

**EMINENT PARLIAMENTARIANS
MONOGRAPH SERIES**

**LOK SABHA SECRETARIAT
NEW DELHI
1991**

**EMINENT PARLIAMENTARIANS
MONOGRAPH SERIES**

DR. CHINTAMAN D. DESHMUKH

**LOK SABHA SECRETARIAT
NEW DELHI
1991**

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FOREWORD

Dr. Chintaman D. Deshmukh's contribution to the national life of the country—as a civil servant, Governor of the Reserve Bank, Finance Minister and a leading public figure—has few parallels. His work and interests spanned fields as diverse as finance and education, planning and social service, horticulture and linguistics.

Beginning his career in 1919, Dr. Deshmukh embellished his record of distinguished and dedicated service with a short but momentous tenure in the first Lok Sabha (1952—56). A renowned economist, he brought to Parliament his expertise in the fields of finance and planning. In 1950, he became Union Minister of Finance as well as Member of the Planning Commission and held these positions till 1956. As Finance Minister he played a key role in the process of economic reconstruction of the country and laid the foundation of India's planned economy. There can be little dispute that the guidance and shape that Dr. Deshmukh gave to the national economy in the early post-independence years, has stood the country in good stead.

To mark the occasion of his birth anniversary on 14 January, 1991, the Lok Sabha Secretariat is bringing out a Monograph on Dr. Chintaman D. Deshmukh, as part of a series of Monographs on Eminent Parliamentarians. We hope that this brief work will serve to acquaint the reader with the outline of his life and career; and to highlight, through his speeches on the floor of the House, the contributions of a remarkable parliamentarian, who sought no political gain or limelight and knew no political master other than his conscience and an unswerving commitment to the cause of India's progress.

RABI RAY

Speaker, Lok Sabha
and

New Delhi
January, 1991.

President, Indian Parliamentary Group.

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PART ONE

DR. CHINTAMAN D. DESHMUKH : A PROFILE



Dr. C.D. Deshmukh: A Profile

Dr. Chintaman D. Deshmukh, a leading and dynamic public figure of post independence period, played a key role in the process of economic reconstruction of India. He was one of India's ablest Finance Ministers, who guided the nation in the initial years along the path of planned economy. This richly deserved accolade, however, does scant justice to his extraordinary talents, and to the exceptional ability and verve with which C.D. Deshmukh cultivated his wide ranging interests. His profile, to be complete, must acknowledge his high stature as a great scholar, linguist, refined conversationalist, horticulturist, practical social worker, devotee of the public interest, and civil servant of the greatest merit. He pursued his many interests with flair and enthusiasm, and as noted by him in his autobiography, nothing gave him greater satisfaction and joy than that he had tended many gardens, and tended them thoughtfully and well.

Early Life and Career

Few Indians have had a more distinguished career than Chintaman D. Deshmukh. Dr. Deshmukh ranks high among the eminent sons India has produced in the twentieth century. The eldest child among nine brothers and sisters, Chintaman's family had a hereditary tradition of public service. His father, Dwarkanath Ganesh Deshmukh, was a well-regarded small-town lawyer. From his mother, Bhagirathibai, a deeply religious lady, Chintaman acquired an abiding sense of humanity and spirituality.

The early promise of talent in the boy born on the auspicious day of 'Makar Sankrant', 14 January, 1896, at Nata Village in

the Kolaba district of Maharashtra, only glowed brighter with the years, as Chintaman proceeded to cover himself with academic honours from a very young age. His high school education commenced at the age of 11 years in Bombay, where under the guidance of a dedicated teacher, Shri R.K. Lagu, he learnt English and Sanskrit, French and German. In 1912, he secured first rank in the Matriculation Examination of the Bombay University, and also the first Jagannath Sankarsett Scholarship in Sanskrit. In the next two years in Elphinstone College, he stood first in the "Previous" and "Intermediate" examinations. In 1915 he went to Jesus College, Cambridge where in 1917 he took the Natural Science Tripos, in Botany, Chemistry and Geology, obtaining first class and winning the Frank Smart Prize in Botany. In the open competitive examination of the Indian Civil Service, in 1918, then held only in London, he topped the list of successful candidates. The modest claim subsequently made, that he owed his performance to a remarkable memory and hard work, cannot detract from the truth that he was, in fact, a person of phenomenal ability.

While in the U.K. he also studied for the bar at the Inner Temple, passing the final Bar Examination in 1919. But because he chose for himself an administrative career, it was not till 1965 that he got himself called to the bar.

The saga of Dr. Deshmukh's distinguished career began in November, 1919, when he entered the Indian Civil Service. He rose steadily in the service of the British administration. After a stint in the Central Provinces and Berar (1926-1931), where he was Settlement Officer, Raipur, he became Secretary to Government in the Departments of Revenue, Finance, Commerce and Industry and Public Work. In 1931, he was selected as one of the Secretaries to the Second Round Table Conference, attended by Mahatma Gandhi, and was attached to the Federal Structure Committee. In 1939, briefly, he was Joint Secretary to the Government of India in the Department of Education, Health and Lands, before he moved on to the Reserve Bank of India first as Government Director on the Central Board of the Bank and later as Secretary of the Central Board of the Bank. In

December 1941, Dr. Deshmukh resigned from the Indian Civil Service following his appointment as Deputy Governor of the Reserve Bank.

Governor, Reserve Bank of India

In August 1943, Dr. Deshmukh succeeded Mr. James Taylor as the first Indian Governor of the Reserve Bank and had the distinction of being among the youngest bank Governors in the world. At the time he joined the bank, it was in a formative stage, performing only the most basic functions of a central bank, like the issue of currency, being banker to the commercial banks and the central and state governments, and managing the public debt of the country. But by the time he retired from the bank in July 1949, he had transformed the bank into a modern development-oriented bank with some newly launched departments functioning at full swing and some other in various stages of formation and growth. The Research and Statistics Department that he had started had already made a mark as a useful tool in the country's economic policy-making. There were also a Banking Development Department, an Industrial Finance Department, an Industrial Finance Corporation of India, all of which bear witness to his vision and foresight. It was also under Dr. Deshmukh that a committee was set up to make recommendations for the establishment of a Department for Rural Credit and the Financing of Rural and Agricultural Growth. It was during Dr. Deshmukh's term as Governor that the Reserve Bank's status changed from that of a private shareholder's bank to that of a nationalised institution, without affecting the bank's role as an independent adviser to the government on economic and financial matters.

Dr. Deshmukh represented India at Bretton Woods Conference in 1944, which established the World Bank and the International Monetary Fund, on both of which he served for several years as governor. His contribution earned him the appreciation of the eminent economist, Lord Keynes.

Entry into Politics

A late entrant to politics, Dr. Deshmukh had never believed himself suited to the rough and tumble of political life. This

consideration and his conviction that he could render more useful service to the country in a non-political and technical capacity, caused him to decline the offer of finance membership in the Executive Council, made by the then Viceroy of India, Lord Wavell, in 1946.

On one occasion Sardar Patel broached the subject of his (Dr. Deshmukh) helping the Indian Cabinet as Finance Minister, but the latter pleaded his inability due to domestic circumstances. Following his visit in 1949 to USA and Europe as Financial Ambassador, a capacity in which he carried out preliminary negotiations for a wheat loan from the U.S.A., he was asked by Prime Minister Jawaharlal Nehru to help the Ministry of Finance with some budgetary adjustments connected with a River Valley Project. Later he was requested to organize the Planning Commission. In June 1950, when Dr. John Matthai resigned as Finance Minister, Dr. Deshmukh, on being asked by Jawaharlal Nehru who should be appointed Finance Minister, suggested the name of Shri N. Gopaldaswamy Iyengar. The latter wrote back to say that Dr. Deshmukh himself would be the best choice. At Nehru's insistence, Dr. Deshmukh agreed to accept the position, and the Punjab Government elected him as a representative to Provisional Parliament. In 1952, he won the election to the first Lok Sabha from Kolaba Constituency, Bombay and was reappointed Finance Minister.

Expressing her gladness that Dr. Deshmukh had joined the Cabinet, Smt. Vijayalakshmi Pandit hoped that "the petty pin-pricks" of "lesser politicians" would not trouble him very much. It was to his immense credit that he was on excellent terms with his Cabinet colleagues. On a point of difference with Pandit Nehru over the question of keeping Bombay a unitary bilingual state, Dr. Deshmukh resigned from the Cabinet in 1956. This ended his career in politics but not in public service.

Finance Minister, Economic Policy Shaper and Planner

Taking up the office of the Union Finance Minister at a time when the economic situation in the country was far from

satisfactory, he set in motion a pragmatic and workable fiscal policy oriented towards development. The broad objectives of the economic policy outlined by Dr. Deshmukh in his maiden address in Parliament on 2 August, 1950, not only spelt out the goal of the government but also his personal commitment towards the economic progress of the country. His endeavour was to follow sound fiscal and monetary policy to check inflation, to attain self-sufficiency in food, cotton and jute, to establish conditions for maximising industrial production and alleviating rural employment, and to plan the utilisation of the country's resources in the most advantageous manner.

Dr. Deshmukh persuaded his predecessor, Dr. John Matthai, to accept the Chairmanship of the Taxation Enquiry Committee in 1952, which had been appointed by him (Dr. Deshmukh) to streamline the existing structure of taxation. Earlier, in 1949, he had teamed up with Dr. P.C. Mahalanobis to effect improvements in the method of collection of statistics especially those relating to agricultural production and national income, and was instrumental in establishing a Central Statistical Office directly under the control of the Cabinet. He took early steps to appoint the Finance Commission, which by 1952 had submitted its report suggesting guidelines for the distribution of revenue between the Centre and the States.

Dr. Deshmukh was enlisted by Pandit Nehru to explore the possibilities of organizing planning in the country and building up a Plan Secretariat. With the assistance of Shri N.R. Pillai and Shri Tarlok Singh, the rough draft of a scheme for setting up the Planning Commission was drawn up and the Commission was inaugurated on 1 April, 1950. Dr. Deshmukh became a Member of the Planning Commission. The major terms of reference of the Commission were: (i) to assess the material, technical, capital and human resources of the country, and to investigate the possibility of augmenting such resources; (ii) to ensure effective and balanced utilisation of these resources; (iii) to fix priorities and define stages for the implementation of the Plan; (iv) to create conditions for the successful execution of the Plan; (v) to determine the nature of

the machinery necessary to implement each stage of the Plan; and (vi) to periodically appraise the progress made.

The Commission produced the First Five-Year Plan report within two years of its establishment, a remarkable achievement. The First Plan has been the most successful and has fittingly served as a benchmark for planning in India. The effort of Dr. Deshmukh and his team of competent economists, led to the concept and mechanism for planning, as well as its efficacy, being firmly established.

Eminent Public Figure and Renowned Educationist

Dr. Deshmukh was perhaps even more actively engaged in public activities after his resignation from politics, finding time to follow up his interest in educational, scholarly and cultural affairs. He gave generously of his time to voluntary and honorary work, bringing his intellectual and administrative abilities to the forefront. He became the Chairman of several organisations such as the National Book Trust (1957-60); Administrative Staff College of India, Hyderabad (1959-60); Indian Institute of Public Administration (1964-65); Central Sanskrit Board (1966-67); Administrative Reforms Commission; Study Group on Machinery and Procedures of the Ministries of the Government of India (1968). He was the first person to hold the office of Chairman (1956-61) of the University Grants Commission which was established by a Statute in 1956. In this period he helped lay a solid foundation for the improvement of university education in India. He was the Vice-Chancellor of Delhi University from 1962 to 1967, during which period he made it an outstanding centre of higher education. He served also as President, Council for Social Development (1964); Indian Institute of Economic Growth (1965-74); Population Council of India (1970-82); and Indian Statistical Institute, Calcutta (1945-64); and Vice-President, Indian Council for Cultural Relations (1960-67).

He was a member of the Governing Board of the International Institute for Educational Planning, UNESCO, Paris; a member of the Board of Trustees and Vice-Chairman of the

United Nations Institute for Training and Research, from 1965 to 1970; and Chairman of the Indian National Committee of World University Service.

The India International Centre was established in 1959 through the efforts of Dr. Deshmukh and his wife Smt. Durgabai, and he was its life President from its inception. This institution, with its headquarters at New Delhi, has been functioning as a centre for exchange of ideas and knowledge, and for the promotion of understanding and amity between the different communities of the world.

In 1969, Dr. C.D. Deshmukh was invited unanimously by the Democratic Opposition Party, to contest the Presidential election as a non-party candidate because he was considered to be a person of the "highest integrity and spotless character, unrivalled achievements and great eminence and above all, an unquestioned patriot with no party affiliations". He, however, lost to Dr. Zakir Hussain.

Distinguished Orator and Writer

Despite his deep involvement in varied public activities, Dr. Deshmukh devoted time to writing and delivering a number of lectures, many of which are available in print. One of his earliest reports during his tenure as a general administrator, viz., the *Resettlement of the Raipur District (Khalsa)* published in 1932, is regarded as a classic of its kind. As Chairman of the University Grants Commission, he delivered numerous lectures, which were subsequently compiled and published in two volumes viz. *In the Portals of Indian Universities*, and, *On the Threshold of India's Citizenship*. A two-part lecture delivered in Washington in 1965, under the auspices of the Per Jacobson Foundation, was later published under the title, *The Usefulness of Monetary Means in Curbing Inflation*. Other lectures worthy of mention are, *Citizens of No mean Country*, delivered in the Rt. Hon. V.S. Srinivasa Sastri Memorial Lecture series of University of Madras in 1959; *Hindi or Hindustani—Official Language or Lingua Franca of India*, delivered under the auspices of the Gandhi Memorial Foundation, Bombay; Pre-

requisites of Development in Under-developed Countries, and *The Commonwealth as India sees it*, delivered in the Kinkhede Memorial Lecture series at Nagpur University and Smuts Memorial Lecture series at Cambridge University, in 1962 and 1963, respectively.

He also found time to turn to his early love and forte, Sanskrit, and followed up the translation of Kalidasa's *Meghadutam* (1943) with *Gandhi Sukti Muktavali* (1957) (selected sayings of Mahatma Gandhi in Sanskrit verse with the original), *Sanskrit-Kavya-Malika* (1968), (Poems in Sanskrit composed by him), *Bhagvadgita: Commentary* (1976), *Dhammapada: Study of the Doctrine of Buddha* (1977), *Amarakosa* (1981). His works in English include: *Economic Developments in India, 1946-1956: A Personal Retrospect* (1957); *Free But Fettered: The Illiterate Citizen* (1970), *Social Change in India* (1970), *Reflections on Finance, Education and Society* (1972), *Aspects of Development* (1972), *The Course of My Life: Autobiography* (1976).

Recipient of National and International Honours

Over a dozen honorary doctorate degrees (*honoris causa*) were conferred on him by the Universities of Mysore, Nagpur, Poona, Osmania and Hyderabad, Annamalai, Allahabad and Delhi and by the Universities of Princeton, New Jersey, U.S.A. and Leicester, U.K. He was awarded the degree of Doctor of Science (*honoris causa*) by the Indian Statistical Institute, Calcutta, in recognition of the distinguished services rendered by him in the field of statistics, in his capacity as President of the Institute from 1945 to 1964. It was during this period that the Central Statistical Office was established and the National Sample Survey instituted.

In 1959, the Republic of Philippines honoured him with the Magsaysay Award for distinguished government service. The Government of India jointly conferred on Dr. Deshmukh and his wife the Padma Vibhushan, in recognition of their many contributions to the national life.

A life of High Principles and Rare Distinction

Dr. C.D. Deshmukh will be remembered as one of the giants of an era when one's standing and worth in public life depended singularly on one's endowments of character, merit and intellect. Abundantly possessed of these and with all humility, his vast experience and monumental scholarship afforded him a vantage position from where to make his plea for uncompromising standards of honesty and efficiency, the necessity of education and enlightenment, and the value of culture and intellect. It did not seem appropriate to him that values other than these should ever become the guiding posts of men and women in public and political life. There was never any infraction of his own high philosophy and principles. Preferring constructive result-oriented policies to the pursuit of ideologies vaguely formulated, he sought and achieved excellence without pandering to self-interest, politics or political masters.

In one of his fine lectures in 1959, *Citizens of no Mean Country*, he warned against the peril of 'Dharma-Glani', the languishing of the moral law, and feared that unless Indians drew on their spiritual heritage to stem the moral, social and political rot, the implications of the following well-known verse in the Bhagwad-Gita, would have to be suffered.

Yadā Yadā hi Dharmasya
Glānir bhavati Bhārat
Abhyutthānam adharmasya
Tadātmānam Srjāmyaham
Paritrānāya Sadhūnām
Vināshāya cha dushkritām
Dharma-sansthāpanārthāya
Sambhavāmi yuge yuge

(Whenever the moral law languishes, oh Bharata, and its negation raises its head, then I create myself. For saving the good, destroying the

evildoers and re-establishing the moral law ever and anon through the ages I appear on the scene).

The plea was not idly made, and its relevance even three decades later can hardly be disputed.

Tributes

In the death of Dr. C.D. Deshmukh in 1982, India lost a truly great man. While making an obituary reference in Lok Sabha on 4 October, 1982, the former Prime Minister, Smt. Indira Gandhi, said, that as, "civil servant, scholar, late entrant to politics, conscientious Parliamentarian, distinguished Planner and Finance Minister, educationist, author and godfather to many cultural and social service institutions," Dr. Deshmukh had made a "solid...contribution to national life." She said, "The House well knows his many-sided gifts and achievements. He and Smt. Durgabai Deshmukh were an unusual husband and wife team whose services to the country will be gratefully remembered."

Prof. Madhu Dandavate described Dr. Deshmukh as "an outstanding personality in our national life who combined in himself integrity and scholarship—a rare combination. He never allowed power motivations to dominate his life and his convictions had always the upper hand."

In his obituary tribute in the Rajya Sabha, on 4 October, 1982, the then Chairman, Shri M. Hidayatullah recalled that Dr. Deshmukh had served several public offices with "rare distinction", and "received approbation both in India and abroad." Shri Hidayatullah said, "He was highly respected for his foresight and profound wisdom. I knew him intimately and always admired his great qualities."

The distinguished life and career of Dr. Deshmukh had been illustrated earlier by another rich tribute paid to him on the occasion of his 75th birth anniversary in 1971, by an eminent contemporary Sanskrit scholar, Dr. V. Raghavan, in a poem:

“श्री देशमुखश्लाघा”

(डा० वे० राषवः)

चिन्तामणि-द्वारकनाथ-देशमुख

त्वमाभासि यथार्थनामा ।

यदाभवो भारतकोशमन्त्री

चिन्तामणिश्चिन्तितदस्तदाभूः ॥१॥

यथाधिकोशेषु तथाघिविद्येष्टेभ्येषु

नानाविषयेषु च त्वम् ।

स्वतन्त्रराष्ट्राभ्युदयप्रदेषु

प्रावीण्यतो देशमुखो व्यराजः ॥२॥

संस्कारमार्षं निजमत्यजन् यः

पाश्चात्यसंस्कारसमुज्ज्वलात्मा

प्रलस्य नूलस्य समन्वयस्या-

प्यादर्शवद्राजसि भारतोर्व्याम् ॥३॥

चिन्तामणि मन्त्रमुपास्य हर्षो

हर्षप्रदां साधयति स्म वाचम् ।

सा विश्वरूपा बहुदेशगा वाक्

‘चिन्तामणि त्वां सहजं समेता ॥४॥

विशिष्य दिव्यां तनुमादधाना

या संस्कृता वाक् वशगा तवेयम् ।

ययासि पृतश्च विभूषितश्च

स्मृतैव साग्रे तव सन्निधत्ते ॥५॥

नूनं पदं तत्तदुपागतं त्वां

तथापि यत्किंचिदनागतं चेत् ।

हानिः पदस्यैव, न ते गुणाब्धे !

पदश्रियो नावरसङ्गलज्जा ॥६॥

ज्ञानेन शीलेन च पूर्णपूतां
 लोकोपकारेण तथात्मतुष्टया ।
 करोति यो यज्ञवदात्मयात्रामिहैव
 स स्वर्गजयी यथा त्वम् १७ ।।
 ज्ञानशीलवयोवृद्धगुणश्लाघानुरागिणा ।
 मित्र-‘देशमुख’-श्लाघा रघवेण कृतादरात् ॥८॥

Translation of Dr. V. Raghavan's poem on Dr. C. D. Deshmukh.

i) CHINTAMAN DWARKANATH DESHMUKH ! You are indeed one whose name is meaningful. When you were the Finance Minister of India, you were really the magic stone of *Chintamani* which gave whatever was desired.

ii) As in matters financial, so in matters educational and cultural, and indeed in a variety of matters contributing to the welfare and development of the country which had become free, you were in the forefront because of your capacity: and therefore you shone as the mouth-piece of the country (Desamukha).

iii) Without abandoning your own heritage of the Rishis you have illumined yourself with the culture of the West and thus you shine in India as model of the synthesis of the old and the new.

iv) The great poet Sriharsa cultivated the mystic mantra of *Chintamani* and mastered Speech which gave delight: that Speech which is spoken diversely in different countries came to you, Chintamani, of Herself, in Her manifold form.

v) That Speech, particularly in Her divine form called *Samskrta* by which you are at once sanctified and embellished, is at your command and even when you just think of Her. She presents Herself before you.

vi) Certainly several important positions came to you: if some other positions did not come, the loss is for those positions, not for you a reservoir of merits. Indeed Dame

Position has no shame in associating Herself with the lesser ones.

vii) He who conducts the journey of his life, full and pure with knowledge and character, with service to the world and with self-satisfaction, like a veritable Sacrifice such a person like you wins heaven here itself.

viii) Raghavan who loves to praise the qualities of those, who are elders in knowledge, character and age has *ardently* composed this praise of his friend Deshmukh.

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PART TWO

His Ideas

**EXCERPTS FROM SELECT SPEECHES OF
DR. CHINTAMAN D. DESHMUKH IN
PROVISIONAL PARLIAMENT/
LOK SABHA/RAJYA SABHA**

I

**ECONOMIC AND FINANCIAL
MATTERS**

I

ECONOMIC AND FINANCIAL MATTERS

1

Finance Laws (Amendment) Bill*

I beg to move:

"That the Bill to amend the Indian Finance Act, 1949 and the Finance Act, 1950 be taken into consideration".

In dealing with this Bill it is not necessary for me to enter into the vexed question of the equity of the incidence of income-tax on the Hindu undivided family. I shall start with 1949 when for the first time the exemption limit for such Hindu families was raised to Rs. 3,500 and the exemption limit for the individual was Rs. 3,000. This was proposed during the passage of the Bill in Constituent Assembly (Legislative) and the proposal was further liberalised by increasing the exemption limit to Rs. 5,000 and at the same time it was considered proper that this high exemption limit should not apply to every assessee who is for the time being a Hindu family but only to such families as consisted of at least two adults coparceners or at least two branches, the qualifying phrase used in the Finance Act, 1949 being "entitled to a share on partition". In the Finance Act, 1950 the exemption limit in the case of the Hindu undivided family was raised to Rs. 7,200 subject to the same condition.

I may explain in this connection that the sole surviving male member of the *Mitakshara* family with a wife and no children would be assessed as an individual in respect of his income from ancestral property but this assessment would have to be in the status of a Hindu family as soon as a son is born to him. It is this peculiarity of the Hindu law which made it necessary to

*Provisional Parliament Deb; 11. August, 1950, cc. 892-894; 12 August, 1950, cc. 999-1002.

impose the conditions which were embodied in those Acts. The conditions were so designed that the benefit of the higher exemption would not be allowed, unless the condition of the assessee's family is different from that of an individual, who has also to maintain himself, his wife, or husband and minor children out of his earnings. It has not been found that according to a literal interpretation of the wording employed in the Finance Acts, 1949 and 1950, the benefit of the higher exemption limit could be claimed by a family consisting of a husband, wife and minor son, since the wife, though she cannot claim partition, is according to Hindu law, entitled to share on partition, should partition take place at any time between the father and the minor son. This lacuna was brought to our notice by an assessee who claimed the benefit of it in appeal which was upheld by an Appellate Assistant Commissioner. We are therefore faced with the alternative of either amending the law or accepting the decision. The decision in the appeal was brought to the notice of the Board in May 1950. So the amendment that is now proposed is to substitute for the words "entitled to a share on partition" the words "entitled to claim partition".

So the alternative conditions which Hindu undivided family would have to satisfy are either (a) that the family should have at least two members over the age of 18 years, who are entitled to claim partition; or (b) that the family should have two members entitled to claim partition, neither of whom is a lineal descendant of the other and both of whom are not lineally descended from a common living ancestor.

I should explain now why we are making this retrospective amendment. The amendment being in respect of an accidental lacuna, there is no reason why the law should not be rectified from the very commencement. Otherwise there would be anomaly in giving the benefit of the lacuna to a few persons who detected it and claimed the benefit of it. I may also state that many assessments in which the benefit of the lacuna was not given nor claimed have become already final and conclusive.

I should like to conclude this by saying that the general question of the assessment of the Hindu undivided family is still very much before us, as a result of the recommendations made by the Income-tax Investigation Commission. But the House will recognise that the discussion of this question will be irrelevant to the present bill and all I can say is that we should be prepared to consider this question in all its bearings after the Hindu Code Bill is placed on the Statute Book or Parliament decides not to place it on the Statute Book. As the House is aware, there is a provision in the Bill which is likely to affect the status of the Hindu family in that it might approximate the status of the *Mitakshara* family to that of the *Dayabhaga* family.

Pandit Thakur Das Bhargava never lets go an opportunity of urging the interests of Hindu undivided families and therefore without disrespect to him he may be said to be perennially in a state of heat, but as he himself recognizes any elaborate discussion of the equity of taxing Hindu undivided families is beyond the scope of the present Bill and the present discussion. I do not think I can add anything very usefully to what I said yesterday regarding considering the whole question of equity in regard to the taxation of Hindu undivided families in the light of the recommendations made by the Income-tax Investigation Commission. When I refer to the Hindu Code Bill I simply refer to an element of uncertainty which might turn one way or the other and according to his decision either the distinction between *Mitakshara* and *Dayabhaga* Hindu undivided families might be maintained or might not be maintained. I did not mean to imply that if the Hindu Code did not go through, then I would cease to have an open mind on the question of the status of Hindu undivided families for the sake of assessment of Income-tax.

Then he made another point in regard to the retrospective application of this legislation, but I do not think here again I can add anything usefully to what I said yesterday. I took note of this point and explained why it was necessary that this

*Replying on 12 August, 1950, to the points raised by Shri T.T. Krishnamachari and Pandit Thakur Das Bhargava in the course of the debate.

legislation should be applied retrospectively. In regard to the particular custom in the Punjab, as I have recently become a Punjabee, I am afraid I was not aware of the peculiar customs which prevail there but I recognize that they are as he stated and therefore, I propose to bring at the proper time the two amendments of which I have given notice.

The only other contribution to this debate was made by Mr. T.T. Krishnamachari who seemed to think that the change of phraseology which would be brought about by this legislation is likely to affect the administration of section 25(a) of the Income-tax Act relating to assessment after partition of a Hindu undivided family. I cannot see on what he bases his apprehension and I am aware that he has voiced certain grievances in this matter and in response he has received certain assurances in regard to the administration of section 25(a). The necessary instructions have already been issued to Income-tax Officers and if Mr. Krishnamachari feels that there are still difficulties, then they should be brought to the notice of the Central Board of Revenue in Delhi. They will be able to look into them and see whether there are any legitimate grievances which could be removed.

While I am on this subject, I might say that Pandit Thakur Das Bhargava himself forgot to point out one thing when he made a reference to these two amendments. He said that he refrained from going into the general question of Hindu undivided families because of the financial situation. It seems as if in the light of the debates that have taken place over the last few days, he must have come to the conclusion that the financial situation is very much better.

*The motion that the bill to amend the Indian Finance Act, 1949, and the Finance Act, 1950, was adopted.

Indian Income Tax (Amendment) Bill*

I beg to move:

“That the Bill further to amend the Indian Income-tax Act, 1952 be taken into consideration.”

Income from house property is chargeable under section 9 of the Indian Income-tax Act, 1922, and the income has to be computed on the basis of the *bona fide* annual letting value of the property, subject to deductions for repairs; insurances premia interest on mortgage, ground rent, land revenue, cost of collection of rent remission for vacancies etc. No deduction for municipal taxes is specifically provided for in the law and they have not been allowed ever since income-tax was introduced in India. When the Act was amended in 1939, section 9 was also amended so as to provide for a deduction from house property income in respect of the following new items: where the property is subject to an annual charge, not being capital charge, the amount of such charge. This amendment was intended to permit the deduction of any compulsory annual payments which were charged on the property under a court's decree or other binding settlement. But it was never the intention that the amendment should cover municipal taxes which though payable annually are not considered to be a charge on the property. In fact, a specific amendment which was moved in the Assembly at the time for the allowance of municipal taxes was opposed by Government and was therefore withdrawn. Thus, even after the amendment of the Act in 1939, the municipal taxes and the urban immovable property

*Provisional Parliament Deb., 14 December, 1950, cc. 1822-1825; 18 December, 1950, cc. 1850-1855.

tax levied by the Government of Bombay continued to be disallowed for the purpose of calculating annual rental value. This disallowance was upheld by the Bombay and Madras High Courts but a year later— this was in 1943— the Allahabad High Court decided against the Department. While Government had appealed against the decision to the Privy Council, another Bombay assessee took the matter to the Bombay High Court which refused to change its earlier decision. The Government's appeal against the Allahabad High Court judgment and the assessee's appeal against the Bombay High Court judgment were recently heard together by the Supreme Court who decided on 26 May, 1950, that municipal taxes are admissible as deduction as they come within the meaning of the expression "annual charge" not being a capital charge.

As I have already stated, it was never the intention that these words should be so construed so far as the tax collection is concerned. So we took the view that although we have no say against, and indeed we are not competent to say anything against the verdict of the Supreme Court, since we feel, from the point of view of revenue collection, that that was never the intention, and since that was confirmed in the course of discussions in the House, the only remedy was to change the law and make it clear so that this allowance in respect of municipal taxes will not be made.

Then we considered whether we should wait before we came to the House with a Bill, or whether we should issue an Ordinance.

Soon after the Supreme Court judgment was received, we started receiving representations from various bodies and individuals in which it was urged that Government should refund the tax recovered in the past according to the old interpretation which the Supreme Court had pronounced to be incorrect. Even if according to practice followed by the Income-tax Department both in India and the U.K., no relief had been given in cases in which the assessment became final and conclusive on the date on which the new interpretation was given, the cost to revenue in cases in which appeals or revision applications were pending

or filed within the time-limit would have amounted to several crores, and in future, of course there would have been a continuous loss of revenue. Therefore, we thought that the best course to take was to issue an Ordinance only leaving the two assesses who had won in the Court to their triumph and ensuring that the old practice which had been in existence for nearly 64 years was followed.

At the same time we took the occasion to consider the equities of this particular taxation. Now, as you know, municipal taxes are of various kinds. Sometimes they are purely of the nature of property taxes although they include an element of service, sometimes they are property taxes and service taxes, and sometimes service taxes alone. And we felt that so far as service taxes were concerned they were properly a burden which should fall on the tenant and not on the landlord. It is impossible, in view of the lack of uniformity of the system of taxation in municipal bodies, to evolve a very exact formula, and we therefore thought we would sort of cut the Gordian knot by suggesting a percentage, that is, half of the consolidated Municipal or other local tax or 12 ½ per cent of the *bona fide* annual value of property, whichever is less. The way in which that calculation is made is exemplified at the bottom of the note on clause 5.

Since the Bill that I am moving is in accordance with the views that have consistently been taken by the House, and since it is an old practice which extends, as I said, over 64 years, and since we have taken into account some of the equities of the situation, I hope the House will agree to this motion.

In the course of the speeches much has been made of the question of paying respect to the judgment of the Supreme Court and avoiding disrespect to any judgments given by courts, and so on. I don't really see the point of these

* Replying to the discussion on the Bill, on 14 December, 1950.

criticisms. The House is the law-making body and it is for the courts to interpret the law. If the courts' interpretation does not agree, in the opinion of the House, with the intention of the House then it is open to the House to make a further attempt to clarify their intention, and indeed any such attempt betokens respect to the court and not disrespect because we recognise that they are the interpreters of the language that we have put in the statutes. Well, we admit that perhaps we have failed to make our intention clear, and we bow to the ruling of the courts. At the same time, if public policy requires that a certain state of affairs shall be ensured, then it is the business of the House to go into the matter again and evolve a proper form of drafting. Therefore, I think it is quite unnecessary to say that the courts would feel hurt by what this House is doing because to say so, is to admit that the court is a law-making body and not this House.

Now, let us see what the real point is that the Supreme Court decided. It held as a matter of interpretation that the words "charged on property other than a capital charge" are wide enough to include a municipal tax or an urban tax like the Bombay urban immovable property tax. These very words were interpreted by the Bombay and Madras High Courts, on more than one occasion, as not being wide enough to include such taxes. Therefore, it is quite obvious that there was scope for difference of opinion as to the ambit of the particular words that we used. The Supreme Court did not consider, and indeed it was not within their province to consider, whether any interpretation that they were favouring was the one actually intended by the legislature as evidenced by the Assembly Debates of 1939, or whether as a matter of taxation policy that was the proper interpretation to give. These are matters which it is for us to decide. We know our intention much better than any court and therefore, I think we are perfectly within our rights, both the Government and the House, in trying to correct the situation and setting it right.

The next issue is that of giving retrospective effect to this legislation. Well, generally speaking, it is considered that

retrospective legislation ought not to be undertaken except, as one of the speakers said, for the purpose of granting relief, or where a particular ugly situation needs it. Well, we hold that this is a situation which needs retrospective legislation. The present case is one where it can be definitely stated that an undesirable situation has arisen by virtue of the interpretation given by the Supreme Court. The Court gave an interpretation of words which had been interpreted differently by the lower courts. It was also clearly not the intention, as we know from our records, that those words should bear the interpretation put on them by the Supreme Court. Therefore, clarification has become necessary, and clarificatory legislation is generally retrospective because it does nothing more than set out what it had all along held as its intention. There are precedents for such clarificatory legislation of a retrospective character not only in this country but also in other countries. There was a case in U.K. where the House of Lords decided in January, 1926,—I shall not give the name of the case—that even where liability to tax is determined with reference to the income of the previous year, the source of income must continue to exist during the assessment year before there can be any liability to tax in respect of income received in the previous year. Now, this decision of the House of Lords was not in accordance with the intention of the legislature. Therefore, within a few months of the decision, retrospective legislation to overrule it was passed by Parliament, reference being to Section 22(2) of the U.K. Finance Act of 1926. It is interesting to note that when the U.K. Act was amended with a view to neutralising the House of Lords decision, they did not exempt from the purview of the amendment the particular assessee who took his case to the House of Lords.

I think there is an Indian case also in connection with the Professions Tax (Limitation, Amendment and Validation) Act, 1949. The Preamble to that Act runs as follows:

“Whereas it has been judicially held that the tax on circumstances and property imposed under clause (b) of Section 108 of the U.P. District Boards Act, 1922 (Act X of

1922) is subject to the limitation of Rs. 50 per annum prescribed in respect of tax on professions, trades, callings or employments by Section 2 of the Professions Tax (Limitation) Act, 1941, (Act XX of 1941) and whereas it is expedient further to amend the Professions Tax (Limitation) Act, 1941, for the purpose of excluding the taxes on circumstances and property imposed in the U.P. by Municipal or District Boards from the operation of Section 2 of that Act and Validating the imposition thereof before the commencement of this Act..."

So, the House will remember that where a certain tax has been found to be falling within or outside the mischief of the law contrary to what the legislature intended, it does become necessary to amend the law with retrospective effect to neutralise the effect of the court's construction of the law. If this were not done, the benefit would go to the litigious man and the person who acquiesces in the law as intended by the legislature suffers and therefore the fundamental principle of equity will be violated.

Now, reference was made during the course of the debate to the previous discussions in the Assembly. Well, it is true that there were previous attempts to amend the law so as to allow deduction for municipal tax. The proposal was included in the Finance Bill of 1948. The Select Committee deleted the proposal with the remark,—

"The equities of making any such deduction for the purpose of Income-tax are by no means clear, and we have thought that it would be more appropriate to go into this question in a regular Income-tax Amendment Act than in an annual Finance Bill."

Thereupon, an amendment to this effect was proposed in the Income-tax and Business Profit-tax Bill 1948. There again, the Select Committee made some kind of compromise suggestion but finally it was decided to drop it and no such provision was included.

One or two speakers have referred to the equity of such a tax. In computing income, deduction for municipal tax was not

specifically provided for before 1939 and was not allowed ever since income-tax was introduced in India. There are two reasons why that was not done. The first is that the general principle of taxation is that no liability or charge should be allowed if it is not an amount spent in earning an income, but is rather an appropriation of income and this principle is analogous to section 10(4) of the Income-tax Act. The municipal taxes and urban immovable property tax levied by the Bombay Government also fall in this category, because they are levied on the owner on account of the ownership. These liabilities attach to the owner in his capacity of being an owner of property in a particular area and not as the owner of an income. The second reason why municipal tax is not and ought not to be allowed as a deduction is that it is really a rate for specific amenities for which the owner has to spend out of his income just as he has to spend for his other personal needs and comforts. The municipal taxes are levied at rates which are generally between 15 and 25 per cent of the annual value and more often nearer to the 25 per cent level. There is also the Bombay urban immovable property tax which is levied by that Government and collected on its behalf by the Bombay Municipality at ten per cent of the annual value. To allow this tax as deduction from income-tax would be to acknowledge the right of State Governments and local authorities to encroach upon the Central sources of revenue and therefore the encroachments may well be to the extent of leaving nothing for the Central Exchequer. Now, that is an aspect which the House ought to take very carefully into consideration.

The principle underlying our decision is this: If local taxes could reduce income-tax assessment, the taxation authorities of the States and those of the Union would come into conflict and the Government of India would consider it necessary to oppose every addition to the percentage of taxation imposed by the local bodies and this would not be good for the smooth working of the Constitution. That is an additional argument in connection with equity of the tax, a point which was raised by some of the speakers.

Then, there was some reference made to delay in the taking of measures to correct the situation. Well, the time element is like this. The Supreme Court judgment was delivered on 26 May, 1950. We could get an uncertified copy only on 11 July, 1950. Then some time was taken in considering the matter and weighing the pros and cons and proposals for legislation in a longish summary were formulated some time on 13 August, 1950. I took a little time to go into the matter and the matter did not come up before Government as a whole till 26 August, 1950, and a decision was obtained on 31 August, 1950. After that several drafting points had to be settled with the Ministry of Law and the Ordinance had to be printed and it was finally issued on 7 October, 1950. In the meanwhile it is not correct to assume that all cases remained open. It was only cases in U.P. affected by the Allahabad case which were held up. In the rest of the country the tax continued to be collected in accordance with the previous decisions.

The House might be interested to know the dimensions of the figures here. Two courses were open to Government to avoid any distinction between open cases and other cases. One was legislation that refund of tax be given in all cases, notwithstanding their assessments have become final and conclusive, the other was to legislate and clarify the law that the expression "annual charge not being a capital charge" never included property taxes. The first course would have cost Government something like Rs. 25 crores. Even if refunds had been confined only to the cases where a refund was possible under the existing law, the amount of refund would have been Rs. 6 crores.

I think I have covered most of the points that were made during the debate, except one or two minor ones in regard to the tenant's liability. A point was made that the allowance was not sufficient. Well, there is such a variety in municipal taxation, as I have said, that one is driven to adopt some kind of a

formula and we thought that half and half was as fair as anything else. We have provided that where that half is less than 12½ per cent. of the annual letting value, then the lesser sum shall be adopted for the purpose. I now commend my motion for the acceptance of the House.

General Budget, 1951-52*

After four days of prolonged castigation and catharsis I rise in defence of the Budget. I feel somewhat encouraged by the information that has been given to me that in past years the attacks on the budget were far more critical and far more fierce. I have tried to conjure up a Budget in the light of the criticisms that have been made and the suggestions that have been put forward and I feel greatly puzzled. The Budget should provide for additional expenditure on projects and in securing full employment: it should also provide money for rural development and the development of cottage industries: it should have twice the amount that has been provided for in the way of subsidies: it should also make greater provision for the armed forces in the interest of the security of the country: it should be free from any kind of direct taxation, in particular, it should spare the common man and yet it must be a Budget that would take care of inflation and will bring down the price level. I think that is an impossible order to fulfil. It is made more impossible by the suggestion that in administering the Government all the high-paid officers should be discharged or should have their salaries greatly reduced and that in effect there should be no one who gets a salary of more than three figures....

After contrasting that Budget with mine I am hopeful of convincing all but a few irreconcilables that the Budget that have put forward is calculated to set the country firmly on the path of economic progress. First in regard to mixed economy, regard as impatient idealism the criticism that the Budget

*Provisional Parliament Deb.; 14 March, 1951, cc. 4573-4587

subverses no clear social and economic ideal. I claim that it has been framed so as to lay a sound foundation for the country's economic development.

I claim that it consciously goes further than any previous Budget since Independence towards combating inflation and achieving a balance between the private and the public sectors, stirring up all sections of the community to a valiant and patriotic effort to help build the India of the future and maximise the chances of any capital assistance in acceptable terms that may be forthcoming from more favourably situated nations. Above all it seeks to lift the country from the class jealousies that paralise the vitally needed common effort. I see nothing wrong in calling upon the common man to whom this country belongs to make sacrifices for his children and his children's children. I see no practicable advantage in trying to define precisely at what stage of mixed economy we are. What we are interested in is the maximum possible use of our productive resources. To the extent to which the private sector is able and ready to assist, we welcome that assistance and try to the best of our judgement to set up conditions in which private economy can operate fruitfully for the common good. But to the extent to which it proves a hindrance by reason of lack of good faith or absence of ethics we shall try and eliminate it within the framework of the Constitution to the extent to which we can command men and money for the purpose. Any idea that we can abruptly extend the public sector of our economy—and I do not take it as axiomatic that this should be the ideal—is to my mind a doctrinaire's chimera. Our newly found democracy sustained only by an over-strained bureaucracy, hastily improvised or imperfectly trained, I fear, will crumble under its self-imposed burdens, if we act prematurely. It follows that there is no essential change in the industrial policy which we announced sometime ago. I would not take up the time of the

house by repeating it, because I think its main elements and features are within the memory of hon. Members.

