CENTRAL BANKING AT THE PERIPHERY OF THE BRITISH EMPIRE: COLONIAL BURMA, 1886 - 1937

Sean Turnell

sturnell@efs.mq.edu.au

Abstract

The purpose of this paper is to bring to light the efforts to fashion a central bank in Burma during the years in which the country was a province of British India. Throughout this period, which lasted from 1886 to 1937, questions of money and finance in Burma were mostly the preserve of the *Raj* in Calcutta and New Delhi. And, yet, it is a little-known fact that plans to establish a central bank for Burma were promoted throughout the colonial years by a succession of imperial officials. These plans, which reached their apogee in the 'monetary reform' advocacy that followed the Great Depression, were never realised in the colonial era. They were, however, indicative of a political economy discourse in colonial Burma that was more vigorous, and theoretically sophisticated, than is commonly supposed.

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I. Introduction

For most of the history of colonial Burma, questions of money and finance were decided upon in India. Under British rule Burma's currency was the rupee, its land, property, revenue and usury laws were based on Indian templates, and for the longest period its financial institutions were scheduled by authorities in Calcutta and Delhi. Meanwhile in India itself financial innovation and evolution proceeded steadily, and monetary affairs passed out of the hands of the antediluvian Presidency and Imperial Banks, ultimately becoming the preserve of the Reserve Bank of India (RBI). This institution, established in 1934, was the embodiment of both political compromise and cutting edge monetary thought. The RBI acted as Burma's central bank from its inception, and until the penultimate years of British rule.

It is, however, a little known fact that plans to establish a central bank for Burma *alone* were promoted well before the country achieved independence in 1948. These plans, which peaked in the maelstrom of monetary reform advocacy that followed the Great Depression, were never realised in the colonial era. They were, however, indicative of a political economy discourse in colonial Burma that was much more vigorous, and theoretically sophisticated, than has commonly been supposed.

The purpose of this paper is to bring to light the efforts to create a central bank in Burma in the years in which the country was a province of British India. The paper begins (Section II) with an account of the institutions that determined monetary and financial matters in Burma during the earliest colonial years. These institutions, an amalgam of India's Presidency banks and operations of the central government itself, were joined together in the form of the Imperial Bank in 1921. The manifest shortcomings of this institution for Burma are the subject of Section III. In 1929, the *Burma Provincial Banking Enquiry* provided the arena in which advocacy for a stand-alone central bank for Burma first found voice. This advocacy, which became more relevant with the growing expectation of Burma's separation from British India, is the subject of Section IV. Burma did not get its central bank, and the 'compromise' that saw the RBI take upon the twin roles of central bank to both India *and* Burma is taken up in Section V. Section VI concludes.

II. Early Monetary Arrangements in Colonial Burma

At the conclusion of the third Anglo-Burmese war in 1886, the whole of Burma came to be a component of the monetary and financial system of British India. In 1886 this system was, in central banking terms at least, a rudimentary and hybrid affair. British India's currency, the rupee, was at this moment a paper standard issued by the Government and backed by nothing but its assurances. From 1839 to 1861 the right of paper currency issue *had* rested with the famous 'Presidency Banks' – of Bombay, Madras and, above all, of Bengal. Under the Paper Currency Act of 1861, however, the Presidency Banks' exclusive rights of issue passed to the government and from this moment their remaining 'central bank' functions consisted of currency distribution (in locations where government treasuries did not exist), as depositories of government balances (upon which they did not pay interest, as recompense for their activities for the Government), and as the buyers of government bonds (Keynes 1913:143). Of the three Presidency Banks it was only that of Bengal that had any presence in Burma prior to the final annexation. This presence was in the form of three branches in Burma – Rangoon (established in 1861), Moulmein (1865) and Akyab (1866) (Robinson and Shaw 1980:102).

The final absorption of Burma into British India took place in the wake of the Indian Paper Currency Act of 1882, the belated outcome of the (many) inquiries commissioned on Indian monetary affairs throughout the nineteenth century, and designed to bring India on to the gold standard.[1] In fact what would emerge from the 1882 Act was India's celebrated 'gold-exchange' standard. This system, famously eulogised by Keynes, was based upon the recognition that so long as there was confidence that a currency could ultimately be *converted* into gold, gold itself did not need to physically circulate *within* a country in order to realise the benefits a gold standard currency would bring. Thus, following the 1882 Act, the rupee became a token currency only, but convertible at a fixed rate into sterling and gold. Evoking the name of one of the 'fathers' of economics in making the case for a gold-exchange standard, Keynes wrote in 1913 that:

> Its theoretical advantages were first set forth by Ricardo…He laid it down that a currency is in its most perfect state when it consists of a cheap material, but having an equal value with the gold it professes to represent; and he suggested that convertibility for the purposes of the foreign exchanges should be ensured by the tendering on demand of gold *bars* (not coins) in exchange for notes - so that gold might be available for purposes of export only, and would be prevented from entering into the internal circulation of the country.

India's gold exchange standard was set at one rupee per 7.53344 grams of fine gold, which implied a rupee-sterling exchange of Rs.15 to £1 (or 1*s.* 4*d.* per rupee).[2]

British India's rupee currency notes were distributed within 'circles' centred on the provincial capitals. This was not only for efficiency of distribution, but also because of the fear that confidence in the paper currency could be shaken by the emergence of localised note shortages or surpluses according to the different agricultural seasons. With the absorption of Burma these circles expanded to 7, with centres at Calcutta, Bombay, Madras, Karachi, Cawnpore, Lahore and Rangoon (Kumar 1983:769). The currency notes had the status of legal tender, but only within the circles within which they were distributed. As such, British India was something less than a 'unified currency area'. The currency notes were issued in denominations of 5, 10, 20, 50, 100, 500, 1,000, and 10,000 rupees, though neither the 1,000 nor 10,000 notes were physically available in the Rangoon circle. The Burma notes were identical to the Indian notes in most respects, the principal difference being the inscription of 'Rangoon' (in green letters) as the city of issue (Robinson and Shaw 1980:102).[3]

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[1] Narratives of the entire 'monetary reform' process in India are legion - but some of the best include Bagchi (1989), Goldsmith (1983), Kumar (1983), Goodhart (1988), Sayers (1952) and, for a contemporary account from one of the 'players', Keynes (1913).

[2] Prior to decimalization in 1971, £1 sterling was made up of twenty shillings (*s.*) which, in turn, was equal to twelve pennies (*d.*).

[3] At various times, on certain denominations, the inscription of the city of issue was replaced by a single initial – 'R' for Rangoon, 'C' for Calcutta and so on. Certain Indian notes also explicitly bore the inscription that they were not redeemable 'at any office in Burma' (Robinson and Shaw 1980:104-105).

Interestingly, throughout this period and beyond, paper currency was more popular in Burma than it was in British India as a whole (where the 'silver rupee' coin enjoyed a certain cache for decades after it stopped being minted). According to a later government report:

> Currency reports for many years have commented upon this; there have been returns of rupees from circulation even in the busy season, and the rice crop and other principal crops are bought almost entirely with notes. Cultivators like to have some [silver] rupees and small change for convenience in their daily household transactions; but subject to this they prefer notes to coin.[4]

The exchange level of the rupee, and controversies over the monetary standard generally, was to be something of an *idée fixe* in the monetary history of British India (though curiously not in Burma itself) - a fact that some have speculated clouded the 'more basic problem' of a still undeveloped banking system that hindered the creation of an elastic money supply responsive to seasonal (and other) needs (Kumar 1983:774). Such a system required at its centre an appropriately constituted central bank, but progress at creating such an institution (beyond the limited functions of the Presidency Banks) was glacial. This was not for a want of 'plans', the appearance of which was more or less a constant, beginning with Warren Hasting's conception for a 'General Bank of Bengal and Bihar' in 1773. Many other plans followed, before forming what Kumar (1983:789) described as a familiar 'bureaucratic cycle of enthusiastic initiatives, prolonged discussions…objections, and finally, postponement to a more propitious future occasion'. One recurring objection to the creation of a truly independent central bank for British India seems to have been based on fears that such an institution would become a rival sphere of economic authority. Such an objection was voiced at the highest levels, including, in 1867, by the Viceroy of British India, Sir John Lawrence:

> I submit that it is not for the interest of a state that a great institution of the kind should grow up for all India, the interests of which may in time be opposed to those of the public, and whose influence at any rate may overshadow that of the government itself. A bank of such a character would be very difficult to manage.[5]

A seminal event in the history of money and finance in British India was the appointment of a 'Royal Commission on Indian Finance and Currency' in 1910. This was chaired by Austin Chamberlain, but is renowned amongst economists by marking the public policy emergence of John Maynard Keynes. Keynes' appointment to the Commission, and the publication of his first book, *Indian Currency and Finance* (1913), represented both the high point of his involvement in India and the beginnings of his long trek from economic orthodoxy. Keynes highlighted the theoretical innovation and practical efficacy of India's 'gold exchange' standard as indicated, but his evidence and subsequent book also included a proposal for a central bank – the lack of which Keynes believed was a significant missing element:

> The objections to the existing arrangements largely arise…out of the absence of a state bank…I feel little doubt that India ought to have a state bank, associated with a greater or less degree with the government. The government is drifting year by year

[4] *Burma Provincial Banking Enquiry Report* (1930:47). The popularity of paper money did not extend to the Shan States or 'other outlying areas', however, where 'silver rupees or gold' remained preferred.
[5] Sir John Lawrence, 12 July 1867, cited in Kumar (1983:787).

