

## The British Empire Created the Reserve Bank of India, as a “Sheathed Weapon,” Used to Fleece Indian Wealth

This bank remained the primary source of British finances for the second world war

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*Central banks have invariably been used by their governments to [create money](#) for war funding. Britain, in fact, was able to maintain its edge over its rivals like France in the 17<sup>th</sup> – 18<sup>th</sup> Century because it had a money-creating central banking institution the Bank of England, which others lacked. The official [website](#) of the Bank of England tells us that “It was primarily founded to fund the war effort against France.” The secret of Britain’s edge over France was quickly discovered by the latter. Thus, **Fond Montyon**, a senior civil servant in the French Finance Ministry, [recommended](#) in 1770 that France should adopt a similar mechanism by espousing the same institution.*

“Great Britain finances by taxation neither all nor part of the costs of war, it finances them by loans and increases the annual tax burden only by the amount necessary to face the interest and redemption of the loan. That is the regime that France must adopt,” said Montyon.

In the same period the kings in the Indian subcontinent, fiercely resisting the increasing power of the British East India Company, mainly depended on the traditional methods of collection of taxes, gifts, and donations. They remained either oblivious of or abhorrent to the introduction of a central banking institution of their own and were thus beaten at the hands of the Company. Americans, on the other hand, established their [first de facto central bank](#), the Bank of North America, in Philadelphia in 1781, and the war of independence, they were fighting against the British, settled in their favor in two years.

When and why was the first bank established in India?

Up until the British interventions, plenty was evident in India everywhere, especially in the eastern province of Bengal (Now Bangladesh and the Indian states of Bengal, Bihar, and Odisha), which later had to become the first seat and stronghold of the British in the subcontinent. “This was a time when India accounted for around a quarter of all global manufacturing. In contrast, Britain then contributed less than 2% to global GDP,” [according to William Dalrymple](#). About Bengal, [Madhusree Mukerjee reports](#) on the authority of physician François Bernier who arrived there in late 1665 that its rice traveled to Sri Lanka (called Ceylon by the British), and the Maldives, its sugar to Arabia and Mesopotamia, and

its silks to Europe; ships at its ports were loaded with such exports as wheat biscuits and salted meats, opium, varnish, wax, musk, spices, preserved fruits and clarified butter. The currency in circulation was the silver coin *Sikka*, but before the British rule, the Moghul king's viceregent, the *Nawab* of Bengal used to collect taxes as a proportion of the produce, in kind, not in currency. This meant that if due to vagaries of nature, the peasants produced less, they had to pay proportionately less tax. If they could grow nothing, the government would support them from the produce of the charitable farms attached to temples and mosques.

Things changed utterly, once the East India Company took over Bengal. They were now, not allowed to pay their taxes in kind as a portion or percentage of their produce. They were required to pay a "fixed rent" in silver. The demand for silver coins during the revenue collection season resulted in complete drains of the available currency. The peasants had plenty, in the form of grains but were unable to pay the revenues. Default in timely payment of taxes now was fraught with severe consequences. The Company's revenue collectors, would strip naked their wives, drag them from their homes, "put the nipples of the women into the sharp edges of split bamboos and tore them from their bodies" as [Burke stated](#) in some of the most sensational testimonies of the time. As a result, the farmers had no option, but to sell their produce at a throwaway price for silver coins to middlemen, which then supplied it to the British, getting the reward for their service in the form of some profit. The British still got the produce extremely cheap, and even an ordinary British soldier was able to make a personal fortune in India.

Currency, however, in the collection season remained a scarce commodity even for the traders, to purchase the farmers' products. Thus, to remedy the situation arising from the contraction of the currency in circulation at the time of the collection of revenues, Warren Hastings, the governor of Bengal, proposed the 'General Bank of Bengal and Bahar,' in the year 1773. A meeting of the Council of Revenue was held at Fort William in Calcutta (now, Kolkata), on [April 13, 1773](#). The proceedings of the conference containing the 'Plan' for the establishment of the 'General Bank in Bengal and Bahar' recorded that: "[T]he great complaints which are made from all the northern districts of the two provinces, of the inability of the Farmers to pay their rents, on account of the uncommon plenty and cheapness of grain, are primarily owing to the great drains, which have been made of the current coin in the districts by the collections." This is recognized as the first systematic effort for the establishment of a central banking institution in India, and its purpose was to help the British occupant rulers smoothly fleece the ordinary Indian people.