I take this opportunity of referring to the Industries Control and Development Bill. I think the title has undergone some change. I can assure the House that it has not been laid on the shelf but it was felt that with the setting up of the Planning Commission any measure of that kind should be such as would implement whatever plans the Planning Commission may have to indicate, so far as the private sector is concerned. In other words, a certain amount of co-ordination was called for remembering that the Bill was originally framed merely in view of the constitutional provisions, without any factual basis or any basis of actual experience. Well, Sir, to my knowledge the Planning Commission have been deliberating over the provisions of this Bill for some time, and their recommendations are in the hands of the Commerce and Industry Ministry and I have no doubt that they will seek an early opportunity of bringing a well-considered Bill forward, or at least well-considered amendments to the Bill which has already been reported on by the Select Committee.

In regard to the behaviour of the private sector, many harsh things have been said. I myself deprecate any hasty generalization that capital is not co-operative. It should be our policy to distinguish between the good and the bad, and to encourage the good elements and to curb the bad and the anti-social ones. And in this respect I think there is a certain amount of misunderstanding in regard to the tax reliefs that have been given over the last two or three years. It is felt that all these reliefs must immediately be reflected in either conspicuously expanded industrial production or in the support of Government loans. In the first place, I think that some of these reliefs were not to classes which we call capitalists at all; they were confined to the lower middle-class or to the lower slabs of the income groups. In certain cases deliberately generous relief was given to income group slabs between Rs. 10,000 and Rs. 25,000 to encourage not what is

knows as the capitalist or the entrepreneur but the investor who is again a common man, perhaps a superior type of common man.

He was the man in the past who used to support the money market and the investment market. Now in trying to judge the results we must not forget that we have lived through a kind of social revolution. The constitutional changes that have occurred and the other changes that are in train have, apart from shifting incomes, made a difference to the prospects of various classes among themselves and a certain amount of time will be required before we quite know what the pattern of the investment market is going to be. In any case, the criticism that because our borrowing programme is not supported, therefore the tax reliefs given last year have been wasted, is I think a somewhat misconceived one. I do not believe the monied classes as such were the supporters of our borrowing—their money principally went towards extending the industrial machine. The money market was supported to the extent of about 50 per cent by institutional investors like banks and insurance companies, and for the rest, to a large extent, by what I might call the upper middle classes in the old days. Now, these are the classes which, one way or the other, either by the inflation or by the constitutional changes, have found changes in their fortunes, and that is the reason why I think our borrowing programmes have not been a success in the last two or three years.

A reduction in the volume of private investment in a particular year cannot be said to diminish production of goods in that very year or in a very short period, and may not therefore add to inflationary pressure. The main industries in which production had lagged behind are cotton and jute textiles. Shortage of raw materials, and I repeat it again although it was quoted with a certain amount of contempt, shortage of raw materials has been the main factor impeding greater production in these two industries. Taxation cannot be said to have anything to do with the lag in production in these cases, and now that we have in one case taken what we believe will be very successful

measures and in the other case encouraging measures to increase the supply of raw materials, I do believe that we shall find an increase in production next year and these industries will make a very much better show than they have done this year.

In several industries production has gone up of late. I quoted some figures in my speech. I would like to quote some more. For the first ten months of 1950 for which figures are at present available, production of pig-iron was 113 per cent. of the 1946 level, of direct castings 124 per cent. of semifinished steel 112 per cent. and of finished steel 110 per cent. of 1946. Electricity generation is now 120 per cent. of the 1946 level and cement produced is 165 per cent. of the 1946 out-put. In several relatively small industries there have been large increases. For instance, the production of diesel engines is over nine times the 1946 level, of sewing machines about five times, power transformers four times, caustic soda and soda ash $3\frac{3}{4}$ times, the 1946 level. No precise figures are available in respect of private investment from year to year, but it must be recognised that production trends in the short run need not vary with investment trends.

Suggestions have been made that this country can be run by increasing the level of direct taxation. Anyone who studies the figures of the total assessees as well as the number of people who pay super-tax will find that the total number of income-tax payers is .2 per cent of the population. The total number of assessees is about six lakhs—I think the calculation is right—and the people who pay the super-tax are 28,000. Now to imagine that the country can be run by taxing only this class is, I think, to kid oneself. That, as my hon. colleague points out, includes a large number of Government servants who pay their taxes like lambs before they ever see their money.

The bulk of the tax is paid by people with incomes above Rs. 25,000. Below Rs. 3,000 the percentage of number to the total was 19 and they paid Rs. 0.49 crores. This is the figure for 1949-50 before the exemption limit. Now they have gone out. Between Rs. 3,000 and Rs. 3,500 the tax paid was Rs. 0.50

crores and the percentage of number to the total was 12.1. Between Rs. 3,500 and Rs. 5,000 the tax paid was Rs. 1.34 crores. Between Rs. 5,000 and Rs.10,000 the tax paid was Rs. 1.34 crores. Between Rs. 10,000 and Rs. 15,000 the tax paid was Rs. 4.63 crores. Over Rs. 15,000 the tax paid was Rs. 67.33 crores and the percentage of number to the total was 42.3. The number of those above the supertax level, that is to say, above the Rs. 25,000 limit is 28,000.

That includes officials also. It is possible that there is some room for increasing the taxation, may be at some future date. But in a country where we are wrestling with the problem of tax-evasion, every increase in tax bears very heavily on the righteous people and people who are prepared to pay their taxes. I think as some hon. Members pointed out it is our duty first to find out how to deal with this problem of tax evasion. A great deal has been said and perhaps something more would be said tomorrow—about this, but we confess that at the moment we have not found the means of satisfactorily dealing with this problem of tax evasion.

If we had national income figures, I think our taxation structure would have been much more scientific. The trouble is we have not got them yet. Perhaps this time next year someone else in my place will be able to answer that question very much better, because the National Income Committee is now about to submit a report and I think they will give the statistics of national income for the year 1948 and probably also indicate its distribution among various sectors of the community. Until we have those figures I am afraid I am not in a position to answer the hon. Member's question. Now returning to the problem of the black markefeer, tax evader and so on. I still hope that they have some kind of a distorted sense of patriotism. While it is our duty to reinforce our powers to deal with them as with all anti-social elements, one can only hope that the hard work and the righteous conduct of the common man will influence them in moderating their greed.

Something was said about issue of bearer bonds in this connection. We have had that suggestion very carefully examined in the Central Board of Revenue and have come to the conclusion that while it may bring some black market money to our coffers, it will rob us of some other money which is coming through the regular channel. I think the issue of bearer bonds will be a grossly self-defeating process.

There was also some reference to compulsory savings which I might deal with at this stage. The difficulty is that you cannot run these two horses of compulsory saving and borrowing, together. Either you resort to the one or the other. We did play with the idea last year and the first obstacle that we came across was that there was not practicable means of imposing any kind of compulsory savings on the agricultural community, the power to tax which vests in the State Governments. That takes off a very big sector and in view of that leaders of labour claimed that compulsory savings could not very well be applied to workers. That left Government servants in the upper ranges, who have already been subjected to a compulsory cut of Rs. 500 or thereabouts—I think it is about 12-½ per cent. Below that top rank up to Rs. 250 there is a scheme of compulsory savings in operation. Railway workers, I may hasten to add, are an exception in that they agreed to subject themselves to compulsory savings for the sake of the common good and I think that arrangement is happily still holding. It seems to me that any form of compulsory saving which would meet the situation would make borrowing in the traditional way almost impossible. We therefore came to the conclusion that there was no practicable means of raising resources in that particular fashion.

That brings to the savings campaign and the borrowing rates. In regard to the savings campaign, in answer to questions I have already stated that the new officer whom we have appointed has already infused a great deal of energy into this work. We have revived, as an experimental measure, the system which was in force, of commission agents in certain States. We are employing rural postmasters. We have every reason to hope that the new form of deposit certificate will be

popular and it may be that having regard to the seasonal flow of income in the rural areas we may contrive some other forms of weaning away the savings from those who have money laid by in the rural areas. I can claim with justice that the estimate that I have made from savings will be realised, whatever indirect taxation there may be in the way proposed in the Budget.

As regards the borrowing rate for the money market. I do not quite know what the criticism was—whether this was an excessive estimate or whether this was an unduly low estimate. I gathered some speakers to say that this was excessive and would never be realised and if that happened what would happen to us. The other criticism was that it was low, because the rate of interest was not high enough. Now, here again, I would advert to the changes that have occurred in the money market. The figures for the last two or three years do show a distinct and encouraging improvement, considering that our estimate allows for the fulfilment of the needs of the State Governments in this matter. Many of them hold large chunks of Government securities and it is the practice of the Reserve Bank to make money available to them by placing them on the market, not buying them themselves, or if they do it is for their own portfolio. So on the whole we have provided for non-inflationary finance for the State Governments. Then, we allow for their raising of loans in the open market. We have also recently permitted one or two State Governments to raise money in the rural areas in special forms. Taking all these things into consideration, I think, our estimate of borrowing is a reasonable one, but at the same time a moderate one—moderate in the sense that we do not think that we are going to overstrain the market. From that it is open to anyone to draw the conclusion as to the future of the money market rate. I do not propose to make any further statements.

I explained that the mechanism in regard to control of money rate had a vital connection with inflation and that if the Reserve Bank carried out its money market operations mechanically, merely to stabilise the rate at a certain level, there was always

the danger of its putting up inflationary finance. That is an operation which the Reserve Bank and the Central Government have agreed must not be resorted to. Therefore, it is within these limitations that the borrowing rate will be regulated. Sometimes it happens that conditions are favourable and there is no demand for money and the slightest sale depresses the market. At other times, there are people who are willing to buy and there are small fluctuations in the rate and therefore fluctuations in the prices of securities always occur. But I believe that nothing that you could do to the borrowing rate, even if that was wise to do it, would make very much difference. I believe that the key to success in the money market is countering inflation, that is to say, raising the value of money and it is that which this Budget sets out to do.

Now, Sir, criticism has been levelled that this Budget is going to be inflationary. I think that idea is entirely wrong. So far as direct taxation is concerned, I do not think that anyone will claim that that is likely to be inflationary. It must be deflationary in its potential. As regards indirect taxation, the biggest single item is tobacco. To the extent to which the consumers of tobacco maintain their present level of consumption, the effect of this increase would be to reduce consumption in some other lines. Therefore, taxation of commodities other than articles of necessity has the effect on the whole of keeping down the pressure on consumption goods and has thus a deflationary effect. The taxation on other items is very widely spread. Export duties are obviously deflationary. Indeed they are a device to deflation and that is why an export duty was levied on jute when we devalued the rupee, because they divert a portion of the profits of exporters to Government. The surcharge and import duty on wines and spirits and the rationalisation of duties on mineral oils are small items intended to bring Rs. 1 crore and in a way that would not be regarded as essential items, I hope. The 5 per cent. surcharge on imports which is estimated to yield Rs. 2 crores may be objected to on the ground that it will raise the cost of living and partly the cost of production.

As regards cost of living some figures were quoted. I can give you the results of calculations made in the Social Service Division of the Planning Commission which indicate that the maximum rise in the working class cost of living index in consequence of the various taxes, direct and indirect, proposed in the Budget, and the increase in railway fares will be 1.15 points, or .33 per cent, for Bombay. It will be less for other centres, the cost of living index for which do not include railway fares.

In a sense, Sir, the Budget is inflationary, not because of what it seeks to do, but what it does not do. That is to say, it envisages an uncovered deficit of Rs. 52 crores. To the extent to which the deficit is sought to be covered it is deflationary; to the extent to which it leaves the deficit uncovered, it is likely to be inflationary, although in fairness I must say that to the extent to which that deficit will correspond to our purchases of foreign exchange from the Reserve Bank, the money would not necessarily go into internal circulation: therefore, its severity will to that extent be diminished.

As regards the quantum of taxation, many complaints have been made in the debate. I doubt whether this is the occasion to deal with them. I think there will be many more occasions, especially in the Select Committee, when one could take notice of some of the suggestions that have been thrown out, particularly in regard to kerosene and so on. But I make no promises.

Now, Sir, the main fact that I wish to bring out here is that I have still left a deficit of Rs. 50 crores uncovered and I have left a minimum closing balance of Rs. 43 crores, and not 50 crores. Now I must remove a misapprehension in the minds of certain hon. Members that Rs. 50 crores is not a statutory limit which has been imposed on us. Neither is it the banker's limit. But it is the limit of prudence. But bearing in mind the relation of cash balances in the old days with the total volume of transactions, I think any prudent person would come to the conclusion that a budget of the dimensions we have, ought to have as a closing

balance something round fifty crores. But the point I wish to make is that I have provided for only fortythree crores. It is not as if I have sought perfection in this budget. Therefore, criticisms that certain estimates are under-estimates, that I have failed to take into account the possible beneficent effects of the Indo-Pakistan Trade Agreement and so on, are somewhat misplaced. Apart from the fact that I have made the best estimate that I could, the fact that there was going to be some sort of agreement was not hidden from me. It was in the offing for some time while the budget estimates were being framed. But I do not think that that will make any substantial difference. If it does keep up our jute exports at the level at which they prevailed last year, I think we should be fortunate. I do not quite know what effect international developments will have on a larger volume of jute goods becoming available and what other factors would arise, but, generally speaking, I think I have tried to make estimates as honest as I could.

I think most of the Members seem to have some sort of fear—although they seem to agree that this year some heroic measures were necessary—they seem to fear the future. They wondered whether taxation is likely to continue or whether year after year we should have to impose fresh taxation. That brings me to what is the purpose of the budget. As I said, the purpose of the budget is to give us a good start-off for our next five or six years' development. In the Colombo Plan we provided for a total annual expenditure of Rs. 300 crores, Centre and States combined of which we thought that we ought to be able to raise Rs. 200 crores ourselves, that is to say the State and the Centre again. I have examined the figures for the last two years and I find that we have fallen far short of that. I think the total deficit will be of the order of about Rs. 100 crores. That is to say, we have been running our development on deficit finances to the extent of about Rs. 100 crores. This time I think we will probably find that our deficit may be of the order of Rs. 50 or 80 crores. If conditions improve—and I hope to show they are likely to—then I think we shall have discharged our part of the burden, that is to say

we shall have raised our Rs. 200 crores for our development plans.

I do not believe, at least I hope, that expenditure on relief and rehabilitation will be always with us. In a year or two I think that ought to abate. That is Rs. 35 crores now. Then food subsidies. In spite of what some hon. Members have said, I do not think it is a very good system and I hope to see the day when no food subsidy will figure in the budget. That will be about Rs. 20 crores. Grow More Food schemes are related to our food self-sufficiency plan and they may go on for a year or another year. But after that I think there should be relief from that part of the expenditure. Then we are returning E.P.T. deposits. That process also ought to come to an end in a year or two. If you add these figures you will find that there will be a very considerable relief to our budgets in future. I am not therefore at all pessimistic that we shall have to carry on this process of taxation. I say that if conditions do turn out so, then we have to choose between taxation and development. And I would again urge that we must try and stint ourselves for the sake of posterity.

The Prime Minister has lightened my task very considerably in dealing with the general aspects in regard to efficiency and reliance on the services and so on. In any case it would have been very difficult for me as an ex-member of the Service to have said anything because it might have been taken as a special pleading. But I would like to add that there is imperfect realisation of the hard work that is put in by the services in support of governmental activities.

And there has been a tremendous proliferation of governmental activities in recent years, proliferation of which we have really no conception. Our relations with the public in various sectors have multiplied and it is within my personal knowledge that most of the high placed officers are very heavily worked.

Then, Sir, there was some criticism in regard to the nature of the projects that we have undertaken. I believe that even if the

choice had been open to us anew we should have taken courage in our hands and started some of these river valley projects. I have had a great deal to do with them and I have had occasion to find fault in regard to their administration. All the same I think the conception is essentially a very sound one and that is the cheapest and ultimately the most economical form of increasing the value of our land, that is to say maximising our land utilisation, especially after the difference that Partition made to us in that respect. Minor irrigation schemes are all very well in their place, but they are far more dependent on the vagaries of the monsoon as you, Sir, find in your part of the country. Many of the wells and tanks and even Krishnarajasagar suffer because of the lack of timely rains whereas these big river valley projects will, I am sure, be a very lasting and permanent investment. I think the criticism that the results are not yet visible is very captious. I cannot see how a river valley project which was started, say, two years ago can begin to show result when even the dam has not gone up and the canals have not been dug. It is true that in Madras, where they started earlier, there are some schemes which have already started yielding revenues, and that is all to the good. But there are schemes of this kind all over India, and I think that is one of the fascinating fields of endeavour that India has today, a field for which money must be found at all cost. In regard to the closing balances also I do not quite understand the criticism that the balances were allowed to run down, as made out as a matter for shame. When one has balances either one allows them to run down or one imposes taxation and keeps them up, because during the last 2 or 3 years, there was hardly any taxation. Reliefs were given with the result that the balances were run down and what saved us from the inflationary consequences of doing that was that our requirements of foreign exchange were far greater than the amount by which we ran down our balances. In other words if we had to spend 400 crores with which we paid for machinery or food or anything else, then our balances should have been run down by Rs. 400 crores which you had to pay the Reserve Bank by sterling. Instead of Rs. 400 crores you obviously paid

Rs. 400 crores minus 172 crores. To that extent you certainly raise revenues towards meeting the cost of foreign exchange. So I cannot see that there is anything on which the Government can be blamed. In the matter of this running down of the balances, we were hoping that we were coming to an end but it so happens that this year, at the end of the coming year, we will not find that we have approached the end and that is why I have shouldered this unpleasant duty of asking the House to replenish those balances by an act of self-sacrifice and self-restraint.

Then there are matters of economy and control of expenditure. In the matter of control of expenditure, I shall always be at one with the House. But as I have explained on previous occasions, it is a long term process. It is matter of keeping the screw on all the time and no flash action can be exercised, so that results are immediately portrayable in a budget. I can only reiterate that we shall not slacken in our quest for economy.

In regard to the results of measures of economy, I went very carefully through the schemes that we had drawn up and I had to agree with my colleagues that in some of the directions in which I thought economy was possible, there was not much scope at the moment. It may be that there is some scope for retrenchment in getting rid of superfluous staff and so on but that is a process that would have to be spread over the year. The suggestion that one fine morning one should issue notice to 19,000 or 20,000 people as was done in Bombay, I must confess, does not commend itself to me. There was suggestion, made, I think by Prof. K.T. Shah, that the Standing Finance Committee was not given a full opportunity for scrutinising items of expenditure. I think his notions, as he confessed, are somewhat antiquated. I can challenge him to ask any member of the Standing Finance Committee and satisfy himself how much material is supplied and how, much time they take in scrutinising the schemes.

There was a point made in regard to projects, that we could induce State Governments to impose betterment levies. That is precisely what we have done but that will not help to reduce present expenditure. It will certainly improve the chances of our getting back so far as the Centre is concerned, the loans that were advanced to them. I believe the State has already passed legislation and another has undertaken to do so and both Government and the Planning Commission are using all their endeavours to persuade the States to see that those who profit by these new irrigation schemes will contribute towards the repayment of the public monies that are spent on them. That is all a very sound idea and it is already being followed. One small point about Part C States. It stirred my sympathy. I am sorry that we had not given enough in the way of details as to what happens to their budgets. I do not know whether they will be next time, but in case they are, I shall ensure that enough details are given about significant changes in the budgets as they affect Part C States.

Now I am approaching the end of my allotted span of time, think that any message that I leave for the House, I fear, will have been lost if any attitude of defeatism or frustration persists. I think the present, which I call an emergency, is an emergency of economic development. It is no other kind of emergency. I think the present emergency is a challenge to all of us, which has no place for tragic Cassandras or gloomy Jeremiahs and that India of the present is no place for the faint-hearted. Mr. Deshpande challenged me to mention my taxation proposals to villagers. That is what I have longed to do. I should love to visit again and again the villages where I have explained why taxation is necessary. I would love to see the unfolding of the benefits of the expenditure that we are financing out of this taxation and therefore the unfolding of an inspiring national endeavour.

Ceiling on Income of an Individual*

I think it was necessary to have a perspective for a consideration of a resolution** of this kind, and fortunately that perspective is furnished to us by the presentation of the Plan. What exactly is the Plan? It involves a process of production and investment, and a process of development, that is to say, the functioning of social services to the community in general and to the disadvantaged section of the community in particular.

Fortunately, we have been able to preserve the percentage of the Plan that is to be spent on social services, round about 19 or 20, although in absolute figures, 20 per cent of the new Plan will mean very much more than 19 or 20 per cent of the old Plan. To the extent to which we are able to devote sums to development, obviously we are taking positive measures to remove disparities of income, wealth and opportunity. That leaves us with the question of production. I think it is very necessary that we should discuss this question in an atmosphere which, as far as possible, is free from sentiment or undue zest or obsession; because, it is frightfully important that we do not make a mistake in regard to the processes of production that we intend to adopt during these next five years—taking the view only of the near future, so to speak, apart from any perspective that we can have.

It is in this context I think it is necessary to deal once for all

*L.S. Deb., 25 May, 1956, cc. 9518—9527.

**“This House is of the opinion that Government should take suitable steps immediately to fix a ceiling on the income of an individual”—was the Resolution moved by Shri Bibhuti Mishra on 27 July, 1956.

with the various methods that have been advanced by my hon. friend, Shri Gadgil. The best thing to bring about equality of income and of opportunity is to nationalise most of the instruments of production. That means the socialism of a very very advanced kind indeed. We have given reasons in the Plan why at the present moment we do not consider that it is practicable and why we feel that an integrated operation of the private and public sectors is the one that the country seems to need. That is a proposition which seems to have been accepted even by some of the Members on the opposite side. Therefore, I think for the purposes of this discussion, it is irrelevant to suggest that we better start on the high road to socialism and that everything will fall into its proper place. Obviously it will be because then almost everybody will be a government servant of some sort or the other. In other words we shall have a very extensive bureaucracy and a salaried class generally is more amenable to fixation of their emoluments than the class which operates in the private sector. But that is not the problem that we are dealing with today.

Incidentally, so far as salaries are concerned, there was some reference to the Central Pay Commission and some figures were given of extraordinary high salaries drawn by certain Government servants. The hon. Members are aware that the pay scales recommended were for new entrants and those which have been adopted by the Central Government. It just happens that we have the residue and the remnants of the old service and they furnish these awful examples, so to speak, to Members of the Opposition. But, one should not lose sight of the fact that by and large the recommendations of the Pay Commission have been accepted and Rs. 2,250 is the highest pay, apart from the pay of Secretaries which is going to be about Rs. 3,000—I think so. According to the Central Pay Commission, Rs. 3,000 is the limit of individual pay or salary that has been recommended.

Here, as I said, we are not really dealing with the problem of salaries. As the hon. Members have pointed out, even if you fix

a pay ceiling and an income is left after taxation, I doubt, whether there will be any salary in the public sector which will come within the purview of that kind of ceiling. Because, in order to get your Rs. 30,000 or Rs. 36,000 or Rs. 40,000 you should have an income of Rs. 60,000. I do not know the exact figure. Therefore, I do not think we should draw a red herring across the path and discuss the salaries of public servants here.

There was a resolution in the Rajya Sabha which coupled this recommendation of fixation of a ceiling with another recommendation that the salaries of government servants should be fixed at a particular level. But that is not what we are dealing with here. Considering that our chief source of concern is production, we have to give all our thought to his particular problem. By what means shall we succeed in increasing production, is the first step, the second being of course, distribution of the incomes and the amenities. Therefore, references to social justice, feelings that the common man has for capitalist production and incentives, appeals to the electorate, reference to tall poppies, appeal for a precise statement of what we are going to do, lack of earnestness or otherwise, our moral responsibility, our partiality to private enterprise or private uplift, are all really un-businesslike aspects, if I may say so. We should convert ourselves into a committee where all of us are of one mind that we want to maximise production and to maximise the equality of its distribution. If that is so, let us forswear all these suggestions and insinuations and so on. We are trying to address ourselves to this basic task with as much earnestness and certainly with greater fervour than the people who are not charged with the business of the executive Government. Because, after all the House will look to us for the implementation of the Plan. The House is certainly entitled to criticise the lines on which we propose to go, but, speaking on subjective attitudes, no one can be more anxious than ourselves to deliver the goods. Therefore, I would appeal to the House not to indulge in the suggestions

that somehow or other we are partial to or are overinfluenced by private capitalists.

It is in this light that I would like the House to read very carefully what the Planning Commission has said in detail under this head: 'Reduction in Inequalities' on page 32 of the Plan—paragraphs 19 to 29. I am quite certain that some of the difficulties which the hon. Members have felt in this connection will be cleared if they read this impartially.

The next issue is this. If our preoccupation is with production, necessarily we are concerned with incentive. Whether you call that incentive or whether you call it material interestedness, it does not matter; it is the same thing. It is there that psychological considerations come in. Whether they apply to the rich or to the poor, that is equally the same thing. I am with the hon. Members when they say—I think Shri Mukerjee said—"consider the one fact which will have a psychological satisfaction on millions of our countrymen, that they are having a fair, square deal". Certainly, that will lead to production and so on and so forth. Nevertheless, that does not absolve you from the duty of throwing incentive in the sector in which private enterprise operates. You must satisfy yourself that the sort of incentive that you leave there will be enough to draw the best of the men whom—if you like—reluctantly you are allowing to operate in the private sector. That is not a matter which can be decided by mathematical formulae, nor can it be decided once for all. It may be that their expectations of material reward are very important in the light of their past experience and as one goes along, as taxation measures develop, they themselves will learn to expect a lower order of reward. What is not possible today—I am talking of the possibility only in the light of incentive and production—may be possible two, three or five years hence. This is the principal difficulty in the way of our spelling out more elaborately what exactly we are going to do in order to lop off the tall poppies, if I may borrow that metaphor—in other words, what one is going to do in regard to taxation and, in particular, direct taxation.

One hon. Member—I think Shri Mukerjee—demanded that, in

view of this near unanimity that is prevailing in regard to this Resolution, I announce, concretely here and now, what steps Government are going to take in order to remove inequalities. With all the experience that I have had of fiscal administration for the last six years, I cannot for the life of me think how I can satisfy the House in regard to all those measures that have been adumbrated in those pages by the Planning Commission. How do I tell them what exactly is the form that the taxation of wealth will take? How do I tell them what I propose in regard to capital gains? How do I tell them what amendments I may have in view in regard to the Estate Duty Act? Then, somebody complained—I think it was in the debate on the Plan—that no reference was made to the excess profits tax, tax on gifts, tax on expenditure and a hundred and one other forms of taxation. I consider, since we are dealing with a planned economy, there are proper occasions on which one elaborates one's ideas and puts forward concrete measures—and by 'concrete measures' I understand the Finance Bill. Do I put about 12 Finance Bills in the course of my reply before the hon. Members of this House? That is not possible. The House will recall that in the course of my observations in the general discussion on the Budget, I said that it is not possible for me to sketch out very much in advance what the Government is going to do in regard to the modes of direct and indirect taxation the point I am developing is, we are all at one in wanting to maximise production. As far as I can see, distribution may be a direct distribution—that is not very much under our control except that incomes flow and transfers and exchanges take place in the community—but in addition we wish to spend moneys, which we take from those who can afford it, on those who need the amenities which we can provide out of those funds and those development expenditures. What I was going to say is that the State Legislature is supreme in its own field. The Central Legislature is supreme in the field which has been allotted to it by the Constitution and it would be improper for me to criticise any legislation passed by a State Legislature in regard to the salaries of its Ministers. That is all the answer that I can give

and the same sort of answer applies to this legislature also, that constitutionally I cannot go into that particular question.

What I was going to say is...that there is one thing that has been brought in forcibly as a conviction to my mind and that is, that this House, the legislatures in the States and the electorate, will now be imposing a very very severe criterion indeed in regard to taxation. I can see the task of future Finance Ministers getting increasingly difficult only in this sense that they will have to make sure that they do not put a pie on indirect taxes, if there is any possibility of that same pie being recovered through direct taxation. Therefore, it is all a question of considering in the future how one would behave or how one would arrange these fiscal matters.

It is also true, what Shri Asoka Mehta said, that most processes of development lead initially to disparities of income. They have a tendency of making the rich richer and the poor poorer. Therefore, unless the Planning Department and the country are wide awake all these results will follow. It follows even in socialist countries like Sweden. I am told—I think there is a reference to it in Prof. Kaldor's report—that is the case in socialist countries. Therefore, I realise the necessity of keeping a very wide eye open on how wealth is accumulating and how it can be tapped for purposes of better distribution among the community.

So, if hon. Members agree on two things: firstly, that we should maximise production, and, secondly, that on every occasion on which a taxation measure comes forward they will be entitled to ask what measures we propose to take in regard to the profits that are going to this first category of profits—that is, dividends, and not wages and rents—then certainly the Finance Minister concerned will have to give a satisfactory answer.

The reason why all these have not been brought in today is (1) that we only needed a certain sum of money, and (2) there are certain forms, I understand, which have still to be examined. It is quite certain—if I may refer back to

Prof. Kaldor—that it is at our instance that Prof. Kaldor was asked to come to this country. We knew he had written a 'Minority Report' in the Taxation Enquiry Commission. It was placed for convenience in the Indian Statistical Institute, but he has submitted a report to me, to the Finance Minister, and it is my intention to place that report before the House before the end of this session, because I am anxious that hon. Members should consider everything that that report contains and be prepared with their observations when we take up the question of Plan. I am sorry this debate is getting mixed up between the Plan and the ceiling. Both things are one, practically parts of the same discussion. That is why I am saying, I am anxious that hon. Members should share the burden of consideration with me. I am considering Prof. Kaldor's report and I would like suggestions of hon. Members. I am quite certain that we shall be able to hammer out something which will give some little satisfaction to the House, to all sections of the House I should say, when the time is ripe for bringing forward further measures of taxation. That is all in a general way that I can say in order to allay the anxiety of the House that, somehow or other the Finance Minister has sworn himself only to raising revenues by indirect taxation. I have never said so. What I said was that one will have to remember all the time that the people who have incomes over Rs. 4,500 in this country are, say, 1 per cent or a little less than 1 per cent. People who have incomes of over Rs. 60,000, after payment of taxes would hardly exceed 450. We can deal with them. Therefore, I say, that after we have done all we want to do with these people, who are, so to speak, our commission agents in increasing production, it may be that in view of the large volume of taxation that we have to raise, we may have to ask the common man to spare some promised current consumption in the way of either taxation or borrowing or saving. That is all I have said. I have never said that we shall confine ourselves exclusively to indirect taxation and that I feel that the limit of direct taxation has been reached. In my own mind, there is not even a vestige of feeling of that kind. I very readily accept the fact that there will be larger and larger surpluses in the hands of the well placed and advantaged

Individuals, companies and firms which the community is entitled to tax.

So far as the method of raising surpluses is concerned, it is no good deluding ourselves with the feeling that if some gets into the hands of a few people as surpluses, or if it gets into the hands of a very large number of people in small driblets, both are the same thing. They are not. So far as surpluses are concerned, it is easier (a) to locate them and (b) to tap them if they go into the hands of a few persons. Therefore, the process that I have indicated should not be difficult. If, on the other hand, surpluses or these additional incomes—these get distributed in very small doses or driblets or thimblefuls all over the community, it is almost certain that it will be absorbed in additional consumption.

If incomes or amenities are being distributed, to that extent, one should make up one's mind that it will be almost impossible to tap them except through small savings or voluntary acts of self-abnegation on the part of the holders of these incomes. But, so far as these surpluses are concerned, I say that I do not anticipate any great difficulty in either locating them or devising suitable measures, if a little time is given to us, to tap them for the purposes of the community. This is the general philosophy of this matter.

In view of this, my difficulty is, I cannot accept the resolution in the form in which it has been put forward. I need not make it clear, I hope, that Government wholeheartedly accept and intend steadily to pursue the objective which underlies the Resolution namely a progressive reduction in economic inequality, and if there is any satisfaction to the House that we should give at least token indication that we are at one with them in spirit, I am prepared to accept the amendment which has been suggested by Shri Bhagwat Jha Azad so that we at least stand committed to the principle. The gap has been narrowed a little, shall we say, between the advanced thinkers and ourselves.

It is possible to spin out this matter and go into platitudes which are well known as to what planned development means, what capital formation means, and how man was not born equal, how his capacity, etc., are unequal and so on. But, I shall not take the time of the House by stating most of these platitudes. Nor shall I mention, except very briefly, the steps that have already been taken by the Government in the same direction: land reforms, although many hon. Members find fault with them, regulation of rents, control of money-lending, re-organisation of rural credit, amendment of the Company Law, nationalisation of the Imperial Bank, life insurance and so on.

The only other issue is this question of the expansion of the public sector or expansion of state-trading and so on in order to tap some of these profits. There, again, dimensionally, we may not be able to satisfy the House. I am a great believer in Chanchupravesh, in making a small beginning which could be broadened and widened as opportunities offer themselves—thin end of the wedge. There has been some reference made to the Taxation Inquiry Commission's report. I do not think hon. Members have really studied it because, otherwise, they would not use the word immediately.When I place the report of Professor Kaldor on the Table, which I hope to do in about two or three days, hon. Members should study not only what he says about taxation, but also what he says about ceiling on income. I have no time to read it today. When they read it, I think they will agree with me more than ever that all that we need do at the moment, is to accept the amendment moved by the hon. Member Shri Bhagwat Jha Azad.*

*The Original Resolution was substituted by the following motion and adopted: "This House recommends to the Government to take appropriate measures to reduce the disparity in income prevailing between the different sections of society in the country."

Food Situation *

"In the time that my hon. colleague allowed himself by a sort of self-denying ordinance, he was not able to elaborate his philosophy, nor was he able to give certain statistics which I think it is necessary to furnish the House for giving it a perspective against which to consider the present problem.

As regards the statistics, I would first like to refer to certain statistics of wholesale prices just as a background. The wholesale price index for all commodities has risen from 383.7 in September, 1948 to 386.3 for the week ended 1 November, 1952. That is to say, it is more or less at the same level as four years ago. The index for food articles was 395.5 in September, 1948 and it is 376.6, that is to say a little lower, today. Now this category of food articles is made up of Patna rice, gur, jowar, salt, coffee and arhar dal. The index for rice, jowar, arhar dal, cotton, groundnuts etc. is as follows:—

Item	Sep.1952	11-10-52
Rice	965	894
Jowar	187	. .
Arhar Dal	692	.
Cotton	455	. .
Groundnuts	616	. .

* L. S. Deb., 17 November, 1952, cc. 764-774.

Intervening in the debate on the motion regarding food situation moved by the Minister of Food and Agriculture (Shri Kidwai).

Item	18-10-52	25-10-52
Rice	894	858
Jowar	..	179
Arhar Dal	..	763
Cotton	..	424
Groundnuts	..	619

All these indices are against a base of 100 in 1939, the index for 25 October, 1952, being the latest that I have got.

Now I think the lesson of this is that the grower of cereals has not done so badly, and there is not really very much in the point made by Dr. Lanka Sundaram that cereals are now giving place to cash crops. Actually the grower of rice still gets apparently a better price, and even if it is true that there is a certain amount of substitution from time to time as between them, I do not think any State concerned loses or the country as a whole loses. We want most of these things either as the raw material of industry or for export, to the extent to which the State makes a special effort; in regard to jute we promised that we will make up the deficiency as we did in the case of West Bengal, and if any change is taking place anywhere else in Madras then we shall have to take notice of it. That is the inference that I draw from these wholesale index figures.

* * * *

One of the most difficult things to determine is the cost of production. I remember that the Indian Central Cotton Committee and the Imperial Council of Agricultural Research carried out an inquiry extending over three years between 1936 and 1939 into the cost of production of cotton, and the results were quite bizarre; in some cases there was a profit while in other cases it was conclusively proved that there was a

continued loss for the last three or four years, which it did not seem to be possible. Therefore one has to content oneself with some kind of datum line and that datum line, as I said, has been taken as the price level of 1939 at which it is assumed that almost every crop was producing some kind of a profit.

In regard to the working class cost of living indices, I would refer to them only to sound a note of warning. If we take Madras, the figures were as follows:

Month	Food	General
January 1947	303	251
September 1952	360	330

The food index has been rising since April, the figures for the various months being as follows:

Month	Index
April 1952	347
May 1952	350
June 1952	354
July 1952	358
September 1952	360

I think finally when we consider whether the Madras experiment has succeeded or not—whatever the reason may be, may be failure of crops or may be failure of the system—we should have to keep these figures at the back of our mind, because these are the final criteria. In this or similar figures one must start a new series for the middle class cost of living or the agricultural workers' cost of living. But some such series would have to be considered to see what the effect has been.

As regards prices, I was glad to find one of the speakers. Mr. Khandubhai Desai, placing emphasis on certain main criteria, the price level also being one of them.

When one would have to deal with prices, what is more important is that one would have to watch the figure of imports. If it is said that prices were high, they happen to be low this year. It is a thing that simplifies our problem very much. If we had been taking this decision last year, I think we should have considered the risk too big, because the price of the imported wheat was Rs. 24 per maund, while this year it is Rs. 16 per maund, which is about the same as our procurement price, and that makes a world of difference.

The third thing which we have to consider is our ability to find any money for subsidy. In regard to this last point I quoted a great many figures and I pointed out that we have lost a great deal of our income by the same process which has brought the buyers' market, namely, we have lost crores of rupees, by way of export duties, and I am afraid the process has not ended. These are the points or beaconlights on which we should have to keep a weather-eye.

Now that brings me to the next point. I talked about resources and subsidy and so on. Actually I think it would be most convenient if we regarded this question as the concomitant of the question of implementing the Plan. Now those who have had the opportunity of studying not only last year's draft outline but this year's draft in various consultations would have found that the kingpin of all this Plan is some kind of implied control. And the reason is this. As an undeveloped country, we want to maximise our investment effort, that is to say, we want to increase the size of the Plan as much as we can. We realise that no plan produces its effects instantaneously and there is always a time-lag and the larger the time-lag the greater the danger of a disparity arising between purchasing power and the stock of essential consumer goods. And that is why we have to ensure that the distribution

of essential consumer goods will remain on an equitable basis, and the only means we have achieved by and large is—of course by the imposition of physical control. Therefore, if one were to say that “things are easy and therefore, in these essentials one might afford to be slack”—I am not talking of one year or two years; conditions this year are certainly very abnormal, but over the whole period of the Plan—then I, as one of the planners would say that we are not putting forward our maximum possible effort in planning, because if that is so, if there is slackness in the system, then obviously one ought to pay more money and take up more schemes to the point at which a control becomes necessary. Therefore, it is no use saying that there are circumstances for a planning country in which a state of decontrol would be a state of bliss. Certainly it would be; but that state of bliss would not last very long. Not a day passes without my getting some kind of demand for adding to the Plan. By way of amusement—because I really cannot do very much about it, I have them added—they already amount to Rs. 93 crores. So now on the one hand I am asked to increase the size of the Plan by, say, Rs. 100 crores, and on the other hand, there are some gentlemen—fortunately very few—who say that we could run a plan with a threat of decontrol running eternally in our minds. Now those two things are not compatible and that is what Government have recognised, and I believe, that is what the majority of the House would recognise. Now that being so, we have got to consider what are the different factors in the situation. There are several questions that fall to be answered. Do controls affect production of cereals? Well, frankly, one does not know. The trouble is that we are not agreed even as regards our statistics. Till a few months ago I was under the blissful impression that the ICAR statistics were the last word on the subject. I am sorry now to have to say that there is another statistician who thinks they are rather under-estimates. They are under-estimates by as much as, well, X per cent., X being a double figure.

I will take for argument the ICAR figures.

All cereals:		Million tons
1949-50		45.5
1950-51		44.2
1951-52		44.4
Rice:		
1949-50		22.9
1950-51		22.0
1951-52		22.8
Millets:		
1949-50		16.1
1950-51		15.5
1951-52		15.4

There is not really very much in these figures, and one has to remember if reports are correct and if the requests I get for assistance for relief works are considered, there is scarcity and famine over a larger area this year than there has been in the previous years. Well, if one makes allowance for that, I do not think it is proven that controls affect production one way or the other.

Then the next question is: Is there any difference between Northern and Southern areas? Now there too I have taken the overall figures, and I find that there is not really very much in it. Taking Bihar, Madhya Pradesh, Punjab, U.P., Madhya Bharat and Orissa as the North, these are the figures:

1949-50	23.2	million tons
1950-51	21.8	"
1951-52	22.0	"

There is a slight reduction in the South—Bombay, Madras, Mysore, Hyderabad, Travancore-Cochin.

1949-50	13.6	million tons
1950-51	13.2	"
1951-52	12.9	"

There again we must remember that there have been scarcity areas in the South and some more are emerging now. So if you ask my own judgment in the matter, I should say that that also is not proved. I have also looked at the figures of production and I for one am not convinced that laxity or rigidity in methods of procurement has any great effect on production. Punjab has done extremely well and Punjab is running a system of procurement although it is not a very efficient system indeed. And, therefore, on that point also I would not myself be prepared to dogmatise. But these are personal opinions.

