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The Elastic Margin: Central Banking Theory and Practice in Colonial Burma

by

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Abstract

The purpose of this paper is to bring to light efforts to fashion a central bank in Burma during the years in which the country was a province of British India. Throughout this era, which lasted from 1886 to 1937, questions of money and finance were chiefly the preserve of the *Raj* in Calcutta. Behind the scenes, however, plans to establish a central bank for Burma itself were promoted by imperial officials well-schooled in the great monetary and banking controversies of the age. These plans borrowed ideas from many likely and unlikely places but they were also innovative in their own right, and were not without useful insights for central banks everywhere. Lastly, this advocacy for a central bank in Burma was also indicative of a political economy discourse in the country 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 all the important 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 its financial institutions were scheduled by the imperial authorities in Calcutta. 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 advanced 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 coincidentally emerged amidst the global monetary crisis that was a component of 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 is often assumed.

In this paper we 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) in 1930, when 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, was subsequently championed by imperial officials who surprisingly looked to the United States and other countries outside of the imperial sphere for their model. In Section III we examine these follow-up proposals, and the extent to which they were inspired by what is often labelled the 'real bills doctrine'. In the end Burma did not get its central bank until 1952, and after the country itself achieved independence. Section IV briefly explores the reasons why, while Section V concludes.

II

The Bank of Burma

Upon the conclusion of the third Anglo-Burmese war in 1885 the whole of Burma came to be a component of the monetary and financial system of British India. At the time this system was centred around the emerging 'gold-exchange' standard which, famously celebrated by Keynes (1913), recognised that so long as there was confidence that a currency (in this case, the rupee) could ultimately be *converted* into gold, gold itself did not have to physically circulate *within* a country in order to realise monetary stability. This was cutting-edge contemporary monetary practice, but in central banking terms British India was a primitive place. Between 1839 and 1861 responsibility for the issue of the paper rupee *had* rested with the famous 'Presidency Banks' – of Bombay, Madras and Bengal, but under the *Paper Currency Act* of 1861 this reverted to the colonial government, and central banking in India essentially disappeared (Keynes 1913:143). The government distributed rupee notes in 'circles' centred on the provincial capitals which, with the absorption of Burma, expanded to seven – with centres at Calcutta, Bombay, Madras, Karachi, Cawnpore, Lahore and finally 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' (Robinson and Shaw 1980:102). British Indian rupees were 'backed' by an odd mix of gold and silver coin and bullion, as well as both rupee and sterling securities. The latter gave a degree of discretion in the issue of paper currency to the government, but there was no automatic mechanism to issue currency according to the needs of trade (or agriculture) (Goldsmith 1983).[1]

The first serious advocacy for a central bank for Burma came in 1930 via a recommendation of the *Burma Provincial Banking Enquiry* (BPBE). The BPBE was a sub-committee of the India-wide *Central Banking Enquiry* (1931) – the latest of a succession of ponderous if (largely) ineffectual enquiries into Indian finance that extended back to the beginnings of British rule. Of course, these inquests were not always without merit, and the 1910 iteration enjoys particular renown amongst historians of economic thought for marking the public policy emergence of Keynes – as well as providing the raw material for his first book (and the beginnings of his long trek from economic orthodoxy), *Indian Currency and Finance* (1913).[2]

The BPBE was not initially charged with examining the question of a central bank for Burma. It had, rather, a broad remit of examining Burma's more basic credit needs, especially in agriculture. Central banking, and certain other sensitive topics, were meant to be the exclusive domain of the all-India enquiry. In the course of its work, however, the BPBE unilaterally extended its mandate – a decision it said was informed by 'the political agitation in Burma for political separation from India' (Government of Burma [GoB] 1930:3). In 1930 Burma was formally a 'province' of British India and ruled under a 'Dyarchy' constitution that allowed for a Legislative Council, but reserved a great many powers for the provincial Governor who was answerable to both Calcutta and London. Pressures for granting Burma independent country status within the British empire were mounting, however, and they would eventually lead to the 1935 *Government of Burma Act* that separated Burma from India. These 'separationist' pressures required, according to the BPBE, a 'more comprehensive view of its duties than was necessary for

[1] As noted below, provision for the inclusion of trade bills in the reserves backing the rupee was made in the Indian *Paper Currency Act* of 1923. However, such bills were regarded as an 'abnormal item', and the facility had not been employed by the time of the advocacy that is the subject of this paper.
[2] The enquiry in question was the 1910 'Royal Commission on Indian Finance and Currency' which was chaired by Austin Chamberlain but dominated intellectually by Keynes.

