trevor, 44, was an Englishman and before his elevation the Chief Accountant of the Reserve Bank for many years. After seeing active service with the British Army during World War I, he came over to India and joined the Imperial Bank in 1921. He worked for over a decade in the different departments of the bank at Calcutta and other centres and was also the Agent of several of its branches before his services were lent to the Reserve Bank on its inauguration in 1935. With his knowledge and experience of accounts in both the banks, he was placed in charge of the general administration, while Mr. Wajahat Hussain attended to the matters pertaining to agricultural credit, banking regulation, and allied problems. Mr. Wajahat Hussain did not however finish even half the term; he died in December 1945.

The appointment of an Indian as Governor was productive of many initiatives, as described in the different chapters of the History. Indianisation also meant the safeguarding of India's interests more than was possible in the regime of a British Governor though, as already mentioned, Sir James Taylor was throughout sympathetic to India's interests and aspirations. The' new Governor also endeavoured to maintain the tradition of independence of the Bank. A few incidents illustrative of this spirit are worth recording. In July 1945, the Joint Finance Secretary to Government wrote to the Governor a cryptic letter that Government would like to be consulted confidentially in regard to the proposed allocation of the Bank's net profit each year as soon as it could be reasonably estimated. The Governor took strong objection to Government's writing in this 'summary fashion'. Strictly speaking, the Governor wrote, the Government could not claim to be 'consulted'. Section 47 of the Act vested in the Bank the authority to make the necessary allocations for depreciation, bad and doubtful debts, etc., and the transfer of the balance of profit to Government after payment of dividend to the shareholders was merely a mechanical affair. He went on to add:

> As a matter of courtesy and unwritten convention, my predecessor and I have been agreeing in advance with Government over the matter of appropriation for reserves, but I cannot engage to do so in subservience to what amounts to a claim to be consulted from the Finance Department. I regard it as important from the point of view of national interests, no less than in conformity with the intentions of the Legislature, that the independence of the Reserve Bank be preserved in the business aspects of its operations, and I feel constrained to enter a caveat against any semblance of an encroachment on its discretion.

Yet another instance where the Governor had to protest indignantly arose with reference to some comment of the Finance Secretary on the draft of the Governor's speech to the shareholders at the annual general meeting to be held in August 1945. A copy had been sent to him principally in his capacity as Government Director on the Bank's Central Board. Referring to some statement of the Governor, the telegram from the Finance Secretary employed the words 'somewhat disingenuous'. The Governor reacted angrily to the use of the words, remarking that it 'sounds oddly discourteous in the context in a communication from the Central Government's Financial Secretary to the Governor of the Reserve Bank' and demanded that 'a suitable correction' be made in the record. The'protest produced an apology from the Finance Secretary who took responsibility for the ' bit of loose drafting ' and added that from Government's point of view the correspondence regarding the speech was of purely ephemeral interest and would be destroyed once the speech was finalised and delivered.

Term of Service of Governors and Allied Matters

While on the subject of Governors, some developments concerning their terms of service may be mentioned briefly. Under the Act, the terms of appointment of the Governor and the Deputy Governors were a matter for determination by the Central Board with the approval of the Central Government. For more than a decade after the Bank was inaugurated, these chief executives of the Bank enjoyed no formal benefits of leave and leave fare concessions, except for short local leave up to a total period of one month in any one year avaiIed of by informal arrangement with the Committee of the Central Board. During the early years of the Bank's life prior to the outbreak of the war, the Governor and the Deputy Governor had to proceed to the U.K. frequently on the Bank's business and this incidentally gave them some of the usual advantages of leave. Of course, leave for medical reasons was sanctioned on an ad hoc basis; thus, in May 1935 Sir Sikander Hyat-Khan was sanctioned two months' leave on full pay, on account of his illness, and in September Sir James Taylor, who was then Deputy Governor, was sanctioned six months' convalescent leave out of India on full pay.