Then the third question is: Will increase in prices raise production? Well now here we find by going through a bit of economic history that there is no fixed relation between prices and production over the whole field of agriculture. You can certainly promote production by substitution by giving incentive to one single crop, and the smaller the crop the greater the effect of this stimulant. Take sugarcane, or take jute. It is a classic example. Prices went up after decontrol to Rs. 100 and the area went up. I do not think all of that represented production, but anyway it was regarded as production. And this year the prices are Rs. 25. Now one can only sit with one's fingers crossed and keep hoping that the prices would not go down. I might incidentally dispose of a point here. That brings me to the heart of the matter and that is that what we call procurement prices in a period of rising prices are 'floor' prices in a period of falling prices. That, I think, gives some validity to the point made by Shri Lal Singh. He says: "You cannot have the best of both the worlds. You cannot say 'demand and supply' when prices are going down and the poor cultivator gets five rupees, four rupees, three rupees for what he grows in the anticipation that he would get a good profit judging from last year". So either you choose that system and then you leave him to his own way or you keep the 'floor' and work for stability. And, therefore, I think that one ought to think for good days and evil. It is an essential plank in our policy that we must keep a ceiling and a floor. We must keep a floor under the cultivator's prices. Now once that is done then you can get your stability. That means, as somebody suggested, that if somebody brings

coarse grain, we must be prepared to buy it. It is no use saying that your challan will take, as my hon. colleague said, four months to cash. He must get the money on the spot.

What is intended for the protection of the revenue must not act as a detriment to the cultivator, when you undertake State-trading. Nor will it do to say that our storage accommodation is limited. That is not the cultivator's concern. It is up to you to see that you have enough storage accommodation. And then if it all goes bad, well it is your 'funeral'.

So I think, therefore, that floor prices reasonably spaced as between two different crops are very necessary. That brings me to the point that was made by the hon. Member there who seemed to me to propound very dangerous theories about conceding a price rise to everyone who wanted to grow. I do not suppose he has paused to think what will happen to Indian economy if one were to do that. I agree that for about six months or a year everyone would be very happy but after that I fear that even he would start feeling miserable, because we shall not be able to export anything, we shall not be able to keep up our imports and I do not know what will happen to our country.

There has been a floor for cotton for the last four or five years. In the last season I gave an assurance that I was prepared to buy every bale that was offered to me. Unfortunately no bale was offered to me last season; in January-February. I offered to buy—in this House, I announced that I was prepared to buy cotton at the floor price. The dispute was about what the floor price should be—that is quite irrelevant for the purpose of the present debate—whether it should be Rs. 450 or Rs. 500 or Rs. 600. I do not think that increase in price necessarily will increase production over the entire field of agricultural production. And, as I have said, a fixed price acting as a floor has a great deal to recommend both from the point of view of the consumer and from the point of view of the cultivator.

The next question is, "Has the food deficit diminished?" I have incidentally referred to it. According to the view of our statistical officer both our production and our consumption are bigger; in other words, we have achieved by statistics what the five years of planning could not have achieved.

If we want to make efforts to reduce our imports, as we are all anxious to do, and we seem to be united on this one matter and I do not think there is a single dissentient voice in this House of 500, we can do so more in the consciousness that perhaps we are producing a little more and consuming a little more. Therefore, the belt can be tightened a little, so I think as a long term policy the policy advocated by the Planning Commission is the only one that is acceptable by the country, namely, over these next 3½ years we must eliminate the import. Whether you can do it next year or not, I cannot say, and my hon. colleague is bound in view of the commitments in the light of International Wheat Agreement.

I hope there is a demand of about 625 lakh tons. Whatever it may be, that is a matter which we have to consider. That is about imports. It is against this background that I think we must consider what we are going to do this year. I personally think that we should not allow our ideas about controls and particular methods of procurement and so on to be fossilised. It is not right to keep them on the same track and in the same rut, levy monopoly procurement, this or that. It may be that conditions this year are such that we ought to think of something new and the conditions are now peculiar in this way that an unexpected slump has come upon every producer, including the producer-hoarder. And with the deflationary measures which, I would like to point out, we were enabled to carry out by the sale of the two million tons of wheat, which by themselves formed our additional stock. So, it is a double-edged weapon. We got the stock and we got the money. We sold it out and we got money for our development purposes. Therefore we killed not two birds but three birds with one stone—not the stone in the wheat, the wheat was not so bad. So that is what we are able to do today. We have got some stock in our hand, something to manoeuvre with. Also for a certain period, the producer-hoarder like many

of his betters is wiser and is coming out into the market. There is a good deal of grain coming in the market. At the same time, our ships, not one ship a day but three ships a day, call at the ports and when the monsoon was very inexorable in May and June we had little more storage accommodation, we had no confidence that we could cope with the problem. In Madras, for instance, we had four lakh tons of rice already in the hands of the Madras Government, which, at the rate of five ounces a day meant a minimum of 15 months or at seven ounces a day, 12 months for all the rationed areas. There were two deficit districts, Malabar and Nilgiris. They said they can manage this and that is why the experiment started. Whether that experiment will be successful or not, one cannot say finally until one sees the result of this monsoon with Madras production. When we see it successful, it does not mean that what we did in Madras should automatically be repeated in other States also, because the result of that would be to stereotype the pattern of control and the burdening of the Centre with the residual responsibility, whatever it may be. Now, if that responsibility is to be discharged, there are only two ways of doing it, call it in whatever way. You may call it one million tons for a population of 20 millions, call it four millions for a rationed population of 40 millions, or eight million tons for a population of 110 or 120 millions. There are only two ways of getting it, procurement and imports. Now, we do not want imports. Therefore, what you have to do is to procure. For this we say that the essential machinery of procurement shall not be interfered with and we can turn back to it if necessary, if our present plenitude comes to an end. If it does we ought to be able to go back to procurement. There must be some kind of system and that is why I think we have not agreed to take away the State barriers at the moment except for small things like gram. We have controlled it and decontrolled it some four or five times. About millets, it is a different position because it is $\frac{1}{3}$ of our total produce and that is why there is no question of sufficiency or not. The idea behind a sense of self-sufficiency is that nothing serious will happen. But that is not so. Sometimes unexpected shortages develop and in free movement this kind

of unexpected shortages are likely to be aggravated into very big shortages as happened in the famine of Bengal in 1943. In Bengal, statisticians have calculated that the original shortage in rice was only six per cent. but the moment it was known that there was going to be a shortage, people started saying that it will develop and the shortage extended to the point at which people could not subsist. That kind of thing is likely to happen in any zone. Therefore, a self-sufficiency zone is not really a zone which can always afford confidently to run a system of decontrol. A country which is self-sufficient cannot necessarily say that we can run a system of decontrol because then they would have to depend on some kind of import. Therefore, I think that some kind of rational form of control is wanted, with fair prices which will enable us to put part of the grain as a store against these which will serve as a sort of buffer stock. That is a kind of system that we want and that is a system that has been thought of in the F.A.O. and other international bodies and in which, I think, there has been a kind of proposal that there will be an international pool for that purpose. These are the matters which I wanted to explain.

The Estate Duty Bill, 1953*

Sir, I move:

"That the Bill to provide for the levy and collection of an estate duty, as passed by the House of the People, be taken into consideration"

Death duties in one form or another constitute an important element in the scheme of taxation of most progressive countries. That, I believe, is common knowledge. In fact, so far as our knowledge goes, such duties exist in about 43 other countries. In India, the imposition of such duties was recommended as far back as 1924-25 by the Taxation Enquiry Committee, and Government's interest in the matter may be said to date from 1936-37 when a Special Officer, the late Sir Alan Lloyd, was appointed who studied the whole matter and made recommendations. So far as my personal interest goes, Sir, I might say that it dates also from the time I had the privilege of assisting one of the Governments then and I had occasion to consider with Sir Alan Lloyd the suggestions he had made with regard to this question. Actually, the Bill to impose such a duty was introduced in the late Legislative Assembly in 1946. On the dissolution of that Assembly, this Bill in substantially the same form was again introduced in the Provisional Parliament in 1948 and was referred by it to a Select Committee. In their preliminary report, the Select Committee felt that two difficulties, which apparently they regarded as insuperable, lay in the way of further consideration of the Bill. The first was the fear that the application of the

* R.S. Deb., 17 September, 1953, cc. 2640—2646.

Estate Duty Act would be well nigh impossible so long as the joint family under the Mitakshara system continued to be recognised by law as a unit for purposes of taxation. The second was that they considered that so long as the then Indian States remained outside the scope of legislation, there was every possibility of flight of capital to such States, if a duty was levied in what was then known as British India. But by the time the Select Committee submitted their final report in March 1949, the integration of the Indian States was in sight, so that the second difficulty no longer stood in the way of implementing this legislative proposal. As regards the first difficulty, they tried to steer clear of controversial issues by subjecting to estate duty the coparcenary interest that ceased on the death of a member of a Hindu undivided family. With certain further changes in the Bill, they were able to make the necessary recommendations to the Provisional Parliament.

This Bill, as reported on by the Select Committee of 1948, could not however be taken up in the Provisional Parliament as its fortunes had somehow got tied up with those of the Hindu Code Bill, and it lapsed with the dissolution of that Parliament in 1952. The Bill which is now before the House is the one introduced again in 1952 in the House of the People and as modified by them.

Sir, the present Bill seeks to impose a duty on property passing on death and on property which is deemed to pass on death like the interest in the coparcenary property to which I made a reference a little while ago. At one time, there was a suggestion in the Provisional Parliament that a succession duty would be preferable to an estate duty. A great deal of attention was given to this point by the Select Committee of 1948 which came to the conclusion that in view of the practical administrative difficulties involved in the levy of a succession duty and possibly the smaller revenue which it might yield, the duty to be imposed should be an estate duty, and that principle, Sir, has so far commended itself to everyone in authority who has considered this matter.

The Bill has been before the Parliament and the public for about seven years now. I shall not, therefore, take up the time of the House to go through its detailed provisions at this stage—we shall have it later—but shall confine my present remarks to the main changes in the present Bill from those in the 1948 Bill as reported by the Select Committee.

Sir, as the Council is aware, this Bill is based largely on the lines of the Estate Duty legislation as embodied in United Kingdom Finance Acts. Opportunity has been taken of incorporating in the present Bill some of the important changes made in the United Kingdom Finance Acts since our own Bill was originally drafted in 1946. These are confined to the charging clauses and the main changes will be found in clauses 11, 12 and 27. Therefore, in a sense, by the benefit that we have had of the experience of the working of this Act in the United Kingdom we have modified the Bill and we hope that we have been able to cover the loopholes of evasion in so far as they are known to the United Kingdom authorities.

Another important change is the incorporation of the rates of duty in the charging Bill itself. The Council may recall that the original idea was that the rates of duty should be imposed by a separate Act of Parliament. It was felt, however, that the incorporation of the rates in the Bill itself would make the law compact and remove such uncertainties as may exist in the public mind that the Government intended to come with the possible changes in the rates from year to year. Although the fact that the rates are contained in the Bill does not, by itself, prevent Parliament from changing the rates as often as it likes provided the initiative is taken by the Government.

That is the qualification, unless through a Resolution. Although that is the position, I might state—it is my personal view that it is unlikely that Government will suggest any changes in the next few years until sufficient experience has been gathered of its working in all aspects and until Government have formed some idea of its financial results as well as of its impact on the economy of the country.

The Council will notice that the rates are fixed on the slab system and not on the step system as in most other countries. At a later stage, Sir, I shall explain in some detail the advantages and disadvantages of these two systems. But, I will mention here that we are familiar with this system—the slab system—because we have this for purposes of our Income Tax also.

The Council will also observe, and I hope agree with me, that the rates proposed are on the side of modernisation. Because of the high exemption limit, actually the effect rate—and that is the important point—that is to say, the average rate that works out on the total value of the estate is lower than that in the United Kingdom in respect of small properties, while in the higher slabs the rates have not been fixed so high as to encourage evasion or to be a possible disincentive to savings.

Another important change is in the exemptions allowed over and above the ordinary exemption limits. In the old clause corresponding to the present clause 33, Government were to be given only a general power for exemption or reduction in rates and no details were specified. Objection was taken to such wide powers being vested in Government and I think rightly. So in the present Bill this power has been retained subject only to certain conditions, and in addition we have specified certain exemptions, as for instance, books not intended for sale, wearing apparel, small gifts made shortly before death, etc. There is an important exemption made in respect of moneys deposited or insurance effected for the payment of estate duty up to Rs. 50,000. Therefore we hope that the collection of estate duty will be greatly facilitated.

Also, Sir, the provisions of this Bill have been liberalised in other respects. For instance, quick succession relief to the extent of 100 per cent. of the duty is to be given in case the second death occurs within three months. Unlike the old clause, the exemption given to the interest of a Hindu widow dying within seven years of her husband's death is not confined to Hindus governed by the Mitakshara law but has been extended to all Hindus. Provision has been made for the deduction from the estate duty payable, of court fees paid for obtaining

representation to the estate of the deceased and there is no limit to this, unlike the original Bill. A specific provision has been made that in the case of duty payable on immovable property, eight instalments can be claimed as a matter of right by the person accountable. There are certain minor provisions also to which I do not propose to refer at this stage.

Another important change to which I would like to refer is the duty payable by foreigners. The Select Committee of 1948 had suggested a provision by which persons who were "resident" within the meaning of the Income Tax Act would be deemed as domiciled in India for purposes of estate duty. But according to the present Bill, 'domicile' of a person shall be determined as if the provisions of the Indian Succession Act, 1925, on the subject, applied to him, and this appears to be consistent with the corresponding Acts of most countries. A provision has, however, been made that in respect of—and this is an important provision—shareholders of companies which earn more than 50 per cent of their profits in India, a flat rate of duty would be charged on the passing, by death, of the property consisting of such shares. The liability for payment of this duty is imposed on the company so as to ensure recovery. There is a similar provision in the Acts of one of the Australian States—think New Zealand.

The only other changes I need refer to are those relating to the administration and operation of the Act. In the old Bill, detailed provision had not been made and the assessing authority was Central Board of Revenue. The only provision was that the Central Government could empower any officer or authority to discharge the functions of the Board in respect of any specified matter. The opinion, belief or state of mind of that officer or authority was to be deemed to be that of the Board. Now, this position was, on reflection, found to be unsatisfactory. In a vast country like ours. It is not possible for the Board actually to determine and collect estate duty, and a provision like this would have been very inconvenient to the persons accountable for the payment of estate duty. It would have been equally difficult for Government to find officers spread all over

the country who would have the same opinion, belief or state of mind as the Board. In the present Bill, therefore, Controllers have been authorised to levy estate duty, but the ultimate responsibility of the Board in the matter of assessments is emphasised by a provision that appeals from the orders of the Controllers would lie to the Board. Now, so far as appeals to courts are concerned, the provision remains the same in respect of points of law. As before, points of law can be referred to the High Courts or to the Supreme Court by the Central Board of Revenue. But in respect of valuation, the provision is slightly different. Under the old Bill, a reference had to be made to the High Court who would hold, or cause to be held, an enquiry and record a finding on the matters in issue. It is now provided that in matters of valuation, the question need not be referred to the High Court but should be referred to certain qualified Valuers, a panel of which would be nominated by the Government. Provision has been made for the appointment of one Valuer by the assessee and one by the Board and, in case of difference of opinion, for arbitration by a third Valuer. Now, it seems to us that this is a satisfactory scheme for matters of this kind which must be decided on the basis of expert opinion. Now, there are other provisions relating to taking of evidence on oath, appearance of representatives of accountable persons, arrangements with States to supply information, service of notices, etc.

Sir, before I conclude, I should ask the council to consider this Bill from the point of view of the two objectives we have in view. Firstly, it is a step in the direction of reducing the existing inequalities in the distribution of wealth. Our second object is to raise some revenue for distribution to the States and thus assist them towards financing their development schemes. While I cannot claim that this Bill will achieve these two objects to any significant extent, I am satisfied that as a first step this measure is both fair and adequate. Sir, with these words I move:

“That the Bill to provide for the levy and collection of an estate duty, as passed by the House of the People, be taken into consideration”.

First Five Year Plan*

I intervene in this debate** with the purpose of making some objective observations on the few points that have been raised. I shall not deal with philosophies or ideologies or any other 'logies'. The first point which I wish to make is a general one and that is that this draft Plan has been evolved at very great pressure and it is an outline and therefore Members who expected to find everything spelt out there in full are bound to be disappointed.

Also, we recognise that it is not a completely integrated Plan in the sense in which such plans are understood in countries which are blessed with a good statistical equipment. For the purpose of an integrated plan you require statistics of various kinds—national income and its distribution and all connected statistics—and some of the deficiencies from which we suffer could be gathered from paragraphs 38 and 39 of the National Income Committees First Report to which I shall merely refer and which I shall not read out.

In regard to the general economic background of the Plan, I am entirely at one with hon. Members who regard black-marketing as one of the cankers in our present society. I think hon. Members would not be impatient. At least they might hear of our plans for dealing with it. The first observation I would like to make is that these phenomena cannot be dealt with in a very short span of time. It is a long term measure to eradicate habits

*Provisional Parliament Deb., 16 October, 1951, cc. 5150—5158.

** Intervening in the debate on the motion moved by Shri Jawaharlal Nehru on 15 October, 1951, "That the draft outline of the First Five Year Plan prepared by the Planning Commission, be taken into consideration."

which have grown over the space of, shall we say the last ten years. Gradually we are tightening the many avenues along which money finds its way to the black markets. We have amended the Company Law. We are awaiting the report of the Expert Committee on Company Law Amendment. Then the Act for the regulation and development of industries ought to help us to ensure that money does not flow into black markets by way of unregulated prices. Hon. Members have seen the report of the Committee that had been appointed to advise on the amendment of the stock exchange regulations. We have had an Act for regulating forward markets. So, in various ways we are tightening the screw and in the meanwhile my hon. colleague is doing all he can to encourage tax conscience and rectitude. I have every hope that these measures followed by more rigorous measures to be taken in consultation with the Planning Commission would enable us to bring this problem under some kind of control.

That leads me to the next question and that is about the price level. On this Mr. Krishnanand Rai expressed himself very bitterly and Pandit Kunzru with his usual urbanity. Apart from general allegations I do not know that Mr. Krishnanand Rai has made any great point in regard to price control or quoted any facts. It is true that we have not been able to hold the price level as well as we would have wished but I think I can easily quote figures to show that taking everything into account we have done better than many countries in similar circumstances and indeed till recently there was definite evidence that the price level was falling as I had ventured to anticipate some time in June.

Now, in regard to the purely financial aspect Mr. B. Das raised some issues about the sterling balances. The subject is so important and open to so much misunderstanding that I hope I will be forgiven if I dilate upon it a bit and quote certain

figures. Our sterling balances stood at £1,160 million on 15 August, 1947, and declined to £615 million on 30 June, 1949. This large drop of £545 million during a period of less than two years was due to some special payments, like the payments we made to consolidate our pensionary liabilities, the payments we made in the transfer of sums due to Pakistan as her share; and certain sums paid to the U.K. Government for military stores. These *ad hoc* payments amounted to as much as £361 million out of £545 million and the balance of £184 million was used for meeting the current deficit in our balance of payments during the period from 15 August, 1947, to 30 June, 1949. As a result of liberal imports and slow off-take of our exports in the early part of 1949 our balance of payments was heavily adverse and as a result we began to run down our sterling balances. State purchases of foodgrains also contributed to this result and the sterling balances which stood at £615 million on 30 June, 1949 declined to £582 million on 2 September, 1949. That is the least figure on record. Since then thanks to the devaluation and the restraints placed on imports, our external balances began to rise and we reached the figure of £622 million on 30 June, 1950. Of this amount under existing agreements we could have drawn a total of as much as £118 million up to 30 June, 1951, leaving a balance of £504 million but since the beginning of July, 1950, the balances began to decline as a result of food purchase increases and the liberalisation of imports to meet essential needs. So, it was on the basis of the position as on 30 June, 1950, that proposals for the extension of the sterling balances agreement after 30 June, 1951, were formulated. It was considered that out of the estimated amount of £504 million left on 30 June, 1951, something like £300 would be needed as a currency and foreign exchange reserve and for meeting certain other demands. The Colombo Plan which was drawn up at about this time therefore stipulated a release of £210 million over a period of six years. The discussions which took place in September, 1950, between the U.K. Chancellor of the Exchequer and myself provided therefore for an annual release of £35 million over a period of six years beginning from 1 July, 1951. You can add up and find that after allowing for the

currency reserve there would have been hardly anything left of the sterling balances or the sterling balances problem. In the first three months of 1950-51, as I said, the sterling balances were declining. At the end of September, 1950, favourable external factors came into operation as a result of the Korean war and they began to influence our balance of payments after that date. There was a large demand for our export commodities, especially cotton and jute textiles. On the import side although the licensing restrictions were relaxed, difficulties of obtaining goods more especially raw materials reduced our bill on imports and the sterling balances therefore began to rise and reached a peak figure of £661 million of 4 May, 1951. After that date the purchase of raw jute from Pakistan which was then a part of the sterling area for us under our agreement was an important factor which resulted in a reduction of the sterling balances. Now the figure for 30 June, 1951, was £643 million. This included a free balance of nearly £90 million. According to the understanding reached with the U.K. Government we can draw up to £300 million over a period of the next six years and that is an important point. Over a period of next six years we can draw £300 million, that is to say about 400 crores, leaving a balance of about £343 million which is more or less what we want as currency reserve.

Now the House will be glad to know that as a result of further discussions it has now been agreed that a sum of £310 million out of this amount would be transferred to our No. 1 Account and held as a currency reserve to be drawn upon only in an emergency. Now, therefore, the sum total is that large portions of our blocked balances have been unblocked and what remains in the blocked account is more or less equivalent to the amount which we are entitled to draw over a period of six years. It would be clear that perhaps at the end of six years there would be practically no balance left, in our blocked account and as I said there will be nothing left, I hope, if conditions remain as they are of the sterling balance problem.

I now come to another financial question which was raised by Mr. Biswanath Das and that was about State contributions. I do

not quite know what his difficulty was.. His idea or his philosophy seemed to be that the Centre should draw up the plan both for the Centre and the States and finance it both for itself and the states or at least in the case of some of the poor ones. Actually so far as the State plans are concerned, it is obvious that the onus of finance plans most primarily falls on the States. It is true that the Planning Commission has assumed certain figures of assistance in order to be able to draw up a plan at all. Those assumptions are based on the best information that they could get and the best judgment that they could form, but it does not and cannot commit the Finance Ministry in the nature of things, because the Centre's capacity to advance that aid either in the form of a grant or a loan would depend on a number of factors—their own revenue surplus, the progress of their own unavoidable expenditure, the reactions of the money market and so on and so forth. That position has been made clear to the States. So far as Orissa is concerned. I think Mr. Biswanath Das would be surprised at the generosity which has been implied, so to speak, in the proposals of the Planning Commission. In the draft outline of the Five Year Plan the figure of development expenditure assumed for Orissa is Rs. 15 crores and out of this the assistance from the Centre is assumed to be Rs. 10 crores. So that if Orissa is to proceed on this Plan they would have to raise a revenue surplus of Rs. 5 crores as against something under one crore which they have agreed to do during the discussions. These discussions are continuing and I have been informed that preliminary talks show that this target may not prove to be unattainable.

Now, the Orissa Plan of Rs. 15 crores, so to speak without any commitment on the part of the Finance Ministry but based on the best judgment compares as follows with the plans of other smaller States:

Assam	— Rs. 12.5 crores
Punjab	— Rs. 15.5 crores
Rajasthan	— Rs. 15.2 crores
Madhya Bharat	— Rs. 22.0 crores

It should be remembered that Orissa and Punjab get in addition the benefits of Hirakud and Bhakra-Nangal projects respectively and the sums involved in those projects are very very considerable. We do not quite know what the revised estimates are but in one case we know it is Rs. 130 crores and in another case the latest estimates communicated to us place it at Rs. 65 crores.

My point here in quoting these figures is to show that the States have not at all been treated ungenerously by the framers of the Plan and all this has been included in the plan after repeated consultations with the States themselves. I am very grateful to my hon. friend Shri Biswanath Das for drawing my attention to the possibility of the States getting something more.

If I had the time I can go into the details of the discussions with every State but I repeat that nothing has been included in the Plan except after repeated consultations with the States. That is all that I have to say in regard to the general question of financial basis except that I think I ought to answer the point made by Pandit Kunzru. He said that he was sceptical of our ability to raise the surpluses. Well, so far as this year is concerned I do not like to prognosticate but on the figures available to me I think on the revenue side we shall not fall far short of our expectations. As regards the States I am afraid I have not got the information but I do not think it is right to judge of the soundness of a Five Year Plan by figures relating to any particular year. These ups and downs must be accepted. It may be—at least one should go on hoping—that next year may be better from the revenue as well as the expenditure point of view as the Plan gets into full swing and more conscious efforts are made and other extraneous circumstances come into play which inhibit the raising of revenues or the contraction of expenditure when unnecessary expenditure is eliminated then one may hope that these fairly modest targets will be realized.

The same thing is true for instance of our estimates of public loans. They are only Rs. 114 crores for five years which is much less than Rs. 23 crores a year. I do not think that that is

at all too high a target. Then the target in regard to small savings and unfunded debt which is Rs. 250 crores, that is Rs. 50 crores a year I think has more or less been attained this year. And as the Plan gets under way and incomes are generated. I have no doubt that we shall be able fully to realize this particular estimate. Similarly in regard to railways we are anticipating Rs. 120 crores. So I have myself, after giving the most anxious thought to this problem, no doubt that we shall be able to raise the revenues necessary for financing Part 1 of the Plan. And even if we are driven to a certain measure of deficit financing I am quite satisfied that it will not carry with it any portentous results for us.

As regards the Second Part we have conceded that that depends entirely on the receipt of foreign aid. I have never been able to understand the antipathy shown by certain Members in respect of the receipt of foreign aid when it is postulated that we are not going to sacrifice any of our independence or any of our principles in receiving foreign aid. If we receive it we shall receive it in the full consciousness that we have spent a great deal of our substance in the supposed safeguarding of democracy in this world and that much more has been done for enemies than for allies.

I am now referring to it historically, I am not entering into the analytical side of it. It would be a good investment for any one with surpluses to spare to devote them to economic development in this part of the world, and there is no reason why we should fight shy of any such friendly assistance. Apart from that, there is the possibility of getting some measure of this assistance from the International Bank, for Reconstruction and Development, of which we ourselves are a member.

Well, Sir, that is all that I need say on the financial aspect of the problem, except that in respect of the expenditure on river valleys I entirely agree with Shrimati Durgabai that unless we are watchful we might be spending the bulk of our substance on these river valleys and that economies and avoidance of waste on the big schemes that are in hand might mean a great deal for the implementation of the rest of the Plan. Just

consider the figures 130 plus 70, that is 200, plus 70, that is 270 or 275 crores, and even a five per cent. saving on that will give us schools and hospitals and other things which will gladden the heart of Shrimati Durgabai. So I am well aware of the existence of this problem. I have been adopting what may be regarded an unpleasant and tough attitude in regard to some of these matters and promoting the appointment of Committees to look into the expenditure, and I have hopes of ensuring that there is no wastefulness in carrying out these very important river valley schemes.

On the whole, Sir, trying to look at the plan as dispassionately as I can—and I can to a certain extent because the responsibility for finding the finance finally rests on me, I am in a dual capacity. I am a member of the Planning Commission but I am also the unfortunate person who has to foot the bill and therefore I am capable of looking at the Plan somewhat critically—I feel convinced that it succeeds in finding the middle way in many difficult situations and that it has, without being too loose, the seeds of adaptability, it clears the deck and sets the compass for future progress. And I am unable to understand the cry that often goes up that there is nothing in this Plan, that should enthuse people or *is par* enthusiasm. I say that the Plan presents a very fine field of endeavour in which as we go along success itself will lead to greater success. I can see signs of it in the countryside today. I can see people gradually drinking in this idea of giving some free labour. Today it has percolated among the University graduates, both boys and girls, I have seen camps working, taking up the spade, turning up the first sod, so to speak, encouraging the villagers and I have seen the slow reaction of the villagers to it. I believe if one were to be able to take a census in the country today by some magical process one could get an idea of what could be done and one would find a great deal to encourage one. I feel sure that all this process will be accelerated because this wish is evident in the hearts of our peasantry in the countryside. I think I can assure the House that this fine Plan will not be allowed to languish for law of finance.

First Five Year Plan*

Sir, it is very difficult to wind up a debate¹ in the course of which half a century of speakers have spoken. I have been indulging in a bout of self-introspection in the light of the mild or ruthless castigation which the Plan has been receiving at the hands of the Members on the Opposition benches, and I have tried honestly to consider if it would have been possible at all for us to do anything else than what we claim to have achieved by means of this Plan. The first charge is about the period taken for bringing out this Plan. After a little bit of research I discovered that the plan of the U.S.S.R. was brought out about 20 months after its inception, which is almost exactly the period after which we are bringing out this final version of our first Five Year Plan. I would also remind the House, Sir, that within four months of the appointment of the Planning Commission we brought out a rough Draft for the purposes of the Colombo Conference, and within one year of that we brought out the Draft Outline of the first Five Year Plan. So, relatively I do not think we have done so badly.

Then, Sir, I have considered whether we could have made it more of a plan. We may at once confess the charge that it is not really a plan in the sense in which perhaps economists understand a plan, that is to say, a plan, the details of which could be displayed in tables and in horizontal and vertical columns, giving resources on the one side and expenses on the other side and so on and so forth. Now, certainly it is not true that it is a comprehensive plan of that kind, but anyone who

¹ R.S. Deb., 18 December, 1952, cc. 2419—2437.

² Speaking on the Resolution moved by the Prime Minister, Shri Jawaharlal Nehru on 16 December, 1952, on the Five Year Plan.

has devoted some attention to the problems of planning, would find out that in this first experiment, in the absence of supporting statistics and data, that kind of a plan would have been completely impossible and if we had brought out such a plan, I think the Opposition Members would have been justified in calling it just moonshine.

Now, Sir, much has been made that this is really a series of annual Budgets. In the course of my speech in the House of the People yesterday, I pointed out that it is really not a financial plan, that is to say, the limitations of the Plan are not just finance and I do not wish, for lack of time, to repeat what I said in the House of the People. But since we have made allowance for addition to the Plan or supplementing the Plan, it certainly could not be regarded as a series of Budgets.

Then, another charge that was levelled at the Plan was that no assessment of resources has been made. Well now, we have, it is true again, not given tables of resources, but in preparing the Plan we have given special attention to this subject and there are several Chapters—III, IX, XXI, XXIII, XXVI and XXVII—where we have made some reference to some of these resources and the limitations on our capacity to give a complete picture. Now, as regards our human resources, the information at present available is particularly inadequate. The data which the 1951—Census has produced, might make a further analysis of such resources possible. We have made some attempt to deal with the problem of unemployment and there again, in that connection, I said in the House of the People yesterday that far deeper study of this problem is required before you could even start getting an idea of the size or dimensions of the problem. It will be noticed that the Plan contains provision for national sample survey and also provision of Rs. 50 lakhs for research and investigation relating to special problems of national development. Therefore, Sir, our defence in this matter is that within the information at present available, the best assessment possible of the country's resources has been made in the Plan. I would also urge that the study of resources is a continuous process and there will be various

places in the Plan where we have pointed out in which direction further studies could be made.

Well, Sir, I have tried to profit by the stream of suggestions that have been drawn out in the course of this three-day debate and I will try to reconstruct the Plan. I have made additions in my mind for heavy industries, chemical industries, engineering industries, railway development, education, health, shipping, Rajahmundry canal, under-developed areas, lignite, etc. And I find that the total size of the Plan now comes to nearly three thousand crores. Well, Sir, I have also made recalculations of resources in view of the grim prognostications of some of the Members including Members from Rajasthan, who said that there was going to be a deficit of Rs. 10 crores on that side alone. Our resources are one thousand crores and the size of the Plan is three thousand crores.

I have taken note of the complaint made by the hon. Member who preceded me, who said that the Plan does not take any notice of the aspirations of the nation. Well, we were under the blissful impression that the aspirations of the nation were contained in the Constitution and it is with reference to those aspirations that the planners were asked to plan. And indeed the purpose of a plan is not to state aspirations but to state the ways in which those aspirations could, if at all possible, be carried out or translated into practice.

Then, Sir, he complained that this was the first time in the last three or four days that Members of the Opposition Party were consulted. Now, the Planning Commission has a National Advisory Board on which the Members of almost every Party are represented. Certainly I remember that a very distinguished Member of the Party—the hon. Member opposite—is a Member of the National Advisory Board and he has to my knowledge been attending the meetings of that Board. So I do not think they can complain justly that they have not been taken into confidence before.

Now, the draft of the Final Five Year Plan was discussed during October, 1952, separately with representatives of the

Praja Socialist Party who were in a somewhat divided frame of mind, having amalgamated very recently and they gave us no guidance at all on the vital subject of controls; then it was discussed with a group of independent Members of Parliament and after that with the representatives of the Communist Party and then in early November 1952, discussions also took place with leading women workers. Now, the principal points made by representatives of the Communist Party related to taking all land without compensation.

They wanted distribution of land and confiscation of foreign capital in India—again I think without compensation, but I am open to correction. Now, we felt honestly that there could not be very much meeting ground in these proposals and I think that was a fact which was recognised by the representatives of the Communist Party themselves.

Now, in the discussions with the other groups, the points made were in the main points of emphasis rather than differences in principle, and these concern the following principal aspects of the Plan, the need to ensure that the Plan would be fully implemented without too much red-tape—we agree, Sir, that too much red-tape would be a nuisance, although if we avoid it too much, the country will be entirely red—absence of interference from political parties and at the same time co-operation to be sought on a national rather than on a Party basis, the need to give greater emphasis to cottage and small-scale industries, the fullest possible utilisation of the manpower resources, discussion on the Plan regarding the problems of employment, the importance of rural electrification, the need to ensure that the Plan did not result in strengthening and entrenching private interests and the general problem of financial resources for the Plan. Well, Sir, we did revise the draft extensively in regard to most of these points in order to take some notice, to find some room, for the suggestions received by the Planning Commission from these Parties, principally the Praja Socialist Party.

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Now, in regard to resources, I have answered various questions in regard to the resources in the House of the People. Some people doubt whether the States would be able to raise the resources necessary. Maybe they would find it difficult. Now, a reduction in taxation revenues might possibly be an indication of a certain tale of economic affairs, and I said yesterday that if those trends were found to be established, then it might be necessary to resort to deficit finance to an extent which we did not contemplate. In other words, the Plan will be flexible in that respect and I myself have a streak of optimism in the matter. Therefore, after balancing all possible considerations within the limits of immediate feasibility, we think that the size of the Plan cannot be appreciably enlarged. Therefore, Sir, that leaves us with the question of priorities to which Dr. Mookerji made a reference. The complaint in one of the speeches from the other side, I think from the hon. Member opposite, was that even the priorities were not very satisfactory. I do not think he had time to develop his point, but as far as we can see, we are right in laying emphasis on agricultural production, and we feel that that can be the only sound basis for, shall I say, proper planning in the next five year period. On that basis, we could construct the next Five Year Plan which would have a far higher priority for the various basic industries, and yet if you consider that the Plan covers only the public sector, you would probably find that the private sector has not been entirely neglected. About 40 to 45% of the total resources available would be utilised for the private sector and the rest for the public sector.

Now, there was some reference made to the increase in the national income. We have pointed out that although theoretically it will take 27 years to double the national income *per capita*, yet if we were to mobilise all our dormant productive capacity or all our unutilised manpower—and that is where the cooperation of all parties is so very necessary—then it should be possible for us to contract that period to about 20 years which certainly is not so bad as 27 years, certainly not so bad as 50 years or 100 years which were mentioned by some hon. Members.

Now, Sir, fault has been found with the targets of the Plan. So far as food production and food consumption targets are concerned I must confess that we are not on very firm ground in the sense that agricultural statistics are not comprehensive enough and are not really precise enough. Hon. Members have not had the advantage of seeing the report of the National Random Samples Committee which is in my hands now and which might be released in a few days' time. This seems to show that both production and consumption are about 25% higher than we have been habituated to think.

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Now, in regard to cloth, the difference is, I think, both in taste as well as in the requirements of foreign exchange. In 1955-56 cloth is to be exported to the extent of 1000 million yards at a time when the *per capita* domestic availability may be less than pre-war, but the interpretation put on this by hon. Members opposite was that this was designed to give increased profits to millowners. I suggest, Sir, that this is entirely a perverse view of things. The export of cloth was fixed at 1,000 million yards because Indian textiles have a ready market abroad and because we wanted to cover the balance of payments deficit that would otherwise arise. Now, I would ask him to consider what would happen if we did not export cloth. If we did not export cloth, the foreign exchange deficit may be Rs. 100 crores more and this would result in greater dependence either on deficit finance or external assistance which is only something which we have to buy from abroad. I think it is common ground that we should try to minimise the extent of external assistance; that is to say, we are anxious to carry out our Plan on the strength of our own resources as much as possible. The extent to which we shall be able to do so will ultimately depend on the discipline to which the country will be prepared to subject itself, and again this is a matter in which the cooperation of almost every party would have been very welcome.

Now, Sir, the House might be interested in what happens to the targets in all kinds of planning. I have here some

information about the Five Year Plan of the United States of Soviet Russia. It was preceded by a 4 or 5 years period of what they called 'A New Economic Policy', which was a period of preparation and consolidation and at the end of that period, the Russian economy was more or less in the same position as in 1913. Similarly, this five year period is really a period of preparation and of making good the damage that has been done to economy by two factors—both very serious—war and partition.

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I am comparing the first Five Year Plan of Russia with our first Five Year Plan. It is no use comparing their last Five Year Plan with our First Five Year Plan. That would hardly be fair. The Russian Plan envisaged a 50 per cent increase in national income over the five year period. By how much national income actually increased, it is not easy to say, as available estimates differ. We have the testimony of a sympathetic economist like Professor Bobb, that so far as consumption was concerned, things did not work out according to the estimates made in the Plan. Various unfavourable factors were:

- (a) large scale slaughter of livestock as a reaction of the peasant to the collectivisation campaign;
- (b) unfavourable movements in the terms of trade, which sharply reduced U.S.S.R.'s capacity to import;
- (c) rise in defence expenditures instead of a fall as visualised in the Plan.

All these factors, instead of doubling labour productivity, which had been envisaged produced an actual increase of 41 per cent. The point is, agricultural yields were estimated to rise by 35 per cent. Actually, the average yield for 1929—32 was slightly lower than the average for 1925—28. This was partly due to the two bad harvests of 1931 and 1932.

When there is no grain, it cannot be distributed. That is why a lot of people die.

The most remarkable achievement of course, of the Plan—and everyone admits that—was that in respect of heavy industries, they achieved targets ahead of the schedule. Now the effect on consumption of some of these shortfalls was this. The prices of consumer goods rose rapidly during the Plan period. This I think, will be of some great interest to the House. Between 1928 and 1936, the price of bread rose over 10 times, of flour about 12 times, of milled grain 13 times, of beef 10 times, of milk 6 times and of calico about 8 times.

Planning in agriculture presents special difficulties. This has been the experience of the U. S. S. R. also in spite of its highly centralised planning. Russia's agricultural production in 1950 was only 7 per cent. higher than in 1940, actual production in 1950 being—I shall not give the actual figure. I have got them with me.

There this led to the adoption of a new agricultural policy in 1951, of amalgamation of collective farms.

So that is what is apt to happen to targets.

Therefore I think, sir, if one considers this dispassionately one would find that the Plan was produced in a reasonably good time, that the size of it is also adequate considering all the circumstances and that there is nothing very much wrong with the priorities again considering the further, objectives of the projection shall I say of the Plan.

Now, there have been certain solution which have been suggested by hon. Member but I myself think that this problem will not yield either to the Communist phobias or to the arid clarity of the Socialist Doctors.

So far as the Communist remedy is concerned, because we feel that certain Fundamental values, to which we attach very great importance will be destroyed in the process, it is not possible for us to adopt their suggestions. That leaves the Socialist doctrines. We have really no great quarrel with them. The progress of the country must be towards increased socialisation and I believe that has been recognized somewhere in the Plan. It is a question of considering what would be practical in the light of actual administrative experience and in

that in spite of the confusion of our thought, we claim a far greater advantage than Members on the opposite side. We have handled the affairs. We also find how very difficult it is to man key jobs, whether it is in the administrative line or whether it is in industry or in expanding industries and unless we are able to train up a corps of trusted and well-trained workers, I think myself that we should be doing an injury to our cause in trying to accelerate the process of socialisation. So we have to steer away clear through the doctrine on the one side and through feasibility on the other, and in the light of that, take decisions as we go along. That I think is the only difference between the Socialist Party and the Congress Party.

In the meanwhile we are prepared to do justice and to treat fairly everyone—I mean industrialists or workers or anyone—who is prepared to cooperate with us.

Now, Sir, reference has been made to various problems of land distribution and general improvement in agriculture through that means. Here again we have had to avoid the Scylla of under-production on the one side and the Charybdis of compensation on the other, and we gave a great deal of thought to this problem and came to the conclusion that either for social justice or for production and for reconciling these somewhat conflicting objectives it was not necessary to aim at either a very low holding or a mechanical uniform distribution or doing away with the landlords. I don't mean the zamindar but the landlord. There is an immense possibility of increased production in agriculture as anyone knows who is familiar with that subject. I was myself connected with a very great deal of agricultural matter and I claim to have seen perhaps many more villages—about 3,000—than almost any Member in the House in the course of five-year settlement. I have inspected them and I am quite convinced that the policy which has been selected by the Planning Commission is the right one at least for the next few years till we see how that works out.