> into doing more business of an essentially banking character; and as time goes on it will become increasingly objectionable to dissociate some of the functions of modern state banking from others (Keynes 1913, p.41).

Keynes argued that British India needed a central bank to deal with this ‘business of an essentially banking character’, which included currency distribution, the management of the government’s accounts, the administration of foreign exchange, and (at this stage the still very limited) prudential supervision and regulation of the commercial banks. In addition, Keynes also set out other reasons for the creation of a central bank for India, a number of which pre-empted developments in central banking theory to come. In a wide-ranging and considered critique, he declared in his report for the Royal Commission and in his 1913 book that:

> (1) The existing divorce between responsibility for the note issue and that for banking generally is contrary to modern banking practice, and is in several respects a source of weakness.
> (2) In particular, it leads to the keeping of two distinct reserves - the government's reserves and the bankers' reserves - with no clearly defined relation between them, so that the reserves of the latter may be insufficient, without the assumption by the former of the fact or the machinery of responsibility.
> (3) It leads to a want of elasticity in the system, since in modern conditions this elasticity is most commonly provided by exactly that co-operation between banking and note issue which is lacking in India.
> (4) The absence of a state bank makes it difficult for the government to use its cash balances or any other part of its liquid funds to the best advantage - since it cannot prudently place the whole of its free resources in the hands of a private institution.
> (5) The absence of a central banking authority leads to a general lack of direction in the banking policy of the country: it is no one's business to look at the matter as a whole, to know the position of the market's component units, or to enforce prudence when it is needed. There is a multiple reserve system in theory, but hardly an adequate one in fact: and a danger exists at every one is reckoning, in a crisis, upon ever one else.
> (6) The absence of the advice and experience, which the officers of a state bank would possess, is a source of weakness to government itself. There are no high officials whose business it is to make finance the chief study of their life…(Keynes 1913:168).

Keynes did not believe, however, that the Bank of England offered a useful model for British India:

> let the framers of the new bank's constitution put far from their minds all thoughts of the Bank of England. It is in the state banks of Europe, especially in that of Germany, or in…Holland or Russia, that the proper model is to be found (Keynes 1913:168).

Keynes's plans for an Indian central bank went the way of all those before them, though in this case 'benign neglect' was joined by the arrival of the First World War in burying the issue for a time. Ultimately, however, the war also provided an impetus for a central bank in India - demonstrating the necessity of concentrating financial resources in order to alleviate India's industrial dependence and, from yet another angle, the benefits of an 'elastic' note issue. The Indian Industrial Commission of 1918, ultimately convened to explore ways in which India could be more selfsufficient in war materiel, reported that 'the better organisation of banking', including the provision of a central bank, was 'an important preliminary step towards the advancement of Indian industries'.[6]

III. The Imperial Bank and its Critics

With the issue of the industrialisation of British India to the fore, the first substantial, practical, step towards an Indian central bank occurred in 1921 with the fusing of the three Presidency banks into the Imperial Bank of India. Like the Presidency banks that now formed its component parts, however, the Imperial Bank remained a somewhat ambiguous hydra. Its central banking functions were primarily centred on its (enhanced) roles as 'banker to the government' and 'banker' to the other banks. Regarding the former function, the Imperial Bank became the *sole* banker to the government (with the simultaneous abolition of treasury offices), while retaining the Presidency Banks' tasks of currency distribution and management of the public debt. The Imperial Bank's responsibilities as the central institution around which the commercial banks were encouraged to orbit was likewise enhanced. However, commercial banks were not *compelled* to keep reserves or otherwise follow its lead. Rather, the Imperial Bank was presented simply as the institution at which their bills would always be discounted, and from which they could expect assistance in a crisis (Sayers 1952:218). Finally, there was something of a 'development' aspect to the Imperial Bank. Aiming to employ the Bank as an instrument in spreading modern banking practices across the country, Section 10 of the Imperial Bank of India Act (1921) required that it establish 100 new branches across the length and breadth of British India - 'within five years'.[7]

Yet, in so many important ways, the Imperial Bank resembled much more a monolithic commercial entity than a central bank. Despite Keynes's injunction, the Imperial Bank was *not* given responsibility for the note issue (thus maintaining that 'want of elasticity in the system' he had inveighed against). As noted, its 'bankers' bank' functions were not backed by compulsion and, as with its Presidency bank forebears, it was prohibited from engaging in foreign exchange activity, thus excluding it from any role in determining the value of the rupee. Equally, the expanded scale of its own commercial operations also had the effect of hampering its role as a central bank since, not unreasonably, the other commercial banks were suspicious that, in a crisis, their greatest competitor would put its own commercial interests ahead of that of the financial system as a whole. Of course, like its predecessors and like commercial banks, the Imperial Bank was a privately owned joint-stock company, even while its managing governors were Government-appointees. Most of the Imperial Bank's shareholders were British (both resident in Britain and India) as, indeed, were the top and middle ranks of its management (Goldsmith 1983:87).

The Imperial Bank was the subject of much contemporary criticism in India. This had many components, but not least the Imperial Bank's hybrid status of being a commercial banking operation with some, but arguably not the most important, central banking functions. This 'awkward division' created a situation that, according to Kumar (1983:791) 'continued to bedevil the conduct of monetary affairs in India'

[6] *Burma Provincial Banking Enquiry Report* (BPBE), (1930:1).
[7] BPBE (1930:46).

throughout the life of the Imperial Bank's responsibilities as a central bank. Other issues also rankled, including the notion that the Imperial Bank competed unfairly with other banks via its privileged position with the Government, and that it did little to integrate or support indigenous financial institutions and credit cooperatives (Sayers 1952:220). Finally, the Imperial Bank's largely British ownership and management was a sore point - the root of a more generalised complaint that the Imperial Bank was 'unsympathetic to the needs of Indian business and…overly partial to European interests' (Kumar 1983:778).[8]

The Imperial Bank in Burma

In Burma, the Imperial Bank's central banking functions were somewhat more pronounced than those for British India as a whole. Its 'public good' activities included, for example, the operation of Burma's only cheque-clearing system in Rangoon, naturally providing it with a central function vis-à-vis the commercial banks. All of the exchange banks operating in Burma were members of the system and, more broadly, treated the Imperial Bank as 'a central bank to the extent of keeping their reserve balances with it and looking to it for advances when other ordinary sources cannot supply them'.[9] The criticism, in India proper, that the Imperial Bank failed to support the integration of indigenous moneylenders and credit cooperatives into mainstream finance likewise had less force in the context of Burma. Of all the banks in Burma the Imperial Bank was the largest supplier of funds to such institutions although, because of the nature of their business, the amounts involved were not large. Nevertheless, the *Burma Provincial Banking Enquiry* (BPBE 1930, more of which below) concluded generally that the Imperial Bank lent 'to financiers working otherwise than on western lines as well as to other persons'.[10]

The requirement that the Imperial Bank open 100 new branches within five years of its formation yielded three new branches in Burma - at Mandalay (1921), Bassein (1921) and Myingyan (1924). These joined the three branches in Rangoon, Moulmein and Akyab that the Imperial Bank inherited from the Bank of Bengal.[11] Interestingly, the perception in India that the Imperial Bank discriminated against indigenous enterprises was not widely reported in Burma - the BPBE expressing its view that:

> We…find it difficult to believe that the European direction and management of… the Imperial Bank…would sacrifice on sentimental grounds business which is sound and profitable or would neglect opportunities of that character for which it had funds.[12]

More pointedly perhaps, the BPBE offered that, in the context of Burma's status within British India, 'the reminder that in Burma a bank under Indian management would not be regarded by the majority of the non-Indian population as less foreign than a bank under European management'.[13]

IV. A Central Bank for Burma?

[8] Tun Wai (1953:98) and Sayers (1952:220) likewise note the perception that, at the time, the Imperial Bank was 'anti-Indian'.
[9] BPBE (1930:39).
[10] BPBE (1930:39).
[11] BPBE (1930:46).
[12] BPBE (1930:40).
[13] BPBE (1930:41).

If the Imperial Bank suffered less opprobrium in Burma than it did in British India broadly (though our available sources prohibit too strong an assertion of this), it cannot be said that it nevertheless was regarded as fulfilling the functions desired of a central bank. That this was the case was readily apparent in the findings of the BPBE - so far merely a source in this study, but in actuality a most profound and revealing investigation into Burma's financial system as at the end of the 1920s and, indeed, a weighty insight into the nation's political economy more broadly.

