

# Archiving the History of Reserve Bank of India



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## **ARCHIVING THE HISTORY OF THE RESERVE BANK OF INDIA**

“The care which a Nation devotes to the preservation of the monuments of its past may serve as a true measure of the degree of civilization to which it has attained.”<sup>1</sup> The chief monument of history of a nation is its archives, the preservation of which is recognized in all civilized countries as a natural and proper function of Government.

Ladies and Gentlemen,

I am deeply privileged to address you at the RBI archives on the occasion of the International Archives Day. The objective of an International Archives Day is to raise awareness about the importance of records and archives. This day also seeks to raise awareness amongst senior decision makers on the benefits of records management for good governance and development.

My association with the Reserve Bank of India dates back to my 2 years as Private Secretary to Finance Minister in 2002. This was followed by another 3 years in the International Monetary Fund when I used to interact with the senior management of the Reserve Bank of India. In 2002, Dr. Bimal Jalan was Governor of RBI and Dr. Y.V.Reddy and Vepa Kamesam were Deputy Governors. Subsequently Dr. Y.V.Reddy was serving as Executive Director (India) IMF when I was appointed as Advisor to Executive Director (India) IMF. At the IMF, I had the opportunity to work with a number of Executive Directors of RBI who were on deputation to IMF – K.Kanagasabapathy, Deepak Mohanty, Ananthakrishnan Prasad in the ED’s office, and Smt. Indira Rajaraman in the Monetary Policy Department of IMF. On return from the IMF, in 2007-08 as Secretary Planning & Finance (Budget) in the Government of Rajasthan, I was closely associated with RBI as part of my institutional financing responsibilities in increasing agriculture credit growth and financial inclusion. As Joint Secretary to Government of India in the Ministry of Textiles, I often interacted with the Deputy Governor RBI on the corporate debt restructuring of Textiles industry in the aftermath of the Global Financial Crisis.

Although not a Historian by qualification, I was drawn deeply into economic history for nearly 15 years. History was my subject for the civil services examination in 1988 and again when I was Joint Secretary Ministry of Culture with additional charge of Director General National Archives of India, I handled a number of subjects of historical importance including the National Archives of India, the Indian Historical Records Commission, the Nehru

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<sup>1</sup> Waldo Gifford Leland., The American Historical Review, vol 18, No 1 (Oct 1912), pp. 1-28

INTERNATIONAL ARCHIVES DAY ORATION AT THE RESERVE BANK OF INDIA,  
PUNE JUNE 9, 2017

Memorial Museum and Library, the National Library and the Raja Ram Mohan Library Foundation. In the years 2002-2008, I developed a deep respect and admiration for the Reserve Bank of India. The RBI represents the greatest institution we have in India today with long history of outstanding brilliance in the service of the Nation.

In today's speech, I shall seek to identify 15 land mark events in RBI's 75 year history. It is also part of my ongoing book research work with an ICWA Fellowship titled India and IMF. I had visited RBI Archives as a Research Scholar on the recommendations of Dr. Y.V.Reddy a few months ago. I would be happy to share my vision for the RBI archives in the concluding parts of my speech.

### **Introduction**

The Reserve Bank of India was established in 1935, as the country's central bank. The sub-committee of the First Round Table Conference said that efforts should be made to establish on sure foundation and free from any political influence...a Reserve Bank which will be entrusted with the management of the currency and exchange.

The preamble of the Reserve Bank of India Act, 1934 says:

An Act to constitute a Reserve Bank of India

Whereas it is expedient to constitute a Reserve Bank for India to regulate the issue of Bank notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage..."

From April 1, 1935 the Reserve Bank of India commenced operations as a shareholders' bank with its central office in Calcutta. The Central Bank took over the currency issue function from the Government's Controller of the Currency and the management of Government's accounts and public debt from the Imperial Bank of India. An Agricultural Credit Department was set up in the Reserve Bank of India at the time of its establishment to handle the work of rural credit.