committees in other provinces', and it regarded conditions in Burma as being sufficiently distinct for constructing their report as one 'for a separate country' (GoB 1930:4).[3]

The BPBE's advocacy of a separate central bank for Burma was contained in the final chapter of its report, and in a section devoted to what it labelled 'the essential problem' of credit and finance in Burma (GoB 1930:343). 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. In the colonial era Burma had become the world's largest rice exporter, chiefly as a consequence of the importation of British land title law and the infusion of credit brought by the arrival in Burma of the *Chettiar* moneylenders from southern India. The *Chettiars* lent on the security of land as collateral and, whilst their interest rates were not exorbitant by moneylender standards, they were high enough to be problematic for cultivators at seasonal demand peaks and at times when harvests or prices were poor. At the time the BPBE was undertaking its work, paddy prices were just beginning what would be a precipitous decline as the global depression set in. The resultant crisis of mass default of Burmese cultivators on their loans to the *Chettiars*, and their subsequent alienation from the land, would be one of the great political-economy dramas of modern Burmese history.[4]

The BPBE identified 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 – the latter reflecting the dominance of informal moneylender credit (GoB 1930:343). Accordingly, it concluded that the solution to the high interest rate problem in Burma was identical to the solution to the problem of the lack of finance itself – the creation of a formal 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' (GoB 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' (GoB 1930:350). This central bank, which was given the name 'Bank of Burma' (BoB), 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 (GoB 1930:352). These branches would provide a range of

[3] 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).

[4] The *Chettiars* dominant role in the emergence of Burma as the world's largest rice exporter, and the subsequent alienation of much of Burma's cultivatable land into their hands in the wake of the Great Depression, are examined in Turnell (2005b).

‘commercial’ banking services, including deposit and remittance facilities, and they would be able to make advances to other financiers 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 (GoB 1930:354).

The inspiration behind the extension of branches of the BoB across the country shall be examined presently, but of perhaps most interest to historians of economic thought was the emphasis given in the BPBE’s recommendation for ‘elasticity’ in currency and credit. The necessity of such elasticity had been propounded by Keynes in his 1910 Royal Commission testimony, the lack of which he argued was a consequence of India itself having a monetary system that lacked a central bank. Keynes’s advocacy had been repeated in the many enquiries into India’s monetary system since, most highlighting the problems of seasonal demand as well as a general lack of ‘formal’ credit otherwise. There was, however, a qualitative difference between the BPBE’s proposal and that of Keynes and others for India generally. What Keynes and other writers on India were about was essentially a modern credit-creating commercial banking system which provided the bulk of monetary elasticity, with a central bank providing a currency that varied little from the gold-exchange standard rules otherwise in place. In contrast, the BPBE’s proposal was that the *currency itself* (issued by the BoB) would be prime source of monetary elasticity, at least for the foreseeable future. The BPBE was clear why this was so – noting the crucial differences between sophisticated financial systems in which deposit banking was well established, and those in which ‘bank notes’ (paper currency) were still preferred over cheques and other deposit-based payment instruments. The BPBE pointedly observed (GoB1930:351) 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 required for deposit-banking, the BPBE observed (GoB1930:351), came only ‘after years of sound banking’. In contrast to later proposals (below), however, the inspiration for the BoB’s elastic note issue in terms of models in place elsewhere was not revealed.

Beyond the specific issue of currency/credit elasticity, however, the Bank of France found particular favour with the BPBE as a model for Burma. Compared with Britain and some other European countries, private banking in France had developed little in the nineteenth century and the Bank of France 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 France (Davies 1994:556).

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 were regarded by the BPBE 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' (GoB 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 BoB] reaching the cultivators and traders through co-operative societies and *Chettiars* and other private financiers and later through other banks (GoB 1930:354).

Rather than lend directly then, what the BPBE was proposing was a central bank that would provide 'wholesale' funds to other financiers, including the *Chettiars* but also the network of cooperative credit societies that had been created by the colonial government (hitherto without much success) as a counter to the dominance of informal lenders.[5] The BoB would supply wholesale funds 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 (GoB 1930:354).

All the while, the BPBE was sure of the broad, developmental role played by the proposed 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 (GoB 1930:355).

[5] For a comprehensive narrative of the cooperative credit system in colonial Burma, see Turnell (2005b).

High interest rates were one of the pathologies identified by the BPBE in Burma's existing financial arrangements, so it celebrated (GoB1930:355) what it thought 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. 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 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 (GoB 1930:356).

III

Thomas Lister, and the Follow-Up to the BPBE

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. 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, to a series of national strikes.[6] Amongst the latter was one that shut down the Government Printer and delayed the publication of the BPBE Report itself. Of course, more broadly and more

[6] 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. The most prominent of these, and the most dangerous to the British colonial authorities, was what became known as the 'Saya San' Rebellion. After much bloodshed the rebellion was put down in 1932 (Maung Maung 1980: *passim*).