The Burma Provincial Banking Enquiry Committee was not commissioned to examine the issue of a central bank for Burma. Though in essence a sub-committee of the 1929 *Central Banking Enquiry Committee* (a broader inquest into financial arrangements than its title suggested, and applying to the whole of British India), the BPBE was given the broad remit of examining Burma's credit needs - in agriculture, industry, and internal trade. Central banking, and various other topics, was meant to be the exclusive domain of the all-India enquiry. In the course of its work, however, the BPBE extended its mandate - a decision it said was informed by 'the political agitation in Burma for political separation from India' (BPBE 1930:3). This required a 'more comprehensive view of its duties than was necessary for committees in other provinces', but the BPBE regarded conditions in Burma as being sufficiently distinct in any case for constructing their report as one 'for a separate country' (BPBE 1930:4).

The composition of the BPBE Committee reflected this implicit recognition of Burma's distinctiveness within British India. Chaired by S.G. Grantham of the Indian Civil Service, it nevertheless had a distinctive local flavour that recognised both the dominance of European commercial interests in the country and, yet, also gave hitherto unprecedented representation to Burmese nationals (who comprised precisely half of the Committee's membership). The Committee included; U Aye M.L.C., representing the Burmese, Chinese and Burman-Indian Chambers of Commerce; Lawrence Dawson, Chairman of Dawson's Bank and the representative of agricultural interests in Lower Burma; the Diwan B.M.M. Chettiar M.L.C., Director of the Indian Bank and representing indigenous bankers; Professor H.S. Jevons, Professor of Economics at Rangoon University; U Ba Maung, Manager of the Pegu Central Co-operative Bank, representing the co-operative system; U Mya, Manager of the Myingyan Electric Company and; U Shwe Tha, Deputy Commissioner (retd.), representing agricultural interests in Upper Burma. U Hla Bu of Pyinmana had been appointed to the Committee but was prevented by ill-health from taking part in any of its deliberations (BPBE 1930:4-5).

The BPBE's advocacy of a separate central bank for Burma was contained in the final chapter of its report, and a section devoted to what it labelled 'the essential problem' of credit and finance in Burma. This 'essential problem' was a holistic one - simply an undeveloped financial system that provided Burmese agriculture, industry and trade, with too little capital at too high interest rates. The BPBE put forward a number of reasons for Burma's high interest rates, including the 'strong seasonality' of the capital requirements of agriculture, and what it alleged were 'traditional expectations' of high rates in the country (BPBE 1930:343). It suggested that a partial solution to massaging such expectations downwards was a more vigorous application of the usury laws that were already in the government's armoury. Above all, however, the solution to the high interest rate problem in Burma was identical to the solution to the problem of the lack of credit itself. Moreover this solution was the same for Burma as it was for everywhere else - the creation of a banking system that created credit. Such credit creation was part and parcel of economic development in 'communities which are advanced in banking', but in Burma credit creation scarcely occurred. This was especially the case outside of Rangoon where, the BPBE reported, the creation of credit was 'almost restricted to Government' (BPBE 1930:346).

Solving Burma's essential credit problem was the BPBE's daring proposal for a central bank. But this was no ordinary central bank of the (functionally limited) Bank of England variety. Rather, what was envisioned was a 'spearhead…a new banking organisation…which would hold the banking reserves of the country, issue the only paper-money of the country as its own bank-notes, and provide the desired elasticity and mobility of currency and credit' (BPBE 1930:350). The central bank, which was given the name ‘Bank of Burma’ (BoB) in the BPBE report, would establish branches across the country, 'at every important commercial centre', financed from the seigniorage profits the bank would earn as the issuer of the currency (BPBE 1930:352).[14] These branches would provide a range of 'commercial' banking services, including deposit and remittance facilities, and they would be able to make advances to other financiers (more of which below) on bills of exchange. Such services would make the branches economically viable according to the BPBE - which believed that the biggest threat to its ambitions for an extensive branch network was simply the matter of finding enough qualified staff to operate them. Somewhat plaintively, it thought that perhaps the Imperial Bank could help in this regard (BPBE 1930:354).

Clearly then, and consistent with Keynes's injunctions for India decades earlier, the Bank of England and other central banks of the kind that typically existed in well-developed financial centres were not the models the BPBE had in mind for Burma's central bank. Such institutions were appropriate in countries where deposit-banking was well established, but they were not appropriate in countries in which 'bank-notes' (that is, paper currency) were still preferred over cheques and other deposit-based payment instruments. The BPBE pointedly observed (1930:351) the typical experience of other countries historically - in which '[n]ote-issue banking [had] always preceded deposit banking because the acceptance of bank-notes makes less demand upon the public confidence than the making of deposits and the acceptance of cheques. The confidence that deposit-banking requires can only come after years of sound banking'.

This did not mean, however, that there were no instructive role models from overseas - and in this context the Bank of France found particular favour with the BPBE. Compared with Britain and some other European countries, private banking in France had developed little in the nineteenth century and the Bank of France, as the central bank, had played a 'relatively more important role' in the country's financial system than other central banks (Davies 1994:556). The Bank of France had been given a monopoly of note issue in 1848 and - breaching the boundaries of central banking of an orthodox (BoE) variety, had been given responsibility for spreading modern banking practices to all corners of the French economy, including the rural hinterland. By 1900, at which time the BoE had eight branches in Britain, the Bank of France had offices in 411 towns across the country (Davies 1994:556).

[14] Curiously, the BPBE only used the title ‘Bank of Burma’ in one place (p.355) in its Report.

It was the Bank of France's rural extension facilities that most captured the attention of the BPBE. The Bank of France's branch network provided precisely the sort of deposit, remittance and credit facilities they desired to see extended by Burma's own central bank. The remittance facilities the BPBE regarded (1930:353) as especially critical since, in Burma as in France, they expected 'for some time notes will continue…to be used more than cheques'. Later they observed that 'good facilities for remittance are as important to a country as good communications' (BPBE 1930:353).

In extending credit to rural areas the BPBE did not envisage that the Burma central bank itself would lend to individuals:

> We do not…pretend that a bank of the nature proposed would be able to provide *directly* the finance required by peasant cultivators and petty traders. Indeed the responsibility of the note-issue requires that the bank should be worked upon true central bank lines as far as possible, and should not discount one-name paper. We conceive of the banks [that is, branches of the central bank] reaching the cultivators and traders through co-operative societies and Chettiars and other private financiers and later through other banks…(BPBE 1930:354).

Rather than lend directly then, what the BPBE was proposing was a central bank that would provide 'wholesale' funds to other financiers (the famed Chettiar money lenders and the cooperative societies). This would be done largely by discounting bills of exchange, not as issued by the parties directly seeking credit, but as subsequently endorsed by Chettiars, cooperatives and other banks. Such bills were known as 'two-name paper' since they were 'endorsed' with promises to pay by both the ultimate receiver of the funds and the financier directly lending the funds. In this way the BPBE provided that the central bank would be able to expand available credit in Burma, without being exposed to the credit risk of the borrower. Once again, this was a practice employed by the Bank of France, but highly relevant to the long-standing efforts in Burma to create a viable cooperative credit sector:

> District co-operative banks would provide a second endorsement on the bills of co-operators in the same way as the Caisses Régionales (district banks) in France endorse again, for discount at the Bank of France, the bills endorsed for their members by the Caisses Locales (village societies), and so connect the villager with the credit controlling authority while still giving the latter the requisite special security for its advances (BPBE 1930:354).

All the while, the BPBE was sure of the broad, developmental role played by the BoB in the process:

> The district branches of the Bank of Burma would be able…to have local knowledge of village societies as well as of the district co-operative bank. We think also we should in this way provide the best safeguard for the sound development of the co-operative system, which would be compelled to satisfy the standards of commercial credit continuously, but would obtain access to the general money-market (BPBE 1930:355).

Of course, high interest rates were one of the pathologies identified by the BPBE in Burma's existing financial arrangements, so the BPBE celebrated (1930:355) what it said was the solution provided by their version of a credit-expanding BoB:

> By financing suitable banks, Chettiars, non-Chettiars and co-operative societies, the competition needed to keep down the rates of interest would be provided.

The BPBE's vision for a commercially active central bank would be sure to raise the hackles of the commercial banks already operating in Burma, just as had the operations of the Imperial and Presidency Banks before it. The BPBE was alive to such objections however, and offered the rebuttal against any suggestion that its BoB proposal would result in a state monopoly that would strangle any competition. The BPBE pointedly noted that there was not much competition to begin with in Burma, and it also once more drew upon the model provided by the Bank of France - especially in the way its 'two name' bill discounting requirement fostered the intermediation of other banks. Given that this issue is a critical one in grasping the scale of the objective the BPBE set out to achieve with the BoB, its reasoning in this context is worth quoting at length:

> …the fact [is] that under present conditions so few banks have grown up either in Burma or in India outside the ports and a few of the larger business centres. Indeed we think that so far from preventing the growth of other banks the plan offers the best chance of getting other banks established, and of building up an organised credit system. The plan offers in fact the quickest road to the establishment of deposit-banking and acceptance-credit. The bank of France has not only the advantage of the note-issue but also freedom to enter the money-market in competition with other banks. Yet other great banks have not only grown up under its shadow, but actually have been founded…for the purpose of providing the additional signatures required for its discount of bills. In the same way the establishment and development of joint-stock banks in Burma would be encouraged. We think in fact that it is more practical to have such a bank as we project, and to retain power to deal with abuses as they arise, than to expect deposit-banking to be established without being preceded by note-banking as it has always been preceded in more advanced countries with better financial and educational development (BPBE 1930:356).