In 1934, Sir Osborne Smith was appointed as the first Governor of the Reserve Bank of India, an appointment described by Sir C.D.Deshmukh as follows:

"Plans characteristic of the foresight that the British bring to bear on public affairs in order to preserve what they regarded as their own legitimate interests were

INTERNATIONAL ARCHIVES DAY ORATION AT THE RESERVE BANK OF INDIA,  
PUNE JUNE 9, 2017

made to ensure that the first Governor of the Reserve Bank would be a person on whom the Bank of England could rely and from whom they could expect unquestioning cooperation.”

Sir James Braid Taylor and Sir Sikander Hyat Khan were appointed as First Deputy Governors of the Reserve Bank of India.

### **November 1936 RBI Governor Sir Osborne Smith Resigns**

Sir Osborne Smith resigned in 1936 citing Government's attempts to dominate the RBI. The Finance Member in the Viceroy's Council Sir John Grigg was concerned that the RBI Board far from being a British catspaw, had too many persons who sympathized with the Indian businessmen and Congress party.

Sir C.D.Deshmukh's said the following in his Gokhale Institute address:

“...I think I must permit myself to record that the main causes of Sir Osborne Smith's resignation were, apart from his temperamental incompatibility with the other two, the serious difference of opinion which arose between him and the Finance Member over the lowering of the Bank rate, with all its implications, and the management of the Bank's investments.”

### **A Young Governor of Reserve Bank of India – Sir C.D.Deshmukh**

On August 11, 1943 Sir C.D.Deshmukh ICS was appointed as the first Indian Governor, of the Reserve Bank of India at the age of 47. It was in his tenure that the Public Debt Act 1944 was enacted to consolidate and amend the law relating to Government securities empowering the RBI to manage Government debt and its provisions related to the issue, servicing and repayment of Government securities.

### **India at Bretton Woods<sup>2</sup>**

The United Nations Monetary and Financial Conference at Bretton Woods in July 1944 witnessed a consensus between 44 countries for the creation of the International Monetary Fund and the World Bank. India was deeply engaged in the debates at Bretton Woods. India was a British colony at the time and was represented at the Bretton Woods Conference by a British run government of India. After the publication of the Anglo-American Joint

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<sup>2</sup> Report of the Coordinating Committee dated July 21, 1944 Bretton Woods Conference accessed from RBI Archives, Pune ACC No 44784 DEAP pages 27, 29-30, 31-32, 55-56

INTERNATIONAL ARCHIVES DAY ORATION AT THE RESERVE BANK OF INDIA,  
PUNE JUNE 9, 2017

Statement of 1944, the Government of India sent the document for comments to all provincial governments and chambers of commerce. Few other Governments involved in Bretton Woods negotiations engaged in this kind of consultation of public opinion in advance of the July conference.

India was represented at the Bretton Woods Conference by a six-member delegation including the Finance Minister Sir Jeremy Raisman, the Governor of the Reserve Bank of India Sir C.D.Deshmukh, R.K.Shanmugam Chetty, Dr. B.K.Madan and A.D.Shroff. . The Indian delegation made a plea for adequate representation in the management of the Fund, and a workable agreement with the Government of the United Kingdom for liquidation of her sterling balances.

Mr. A.D.Shroff in his statement at the Bretton Woods Conference said that

“What I ask for is a multilateral settlement of a portion of our balances. If the Conference is prepared to accept the principle of our amendment, then I see no difficulty at all in evolving a concrete formula, by which the two purposes set out in agreement can be met. The purpose set out in our agreement are two: To secure a multilateral convertibility for a reasonable portion of our balances and secondly to devise a formula so as not to place undue strain on the resources of the Fund. It may be that unfortunately situated as we are politically, perhaps the big guns in the Conference may not attach great importance to a country like India.....Suppose you don't accept our position, you are placing us in a situation, which I may compare to the position of a man with a million dollar balance in the bank but not sufficient cash to pay his taxi fare. That is the position you put us in.”

The United States delegation expressed its sympathetic understanding of the importance of India's problem but took the view that the problem of wartime indebtedness will be settled directly by the countries concerned directly in a spirit of mutual understanding. The United Kingdom delegation said that they were grateful to those Allies and particularly to our Indian friends who put their resources at our disposal without stint and themselves suffered from privation as a result.

Lord John Maynard Keynes said

“we appreciate the moderate, friendly and realistic statement of the problem, which Mr. Shroff put before you today. Nevertheless the settlement of these debts must be a matter between those concerned.”