Since the commencement of war, while on the one hand no such relief was possible, on the other, the strain of additional responsibilities increased enormously. On the recommendation of the Governor, the Central Board, at its meeting held on July 21, 1945, endorsed the proposal that the Deputy Governors be granted during the period of their appointment 'ordinary' leave up to a total of four months on one occasion, during which they would be paid a reduced salary of Rs. 3,500 per mensem. While no rail fares were admissible, the Deputy Governors and their families were made eligible for free passages to the U.K. and back and these were to be enjoyed equally by those of Asiatic domicile. Government accorded approval to these proposals. Sir Chintaman made no recommendation regarding the Governor: he felt that the matter could be considered by the Board at the time of the next appointment of a Governor. It was, however, not until 1966 that provision was made for leave for the Governor as part of the terms of his appointment.

Another interesting matter relating to the top executives was whether it was necessary to make officiating arrangements in the Governor's place during his absences abroad on duty. The provocation for the exchange of views between the Governor and Government was Sir Chintaman's decision to authorise one of the Deputy Governors to attend to his duties during his absence abroad in the autumn of 1944 as a member of the Indian Delegation to the Bretton Woods Conference. The Government desired, however, that officiating arrangements should be made for the period. The Governor held the view that Section 12(1)* of the Act contemplated arrangements for vacancies ejusdem generis (i.e., generally of the same kind or comparable) with leave and infirmity which did not exist in this case. When the Governor of 'the Bank had been abroad in comparable' circumstances on three previous occasions, the provisions of this Section had not been invoked at all. It could hardly be expected that 'an officiating Finance Member would be appointed if the Finance Member attended an international conference in which his presence is required qua Finance Member'! Besides, the initiative for making a recommendation for the officiating appointment rested with the Central Board and not the Government. He proposed therefore that Government consult their Legislative Department, particularly since there had been no discussions on the Reserve Bank Bill at any stage to indicate the precise scope of this Section. The Legislative Department confirmed the Government's view that the ejusdem generis rule did not apply here. However, since the Section was permissive, Government did not wish to press their point further on that occasion. The Governor was not satisfied with the legal ruling and felt it his duty to tell Government again that the implication of the decision would be that the Governor should raise the issue before the Board every time he had to be away from the country and that this was not ' a consummation entirely to be wished'.

* The Section read : ' If the Governor or a Deputy Governor by infirmity or otherwise is rendered incapable of executing his duties or is absent on leave or otherwise in circumstances not involving the vacation of his appointment, the Governor General in Council may, after consideration of the recommendations made by the Central Board in this behalf, appoint another person to officiate for him, and such person may, notwithstanding anything contained in clause (d) of sub-section (1) of Section 10, be an officer of the Bank'.

The question came up again in 1945 when the Governor desired to visit the U.K. for three months to study important banking and central banking trends, but it would appear that Government chose not to insist on any officiating arrangement being made.

In this context, it would be appropriate to mention the care that Sir C. D. Deshmukh took to maintain the equality of the Deputy Governors. This was, incidentally, in keeping with the views of the India Office Committee which, while commenting on the provisions of the Reserve Bank Bill of 1928 relating to casual vacancies in the office of the Governor, had also remarked that the two Deputy Governors 'should be of equal status and that there should be no question of seniority as between them'.

> In practice, no doubt, the Governor of the Bank would normally decide which of them was to act in his place for brief incidental periods of absence; but in the case of longer periods we think that the decision should rest unmistakably with the Governor-General at his discretion, whose choice, of course, may rest on either of the Deputy Governors, or on any other suitable person. The maintenance of sub-clause (1) as it stands will secure the objects to which we attach importance.*

Having appointed one Deputy Governor to look after his work during his absence abroad in 1944, the Governor proposed to entrust the other Deputy Governor with his functions and duties the next year as he 'did not wish to create the impression that of the two Deputy Governors, one was senior and the other junior'. While Government agreed with the principle underlying the Governor's proposal, they suggested what they considered to be a better solution -that the two Deputy Governors be placed in joint charge. This was, of course, physically impossible, as explained by Sir Chintaman to Government, for 'placing in charge' really meant presiding over the Committee and Board meetings and voting for the Governor. It is interesting that Sir James Taylor, who should have known the recommendations of the India Office Committee better than anyone else, had allowed himself to be called the Senior Deputy Governor!