Now, Sir, there are various stray matters to which reference has been made by hon. Members. I think Shri Guruswami said something about the electrification of railways. Now, actually,

the Railway Ministry has several schemes, the total cost of which might be—that is not for the electrification of all the railways, but there are some schemes—about Rs. 70 to 80 crores, and if you have all these in a complete list, the cost will be Rs. 80 crores. The problem, first of all, is to find the necessary money. Secondly, what I meant was the proposition that you will save some money is equally true in regard to any other kind of capital expenditure. The trouble is to find the capital. Until the heavy electrical industry has been developed, we feel that the expenditure by way of foreign exchange would be very large if electrification is taken in hand. Thirdly, the necessary power is not yet available for the purpose. Fourthly, new developments are taking place in electrical traction and we feel that in one or two years, new forms of electrical traction may appear on the horizon. And, considering all these we have decided to wait a little. We in this, I speak on behalf of the Railway Ministry, decided to wait a little in this matter. Then there was a question about not utilising railway workshop and allowing the turn round of the wagons to be unsatisfactory. Now, I have made enquiries from the Railway Ministry and I find that the existing railway workshops are working to rail capacity, and the railways are also making use of private workshops to the fullest extent. The Railway Ministry has also placed certain educational orders, *i.e.* trial orders, on new firms, for the manufacture of rolling stock in the country, in order to save foreign exchange in due course. Then as regard the turn-round of wagons, I am told that this has improved greatly in recent years, and this has made it possible for the railways to carry 15—17 per cent. more traffic on various sections with the same rolling stock capacity as before.

Then there is the question of rural credit which was raised by another hon. Member. All I can say in reply is that there is now a rural credit survey the results of which are due by the Reserve Bank, and I think that will throw considerable light on the latest position regarding rural credit and the facilities available. It is recognised that the needs are very large although they may not be in the same term—Rs. 800 crores, I

mean that was mentioned by the hon. Member. But the real problem is to build up an appropriate machinery for the purpose of disbursing any credit that may be available from the Reserve Bank of India down to the cultivator, and any one who has handled credit problems realises that it is not a mechanical job. It is not a job which you can do with slate and pencil, and satisfy yourself that because Rs. 800 crores is the requirement, therefore the Reserve Bank should print Rs. 800 crores worth of notes. That is why, Sir, the Commission has made it tentative—they have not said so in so many words but a tentative measure. In this what I mean is that as we find the actual mechanism working, it should be possible for the Reserve Bank to revise these figures. We shall see what response there is to rural credit that is put out by the Reserve Bank, and if we are encouraged by our experience then I should say that it should be possible for the Reserve Bank to improve on these figures.

Now, Sir, there was some reference to betterment levy by Prof. Ranga. He is not here and I do not know whether I should refer to it, but the point is that the various methods of collecting the levy or assessing the levy have been indicated in the relevant chapters by the Planning Commission, and it is not correct that only one method has been suggested; and that is representative of the difference between the new sale value and the old sale value. The three methods are: The total amount of rupees that may be recovered in one lump sum. It is not a question of assessment recovery. Then, secondly, a share of the produce annually, in cash. Possibly, that may be most equitable from the point of view of the agriculturist. Thirdly, in the case of the large landholders, a part of the land may be surrendered to Government at pre-project rates. It seems to me, Sir, that Prof. Ranga got scared at this third alternative, which is intended only for large landholders.

Then, lastly, there is the question of underdeveloped areas. The first thing to remember is that so much of the area in this country is undeveloped, because the country is itself undeveloped.

I am sorry there is some kind of Oliver Twist tendency on the part of the States and the difficulties of these areas. There was a time when, I am quite certain, the people of Rajasthan would have been very very happy over the inclusion of the Chambal project, but today they just give me bare thanks, or the Planning Commission, bare thanks for the inclusion of the Chambal Project and complain that adequate provision has not been made for the development of the area.

About Orissa, I pointed out in a speech some time ago that Orissa really is receiving by way of assistance, about as much as its annual revenue, for the completion of a very important project. I do think that Orissa ought to concentrate on that project instead of raising a lot of doubts about its efficacy, or about the way in which it is handled or about the manner in which repayment will be made. I am quite certain that far greater attention will be paid to the subsequent needs in the Hirakud area, regarding the starting of factories and so on, if Orissa were to stand united behind Hirakud Project and not drag other red herrings across the path.

The Centre found itself in a very difficult position to promise any larger assistance for the development of areas, for the simple reason that the award of the Finance Commission is not yet in our hands. We rather suspect that it will mean a transfer of resources—direct transfer of resources—from the Centre to the State. How much it will be I am not in a position to say. I shall have to find the money not only for the current year but also for the next year. That is to say, the award will be retrospective from the beginning of this financial year. After the results of the award have been assessed, then it should be possible for the Centre to make that special investigation to which a reference was made by one of the hon. Members who read out from one of the financial integration agreements. It is not our desire to shirk any enquiry. An enquiry will be made, and I have no doubt that a clear picture will emerge out as a result.

I should be very sorry if it really does turn out that It is not a national Five Year Plan, because by the action of the Communist Party it will cease to be a national Plan, and because 1-1/2 years have passed already, it is not a Five Year Plan. The Socialists, and the Praja Socialist Member have already stated that it is not a Plan. It is like the Grand Trunk Express, which is neither Grand, nor Trunk, nor is it an Express.

State Bank of India Bill*

The last speaker **has drawn attention to the fact that the two wings of banking @are equally important. I should take the view that the extension of banking to the rural areas is the more important of the two wings now. If that had not been so probably the occasion for nationalisation of the Imperial Bank might not have arisen. It is because on an expert enquiry we found that the spread of rural banking has not taken place under the existing agency, that we have brought forward this measure in accordance with the recommendations of that expert enquiry committee. The hon. Member who suggested that amendment referred to the Reserve Bank. I think he has been misled by the word 'deputy'. Actually, the Governor has two Deputy Governors, one Deputy Governor being in charge of agricultural credit and the other Deputy Governor being in charge of banking. These two functions are not usually combined. It has often happened that one looks after the monetary side and another looks after the agricultural credit side. Here, the set-up is that there is going to be a Chairman and there will be a Vice-Chairman and two managing directors. The arrangement that has been proposed by the hon. Member would be very inappropriate if there is any feeling of inferiority on the part of the deputy managing director who is going to be responsible for the organisation of this new department. The managing director is in his field, that is, commercial business. He is looking after it. We hope that we will get a managing

* L.S. Deb., 30 April, 1955, cc. 7091-7096, 7129-7130, 7151-7154, 7202-7211. Speaking on the motion for leave to introduce "the Bill to constitute a State Bank of India, to transfer to it the undertaking of the Imperial Bank of India and to provide for other matters connected therewith or incidental thereto".

** Shri Matthen.

@Urban and Rural banking.

director who will continue to look after this side. That part of the work may not present much trouble because it is keeping a running concern going. But this other work is more important. If we fail now we shall fail for ever. Therefore the other official must carry sufficient guns. That can only be ensured if he is a managing director with co-extensive powers so to speak and status with the managing director.

Now, I come to the next point, that is in regard to the experts.

As regards the two experts, as one of the hon. Members points out, the number is a minimum. It is a minimum of two. There are not just two interests: one co-operation and rural economy and the other, commerce, industry. There is a third, and to our mind a very important interest, and that is territorial distribution. It may happen that those areas which are likely to have a concentration of the shares will probably be able to send us all the kinds of people that we want, whether it is co-operation, whether it is commerce or whether it is banking and so on. Yet we may find that we have not got representatives from certain areas. I think it is very important that we should ensure that representatives of those areas are also on the Board. After all, we must remember that the difficulties of organising credit will be all the greater in those areas which are not likely to have an opportunity of sending directors in some of the other ways. Therefore, I think it is best to have this flexible form. The House may trust the Government to ensure that, if by any of these channels cooperation is not properly represented, more than two are taken on the Board. I do think that they will be justified in indulging in this small act of faith so far as representation of various interests are concerned, because there is nothing in law to prevent us from taking the right view, though we should be persuaded that it is necessary to take such a view.

Then, I come to the other small points raised by Shri

Achuthan that there should be a director from the Planning Commission. As you yourself pointed out, the Planning Commission is a limb of the Government and it is an advisory limb of the Government. Three of the five existing Members are from the Government. The Chairman is the Prime Minister. Another Member is the Finance Minister. Then, there is the Planning Minister. There are two other Members. I do not know what other result you can get by asking the Planning Commission to deal with a thing with which they are not directly concerned. Of course, everything that happens in the economic development field is their pigeon, is grist to their mill. They are concerned more largely with formulating plans for economic development. These matters are ancillary to them. Whether it is the re-organisation of the administrative machinery or whether it is the organisation of credit or whether it is organisation of cooperation, these are matters on which they give us the philosophy and guidance in regard to practical implementation. But, it is not necessary that they should have any participation in nominating the people to the actual agencies which will carry out the work. I do not think that there is any advantage whatsoever in vesting this particular duty on the Planning Commission. All I can say is that I find the hon. Member's faith in the Planning Commission very touching. But I do believe that although the suggestion is well-intentioned, it is misconceived.

Now that leaves only one big, important matter, and that is, the representation of the employees and all the consequential amendments. Certain hon. Members, especially from the Opposition, are in the habit of advocating their pet theories on each and every possible occasion. There are occasions on which they should be properly discussed. I have no doubt that these are very important matters, and I do not propose to be drawn into a controversy here and now as to whether workers should be represented on the Board and if so, in what particular manner, on industrial concerns generally and on concerns which belong to Government in particular. That is a very big issue which will require to be discussed on the floor of this House when a suitable opportunity presents itself. There will be

numerous aspects of that matter and one cannot, by way of just a solitary amendment, get such a revolutionary principle accepted. I submit that that is a matter which ought to be considered at greater leisure and more deliberately. If once the House accepts this, then I think the rejection of these amendments follows. I should like to add that even where the private industry is concerned, it is not an accepted principle, yet, that workers must find a place on the directorate, because obviously there are matters of who takes the risk, who stands to lose if there are losses and so on and so forth. But, as I say, it is not necessary for me to enter into this matter. To simplify the matter, take the case of an entirely nationalised institution. Now there the choice is not as between shareholders and the workers. It is not as between capital and the workers, not between big business and workers. It is a question of the community and the workers. And is there any particular reason why the representatives of the community nominated through the government should be replaced by representatives selected by employees? So that is another and slightly more complicated aspect of this general question which, as I said, would have to be debated on and decided after full consideration. I think at the moment, at the stage at which we are, it will not be appropriate to accept any amendment of that nature.

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I have taken a particularly simplified case in which I have assumed that there are no shareholders. I first dealt with the case of private industry and then I spoke about the question of who bears losses and so on. Then I took the other extreme of an entirely nationalised institution, where I said there were no shareholders, but the anti-thesis was between the community at large and a small section. Therefore, I said that was another aspect of the matter. Now, this only illustrates the difficulty of dealing with this matter and therefore, it should not be decided in a hurry. We should maintain the *status quo* till we arrive at some satisfactory solution. I have no preconceived notions on the matter. I am still open to

conviction; if hon. Members, in the fullness of time, can advance any arguments, we are free to consider them.

Then some assurance was wanted that directors would not be representatives of big business. This big business is like King Charles the First's head, with hon. Members. We have not divided mankind into big business and the rest; we are not thinking, in terms of big business. Indeed, there is another amendment which we are bringing forward which will ensure that so far as the holding in the bank is concerned, there will be a limit. I do not know whether hon. Members have noticed that. But there is an amendment by which we intend to limit the shareholding to 200 shares.

So, that confirms my argument that there is no such thing as big business and small business. All that we want to do is first to fulfil the intentions with which we are bringing forward this Bill and to further the public interest. If somebody happens to belong to big business, he will be there on his own merits, not because he belongs to big business. If, on the other hand, you have somebody else who represents co-operation or who has some special knowledge of the working of rural economics—he may be a professor, he may be an administrator—he will be there. I think it is very wrong to think in terms of big business and small business and build proposals round this false distinction. It is for these reasons that I oppose the amendments that have been moved regarding this matter.

I am not in a position to make any precise proposals in regard to remuneration for the reason that I have not at the moment any final decision in regard to the persons to be appointed to these various jobs. So far as the managing directors are concerned, it will be a matter for the State Bank to decide afterwards. We will ensure that the remuneration paid is not on an extravagant scale to which reference has been made by the hon. Member. So far as the Chairman is concerned, it would be premature for me to come out with the name of the person that I have in mind.

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Supposing I name the person, supposing you were to make a conjecture as to the remuneration to be given, supposing there were to be, shall we say, some discourteous remarks as to the lack of patriotism of that particular person, I feel that we shall lose the opportunity of having a very deserving head for the new Institution. In a matter like this, I think hon. Members have to trust the Government to a certain extent. All I can say is that the scale at which the remuneration is paid at the moment is extravagant, in our opinion. It is for that reason that in some other case, we have suggested in the case of pensions and other things, that after a certain date, we have taken powers to vary them. But, when we fix a scale, two matters will have to be taken into consideration. First the person whom we want to get. It may not suit some deserving people. One may have private means; another may not have private means. It would be wrong to tie our hands and say because one person has private means, you offer him Rs. 1,500. That kind of economy would be, in my opinion, a false economy.

I think that a certain amount of freedom ought to be left to the Government. We will stand to be judged. We will announce it in due course. It will not be a secret salary. We will stand to be judged. You can try it as a matter of confidence or whatever you like. When you finally know our choice, I am sure you will be satisfied.

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The first series of bank failures that I came across as Governor of the Reserve Bank was in Bengal where we had a large number of land Companies. These Companies primarily gave money on tea estates and various other landed properties. It is because they did that, because their business was largely confined to that, they came to grief. I do not know what the total tale of woe is, but I believe depositors in Bengal had probably about Rs. 50 crores of deposits in jeopardy as a result very largely of lending money on the security of land. Now, I do not say that money should not be advanced on the security of land. It is indeed the purpose of co-operative land mortgage business

and may be other joint stock business. If they collect long-term money then they are welcome to advance money on security like this. There is no particular magic in land as security. It can also deteriorate in value. Those who were connected with co-operative movement during 1930-31 had very bitter experience of what can happen to land as security. I know of a central bank in Berar in Madhya Pradesh, which failed. At one time about 90,000 acres of land were taken by it as security. Now, the hon. Member said that land is a very good security and yet not a single acre out of those 90,000 acres, they were able to cultivate. The land was spread all over in small parts. This was in one particular district. When they tried to cultivate it or tried to lease it out, then the debtors who were all around, they took jolly good care that the co-operative bank was not able to cultivate the land. I do not think that we have any right to jeopardise public money. Apart from private money which will be there in the State Bank as a share in this kind of venture. And, it is for this reason that eminent men led by Shri Gadgil who served on the Expert Committee—Shri Gadgil is one of our foremost economists who knows something about agricultural finance—I certainly think he knows more about agricultural finance than any other Member—with all respect to them—knows—he was one of the doyens of the Expert Committee—there were other offices with administrative experience also and they came to the conclusion that in this expansion of the Imperial Bank we had better confine ourselves to certain things which were referred to by my colleague. There was however some slight mistake in what he said. My hon. colleague said that the Reserve Bank does only long-term business. That is not so. In the money that they lend out to co-operative institutions they also finance short-term operations—production operations—and figures have often been given to the House in this respect. I began this particular system by which, I think, in the first year we lent Rs. 50 lakhs and today it is Rs. 15 crores. There is no reason why the sum should not increase.

Then, there is another signature which is that of the district bank or apex bank. It is on that double security that the Reserve Bank gives money at 1.5 per cent. We ensure, as hon. Members know, that the money reaches the cultivator at a reasonably low rate of interest. There have been certain difficulties in that matter, but we are trying to face them. So, it is not as if the main function of agricultural production is not helped by the Reserve Bank. But, it is helped in a different manner. If that is so, when we are not putting any limits on that particular kind of business, I do not see why so far as this commercial bank is concerned we should make any such provision. This is a joint concern, partly commercial and partly this. It is not as if a separate institution is started only for agricultural credit in which case we might have taken care to see that the monies with which they operate are secured in a different way. But these are still short-term deposits and, therefore, we have to take care that they talk of business which is ordinarily taken on by commercial banks. That is why we have already passed that clause about business principles subject to public interest. Public interest might involve a certain amount of relaxation of this principle. But, the main principle must remain the same. Therefore, I suggest that hon. Members should not confuse the two issues and should not over-estimate our intentions in starting this particular Bank. I am sure if we extend the branches in the rural areas we shall have various advantages like marketing, and when warehouses come we shall be able to take even crops against pledged loans. And it will be a very good supplementary to the other scheme which is being operated by the Reserve Bank.*

*The Bill, as amended, was passed.

9a

Reserve Bank of India (Amendment) Bill*

I beg to move:—

“That the Bill further to amend the Reserve Bank of India Act, 1934, be referred to a Select Committee consisting of the hon. Dr. B. R. Ambedkar, Shri M. Ananthasayanam Ayyangar, Shri T. T. Krishnamachari, Pandit Hirday Nath Kunzru, Shri B. L. Sondhi, Shri T. A. Ramalingam Chettiar, Shri Prabhu Dayal Himatsingka, Shri Satyendra Narayan Sinha, Shrimati G. Durgabai, Shri Arun Chandra Guha, Shri B. Das,[@] Shri Syamnandan Sahaya, Shri Ramnath Goenka, Shri Gokul Lal Asawa, Shri V. S. Sarwate, Shri Upendranath Barman, Shri Bali Ram Bhagat, Srijut Rohini Kumar Chaudhuri, Ch. Ranbir Singh, Shri Mahavir Tyagi, Dr. M. V. Gangadhara Siva, Prof. N. G. Ranga and the Mover. with instructions to report by 7 December, 1950.”

The Reserve Bank of India Act, 1934 has been in force now for over 15 years. During this period it has been amended on several occasions mainly for special emergent purposes, especially in connection with the Banking Act and the nationalization of the Bank. Experience of operations has, in the meanwhile, disclosed the need for amendments from time to time. It has been the policy of the Reserve Bank not to seek to promote these amendments singly. A sufficient number of these

*L.S. Deb., 21 November, 1950, cc. 350-358; 22 November, 1950, cc. 432-446.

** Motion for reference to Select Committee.

@Nomination of Shri B. Das subsequently withdrawn.

amendments have now accumulated and it is considered desirable to promote them. At the same time, constitutional changes have taken place and they also make it necessary to amend the Reserve Bank Act in certain particulars. The present measure, therefore, contains amendments which fall into these two classes.

I shall first deal with the amendments necessitated by the constitutional changes. With the financial integration of the Part B States with the Union Centre, it is now desirable, and no one will doubt the desirability, that the application of the provisions of the Reserve Bank of India Act should be extended to them, so that in due course, the Reserve Bank will occupy towards them the same position as it does in regard to Part A States. The Bill accordingly seeks to extend the provisions of the Reserve Bank of India Act to all the States except the State of Jammu and Kashmir. The existing financial and banking arrangements in these States are not of the same pattern, nor are they of the same standard. Therefore, it is necessary that there should be some provision to allow an eclectic application of the provisions of the Reserve Bank of India Act as circumstances indicate. That has been secured by way of an explanation to section 21 and it will be found in clause 9 of the Bill, namely, to withhold the mandatory provisions of sections 20 and 21 of the Act from coming into operation with immediate effect in Part B States. At the same time, power has been taken for the Central Government to authorise their application to some or all of the States as and when feasible by a notification in the Gazette of India.

Since the Bill was drafted, the Reserve Bank have felt that it may not be possible for them to undertake in any Part B State all the functions mentioned in the section at the same time. Therefore, it has occurred to us that there should be a provision to allow the Reserve Bank to undertake only such functions in

any given State as they consider it possible or desirable for the time being to undertake. I propose therefore to move a suitable amendment at the Select Committee stage to achieve this object. This plan has the advantage that it leaves scope for giving effect to some of the recommendations of the Rural Banking Enquiry Committee in connection* with treasury arrangements in Part B States. These recommendations are under consideration at the moment.

Now, I come to the second and more important group of amendments, that is, those which have been shown as necessary by the experience of its operations gained by the Reserve Bank. The most important of these is the extension of the period of accommodation provided in section 17(2) (b) of the Act. I would refer to clause 6 of the Bill, sub-clause (2). There has been a persistent demand that this period be extended as the present period prescribed in this sub-clause (2) (b) is not sufficient for productive finance for agricultural operations. That is the finding of the Co-operative Planning Committee and it is also the conclusion reached independently by the Reserve Bank, who hope that if the period is extended, it would enable the co-operative movement to take fuller advantage of the finances which the Reserve Bank makes available to them.

The next important amendment is that contained in sub-clause (4) of clause 6. This really is in the nature of a clarification. There is no section, I should imagine, of the Reserve Bank Act which has been misunderstood more than this particular section, although any one versed in legal interpretation can construe it only in one way, namely, that the documents of title to goods themselves are required to be transferred, assigned or pledged. The key words in this section are the words "documents of title to goods". If these have not been transferred, then, it is not possible for the Scheduled Bank which seeks accommodation from the Reserve Bank to create such documents, because that Bank is not the mercantile agent of the customer as defined by section 1 of the Indian Sale of Goods Act. That is to say, the Scheduled Bank must have

given an advance to its customer against documents of title to goods and not against the goods themselves, if it has to pass this paper on to the Reserve Bank for obtaining accommodation from it. The words "documents of title to goods" are defined in section 2 of the Indian Sale of Goods Act and they include bill of lading, dock warrant, warehouse keeper's certificate, wharfinger's certificate, railway receipt, warrant or other for the delivery of goods and other documents used in the ordinary course of business as proof of possession or control on goods or authorising or purporting to authorise either by endorsement or by delivery the possessor of the document to transfer or to receive goods thereby represented. The sum and substance of this is that only such documents as are fully negotiable instruments are eligible for collateral under this sub-section. Now, it happens that there are not many licensed warehouses in the country and therefore the scope for the application of this section is restricted. That is a separate problem which has to be taken care of and which the Reserve Bank has attempted to take care of by indicating to the States the necessity of legislating for the establishment of licensed warehouses. Whatever that may be, and however restricted the scope of this particular section may be, the purpose of the present amendment is merely to make clear the meaning of it.

The words occurring* are: "supported by documents of title on goods which have been transferred". The word "which" can only mean "which documents of title" and if you were to construe it as "which goods", then the section becomes inapplicable. Of course, as it is, it is clear to anyone who is versed in legal interpretation but in order to avoid misconceptions on the part of people dealing with the section in the course of their work, it has been considered desirable to clarify it by the amendment proposed.

Now I come to another sub-clause of this clause and the object of that is to include all the remittances which the Reserve Bank deals with. The Act as it stands, does not provide for the

* in Section 17 (4) (d).

Reserve Bank issuing remittances other than demand drafts or purchasing TTs— telegraphic transfers. In practice the Reserve Bank has been called upon to issue remittances in all kinds of purchase of telegraphic transfers, and it is proposed to bring the law into conformity with the present position. That will be found in sub-clause (6) of clause 6 of the Bill.

Then it has been found in practice that the stipulations regarding the limits and maturity of the government securities which may be held by the Bank statutorily provided in Section 17 (8) of the Act are unduly restrictive. At one time it is possible that there were some justifications for the provisions but it is quite clear that there is no reason to continue them now, especially in view of the transfer of the Bank to public ownership which has taken place since the measure was enacted. These stipulations fetter the discretion of the Central Bank to enter upon the market operations, and they have really no parallel in legislation concerning the other Commonwealth Central Banks, and so it is the advice of the Reserve Bank that these restrictive provisions should be deleted.

The next amendment included in this clause relates to arrangement which the Reserve Bank can make on behalf of the Government of foreign countries. The Bank has been called upon to maintain an account and render other banking services for these governments, and this is not at present covered by the Act. So we are taking the opportunity to amend the Act to permit of those working arrangements. That is in clause (7) (b) of clause 6 of the Bill.

Lastly, the only other sub-clause I need refer to is the provision which allows the Reserve Bank to purchase the shares of the International Bank. That was inserted by an amendment made some time ago. We find now that there is no provision for the purchase by the Reserve Bank of the securities issued by the International Bank and it is now proposed to fill in this lacuna. That will be found in sub-clause (8) of clause 6 where we state that for the words "in the shares" the words "in the shares and securities" shall be substituted.

The next important clause of the Bill is clause 10. Now under the existing provisions of section 26 of the Reserve Bank of India Act, it is incumbent on the Bank to accept currency notes for payments after they have been declared to have ceased to be legal tender, at all its officials and agencies and for an unlimited period. Now, it has been found necessary from the administrative point of view to restrict the period up to which the notes are required to be accepted at the agencies, and to provide for their acceptance after a certain specified period, at the Bank's offices only. Therefore, it is proposed to amend the Act to empower the Central Government to notify a date up to which the currency notes which have ceased to be legal tender shall be accepted for payment at the agencies of the Bank, that is to say, the offices of the Imperial Bank, such notification being issued as and when a particular category of notes are declared to have ceased to be legal tender.

The next important amendment is contained in clause 13, and that relates to the return submitted at present by the scheduled banks to the Reserve Bank, under section 42(2) of the Act. The existing form of the return does not require the scheduled banks to show their investments and their balances with other banks in current account and the money at call and short notice, and the banks are not also required at present to furnish the return of demand bills purchased by them, although they are required to show the amount of such bills discounted by them. Well, after a great deal of experience in the control of commercial banks, the Reserve Bank considered it desirable that they should be supplied with information under these heads by the scheduled banks, to enable the Reserve Bank to keep in touch more precisely with the money market conditions from week to week. The proposal, therefore, is to amend the Act, and to require the banks to include information referred to above, in their weekly returns. So the whole of this section will replace the original section, in section 42 of the Act.

The only portion of the Act to which I need draw attention is sub-section (7) which is proposed to be added to section 42, that is towards the end of clause 13. It has been brought to the

notice of the Reserve Bank and the Government in recent months that some of the scheduled banks which have migrated to India from Pakistan are not able to comply strictly with the statutory requirements regarding the maintenance of minimum deposits, submission of returns etc. Now, all these difficulties are real, and indeed Government and the Reserve Bank appreciate them but so far it has not been possible to exempt the banks from the operative sections of the Act without undertaking special legislation for their amendment. And to meet situations such as the above it is proposed to invest the Reserve Bank with discretion to grant exemptions in deserving cases from the operation of the relative provisions as and when considered necessary. This will be in consonance with the other and more important powers which are exercised by the Bank under the Banking Companies Act.

For the same reason we consider it suitable to direct the Scheduled Banks to submit the prescribed returns now to the Reserve Bank, because the provision of the Act requires them to submit separate returns to the Central Government and those provisions, will now be deleted.

I have referred to the more important of the amendments included in the Bill and I have also referred to an amendment which we propose to bring in at the Select Committee stage. There are one or two other amendments which occurred to us and we shall take the opportunity of bringing them forward. One such relates to the powers which a Deputy Governor may be authorised to exercise in the absence of the Governor. Before the nationalisation of the Bank this was taken care of by the general regulation and there was a provision where by, in the absence of the Governor, a Deputy Governor duly nominated by him was authorised to transact all the usual business of the Bank which might be transacted by the Committee of the Central Board. That power is missing at the moment from the present Act, whereas the necessity for the Deputy Governor to exercise such powers continues, especially in the absence of the Governor out of India on official business, which is apt to be for fairly long periods. Therefore we consider it necessary that

provision should be made in the Act to enable the Governor to delegate to a Deputy Governor the powers vested in him under the Act. I am afraid that was an omission which should have been noticed when the nationalisation measure was being considered.

Then the other amendment which we wish to propose to the Select Committee is in respect of the return under section 42 (2). Since the Bill was drafted it has been represented that the period of two days which is prescribed for the submission of the returns involves unnecessary expenditure on the part of banks in obtaining telegraphic information from their branches. It is therefore proposed that the period should be altered to five days and in order to provide for the special difficulties of any bank owing to the geographical position of its branches a proviso should be added allowing extension of the period in special cases to ten days.

That, Sir, covers most of the important amendments. I am sorry that this Bill was printed before a wish was expressed in the House that there should be notes on clauses and that is why I have taken some care to explain the more important clauses in some detail. In future of course all such Bills will be accompanied by the usual notes on clauses.

*Brick-bats at the Reserve Bank and bouquets at me have been thrown during the course of the discussion and in my opinion they are both unmerited and undeserved. So far as the administration of the Reserve Bank is concerned. I would refer the House to a talk I gave before the Gokhale Memorial Institute in Poona which is obtainable from them; it contains a very elaborate account of what the Reserve Bank has done for the country during the period of 13 years, which that talk covered. I claim that the Bank has done well by the country and is an institution which it should be proud of, although it is always helpful to have constructive criticism in regard to the way in which the Reserve Bank is discharging its functions.

I think the plan I propose to follow is to deal with the

*Continuing the speech on 20 November, 1950.

particular sections of the Bill about which observations were made. I come to the proposed amendment to section 17 (2) (b), that is to say, the question of the lengthening of the period from nine to twelve months. I think it would be helpful if I read that section:

Among the kinds of business which the bank is authorised to transact are:

“the purchase, sale and rediscount of Bills of exchange and promisory notes, drawn (and payable in India) and bearing two or more good signatures, one of which shall be that of a scheduled bank, (or a State Co-operative Bank) and drawn or issued for the purpose of financing seasonal agricultural operations or the marketing of crops, and maturing within nine months from the date of such purchase or rediscount, exclusive of days of grace;”

Therefore, this period of nine months which it is now proposed to extend to twelve months refers to the period that must elapse after the purchase, sale or re-discount of the Bill by the Reserve Bank. It does not necessarily limit the period for which the original bank, that is to say, the commercial bank gave the accommodation. Prof. Ranga is quite right when he referred to the amendment which was proposed in 1934 by Mr. T.N. Ramakrishna Reddy and at that time the point made by Mr. Reddy was that for a crop like the sugarcane crop twelve months was a more suitable period than nine months. He said then that the cultivation of the crop takes ten months and then the milling or turning into jaggery takes another two months and, therefore, he thought that financing of the sugarcane crop required twelve months' period especially in view of the fact that the sugarcane industry had just been the recipient of protection. Now at that time, Sir George Schuster gave the answer that nine or twelve months is not necessarily the period for which the commercial bank makes the advance, and that answer still holds. It may be that the lending bank requires to re-imburse itself after three or four months, in which case, now, with this twelve months, it will be 16 months. So far as the sugarcane crop is concerned, I believe there are very elaborate

financing arrangements in the main growing area, that is, in the Uttar Pradesh, and in the Deccan most of the sugar mills have their own plantations and therefore there is not the same sort of problem of finance, so that we might say that circumstances even have changed in regard to sugarcane; and in any case, for the consideration that I have pointed out, it does not seem necessary to raise this further from twelve months to a much longer period. That does not, of course, rule out the consideration of any amendment that Mr. Ramalingam Chettiar may bring at the Select Committee stage.

* * *

Then, you, Sir, wanted some assurance in regard to the second proviso to section 17 (8) which is now proposed to be deleted. It is probable that the restrictions were intended originally to act as some kind of check on excessive financial assistance by the Reserve Bank to the Government but the conditions in those days were very different. In the first place the Government itself was not our own national Government and secondly the bank was a separate chartered body. Now those things have changed and both of them, that is to say the Government and the bank are very much aware of the economic consequences of any excessive use of this sort of power that you have in mind. So far as the mechanics of the thing are concerned, also there has been a change, that is, on the one hand the accumulation of sterling balances and on the other the size of the cash balances of the Government. While these factors exist, it is possible, if Government were inclined to do so and the bank were agreeable, to have resort to inflationary finance without infringing the present section, namely 17 (8). The reason is that sterling securities now occupy a very much larger proportion of the total assets than was considered to be probable when the Reserve Bank of India Act was passed. This kind of limit, I think, will be effective with the other kind of limit in section 33. That is to say, 40 per cent. of the assets of the Issue Department must be held in gold or sterling securities.

* Prof. N.G. Ranga.

So, in the existing circumstances, this provision is bound to be left high and dry and if there is no recognition on the part of Government or the Reserve Bank of the dangers of inflationary finance, another remedy must be found, which is criticism in the House. I am assuming that the House is well aware of the dangers of such inflationary finance. If, on the other hand, the House were to take some other view, then, I have no doubt, that they will find the means of imposing their will on both the Government and the Bank with whatever consequences that might follow from the economic angle. So at the moment, this is a somewhat otiose kind of provision and it acts as a sort of practical inconvenience to the Bank in what has assumed increasing importance in the management of the money market, namely, open-market operations of the Bank. The Bank is constantly buying and selling and altering its investment portfolio with an eye to regulate the money market and it is not always open to the Bank to choose the kind of securities that are offered to it. Offers come to it and sometimes on general grounds the Bank comes to the conclusion that it is desirable to buy or sell. This kind of operation is hampered in a minor way by this provision. It is true that when they are faced with a difficulty, they interchange securities between the Banking Department and the Issue Department or between the Banking Department and the Government's Cash Investment Account, which is a separate portfolio of securities. So, it has been possible to carry on in the face of this second proviso. But, as I say, it is a minor inconvenience. The Reserve Bank thinks and I agree with it, that we might take the opportunity of removing this minor inconvenience in the management of open market operations. That is all the significance that attaches to this overall limit.

The other part of it is liquidity. Now, the House is aware that it has invested the Reserve Bank with very extensive powers over the whole of the banking system and it seems unnecessary to put fetters on the controller itself. If the Reserve Bank is worth anything at all, they may be expected to take care of this consideration namely, that its investment portfolio should be

kept in a fairly liquid condition. I do not think it is necessary that the House should take this view of excessive caution and insist on the retention of the security provisions.

The only other section which was referred to in the debate and which is included in this Bill—I will come to agricultural credit later—is this clause which seeks to amend section 42. Mr. T.T. Krishnamachari thought that there was a certain amount of overlapping between this and the Banking Act and he wondered whether some kind of comprehensive measure could not be devised which would bring all this together. That is a very long range plan. May be that later on circumstances may arise which make a course of this kind necessary. But, at the moment, I should think there should be no objection to this amendment being carried out. On the factual side, I think the Banking Act provides for information being called from Banks whereas this particular section prescribes a return, a very important return which is connected very intimately with the control of the Reserve Bank over the scheduled banks. Therefore, I hope the Select Committee will agree to his particular provision in the Bill.

I think I have dealt with most of the matters that arise directly from this Bill, except perhaps the point regarding personnel. The principles enunciated that there should be no political influence in appointments of this kind, are unexceptionable. So far as the present management is concerned, in spite of the somewhat critical observations made, I make bold to say that I have confidence that the monetary credit of the country and the other functions which the Reserve Bank has to discharge are safe in their hands.

* * * *

I now turn to some of the general matters which were referred to in the course of the debate. I shall first touch upon the charge that the Reserve Bank has not come to the assistance of scheduled banks in any adequate manner. In considering this question it is necessary to have some historical perspective. The Reserve Bank of India was established in 1934 and, so to speak

inherited a banking system, the pattern of which had been created before its coming to birth. At that time the Reserve Bank of India Act gave it very restricted powers relating to the control of scheduled banks. Indeed, even the form of return which was prescribed by section 44 was, as I have pointed out, very meagre. It was realised by the Reserve Bank that if it was to discharge its responsibilities in the matter of the control of scheduled banks, it required a wide extension of its powers and accordingly a Bill was framed soon after the beginning of the war. Then, owing to the vicissitudes of the war and its preoccupations, it proved impossible for the Government of the day to promote this measure, and it was only recently that the necessary legislation, altered considerably in the meanwhile, was passed. The very fact that that measure provided for extensive powers of control to be exercised by the Reserve Bank proves that the House recognised that the powers in existence before were inadequate. This is really the answer to the point made by Shri Rohini Kumar Chaudhuri that while the Reserve Bank was in possession of all the facts, it failed to stop the rot. Within the limits of such powers as it had, the Reserve Bank has done all that it could first to control the management of the scheduled banks and to extend to them such assistance as the law permits it to extend or permitted it to extend. But all the time, the bank laid emphasis on this fact that it would only be able to assist those banks whose management was reasonably sound. The reason for this is obvious. If a bank is badly managed and is in trouble then it is of no avail for the Reserve Bank to extend any assistance and jeopardise public money. At best it means that some depositors get favoured treatment and get out, while the others are left to bear the full incidence of the diminution in the value of the assets of the bank. It is recognised that during recent years banks have come into difficulty as a result of causes beyond their control. I refer to the partition and its aftermath. Now, those are emergencies which it is not in the power of the Reserve Bank to cope with. And actually in connection with the affairs of the banks affected by partition a special measure had to be passed

by Government. With the scope of its own powers. I believe the Reserve bank has gone to the uttermost limit in giving succour to scheduled banks. It also promoted the amendment of section 18 in order to widen the scope of the assets which it could take over from a bank in trouble. Actually the experience of the Reserve Bank has been that even where a few unsound banks have been helped, they have gone to the wall, and that shows very clearly the limitations that naturally exist on the powers of the Reserve Bank to help scheduled banks in distress. I do not think we could devise any legislative provision which will ensure for ever that loss to depositors will be avoided. The only way of minimising the loss to them is to ensure that the banking system of the country is in good heart. In dealing with this matter, I do not propose to deal with a few individual cases which were referred to during the course of the debate, as I have not the relevant materials affecting those particular banks, apart from the fact that some of them were not named. Shri Krishnamachari referred to the possibility of devising some kind of deposits insurance system in this country. This matter has been considered by the Reserve Bank; but they found that it would be practically very difficult to institute any such system unless banking standards in the country are first improved and made a little less unequal. It is only then that the burden of such insurance can be spread evenly over the banks in the country. Shri Krishnamachari also referred to the "Award" in the banking dispute of the Industrial Tribunal. Some of us view the possible effects of this award with some concern, and we have requested the Reserve Bank to examine how this award would affect the fortunes of some representative banks. We shall give the matter our earnest consideration after we have received the report of the Reserve Bank on this matter.

I think I might at this stage—although it is somewhat out of line with the subject that I have taken up—refer to the point made by Mr. T.T. Krishnamachari regarding the inconvenience caused to the banks and other investors by the fall in the values of Government securities. I am sure he does not expect me to make any statement in regard to the intentions of

Government about the interest rate or the structure of money rates in general but I would request him to bear this fact in his mind: and that is that the open market operations of the Reserve Bank are limited by the finance available to them, if they are not to encourage inflation. It is always possible of course to put a floor under Government securities by continued purchase but a time comes when the cash in the till runs low. When that situation arises the only way in which the Reserve Bank can support the money market is by expansion of currency. I think the House will realise the dangers in the Reserve Bank following such a course.

I next turn to the relations of the Reserve Bank with co-operative banks. I am grateful to Mr. Chettiar for the recognition he has given expression to of the assistance which the Reserve Bank has been extending to co-operative banks. I should like to quote some figures here which are, I think, relevant and which answer in part the question that was asked by Ch. Ranbir Singh. Here are the figures relating to advance to scheduled banks and co-operative banks under section 17 for the four years 1946—49.

In 1946 the advances to scheduled banks amounted to Rs. 2,469 lakhs and those to co-operative banks 33 lakhs. That was the first year when some concessions were being introduced in regard to co-operative banks. In 1947 the advances to scheduled banks amounted to 308 lakhs and those to co-operative banks amounted to two lakhs. In 1948 the advances to scheduled banks were 2,202 lakhs and to co-operative banks 122 lakhs. In 1949 the advances to scheduled banks amounted to Rs. 3,561 lakhs and to co-operative banks it amounted to 616 lakhs including 224 lakhs at 1½ per cent. I think it would be realised that the assistance which the Reserve Bank has extended to co-operative banks is on an increasing scale. Ch. Ranbir Singh asked how much of this has reached the cultivator. I should say all of it has reached the cultivator.

The loans are at first advanced and the documents passed on to the provincial bank and the provincial bank obtains the advances from the Reserve Bank. I cannot see any reason why the co-operative bank should not pass on the concession to the cultivator.

The only addition that is made by the provincial bank is the addition which represents their administrative expenses. I believe Mr. Chettiar said that administrative expenses came to 2½ per cent which is added to the rate of interest 1½ per cent. This resultant rate is still very reasonable. Even if it is six per cent, it would still be a reasonable rate.

Before I come to the general question of agricultural credit I should like to dispose of very briefly the criticism that was levelled at the Imperial Bank and certain suggestions that were made regarding its nationalisation. I have here to refer to the answer that was given by Dr. John Matthai on 1 February, 1949 in answer to a question by the Deputy-Speaker, Shri Ananthasayanam Ayyangar. The question was:

“(a) Will the hon. Minister of Finance be pleased to state what steps Government are taking to nationalise the Imperial Bank of India?

(b) Do Government propose introducing legislation for this purpose during the current session of the legislature?”

The answer was: —

“I would refer the hon. Member to the reply given by my predecessor to Shri Mohan Lal Saksena's short notice question on 4 February 1948. In the light of the examination of the technical questions referred to and in view also of possible repercussions on the investment market and of the existing unsettled economic conditions in the country, Government consider that it is not feasible to proceed at present with the nationalisation of the Imperial Bank of India.”

I may add that I am in complete agreement with this view and I am quite convinced that it is not in the best economic interests of the country to attempt any such measure.

That still leaves the question what action is to be taken. In this regard certain suggestions have been made by the Rural Banking Enquiry Committee and together with their other recommendations they are under the consideration of the Government. As a matter of fact the Reserve Bank of India has been asked to forward their own recommendations and I expect that the matter will come up before them at their next meeting.

My friend Mr. B. Das, for whose sincerity of purpose and parliamentary experience I have great regard, poured vials of wrath on the Imperial Bank. He reminds me of an old warrior who when recounting old tales of heroism lashes out at phantom enemies. I feel that he has allowed his feelings to outrun his sense of fairplay and justice. Whatever might have been his causes of grievances originally, I think circumstances have changed very considerably.

I believe that quite a substantial portion of the shareholding in the Imperial Bank is now owned by Indians and the process of Indianisation of the staff is going on apace and in a few years' time we have reason to believe that there would be hardly any non-Indian officers left. I think it is a very fine instrument of banking, technically considered, and it is going to be amenable to our control as the years pass by. It seems prejudicial to our own interests to take any hasty action which will impair the use of that instrument. In the banking system of the country I think the Imperial Bank forms the backbone and it is in our interests to see that nothing is done to impair the value of that leavening in our present banking system, especially as we are making attempts to see that banking is consolidated on sound lines with the help of the new Banking Act.