Despite having lost the battle for orderly liquidation of sterling balances, India still participated in the Fund and the World Bank. The RBI had the task of persuading the Committee of the Indian Legislature to endorse Government's action in joining the Fund and the World Bank as an original member on December 27, 1945.

### **January 1949 Nationalization of the Reserve Bank of India**

On January 1, 1949 the Reserve Bank of India was nationalized. The Reserve Bank (Transfer to Public Ownership) Act 1948 brought the Reserve Bank of India into public ownership. Sir C.D.Deshmukh was of the view that such a step was both premature and logically unnecessary in the present stage of the economic development of the country. That said, in the event of the Government decision to nationalize, the authorities of the Bank decided to cooperate with the Government in evolving a scheme of nationalization. The nationalization of the Reserve Bank warranted a reconstitution of the central and local boards and there was a detailed exchange of letters between the Governor RBI and Finance Minister and the RBI views were accepted.

### **July 1949 The First Rupee Devaluation**

On July 1, 1949 Sir Benegal Rama Rau was appointed as Governor RBI. On September 1, 1949 the rupee was devalued by 30.5 percent on the devaluation of the pound sterling along with the currencies of most of the members of sterling area. The devaluation of the rupee in 1949 consequent to the devaluation of the pound sterling caused a period of uncertainty. However by 1951 there was renewed confidence in the value of the rupee and the Finance Minister Chintaman Deshmukh said in Parliament that he was not satisfied that the rupee needed revaluation. In 1951, the RBI increased the interest rates to 3.5 percent from 3 percent at which it had remained since 1935. In July 1955 the Imperial Bank of India was converted to a State owned institution, the State Bank of India.

### **Prime Minister Nehru and Governor RBI Sir Benegal Rama Rau**

On 12<sup>th</sup> December 1956, Prime Minister Jawaharlal Nehru addressed Governor RBI Sir Benegal Rama Rau on a memorandum circulated by the Governor to the Directors of RBI on the Finance Bill. The letter says

“I have read this memorandum with great surprise. Apart from the contents of this memorandum, the whole approach appears to me to be improper. It is if I may use the words, an agitational approach against the Central Government. ...Monetary policies must necessarily depend upon the larger policies which a Government pursues. It is in the ambit of those larger policies that the Reserve Bank can advise. It cannot challenge the main objective and policies of Government.”

There was continued correspondence between the Prime Minister and the Governor RBI. On January 7, 1957 Sir Benegal Rama Rau resigned from the post of Governor RBI on account of differences with the Finance Minister T.T.Krishnamachari on issues of autonomy of the Bank and the public

criticism of the Bank by the Finance Minister. On February 18, 1958 the first major financial scandal involving Government in post-independence India, “The Mundhra Affair”, which involved the support given to the shares of Mundhra Group of Companies by LIC, resulted in the resignation of the Finance Minister.

### **June 1960 India’s First Bank Collapse – The Palai Central Bank**

1960 witnessed the first bank collapse in India with Palai Central Bank suffering a run on its deposits. The failure of the Palai Central Bank led to a number of bank panics across the country specially in Travancore and Delhi where Punjab National Bank, Oriental Bank of Commerce, New Bank of India and a few other banks experienced heavy withdrawals. The Banking Companies Act was further amended to protect depositors in cases of liquidation of Banks. Deposit Insurance was introduced on the basis of the Deposit Insurance Corporation Act, 1961.

### **June 1966 Rupee Devaluation**

Rupee was devalued by 36.5 percent to bring domestic prices in line with external prices, to enhance the competitiveness of exports and to address the country’s trade and balance of payments problems on June 6, 1966. The US dollar which was equivalent to Rs. 4.75 rose to Rs. 7.50 and the pound sterling from Rs. 13.33 to Rs. 21. Special export promotion schemes were abolished as part of trade reforms on the same day. The devaluation of the rupee was seen as India succumbing to western pressure. The Government declared a plan holiday. The fourth five-year plan was abandoned in favor of three annual plans in the wake of disruptions in the economy on account of two years of drought, two wars, and the devaluation of the rupee. The annual plans guided development with immediate focus on stimulating exports and searching for efficient uses of industrial assets.