All in all, the BPBE-proposed BoB was a most ambitious institution. Though its central banking functions were reasonably conventional, open perhaps only to the objection as to whether Burma's financial system could support such functions, the commercial banking arm ran counter to central banking orthodoxy. Such orthodoxy was resurgent throughout the British Empire at the time, fuelled by what many imperial officials (including the Bank of England) regarded as risky experimentation in Dominions such as Australia.[15] Of course, the idea that, in a model environment, central banks should not engage in commercial banking remains the conventional wisdom – but, in less than ideal circumstances, a broader remit for central banks has not been without supporters. One of these was the eminent chronicler of the Bank of England, and monetary theorist, R.S. Sayers. In a series of articles in the 1940s and

[15] Australia's central bank at the time, the Government-owned 'Commonwealth Bank', was the centre of enormous controversy at the time over what to do on the monetary front to alleviate the Depression. The Commonwealth Bank had a vast commercial banking operation spread right across the country, and how this might be used as part of an anti-depression policy was regarded with great suspicion by Australia's other (privately-owned) commercial banks. For more, see Giblin (1951).

50s, Sayers argued that, in what we would now label ‘less developed countries’, the emphasis had to be first on creating a banking system, than on ways to control it. He urged ‘new’ central banks not to be ‘disheartened by contemplating a void’, but that they should busy themselves ‘to fill the void and to encourage others to fill it’ (Sayers 1957:115).

Filling the void meant that new central banks should be banker to government and to other banks, but it also meant that they should be a banker to the public. Sayers defended this heresy by positing the advantages such a function could bring to countries hitherto without an indigenous banking system. The most important of these advantages was simply that of creating banking services (‘filling the void’) that were not otherwise in place. Once independent banks were created, and Sayers argued that central banks should strive to make sure this occurred, they should ‘step aside’ (Sayers 1957:118). But in most less developed countries, this would take time. There were other advantages too that would accrue from nascent central banks engaging in commercial banking activity. According to Sayers, not least of these was the accumulation of knowledge. As he evocatively put it, ‘keeping contact with the everyday business of the country’, by extending banking facilities to the far reaches of the countries the central banks served (Sayers 1957:119). Particularly important was the engagement of central banks with the conditions of rural areas – areas typically ignored if, as was the case in Burma, formal banking had been confined to foreign banks largely concerned with external trade. Finally, but by no means least, Sayers believed that new central banks had a role in training people, in ‘human capital’ formation. Identifying an issue that was to emerge in Burma post-independence, Sayers noted that an insufficiency of experienced staff would be a critical constraint in creating a sound banking system. Giving the staff of a new central bank ‘something useful to do’ via normal banking business was, by creating a ‘nursery’ of talent, no trivial contribution (Sayers 1957:119).

Forestalling the BPBE: The Separation Question

Burma did not get its central bank in the wake of the BPBE. The enquiry's three volumes and over 1,000 pages appeared in April 1930 - just in time for some of the worst Indo-Burmese riots the country had experienced. These were sparked (largely) by precisely the resentment against moneylenders that the BPBE elsewhere had tried to grapple with.[16] Likewise, Burmese nationalist agitation had reached levels hitherto not seen in the colonial period. This was manifested in many ways, from formal political manoeuvring, various popular uprisings (largely *sangha*-led), to a series of national strikes.[17] Amongst the latter was one that shut down the Government Printer

[16] See BPBE (1930), Chapters XIIIa and XIIIb.

[17] Political protest had greatly increased throughout the length and breadth of Burma in the 1920s. Mostly this took what Cady (1958:261) called a 'traditionalist pattern' of village uprisings against various injustices and which were often led by monks (*pongyis*). In the 1920s the most prominent of the latter, and the most dangerous to the British colonial authorities, were the rebellious *pongyis* who went under the names of U Ottama and U Wisara. Both were imprisoned, as were many of their supporters, and in 1929 U Wisara died in gaol after a lengthy hunger strike. U Wisara's death provoked unrest throughout Burma, but in 1930 the unrest exploded in what became known as the 'Saya San' Rebellion. A reactionary figure who drew upon Burmese royal as well as religious traditions, Saya San emerged in essence as a 'pretender' to the throne vacated by Thibaw. After much bloodshed the rebellion was put down in 1932 and, after a trial in which he was represented by the nationalist politician Ba Maw (more of whom below), Saya San was executed in November 1937 (Cady

and delayed the publication of the BPBE Report itself. Of course, more broadly and more damagingly for the implementation of its recommendations, the BPBE's Report also appeared just as the depression (and the collapse of paddy prices) was cutting a swathe through the economic assumptions upon which the BPBE's proposals were based. Finally, two months after the appearance of the BPBE Report, the findings of the so-called 'Simon Commission' that examined the potential for political reform in British India were released.[18] The Simon Commission recommended that Burma be formally separated from the rest of British India - understandably generating great controversy and almost completely submerging any public or political impact that the BPBE Report might have had.

Nevertheless, the imprint of the BPBE’s recommendations made their mark – and not least in the considerations of what to do regarding Burma’s monetary arrangements if, indeed, separation from India was to occur as the Simon Commission had recommended. Burma had been a largely self-governing 'province' within British India since 1923, when the Montagu-Chelmsford reforms created the so-called 'Dyarchy' constitution - under which the Province was headed by a Governor (previously Burma had had to make do with a *Lieutenant*-Governor) but gained a Legislative Council to which was transferred certain ‘nation-building’ subjects (Tinker 1957:3).[19] Other subjects were 'reserved' for the Governor. This limited arrangement proved unsatisfactory for almost all concerned, leading the way to the Simon Commission’s findings both on separation from India and in devising a workable government for Burma. In 1935 these received practical expression in the ‘Government of Burma Act’, which not only separated Burma from India, but gave the ‘new nation’ a constitution that created a parliamentary-based Cabinet government. The new legislature was a bicameral affair, with a (fully-elected) House of Representatives and a Senate that was half-elected/half Governor-appointed. In the traditions of Westminster, the person commanding majority support in the House of Representatives would become Premier, and effective head of government. The Governor was obliged to accept the advice of minsters on most issues. Nevertheless, though it was a smaller list than under the Dyarchy arrangements, the Governor retained sole power over certain subjects, including defence, foreign affairs and, of importance in the context of this study - monetary policy (Tinker 1957:5).

What was effectively responsible Cabinet Government did not find favour, however, with many elements in the indigenous Burmese community - and the question of separation from India raged as the ‘most important political issue which Burma faced’ from the time the Simon Commission report was handed down, and until the final implementation of the Burma Act in 1937 (Cady 1958:322). ‘Separationist’ and ‘Anti-

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1958:309-318). Of course, the above is but a most cursory account of these complex (and still controversial) issues. For more detailed accounts, see Cady (1958), Harvey (1946), U Maung Maung (1980),

[18] Formally the 'Report of the Indian Statutory Commission'. The Simon Commission did not have any Burmese members (nor, indeed, did it have any Indian members, who boycotted it as a result). It travelled to Burma in February 1929 where it met with a committee of (non-boycotting) Burmese representatives appointed by Burma's Legislative Council. Much of the evidence on Burma, however, it took from British officials in the Indian Civil Service assigned to Burma. The discussion on political reform in Burma is confined to volume XI of the Simon Commission Report.

[19] These subjects included education, health, some agricultural issues and the management of cooperatives. The 79 members of the Legislative Council were elected according to a limited franchise, the remainder were nominated by the Governor (Tinker 1957:3-5).

Separationist' parties formed to contest post-Simon elections in the Dyarchy legislature and, in 1932, the anti-separationist party of Dr Ba Maw won a stunning victory. The 'rising star [of Burma's] political firmament', Ba Maw's opposition to separation from India seems, at first glance, perplexing. Not so on closer inspection, however. Like many (but by no means all) Burmese opposed to separation, Ba Maw's opposition was tactical. He feared (reasonably given events post-World War Two) that if Burma was decoupled from India it would quickly fall behind that country's political reform process (driven by its powerful Indian National Congress). Staying attached to India, so such reasoning went, joined Burma with a powerful ally in the ultimate goal of securing true independence. Ba Maw and similarly-minded others later changed their position on separation (while retaining suspicions of what the British were up to) and crafted political careers within the framework established under the Burma Act. Ba Maw himself became Burma's first Premier (Cady 1958:336-338).

It was into this heady mix of nationalism, geo-politics, as well as the personal aspirations of both would-be national saviours and imperial recalcitrants, that the question of a central bank for Burma was thrown in 1930. Whereupon, as noted above, it was quickly subsumed into the related question: What form should monetary relations take in a Burma that remained part of the British Empire (this was never in doubt from the perspective of the colonial government), but which was separate from British India?