There is one more point I should like to deal with and that is the one made by Shri Pannalal. He was afraid that if clause 9 is enacted then the Imperial Bank would be our agents throughout India, including Part B States. Well, the House is aware that the Rural Banking Enquiry Committee have made certain recommendations and the matter is still open. It is therefore our

intention to move a suitable amendment at the Select Committee stage. We would propose an explanation that—

“The expression ‘at all places in the States where there is a branch of the Imperial Bank of India’, appearing in paragraph I of Schedule One, shall mean, ‘at all places in Part A and Part C States where there is a branch of the Imperial Bank of India’ provided that it may be extended to include such places in Part B States as may be notified by the Central Government”.

The effect of this will be to keep the matter open till full consideration is given to it.

Lastly, I shall deal with agricultural credit. As the background, I would like to refer to the Second Statutory Report of the Reserve Bank of India, Chapter IV, in which they have explained certain general principles. They deal there with the criticism—which was made yesterday—that the Reserve Bank does not place unlimited credit at the disposal of agriculturists. They have explained how the Reserve Bank is a banker's Bank and how the Preamble of the Act requires it to secure the monetary stability of India, and generally to operate the currency and credit system of the country to its advantage. The Report points out that the Bank holds the cash resources or the fluid reserves against deposits of all the important banks. At one time—at the time of report—these balances formed by far the largest portion of the working capital of the Bank. That is not so today as there are various other deposit liabilities which are greater than this particular item. The report then goes on to say—

“This being the main origin of the resources of the Reserve Bank, it will be easy to understand why it has to be the banker's Bank in an emergency and not the ordinary financing agency. The funds which Scheduled Banks are compelled to keep with it so that the entire pool may be available in times of emergency, cannot be locked up by us

in forms of business which the Scheduled Banks themselves would not undertake on account of the risk, the length of the period, the lack of liquidity or other reasons."

I shall not weary you by repeating what appears in this Chapter, but I would again earnestly request the House, and especially the Members of the Select Committee, to read this particular Chapter before the Committee meets.

Now, that does not mean that we don't recognise that the problem exists—and exists in a serious form. How serious it is, it is not possible to say on account of the general lack of statistics from which we suffer in this country. The House will recollect that during the debate on the Industrial Finance Corporation, at one time one of my predecessors thought that the solution would lie in the setting up of a separate central agricultural finance corporation. Well, we have consulted the Reserve Bank and they have pointed out various reasons why this course would not be practicable. The main reasons are that many Committees and Commissions which have gone into the matter have come to the conclusion that such an institution should be established in the Provincial sphere. The Gadgil Committee in 1946, for instance, recommended the establishment of the Provincial Agricultural Credit Corporation. It is true that in some other countries there are central institutions of this type, as for instance England, Eire., U.S.A., Canada, Australia, and so on and so forth, but it is felt that the conditions in these countries differ very widely from our conditions. The principal difference being that ours is a very small-scale farming and that the units with which the central organisation would have to be in touch would be far too numerous to allow of effective administration and supervision. Then short-term finance will really fall outside the purview of the central institution as the central institution will find it physically impossible to offer these facilities to numerous agriculturists scattered over a vast area, and such facilities should generally be within, as far as possible, the exclusive jurisdiction of co-operative institutions. Some Provincial Government were indeed apprehensive that even a Provincial Agricultural Finance

Corporation would seriously compete with the co-operative movement which is just getting into its stride. Anyway, the note prepared by the Reserve Bank was circulated to State Governments for their opinion.

Some opinions from State Governments have been received. The House might be interested to know what they are. Bombay and U.P. agreed that agricultural credit should be organised on a Provincial, that is to say State, basis. Bombay further considered that the existing co-operative agencies should be employed for the purpose. And I may add that they have taken some active steps to that end. Then Punjab, Bihar and Orissa, while agreeing that Provincial institutions would be more appropriate, consider that the establishment of Provincial institutions would be ruled out owing to difficulties in raising the required funds.

Then, Assam on the other hand favours an all-India agricultural finance corporation for the purpose of granting loans to the Assam Co-operative Apex Bank at a very low rate of interest. West Bengal considers that as finance corporations fall within the Union Legislation—Entry 43 of Seventh Schedule—the State Government was not competent to establish financial corporations. So they have got rid of the responsibility by reference to the provisions of the Constitution.

Well, all I can say at this stage is that Government are giving thought to this matter. These are the only replies that have been received.

I personally agree with the view expressed that this is not a matter which can be handled through a Central agricultural credit institution and that the Centre and the States and the Reserve Bank must get together and see how this matter can be furthered and what difficulties there are in the way of establishing such institutions and what part either the Centre or the Reserve Bank could, in consonance with the general responsibilities, play in the matter.

One must not forget that a war was being fought in 1939—45 and that the war did make a difference to this problem of

agricultural finance. I think as a nation we have a rather long memory and I believe that our views in the matter are coloured by what happened during the depression when credit was really a very acute matter. During the war years I believe the outstandings of the co-operative movement were considerably reduced.

And indeed during the last three years there was the problem before the co-operative movement of how to use their surplus reserves. I am not denying that the problem still exists, but it is really not of that acute form that some members seem to imagine.

Well, I think I have dealt with nearly all the points of major importance that were raised during the course of the debate and I have also dealt with the specific clauses which are proposed to be amended here. Now, I recommend my motion to the House.

^aThe motion was adopted.

Reserve Bank of India (Amendment) Bill*

I beg to move:

"That the Bill further to amend the Reserve Bank of India Act, 1934. As reported by the Select Committee be taken into consideration."

Before coming to the main features of the amendments made by the Select Committee, I should like to take this opportunity of expressing my appreciation of the valuable assistance given by the members of the Committee towards improving the Bill. Although this is not reflected in the Select Committee's Report, the discussions ranged over a wider field than was strictly necessary for the purposes of the Bill and touched upon such topics as the future of the Imperial Bank or the better organisation of rural credit. I shall refer briefly to these topics a little later

As I explained on the last occasion the objects of the Bill before the House are of a limited character, namely, to effect certain amendments to the Reserve Bank of India Act which have become necessary in view of the changed constitutional position, particularly by the financial integration of part B States, and in view of the experience gained by the Reserve Bank in the course of its operations. The Select Committee, while keeping these considerations in mind, have made several improvements in the Bill. Changes of substance proposed by

* L.S. Deb., 20 February, 1951, cc. 3219-3225; 27 April, 1951, cc. 7629-7632. Motion for consideration of Bill as reported by Select Committee.

them have been explained in the Report of the Select Committee and I shall confine my remarks to the more important of these changes.

The first important change made by the Select Committee is with regard to clause 6(2) of the Bill extending the usance of eligible agricultural paper under section 17(2) (b) of the Reserve Bank of India Act, from twelve months as proposed in the Bill, to 15 months. The consensus of opinion in the Committee was that while a period of twelve months was normally sufficient for the purpose of financing seasonal agricultural operations or the marketing of crops, certain crops such as sugarcane required a longer period to mature and that it was therefore necessary that the Reserve Bank should be empowered to discount bills having a maturity up to 15 months. As I already pointed out in making my motion for reference of the Bill to the Select Committee, the period is not intended to cover the entire phase of agricultural operations, that is to say from the purchase of seed and manure and tilling of the land till the crop is finally marketed, but only for the period the finance is required from the Reserve Bank. However, in order to meet the possible special requirements of certain crops, the maximum period has now been extended to fifteen months. As now proposed to be amended, I trust that Section 17 (2) (b) of the Reserve Bank of India Act will prove to be of further usefulness in making finance available from the Reserve Bank to the co-operative movement for seasonal agricultural operations. I may mention in this connection that the Reserve Bank of India rediscounts agricultural bills for the state co-operative banks at the very low rate of discount of one and a half per cent.

The next important change made by the Select Committee is with reference to Clauses 8, 9 and 10 of the Bill. Under Article 283(2) of the Constitution, it has been provided that the custody of the Consolidated Fund of a State, the payment of moneys into such funds, the withdrawal of moneys therefrom, the custody of public moneys other than those credited to such funds received by or on behalf of the Government of the State, their payment into the public account of the State and the

withdrawal of moneys from such account and all other matters connected with or ancillary to matters aforesaid, shall be regulated by law made by the Legislature of the State and until provision in this behalf is so made shall be regulated by rules made by the Governor or Rajpramukh of the State. The Committee had to consider clauses 8 and 9 of the Bill as originally introduced in the light of this Constitutional position. Since the existing position in regard to Part A States is that under the present law the custody of their cash balances and the banking transactions are entrusted to the Reserve Bank and are governed by agreements entered into between them and the Bank, the Committee have amended clauses 8 and 9 of the Bill so as to confine the operation of Sections 20 and 21 of the Reserve Bank of India Act to Part A States and thus continue the existing position. As regards Part B States, the Committee considered it advisable in view of the provisions of the Constitution, that the terms of their banking transactions with the Reserve Bank should be left to be negotiated between the Bank and the Government of the relative Part B States, and have inserted a new clause 10 authorising the Reserve Bank to transact the banking business of the Governments of Part B States on agreement with them. I may mention in this connection that the entire question of treasury arrangements in part B States was recently examined by the Rural Banking Enquiry Committee appointed by the Central Government and the recommendations of the Committee are now being examined by the Government in consultation with the Reserve Bank.

I should, at this stage, like to refer to the discussion in the Select Committee with regard to clause 13 of the Bill. The Committee felt, while approving the substitution of the term "sterling securities" by "foreign securities", that the existing provisions of Section 33(6) of the Act were too wide and that a suitable amendment to the section should be promoted in consultation with the Reserve Bank. Section 33(6) of the Act provides that "foreign securities" which may be held as part of the assets of the Issue Department of the Reserve Bank shall

be securities of the following kinds payable in the currency of any foreign country which is a member of the International Monetary Fund. I need not quote all that. It takes into account (a) balances at the credit of the Issue Department with the Bank which is the principal currency authority of that country or if there is no such Bank with any bank incorporated in that foreign country.

The point was made in the Committee whether the types of securities which may be held by the Issue Department of the Reserve Bank should not be defined in greater detail. My object in referring to the section is that the matter is somewhat complicated and involves a question of principle which has a bearing on the operations of the Reserve Bank. So we decided that the matter should be examined in consultation with the Reserve Bank and a suitable amendment should be promoted later if considered advisable. Sometimes it may happen that exchange is paid in the Banking Department and then some of it may have to be transferred to the Issue Department so that the Banking Department cannot accommodate that. So the question has to be examined somewhat more carefully.

I shall now come to the changes made by the Committee in clause 14 of the Bill relating to the weekly returns to be submitted by the Scheduled Banks under Section 42 of the Reserve Bank of India Act. The main change made by the Committee in the clause is the extension of the period prescribed for the submission of the returns from two working days to five days. That was in response to the representation made by the Indian Banks Association that that period was found in practice to be too short and involved avoidable expenditure for the banks by way of telegraphic charges for obtaining the necessary information from their branches. In view of this consideration and having regard to the fact that the Bill proposes to enlarge the scope of the returns by calling for additional information relating to investments, money at call and short notice and balance with banks the Committee proposed that the period should be extended to five days to enable the Banks to obtain information from their branches by post. At the

same time in order to obviate the difficulties which any particular bank might experience owing to the geographical position of its head office or branches, it was provided that a provisional return may be submitted within five days, pending the submission of the final return within ten days from the period to which it relates. It is hoped that the fuller information that will be available will compensate for the delay, if any, in the submission of the returns by banks under the proposed amendment. At present, the weekly return of the Scheduled Banks relating to a particular Friday is usually published on the succeeding Friday, and ordinarily, it should be possible to continue the present practice even after the proposed amendment is passed. It is therefore aimed at the exceptional rather than the general case.

As a result of the discussions of the changes proposed to be made in section 42(2), the Select Committee have made an amendment in section 44 of the Act which relates to the submission of returns by State Co-operative Banks. At present, the power of the Reserve Bank to call for returns from State Co-operative Banks is restricted only to such of these Banks as have transaction with the Reserve Bank under Section 17 of its Act. The Committee thought it desirable that the Reserve Bank should be empowered to call for returns from all State Co-operative Banks whether they have transactions with the Reserve Bank or not, and therefore a new clause 15 has been added.

I now come to clause 17, which continues the present position of the Imperial Bank as the sole agent of the Reserve Bank in Part A and Part C States. As I said before, the whole question of treasury arrangements in Part B States was recently examined by the Rural Banking Enquiry Committee and their report is being considered by Government in consultation with the Reserve Bank. But until a decision is taken, obviously the existing arrangements would continue in Part B States, and in the meantime the right of the Imperial Bank to be the sole agent of the Reserve Bank will be confined to Part A and Part C States.

Lastly I would invite the attention of the House to the reference I made in my speech on 21 November, 1950, to the need for amending section 7(3) of the Act to enable the Governor to delegate to a Deputy Governor the powers vested in him under the Act. I did not, however, move any amendment at the Select Committee stage on the ground that the powers which vest in the Governor under section 7 were challenged in the Bombay High Court in connection with the affairs of the Exchange Bank of India and Africa (in liquidation). That case has since been decided by the Court on the basis of a compromise and I think it would be best if we now carry out not only the amendment regarding the delegation of powers to the Deputy Governor but also remove the ambiguity regarding the Governor's position and make it unequivocally clear that the Governor has full power to decide whether a special occasion as contemplated under section 18(1) has arisen, making it necessary or expedient for the Governor to act under that subsection for the purposes of regulating credit in the interests of Indian trade, commerce, industry and agriculture. That subsection, it may be recalled, was amended by the Reserve Bank Nationalization Act, 1948. Before the amendment, that subsection provided that the formation of the opinion under section 18 could be done by the Central Board or by a Committee of the Central Board or by the Governor, if the powers are delegated to them by the Central Board, which was the case under the regulations then in force. Sub-section (3) of section 7 which was introduced under the Nationalisation Act, 1948, was intended to vest the Governor with full powers to transact all the business of the Bank which was transacted by the Central Board and at that time it was thought that the functions under section 18(1) would also be available to the Governor, even after the Central Board was brought into existence. Indeed my predecessor contemplated introducing an amendment in order to make a consequential change in section 18(3), but he did not move it as he thought that the law was clear enough in the sense mentioned. Unfortunately, an ambiguity did remain which

became apparent only when the interpretation was challenged in the court. I am therefore going to move an amendment in order both to amend section 7(3) and make the consequential change in section 18(1) so that the Governor could, in the case of an emergency exercise, as he must, the powers under section 18(1) without waiting for a meeting of the Central Board being convened for the purpose. It is also intended that the amendments to section 7(3) and section 18(1) should be retrospective from 1 January, 1949, that is the date from which the original amendments to section 7 were effective.

Certain other minor amendments, more or less of a consequential nature, will also be moved when the Select Committee's report is taken into consideration.

So far as the Bill is concerned, that is all that I would have to say.

There are only two other points which I would like to refer to. One is that in connection with the Imperial Bank of India we have now received the recommendations of the Reserve Bank and after we are free of our immediate preoccupations it is our intention to examine them and to see what kind of amendment is called for in the Act relating to operations of the Imperial Bank. As regards the other question which is in a sense connected, at least in the minds of some people, namely the organisation of agricultural credit, at my instance the Reserve Bank had called a conference which I think has met now.

It includes a large number of people who ought to know something about rural finance. It has particularly experts from Madras and Bombay, because I thought the idea was that if the Reserve Bank studied the problem with particular reference to some States then their conclusions could be extended with necessary modifications to other parts. The Chairman of the conference was Prof. D.R. Gadgil who, it may be remembered, was Chairman of the Rural Credit Enquiry Committee. Then it contains Shri Manilal Nanavati, President of the Indian Society of Agricultural Economics, who had been a Deputy Governor of the Reserve Bank and is a Director now. Shri Ramalingam

Chettiar, Shri Saralya Chairman of the Bombay Provincial Co-operative Bank, and a large number of other people—about fourteen or fifteen. Their terms of reference also are very wide. I shall be looking forward to the recommendations of this Committee with great interest and it may be then that we shall be able to hammer out something in the direction of organising rural credit.

On the last occasion* I was replying to the debate on the motion for consideration and I had said that I wished to make a few more observations before I concluded. Those observations were in regard to the limitations which exist in the way of the Reserve Bank extending agricultural credit. One of the charges which have been levelled against the Reserve Bank is that it has to assist agricultural credit by direct monetary help and from the trend of the criticism I feel that it must have been expected that the Reserve Bank would be able to extend this agricultural credit to an unlimited extent. This subject has been covered in the Statutory Report of the Reserve Bank under section 55(1) which was issued sometime in 1936 or 1937. I would like to refer to some portions of it which remain as true today as they were then. The Report makes reference first to the Preamble of the Reserve Bank Act which says that the Bank was established to regulate the issue of bank notes, keeping of reserves with a view to securing monetary stability and generally to regulate the currency and credit system of the country to its advantage. As one of the essential measures of enabling the Reserve Bank to maintain control over the banking structure of the country, the Act compels all banks with a capital and reserves of Rs. 5 lakhs and over, to keep 2 per cent of their time liabilities and 5 per cent of their demand liabilities with the Reserve Bank. The Bank thus holds the cash reserves or the everyday reserves against the deposits of all the important banks, and the funds which the scheduled banks are compelled to keep with the Reserve Bank are to be made available in times of emergency. It is, therefore, not possible to lock them

* Continuing his reply on 27 April, 1951, to the debate on the consideration motion of the Reserve Bank of India (Amendment) Bill.

up in forms of business which the scheduled bank themselves would not undertake on account of either the risk or the length of period, or the lack of liquidity or other reasons. That is why the Reserve Bank has to keep a large portion of its funds in hard cash and invest most of the remainder in readily realisable government securities and treasury bills. That is the reason why the business which it is allowed to undertake by the Act is limited to securities which are self liquidating in character. Therefore, it is impossible for the Reserve Bank to lend to agriculturists direct or to advance large sums to co-operative banks; or to indigenous bankers, for being lent out to cultivators as a matter of course. Nor can the Reserve Bank take the place of Government.

So, these are the basic limitations on the power of the Reserve Bank in extending credit to agriculturists, and that is why it has always to be done through some basic credit agencies like co-operative credit agencies or even commercial banks for certain stated purposes like agricultural operations or marketing operations.

I shall have occasion to deal with some of the particular sections about which there is some misunderstanding, namely section 17 (4) (b), if the amendments are moved. But I would like to point out that for the purpose of section 17 (4) the scheme is that the Reserve Bank should advance on the collateral of documents of title which are negotiable and according to the law these documents of title cannot be created if possession remains either with the borrower or with the commercial bank which first makes the loan. In either case the law is such that no document of title comes into existence. The document of title comes into existence only if possession is transferred to a third party like a warehouseman, or people in charge of railway warehouses who are entitled to issue railway receipt or bills of lading and so on. So that is the reason why we cannot admit for purposes of section 17 (4) (d) any direct hypothecation of goods. Now it may be said that in that case one should abandon the scheme of that particular section and enable the Reserve Bank to advance on the collateral of the

goods themselves. Now that is possible where possession can be easily transferred and where the Reserve Bank is in a position to look after the property. That is the case for instance, in regard to gold and silver. There is another section just before this which allows the Reserve Bank to advance money on the collateral of gold and silver pledged to it. Now that is possible in the case of articles like gold and silver. But it is not possible in the case of agricultural produce: much less is it possible in the case of standing crops. In either case it assumes that the Reserve Bank has branches all over the country and has arrangements for taking care of any goods that may be pledged to it. That is the reason why it would not be possible to operate any such amendment as is contemplated by some of the hon. Members who have given notice of the amendment.

There is another point that might shorten discussion. I had promised that I would request the Reserve Bank to send someone to the Assam tea districts in order to study the present system of financing of the tea industry. It would be recalled that during the debates on 23 February, Shri Chaliha had urged that credit facilities should be extended to the tea industry with a view to enabling them to finance the purchase of food-grains, coal, tea, chests, etc. I had agreed that as the financial difficulties of the tea gardens seemed to be of recent origin. I would request the Reserve Bank to depute an officer to look into the problem and to suggest how best those difficulties could be resolved. I have ascertained from the Reserve Bank that the Governor of the Bank has already had preliminary discussions with the Chairman of the Central Tea Board and that the matter has also been looked into by one of the economists of the Reserve Bank. The Reserve Bank is pursuing the matter further and instructions are being issued to the Department of Banking Operations in Calcutta to study the problem and to make a report. So that matter is in train and I am quite sure it will be taken care of.

I had also referred to the Conference which the Reserve Bank had convened in order to study comprehensively this whole question of rural credit. My hon. friend Mr. Ramalingam

Chettiar was a member and he has given notice of an amendment which arises as a result of the deliberations of the Conference. They are going to institute a fact-finding survey in regard to rural credit and in course of time we shall finalise all their recommendations or follow by such executive action as is indicated. There also we hope to be able to promote this question of rural credit in a way which would be regarded as far more satisfactory than the House has reason to regard it so far.

One of the amendments refers to mixed operations and so on and I would like to mention that among the recommendations which have been made by the Conference but which have not yet been considered finally by the Reserve Bank is a recommendation that the definition of seasonal agricultural operations and the marketing of crops should be enlarged so that it might include certain other items which are regarded in many parts as part of agricultural operations. Now that matter also is being considered actively but we are not ready at the moment to suggest any formal amendment which could be incorporated in the present Bill. So, I think the House will have to wait till the whole issue has been carefully considered and then we shall be in a position to bring forward any measure that our decisions may call for. I have done.*

*The motion was adopted.

Life Insurance (Emergency Provisions) Bill*

“That the Bill to provide for the taking over, in the public interest, of the management of life insurance business pending nationalisation thereof, be taken into consideration”.

This Bill seeks to convert into an Act the Life Insurance (Emergency Provisions) Ordinance, 1956, which was issued on 19 January last. This was the first and preparatory step towards nationalisation of life insurance in this country. I shall now explain the reasons which prompted Government to take that major decision.

After reaching the decision to nationalise, Government considered the further action, whether any interim measures were necessary until Parliament discussed the relevant issues and passed the necessary legislation. Normally, of course, the procedure would have been to introduce a Bill incorporating a provision that transactions entered into by the management of companies after the date of introduction could be reopened by Government if it appeared that the transactions were *mala fide*. While such a provision would have been adequate for dealing with most other types of business, we felt that it would be inadequate in the case of life insurance. Our experience of the ways of the less scrupulous insurance management over the last several years had convinced us that such a provision would not prevent a serious frittering away of the assets. Insurance company managements would have had recourse to a number of ways to enrich themselves, perhaps at the expense of the policyholders, and may be even the shareholders. Transactions could be and almost certainly would have been, back-dated and

* L.S. Deb., 29 February, 1956, cc 1135—1147.

documents manufactured to cover even misappropriations that might have occurred till then. Indeed complaints have reached my ears emanating from some managements that it was a pity they did not have another 24 hours in order to adjust the accounts. The misuse of funds is not confined to a small minority, as would be evident from an extract from a leading financial journal which I propose to read out. I may mention that the journal is one which is strongly opposed to nationalisation and had in fact criticised in no uncertain terms Government's decision in the very issue from which this extract is taken. I am quoting now.

“Thirdly, some businessmen who have been in the habit of speculation in shares with the aid of insurance companies under their control have been caught unawares. The practice of these persons has been to buy or sell shares first without telling the brokers on whose name the contracts are to be made. If the transaction resulted in a profit it was recovered in their name. If, however, it ended in a loss, it was entered in the name of the insurance company. It would appear that at the time the Government nationalised life insurance, some of these speculators had a long position in a number of well known counters or securities. As the Government gave no time for them to adjust the books of insurance companies, Mr. Deshmukh seems to have profited by his experience of the demonetization ordinance. (That was many years ago.) They had no go but to liquidate their purchases.”

It is needless to comment on this very clear description of one of the well known and well established practices. But apart from this negative aspect, that is to say, preventing the further frittering away of the assets, we apprehended, and you will agree, not unreasonably, that even the better type of managements would lose interest in their companies. And during the period of some five to six months which might elapse

between the introduction of the Bill and nationalisation, the interests of Policy-holders might suffer in consequence. By taking over the management immediately, we felt that Government would be enabled to take the steps necessary to ensure both the normal working of the business during the interim period and also the eventual smooth and efficient integration.

Members are no doubt familiar with some of the things we found out or I should say we failed to find in insurance companies. In the case of one company, with the head office at Bombay, Government securities worth probably Rs. 30,00,000 were found missing. That was, I think, two days after we took over the management. Calcutta reported two cases where the amounts missing were Rs. 15,00,000 each. There is a fourth case from Uttar Pradesh where the managing director, who is purported to have with him some Rs. 12,00,000 worth of securities and cash belonging to the company, apparently for safe custody, has not yet found time to return to the head office or to hand over the securities. Meanwhile the police are on the look out in order to draw his attention to the provisions of the ordinance. It is true, of course, that these misappropriations occurred before the issue of the ordinance, but if the ordinance had not taken these enterprising gentlemen by surprise, I am not sure if attempts would not have been made to cover these misappropriations by putting through suitable transactions which would have shown a totally misleading picture on paper. In making this statement I am drawing upon the experience we have gained from some other cases. In one case, just before the winding up was ordered, the manager sold Government securities worth over a lakh of rupees and purchased a piece of agricultural land for an equal amount. On further scrutiny the liquidator found that the alleged vendor had no title whatever to the land at any time, and in any case the land was not worth even a tiny fraction of the amount supposed to have been paid. In another case, Rs. 20,00,000 worth of Government securities were purported to have been kept in deposit with a bank. Later when the liquidator took over, he found, not the Government

securities, but some shares the title to which was far from clear. Incidentally, the bank where the securities were supposed to have been held in safe custody and whose certificate had actually been produced before the auditors totally denied that at any time they held these securities in safe custody. In other words, the bank certificate had been forged.

It was precisely to take care of such things as these that we had to resort to an ordinance, and even then we had taken only the minimum powers necessary, and all the important provisions incidental to nationalisation were left over for consideration in the Life Insurance Corporation Bill.

Since this is the first and preparatory measure, the House will expect me to explain, however briefly, the reasons which impelled the Government to take the major decision, nationalisation. This subject had been exciting people's minds for quite some time past. It had been the subject of comment in journals and amongst students of economics, leaders of industry and commerce and persons in other walks of life. The one disadvantage from which these comments have generally suffered is that a comprehensive view of the insurance industry as a whole has in most cases been lacking. Often the study has been from the point of view of a particular company or a particular class of insurance interests or has been prepared by an obviously academic writer divorced from the realities of the situation. We had an advantage in the matter in that the administration of the Act has afforded us an opportunity of taking an over-all view of the entire industry in its various ramifications. We were, therefore, able to appraise the point of view of the policy-holders, the shareholders and commission agents, and in fact, every interest concerned. And this broad appraisal showed that life insurance today was not being managed either efficiently or with an adequate sense of responsibility. We felt that a detailed enquiry was necessary into the affairs of the industry as a whole with a view to determining the measures necessary to place it on a sound footing.

I need scarcely assure the House that we entered on the study with no preconceived notions and it was conducted strictly on pragmatic lines. The questions we posed to ourselves were: Was life insurance functioning in India in the most efficient manner possible so as to attract the savings of the average man to the maximum extent? If not, what was it that prevented it from doing so?

What was the nature of those shortcomings and how best could they be overcome by the further tightening of control? Or alternatively, must they be regarded as inherent in the type of management found in life insurance in India? I can also claim justly that this study was a prolonged and comprehensive one. We took up the question first for active consideration sometime in 1951. We have been at it through out the period. Even the first examination pointed to nationalisation as the obvious step. But we did not want to take a hurried decision. During this long period we considered every aspect of the case and every comment made and incidentally went on collecting our own experience of companies which we were administering. The conclusion that finally emerged confirmed our apprehensions. The industry was not playing the role expected of insurance in a modern State and efforts at improving the standards by further legislation, we felt, were unlikely to be any more successful than in the past. The concept of trusteeship which should be the corner-stone of life insurance seemed entirely lacking. Indeed most managements had no appreciation of the clear and vital distinction that exists between trust moneys and those which belonged to joint stock companies—that is to say, owned by the shareholders themselves.

I shall now give some detailed account of the reasons underlying this step and I can do that best perhaps by giving my concept of a well-run insurance company and then show how the insurance companies had failed to reach these standards. Firstly, the business must be conducted with the utmost economy and with the full realisation that the money belongs to the policyholder. The premium must be no higher than is warranted by strict actuarial considerations. The fund

must be invested so as to secure the maximum yield for the policyholders that it may be possible to secure, consistent with the safety of the capital. It must render a prompt and efficient service to its policyholder and by its service make insurance widely popular. Finally, the management must be conducted in a spirit of trusteeship, as I have said.

Now, take the first criterion. I think the record of our life insurance companies is poor. The ratio of expenses of management to the premium income for Indian insurers is 27 per cent compared with 15 per cent for companies in U.K. and 17 per cent in USA. Even statutory imposition of expense limits has failed to check extravagance. It has been claimed by companies that this ratio is high for various reasons but to me it seems that it is largely due to extravagance in the field. Most of the field agents are dummies and their main purpose seems to be to function as the channel for passing illegal rebates. The code of conduct, which incidentally was framed by the industry itself, tried to arrest this mad race for business by providing that there shall be only one intermediary between the agent and the branch office, but the industry, I am sorry to say, soon got round this. Branches came to have several branch secretaries; joint branch secretaries and assistant branch secretaries multiplied and the scramble for business continued unchecked.

With all this high expenditure, one would expect that the policyholders were well served. But here also the record is not good. Post-sales service does not exist and lapses continued to be high. When a policyholder takes out a life insurance policy, he does not make a purchase in the sense that he purchases a share or any other article of necessity for current consumption. The premium is really a form of saving and when more than four annas in every rupee of this premium is spent in expenses and only twelve annas or less than that is paid, then the harm to the interest of the small saver can easily be imagined.

Then as regards the premium rates, they are about the highest to be found in any advanced country of the world. It is true that mortality rates are higher in India than perhaps many of those countries but even after making allowance for this, experts think that our premium rates are high.

Turning next to investments, we find that there are various inescapable malpractices; when for the first time in 1951 we obtained detailed returns of the investments made by managements, we were appalled by the picture that was revealed. Loans had been given on every type of security—good, bad and indifferent. Sometimes there was no security at all—loans on share, on agricultural lands, on barges—which indeed was a floating security—, standing sugarcane crops and on libraries. With the tightening of the provision regarding loans in 1950, we thought that these tendencies would disappear. But they did not. Only they took to other forms.

Policyholders' moneys were used to finance enterprises irrespective of their intrinsic merits. There is unnecessary turnover of securities, grant of loans on inadequate securities, buying property at inflated prices, etc. These are some of the ways in which waste occurred or funds were jeopardised. **House-properties** and then possibly shares and debentures—some of these have no clear-cut market value—and investments in these categories offered considerable scope for malpractices.

All such investments and high expenses have taken their inevitable toll. During the decade 1944-1954, as many as twenty-five insurers went into liquidation and another like number had to transfer their business to other companies, in most cases with a cut in the policy contracts. I think one such case came before the House in regard to a foreign company. Further, even among the companies which are carrying on business today as many as seventy-five were unable to declare any bonus at their last valuation. This means that these insurance companies had spent not only the provision for expenditure made in their premium but also made inroads into the additional premium which the with-profit policyholders were induced to pay in the hope of getting bonuses.

Now, we may examine the claim of the insurance companies that they are second to none in what they have been able to do

in publicising insurance in this country. I do not deny that they have done something. The point is this: Have they done enough?

On a careful assessment I do not think it can be maintained that the progress has been as it should have been. Life insurance is a social necessity, more particularly today when the joint family system which had been partly serving as an indirect insurance is rapidly disintegrating and leaving the individual more and more exposed to economic uncertainty or insecurity. In other advanced countries insurance companies have schemes whereby persons of low economic means are enabled to take out policies for small amounts. The premiums under these schemes are payable weekly, fortnightly or monthly and are collected from door to door. This type of business is usually known as industrial assurance because they are mostly industrial workers. This class of business forms 40 per cent of the total life insurance business done in the United Kingdom, 35 per cent in Germany, to quote two examples. In India this business has not even been attempted. There are 70 provident societies which profess to cater to the poorer sections of the community, but in fact, they have hitherto only exploited them. The record of these societies is very dismal indeed. They numbered over 500 in the early years of the century and have now deservedly dwindled to 71. A majority of them are insolvent or nearly so, and the total assets barely equal a months' income of one insurer.

The *per capita* insurance in force is Rs. 25 in India as against Rs. 8,365 in the United States of America, Rs. 6,647 in Canada, Rs. 2,544 in Australia and Rs. 1,840 in the United Kingdom. Now, one might say that this is not a valid comparison as the *per capita* incomes in these countries, of course it is well known, are much higher. But even if we allow for this factor, by comparing the sums assured in force with the national income in each of the countries we find that in India the sum assured in force is only 10 per cent of the national income whereas for Canada the corresponding figure is 108 per cent and for U.K. it is 95 per cent. It is, therefore, clear that it is

not the low *per capita* income in India which can explain satisfactorily the comparatively poor progress of insurance in this country. The reasonable explanation may be that the insurance companies, by and large were governed by short-term considerations and consequently their activities were confined to urban areas and there too perhaps to limited categories of people.

Now, in the matter of service to the policyholders many companies systematically postpone or avoid payment of claim until of course forced by legal means. In 1954 a thousand complaints were received by us in our department against various companies alleging delay or non-payment of claims. In Australia, where the number of life insurance policies is about the same, according to the report of the Commissioner of Insurance there was only one complaint in 1954 relating to non-payment of claim. A number of cases were referred to the Controller of Insurance under section 47A after the claimants had despaired of getting satisfaction from the insurance companies. In most of these cases the insurance companies were found to be in the wrong. Therefore, it is clear that here in India we have failed to live up to the high traditions associated with insurance all over the world.

And, in respect of investments—for a relatively small investment we find that an individual acquires control over comparatively immense funds and this control alas has only too frequently been used not as trustees are expected to use it.

Now, it is claimed that the position could have been remedied by further legislation tightening supervision and control. All such control or regulation is negative in character. It can prevent what is demonstrably bad but it cannot raise standards. These must come from within and all that Government regulation can do is to foster the growth. In the United Kingdom, for instance, there is very little control over life insurance and yet they have the highest of standards. We started on the model of United Kingdom in 1912 but the principle of "Freedom and Publicity" was not found to be sufficient in our conditions to achieve the United Kingdom high standards. So, we had to undertake

legislation for detailed State control. Therefore, a comprehensive—or what we thought was comprehensive—Insurance Act was enacted in 1938. At that time it was described as a Draconian piece of legislation and it was hoped that it spelt the end of all mismanagement as every war is supposed to end all wars. But, we had not reckoned with the ingenuity of some of the insurance managements. During the last 18 years the Act has had to be amended on as many as ten occasions and each time a provision was tightened the resourceful management managed to find a way round it. For instance, with a view to preventing a life insurance company being controlled by an individual the 1950 amending Act limited the share holding of any one person to 5 per cent of the capital of the insurance company. Despite this the same individuals or groups continue to control the insurance companies as before. The Act was circumvented by holding shares in the names of family members, friends and employees. We indeed have very many experts in *benami* in this country. Again, a provision was inserted by the same Act prohibiting payment of excessive emoluments to officers of insurance companies. This provision too was circumvented by appointment of dummies, the whole or a substantial portion of their salaries being passed on to those who control the companies.

Now I will give another illustration. The Act prohibits granting of loans to companies where the directors of the insurance companies are also directors. This provision has in some cases been got round by those companies floating debentures and the insurance companies being made to subscribe to these debentures. In one case the only subscriber to the debentures were the insurance companies concerned.

The ineffectiveness of legislative control is also brought out when we regard the business from a different angle. As I said 25 insurance companies went into liquidation during the last decade and another 25 had to transfer their business to other companies, in most cases with a cut in the policy contracts. 60,000 poor policy-holders of these companies suffered in varying degrees. Now I may mention the extreme cases. In the

case of 11 insurance companies administrators had to be appointed to take over the management. The reasons for such appointments were fraudulent transactions, defalcations, loans to fictitious persons, reckless expenditure, insolvency, gross mismanagement and so on. Some other companies were also ripe for similar treatment but action was not taken either because the managements were persuaded to set matters right or because of practical difficulties. So, the position thus is that we are as far away today as ever in attaining the standards achieved voluntarily in a country like the United Kingdom.

Had poor standards been confined to a small minority of companies further legislation might perhaps have been worth attempting, but I am sorry to say that the truly well-managed companies are a minority, a very small minority. Legislation and control, therefore, can no longer be regarded as giving us a reasonable chance of achieving our objective. The fact that the minority of well-run companies account for a considerable part of the business done does not in any way affect this argument, because lakhs of policies are today insecure affecting lakhs of families. There is no justification for allowing such a state of affairs to continue. Insurance is a business in which there ought never to be a failure and not a single policy-holder should ever find his life savings in danger. So, legislative control has been tried long enough and it would have been difficult to justify persisting with it any longer.

Insurance is an essential social service which a welfare State must make available to its people and the State must assume responsibility for rendering this service once it is clear beyond reasonable doubt that it cannot be provided in any other manner. So, while it is the failure of the general run of insurance companies to live up to the high traditions demanded of them that has led Government to take this step, I would like to emphasise that nationalisation in this field is in itself justifiable. With the profit motive eliminated, and the efficiency of service made the sole criterion under nationalisation, it will be possible to spread the message of

insurance as far and as wide as possible, reaching out beyond the more advanced urban areas and into hitherto neglected, namely, rural areas.

Life insurance gives to the insurer—it is a truism—a sense of security, but it also compels him to put by money for a rainy day. Today, less than 30 lakhs of persons in this country are insured. Even if we were to do no better than double this number, we shall have increased the savings significantly. Actually, the possibilities for expansion are even greater. The urban areas alone contain a much bigger earning population while the rural areas are as yet wholly unexplored territory from this point of view. It has been claimed on behalf of private enterprise that it was confident of increasing the total life business in force from a little over Rs. 1,200 crores to Rs. 8,000 crores, and the *per capita* insurance from Rs. 25 to Rs. 200 per head in the course of the next ten years. While I have very little doubt that the nationalised life insurance will be able not only to achieve it but exceed it, in doing so, we shall have made available for the implementation of our Plans—the second and the succeeding Plans—substantial sums of money from the people's own savings.

I come back to the ordinance and shall indicate what has been done so far since its promulgation on 19 January. As you are aware, it vested the management of all life business in the Government and in order that there may be no dislocation of business, it was provided that the existing managements should continue to be in charge of the business but as agents of Government. They were allowed to carry on day-to-day business on their responsibility though in certain important respects, such as investment of funds or where any exception to the normal practice had to be made, they could act only with the approval of the authorised persons nominated by Government. These authorised persons were in position everywhere on 20 January.

We nominated and trained them secretly for a couple of months and they had received orders to join their posts at a precise time indicated to them. So, there was no hiatus in the

working of any insurance company. There has been a certain amount of speculation in the press as to how these persons reached their places on 20 January itself, and some wild guesses have been made about all those persons being flown by special plane. But let me state the prosaic fact. They travelled by train and they started moving out of Delhi from the evening of 17 January. Only a few travelled by air and they travelled by regular scheduled flights taking with them, to the persons to be authorised, their authorisation papers which were available only after the ordinance was duly promulgated. So I claim this secret was well kept. The point I wish to make is, our arrangements were designed to ensure that no inconvenience whatever was caused to the policy-holders, and I think we can claim to have succeeded in this. Immediately after the ordinance became public, we proceeded to appoint custodians to take charge of insurance companies. Some 126 insurance companies are already managed by custodians, and as this accounts for over 96 per cent of the total life insurance business, it may be said that management at the top is now directly in the hands of Government. Custodians have been chosen from amongst senior salaried staff of insurance companies. They are working together as a team under the general guidance of the Finance Ministry, and already there is emerging a common and uniform policy. As you know, uniform premium rates have been prescribed as also uniform policy conditions.

In the matter of investment too, a uniform policy is being evolved. Advertisements have begun to appear commending insurance and its advantages generally; and not in one company. There have been suggestions that fresh business is at a standstill. I am glad to state categorically that that is not correct. After a short, a very short, interval, fresh business has begun to flow in at a rate which is no slower than before, and as doubts are dispelled and the real position becomes clearer, the pace will accelerate as indeed it already is doing in some parts of the country. Meantime, it is also becoming clear that the claims are met promptly. No complaint

has at any rate yet reached me on this score. I must of course add a note of warning. Policy holders in companies which are insolvent will necessarily have to wait until the affairs of such companies are fully gone into. The Bill before the House virtually repeats the provisions of the Ordinance. We propose, however, in the light of experience which we have gained during this brief period, since 20 January, 1956, to seek some additional powers for the custodians on the lines of the powers enjoyed by the administrators appointed under the Insurance Act. It is obviously necessary that the custodians should be able to take action to recover monies which may be missing, in an appropriate and prompt manner, wherever such action becomes necessary. With these words, I commend my motion to the House.

Life Insurance Corporation Bill, 1956*

Sir I beg to move:

"That the Bill to provide for the nationalisation of life insurance business in India by transferring all such business to a Corporation established for the purpose and to provide for the regulation and control of the business of the Corporation and for matters connected therewith or incidental, thereto, as passed by the Lok Sabha, be taken into consideration."

Sir, at an earlier stage, during the discussion in this House on the Life Insurance (Emergency Provisions) Bill, I explained at length the reasons which impelled Government to take the momentous decision of nationalising life insurance business, a decision which was endorsed enthusiastically by the House. I, therefore, need not traverse the same ground again and I shall confine myself to giving a brief outline of the organisation of the Corporation as envisaged in the Bill, and shall also explain some of the more important provisions of the Bill.