### **July 1969 Bank Nationalization**

Nationalization of 14 major Indian Scheduled Commercial Banks under the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance 1969. L.K. Jha as Governor of RBI did not seem to be too involved with the 1969 decision on Bank Nationalization<sup>3</sup>. The RBI Board on July 23, 1969 merely stated that “there was a brief discussion on the implications of the bank nationalization ordinance.”

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<sup>3</sup> Srinivasa Raghavan, T.C.A.; Dialogue of the Deaf – The Government and the RBI; Tranquebar Press, 2017

### **September 1975 Regional Rural Banks**

The major push to enhance Rural Credit came when the Regional Rural Banks Bill was passed in January 1976. The RRB's were a cross between the commercial banks and cooperative banks, with their ownership being vested in a commercial bank. The RRB's were envisaged as state-sponsored, regional based, rural oriented commercial banks.

### **1981-83 IMF Program**

The Balance of Payments situation changed dramatically in 1979-80. Inflation soared from 3 percent in 1978-79 to 22 percent in 1979-80. The external terms of trade worsened significantly owing to higher prices for imported petroleum and fertilizers. Trade deficit zoomed. India's loan for SDR 5 billion was approved by the IMF Executive Board. The focal point of the adjustment effort was reduction of the current account deficit by 2 percent of GDP. The other quantitative performance criteria incorporated into the program was the ceiling on external commercial borrowing. Through the program period (November 1981 to February 1983) the RBI followed a policy of gradual devaluation of the rupee against a basket of currencies. India met all the performance criteria agreed upon and made each drawing on time. After 3 years, India had drawn SDR 3.9 billion of the SDR 5 billion, leaving SDR 1.1 billion to be drawn following negotiation of the 4<sup>th</sup> year's program.

### **1991 IMF Program**

India was on the verge of an economic crisis by 1990. All expansionary policies to raise growth had failed. On August 27, 1991, the Finance Minister addressed the Managing Director IMF for an 18-month stand-by arrangement in an amount equivalent to SDR 1656 million. A memorandum of economic policies setting out the economic program of the Government of India for the period 1991/92 and 1992/93 was also submitted. The Government also requested for an additional purchase under the compensatory and contingency financing facility with respect to any remaining excess in oil import costs or shortfall in merchandise and remittance earnings for the year 1991. The Government indicated its willingness to enter into a comprehensive structural adjustment program, supported by an arrangement under the Extended Fund Facility.

### **November 1997 Dealing with the Asian Currency Crisis**

RBI introduced a series of measures in response to the Asian Currency Crisis. The measures were aimed at absorbing excess liquidity without affecting

INTERNATIONAL ARCHIVES DAY ORATION AT THE RESERVE BANK OF INDIA,  
PUNE JUNE 9, 2017

availability of credit in productive sectors. In 1998, the Narasimham Committee on Banking Sector Reforms was setup to review the progress of banking sector reforms and recommend a program for financial sector reforms. By 2001, the RBI became a regulator of the money market and a number of market reforms were introduced. The automatic monetization of budget deficits was phased out with Government borrowing from the market. The rupee was made fully convertible on the current account.

### **2000-2008**

The period is characterized by RBI's successful handling of banking supervision. The RBI adopted a modern payments and settlements system for oversight of the financial sector and took severe penal action against 45 errant banks. The RBI insisted on merger of banks with weak balance sheets with stronger banks to ensure that there were no private sector banks which did not meet the RBI's capital adequacy requirements by the global financial crisis of 2008.

### **RBI Archives – A roadmap ahead**

The function of a State Historian are to collect, collate, compile, edit and prepare for publication all official records, memoranda and data relative to the land mark events. The Library of Congress USA, the Moscow State Library Russia, The National Archives of Tokyo, The Ottoman Archives Istanbul Turkey contain amongst the largest collections of archival papers in the world. These institutions have large deployment of manpower comprising of Archivists, Language Specialists, clerks, expert copyists, support staff for retrieval of documents and 21<sup>st</sup> century historians. A search of the "Moynihan Papers" at the US Library of Congress comprises of over 5000 folios. Similarly, the Moscow State Library contains the archival papers of the Russian Tsars - the Bible read by Peter the First and it is maintained in pristine condition. The Ottoman Archives carries the archival papers of Ottoman Turkey. The National Archives of India at its Bhopal office carries the official papers of the 1857 Sepoy Mutiny and the correspondence between the Rani of Jhansi and Tantia Tope which are in Urdu. Preservation and Retrieval of documents which are 200-300 years old requires immense commitment.