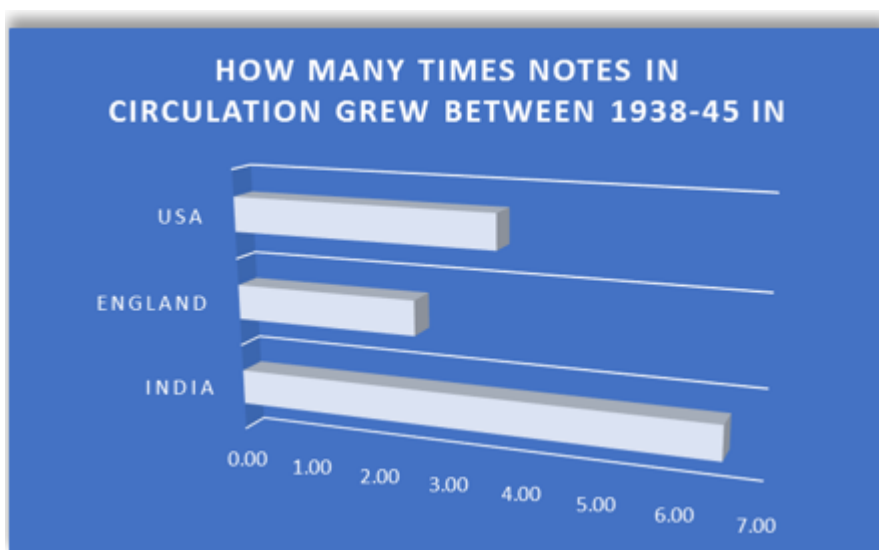
### **The Reserve Bank of India**

A crushing defeat of Indian freedom seeking forces in 1857 at the hands of the East India Company in what the British call the [Sepoy Mutiny](#), culminated into the transfer of administration of India to the Crown through the [India Office](#). This direct rule of the Crown is known as the [British Raj](#). The Raj, through its subtle machinations, tweaked the Indian monetary standards from its freely convertible silver standard to a paper currency standard, [expandable](#) as per their perceived "requirements of the public." They debated for long about the form, type, and control of the central banking institution for India, separate from the Bank of England. Especially after the conclusion of the WW1, they urgently wanted it, so that they might create money in India to get access to its resources, supply as well as soldiers, without casting shadows of the monetary expansion on the British economy. They wanted the institution in India, but not under Indian control. In a cabinet meeting [Neville Chamberlain](#), the Chancellor of Exchequer in November 1932 thus [said](#) likening the bank to

a “knife,” and the Indians to “a spoilt, willful, naughty child” that the problem was “so to present the knife to the child that it shall be satisfied that it has a knife, and yet it shall not be able to open it.”

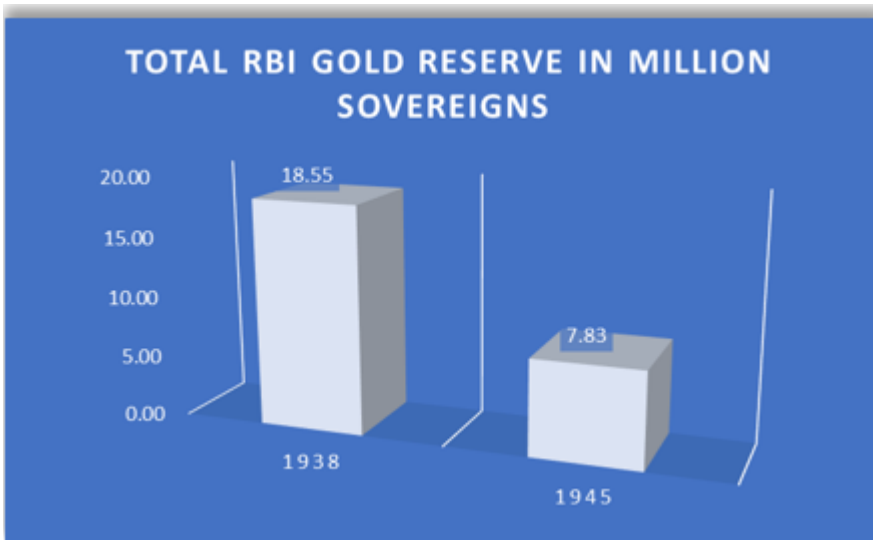
India’s central bank, the Reserve Bank of India (RBI), finally came into being, commencing its business on April 1, 1935. It served the purpose for which it was formed well, acting like a big suction pump sucking Indian wealth, especially gold to England, up to 1947 when India gained independence.

This bank, in fact, remained the primary source of British finances for the second world war as becomes glaringly evident by a [comparative study](#) of its assets and liabilities before the beginning of the war and after its end. For example, the RBI expanded the currency notes in circulation in India 6.57 times during the war, while the FED stretched the bills supply in the USA 3.69 times, and the Bank of England expanded the notes circulating in England 2.56 times only, over the same period.



Comparative growth in bank notes during WW 2 in the USA, England, and India. Image Source: Promise to Pay (Vol I): Banks, Battles & Bellies |Masood Rezvi

The balance sheet total of the RBI expanded 17.29 times during the war, while the balance sheet total of the Bank of England swelled 2.21 times only. The gold reserve of the RBI though appeared to remain the same expressed in terms of Indian Rupees, its worth in terms of Sovereigns, in fact, dwindled from 18.55 million Sovereigns before the war to 7.83 million Sovereigns only, at the end of the war.



Promise to Pay (Vol I): Banks, Battles & Bellies |Masood Rezvi

This is how the Raj used the RBI, the 'sheathed weapon' to provide inflationary purchasing power, to swindle not only the Indian markets of all necessities of life which caused famine in India but also helped the Crown procure war supplies from elsewhere too.

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**Masood Rezvi**, a freelance author, based in Lucknow, India has authored two books "[Promise to Pay \(Vol. I\): Banks, Battles & Bellies](#)" and "[Tightening Noose of Poverty](#)" and many articles and essays on social justice, economics, and politics. He has also compiled the compendium of the papers presented at the seminar "[Growth with Justice](#)." He can be contacted on email at [masoodrezvi@gmail.com](mailto:masoodrezvi@gmail.com) and on Twitter at [@RezviMasood](https://twitter.com/RezviMasood). His articles are available on his Facebook [page](#).

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