All life insurance business in India will, from the appointed day, be carried on in the name of the Life Insurance Corporation of India which is being brought into existence by clause 3, sub-clause (1) of the Bill. By virtue of sub-clause (1) of clause 7, the existing life business of all insurers will stand automatically transferred to it. The Corporation will have the sole right to carry on insurance business in India. Then in terms of sub clause (1) of clause 4, the Corporation shall consist of not more than fifteen persons appointed by the Central

* R.S. Deb., 28 May, 1956 cc. 3540—3561.

Government. These persons will be charged with the responsibility of running the Corporation. A membership of fifteen is somewhat large for the day of day transaction of business and, therefore, clause 19 provides for the general superintendence and direction of the business of the Corporation being entrusted to an Executive Committee which will consist of not more than five of its members. That Committee can exercise all such powers as may be delegated to it by the Corporation and in actual fact would be responsible for the day to day administration of the affairs of the Corporation.

Sub-clause (2) of clause 19 provides for the constitution of an Investment Committee for the purpose of advising the Committee on matters relating to the investment of its funds. Looking after the investment of the Corporation, which already exceeds Rs. 380 crores, and it is a sum which will increase steadily and increasingly every year—is, as you will agree, Sir, a task calling for a great deal of responsibility and judgment of financial matters. The investments would be made, it is needless to say, primarily in the interest of the policy-holders to whom the money belongs, but the interests of the community at large which would be vitally affected by the manner in which these vast sums are utilised and invested would be an equally important consideration. And that is why the Bill expressly provides for the membership of this Committee, the Investment Committee, being opened to persons with special knowledge and experience in financial matters, although they may not be members of the Corporation. In addition to this Investment Committee, other committees may also be constituted in accordance with necessary power given under sub-clause (3). Now, that represents the pattern at the Central Office.

In addition to the Central Office, the Bill requires the establishment of a zonal office at each of the following places:

namely, Bombay, Calcutta, Delhi, Kanpur and Madras. The Bill gives the Corporation the right to open more zonal offices later on. There were suggestions that there should be more such offices straightaway and there was even a suggestion that there should be a zonal office for each State in the Union. We gave very careful thought to this question, but finally came to the conclusion that the interests of the Corporation would be best served if, to begin with, we had only five offices, that is to say, these five zonal offices.

Each zonal office will have exclusive jurisdiction over certain areas allotted to it. I think I should indicate to you what our thinking in the matter of the jurisdiction of the various zones is. In view of the impending reorganisation of the States, it is somewhat difficult to define in terms of the existing States the areas which would be covered by each zone. But if it is permissible to draw upon the picture as it will emerge after the reorganisation, then the territories of each zone would be as follows:

The Northern Zone with its headquarters in Delhi would comprise Delhi, the proposed new State of Rajasthan, Himachal Pradesh and Jammu and Kashmir.

The Central Zone with its headquarters at Kanpur would comprise Uttar Pradesh and the new Madhya Pradesh.

The Eastern Zone with its headquarters at Calcutta would consist of Assam, Bengal, Bihar, Orissa, Manipur, Tripura and the Andaman Islands.

The Southern Zone with Madras as its headquarters would comprise the new State of Andhra including Telangana, Madras, Kerala and Mysore.

And finally, the Western Zone with its headquarters at Bombay would control the present State of Bombay, minus the areas comprised in the new Mysore plus the additional areas that may become part of the proposed new States of Maharashtra and Gujarat, that is to say, Marathwada, Mahavidharbha, Saurashtra and Kutch.

Each of the zones will be in charge of a "Zonal Manager" who shall perform all such functions of the Corporation as may

be delegated to him with respect to the area within the jurisdiction of the zonal office. This is proposed in clause 22. As I mentioned earlier, the zonal office will have exclusive jurisdiction over the territories assigned to it.

The same clause provides for the constitution in each zone of an Advisory Board to advise the Zonal Managers in matters relating to their zones. By means of this arrangement the Corporation will be enabled to draw upon the intimate local knowledge and enthusiasm of the local people.

This clause also provides for the constitution in each zone of an Employees and Agents Relations Committee. The idea is copied from the Welfare Committees constituted under the Airlines Corporation Act. We have made an important change in the ordinary conception of such a Committee; we have given representation to the agents, and that is why we called it the Employees and Agents Relations Committee. The agents, as you know, are a very important section of the insurance business. In fact they could even be termed its pivot, and their addition to this Committee is, in our opinion, necessary. I am confident that this arrangement will help in fostering a feeling in all sections of the Corporation that they are working for a common goal, namely, the success of nationalisation.

Now, to return to the organisational aspect, the zones are, in turn required to establish a divisional office and under them branch offices and sub-branch offices. Thus the entire country will be covered by a network of offices so that every policyholder will have some office or other of the Corporation near his place of residence or within easy access. This gives the broad outline of the organisation of the Corporation. Now, that by itself would not give you a clear idea as to how the Corporation is to be run and I thought, therefore, that I might add what our present thinking is on the functions of these various offices. At the outset I might emphasise that it is our intention to avoid overcentralisation at all costs. In certain matters like investments, central direction is unavoidable, but we shall delegate as much of the powers as possible to the zonal and

divisional offices. In the pattern we have evolved, the divisional office in spite of the somewhat modest name will have a very important role to play. It would in most matters function as the present head office of insurance companies and would be responsible for servicing everything, from proposal to claim.

The division of work we have tentatively in view is like this. The Central Office would concern itself with prospectus, premium rates and policy conditions, actuarial principles and basis, formulation of underwriting standards, standardisation of procedure, staff regulations and conditions of service, investment policy and actual investments, which could more conveniently be made from the Centre, control of audit and inspection, re-insurance arrangements, national publicity and co-ordination. Then the zonal offices would concern themselves with underwriting of sub-standard risks, and large amounts valuation and actuarial investigation, local investments, audit and inspection of divisional and branch offices, zonal publicity development, planning and review, management and administration of research and planning. The divisional offices would deal with underwriting up to specified limits, issue of policies and servicing, administrative and budgetary control of branches, planning and executing development programmes and lastly, training of agents and field staff. I must emphasise that this by no means represents our final thinking, but our objective is to combine the advantage of centralised coordination with the advantages of local autonomy to the maximum extent possible.

Before, I pass on to the next point, I might refer to one or two matters that have been raised by many persons. They feel that the Central Committee as well as the Zonal Committee should have elected representative of policy-holders. We have given a great deal of thought to it both in Government as well as in all the discussions that have taken place previously to this, and it has not yet been seen how this could be practicable even if one concedes that such a representation is necessary. The policy-holders in each zone number nearly a million even now and if our hopes come true, this figure would increase several fold.

One can imagine how difficult it would be to conduct an election, where the voters are so numerous and are spread over several States. The cost involved would be enormous with no benefit either to the policy-holders or to the Corporation or for that matter, the candidates themselves. Unlike private insurance companies, where there are sectional interests, here in the Corporation there can be no clash of loyalties. In every sense all the members either on the Corporation itself or on the Zonal Board would be representatives of policy-holders.

Then another suggestion that has been put forward is that to preserve the element of competition we must have several independent Corporations each competing with others all over India. Now, I cannot see how this will work out in practice. When the State is responsible for all of them the competition must be somewhat unreal. One cannot, for example, prescribe different rates of premia or different investment policies or different service conditions. The competition then might degenerate into a rebate war, and even if this does not happen, some of the Corporations might concentrate on the urban areas, where business is more easily obtained, leaving the rural areas to the more conscientious of the Corporations. The consequences might well be that the rural areas would continue to be neglected as hitherto.

Now, I shall deal with some of the other more important provisions of the Bill. The first important clause is clause 6 (2) (g) which empowers the Corporation to transfer the whole or any part of its foreign business to any other person or persons. It is one thing for a company under private management to transact business in other countries and quite another for a Government-owned Corporation to do so. It is true and there can be no doubt that the Corporation will be autonomous and run entirely on commercial lines, but this distinction will not be clear to the people in those countries and also to the Governments of those countries. Some of these Governments might take a note altogether friendly attitude, and embarrassing situations might easily arise. In view of all this we felt that it would be better for the Corporation to disembarass itself of all

its foreign business. It was for this reason that the provision referred to earlier, that is, clause 6(2) (g) has been made. In case the Corporation decides not to do business in foreign countries, the transfer of such business will not be all to one company. Any Indian company with the necessary resources and organisation and which in the opinion of the Central Government would be able to carry on the business outside India successfully would be considered. As a corollary to this provision, by clause 3 we are specifically taking powers to permit Indian companies to carry on fresh business in foreign countries. Of course, business in India would be run on a monopoly basis.

The next important clause is clause 7, which provides for the transfer of the assets and liabilities pertaining to the controlled business of insurers to the Corporation. Clause 8 is a corollary to this and provides for the transfer of the pension, gratuity and like funds to the Corporation.

The next clauses I come to are clauses 11 and 12, which are important as they deal with the staff. These embody Government's approach to the question of the staff, which approach, I can claim, is a liberal one. All whole-time employees of insurance companies are automatically taken over by the Corporation on the same terms and conditions as they enjoyed before nationalisation.

* * * * *

Sub-clause (2) of clause 11 gives the Central Government the power to rationalise pay scales, and if any person is not willing to accept the revised terms, the Corporation is entitled to terminate his services on payment of compensation equal to three months' remuneration in addition to any pension or gratuity or provident fund which he might be entitled to under his contract of service. This kind of rationalisation will probably be more prominent only in the case of posts which are in the nature of sinecures.

We have made it clear on more than one occasion that it is not Government's policy to embark on a policy of retrenchment as such, though the staff we may be inheriting from the

companies would be larger than what we would need. The best way of tackling the problem of surplus staff, in our view, is to increase the business rapidly and thus be in a position to find work for all. On an earlier occasion an assurance was given that if any Member felt that any whole-time employee had been retrenched, he could always bring the matter to our notice for necessary action. Apparently, this assurance has been interpreted to mean that inspectors and other field staff would be retained even when they are not able to keep up their part of the contract. Now that would be most unfair to nationalisation and also to other categories of workers.

And it would be unfair particularly to agents who are remunerated strictly on commission. I should perhaps explain for the benefit of those who have no detailed knowledge of insurance business the distinction between the desk workers and the field staff. The desk workers are given some work and there is no question of their doing more or less. The field staff, on the other hand, are expected to bring in a certain amount of business and in fact the utility of the inspectors, etc., to the insurance companies depends entirely on the amount of new business they bring in.

They are like "special agents" but on a salary basis. This, whatever claims might be put forward to the contrary, has been the hard core of the arrangement, to permit these inspectors to continue on the same terms and conditions irrespective of whether they fulfil their part of the contract or not would obviously be unfair to the Corporation. In fact it would be fatal to the success of the Corporation if we allow a feeling to grow, that now that nationalisation has come, people could sit back and draw their salaries. I do realise that we should be more liberal than private insurers and that contracts and figures of expectation should be interpreted with sympathy. Sympathy there will be, but I hope everyone would agree with me that we should not agree to these posts being converted into sinecures which many are doing. Though strictly speaking, the Corporation has no obligation to take over the staff of chief agents, they are doing so in the same manner as employees of

insurance companies themselves with some slight and necessary change in order to test the *bona fides* of these arrangements. I am sure that you would agree with me that this would be a liberal treatment to these employees.

Then I turn to clause 14 which has very great importance from the point of view of policy-holders. Suggestions have been made that since Government is nationalising the business it should guarantee policy contracts with insolvent companies also in the same manner as other contracts. While I yield to none in my sympathy for the policy holders who had the misfortune to take out policies with these companies, I cannot accept the underlying principle. The acceptance of such a principle would lead to no end of complications and embarrassments later on. I quoted the other day the instance of our taking over banks. Should we repay all the deposits even though the bank is insolvent? While this represents our approach in principle, our attitude towards this problem would in practice be one of sympathy. The ultimate reduction that may be decided upon might well be less than what strict actuarial considerations would suggest, and in fact less than even what the policy-holders themselves or their advocates would have the right to accept. Therefore, to sum up, our attitude would be strict in principle but generous in practice.

The next important provision is clause 15 which empowers the Corporation to seek relief in certain cases. Where the Corporation believes that during the past five years, the persons in charge of the management of an insurer had been guilty of dubious transactions, resulting in financial loss to the policy-holders, the Corporation is entitled to seek relief before the Tribunal constituted under the Bill. Now, many persons have expressed misgivings that this might lead to harassment of others. I can assure the House that such fears are groundless. The Corporation which is entitled to apply will, I am sure, behave in a responsible manner. I can give this assurance that it is not intended to set up a sort of an inquisition and that we shall not move unless the loss to the policy-holders is significant and the transactions are not *bona fide*.

Then I come to clause 25 of the Bill which relates to the arrangements proposed for the audit of the transactions of the Corporation. At the outset I should like to explain briefly the constitutional position. Under article 149 of the Constitution, it is laid down that the Comptroller and Auditor-General—I am quoting—“shall perform such duties and exercise such powers in relation to the accounts of the Union and of the States and of any other authority or body as may be prescribed by or under any law made by Parliament”. This makes it clear that in respect of the accounts of the Union he is automatically the audit authority. He does not, however, automatically become the audit authority in respect of the offices of statutory corporations or in respect of companies in which the Government might be financially interested. He becomes responsible for their audit only insofar as Parliament entrusts him with such audit by law. I have explained the legal position to clear the misapprehension which seems to exist in some quarters that audit of statutory corporations by the Comptroller and Auditor-General is almost a constitutional necessity.

Now, as regards the merits, with the growing activities in the public sector, the sphere of Governmental operations has increased and it has occasionally to take on burdens which so far were being carried by the private sector. In relation to these new activities, Government have to consider what audit arrangements would be suitable in each individual case. Generally it is the view of the Government that—I hasten to add—the Comptroller and Auditor-General exercising audit control in the manner laid down in the Company Law over the great majority of State undertakings is feasible and desirable and this has been given effect to in the arrangements made, as for instance, in regard to the Industrial Finance Corporation. Now, in certain specialised types of undertakings, however, especially financial, the type of audit which the Comptroller and Auditor-General must necessarily press for, is not likely to be the best or the most useful in the public interest, and indeed might conceivably stifle initiative and enterprise, defeating its larger purpose. The main consideration must be to run the

enterprise in question well and efficiently so that public confidence is engendered and business expands profitably. There will be wider criteria than audit rectitude by which to judge results and it is these that must be applied rather than the routine standards of even a commercial audit. And it is on this consideration that the Lok Sabha came to the conclusion that nothing should be done to fetter the full and complete discretion of the members and officers of the Corporation to carry on the affairs entrusted to their charge involving almost continuous exercise of discretion and judgement in financial matters, particularly in matters of investment of funds.

The other provisions of this Chapter are provisions for actuarial valuations once in two years and preparation of annual reports. These reports are required by clause 29 to be laid before both the Houses of Parliament so that Parliament will have an opportunity of acquainting themselves with the progress of the Corporation.

Incidentally, it might be noticed from clause 28 that at least 95 per cent of the surplus disclosed is to be allocated to the policy-holders. And 5 per cent to the share-holders, that is, the Corporation. This is only the minimum and I am sure later on this proportion could be increased with the result that the State's share will be correspondingly reduced.

I now turn to clause 35(1) which deals with repatriation of certain assets and liabilities of foreign insurers. The U.K. and Canadian insurers have on their registers a large number of policies issued in foreign currencies on the lives of non-Indians temporarily resident in India. Many of these policies were originally taken out in the U.K. and elsewhere and were later transferred to the Indian branches. Others were issued in India itself. Transfer of such policies from the Indian register to the U.K. or Canadian registers was quite common and, in fact most of these foreign policy-holders chose those companies as they had a world-wide organisation and were able to provide service all over the world. Most of these policy-holders would in course of time retire and go back to their countries where it is unlikely the Corporation would be able to provide satisfactory service. It

has been represented on behalf of the policy-holders that they would like to transfer their policies, together with the relative reserves to their home offices. This request seemed quite reasonable and clause 34 gives the powers to the Central Government to permit such a transfer. This business, it is estimated, would be between 15 and 20 per cent of the total business of the foreign companies in India.

Then, these foreign companies made another request. They represented that the assets which they have in India have not all been built out of the receipts in India and, therefore, they should be allowed to take back assets which are not required to meet the liabilities to policy-holders in India. This too struck us as reasonable and provision has been made for returning the excess after retaining out of the funds of these companies sufficient assets to ensure ample security on the most conservative calculations to the policy-holders in India. I do not wish to trouble the House with the details of the actuarial basis which are given in the Second Schedule; but I should like to say that the reserves these companies would leave behind would be as strong, if not stronger, as the reserves held by the best of Indian companies.

I now turn to clause 36 which provides for the termination of contracts of chief agents and special agents. Chief agents are employed by insurance companies to procure business. They are given exclusive jurisdiction over territories not smaller than a district and their remuneration takes the form of an overriding commission on the business procured through their agency. The chief agents in turn appoint inspectors and special agents under them, meeting these expenses out of their overriding commission. Whatever might have been the wisdom or otherwise of this system of development as opposed to the more common one of having branches, chief agents cannot be retained after nationalisation. If the Corporation is to make a success of popularising insurance it cannot afford to hand over whole areas to persons, over whom it would itself have no administrative control or discipline. There may have been some justification once upon a time for the type of organisation which

allowed for chief agents. It is not clear, however, that in nationalised insurance there can be any useful place for them. To retain them would in effect mean retention of private individuals as if they were insurance companies carrying on business in areas assigned exclusively to them. This has only to be stated thus for the House to see how absurd it would be to continue this class of functionaries. It was, therefore, decided to terminate all contracts of chief agents as well as of special agents who correspond to inspectors. Their compensation is the subject of the Third Schedule. All modifications under this clause of the Bill will have to be laid before both the Houses of Parliament as soon as possible after issue and this House will, therefore, have an opportunity of going further into the matter if need arises.

Then, I turn to clause 43 which deals with the application of the Insurance Act to the Corporation. I am sure the House will agree with me that irrespective of whether the Corporation has any system of internal control or not, an external check and control is necessary in the interests of everyone, including the Corporation itself. We thought that the best way of ensuring this would be to apply the provisions of the Insurance Act to the Corporation. It is our intention that the organisation of the Controller of Insurance should continue in the future to exercise an effective supervision over the affairs of the Corporation. The Act was originally designed for a large number of companies. We had about 160 odd. Their replacement by one Government-managed Corporation has resulted in a vital change which has to be allowed for. The provisions of the Act will, therefore, have to be gone into section by section to see which of the sections would, with advantage, be applied to the Corporation. Except those sections like section 6A which relates to the structure of the paid-up capital, section 7 relating to deposits, etc., you will find that almost every section of the Insurance Act is being applied to the Corporation either as it is or with provision for modifications. In particular, it will be noticed that all sections of the Act which confer a benefit on the policy-holders like section 47A which entitles a claimant to apply to the Controller of

Insurance for a speedy decision in disputes with insurance companies, section 113 which confers certain non-forfeiture benefits, etc.—just to give two instances—have been made applicable. The modifications that will have to be made will not be such as to detract to any degree from the benefits conferred by the Act.

I take this opportunity of referring to section 44 of the Insurance Act which is listed among the sections of the Act which would be applied with modifications, that is to say sub-clause (2). The agents seem to be apprehensive that this might result in their losing their accrued rights. I may assure them that this would not be the case. Any change made in agency terms will only be in respect of policies to be booked in the future and even there we shall make only such changes as may be necessary to put the agency terms on a more rational basis.

Then I turn to the exemptions. You will notice that among those exempted are the Post Office Life Insurance Fund and schemes of a compulsory nature established by State Governments for the benefit of their employees. These are in the nature of amenities provided by Governments to their employees and we did not think it proper to abolish these schemes by this law.

I now turn to clauses 44(c) and 45. I take these clauses together as they touch on the same subject. Owing to mismanagement, in many cases of a very serious nature, Government had to appoint Administrators, under section 52A of the Insurance Act, to many Insurance companies.

Such action had saved the policy-holders from ruin. It may be noted that this section applies only to companies carrying on life insurance business. In the absence of a special provision, on the appointed day all composite companies, that is, companies carrying on both life and non-life business, would become purely non-life companies and any Administrator appointed to such a company would become *functus officio* on that date. Now, this would be exceedingly unfortunate as it would mean that the companies would go back to the very

persons from whom they were rescued and would also seriously impede the progress of any civil or criminal cases that might be pending against the managements. These clauses provide, therefore, that the life business of composite companies under Administrators would not vest in the Corporation on the appointed day, but would be transferred by the Administrator later on. Steps would be taken to safeguard the interests of the policy-holders and also of the staff belonging to the life department.

I next come to clause 48 which deals with the rules. They need no comment except to say that these rules will be placed before both Houses of Parliament. Then I turn to the question of compensation. I must confess that Schedule I, particularly Part A, looks rather complicated, but I make no apology for it because it is entirely due to the fact that we wanted to devise a formula which would be fair to everyone. Evolving a formula which would fit the large number of companies so widely different from each other was by no means an easy task, but we feel that we have succeeded in evolving a scheme which would be fair to all. The first thing to be noticed is that market value does not figure anywhere in all these calculations. The reasons are entirely practical. In the case of Indian composite companies and all foreign companies, we are taking over only a part of their total business. Therefore, in their cases, the market value, even if available, would not afford us any help. Market value could, therefore, be of assistance only in the case of an Indian insurer carrying on only life insurance business. I believe there are but two companies out of these, whose shares are quoted regularly on the Stock Exchange. Even in respect of these two, the quotations were, during the last few years, affected by considerations other than the intrinsic value of the shares. The market value had, therefore, to be discarded and we had to devise other means of estimating compensation.

First Schedule is divided into three parts. Part A deals with proprietary insurers which had disclosed a surplus at their latest valuations and had distributed the whole or part of the surplus to the policy-holders by way of bonus. Part B deals with other

proprietary companies, that is, those which were either in deficit or had only a nominal surplus. Part C deals with mutuals, co-operatives and unregistered bodies. Now, taking up Part A first, this Part is by far the most important. Though the companies coming under this Part number only 79 (60 Indian insurers, 10 foreign insurers and 9 Provident Societies), they account for the bulk of the business done in the country and as a corollary for the bulk of the compensation payable. Broadly, the approach to the question of compensation in this Part is that the share-holders should be compensated for loss of earnings on the same scale as in the past. The problem, therefore, divides itself into two parts—first, determination of the average earnings of the share-holders in the past and second, their commutation at an appropriate rate of interest to arrive at the equivalent capital sum.

Now, taking the first, that is to say, determination of the average annual earnings, insurance companies, like others in this world, have their good years and bad years and we thought it fair to the Corporation as well as to those companies to go by the average during a six-year period, that is to say, usually two evaluation periods. To preserve equity *inter se* among the companies, it was decided to go by the same period in all cases, the period chosen being 1950-55. Now, while this principle of having the same period for all had undoubtedly its merits, it introduced certain difficulties. To arrive at the exact allocations to the share-holders during the calendar year 1950-55, it is necessary that the companies should have been valued at the beginning and at the end of the period, that is to say, on 31 December, 1949, and 31 December, 1955. But only a few happened to have had their valuations as on 31 December, 1949, and as regards the latter date, we decided, as a matter of policy, not to undertake fresh valuations as on the 31 December, 1955, because undertaking fresh valuations would mean diverting our attention from the big task ahead at a time when we can ill afford it. We, therefore, searched for a method which could give us, approximately at least, the share-holders' share of the surplus arising during the uniform six-year

period chosen, that is to say, 1950-55, without the necessity of having fresh valuations. The solution that suggested itself to us was first to take the annual average of the share-holders' share of the surplus at the last valuations (whatever the period covered by those valuations might be) and then to multiply that figure by a factor which would allow for the growth in business. The factor would be the average business. The factor would be the average business in force during the years 1950-55 divided by the average business in force during the period covered by the two inter-valuation periods. Now, we do not claim that this method is exact, but under the circumstances, we feel that it can claim to be fairly scientific, and indeed, the most scientific that we could adopt.

While taking the actual allocations to share-holders, we thought it necessary to make some adjustments in the interests of equity. The Insurance Act provides that out of the surplus disclosed at actuarial valuations not more than 7½ per cent could be distributed to the share-holders. The majority of the insurers allocated 7½ per cent, the maximum that the law allowed. There was, however, a minority which took an enlightened view of their responsibilities and allocated to the share-holders much less. Now, basing the compensation on actual allocations would mean rewarding those who had taken a narrow view of their responsibilities and penalising those share-holders who had shown a commendable concern for the interests of the policy-holders. To avoid this, we thought of taking a fixed percentage of the surplus, but abandoned it as shares would have been bought and sold on the basis of actual allocations made. Therefore, as a compromise, we finally decided to impose a maximum limit of 5 per cent, and a minimum of 3½ per cent. If a company had allocated more than 5 per cent, then it would have been deemed to have allocated only 5 per cent. If the allocation was between 3½ and 5 per cent, the actual allocation would be taken. If this is less than 3½ per cent, the company would be deemed to have allocated 3½ per cent. Now that, I hope, the House would agree, is a fair compromise.

Having thus arrived at what might be deemed to be the average annual allocations to share-holders during the period 1950-55, our next task is to commute it at a suitable rate of interest to arrive at the figure of compensation. If we assume a rate of 5 per cent, we get the commutation factor as 20 years' purchase and that again seems fair in all the circumstances.

Having compensated the share-holders for loss of dividends, the Corporation would be entitled to appropriate the paid-up capital. There is no need, however, to mention this specifically in the Schedule as clause 7 (1) already provides for the capital also vesting in the Corporation.

Now, while this formula gave satisfactory results in the case of bigger and well-established companies, it gave anomalous results in the case of a few companies, where we found that 20 times the annual allocation to share-holders worked out to even less than the paid-up capital we are appropriating. It is necessary to remember that all companies coming under this Part had declared bonuses to the policy-holders, and yet under this formula they would get less than paid-up capital, whereas, if they had been taken to liquidation or on transfer of their business to another insurer, they would have got their paid-up capital intact plus a share of the valuation surplus. Therefore, the House would agree with us that it would be unfair if our formula should place these companies in a position worse than what they would be in under liquidation. We thought of giving them the option to claim compensation under Part B, but we found that it would only result in adding to the disputes and delays that are bound to arise where assets have to be valued carefully, without any great difference in the figure of compensation. To meet these cases, it was provided that insurers would have the choice to take ten times the annual allocations to share-holders plus the right to retain the capital.

I now turn to Part B which deals with proprietary companies which did not declare bonus to the policy-holders. Broadly, the basis of compensation in this Part is 'assets minus liabilities' The Schedule itself lays down the principles for valuing both

assets and liabilities. It also provides that if the valuation of the life assurance fund shows a surplus, 96 per cent of the surplus would go to the policy-holders, leaving as the shareholders' share only 4 per cent.

While this is the basis of compensation payable to other proprietary insurers coming under this Part, a special provision has been made for displaced insurers. Representations were received on behalf of displaced insurers that some consideration should be given to the fact that the partition of the country in 1947 had caused serious losses to them and their inability to declare a bonus (and thus getting, compensation under Part A) was due solely to these losses. Strictly speaking, any special relief that may be given should come out of the revenues of Government and there is no ground for the Corporation being asked to bear it. The Corporation is taking over certain assets and liabilities and the compensation should depend on the present position. However, it was thought that payment of an *ex-gratia* amount would not be inappropriate.

The *ex-gratia* payment would be arrived at as follow:—

To the life assurance fund (as well as to the assets) would be added the losses incurred in Pakistan under the several heads referred to in the Bill, and on the basis of the revised figures compensation would again be calculated in the usual manner. Half the difference between the figures of compensation on the normal and revised basis, or half the paid-up capital, whichever is less, will be paid.

I now turn to Part C. The compensation payable under this Part is to the policy-holders, being a small addition to the sum assured by way of bonus.

This finishes the First Schedule.

I do not think I need take much time over the provisions of the Second Schedule which lay down the principles for valuing policies for determining the 'excess assets' of foreign insurers. I do not think I need go into the intricacies of the

valuation basis. All that I need say is that the reserves on the basis laid down in this Schedule would be stronger than the reserves on the basis adopted by the foremost Indian company.

I now turn to the Third Schedule, which deals with compensation to chief agents and special agents. I had earlier explained the reasons for the decision to terminate the contracts of chief agents. Chief agents received an overriding commission. The commission is not all net income, as out of that commission, they will have to meet the expenses of maintaining an office, salaries of inspectors and commissions to special agents. Their contracts run for a period not exceeding 10 years. After taking all aspects into consideration, it was thought that we would be dealing very generously indeed with them, if their compensation is fixed at 75 per cent of the overriding commission that they would otherwise have received from time to time, limited to a period of 10 years. The compensation payable to special agents is one-eighth of their annual income over a period of years.

Sir, the enterprise which Government are undertaking is gigantic in its dimensions and momentous in its bearing on the fulfilment of the plans for the country's economic development. I shall be the last to claim that experience will never show any room for improvement in this legislative sanction for what we propose to undertake. But I feel confident that we have here an apparatus of organisation which will enable us to make a good beginning by enlisting the enthusiastic co-operation of all concerned.

II

**CONSTITUTIONAL AND PARLIAMENTARY
MATTERS**

166LS—24

II CONSTITUTIONAL AND PARLIAMENTARY MATTERS

12 Motion of Thanks on President's Address*

The President's Address drew attention to the difficulties of the economic situation and their aggravation by the recent international developments. It referred to the necessity for constant vigilance, especially in respect of the price levels and the need for the greatest possible economy in Government expenditure and restraint in spending by the public.

According to Prof. K. T. Shah, Government have utterly failed to deal with the situation, notwithstanding the appointment of the Planning Commission or the improvement in the country's balance of trade. Pandit Hirday Nath Kunzru regretted that no indication has been given of the steps that Government propose to take to deal in the immediate future with what he in common with Prof. Shah, characterises as the fast deteriorating economic situation. He has also expressed disappointment with the Planning Commission's giving no assistance in the matter. Mr. Mahavir Tyagi complained that Government's Planning has neglected the rural areas and he was confident that by dint of effort an economy of a hundred crores could be effected in government expenditure. Mr. Goenka has just expressed several grievances in regard to the Devaluation Committee. Well, apart from Mr. Goenka's speech with which I shall have to deal separately, I listened carefully to the speeches, but I failed to find in them any significant evidence in support of the basic assertion that the economic situation has deteriorated seriously. Prof. Shah was candid enough to concede that he was not sure of the facts regarding the food situation.

*Provisional Parliament Deb., 2 August, 1950, cc. 200—212.

Pandit Kunzru referred to the spurt in the price index of foodgrains, between 6 June and 8 July, as also to the phenomenal rise in the prices of oilseeds and both he and Prof. Shah referred to the deficient industrial production.

I submit that the evidence adduced does not prove that the economic situation is fast deteriorating or that the blame, if any, is to be laid entirely at the door of Government. I am free to confess that the economic situation is, in my opinion, difficult, but I do not regard it as desperate. Nor do I admit that the Government have been supine and apathetic, or that Government policy in this regard has been vacillating or unco-ordinated. I see no reason why we should take such a lurid view of the position or fail to notice the bright spots that relieve the gloom. An ounce of fact is worth a ton of theory. Let us examine some of the facts of the situation.

The index number of wholesale prices show very near the pre-devaluation level throughout the first half of the year. The House will be interested to know that the rise in the price index in India from December, 1940 to June, 1950, was 3.7 per cent. The corresponding figure for U.K. was 7.2 per cent and that for the U.S.A. was 15.2 per cent.

I should like to take you through some of the detailed figures in this connection. I have here a statement which gives the price indices since decontrol, the index being the weekly index of wholesale prices and the source being the Economic Adviser's Office. Under cereals in January, 1950, the index was 454, and on 10 June, 1950, it was 455. Under food articles in January, 1950, the index was 385.3, and on 10 June, 399.6. Under industrial raw materials the index was 490.3 in January, and on 10 June, 493.5. Under semi-manufacturers as against 337.3 in January it was 335.8 in June. Under manufactured articles against 355.4 in January it was 348.1. Under miscellaneous, on the other hand, the composition of which covers a very wide range the index rose from 619 to 699.3 and for all commodities the index rose from 388 to 395.4.

It is true that for the first three weeks of July, 1950, there was a rise of 2.5 points over the figure for the week ending 24 June, but I think that can fairly be attributed to the reasons which my hon. colleague mentioned as well as to hoarding, speculation and profiteering. These are with us persistent and provoking problems and we may fail to solve them at our peril. It is surely expecting too much to demand that they be solved in a week or in a fortnight....

I will say that the Ministers are only workers and not wonder-workers. We recognise that perhaps a grave situation may develop, largely through factors outside our control and grave evils might need grave remedies. But it would surely be unreasonable to deny Government a little more time in which to devise suitable corrective measures. It may be that Government will need special emergency powers to enable them to cope with the situation.

It should also be borne in mind that in certain vital fields the appropriate action lies within the jurisdiction of State Governments and certain measures, in consultation with them, require a little time.

So far as the monetary field is concerned, I think any dispassionate observer of economic trends would find that there has been a distinct improvement and that there are signs of returning confidence. I refer to the response that was made to the first loan that was floated by the Central Government this year. I think for the first time we secured something net in cash...

The loan was a conversion loan and not a regular loan and considering that, the fact that we secured 7½ crores in cash might be regarded as satisfactory.

Then, Members must have read reports that the Provincial loans which were floated the other day were well subscribed. That, again, is in distinct contrast to what happened last year, when only one Province was able to raise some loans. These, I think, are relieving features.

Prof. Shah has referred to food, the kingpin of Indian economy. On this matter it is not necessary for me now to say

anything except that I am sometimes amazed at the defeatism that is shown in certain quarters. It may be that we experience difficulties in procurement; as long as human nature is there these difficulties I suppose will continue to be experienced. But I believe that if we were to reform the administrative machine—and that is a matter which I know has the closest attention of my hon. colleague—it should not be difficult to raise the production of food to a stage where perhaps we might be able to do without controls in a reasonable period of time. All I need say in this connection is that the only thing that my hon. colleague does not promote is the growth of grass under his feet.

In regard to industrial production, there are scores of factors that might account for a shortfall from installed capacity, and I can assure you that measures are already in train for investigating the causes, and machinery for the purpose is being organised in close consultation with the Planning Commission. The process, however, is bound to be long and intricate, and at every step the co-operation of employers and workers will be essential, not to speak of the adequate provision of finance. The other day a most useful consultation in regard to this and connected problems was held with a number of leading industrialists. I myself am in consultation with the Reserve Bank in regard to the possibilities of augmenting facilities for finance—I mean industrial finance. Something is also being attempted, as you are aware, in order to improve the working conditions for labour. These are all measures that take time to fructify and it would be sometime before we get the right amalgam of brain, brass and brawn for increasing industrial production.

From the fiscal and monetary angle the end of the first quarter of the year is a somewhat difficult time for answering charges of ineptitude. The ink has hardly dried on the record of the full-dress debates regarding the economic and other policies of Government that characterised the Budget session, and for lack of fresh charges there is a temptation to Government's critics to resort to accusations which could have

been made and answered thereto. For instance, Prof. Shah referred to failure to implement the Economy Committee's Report. The circumstances in which the recommendations contained in that report were overlaid by emergent retrenchment measures could have been ascertained in the Budget session. Actually, for the information of the House, the Economy Committee's recommendations, if fully carried out, would have resulted in a saving of roughly Rs. 4½ crores for a whole year. In view of the financial crisis, however, a percentage cut was imposed on the sanctioned budget estimates of all the Ministries at a flat rate and this was theoretically estimated to yield an annual rate of saving of more than Rs. 6½ crores. Unfortunately the accounts are not in hand and we have not been able to ascertain whether the whole or any part of this has been saved because *pari passu* new expenditure proposals for services which were deemed to be necessary were entertained and it is possible that much of the saving aimed at has not materialised. However, I can assure the House that it is my intention to have this matter thoroughly gone into. I have had a review made of the outturn of the Budget for the first quarter and the trends that I have noticed convince me that redoubled efforts are called for in the interest of avoidance of waste and effecting retrenchment. I am not sure if these efforts will reach the heroic heights of renunciation envisaged by Shri Mahavir Tyagi. It should also be remembered that by and large retrenchment means throwing out men temporarily at least and adding to unemployment. Therefore, the human aspects of this process could not be ignored. But I hope that I shall not be regarded as being callous when I express my view that after an initially painful readjustment the results must benefit the community by replacing waste, by gainful employment. I have explained the budgetary situation to the Standing Finance Committee, and from my first experience with them I anticipate a great deal of assistance from them. I have also had reports of the thorough investigation which has been conducted into the Ministries they have looked into, by the Estimates Committee, and to these also I shall look for assistance.

Well, apart from retrenchment and avoidance of waste the only other means of improving the budgetary situation is by trying to increase one's resources. It is here that I should feel that it would be premature to expect Government to make any pronouncement. Usually this a matter that comes up sometime towards the end of the year. I am, however, free to say this, that I have been paying very close attention to the progress, or perhaps the lack of it, in the National Savings movement. I find that it has not progressed as well as it should have, owing to certain organisational deficiencies but we have taken steps to correct these and an officer with a great deal of experience in banking and money matters has been appointed as the the National Savings Commissioner. He has been around some of the States and in a few months time I hope that I shall be in a position to call a conference of the States in order to enlist their support for this movement. I am quite convinced that the solution of some of our rural problems depends upon the success with which we tap savings in certain strata of the rural field and that, incidentally, perhaps furnishes an answer to the points which Shri Mahavir Tyagi and the hon. Deputy-Speaker made.

The hon. Deputy-Speaker referred to the increase in the index for cereal prices from 100 to 500 — it is 455 actually — since 1939. Now, that is an indication of the manner in which purchasing power has dispersed from its usual receptacles in the urban areas to the rural areas. It is true that much of it is lying idle or is not perhaps applied to the best possible uses, and that is the problem which the Central Government will have to solve in consultation with the State Governments. At the moment, there is a tendency on the part of State Governments to look to the Centre for assistance for carrying out schemes of development, whereas the Centre is less and less able to raise moneys in the money market. The reason I think is that some of this money is right under the noses of the State Governments and if only they will make efforts — I do not mean by way of taxation necessarily — but if they will only make efforts to wean these savings for constructive uses, both the

problems of rural development and the problems of finding employment for some of our agricultural labour will be solved.

Now, apart from resources and the sound management of the Budget which is calculated to ensure that no fresh inflation is generated, the customary method of dealing with scarcities of goods and thereby influencing the price level is finding exchange for imports. The House is aware that here Nasik does not furnish a solution, and one is limited by the amount of foreign exchange that one can earn. From the figures given in the Address, the House will have formed some idea of the improvement that has taken place in our balance of trade. It is quite true, as Prof. Shah observed, that this improvement may not be enduring and that the position would have to be watched. Indeed, in considering this matter we have made allowance for this and all that we claim is not the new improvement in the balance of trade but the increase in exports that is noticeable over the first six months of the year. That again will be reduced very considerably during the next six months, but it will be reduced for a good purpose.

We have made good use of the temporary respite that we have received. The recent improvement in our balance of trade has enabled us to make larger allocations of foreign exchange for the importation of essential goods, and in fixing these allocations we have followed the usual plan of giving the highest consideration to goods required for industrial and development purposes. The allocations for commercial imports have been made after making reasonable provision for the import of foodgrains, of Government stores required for Defence and Railways and for other purposes. The House will be interested to know that of the allocations made for commercial imports only a small proportion which does not exceed four per cent of the total import allocations is for consumer goods, and the balance of the allocations is entirely for industrial raw materials and semi-manufactured goods as well as for plant and machinery. The consumer goods include largely such essential articles as infant milk food, powered and condensed milk, drugs and medicines and certain other articles

such as betel nuts on which revenue is collected in the shape of revenue duty. But the major part of the allocations is, as I have said for plant and machinery, petroleum products, steel, nonferrous metals, cotton, chemicals, machine tools, newsprint, paper. Two meetings of the *ad hoc* Committee on Devaluation were held during the November-December Session of Parliament and problems arising from the eight point Economic Plan were discussed. Now, the discussions that took place during these two meetings and the suggestions made were examined by Government, and such of these as could be adopted were implemented. Then, this matter came up at the time of the Budget discussions and I am informed that the specific question of imposing an export duty on jute and tea was raised during the debate on the Commerce Ministry's Demand and Government's views on this suggestion were fully explained by the Commerce Minister. A decision was then taken not to convene a meeting of the committee, as the views of the members of the committee as well as of other members were known during the parliamentary debates. Whether this was a good reason or not it is not for me to say.

The position now is that after a lapse of several months the specific economic problem that arose immediately after devaluation now forms part of the general economic situation and it is not easy to separate them. Apart from anything else, 'Devaluation Committee' seems rather an ominous name. Any way now that the matter has been mentioned, it is my intention to convene a meeting of the committee in order to review the whole position.

Well, during the debate several references were made to the Planning Commission Ever since the Planning Commission was established. I have marvelled at the carping and cavilling that has been directed against the Commission. This has emerged not only from those who are not in the habit of devoting much thought to economic matters but also from those who ought to know better. In part, the critics belong to the ranks of those who do not believe in planning. This is hardly the place or occasion to join issue. I must, however, deal with one aspect of the

criticism in this regard and that is that it is no use planning when our resources are so low and our aspirations so high. I should have thought that this is precisely the conjunction of circumstances in which planning becomes imperative with a view to the most fruitful and balanced utilisation of our meagre resources, for in the absence of planning there is risk of misuse and misapplication.

The other class of critics, which include Prof. Shah and Pandit Kunzru expressed disappointment at the results achieved by the Commission. I cannot help feeling that this sort of criticism emanates from a misconception about the functions of the Planning Commission and the technique and implications of planning. Prof. Shah said that he did not know what the role of the Planning Commission was and Pandit Kunzru is disappointed that the Planning Commission has done nothing to cure the current economic malaise. I cannot help wondering at Prof. Shah's statement, because the terms of reference to the Commission were published and are pretty elaborate, or I can only infer that he could not have read them recently or very carefully. Pandit Kunzru seems to me to have read a wrong causal relation between the appointment of the Commission and the difficult economic situation as referred to in paragraph 11 of the President's Address. I do not want at this late stage to take the time of the House in reading out the terms of reference to the Commission. But I wish to say this that the tasks of reviewing the economic background, defining objectives, scrutinising production in scores of different fields, surveying resources especially financial, and drawing up realistic plans, are tasks of great complexity. They require for their accomplishment a wide range of statistical data, the collection of which takes time and calls for expert assistance...