Almost all international and national archives have a custom of answering queries from scholars from everywhere. For an established Library or Archives this often takes many hours of efforts every day. The Historians are intensely interested in their work. The staff deployed require considerable knowledge and expertise to assist scholars. All International and National Archives receive generous appropriations of budget allocations. An archive of historical importance usually requires 30-50 lac square feet of space. The

INTERNATIONAL ARCHIVES DAY ORATION AT THE RESERVE BANK OF INDIA,  
PUNE JUNE 9, 2017

National Archives of Japan contains several underground floors to protect important documents from frequent earthquakes. So large is the Ottoman Archives that it is housed in 7-8 buildings and document retrieval is done through cycle rickshaws. Archival documents also require protection from fire, moisture and dust. Access to important documents is only provided in secure conditions.

Preservation, coordination and publication represent the critical functions of a National Archives. A regular publication calendar will encourage scholars to frequently visit the archives. The Library of Congress provides type written indexes of the available documents. The National Mission on Manuscripts has published a 40 volume Catalogous Catalogorum to present the ancient manuscripts available with the mission in an orderly manner.

The archives of the historical events of a great Institution like the Reserve Bank of India comprise of letters, reports, orders, newspapers, magazines and other documents produced in the course of transacting public business. The value of the Bretton Woods documents, the IMF programs of 1966 and 1981 with the RBI archives are truly inestimable.

The RBI has an established record retention policy which at 12 years is lesser than that of Government of India, a record management policy consistent with the Public Records Act, designated records officers for transfer of records and a digitization policy to present the Monetary History of India since 1935. Acquisition and conservation of records are an important feature of any archives. A time bound acquisition and preservation plan needs to be drawn up on an annual basis. Digitization of relevant news-papers are a valuable addition to any archive. Regular training programs for records officers are essential.

International archives follow a practice of regular exhibitions of their archival papers. The RBI Archives may consider exhibitions of RBI Board meetings, department wise achievements since 1935 particularly in the Agriculture Credit Department, Bank Nationalization, IMF programs of 1966 and 1981, letters of Sir C.D.Deshmukh and Sir Benegal Rama Rau. The RBI archives can also consider collaboration with Archives of Bank of England and United States Federal Reserve for joint exhibitions of archival papers. Such joint exhibitions would enable a rich exchange of historical documents on contemporary history.

## **Conclusion**

It's remarkable that Historians occupy an important place amidst Central Bankers. The 4 volumes of History of Reserve Bank of India provide a wealth

INTERNATIONAL ARCHIVES DAY ORATION AT THE RESERVE BANK OF INDIA,  
PUNE JUNE 9, 2017

of information about the various historical events. The quantum of rich archival history of the RBI makes it an immense joy for any historian to serve at the RBI archives. One can spend days and days going through the volumes of documents available. In the pursuit of my research work for my book India and IMF, I had the privilege of meeting the great men who served as Governors of RBI – Dr. C.Rangarajan, Dr. Bimal Jalan, Dr. Y.V.Reddy and Dr. Duvvuri Subbarao. Oral archives represent a vital element of history. The RBI may consider a project on oral archives so that the memories of these great men who led the Nation through critical times with astute leadership are adequately preserved in the coming days to serve as role models for emulation for future generations.

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INTERNATIONAL ARCHIVES DAY ORATION AT THE RESERVE BANK OF INDIA,  
PUNE JUNE 9, 2017

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- 2001-2003: Private Secretary to Finance Minister of India  
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- 2000-01: Deputy Secretary to Government of India, Ministry of Petroleum

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- 2007-10: Secretary to Government, Planning and Finance (Budget)  
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(a) From Great Depression to Great Recession by Atish R. Ghosh and  
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