Another development of interest was the change in the practice relating to the location of the Governor's headquarters that occurred during this period. Although not explicitly laid down in the Statute, it had been the intention of its framers that the Governor should spend some of his time at each of the different centres where the Bank's offices were to be located, so that he would have ' the great advantage of personal intercourse with a wide business circle ' and that with this

* The relevant clause in the Reserve Bank of India Act, 1934, was substantially the same as that of the 1928 Bill; the only change introduced at the Select Committee stage was to provide that the Governor General in Council would make the officiating appointment after consideration of the recommendations made by the Central Board in this behalf.

end in view the Central Board should hold its meetings at these centres by turns. Even during the general debate in the Assembly on the Reserve Bank Bill, there had been suggestions that the Bank's Head Office should peregrinate; Sir Leslie Hudson had proposed a stay of five months in Bombay, six months in Calcutta, a fortnight in Madras and a fortnight in Delhi. The Select Committee had also not favoured a fixed location for the Head Office. Speaking in the debate on the amendment to provide for one Deputy Governor only instead of two, Sir George Schuster made the point that two Deputies were necessary so that there were 'responsible officers' both in Bombay and in Calcutta.

Calcutta and Bombay being the most important commercial and financial centres in the country, it became the practice of the Governors to divide their time approximately equally between these two places (apart from brief visits to other centres) in conformity with the spirit of these recommendations. The Bank also acquired residential accommodation for the Governor in the two cities. A departure from this practice became necessary in the winter of 1942. Owing to the virtual closure of the Calcutta port as a result of war developments in the Far East and its proximity to one of the possible theatres of war, business in Calcutta had declined considerably and the pulse of its money and other markets was well below the norm. From the point of view of contacts with important banks and other commercial interests, therefore, a prolonged sojourn in Calcutta did not appear to have any commensurate public advantage. The Governor's house in Calcutta had also been requisitioned by the Army authorities in May 1942, but this was not an important reason for the Governor's keeping off Calcutta. It should be added that even after the practical necessity for spending most of the time in Bombay disappeared after the war, the subsequent Governors made Bombay their permanent headquarters and paid only periodical visits to the other centres.

Soon after Sir B. Rama Rau became Governor, he considered that it was no longer necessary or economical for the Bank to retain the Governor's house in Calcutta; he, therefore, obtained the Board's approval for its sale in December 1949. Lamenting the decision, the editor of Indian Finance (January 14, 1950) felt that the Bank's eagerness to dispose of the property was 'misconceived austerity'! He went on to say:

> The Calcutta residence of the Governor of the Reserve Bank was a symbol of Calcutta's importance in our central banking and our central banking institution. And it is not far-fetched to suggest that its disposal indicates likewise the growing insignificance of this city in the direction of the affairs of the Reserve Bank . . . . . . If the Governor should be glued to any one spot, then that spot would inevitably gain an ascendancy in the counsels of the Bank. It was laid down, therefore,

that the Governor's stay should be distributed over the principal commercial and Provincial centres according to their relative importance . . . . . .An official residence in Calcutta for the Governor, owned by the Bank and maintained throughout the year for that purpose, was according to this plan, and no mere whim of any individual.

Though the decline has reached its nadir, I still hope the fall is not yet. In the rivalry between Calcutta and Bombay for the upper hand in the affairs of the Reserve Bank, Calcutta has lost steadily and all along the line. The decision to sell the house is the climax of it. For, it is impossible that the conversion of this property into hard cash is an urgent necessity for the Reserve Bank, which is the source of all fiduciary currency.