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.[7] 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. Assigned to come up with a practical answer to the question was Thomas Lister, then the Finance Secretary to Burma's colonial government.[8] In a memorandum penned for the government in November 1930, Lister essentially took up from where the BPBE left off, declaring stridently that Burma required an 'elastic' monetary system that expanded the volume of currency according to the needs of the country.[9] What Burma needed then, 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. 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.[10]

In order to create such a system, 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.[11] The only elasticity that was allowed was that created by permitting a proportion of the reserves to consist of

[7] 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 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.

[8] 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.

[9] Lister's memorandum was titled 'Currency Arrangements in Burma after Separation', and was dated 11 November 1930. It is not widely available, but a copy can be found in the C.W. Dunn Papers at the 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.

[10] *ibid.*, p.4.

[11] 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 both little and ill-used by the Government.

(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 possible. Such errors are less liable to occur in the case of true commercial bills covering genuine commercial transactions.[12]

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 to the danger long-feared by central bankers of the 'subordination of monetary principles to political considerations'.[13]

Consistent with 'best-practice' of central banks elsewhere, Lister's version of the BoB was divided into 'Issue' and 'Banking' departments.[14] As their titles implied, these kept at 'arms-length' the role of the BoB 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 BoB 'publish weekly both Issue and Banking statements showing (…) deposits and the notes on issue and details of the reserves held against them'.[15]

In his 1930 memorandum, Lister wrote Burma should maintain the name 'rupee' for its currency, but that these Burmese rupees should be designed and printed in Burma, and depict Burmese scenes and figures. 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'.[16] 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'.[17] The Issue Department 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 from the Indian government to the BoB a sum

[12] *ibid.*, p.6.
[13] *ibid.* p.3.
[14] We have used 'BoB' for simplicity and continuity, but Lister himself did not take up this label for his proposed central bank. Indeed, and although his proposals were not affected by this difference in institutional nomenclature, he even suggested that a stand-alone section of the Imperial Bank (created from the merger in 1921 of India's Presidency banks, and which had some quasi-official functions) could be used.
[15] *ibid.*
[16] *ibid.*, p.18.
[17] *ibid.*, p.19.

of reserves necessary to maintain the existing (Indian government) backing ratios. Thus in Lister's formulation – if 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 existing Paper Currency Reserve should likewise be held by the Issue Department of the BoB.

Of course, 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 BoB 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 a *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.[18]

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.[19] The BoB 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) could reasonably be issued against trade bills at certain times of the year, especially at harvest time.[20]

The BoB 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 (including trade bills). These seigniorage profits, which are earned by all note issuing authorities would come in useful, in Lister's design, when Burma finally achieved independence. 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.[21]

'Real Bills' and the Federal Reserve

The Bank of France was the inspiration for the BoB advocates for its rural extension philosophy, but it was the (newly-created) US Federal Reserve system that provided the model for an 'elastic' currency. Such a currency was central to the *raison d'être* of the

[18] *ibid.*, p.21.
[19] *ibid.*, p.20.
[20] *ibid.*, p.21.
[21] *ibid.*, p.22.

Federal Reserve (the phrase 'elastic currency' even formed part of the name of the Act that established it), which was created amidst the growing influence of what contemporary economists (and historians of economic thought subsequently) called the 'real bills doctrine' (RBD).[22] Central to the RBD was the idea that central banks automatically issue currency against 'real bills' which, in the case of the US arrangements, were taken to mean 'notes, drafts and bills of exchange *arising out of actual commercial transactions*…with a view of accommodating commerce and business' (emphasis added).[23] Both the automatic nature of the issue, and the fact that it was against the presentation of bills advanced against trade, made for a monetary system that (ostensibly) responded to the demand for currency as a medium of exchange. According to the proponents of RBD, this combined a system that moved beyond a 'rigid, government-controlled money stock' but which also disallowed the monetization of government debt (Hortlund 2006:79). Monetary policy then was 'automatic' rather than discretionary, and all the more prudent as a consequence. As we have seen above, the 'automatic' nature of a partially trade-bill backed currency was celebrated by Lister as particularly appropriate for a country such as Burma.[24]

But making the US Federal Reserve arrangements an even more attractive model for the advocates of the BoB was the emphasis within the American system on discounting agricultural paper. The Federal Reserve's eligibility criteria for such paper was extraordinarily liberal, and it included (Section 13A of the Act) negotiable exchange bills, drafts and notes 'issued or drawn…for agricultural purposes, including the production of agricultural products, the marketing of agricultural products…the carrying of agricultural products…and the breeding, raising, fattening of live stock…'.[25] The list of institutions able to access the Federal Reserve to discount their paper was likewise liberal in its inclusiveness. Access was available not only to banks that were members of the Federal Reserve, but also (from 1922) to co-operative marketing associations (Belshaw 1931:243).