I must have misheard my hon. friend.* That these tasks are being attended to by the Commission with zest and diligence, I as a Member of the Planning Commission as well as Minister of Finance can bear ample testimony, because I have to devote a great deal of time. I appeal to the Commission's critics to give it

*Shri H. N. Kunzru.

a fair chance. If they feel like it, they can forward any constructive suggestions that they may have and I am sure that this kind of positive assistance will be gracefully welcomed by the Commission. At any rate they could assist negatively by showing forbearance, patience and understanding.....

They ought to let the Planning Commission get on with its job in an atmosphere free from popular prejudice, because any plans that the Planning Commission may be able to evolve will be condemned to futility in advance if the public is taught to believe that they will mean nothing to them.

The major objectives of Government's economic policy may be defined as these:

(i) To ensure that no fresh inflation is generated and to that end to follow sound fiscal and monetary policy;

(ii) In particular, not to relax in the pursuit of economy;

(iii) To endeavour to remove or minimise the strain on our economy attributable to our political and economic relations with our neighbour countries;

(iv) To press forward purposefully with plans to attain self-sufficiency in food, cotton and jute;

(v) To make sustained efforts to establish conditions in which industrial production can be maximised;

(vi) To assist, as far as possible, in alleviating rural under-employment;

(vii) To watch the price level vigilantly and take measures within its constitutional and administrative resources to hold it in check; and

(viii) To plan the utilisation of the country's limited resources in the most advantageous manner possible.

I submit that Government are addressing themselves to these tasks with energy and earnestness of purpose and are entitled to receive from all sections of the community and understanding support and not petulant criticism.

Constitution (Tenth Amendment) Bill, 1956*

(reg. taxes on inter-state sales and purchases)

I beg to move:

“That the Bill further to amend the Constitution” of India, as reported by the Joint Committee, be taken into consideration.”

The Joint Committee has recommended that the Bill as introduced in the Lok Sabha be passed. This conclusion has emerged after a great deal of discussion of all points of view. There are Minutes of Dissent and therefore it is needless to say that there was not complete unanimity in the committee. Particularly, there was a strong volume of opinion in the Joint Committee which was of the view that it would have been very much satisfactory, had the Central Government been able to retain the power to intervene, as it can today, in respect of imposition of sales tax on goods essential to the life of the community, under the Essential Goods Act of 1952, that is to say in regard to the provisions of the Essential Goods Act of 1952, and particularly in respect of what were described as necessities of life. This point has been urged with varying degrees of emphasis by several Members in their notes and Minutes of Dissent. At this stage I consider it necessary to place before the House certain salient points for consideration.

I realise that hon. Members have been exercised as to the possibilities which this Bill opens up for the levy by the States

*L.S. Deb., 29 May, 1956, cc. 9874-9880; 9947-9954.

**Seeking to amend articles 269 and 286 and the seventh schedule, with a view to remove certain anomalies in taxes on inter-state sales and purchases.

of sales taxes at onerous rates on articles which figure largely in the domestic budget of the common man. This anxiety is readily understandable especially as the House regards itself rightly as the zealous guardian of the fortunes of the common man, and yet in spite of this sentiment, I would like the hon. Members to consider dispassionately what the present position is and how we could change it if in the circumstances a change is called for.

As the Constitution stands at present, it provides in substance that any law of a State which imposes a tax on goods declared by Parliament to be essential for the life of the community can have effect only when assented to by the President. The important point to remember about this provision, however, is that it does not apply to laws that had already been passed by the time Parliament declared what goods are essential for the life of the community. It is not necessary for my purpose to give a list of the States which had such laws in force then and have them now, the commodities concerned, the rates prescribed, and the character of the taxation, that is to say, whether it is single-point or multi-point. There are about four States which were, under this dispensation, in a position to levy a sales-tax on foodgrains; some others levied on *gur* and so and so forth. Suffice it to say, that this provision of the Constitution has not in fact served to give us complete or even decisive control over the levy of sales-taxes on such commodities, that is to say commodities declared to be essential for the life of the community. Various States had, as I said, taxes at various rates and these taxes continue to be unaffected by the constitutional provision. That was the first major weakness of the present situation.

Then, it is often contended with some justification that the list of goods declared by Parliament to be essential for the life of the community includes items which cannot strictly be regarded as essential in common parlance. For instance one could not reasonably hold that dried fruits and hides and skins are essential at least in the same sense as, say, food grains are. Then, finally, while the State Governments have been

prevented from imposing sales-taxes on goods essential for the life of the community, except in accordance with the provisions of that Act and while the result of applying the essentiality test has placed a statutory bar on any increases in the sales-tax levy, the States have often complained of the fact that the Central Government themselves have levied high taxes in the form of excise or customs duties on some of the goods declared by the Act to be essential to the life of the community, for instance, cloth and petrol. It was apparent therefore that this whole question needed careful examination and this was precisely what was carried out in great detail by the Taxation Enquiry Commission. They came to three conclusions, firstly, that State Governments should have full powers to tax sale or purchase of goods including goods declared at present to be essential to the life of the community, and secondly, that some restrictions may be justified in regard to the taxation of raw materials of special importance by taxing which the State Governments could effect an increase in the cost of manufactured articles whether such manufacture takes place in the State which uses the raw material or in another which imports the material from that State. The Commission were of the view at the same time that such control should be confined to a very small number of well-defined commodities of special significance in inter-State trade. Broadly speaking, no commodity should be selected for control and regulation by the Central legislation as of special importance in inter-state commerce, which is not a raw material or largely in the nature of a raw material, which either as raw material or later as finished good based on such raw material is not in terms of the volume of inter-State trade of special importance in such trade, and which finally in terms of the country as a whole is not of special importance from the point of view of the consumer or of the industry.

On this basis, six commodities, namely coal, iron and steel cotton, hides and skins, oilseeds, and jute were selected as being of special importance in inter-State trade. This view of the Taxation Enquiry Commission has found support from the panel

of economists nominated to advise the Planning Commission on the formation of the Second Five Year Plan. Their memorandum says:

"We wish to endorse in particular the recommendation of the Taxation Enquiry Commission to the effect that article 286 (3) of the Constitution may be amended to remove the present exemption of articles essential to the life of the community from the scope of State sales taxation."

Government have broadly accepted these recommendations and also the view of the Taxation Enquiry Commission that the sales-tax must essentially continue to be a State tax as a source of revenue and must continue to be levied and administered by State Governments. The sphere of power and responsibility of the States may be sad to end and those of the Union to begin, when the Sales-tax of one State impinges administratively on the dealers and fiscally on the consumers of another State. In other words, inter-State sales should be the concern of the Unions so should specific inter-State sales, as for example when a raw material produced in a State figures significantly as a manufactured article in an inter-State transaction in the manner I have described before. To the extent necessitated by these considerations and to that extent only the Taxation Enquiry Commission have recommended the imposition of restrictions on the States and assumption of certain powers of levy and control by the Union. This Bill has been drawn up to implement this scheme of inter-State sales-tax. By the adoption of this scheme of taxation we shall be able to ensure that at least in regard to the most important raw materials which enter into inter-State trade and commerce, there shall be a uniform burden of tax, and that uniform burden too shall be of a strictly restricted nature, that is, the tax shall be levied only at a single point at the last stage of sale or purchase in so far as the specified goods are concerned.

If to this list, at the proper time, it is possible—as I am advised, it would be possible—to add one or more commodities out of the present list of essential commodities as being of

special importance, well then, the interests of the country as a whole might have been further secured; we shall have ensured generally, therefore, that raw materials required for the manufacture of finished goods carry a more or less uniform tax burden throughout the country. That would be a matter for consideration when an actual Bill comes before Parliament, after this constitutional amendment is accepted. In due course, after this has been put through, we shall, therefore, be introducing a Bill to give effect to the detailed recommendations of the Taxation Enquiry Commission. The House would then have to discuss and decide among other things the principles on which commodities are to be declared of special importance in inter-State trade and commerce, and the structure of the tax rates.

There is one basic fact which we must not overlook. A constitutional amendment of this nature calls for the consent of the States and their legislatures or at least of a majority of them.

I refer to article 368 of the Constitution. We have been able to secure this informally to the Bill as it stands before the House, and very largely we have been able to do so because it follows scrupulously closely the recommendations of an expert body like the Taxation Inquiry Commission. Therefore, if we attempt to introduce any change or substance in this Bill, then I am afraid it would be incumbent upon us to go back to the States. What the outcome of that reference would be I should not like to foretell, nor is it easy to say how long that process will take. But one thing is certain, that it will take many months before we arrive at reasonably agreed conclusions again.

Therefore, if we are not to deprive the State Governments, and indirectly therefore, ourselves, upon whom so much burden is cast of assisting the States in their development plans, of a conceivable considerable amount of revenue—this is the responsibility of this House as also of similar other chambers in the country, that is to say, this task of finding the resources for the plans we have for developing the country's economy—we cannot afford to lose time in this respect.

should like to assure this House, because this point was raised by more than one Member in the Joint Committee, that I shall acquaint all the State Governments with the great anxiety with which many hon. Members have regarded the sales tax on essential goods, and the views that might be expressed on this aspect of the matter in this House during the course of these discussions.

Once hon. Members are clear that as things stand, we do not have anything like an effective control over the sales tax as levied in various States over essential commodities, that it is not possible to expect the States Governments to concur in any constitutional amendment which would enlarge the present powers of the Centre, and that in the context of our increasing development activities and of our anxious search for further resources, then I think they will come to the conclusion that it is unavoidable that some part of this burden will have to be borne by the common man. If hon. Members accept this, I hold that they cannot but agree with these proposals. I am convinced that in taking powers thus to regulate the sales tax on transactions in inter-State trade and by taking powers regulating not only the inter-State but also the intra-State level of taxes on important raw materials, Parliament would have taken a very decisive step of great importance.

There is one last point which I should like to make and that is that certain hon. Members feel that the State Governments are being deprived of their present powers of taxing sales and purchases of commodities. So far as inter-State transactions are concerned, under clause (3) of article 286, no law of a State can have effect except to the extent to which it is permitted by an Act of Parliament. That is equivalent, at the moment, to raising a bar, but that is not equivalent, I should like to point out, to actually levying sales tax on inter-State transactions at uniform rates. In other words, it is open to States to abstain from any advantage of competence by the removal of the bar by Parliament, should we proceed to pass a law under clause (3) of article 286, whereas under the new scheme, we take a more positive step of actually levying a tax

on inter-State transactions, and to the extent to which that is levied on commodities of special importance in inter-State trade and commerce, those rates will also apply to the rates that are leviable in the States themselves on intra-State transactions.

Therefore, indirectly we shall have achieved a great deal of uniformity in a field in which uniformity matters most. In regard to the other categories of goods uniformity has been urged as a desideratum from time to time, but the conclusion of most people who have examined this problem is that so much water has flowed under the bridge that it is not now possible to recall it, and that one would have to give up any hope of introducing a dead level of uniformity in the scheme of sales taxes all over India and in all States.

It appears to me that much of the thinking that is behind the observations made in the course of this debate, especially in regard to the essentiality of goods is somewhat static in character, whereas we are dealing with fluid circumstances and a dynamic state of affairs. I was not myself present when the Constitution was hammered out, but, I have reason to believe that at that time the viewpoints of State Governments received a great deal of weight and consideration. But we seem to have moved away from that position and now there are voices raised in this Parliament indicating that Parliament would almost be justified in overriding the views and sentiments of State Governments. I would submit that that would not be a right way of looking at this matter.

As I said some time ago, it is not a question of bargaining between the States and the Centre. What we are trying to do is to hammer out a new solution to the old difficulties, and when I said that I am representing the States I meant that I am putting forward a solution which has the largest measure of support from among the States. That is why I said, if we wish to go back on this, then we, as Government, would not feel justified in proceeding with this measure. That is all. It is certainly for Parliament in its aspect of a constitution-changing authority, to

make whatever change it wishes to in the Constitution. That has reference only in a limited sense to article 368 which does not bear upon this question of essentiality at all. It refers to the necessity of ratification for among, other things, changes in the Schedules, that is to say, the distribution of executive and legislative powers as between the Centre and the States. But, so far as the gist of this legislation is concerned, it is not constitutional difficulties that stand in our way but it is the realisation that what Government are putting forward now is an agreed solution.

Having pointed out that there is bargaining, I should like to state that so far as the States are concerned, they are giving up just a little—not very much—for introducing order into the system. To take points of disadvantage first, for them, in view of the latest ruling of the Supreme Court, they, of course, do realise that it will not be possible for them to impose taxes on sales or purchases of goods when they are involved in inter-State transactions. The provision in regard to goods essential for the life of the community is there and that is, so to speak, a point in favour of the Centre rather than the States. That is to say the States are at a disadvantage. Nevertheless there is some small aspect of this Bill where the States have agreed to a possible diminution of some of their powers of taxation. I am not referring here to the actual wording of sub-article (2) of article 286 of the revised version, but what I am referring to is the position that any inter-state sales-tax that we may now impose in accordance with our new powers will apply prospectively and retrospectively and if we choose to levy rates which are lower than the rates at present in existence in any State, then, to that extent those rates will have to be reduced. Therefore, on the part of those States, there is a small measure of sacrifice involved although I do not wish to attach too much importance to a point of this kind. In regard to the general question of sales tax and rationalisation, that is too broad an issue for us to enter upon here when we are only changing the Constitution and not promoting a Bill actually in accordance with the provisions of this new Constitution (Amendment) Bill.

There has been reference to three matters, the appointment of an advisory committee, the establishment of an inter-State Taxation Commission and then the question of uniformity which keeps cropping up from time to time.

In regard to the first, the recommendations of the Taxation Enquiry Commission have been conveyed to the States and from time to time we shall take advantage of the opportunities we have of conferring with the States to bring this particular recommendation to their notice.

As regards a general investigation into sales tax and so on, it is not correct to say, obviously when the Taxation Enquiry Commission has gone so deeply into the matter, that there has been no investigation. But obviously it has been from a particular angle, the general angle of taxation and also the general angle of incidence. Nevertheless there are matters connected with the detailed procedure and the administration, especially the effective administration of sales tax, which were naturally not matters comprised very closely within the terms of reference of the Taxation Enquiry Commission. It is my intention, and I have already taken up the matter with the States, to send a small team of experts in sales tax to the various States in order to study the systems of sales taxes and try to help in improving them. I have received very encouraging responses from all the States. I have also received the offer of the services of some experienced States officers from among whom I could choose in order to constitute this team of experts, and I have hopes that very shortly we shall be in a position to send out such an expert team. Whether any further investigation will be required will depend on what is thrown up by the investigation that will be made by this expert team.

The general principle involved has already been commended by more than one State Minister, either the Chief Minister or the Finance Minister in one of the meetings of the National Development Council. I feel that, if we succeed in making this change in regard to one staple commodity like cloth, may be we shall find ways of extending it to other spheres. Our ideas are

not very clear yet on the subject, and I do not think it is necessary to indulge in any prematurely advanced thinking in regard to that matter. We shall be guided by the reactions of the States and our actual experience.

Then I proceed to the main bone of contention, that is article 286 (3). I think Shrimati Jayashri has already referred to the excerpts from the proceedings of the Finance Ministers' Conference, which was held in October 1952, that is, after the Parliament passed the Essential Goods Act, 1952. She has already quoted what the Chief Minister of Madras stated. I would like to read out what the Chief Minister of Bombay said:

"In a country, so situated and so circumstanced as India, it was not possible to have uniformity of taxation. Certain parts of the country were predominantly agricultural while the other parts were industrial. When it was not possible for the Centre to give up its import duty on cotton and its excise duty on cloth, to make cloth cheaper, why should the States be asked to give up all ideas of sales tax? Many of the items added in the schedule to the Essential Goods Act, 1952 could hardly be treated as essential goods."

Then there were other Finance Ministers who spoke more or less in the same strain. The Finance Minister of West Bengal observed that it would be difficult to define as to what was essential commodity and that the State Government should enjoy the liberty to levy sales tax at such rate as they considered necessary etc.

I maintain that we should proceed on the basis of agreed solutions, and it was only in that sense that I stated to the Select Committee that it would be advisable for us to proceed with this Bill, and at the same time, to try and convey to the State Governments what the feeling of this House is. So far as the present Bill is concerned, it is not a commitment so much as an agreement on the principles which have been enunciated by the Taxation Enquiry Commission. One hon. Member asked why it is that such a view is taken. I can only refer him to pages

50 to 55 of the Third Volume of the Report of the Taxation Enquiry Commission. The Report is somewhat long and involved, and I will not take up the time of the House by reading out long extracts. The essence of the matter is that in the eyes of the Taxation Enquiry Commission, so far as internal consumption is concerned, the States should be left free to tax and we should rely on the moderation and a sense of the feelings of the public on the part of the State Legislatures, who in their field had co-extensive jurisdiction with Parliament in regard to items which are in the State Schedule. That view commended itself to us, both the Central Government and the State Governments, and the result is this Bill. Nevertheless, I for one am prepared to say that one should never have a closed mind on subjects like this on which there is evidence that a large number of people feel strongly, whether it is the question of exemption or whether it is the question of moderate levy or whether it is the question of uniformity. These are points which will never lose their importance.

Therefore, I have undertaken and I continue to do so, to convey the views of this House, of the individual Members, to the State Governments, and take an opportunity when I meet them, which I do more than once a year in connection with the meetings of the National Development Council, to discuss these matters with them. It is not necessary now to have a separate conference to find out whether there is any fair measure of agreement in regard to these essential goods.

In the meanwhile the situation is not entirely lost even from the point of view of those who urge that article 286(3) should be retained, because there is the possibility of enlarging, although not very much, that list of goods which are of special importance in inter-State trade or commerce. I have just received a communication from one State Government appealing to me to restore the use of the words "raw materials" and not use the general word "goods". That only indicates what their fears are in this matter. The fears are that again, as in the case of the Essential Goods Act, the Parliament might be induced by the generosity of their feelings to make a very long

list of goods of special importance in inter-State trade or commerce. Therefore, I do not wish to raise any false hopes. Nevertheless I do not wish to bar the possibility of inclusion of articles like foodgrains, especially when there are some large movements necessary say, for fair price shops or, even if things turn out so bad, for price controls and things like that. Circumstances may easily arise where it would not be difficult to prove that foodgrains movements are of great importance in the inter-State trade and commerce. If so, I do not expect any great difficulty in carrying this message, shall we say, to the State Governments. This view is shared by some of my colleagues in the Cabinet, if I may disclose it. So, I would advise that we leave this particular matter there and for the moment proceed with this piece of legislation as we have it before us.

There are one or two other matters which would perhaps come up in the course of the discussion of the amendments. Perhaps Pandit Bhargava referred to article 304 and the whole of Part XIII. Our view is that it is not necessary specifically to refer to Part XIII. So far as article 304 is concerned, I draw precisely the opposite inference from that drawn by Pandit Bhargava. He says that an unreasonably high level of tax could easily be construed as imposing reasonable restrictions on the freedom of trade and commerce and so on in accordance with clause (b) of article 304. I would draw his attention to sub-clause (a) of article 304 which specifically refers to taxation. The side heading is 'Restrictions on Trade, Commerce and intercourse among States'. It refers to taxation.

Therefore, my conclusion is that all matters which refer to tax are exhausted in sub-clause (a) and sub-clause (b) cannot refer to any matters relating to tax. They are only limitations which the Constitution intended to impose in respect of tax. Therefore, we are free to impose any other mode of tax under article 304.

It was asked, what will be the shape of the Bill to come. That is somewhat premature. There will be plenty of opportunity for the House to consider what form the Bill should take. In any case I do not think that it is necessary for the House to know

exactly what provision that Bill will contain in order to make up its mind as to whether it should lend its support to the passing of this Bill. We have some ideas here and we have also worked out possible details of what sort of things we should have to consider, for instance, whether there should be separate rates for registered dealers and unregistered dealers, the difference between specific goods and other goods, the mode of collection, distribution and so on. But, as I say, we have given some thought to the matter and I do not think it is necessary for the present purpose to have any idea of what sort of a legislation it would be.

I have noticed a suggestion by one hon. Member that, instead of bringing two or three pieces of legislation, we can combine them all in one piece of legislation. Obviously, that is a matter of convenience. One piece of legislation can deal with the definition of inter-State trade and commerce for the purpose of article 269, then the definition of whether the goods are going outside or being exported and so on, that is to say, definitions required for the purpose of clause (1) of article 286. We cannot specify those commodities which are the subject matter in inter-State trade and commerce. It is quite possible to have one piece of legislation. That is a matter of drafting and of convenience.

In regard to this general question of uniformity, although I have mentioned the views of the State Governments, I myself believe that the logic of events would finally drive the States to come closer together in their rates of levy because there is always some grievance of one State or the other. An example was given by one hon. Member. The vendors in U. P. were affected because some rates were lower in Delhi. That kind of thing is all over the place. I have no doubt that rationalisation will come in because of conviction and not because of sentiment or any particular doctrine in regard to sales-tax.

We are asked: what machinery is there for recording the incidence of various taxes. That is a matter which is part of the continuous studies of our Central Board of Revenue and our economic divisions as well as the Reserve Bank. A certain

amount of study was conducted by the Taxation Enquiry Commission on a large scale in regard to the incidence of taxation. Obviously, as the dimensions of our taxes increase, we shall have to have far more detailed data in our possession in order that we may be able to justify those taxes to the House. In other words, as I said the other day, the House will be more and more alive to finding out whom they are hurting by this process of additional taxation. That onus, I am painfully aware, rests very much on the Finance Ministry. We shall try to perfect our data collected for that purpose. I think I have clarified most of the difficulties which the hon. Members felt in this respect and therefore, I commend my motion to the House.

*The Bill was later passed and became the Constitution (Sixth Amendment) Act, 1956.

Parliamentary Control Of Public Corporations★

** Government point of view would be more or less a full reply to what the hon. Member has said. It seems to me, Sir, that the hon. Member has mixed up two or three different issues. It would be necessary to get them out of the way. The first one is the formation of companies without recourse to legislation. Now that was done as a sort of emergency measure for making certain arrangements in regard to the production of certain materials like fertilisers and so on. That was not a final decision and it is in our thoughts that at the appropriate moment either we might come forward with legislation authorising the setting up of State Corporations for business or industry by Government or alternatively we might introduce in the Companies Law (Amendment) Bill which is before the House a separate chapter in regard to companies which are owned either wholly or predominantly by the State. While we admit that, by and large, there is a great deal of substance in what the Comptroller and Auditor-General says.

I would like to add that the hon. Member's impression that whatever has been put into these companies from the Consolidated Fund, is done without an appropriation is not correct. No money can be paid out of the Consolidated Fund without some appropriation of some kind or the other.

* L.S. Deb., 10 December, 1953, cc. 1919—1928; 11 December, 1953, cc. 1977—1981.

** Dr. Lanka Sundaram.

Therefore, Sir, the real issue is not so much of paying out of money's out of the Consolidated Fund, or the form of organisation, but (a) the powers of the Comptroller and Auditor-General and (b) the authority of the executive as well as Parliament over these organisations, especially in regard to financial matters, that is to say, financial control. In regard to the position of the Comptroller and Auditor-General, when we bring forward that particular legislation which we have in mind or when we insert that chapter, undoubtedly we shall make a provision there which will ensure that the Comptroller and Auditor-General is enabled to exercise the functions which the Constitution intended that he should exercise. In the case of organisations which are owned entirely by Government there, of course, there is no question; it will always be provided that the Comptroller and Auditor-General shall audit. The doubt, will arise in respect of companies or corporations, may be—and they are likely to be companies rather than corporations—in which Government have only a share. Now, some limit would have to be indicated above which the whole concern would be regarded as sufficiently a State concern to attract the exercise of the functions of the Comptroller and Auditor-General. And at the appropriate time I have no doubt that the House will be invited to give its thought to these matters and we might remove any doubts that might be lingering in the mind of the Comptroller and Auditor-General or in the minds of the Public Accounts Committee.

The next issue is: what financial control is exercised by the executive over these corporations? Undoubtedly there is, so to speak, an act of self abnegation here. That is to say, the executive refrains from exercising the day-to-day financial control that it exercise over other kinds of disbursements. There are various kinds of this kind of relinquishment or suspense of the rights of the executive, but as a result of experience certain patterns are being evolved and where for the sake of facility of administration or for the elimination of red tape, we invest that body, may be a company or a corporation, with financial powers, certain precautions are taken. One precaution which is

invariably taken is that the Financial Representative, at a very high level—either a Joint Secretary or Secretary—is attached to that concern as a Director. Now, when he exercises his powers, although it is not said in so many words that everything shall be done with his concurrence, in practice that result is bound to follow. Because, if he is over-ruled, well, then he can report the matter to the Ministry of Finance; and the Ministry of Finance can then take up the matter with the corporation and move Government to make the necessary changes which will ensure that financial advice is taken.

That, Sir, is parallel to the position of the Finance Ministry in Government itself. There is no Constitutional provision that the Finance Minister will not be over-ruled in matters of judging financial propriety. But at the same time it has never happened that a Finance Minister—or, shall I say a self-respecting Finance Minister—has ever been over-ruled, because, either as a result of discussion in the Cabinet, where there is difference of views, he acquiesces in a certain decision where a matter of grave principle is not involved, or the alternative is he leaves the Cabinet—or he should leave the Cabinet. So far as the Rules or Conduct of Business of the Government of India under article 77 are concerned, it is laid down that no department shall, without the previous concurrence of the Department of Revenue and Expenditure, issue any orders which may—(a) involve any abandonment of revenue or involve any expenditure for which no provision has been made in the Appropriation Act, or (b) involve any grant of land or assignment of revenue or concession grant lease or licence of mineral or forest rights or a right to water, power or any easement or privilege in respect of such concession, (c) relate to the number or the grade of posts or to the strength of a service or to the pay or allowances of government servants or to any other conditions of their service having financial implications, or (d) otherwise have a financial bearing, whether involving expenditure or not.

So, these, Sir, are very wide provisions. And although these are Rules of Business made by the President under article 77(3) under the advice of the Cabinet, and impliedly thereby

they can be altered, they could not be altered unless, as I say, the Finance Minister himself concurs in them. As I said, there is a strong representative of the Finance Ministry.

Then, usually, we find that there is also the power either provided for by executive orders or where there is an enactment, by a provision of the law itself that Government shall issue directives to the corporation. That is a very useful power which extends to the exercise of authority both in the administrative as well as in the financial sphere. As an instance, I might state that in regard to the Damodar Valley Corporation, at one time, when certain high paid appointments were made, a directive was issued that no appointments can be made without the approval of the Government if the salary exceeds Rs. 2,000 per month. That kind of directive can always be issued. That, Sir, is the general pattern.

Why is it that the Executive Government is prepared to devolve or suspend some of its powers? There is always a balance to be sought between the desirability of ensuring that public funds are well spent and the desirability of having the work properly done, that is to say, to ensure that red tape is eliminated. At what stage precisely one should be stressed to the exclusion of the other is a matter of judgment and also a matter of experience. We are at the beginning of our experience and it may be that as we gain experience—in that I include any observations made by the Comptroller and Auditor-General as well as by the Public Accounts Committee—and distil the principles out of those observations and any reflections that occur to us out of any remarks that may emerge out of discussions like this, then, we shall be better able, so to speak, to decide the precise pattern of financial control to be followed. But, I should like to make one point and that is, that it would never be desirable to insist on the same kind of financial control that is exercised in regard to other executive fields which may be regarded as departmental executive fields because if we were to try to do that then, we should be following a procedure which would be defeating its own purpose.

Next, I come to the control of Parliament. The hon. Member

quoted something from the U.K. As far as I can discover, the Public Accounts Committee is never eliminated. I do not know whether I mis-understood him. Anyway, I make the statement that all reports and accounts issued by the corporations are presented to Parliament and consequently are subject to scrutiny by the Public Accounts Committee. It is the Comptroller and Auditor-General who does not always figure in these matters. But as the hon. Member himself has pointed out there is now a move that an officer should be appointed to audit, who shall have a status equal to the Comptroller and Auditor-General. Therefore, we may take it that it is ensured that Audit is carried out.

I say that the Public Accounts Committee can never be eliminated. Then, the hon. Member said that this arrangement is not very satisfactory because the Public Accounts Committee can come in only for *ex post facto* judgment. My reply is that in the nature of things, the Public Accounts Committee must come in for exercising *ex post facto* judgment. In other words, the method of financial control by the executive must be distinguished from the method of financial control by the legislature. The two things are not the same. In other words, Parliament is, by constitutional checks and balances, holding certain critical positions. But, they are not the same as are held by the Executive.

Parliament comes in when moneys are appropriated. Parliament comes in when the Public Accounts Committee reports on how these appropriations have been used, and when the Public Accounts Committee considers this there is no document that can be withheld from the Public Accounts Committee. They can ask for all the accounts of the particular concern concerned. I think much has been made of the answer given by my hon. colleague in regard to the furnishing of lists of contracts. It may be that certainly, as the Prime Minister pointed out, if Parliament does insist that all the contracts must be placed before the House, they have a right to demand, but as a matter of practical prudence it may be that these things are not necessary. In other words, public officers who exercise certain

functions carry their heads, so to speak, on a platter and ready to be knocked off if it is shown and proved afterwards to the satisfaction of Parliament that they have not properly carried out their duties. Therefore, I do not see how there has been any detraction from the authority of the Parliament exercised through the Public Accounts Committee by the mere creation of Corporations with the knowledge and consent of Parliament. Let us now confine this issue to the very clear and over-simplified case of a Corporation created by an Act of Legislature. Therefore, Parliament itself would be invited to exercise a certain measure of self-denial, or at least to agree to a measure of self-denial by the executive, in its financial controls. And if that is the situation, well then, if experience proves that the thing is not working properly, then it may be that we may have to revise the whole basis of what we call our mixed economy. It may be that we find that our bureaucracy is not capable of handling some of the matters which have been entrusted to them.

The hon. Member referred to a Food Secretary having been appointed as Managing Director or something of the Shipyard and the Secretary-General being appointed as the Chairman of the Shipping Corporation. He probably does not recall that that particular person had been for umpteen years in the Commerce and Industry Ministry. In other words, he was very well qualified to be Chairman of the Shipping Corporation.

Now, so far as the negotiations are concerned, the hon. Member is under a very wrong impression. I myself can vouch to this that I have been concerned at almost every important stage with the negotiations, from the financial point of view, in regard to the oil refineries or with negotiations that are going on in regard to steel today. Indeed, so far as steel is concerned, there is an *ad hoc* Committee of the Cabinet which includes the Prime Minister, the Production Minister, the Commerce and Industry Minister, myself and one or two other Ministers who consider important aspects of all draft agreements from time to time. And if we sent an

officer to negotiate an agreement, well, he used to ask for our instructions telegraphically and used to receive them.

Therefore, I do not think that Parliament should feel any sense of disquiet in this necessary process of finalising, or first drafting and then finalising, these agreements. Also, at the proper time we are always ready and anxious to place these agreements before the Legislature. I believe that the oil refinery agreements have already been placed before the Legislature.

Therefore, my main point is so far as governance is concerned, there must always be an element "in arrears" so to speak. That is to say we must stand the judgment and if we are found wrong, then take the medicine. That position can never be corrected by any other machinery that you may set up.

Lastly, the hon. Member has referred to the setting up of a Parliamentary Committee. Now, it is entirely within the authority of Parliament. If Parliament were to wish that there should be such a Committee, certainly there should be one. But I would urge certain considerations before Parliament makes up its mind. As I said, a balance has to be struck somewhere. We want a fairly adequate financial control of the kind appropriate for that particular body—if it is legislative control, it is then for the legislature, if it is executive control, it is then for the executive. We might as well say that a small sub-committee of Ministers should be formed who should visit Sindri from time to time. That also is another variation only in the executive field. Now, I say that so far as the legislative field is concerned, having in regard all the attributes of the exercise of financial control, it seems to me that at this stage of our industrial expansion and development, there is a danger of our trying to go too far, and immersing ourselves too much in the administration. I have taken note of the hon. Member's observation that it is not his intention that there should be any kind of day to day interference, and indeed as I understood him, it was his object to be fully informed about what is going on. And that is where I join issue with him. Is it necessary for Parliament to be informed from day to day or session to session, as to how a particular corporation is being run? Is it

not better to enable the executive to manage these, and then to call the executive to account in the way in which Parliament always calls the executive to account? That is a consideration which Parliament will have to bear in mind, before they take a decision on this matter.

Mr. Chairman, Sir, I think this debate has suffered from two defects, one, that we are concentrating our attention only on one aspect of a very important general issue and two, that there have been advanced a great many false analogies.

So far as the general issue is concerned it is that of the efficient conduct of State enterprises. And I myself think it would have been desirable had we had a full dress debate on the general issue of how to manage State enterprises.

The question of parliamentary control or ministerial control is only one, although very important, aspect of this general question. Therefore, it is somewhat difficult for Government spokesmen to answer some of the points which perhaps go to the root of efficiency of management rather than the discharge of Parliament's or the Minister's responsibility for financial control.

The second general point I would like to make is that as far as I can make out the recommendations made in regard to the nationalised industries by the Select Committee in U.K. have not yet been approved of by Parliament—to my knowledge. Therefore, I am surprised at statements made that they have worked very successfully and so on.'

The third point I would like to make is that so far as the Comptroller and Auditor-General's observations are concerned, the issue that he has raised has only a temporary and limited import. One may quarrel with the use of words, but certainly the point he has raised is very important, and as the House might have gathered from the observations that fell from my hon. colleague, we are well on the way to settling these issues.

So far as regularising the matter is concerned, I have already hinted that we shall have recourse either to some amendment of the Company Law or we might bring a Bill forward in regard

to the control of State Corporations. But whichever way we do it, we shall solve the difficulties which the Comptroller and Auditor-General has raised.

I shall not take the time of the House by quoting the various provisions that already exist in regard to audit, that is to say, giving the Comptroller and Auditor-General the right to audit. The latest instance is the amendment of the Industrial Finance Corporation Act. There we have specifically provided, as we had provided earlier in regard to the State Finance Corporations, that the Comptroller and Auditor-General shall have the right to audit.

The next point I would like to make is that this differentiation between State enterprises and the general business of governance by the executive is apt to be exaggerated. In effect they are the same. They are the discharge of executive responsibility. Now, for certain reasons, partly historical, some very big activities, utility services like Railways, Posts and Telegraphs have never been created into corporations. Therefore they continue to be under the continuous observation and vigilance of the House. For certain other purposes, as for instance for the fancied advantages of so-called business management, we are trying out this organisation of corporations or companies. Now, in regard to these two forms we have not yet made up our mind as to which of them is superior or whether one should be chosen to the exclusion of the other. That is a matter of convenience. So far as Government is concerned I believe there will be advantages in both. Therefore it may be that we might both have to put in that amendment that I spoke of, to the Company Law, and also to provide separately for State corporations.

We might favour the form of a company where there is participation with other private interests. And that participation may be of varying degrees. The point I wish to make here is that it is all a part of the executive business of Government. And I cannot really understand the difference of the importance of expenditure, say in Sindri and the importance of the expenditure in the army. What is it? In the army we are

spending Rs. 200 crores—not capital—but Rs. 200 crores every year. And yet Parliament gets only certain prescribed opportunities for supervising this work, and there is no limit on the power of Parliament to ask questions. In regard to State corporations and companies also, as the hon. Member there has suggested, Parliament may indicate that they would like to have certain statements and forms which they would specify or indicate, and we would be only too happy to supply whatever information Parliament wants at the proper time. My point is it will be only at certain times and in a certain manner that Parliament will exercise that function. That would be usually at the discussion on the annual Budget statement, or there may be special discussions or there may be questions and answers and so on.

If Parliament wishes that the budgets of these corporations should come before it, I myself do not see any reason why the necessary information should not be given. It is a matter of issuing directives to the corporations. That we shall ensure, if it is a matter of private companies, in the Bill that we have in mind. In the amendment we might provide that in addition to other things and exemptions from certain clauses of the Company law, and besides the duties laid on these companies, they must have another prescribed statement giving the necessary details because public money is involved and audit by the Comptroller and Auditor-General shall be compulsory and in the usual way these reports will be submitted to Parliament and will be scrutinised by the Public Accounts Committee. I cannot see any obstacle to any of these processes. This matter has been dealt with in two reports: the general issue either of Government administration or of administrative efficiency and conduct of state enterprises. I shall not again read out all that. On pages 16 and 17 of Shri Gorwala's report, there is reference to this matter and also on pages 55 and 56 of Mr. Appleby's report, there is reference to this matter. The point is whether at the present stage, we need such a Committee. As I argued yesterday, we may wait a little and see what patterns we evolve and what experience we

gather. No limit, we find, exists in practice, over the absolute right of Parliament to ask questions and to elicit information. In the fullness of time, there is nothing to stop us from setting up any body, which as far as I can see, will be a sort of a combination of the Public Accounts Committee and the Estimates Committee, for the special purpose of going into the accounts and affairs of these corporations. Actually, the Public Accounts Committee has been setting up sub-committees to go into certain matters. That is another device which could be adopted. Therefore, at the moment, I think it is inadvisable—it is not a question of being improper, it is a question of being inadvisable—in the opinion of the Government. If we hurry too much in this matter, there is always the danger of our throwing out the baby with the bath water.

Issue of Ordinances★

It appears to me that this debate** has reached an intensity which the circumstances do not justify and it was for that reason that I made my submission to you. What I meant was that one could arrive at a judgment on this matter after one had had the chance of ascertaining in each individual case whether the exercise of the power under article 123@ was justified or not and that was the only point which I had in mind in regard to the discussion. It was not a question of its absolute relevance, but it was a question of its opportuneness at this moment rather than at the end of the session when we shall have discussed most of the matters arising out of these ordinances on merits. However, I admit that there are two ordinances which will not come before the House and therefore, in the course of my speech. I shall give the circumstances in which those two ordinances came to be enacted. Before I do so I shall deal with some of the general points that have been made by hon. Members. Much of what they have said has reference, however indirect, to the appropriateness of the provision made in the Constitution. Now, it seems to me that one cannot go behind this, and one must take the Constitution as it stands. Insofar as those observations related to the desirability of such a provision, and its absence in U.K., the history of how such a provision came to be qualified, and its absence in U.S.A.—all these are points to which I do not propose to answer.

*L.S. Deb. 16 February, 1954, cc.122-132.

**On the 'Issue of Ordinance given notice of by Dr. Krishnaswami and Dr. Lanka Sundaram.

@Deals with the power of President to promulgate ordinances during recess of Parliament.

Now, in regard to the actual provision, some loose use has been made of the words 'emergency' and 'immediate'. Immediate is the word used in article 123 of the Constitution, and I am obliged to the hon. Member who spoke last, for drawing attention to that other set of ordinances under article 352*. The position, before the Constitution came into force, was that the section that applied to this kind of ordinance was section 72 of the Government of India Act, 1919, continued by section 317 of the Government of India Act, 1935, and reproduced in the ninth schedule of that Act. Section 42 of the Government of India Act, 1935, which is similar to the provision in the Constitution, did not come into force at all, as no federation was formed. The language of the old section was: 'The Governor-General may in cases of emergency make and promulgate Ordinances for the peace and good government etc. etc. Now, I should like to contrast this with the wording of this article—article 123:

"If at any time, except when both Houses of Parliament are in session, the President is satisfied that circumstances exist which render it necessary for him to take immediate action, he may promulgate such Ordinances as the circumstances appear to him to require."

Then there are checks and balances and they are contained in the subsequent clauses. Clause (2) says:

"An Ordinance promulgated under this article shall have the same force and effect as an Act of Parliament, but every such Ordinance—

(a) shall be laid before both Houses of Parliament and shall cease to operate at the expiration of six weeks from the re-assembly of Parliament, or if before the expiration of that period resolutions disapproving it are passed by both Houses, upon the passing of the second of those resolutions; and

* Proclamation of Emergency.

(b) may be withdrawn at any time by the President.”

Then there is the explanation and lastly, there is clause (3) which says:

“If and so far as an Ordinance under this article makes any provision which Parliament would not under this Constitution be competent to enact, it shall be void.”

Therefore, it seems to me that that could also be referred to the courts for declaring its validity. Now, the whole scheme assumes that during the inter-session period there may be occasions on which the President must, in the public interests, act, and if he does not act, then public interests would suffer. So again this brings us back to the judgment of what were the precise circumstances which impelled the President to issue the Ordinance. Therefore, it seems to me that unless one went into the merits of each case merely by mentioning the statistics, whether this or that Ordinance was issued, one could not possibly come to the conclusion that the President is in the habit of issuing Ordinances or that the executive government is in the habit of advising him in that direction.

Now, Sir, I shall read article 269. It says that among the duties and taxes to be levied and collected by the Union but assigned to the States is this particular terminal tax on goods or passengers carried by railway, sea or air. Then in clause (2) it says that the net proceeds shall be assigned to the State within which that duty or tax is leviable in that year. That, incidentally, disposes of the observation made, I think, by Dr. Lanka Sundaram, that it might have been possible for us to ask for a supplementary demand or make any other motion before this Parliament. Now, so far as this expenditure is concerned it is not incurred by us; it is incurred by the U.P. Government, and the proceeds from the tax also do not form part of the Consolidated Fund of the Union but will go to the Consolidated Fund of the U.P. State.

There was some reference to imposition of taxes by law. I think that particular argument has already been answered by

one hon. Member. So far as the legal position is concerned, there is no difference between imposition of a tax by Ordinance and securing any other matter by Ordinance. Whether it is an Ordinance or whether it is a law passed by Parliament, it is law for all purposes.