Assigned to come up with an answer to this question was Thomas Lister, then the Finance Secretary to the Government of Burma.[20] In a memorandum penned for the Government in November 1930, Lister essentially took up from where the BPBE left off, but there was one substantial difference in his proposal - Lister did not believe that Burma should (yet) have a central bank in name.[21] Instead, Lister advocated the continuing use of the Imperial Bank - albeit, and as shall be examined below, with full central banking powers and a localised 'board' for Burma.

Lister's belief that the time was not yet ripe for a 'Bank of Burma' was centred on the uncertain political environment - of the timing and nature of separation from India, of the constitutional forms this might take, of what resources (and debts) Burma might be apportioned, of the political controversies that would shape events and institutions. As such, for these practical reasons, Lister set himself the task of making 'proposals *only* for the currency arrangements immediately after separation', a period in which there was 'not sufficient material to lay down a permanent system'.[22] Yet, Lister also clearly believed that Burma was as yet *structurally* unsuited for a central bank of its own. The economy was 'too small' and the 'general credit basis for central banking was rudimentary'.[23] More basically, Burma lacked sufficient personnel with requisite skills and experience, a lack of a 'banking tradition' and, even, the lack of 'a suitable

[20] Later Lister was made Secretary to the Government in charge of the 'Reforms Office' - and, in this role, was to be instrumental in drafting the Government of Burma Act (1935) that separated Burma from India.
[21] Lister's memorandum was titled 'Currency Arrangements in Burma after Separation', and was dated 11 November 1930. It is not widely available, but it an be found in the C.W. Dunn Papers at The Cambridge South Asian Archive, Centre of South Asian Studies, University of Cambridge, Box III. Dunn was a colleague of Lister's and Financial Commissioner for Burma, 1927-1932.
[22] 'Currency Arrangements…', *op.cit.*, p.14.
[23] *ibid.*

building' within which to house a central bank.[24] Lister was also fearful of the implications of a 'too early' adoption of a central bank in shaking the credibility of a nascent Burmese monetary system. He wrote that there were already rumours a new Burmese currency would 'become inconvertible' with sterling. The whole situation would be exacerbated by the fact that Burma and its government would be an unknown political and economic quantity, resulting in an initial 'mistrust of the currency of that Government until confidence is established by sound management of the finances, favourable budgets, and the creation of substantial reserves…'.[25]

So Lister did not think it necessary or desirable for Burma to have its own central bank at this stage. This did not mean, however, that he thought Burma's existing monetary arrangements were satisfactory. Indeed, far from it. In words that echoed the BPBE, but in more strident terms, he declared in his memorandum to the Government that Burma required an 'elastic' monetary system that expanded the volume of currency according to the needs of the country. Such elasticity was, of course, non-existent under present arrangements, in which responsibility for the note issue rested with the Government of India via the currency 'circles'. What Burma needed, especially as a country unusually subject to seasonal fluctuations, was an institution that could provide an elastic currency issue by endorsing bills of exchange (he referred to them as trade bills) along the lines advocated by the BPBE (and Keynes and others before them). In Lister's formulation:

> The amount of currency required in a country varies with the volume of trade and the variation is particularly marked in an agricultural country. This will certainly be the case in Burma which is an agricultural and almost a one-crop country. The required elasticity of the currency to meet variations in trade is provided if a proportion of the reserve consists of trade bills. As *bona fide* trade bills are presented for rediscount currency expands. As the bills mature the currency is automatically contracted.[26]

In order to create such a system then, it was necessary that at least a proportion of the security reserve 'backing' of the currency consist of trade bills. Under the existing arrangements, however, with currency issued by the Government, trade bills played no part in the reserves of the 'gold-exchange standard' backing the rupee.[27] The only elasticity that was allowed was that created by allowing a proportion of the reserves to consist of (Government-issued) rupee securities. Lister argued (correctly) that institutions such as the Federal Reserve System of the United States, and similar systems where a reserve formed a fixed percentage of the note issue, routinely included trade bills into such reserves. Once again, his argument is worth quoting in full:

> In the Indian system these trade bills are regarded as an abnormal item of the reserve. They are, however, on account of their automatic expansion and contraction according to the needs of the country, a more suitable backing to a paper currency than ordinary rupee securities. In the case of ordinary securities the authority which manages the currency has to arrive at a deliberate judgement regarding the desirability of expanding or contracting the currency…Errors of judgement are thus

[24] *ibid.*
[25] *ibid.*, p.13.
[26] *ibid.*, p.4.
[27] In fact, a proportionate reserve system along the lines advocated by Lister had been in place for India since 1920 - but in Lister's view (p.7) it was little and ill-used by the Government.

> possible. Such errors are less liable to occur in the case of true commercial bills covering genuine commercial transactions.[28]

Of course - such 'dynamic' currency backing had to be managed by a central bank, rather than the Government. Continuing the existing arrangements, with the Government controlling the note issue, exposed Burma (and India) to the danger long-feared by central bankers of the 'subordination of monetary principles to political considerations '.[29]

A central bank Burma needed post-separation but, as indicated, in Lister's view not yet a *Bank of Burma*. His chosen instrument rather was the Imperial Bank – something of an obvious choice amongst existing institutions given that it already undertook a good proportion of the functions normally assigned to a central bank. These functions would be greatly extended as a fully-fledged central bank – most obviously in that the Imperial Bank would become the issuer of the currency and in one step, removing 'currency management from Government'. Of course, the Imperial Bank would remain the Government's banker and Lister re-emphasised its importance as a device for extending remittance facilities across Burma (even advocating that remittance facilities be provided 'without any charge whatsover' for amounts up to Rs.10).[30] Lister envisaged that the Imperial Bank would manage the debt of the Burmese Government and, underlining the significance of its role as a central bank, would be its primary lender. To this end he recommended that the Bank should be 'required to establish a branch of the Public Debt Office in Rangoon' and to make arrangements 'for ways and means advances and for the issue of Treasury bills'.[31] Not surprisingly, given his stress too on both the *interim* nature of the Imperial Bank's role and the lack of relevant expertise in Burma, Lister highlighted that the use of the Bank would 'solve the difficulty of Burma obtaining a staff versed in currency matters' – and, ultimately facilitating 'the final complete management of the currency by a…[future] Reserve Bank'.[32]

Consistent with 'best-practice' of central banks elsewhere (and exemplified by the Bank of England), Lister's conception of the Imperial Bank as a central bank had it divided into an 'Issue' and 'Banking' Department. As their titles implied, these kept at 'arms-length' the role of the Imperial Bank as issuer of the currency and the manager of its security 'backing', and those functions – banker to the Government, manager of the public debt and so on – that pertained to its role in banking more broadly. As a way of giving credibility to this division, and establishing confidence that backing was being maintained, Lister advocated that the 'Imperial Bank should be required to publish weekly both Issue and Banking statements showing…deposits and the notes on issue and details of the reserves held against them'.[33] Interestingly, Lister did not include amongst the 'banking' functions of the Imperial Bank any enhanced role for its *commercial* activities. Indeed, according to Lister these should be greatly scaled back and rendered largely moribund during the Imperial Bank's stint as Burma's central bank. In a blunt contradiction of the recommendations of the

[28] *ibid.,* p.6.
[29] *ibid.* p.3.
[30] *ibid.,*p.18.
[31] *ibid.*
[32] *ibid.,* p.17.
[33] *ibid.*

BPBE, Lister sided with the general orthodoxy of not mixing central and general banking – and in this context quoted the Irish Banking Commission approvingly:

> While there are central banks which do thus compete from day to day with other banks on more or less equal terms for ordinary business, at least in certain narrowly and well defined branches of lending, it is not a wholesome state of affairs, and is one which is being gradually eliminated in practically every country of modern banking organisation.[34]

Although Lister did not believe existing political considerations allowed for a solely Burmese central bank, he was alive to the circumstances in which events and issues in India were hampering, and would hamper into the future, the conduct of monetary affairs in Burma. These events and issues were partly political and nationalist. The former including the latest round of Congress-inspired boycotts of British goods in India, as well as the on-going difficulties in the Indian legislature over when, and if, a Reserve Bank bill would ever be passed (more of which below). Regarding the nationalist question, Lister recognised that currencies were an important symbol of national independence and, as such, Burma would not want to be seen forever as an appendage of India. But there were genuine economic concerns to an Indian-dominated central bank too. Above all, there was no reason to suppose that India's interests in monetary matters would always coincide with Burma's and, as Lister acknowledged, should there be a clash of interests there was little to suppose that it would be Burma's that would prevail.

Lister's solution to these problems was to insist that the Imperial Bank in Burma be presided over by a 'Local Board' and a 'Local Head Office'. Such a Board was necessary, according to Lister, to both ensure that Burma was 'as free as possible in the management of currency operations' and for 'close collaboration' between the (Burmese) Government and the Bank. Lister favoured Government nominees for the Board, which he thought should include Burma's Auditor-General and Financial Commissioner. He was also anxious to ensure that the Burma Local Board was 'in no way inferior' to any other board of the Bank, and suggested amending legislation to bring this about.[35]

The most important matter the Local Board would control in Lister's scheme was the note issue. In his 1930 memorandum, Lister believed that while Burma should maintain the Indian rupee as its currency, it should have its own notes - designed and printed in Burma, depicting Burmese scenes and figures, and bearing the authorisation of the Local Board. Lister estimated that, based on the relative size of the economies, the volume of Burma notes should number approximately 'one-ninth of that of India'.[36] The notes should be printed and ready from 'day one' after separation, from which time India notes would remain legal tender only for 'three months after the appointed day'.[37]

As noted previously, the responsibility for the note issue would rest with a separate and distinct 'Issue Department' within the Imperial Bank (under the authority of the

[34] *ibid.*, p.15.
[35] *ibid.*, p.17.
[36] *ibid.*, p.18.
[37] *ibid.*, p.19.