Distinguishing the BoB proposals from simply the idea of credit creation was, as has already been noted, the fact that it would be *currency notes* that would be issued against

[22] The full title of the 1913 Federal Reserve Act was; *An Act to provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes.*

[23] US Congress (1913, Sections 13 and 14).

[24] The Federal Reserve's employment of the RBD was cited by Lister as a model as noted, but the intellectual genealogy of the idea as it related to monetary arrangements for British India (and Burma) owed to influences closer to home too. Though the basic idea of the RBD can be traced to the Scottish monetary theorist (and fraudster), John Law, the central role played by bills of exchange was first enunciated by Adam Smith, who wrote in the *Wealth of Nations* that paper money varied optimally when issued against 'a real bill of exchange drawn by a real creditor upon a real debtor, and which, as soon as it becomes due, is really paid by that debtor' (Smith [1776] 1937:288). Thereafter, of course, the RBD became embroiled in the 'banking school' controversies, in the wake of which the idea became close to a heresy amongst 'economists'. Nevertheless, championed by banking school adherents such as Thomas Tooke it remained influential amongst banking practitioners in the English tradition (not least in the Bank of England itself), and via this channel influenced the bankers and officials of British India. In this context, and for an official such as Lister, the practice of the US Federal Reserve would have provided an example to follow if not a source of original inspiration.

[25] US Congress (1913, Section 13a).

applicable bills of exchange. The significance of this with respect to the Federal Reserve's arrangements was also fully understood by contemporary observers:

> The note issue passes out from the hands of the bank into the hands of the public. It thereby differs from a deposit account in that the note gets a quasi-public function….A private contract between a bank and its depositors stands on an entirely different level.[26]

IV

The Fate of Burma's Central Bank

Lister's memorandum on 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 British government department which 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.[27] 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 that country's existing 'excess rupee to reserves' problem.[28]

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.[29] 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 BoB 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'.[30]

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[26] J. Laurence Laughlin in testimony to the House Banking and Currency Committee upon the eve of the passage of the Federal Reserve Act in February 1913 – here cited from Friedman and Schwartz (1963:195)
[27] 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.
[28] *ibid.*
[29] Minutes of this meeting written by Lister, which was held on 7 March 1932, can be found in the C.W. Dunn Papers, Box III. Other members of the delegation included: Sir Henry Strakosch, a leading and somewhat eccentric business figure in British India 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: Sir David Monteath, then Assistant Secretary of State, India Office, who later became Under Secretary of State for (the separated) Burma, 1937-1941.
[30] *ibid.*

One Bank, Two Countries

Events have a way of overtaking even the best laid plans, and so it turned out both for both the BoB 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 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).[31] Contrary to the recommendations of Keynes and others down the years, it was a privately-owned (shareholder) institution modelled on the Bank of England. The RBI's note issue was conservatively backed by 'no less than' 40 percent gold and/or sterling securities, but there was room for an elastic note issue – with up to 25 percent of the reserves being allowed to consist of rupee securities. Alas for the proponents of automatic and non-discretionary elasticity of the note issue (but consistent with the pre-RBI arrangements), such securities were limited to those issued by the central and provincial governments.

But adding an additional 'elastic' component to the British India's monetary system (if not to the note issue), were the activities of the RBI's 'banking department'. Like its namesake at the Bank of England, the RBI had a banking department that could engage in a range of activities that could considerably ease (or tighten) monetary conditions. These included extending credit to government (including Burma's), as well as 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. Before the Second World War, however, and throughout the years that Burma's monetary arrangements came under the RBI, the facility was little used and the only regular customer 'was the Government' (Sayers 1952:228).

V

Conclusion

Together with a flag, an anthem, and a football team, 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 is usually all that is told regarding the development of central banking in Burma. This is a pity, for in the 1930s a set of proposals, advanced by Imperial officials and Burmese nationals 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. The efforts to create a central

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

bank in Burma in the 1930s, however, came to nought. Complicated by the complex needs of British India as a whole, they were deemed as a ‘too rash’ experiment amidst the decade’s enveloping global monetary and economic crisis. Meanwhile the Reserve Bank of India finally arrived in 1934. This served both India and Burma until the Second World War, during and in the wake of which many institutions, including Burma’s monetary system, would be swept away.

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