Burma Local Board). This would be responsible not only for the physical distribution of notes in Burma, but also for managing the reserve 'backing' for the notes - what Lister referred to as the 'Paper Currency Reserve'. This Reserve would, in the first instance, be created by simply transferring across to the Imperial Bank's Burma Issue Department a sum of reserves necessary to maintain the existing backing. Thus in Lister's formulation - if Imperial Bank 'Burma notes' were circulated at a volume equivalent to 'one-ninth' of the note issue for the whole of British India, then 'one-ninth' of the Paper Currency Reserve should likewise be held by the Burma Issue Department of the Imperial Bank. Based on this 'one ninth' estimate of Burma's currency needs, and the existing structure and ratios of the Indian Paper Currency Reserve as at 31 March 1930, Lister produced the following table of the quantity and category of reserves that would be transferred:

Security	**Amount in Paper Currency Reserve as at 31 March 1930 Rs.million**	**Amount Transferred to Burma after Separation (one-ninth) Rs.million**
Silver coin	1,008.1	120.1
Silver Bullion	28.5	3.2
Gold coin and bullion	320.7	35.9
Rupee securities	338.5	37.6
Sterling securities	1.5	0.2
TOTAL	1,773.2	197.0

But the most complex task of the Issue Department would be to manage (post-separation) that 'elastic' part of the note issue that would be backed by trade bills. The ability of the Imperial Bank to provide an elastic currency issue in response to the needs of the economy was, of course, fundamental to Lister's schema - and to his advocacy of *central bank* rather than government note issue. In his own words:

> The trade bills…will provide an elastic element in the reserve which will permit of the expansion of the currency for financing the movement of crops. And if the expansion is carried out by the acceptance of commercial bills covering the crops and assets the expansion and contraction will take place almost automatically and will be in accordance with the needs of the country. These bills should bear two good signatures and should have a maturity of not more than 90 days…[38]

Ideally, Lister believed that around 25 percent of Burma's currency reserves should be in the form of trade bills. But this provision required 'an active bill market' which was not, at present, in existence in Burma.[39] The Imperial Bank should do all it could to encourage the development such a market, but in the meantime Burma's relatively sparse financial markets meant that a figure of '10 percent' was probably all that could be managed as a 'permanent' trade bill backing for the time being. Over and above this, however, Lister proposed that an extra '4 to 5 crores' of notes (40-50 million rupees, an increase of 20 to 25 percent of the total note issue backed by trade

[38] *ibid.*, p.21. Of course, 'two good signatures' just implied that the Imperial Bank would provide funds on trade bills advanced to it by banks, credit cooperatives and the like, and not their (non-financial institution) customers. The 'not more than 90 days' maturity injunction was a prudential measure designed to protect the Imperial Bank from undue default risk.
[39] *ibid.*, p.20.

bills based on the March 1930 numbers) could reasonably be issued against trade bills at certain times of the year, especially at harvest time. Lister noted that Canada provided a precedent for such seasonal expansions in currency notes backed by trade bills. In the case of Burma, two 'peaks' of notes on issue could be expected – in February and August as cultivators sought to finance the paddy crop.[40]

Lister reproduced his earlier table of Burma's 'Paper Currency Reserve' immediately post-separation - but modified for a potential of 25 percent in trade bill securities. The numbers remained those as at March 1930. The label 'gold' securities' replaces 'sterling securities' and 'silver securities' replaces 'rupee securities'. The former change was not meant to signify a move away from sterling, but the latter did imply that the proposed Burma reserve would not *necessarily* be based upon Indian government securities (often linked, for reasons of silver's strong association with the rupee, with silver-indexed securities). It can also be seen that it was the silver coin (mostly old Indian rupee coins) component of the reserve that made way for the trade bills:[41]

Security	**Amount Transferred at Separation Rs.million**	**Burma Paper Currency Reserve - incl.Trade Bills Rs.million/(% of Total)**
Silver coin & bullion	123.3	19.7/(10)
Gold coin and bullion	35.9	49.2/(25)
Gold securities	0.2	29.7/(15)
Silver securities	37.6	49.2/(25)
Trade bills	n/a	49.2/(25)
Total	197.0	197.0/(100)

The Imperial Bank's (Burma) Issue Department would earn profits ('seigniorage') from its circulation of currency notes (issued at near enough to zero cost apart from printing and distribution) that were partly backed by interest bearing securities of various forms. These seigniorage profits, which are earned by all note issuing authorities would come in useful, in Lister's design, when Burma finally achieve a central bank of its own. How? – according to Lister, it was important that seigniorage profits be used to build up a reserve of sterling securities:

> Burma should neglect no means of acquiring a reputation for prudent finance. Later on, when Burma has its own system, the question of devoting some of the interest of the development of banking in Burma may be considered.[42]

One aspect of Burma's monetary system that would *not* fall under the authority of the Local Board of the Imperial Bank in Lister's schema was the value of its currency in terms of other currencies – that is, the rupee exchange rate. This would remain the responsibility of the Indian Head Office and Board of the Imperial Bank. Lister did not see any reason why the rupee's historical value to sterling (the benchmark exchange rate under the gold exchange standard) needed to change in the short term -

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[40] *ibid.,* p.21.
[41] This table is a *slight* reconstruction of two included by Lister in *ibid.,* p.20.
[42] *ibid.,* p.22.

but should 'India' seek to make a change, it should give 'sufficient notice to Burma to enable Burma to consider whether, in the altered circumstances, it should still continue to form part of the Indian monetary system'.[43]

The Fate of Lister's Plans

Lister's memorandum on using the Imperial Bank as a central bank for Burma (following separation) became a template for discussions amongst a range of Imperial and Indian Government officials throughout 1931-1932. It did not fare well, especially at the hands of finance officers at the India Office, the UK Government Department which, of course, was the final authority and arbiter for most things to do with British India as a whole. At a meeting between Lister and various such officials in London in December 1931, for example, Lister was told that his scheme posed grave problems for the maintenance of the value of the rupee.[44] Specifically, the India Office told Lister that they had two fears. Firstly, that Burma may over-inflate the note issue. Secondly, that if Burma notes drove out the (Indian) rupee in Burma, such rupees could subsequently be presented for redemption in India for gold and/or sterling and thus exacerbate the country's existing 'excess rupee' to reserves problem.[45] The issue here in fact was not one that related to Indian rupee notes - but rather that still large residual of silver rupee coin that might find its way back to India if it lost legal tender status in Burma.

Other meetings followed, in Calcutta as well as in London, but the issue seems to have been laid to rest at a final meeting in March 1932, in London, between Lister and a 'heavyweight' delegation of India Office officials led by Sir Louis Kershaw, the Office's Under Secretary of State.[46] Retaining their broader objection to Lister's Burma proposals as being potentially bad for *India*, the India Office advanced new concerns now as to the state of the global economy as being a reason to reject the idea of a 'Burmanised' central banking division of the Imperial Bank and, above all, a separate Burma note issue circulated from it. The 'present condition of world affairs' it said, made 'the time inappropriate for the introduction of a new currency into Burma'. Lister had not originally regarded the proposed Imperial Bank 'Burma' note issue as constituting a separate currency, but by now he too was losing confidence in his scheme. He was worried about the deteriorating international financial system, and with the switch of much of India's paper currency reserve into gold and silver bullion (a defensive measure likewise prompted by uncertainty regarding the international

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[43] *ibid.*, p.16.

[44] A set of minutes of this meeting on 30 December 1931, written by Lister and titled 'Financial safeguards and currency arrangements in Burma', can be found in the C.W. Dunn Papers, Box III, *op.cit*.

[45] *ibid*.

[46] Minutes of this meeting, which was held on 7 March 1932, written by Lister, can be found in the C.W. Dunn Papers, Box III, *op.cit.* Other members of the delegation included: Sir Henry Strakosch, a leading and somewhat eccentric business figure in British India who was the author of several books on monetary matters and who had served on the Royal Commission on Indian Money and Finance in 1925; Sir Cecil Kisch, the Secretary of the Finance Department of the India Office and the recent author (1928) of a book on central banking; Sir George Baxter, 'Principal' of the Finance Department of the India Office and who succeeded Kisch in 1933, and: Sir David Monteath, then Assistant Secretary of State, India Office, who later became Under Secretary of State for (the separated) Burma, 1937-1941.

situation), he no longer saw much in the way seigniorage profits that Burma could yield:

> I think that these considerations would justify a provisional decision by Government that a separate currency should not be introduced at the moment of separation, but should be left for consideration when the present period of depression has passed away and the more pressing problems arising out of separation have been solved. The main attraction which a separate currency has possessed for me is that it held out a hope of profit to Burma. This profit would in a large measure accrue from the sterling and rupee securities held in the Gold Standard and Paper Currency Reserves. I notice, however, that in the Gold Standard Reserve sterling securities have now been replaced to a very large extent by gold which earns no interest…The prospect of gain from introducing a new currency is therefore much less pronounced now than it was say one year ago (7/3/32).

V. A Bank for Two Countries

Events have a way of overtaking even the best laid plans, and so it turned out both for Lister's Imperial Bank scheme and, indeed, for the critiques of it. In this context the 'event' was the looming establishment of the Reserve Bank of India (RBI). As noted above, this institution was long on the drawing board, but following the strong recommendations of the Royal Commission on Indian Currency and Finance in 1926, and after failures to get relevant legislation through the Indian assembly in 1927, 1928 and 1933, the RBI was finally established (for the whole of British India, including Burma) on 1 April 1935 (Kumar 1983:791-792).[47] Contrary to the recommendations of Keynes and others down the years, it was a privately-owned (shareholder) institution modelled on the Bank of England. As with Lister's scheme, and like the Bank of England, it was divided into 'Issue' and 'Banking' departments. The Issue Department was given sole responsibility for note issue in the whole of British India. It also managed the reserves backing these notes. The reserves were conservatively apportioned to include 'no less than' 40 percent of the note issue as gold and/or Sterling securities. Yet, there was room for an elastic note issue - with up to 25 percent of the reserves being allowed to consist of rupee securities. As Sayer's (1952:227) noted, this allowed for quite substantial monetary 'accommodation' during the early years of the RBI when it handled the affairs of Burma.

Adding an additional 'elastic' component to the note issue arrangements were the activities of the Banking Department. The RBI, unlike the Imperial Bank, was *purely* a central bank and undertook no commercial banking operations. Nevertheless the Banking Department, like its namesake at the Bank of England, engaged in a range of activities that could considerably ease (or tighten) monetary conditions. These included directly lending to the Indian and Provincial Governments (including Burma's, more of which below, but only for terms of up to three months), and lending to commercial banks and credit cooperatives. The RBI also carried the full array of instruments then considered 'normal' for influencing domestic monetary conditions – including a 'bank rate' at which the RBI would be prepared to rediscount bills of exchange and other eligible securities. This could have functioned much along identical lines to Lister's proposals with respect to advances on trade bills but, as

[47] The *Reserve Bank of India Act* was passed by the Indian legislature and granted consent by the Governor General in 1934, even though the Bank was not established until 1935.

Sayer's noted (1952:224), it was unlikely that such an instrument 'would prove as suitable whose economy was still relatively underdeveloped, and where financial institutions were not fully integrated into a "system"'. Of course, such a criticism could have been as equally levelled against Lister's plans, to which it might be replied that a start had to be made sometime. As it was, the RBI *did* establish a bank rate (initially set at 3.5 percent, then at 3 percent – where it remained for 15 years), but the facility *was* very little used. According to Sayers (1952:228), 'the only regular customer of the Bank [in this context] was the Government', and there was little in the way of large-scale discounting of bills with the RBI.

As noted, the RBI was a 'shareholders' bank owned, primarily, by private investors. Capitalised at Rs.50 million, the shares were initially distributed between five different registers – part of the effort to make the Bank truly inclusive of the widely varying peoples and polities of British India. One of these registers was in Rangoon, which was given Rs.3 million of shares for sale in Burma, six percent of the RBI's total share capital.[48] This was, of course, rather less than Burma's 'nine-percent' share of the currency distribution for British India estimated by Lister – demonstrating perhaps that the RBI was even less 'Burma's' then it should have been. As shall be seen, such a view was certainly held by Tun Wai who noted (1953:99) that even this low equity share held in Burma was ephemeral – with a large proportion of Rangoon registered shares 'soon…migrating to the Bombay Register'. On the day the RBI opened the Rangoon Register contained its Rs.3 million worth of shares in the names of 3,157 separate shareholders. By 1940 only Rs.1.85 million worth of these remained on its books (Tun Wai 1953:100).

Also of relevance to the question of control of the RBI, and the related matter of for whose interests it served, was the composition of its board. In fact, echoing Lister's proposals, the RBI had multiple boards. The 'central' and overarching Board had twelve directors, eight appointed by shareholders via the five share registries, and four appointed by the Government. The Governor of the RBI and two deputies were also Government appointees – significantly leveraging the state's power over it. In addition to the Central Board, however, were Local Boards for each of the five registry centres. These had eight directors, five elected by the shareholders of each registry and three appointed by the *Central Board*. Importantly (and in contrast to Lister's proposal), the Local Boards served in an advisory capacity only. Overall the RBI then was ostensibly a very 'mixed' institution. Part private, part official, part centrally controlled, part provincially focused. The *realpolitik* was of an institution that was highly centralised, and identifiably a creature of the Government of British India.

An important function given to the RBI (as noted earlier, much neglected under previous arrangements) was the prudential supervision of banks in British India. To be a 'scheduled' bank under the RBI Act, a financial institution had to have paid-up capital of no less than Rs.500,000 and to maintain (in the form of deposits with the RBI) reserves of 'no less than 5 percent of demand liabilities (deposits) and 2 percent of time liabilities'. In addition, scheduled banks had to file weekly returns to the RBI detailing their balances and financial position (Sayers 1952:225).

[48] The other registries were Calcutta (Rs.14.5 million shares), Bombay (Rs.14 million), Delhi (11.5 million) and Madras (Rs.7 million) (Tun Wai 1953:99).

The RBI was given responsibility for maintaining the rupee exchange rate vis-à-vis Sterling. This meant an obligation to buy and sell Sterling to maintain an average rate at (the now traditional) Rs.1:1s.6d.

Separation

In April 1937, the implementation of the Government of Burma Act (1935) brought about the long-awaited separation of Burma from British India. But, much in the way that Lister had advocated continuation of the (proposed) Imperial Bank's operations post-separation, so the RBI continued to be Burma's central bank following the granting of Cabinet self-government. The RBI maintained its presence in Burma via its one (rather palatial) branch in Rangoon, and no changes were made to its Local (Burma) Board.

The separation of Burma from British India necessitated legislation to amend the RBI Act, and this emerged in 'The India and Burma (Burma Monetary Arrangements) Order, 1937'. Coming into force at the same time as the Government of Burma Act itself, the Monetary Arrangements Order essentially set out the legislative changes required to make the RBI the central bank for *two* countries. Mostly these changes were cosmetic – the most common amendment being simply to replace 'references to India and British India' with 'references to Burma and British Burma'.[49] The 1937 *Order* also set out the procedure that would follow a dispute between the Indian and Burmese Governments, which would be decided upon by an agreed arbiter or, if an arbiter could not be agreed upon, by the Secretary of State for India and Burma.[50] Ultimate power, in other words, continued to rest with Westminster.

The 1937 *Order* required the RBI to issue, as soon as possible after separation, 'bank notes of distinctive design, to be known as Burma bank notes'.[51] Under the 1937 Order, the RBI had sole right of note issue – the Government of Burma being expressly forbidden to issue its own notes. The first distinctive Burma notes were issued in May 1938. The name 'rupee' was retained as the official name of Burma's currency and it was this name that appeared on the new notes. In the earliest notes issued (the five and ten rupee notes, issued in May and June 1938 respectively) 'rupees' appeared unadorned, however in later issues (such as the 1,000 rupee note, issued in July 1939) the distinction '*Burma* Rupees' appears. The notes bore the name of the 'Reserve Bank of India' as issuer, but also the inscription that the Bank's promise to pay applied to 'any office of issue in Burma' only - in other words, the Burma notes were not legal tender in India. The notes were inscribed in three languages - English, Burmese and Shan. By July 1939 there were five denominations of Burma notes in circulation (5, 10, 100, 1,000 and 10,000 Burma rupees). All featured King George VI on one side but, giving them the required 'distinctive design' featured on the obverse side various 'Burmese motifs' – of peacocks, elephants, tigers, sailing vessels and ox-carts.

As an interim measure before the first distinctive Burma notes were ready, certain new (RBI) India notes were circulated in Burma with the overprint (in red) 'Legal Tender in Burma Only'. The volume of these notes issued was under the control of

[49] *The India and Burma (Burma Monetary Arrangements) Order, 1937* (hereafter '1937 *Order*'), s.11.
[50] Who, under the Government of Burma Act (1935), was the same person. 1937 Order, s.10.
[51] 1937 Order, s.6.

the RBI and, in themselves, they presented little difficulty for the RBI's broad monetary objectives. However, they were symptomatic of a broader problem - simply, both history, as well as the RBI's role of being a central bank for *two* countries, meant that it had little control of the volume of currency in Burma. Indeed, for the entirety of the RBI's tenure in Burma five quite separate (legal tender) currencies circulated:

1. Notes issued by the Government of India. These were notes circulated before the creation of the RBI took note issue away from the Government. Such notes could have been distributed originally from Rangoon as part of the 'Rangoon circle' issue; some could have come into Burma via Indian traders, workers and so on.
2. For a brief period following the decision to separate India and Burma, but *before* the RBI had started printing its own notes, an issue of Government of India notes was made that bore an overprint (in red) 'Legal Tender in Burma Only'.
3. New RBI India notes that, as per 1) above, entered Burma via its symbiotic economic relationship with India.
4. As noted above, the RBI (India) notes over-stamped 'Legal Tender in Burma Only'.
5. The RBI's 'Burma notes'.

Controlling the volume of currency on issue within its jurisdiction is one of the key functions of a central bank. The RBI, overseeing what was, in essence, a common currency zone encompassing the whole of what was British India, was unable to control the supply of the currencies of the type in 1), 2) and 3) above. 'De-monetisation' of the older issues was a partial solution (and, as noted, was a component of Lister's scheme), but given the economic ties between India and Burma a separate central bank - with distinct powers over their respective currency, was a far better one. Alas, this was not on the table.

The RBI did not keep separate reserve 'backing' against its Burma currency note liabilities. Rather, a consolidated reserve for the note issue of both India and Burma persisted (in the same ratios of reserve types detailed above) beyond separation. Section 7 of the 1937 *Order*, however, provided for the division of the reserves should the RBI cease to function as Burma's central bank - in which case, there would 'be transferred from the Issue Department of the Bank to the Government of Burma assets which…have together a value equal to the total liability in respect of the Burma notes outstanding'.

The 1937 *Order* provided that any RBI profits from its operations in Burma should accrue to the Government of Burma. Such profits would derive from two sources. Firstly, there was the income earned from the RBI's 'banking' functions (banker to the Government, banker to other banks, and so on). Secondly, and more importantly, there were the seigniorage profits that would come from the note issue. Here, however, a problem emerged that, once more, came as a consequence of Burma's 'not-quite' separate monetary system from that of India. Put simply: whilst Burma notes (and those overprinted as such) were legal tender only in Burma, India notes (of the type in Burma outlined above) were legal tender in both countries. Burma earned seigniorage revenue only from the RBI Burma notes – the seigniorage from the India notes widely circulating in Burma was taken up by the Government of India.

The issue of profit distribution was not a trivial one, and it may be recalled that the earning of such profits, and their accumulation as future reserves for Burma, was a significant motivation for Lister's argument that the country should have a central bank. Though there was an attempt to adjust the profit distribution to take into account of the India notes it was, in the words of the Burmese monetary economist, Tun Wai (1953:110-111), done in an 'arbitrary manner' that was 'not fair to Burma'. Tun Wai argued that what the RBI had not taken account of, even presuming that they judged the proportion of India notes in Burma accurately, was that as Burma notes left the country (in the hands of Indian migrant workers and traders) seigniorage profits accruing to Burma were automatically reduced. This was because, as such notes were 'encashed' at Indian branches of the RBI for Indian rupees, reserves flowed from the Burma Issue Department of the RBI to its Indian equivalent. India notes, on the other hand, retained their earning value either side of the border. All in all, Burma faced a more or less constant drain of seignoriage profits while ever its monetary system remained 'open' to its larger neighbour.

Post-separation, the RBI became 'Government banker' to the Government of Burma as well as that of India. In this role it was tasked with the usual array of central banking duties – keeping the Government's accounts, managing the public debt, providing occasional advances to the Government and its agencies (especially, in Burma's case, to the Railway Board), promoting remittance facilities, and so on. Because of their separate political standing, a specific provision of the 1937 *Order* extended these functions to the management of the 'Federal Fund' of the Federated Shan States too. Previous arrangements with the Imperial Bank, however, which undertook many of these roles in locations in Burma and the Shan States where the RBI was not represented, were maintained.

The extent of banking operations actually undertaken in Burma by the RBI fell short of the potential suggested above. In September-October 1937 the RBI managed a Government of Burma Treasury Bill issue to cover an unexpected revenue shortfall, but no direct advances by the RBI to the Government were ever made. The RBI sold most of the Treasury Bills to Indian investors (almost 90 percent of the Rs.9 million issue), which was illustrative of both the shallowness of the debt market in Rangoon and the RBI's propensity to court Indian investors (Tun Wai 1953:109). Of course, one of the functions of the RBI in Burma was to encourage the development of indigenous financial markets, but it seems to have extended little effort to this end. As Tun Wai (1953:138-140) demonstrated, the Government of Burma (on account of Burma's consistent trade surpluses with India) built up substantial reserves of Indian rupees over 1937-1941, but (apart from a small take up of securities issued by the Port of Rangoon Trust) the entirety of these were reinvested in Government of India Treasury Bills and other Indian securities.It was not only the potential for investment in Burma that was denied by this policy but, as Tun Wai (1953:140) also pointed out, the Burma note issue (and the seignirage revenue accruing to it) also declined:

> The implication of this short term investment policy of the Government of Burma is that there must have been a deflationary effect on the Burmese economy, because the Reserve Bank was managing the note issue. As the Government of Burma handed [over] the Burma notes, and asked for India notes to purchase Indian securities, the Reserve Bank of India withdrew those Burma notes from circulation in Burma, and increased the circulation of India notes in India.

Since its creation the RBI had been given responsibility for the supervision of scheduled banks in British India. This continued after separation, but under the 1937 *Order* a 'second schedule' of banks was created for banks whose functions were confined to Burma, and which were headquartered in the country. In the 1937 *Order* these banks were:

The Bank of Upper Burma
U Rai Gyaw Thoo and Company (Akyab)
Messrs. Balthazer and Son
The Overseas-Chinese Banking Corporation

The Burma scheduled banks were supervised by the Rangoon branch of the RBI, with oversight from the Local (Burma) Board. The prudential requirements upon them were identical to those applying to scheduled banks in India in most important respects (capital requirements and reserve ratios for instance), but the Burma banks faced what appeared to be rather tougher reporting requirements – a function, no doubt, of the need to build trust during the difficult transition period. Every week each Burma scheduled bank had to send to the RBI:

(a) the amounts of its demand and time liabilities respectively in Burma,
(b) the total amount held in Burma in India notes and Burma notes respectively,
(c) the amounts held in Burma in India rupee coin, India subsidiary coin and Burma coin respectively,
(d) the amounts of advances made and bills discounted in Burma respectively, and
(e) the balance held at the Bank [RBI].[52]

Recognising the importance of the cooperative banking sector in Burma, the RBI Act also had provision for the RBI (Rangoon) to require co-operative banks to supply the same information to it as the scheduled banks.

Even on this front, however, certain negative outcomes arose from the fact that Burma remained in most fundamental ways a part of India's monetary and financial system. Once more the issue was what was, in essence, a form of 'capital flight' – in this case represented by the *location* of the reserves the RBI required the banks to hold against time and demand liabilities. These did not have to be held at any particular office of the RBI, but the almost universal practice of banks active in Burma and India (that is, beyond simply the Burma scheduled banks) was to hold the reserves in India rather than Burma, regardless of the size of the liabilities in the respective countries. The disparity, indeed, was of such a magnitude that whilst the banks comfortably held reserves above that required for their activities in *both* countries, for Burma in isolation the reserves held at the Rangoon office of the RBI were actually a *negative* proportion of Burma liabilities. The motivation of the banks was understandable, but something of an indictment of the failure to establish a properly functioning financial system in Burma – simply, 'the banks did not want to keep their money lying idle in Burma…They preferred to invest it in India' (Tun Wai 1953:146).

The promotion and extension of remittance facilities across Burma was one of the objectives put before the Banking Department of the RBI in Burma and, in this

[52] 1937 *Order*, s.15.

sphere, it seems that the RBI achieved considerable success. The core of the RBI's activities on this front was to offer new instruments – RBI bank drafts and telegraphic transfers especially – at *concessional* rates to banks, cooperative credit societies, moneylenders and even to the general public. The instruments were available at the RBI offices in Rangoon (which handled the bulk of cross-border remittances), but also wherever the RBI was represented by the Imperial Bank and its agents, as well as government offices across Burma. According to Tun Wai (1953:113), such was the success of the RBI on this front, 'other forms of remittances…dwindled'.

VI. Conclusion

Together with a flag, an anthem, a football team and a national airline, a central bank is often supposed to be one of those definable symbols of a country's identity and independence. Burma did not receive a *fully-fledged* central bank of its own until 1952, four years after the country achieved independence from the British Empire.

Such is the tale that invariably is all that is related regarding the development of central banking in Burma. This is a pity, for in the 1930s a set of proposals, advanced by Burmese nationals and Imperial officials alike, sought to create a central bank for Burma. Their efforts, which were at the leading edge of contemporary monetary thought, improvised institutions that might have served Burma well when, in the same decade, the Depression laid waste to a generation of indebted cultivators.

The efforts to create a central bank in Burma in the 1930s came to nought. Complicated by the complex needs of British India as a whole, they were deemed as a 'too rash' experiment by the time the Depression arrived. Meanwhile the Reserve Bank of India, after a gestation of many decades, finally arrived in 1935. This served both India and Burma until the Second World War, during which many institutions, including Burma's monetary system, were swept away. They would return, fitfully, but by then Burma was a very different country.

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