Now, as regards precedents, there are no less than six precedents of a tax having been raised by means of an Ordinance. There was the Indian Post Office Amendment Ordinance, 1935. That was in the old days. Then the Indian Taxes on Income (Deduction at Source) Ordinance, 1935, and the Excess Profits Tax Ordinance, 1943, and in the lifetime of this Parliament the Additional Excise Duty on Cloth Ordinance, 1953. Then, just before the Constitution came into operation, there was the U.P. Terminal Tax on Passengers Ordinance, 1950, which was called the Hardwar Kumbh Mela Ordinance—there is an example of a State Government also having imposed a tax by an ordinance.

The point I would make is that in each case, and certainly in the case of the Excise Duty on Cloth, the matter did come up before the Parliament. So far as the material before me goes, I do not find that any objection was raised to the power of the President to raise a tax for a certain purpose and in certain circumstances by means of an Ordinance.

Now, that is the general legal position. In regard to the facts of the case, particularly the facts of the imposition of the Kumbh Mela Terminal Tax, the facts are these. It was sometime towards the end of October, 1953, that we received a communication from the U.P. Government making several proposals on the basis of their estimate of the expenditure that would be required for the Kumbh Mela. They pointed out that as the river had changed its course a new site would have to be developed for purposes of the Mela or the approaches would have to be made differently and that the total expenditure to be incurred by them would be very much larger than in the past. Therefore, the first proposal was that the Centre should pay them a grant to cover a part of the expenditure.

The second proposal was that they should be allowed to increase the yield from their old pilgrim tax which was utilised for similar purpose. They pointed out that the yield would be about Rs. 2 or 2½ lakhs which would be entirely inadequate for the present purpose. Therefore, they suggested that a terminal tax should be levied on the model of the Haridwar Terminal Tax—precedent of 1950—and they calculated that they would be enabled thereby to raise about Rs. 15 lakhs.

Then a great deal of time was spent in correspondence to and fro in regard to the merits of these proposals. The Finance Ministry took the view that it would not be advisable for the Centre to make any grant. Then, there were representations again from the U.P. State Government which had to be replied to. Then, we pointed out that even in regard to the terminal tax, it did not seem to be so necessary to raise just another additional Rs. 12 or 13 lakhs in view of the resources at the disposal of the U.P. Government. The case was represented by them again through various channels and it was towards the end of December, after the House was adjourned or prorogued, that the decision was taken that we should accept that part of the U.P. State Government's proposal, that is to say to raise the terminal tax especially in view of the fact that we had denied them the grant that they had asked for.

Now, all this you might say was administrative delay. Certainly it was but I cannot see that having regard to the hundred and one preoccupations of Government especially their preoccupation with the Parliamentary business itself, one could come to the conclusion that it might have been possible for them so to hurry matters as to ensure that a Bill imposing this tax was brought before the House. This is an unvarnished account of what happened.

There could not be any reluctance to bring this small measure before the House because in the light of revenues that are being raised with the consent of the Parliament the present Finance Minister could not have been entertaining any apprehensions that the House would adopt a particularly rigid

view in regard to this small tax which had been imposed a year before for some specific purpose. Now it might be possible for hon. Members to say that the Finance Minister is transferring his burden of lashes for negligence to the shoulders of the U.P. Government. They will say that all executive is one as it is run by the same Party. It was the U.P. Government which failed to foresee that the correspondence between the two Governments would take in the ordinary course a couple of months and they should have therefore addressed the Government of India towards the end of August and not towards the end of October. I am not in a position to answer that charge. They themselves might have some very good reason why they were unable to make those proposals earlier. It may be that their engineers had not advised them as to the character of the works that would be necessary for the Kumbh Mela in the altered circumstances of the case namely the altered course of the river.

I am frankly not in a position to defend the U.P. Government. All I can say again is that the reference reached us on 30 October, that with the caution which is characteristic of the Finance Ministry we refused to accept part of the burden and in any case we did not readily agree that the public should be taxed unless we were convinced. Therefore, if we took a couple of months to be convinced that a tax on the public is necessary, I should say that it is not a penal offence. That is all that happened in this particular case.

I have the details in regard to the other ordinances but as you have pointed out this is not the occasion that one could go into the merits of the ordinances. I would like to refer to the Barsi Light Railway legislation. In this particular case the Barsi Light Railway Company, a company registered in the United Kingdom, was given a year's notice on 19 December, 1952, notifying the intention of the Government of India to purchase the undertaking on 1 January, 1954. In order to safeguard the interests of the workers, Government got that company to agree that the company should pay to Government suitable sums to represent the liability of the company in regard to gratuity and

leave salary of the staff, in respect of the period of service of such staff under the company. Although the company expressed its willingness to make the necessary payments we found that it was not legally competent to do so according to the law of England—not our law—in view of the fact that the business of the company would come to an end on the purchase of the undertaking on 1 January, 1954, and therefore there was a danger of the gratuitous payment made by the company being challenged by its shareholders in the United Kingdom, in order to safeguard the interests of our workers—and I knew that that matter was causing a good deal of anxiety to the Members of Parliament from that part of the country—we thought that the best thing would be to tie up this position by an ordinance and since the undertaking was to be taken over on 1 January, 1954, there was no alternative but to issue an ordinance. Here again, it could be argued—quite validly I think—that there is no reason why this investigation into the possible legal rights of the company according to the law in England could not have taken place before. I have no answer except that this is the way in which matters come up in every Ministry. A decision is taken and then somebody raises some issue. Then there are negotiations with the company and so many proposals are made to them. Some are accepted and some rejected by them. Then at a certain period of time something is fixed and that thing fixed in this case was the payment of a gratuity out of their own funds to our workers here. That, as I said, took place towards the end of December or the middle of December, and it took us a little time to find out what the legal position was. Therefore, in this case took, I think any dispassionate student of the matter would come to the conclusion that possibly this ordinance was also justified.

And therefore, Sir, I say that unless one knows the details of every case it is not really possible to generalise and that the real trouble is not any desire on the part of the Executive to ignore the House but perhaps the inability on the part of the Executive to foresee each and every circumstance as it develops. There are administrative delays and there are, as I

said, lapses in regard to foreseeing the future. You may perhaps say that these are instances of lack of foresight. Those are defects from which Executives all over the world, I think, do suffer. When we sometimes say that we are not sure if our Plan will be executed, if our National Plan will be implemented, we have the same thing at the back of our mind. It is a hydra-headed defect. One cannot always tell readily where the defect lies, or how delays take place. But I take it that what has exercised the mind of the House here is not so much the question of administrative delays or lack of foresight—although they are certainly entitled to blame the Government in individual cases where these things could have been foreseen—but it seems to me that it is a case of indirectly, so to speak ascribing *mala fides* to the Executive and that I am in a position to deny. I say that in every case there was an honest exercise of judgment and a great deal of cogitation because by the time the Executive also is very keenly aware of the view that the legislature takes of the issue of ordinances, and I can assure the House that if an ordinance is issued it is issued after the most mature and deliberate consideration. Therefore, it seems to me, that the purpose of this discussion is really in a sort of indirect way to say that the Executive is some what inept. I suggest that that is a matter which ought to take another form and not the form of a discussion of whether certain ordinances were justified or not or, what is worse, whether the executive has a habit of issuing ordinances.

And that leads me to the last point that hon. Members made that it might be worthwhile for the Parliament to set up a Committee in order to sit in judgment on all the ordinances that have been issued since the inauguration of the Republic. Indeed, one hon. Member challenged me to produce all the ordinances that have been issued since independence. It is not possible for me to comply with that order. I have got all the ordinances that have been issued only in the last inter-session period. But it seems to me Sir, that much of this work will be really a waste of energy of the House that is to say an *ex post facto* or *post mortem* examination which is so far behind events.

I have no doubt that in the course of enacting these ordinances into law the Parliament has had on almost every occasion—cases like Kumbh Mela, are very few—or at least in a very large majority of cases, a very extended and specific opportunity of giving its verdict on the judiciousness or otherwise of the use made by the President, on the advice of the Executive, of the powers vested in him under article 123. In regard to this particular ordinance where as I said the Legislature had no chance of discussion, the Mela was actually to commence sometime in December according to the Uttar Pradesh Government.

We gave effect to it as soon as we could issue the ordinance—that is to say from 7 January. The point I am making is that the date 15 March was given by the U.P. Government, that is on their first communication, when we had agreed there was ample time, in consultation with the Business Advisory Committee, to have the necessary legislation passed in this House. Therefore, it is quite clear that by making that ordinance expire on 15 March we did not make any deliberate attempt to keep the House in the dark. It just happened that the Mela disperses on 15 March and it also happened that somebody—it must be you Sir, fixed the date on 15 February for the commencement of this Session so that there are four weeks and not six weeks. Had it been otherwise no one would have been happier than myself to bring this piece of legislation before the House and face its verdict. That is all that I have to say.

Andhra State Bill *

Sir, with your permission I should like to intervene in the debate¹ at this stage to explain to the House in some detail the provisions in the Bill relating to the allocation of assets and liabilities and to make a few observations in regard to the provisions relating to the Tungabhadra project in the Bill.

I should like to mention at the outset that the Government of India have given the most careful consideration to various points of view expressed on this somewhat complicated and delicate question, in the Legislatures of Madras and Mysore. They have also taken into account the recommendations made in the reports of the various authorities concerned who have considered this problem in the past, and more particularly of course the recommendations made in the report of Mr. Justice Wanchoo. I have also given careful thought to the observations that hon. Members have made in the course of the debate so far. It is hardly necessary for me to mention that the problems arising out of the formation of new States within the Indian Union have to be approached from a somewhat different angle than those relating to the partition of the country and certain Provinces in 1947 which had fundamentally to deal with a different matter, namely, two separate and independent States. The new States formed within the Indian Union will have the same intimate relations with the Centre as the existing States

¹L.S. Deb., 17 August, 1953, cc. 904-914.

²On the motion moved by Dr. Katju (the Minister of Home Affairs and States) on 13 August, 1953, for a "Bill to provide for the formation of the State of Andhra, increasing of the area of State of Mysore and diminishing of the area of the State of Madras and for matters connected therewith to be taken into consideration."

and will continue to look to the Centre for assistance in various ways for their development. It is, therefore, necessary that in dealing with this problem one should follow the precedent of the formation of Sind in 1936 rather than follow the example of partition in 1947.

I should also like to make one further observation which is in my view of considerable importance. While obviously a broad measure of justice and equity had to be secured in the allocation of assets and liabilities, it should be remembered that what is being divided are the actual assets and liabilities available at the time of partition. And for this purpose it is profitless, and indeed it would be impracticable, to conduct a *post-mortem* into what happened in the administration of the composite Province in the past and to what extent revenues were utilised and how far reserves have been drawn upon* in the respective economic development of the two parts of the existing Madras State. Any such enquiry is bound to be deceptive, with difficulties both in regard to the past period covered by it—one would have to determine that period—and the fact that those who were responsible for the administration of the composite State are no longer here to answer for their stewardship. In the interests of good neighbourly relations that should subsist between the two States, there should be no room left for a feeling that either of them is being saddled with an onerous financial burden because of something that was done or was not done in the past. I mention this particularly with reference to certain views which have been expressed in public about the so-called neglect of certain areas of the present State in the past and the need for taking this into account in the allocation of assets and liabilities. I should myself imagine that this kind of consideration is valid not so much in the allocation of assets and liabilities as in determining the quantum of assistance which should be given in future to the new States for development purposes. It ceases to be of any importance when, as in the case of Madras, what we are dividing is not so much the net liquid assets as possibly a net liability. For example, if the present Government had large

accumulated cash reserves to divide, but no debt, it is arguable that a larger proportion of these assets should be left with the State which has a greater leeway to make in development. But, actually, apart from the various fixed and immovable assets and the outstandings out of loans made by the Government, the liquid assets of the State are likely to be almost negligible; but the State will have a substantial debt due to the public and the Central Government for which the liability has to be apportioned.

There has also been some amount of criticism that we should not embark on the allocation of assets and liabilities without having all the details before us. So far as the present Bill is concerned, it merely lays down the general principles which will govern the allocation. Government is a continuous process and it will be impossible to undertake a complete valuation of all the assets and liabilities without at the same time hampering the functions of Government in both the States. But, this actual allocation so far as it relates to financial assets and liabilities will be made on the basis of the figures recorded in the Accounts as on 30 September, 1953. These accounts are maintained, as the House is aware, by the Comptroller and Auditor-General and we shall derive all the information necessary for the allocation from these accounts.

I need not add that the settlement of the general principles has no reference to any secret figures that the Centre has in its possession. Nor has the Centre been influenced by any special view put forward by the present Government.

I shall now explain briefly the broad basis on which the Bill proposes to allocate the assets and liabilities. Physical assets such as roads, buildings, immovable properties, various projects, etc., will be located in the territory of one or the other State, together with the movable assets related to them. This is, of course, inevitable. Generally, these Assets will go on a territorial basis subject to one or two exceptions to which I shall refer later. Certain financial assets such as outstandings in

respect of loans made by the present Government to cultivators, local bodies, etc., will also have a direct relationship to the territory forming the State, and will accrue to the State in which the territory is located. Here also, observations have been made based on some fancied information in regard to the dimension of the assets in the two States. As soon as it is discovered that the figures are not what they are, this argument is apt to shift. That just illustrates the danger of trying to infer general principles from incomplete and imperfect data. There will be certain other assets such as cash balances of the composite Government which cannot be allocated on a territorial basis. These, the Bill proposes to allocate in the proportion of the population of the areas of the two States and the territory transferred to Mysore. I cannot readily think of any other basis for this allocation. As I explained earlier, it will be almost an impossible task to calculate how these assets were built up in the past and the most equitable method, though it is perhaps a somewhat rough and ready method, seems to me to divide these assets on the basis of population. These assets belong to the people as a whole in the sense that they were not earmarked for any specific purpose. It is not illogical, therefore, to allocate them in the ratio in which the population of the present State is itself being distributed between the two new States and Mysore.

This scheme of allocation is, however, subject to two modifications. In the case of central reserves, intended for the use of the whole State, but which are kept as a reserve stock, territorial allocation cannot be the criterion for allocation. Therefore, it is provided that they should be divided physically in the proportion in which the respective areas in the three States intended for these stores held in these reserves in the last three financial years preceding the partition, indents for headquarters offices being excluded for this purpose. Similarly, we are also providing for the physical division of the Government Press between Andhra and residuary Madras as far as practicable. It should be remembered that in the matter of stores, what we are dealing with is unused stores which consist largely of stores in

the shape of stationery and certain electrical equipment. Stores issued for specific purposes like the Tungabhadra project do not figure in this division at all.

I must mention one other qualification in regard to the allocation of assets on the basis of location. At the end of September, the composite State will have large stocks of foodgrains and some stocks of fertilisers located partly at the headquarters and partly at centres in various parts of the State. The location of these stocks may not correctly indicate the requirements of the areas concerned. Problems of subsequent redistribution may arise. It is therefore proposed to take over these stocks; that is to say, by the Centre, notionally on 30 September and reduce the ways and means accommodation already given to the present Government by the value of the stocks. Each of these three Governments in whose areas the stocks are located will therefore hold them on behalf of the Central Government on the appointed date. These stocks will then be treated as transferred to the new Governments who will be debited with their costs. Subsequent transfers of these stocks to other States will be treated as cash sales on behalf of the Central Government and recoveries effected in the ordinary course. The gist of this is that as all this has been financed by the Centre, in effect all these assets belong to the Centre.

I shall deal with the allocation of liabilities. These, broadly, fall under four categories: (i) loans raised by the Madras Government; (ii) there are loans taken by the Government of Madras from time to time from the Centre including balance of the pre-autonomy debt allocated to Madras in 1937, but omitting the ways and means accommodation to which I just made reference; (iii) there are liabilities of the Government to its employees such as balances of their provident fund; and (iv) there are liabilities to third parties, arising out of contracts or guarantees given or moneys taken on deposit as from local bodies, etc. So far as the first two categories are concerned, that is to say, loans raised and loans taken from the Centre, the Bill provides for the distribution of the liabilities in proportion to the capital value of the assets located in the respective

territories. For this purpose the capital outlay as shown in the accounts will be taken. The reason for allocating the liability on this basis is broadly this. By and large the loans taken were for capital purposes although they are constitutionally charged on the revenue of the State as a whole. If it is assumed that current revenues have been spent on the ordinary day to day administration of the State and the surplus utilised for capital purposes, the balance borrowed from the public or the Central Government could be considered as wholly for financing that part of the capital outlay which could not be met from revenue. It is difficult to say precisely how much of each loan was spent on a particular project but taking the State as a whole it may not be inequitable, we think, to allocate the liability for the debt in proportion to the book value of the capital assets created from such borrowing. The liability for the provident fund of the Government servants has necessarily to go to the Government to which the Government servant is permanently allotted and the Bill makes provision for this. The liability for pensions in payment and pension of service under the composite State up to the date of the Partition is obviously the liability to be shared by the three States between whom the territory of the composite State is being distributed. The only available basis for the allocation of this liability is that of population and a provision for this allocation has been included in the Bill. So far as the serving Government servant is concerned, the liability to the pensioner will be that of the Government to which he is permanently allotted. He will get the pension from that Government when he retires and the payment will be debited to the other sharing Governments in the accounts.

Now as regards liability in respect of guarantees, etc., and for the deposits of Local Funds and Local Bodies the liabilities are proposed to be allocated on a territorial basis. Obviously the Government which has control over the territory should take over these liabilities. They represent a continued administrative and financial relationship between the creditors and the State and they cannot conveniently be replaced by an outside authority and the same remarks hold good, in regard to the

assets in the shape of advances made to Local Bodies and to cultivators because any other mode of division is apt to influence the alacrity with which recoveries are made by the Government concerned. I must, however, mention three specific provisions in relation to the allocation of liabilities. Firstly, so far as the liability for the discharge of loans raised in the market is concerned and for servicing these debts the Government of residuary Madras has been made responsible wholly but the share of Andhra and Mysore in this debt will be discharged by those States by making a contribution to the Madras Government as and when the latter's liability to the bond holder arises and this is in respect of both repayment of the capital as well as repayment of the current interest. Government consider it necessary to make this provision because it is undesirable to make the bond holder look to more than one Government for the payment of his dues and it is impracticable to recall the existing loans and issue fresh securities as from the different Governments. Secondly, so far as the loan relating to the Tungabhadra Project is concerned, although initial liability in respect of the capital outlay of that portion of the project located in the areas transferred to Mysore and included in the Andhra State will be that of the two States, the allocation will be subject to future agreement between the States, or if no agreement results, it is to be regulated by an order of the President within a period of two years. It is unnecessary for me to explain this provision at any length broadly as the financial and other problems arising out of the completion and maintenance of this project will be a subject of discussion between the Centre and the Governments concerned. For the present all that the Bill seeks to secure is that the liability attributable to this project on the appointed date is initially laid on the States—both assets and liabilities—in accordance with the general principles regulating the allocation of debt but the way is left open for a subsequent re-allocation either on the basis of an agreement between the States concerned or, failing such an agreement, by an order of the President who will obviously take into account all the relevant considerations before he makes the necessary order

and it will be open to him to have such technical and expert advice as is available.

Thirdly, as between Andhra and Madras, the allocation of the liability will be subject to adjustment in respect of the buildings located in the city of Madras. Now we have accepted the recommendations of Justice Wanchoo that a sum of Rs. 230.4 lakhs should be transferred from the liability of Andhra to that of Madras as compensation for the loss of these buildings. I note that there is a complete divergence of opinion on this matter between our friends in Tamil Nadu and those in Andhra, as the former contend that such an adjustment will be inequitable and the latter urge that the amount is inadequate. Between these two conflicting opinions we consider that the best solution would be to accept the considered recommendation of Justice Wanchoo. We are also convinced that this recommendation was in itself fair, some measure of relief to the new State which will have to borrow for building a new capital in future was clearly justified although the exact amount to be considered for any relief and the method of giving this relief may be open to argument. On the whole, I trust that the House will agree that taking everything into consideration the abatement of debt given to Andhra on this question is both fair to it and to the residuary Madras and after all it should be remembered that so far the debt is concerned what really matters is the resulting debt service charge whereas for economic development if any assistance is available from the Centre to the State it will be in the form of capital, which I think is far more important. I have broadly explained the basis on which the Bill seeks to apportion the liabilities and assets of the present State. It seems to me completely impracticable to deal with this problem on the basis as has been suggested by putting the present State into liquidation and then distributing the net assets and liabilities as if it was a case of the division of a joint family or the dissolution of a partnership. Even assuming that one could reduce the assets and liabilities on a valuation basis, there is no single method by which one could distribute the net assets or liabilities between the three States. The partition of the State has to be

treated throughout as practical statesmanship and not something to be done on any theoretical, commercial or notional basis. I began by emphasizing the defects of such an approach and also by underlining the need for securing a settlement which would leave no bitterness behind it while it would be on the whole just and equitable. The Government of India are convinced that the scheme of apportionment proposed in the Bill is fair to all the three States concerned. They do not think that any useful purpose, therefore will be served by appointing a Commission to go into this matter. It may merely provoke more controversy without leading to any fairer solution. I myself do not see what terms of reference could be usefully given to such a commission. There is much to be said in favour of looking forward rather than backward at this stage of our development. I see no fruitful result emerging from any discussion as to what happened in the past—and I may add, in the indefinite past—but the development of the area as a whole is as much the concern of the Centre as that of the rest of the country, and I suggest that the House should approach the questions raised by this allocation against this background. I can think of no Government at the Centre failing to take note of the present position of the areas included in the three States as a result of the partition of the present State of Madras in framing its policy in regard to future development of this area. And any State which, on an objective assessment of the position, is found to be in need of assistance will, I have no doubt, have the sympathetic understanding of the Centre. Nothing is gained, it seems to me, by relating the present needs to grievances in respect of past failures, real or imaginary.

I should like to make one more point. I do not wish the House to go with the impression that all this is something imposed by the Centre on the States. We have drawn up a scheme of allocation which we consider to be basically fair to all the States concerned, but it is always open to the States to reach an agreement in respect of any particular matter so far as it concerns themselves. The House will also notice the provision

made empowering the President to rectify by order any unjust or inequitable allocation which may result from the application of the principles laid down in the Bill. I need hardly assure the House that this power will be used in consultation with the State Governments concerned to rectify any demonstrable hardship that may result from the application of the scheme proposed in the Bill.

Lastly, I would like to draw the attention of all the three States to what Thiruvalluvar says in Thirukkural:

"Tamarakit Tarrurantar Surram Amaramaik Karanam Inri Varum."

which means: "Repulse none with whom you have disagreed; men estranged will come to you without reason."

Statement on Resignation as Finance Minister*

Mr. Speaker, for some time past my resignation of my office of Minister has been pending. Yesterday the President's office issued a Press Note to the effect that the President has been pleased to accept the resignation.. I consider it necessary to make a statement in explanation of my resignation, and proceed to do so in accordance with rule 218 of the Rules of Procedure of the Lok Sabha.

I have resigned because I do not wish to share the responsibility for Government's decision to separate the city of Bombay from Maharashtra, as embodied in the States Reorganisation Bill, 1956, and because I wish to protest generally against the manner in which this issue, so vitally important to the interests of my constituency of Kolaba in particular, and of Maharashtra as well as India in general, has been handled by the Prime Minister.

My protest has special reference to (i) the inability or unwillingness of the Government of India to persuade the Bombay Government to hold a judicial enquiry into the police firings of November, 1955, and January, 1956 in the course of which about 80 persons were killed and about 450 injured; and (ii) to the impropriety of the Prime Minister's announcement in early June in regard to the future of Bombay, while the States Reorganisation Bill was before the Lok Sabha and had been referred to the Select Committee. I had in vain pleaded for an enquiry in regard to the former. In regard to the latter I have

*L.S. Deb, 25 July, 1956, cc. 813-824.

had no discussion with the Prime Minister, as obviously a discussion after the event was useless and as on the day the Prime Minister returned from Bombay after the A.I.C.C. meeting. I asked him to make my pending resignation effective. It was at his suggestion that I agreed that the acceptance of my resignation might await his return from his tour abroad.

I accepted the office of Finance Minister in May 1950, at the repeated requests of the Prime Minister. The House may be interested to know, as some little proof of my disinterestedness, that I had declined a similar offer made previously by Lord Wavell in May 1946, on the ground that neither by training nor by tradition was I qualified to take on the role of a politician. Before I accepted the Prime Minister's offer, I warned him that I was apt to prove difficult where principles were involved and that I would have to resign if there was a major disagreement on matters of principle. His reply, if he will recall it, was: "In that event it will not be a case of your walking out alone." Although the question was never explicitly discussed between us, this remark and assurance formed an unspoken pact between us to pursue and promote a progressive economic policy as a sound foundation for plans for the country's economic development. It is for him to say if he is satisfied or not with the nature and quality of my collaboration with him. On my part, I should like to take this opportunity for acknowledging his constant and understanding support in the discharge of my duties, not to speak of his irrefragable courtesy, unlimited patience and unflinching consideration. We have had our differences of opinion, acute sometimes as in the matter of relaxation of financial control, but we have up till now always been able to reconcile them as a result of personal discussion.

I have never been a member of the Congress Party, and I am inclined to believe that this freedom from a formal party affiliation has helped me to discharge a little more effectively my role as a supposed expert in economic, financial, fiscal and monetary matters. Had the General Elections not broken into the tenure of my office and had it not been constitutionally almost ineluctable for the Finance Minister to be a Member of

the Lok Sabha, the present situation in which I feel it incumbent to resign on an issue not strictly financial or not of an all-India character would not have arisen: because I have had no serious differences of opinion with my colleagues in the Cabinet and the Prime Minister continued to extend his support to me in all essential matters concerning the Finance Ministry. I consider it only fair to all concerned to add that irrespective of the SRC report and for many months past I had been informing the Prime Minister that I did not intend to take part in the coming elections and that it was my firm view that the time had arrived for someone from the Congress Party to take charge of the office of Finance Minister. It was with a view to bringing about a greater association of the concerned members of the Cabinet with the handling of the problems of the Finance Ministry, especially in regard to raising resources for the Second Five Year Plan that on my advice the Prime Minister has constituted a Resources Committee of the Cabinet.

My election as a representative of Kolaba District and as one among the Bombay representatives in the Lok Sabha could not but affect the political aloofness of my role as a non-party financial expert (supposed to be an expert, according to one of my very able colleagues). The constituency and the State concerned called upon me from time to time to take on an interest in some local problem and I have always been able to do so without being untrue to my responsibility to the country at large. The matters involved were not matters of grave principle. But I am not one of those who hold that the Central Government Ministers should be like disembodied spirits, concerned with only their central responsibilities and not at all concerned with the affairs, politics and interests of their constituencies or States.

Nevertheless, I can truthfully claim that I have concerned myself less with local matters than any of my colleagues, barring the Prime Minister, owing to my lack of party affiliation and the technical nature of the matters, dealt with in the Finance Ministry.

In the matter of the Government's decision in regard to the separation of Bombay State from Maharashtra however, my

conscience will not permit me to remain aloof or unconcerned as I hold strongly that the decision, with its latest modification, is grossly unjust and unfair to the people of Maharashtra and against even the interests of the country. I can find no single valid argument in justification of it. I hope I shall have an opportunity of elaborating this—and this is particularly addressed to you, Sir, during the course of the coming general discussion on the S.R.C. Bill as reported by the Select Committee. I hope I shall catch your eye sometime.

Following my role as a non-party financial expert, I did not take up a strong personal attitude until I became convinced that the announced decision was unacceptable to the people of Kolaba in particular and Maharashtra in general and involved grave risk of economic ruination to them. I also anticipated the difficulties likely to arise over Bombay city and the lengths to which Congress devoted Maharashtra leaders were prepared to go, and used my influence in an attempt to secure acceptance for the bigger bilingual Bombay State, that is, including both Saurashtra and Vidarbha, which was the only genuine bilingual State arrangement in my view. Unfortunately, this was rejected in turn by the Congress Working Committee, the Gujarat and Bombay Pradesh Congress Committees and finally by the Maharashtra Pradesh Congress Committee themselves by implication. Although I am certain that the Maharashtra and the Gujarat public will even now favour such a solution, with the present leadership being what it is, I fear this solution will not be feasible.

Even before the Prime Minister made his announcement about Bombay in January last, I had informed him and the Cabinet of my view that if the bigger bilingual Bombay State was not possible, then the only alternative was the formation of a separate Gujarat and a separate Maharashtra including Bombay city and that the separation of Bombay city from Maharashtra would be a grave economic and political blunder, besides being unjust to Maharashtra.

I refrained from protesting against the Government decision of January last, which was not taken in the full Cabinet, until I

became seized of the reactions of the Maharashtra Pradesh Congress Committee and was satisfied that the decision was unacceptable to Maharashtra in general and my constituency in particular. On being satisfied on this point, I tendered my resignation to the Prime Minister. In reply he referred to the desirability of doing everything possible to discourage violence, as also to interesting possibilities of the formation of big bilingual units such as Dakshina Pradesh, Purva Pradesh, etc. At about the same time, a few friendly fellow Members of Parliament advised me not to precipitate matters until Parliament had had an opportunity of considering the question. It was in view of these considerations that I refrained from pressing my resignation in January last.

Although the S.R.C. Bill as introduced made no change for the better, from my point of view I was content to await the report of the Select Committee. But discussions in this respect were in my opinion gravely prejudiced by the extraordinary action of the Prime Minister in making his announcement in Bombay early last June. His later explanation that he was always free to announce Government's decisions is not valid as in no sense was the decision a decision of Government. There was no consideration of the proposal in the Cabinet or even by circulation. There was no individual consultation with members of the Cabinet known to be specially interested, as for instance, myself. There is no record even of a meeting of a Committee of the Cabinet, and to this day no authoritative text of the so-called decision is available to the members of the Cabinet.

This instance is typical of the cavalier and unconstitutional manner in which decisions have been taken and announced on behalf of the Cabinet by certain unauthorised members of the Cabinet, including the Prime Minister, in matters concerning the reorganisation of the States. The separation of Andhra from Tamil Nadu was decided upon and announced by the Prime Minister without reference to the Cabinet. The decision of last January in regard to placing Bombay city under Central administration was, again, without prior reference to the

Cabinet, whose previous decision was that Bombay should be made a city State. Nor did that decision represent a solution agreed upon by all concerned, including the Maharashtra leaders, since their proposal to that effect was conditional on (i) Bombay city being retained as the capital of Maharashtra, and (ii) a provision for later merger of the city with Maharashtra at the discretion of the Prime Minister. It is true that a Committee of the Cabinet was constituted to decide boundary matters, but it was never the intention that that Committee should decide the fate of Maharashtra and Bombay city on behalf of the Cabinet. In any case, I have a grievance in that I was not consulted in regard to the specific decisions announced, although as a Minister specially interested territorially and electorally, at least common courtesy demanded that I should have been. My complaint is that the Prime Minister and the Committee of three have arrogated to themselves powers not delegated to them by the Cabinet as a whole.

Even more summary and discourteous has been the rejection by the Prime Minister and the Home Minister of my request that they promote an enquiry into the Bombay firings of November, 1955 and January, 1956. I am convinced that they are being false to their principles in regard to the safeguarding of civil liberties in helping to hush up the matter. Since the Prime Minister has at a later date argued that the question of Bombay City cannot be reconsidered just now because Bombay has misbehaved, he cannot argue that the matter is one concerning the Bombay Government alone. His view that such an enquiry will only exacerbate public feelings further is not valid, since truth can never embitter and what is alleged, with a great deal of *prima facie* evidence, is that the police showed lack of fire-control and grossly exceeded their legal powers. There is evidence to show that they were instructed by the Chief Minister to shoot at sight and to shoot to kill, that the deliberate use of tear gas before intended firing brought out women and children from their rooms choking for breath, only to be shot down by the indiscriminate firing of the police, using tommy guns, firing several rounds to the second, that there were 2,500

rounds fired, resulting in 80 persons dead and 450 injured, that the police injuries through stones and acid bulbs were insignificant and not contemporaneous with the firing episodes. That the ruling party should have thought it fit to order an enquiry into the Hoshiarpur lathi charge when they resolutely refused to order an enquiry into the Bombay firings, to my mind, shows an animus against Maharashtra with which I refuse to associate myself. I drew the attention of the Prime Minister to many of these matters and informed him that I was thoroughly dissatisfied with the apathy with which this matter has been viewed by him. I pointed out to him that in any other country calling itself civilized with such a carnage, a judicial enquiry would have been compulsory by law. Even now when the coroner has held in several cases that the firing of November, 1955, was unjustified, there seems to be no intention to enquire into the matter on the part of the police because they themselves have caused the deaths.

These matters, viz., the usurption of the powers of the Cabinet by an inner circle and the denial of civil liberties by giving a *carte blanche* to the Bombay Police, have a bearing on public interest going far beyond the range of the dispute over Bombay city. Violence can only be curbed by justice and rational behaviour. The aggressive non-violence of many men responsible for the Bombay decision will do far more to disrupt the unity of the country than outbursts of violence, which no sane man will condone and which must be dealt with firmly, but not brutally especially where hundreds of palpably innocent citizens are involved.

States Reorganisation Bill*

In regard to the subject of today's discussion** I wish to make the following points and if time permits, I shall try and develop them. First, I ascribed no animus personally to the Prime Minister. It has not even been mentioned in the relevant sentences of my statement. If you will permit me, I shall read it again:

"That the ruling party should have thought it fit to order an enquiry into the Hoshiarpur lathi charge, when they resolutely refused to order an enquiry into the Bombay firing to my mind, shows an animus against Maharashtra with which I refuse to associate myself".

You will find that here there is no personal reference to the Prime Minister and indeed when the Congress party decided to order an enquiry into the Hoshiarpur affair, the Prime Minister was away from the country. In a sense, it was an appeal to him to reconsider this matter in the light of the decision in regard to the Hoshiarpur lathi charge. But I must add that I believe there is some evidence of animus against Maharashtra among important personages in the Congress party and that is a matter to which I had drawn the Prime Minister's attention some weeks ago. I also understand that some proof, which can only be apparent until enquiries are made has been handed over to him and it is for him to verify if there is anything in those allegations or not. In any case, I cannot see why in the light of our past relations anybody might think that I was interested in making such a charge against the Prime Minister. I am well aware that he is constitutionally incapable of animus against anybody. But in the

*L.S. Deb., 30 July 1956, cc. 1415-1430; 1 August, 1956, cc. 1773-1780; 3 August 1956, cc. 2814-2818, 2821-2822.

**On the motion moved by Pandit G. B. Pant on 26 July, 1956, for consideration of "the Bill to provide for the Reorganisation of the States of India and for matters connected therewith."

changed circumstances, such misunderstandings on the part of other people who are more loyalist than the king himself are not to be wondered at.

“मला गर्दिश फलका की चैन देती है किन्से इनरां।
गनीमत यह है हम सूतत यहां दो चार बैठे हैं।”

Nobody can help these ups and downs of fortune, but it is a consoling thought that a few more like me are here.

My complaint that the two crucial decisions regarding Bombay were taken without prior decision of the Cabinet—I did not say, deliberation—remains unrefuted. The 3 June statement was, I repeat, in no sense a Government decision. It was given out by Shri. Jawaharlal Nehru in the meeting of the All-India Congress Committee and there was no prior consultation with any Member of the Cabinet, at least to my knowledge, and certainly not with me. I have already said in my statement that it was not reported afterwards to the Cabinet although there were—I do not know how many—about a dozen meetings of the Cabinet after the return of the Prime Minister from Bombay. The Joint Committee have been very trustful and magnanimous in basing some observations on a statement which they have never seen. It was only the other day, at my request, that for first time we—so to speak—officially saw an authentic version of what the Prime Minister has said.

* * * *

The narrow point was that I thought that the Joint Committee was in the same position as the House. I do not know that they had privileges which were larger than those of the House. Anyway, I had that point to make in regard to that particular decision.

The main point is that the decision was in no sense a Government decision. I should not have made so much of this. but I think that that decision places Maharashtra in a worse

position than even if, Bombay had been made into a City State—that was the last decision with which I was associated as Cabinet Minister—because, with the status of a city State, Bombay city need not have wanted for five years for deciding whether it should join Maharashtra or not, misbehaviour or no misbehaviour. Moreover, it could decide by a simple majority to join Maharashtra in accordance with the lawful democratic procedure provided by the Constitution itself. In the proposed formula, if a legal provision accompanied by Shri Jawaharlal Nehru's personal assurance is to be so called, that is to say, formula, then, the exact democratic process is yet to be determined by executive order, as I understand it. I do not think any amendment is coming to the provisions of the Act. It is not beyond the bounds of possibility that the Congress Party may be left to decide the matter. There is no guarantee of a constitutional procedure or a guarantee against any unjustifiable condition regarding majority, that is to say two-thirds, which would be very much worse than the bare majority which is provided by the Constitution. What is more apart from the Constitutional deterioration, shall we say, in an effort to meet the wishes of Maharashtra, during these five years, tension in the Bombay city, as has been already pointed out by several speakers, will continue at a rising tempo. The moralists and escapists of Bombay will open their money bags and I estimate that one or two lakhs of Maharashtrians will have been compelled by economic circumstances to leave Bombay. This is not entirely unfounded. Hon. Members have given figures of Government employees involved. There are about 30,000 people who are likely to be affected. I have figures somewhere here. I have details of how many are in the secretariat, and how many in other offices. It is quite true that to the extent to which the Maharashtra Government are permitted to retain office in Bombay city—to what extent they will be permitted we do not know—to that extent this problem will be lightened. I believe also that the Prime Minister has some idea that generally, the people concerned will not suffer especially those of the districts specially affected, namely Thana, Kolaba and Ratnagiri. Although some care could be taken in regard to government

servants—the majority of Government servants in the Bombay State are Maharashtrians; service is their badge—semi-government servants, corporation and other State employees. I do not believe that Government has any right or any way of preventing private non-Maharashtrian employers from being unsympathetic to Maharashtrian employees. It is quite impossible to estimate the number of people who will be affected this way. This fact is recognised even by some non-Maharashtrian leaders, and I can privately name to the Prime Minister a person of great understanding who could throw some light on this tendency. Therefore, I see the next few years filled with prospects of deepening economic ruin of the Maharashtrians in the Bombay city. That is bad enough for Bombay city. I think it will be bad for the new State of Maharashtra. That State has, in all conscience, a sorry start. But this condition will impose on it a major rehabilitation problem which it is ill-equipped by its resources or the quality of its leaders to bear.

If Maharashtra is the principal successor State to the present Bombay State. I do not see why it should be deprived of the natural surpluses of the Bombay city. But all that the Joint Committee, ironically enough, has done is to take from those who have not. I refer to the Industrial Finance Corporation. An industrially backward area will have to wait further for its industrialisation.

The hon. Home Minister talked of sweet reasonableness, or,—I forget the words—the spirit of accommodation. I find that so far as the Gujarat leaders are concerned—I repeat, there is no quarrel between peoples—they have secured what they exactly set out to gain 10 years ago: a Maha-Gujarat and in addition a fine new port on which crores of rupees have been spent. The only fly in ointment is that they had to restore Abu which rightfully belonged to Rajasthan. They have successfully persuaded the party and the Government to deprive Maharashtra of its natural jurisdiction over its only major port not the port but the port town: the port has a separate authority we all know. All the dock labourers are

Maharashtrians,—“ghatis” as they are contemptuously called by the moneybags of Bombay. The only merit of the announcement of 3 June is, and the provision for review is, that it eliminates all the lumber of sanctimonious and disingenuous argument about the Bombay city,—not taken by the Government but by other people—serving the interests of India as a whole, the key-stone, as some Member said, of the arch of national prosperity. This would certainly please Calcutta and other big cities because all these cities are each in their own way serving the interests of India though they are being ruled by their territorial powers, and it has not been necessary to resort to a surgical operation separating them from their parent state so that they may be better able to serve the interests of the nation.

If one contemplates the possibility of merger in five years, as my hon. friend from Ujjain, Shri Radhelal Vyas, said,—God bless him—one ceases to worry about this galaxy of fallacies. Till now, those in charge of Bombay State thought of Bombay city as their own, that is to say, as belonging to Gujaratis, Maharashtrians and Kannadigas against the rest of India. Only a few months ago there were violent protestations that the Bombay Plan was not bigger because Bombay was able to raise its own resources, income-tax and so on, as if Bombay earned it against the rest of India. Now, on partition, the same parties have discovered that Bombay belongs to the nation. Now, keeping Bombay separate from Maharashtra violates all principles, Government has stood for or professed: removal of regional disparities, that is to say, a good area going with a bad area, a rich area going with a poor area—if I may give an example, Rayalaseema going with coastal areas of Andhra and so on. Then it disregards the organic nexus and the give-and-take between a city and its hinterland. Then it ignores the principle of the succour of the poor against exploitation by the rich, and curiously enough the socialist pattern of society is conspicuously absent from these discussions. It also identifies Government positively with the capitalist view of capital formation. In effect, capital can only be formed by the savings of the poor and by labour. The real source of capital formation

is the countryside, the peasant. The capitalist is only a cunningly contrived conduit for the use of capital. Therefore, these local options to cities to separate or to remain separate from their hinterland are ethically unjustifiable and economically unsustainable. All cities will only be too glad to have such options for the apparent financial surpluses are there in the cities.

To my mind, this question of local option has to be considered very carefully. There are all kinds of options which are extant—for instance the option of the Centre is there to take over an area which is required for rightful Central purposes and for no other purpose. You cannot give an option to a tehsil or one district to be a State. We talk of viable States. Therefore, one forms some idea of the extent of area and the size of population which will justify statehood. Therefore, if there are border areas or there are small areas, all you ask them is whether they wish to go this side of the border or that side of the border. That is all the option that they should have, and as I have pointed out, so far as a city is concerned, no matter what its population is, it cannot be given an option to separate from its hinterland. It cannot be given any option at all. The only option is that the Central Government could say whether for legitimate Central purposes that city should be taken over. This does not apply to the emergency provisions, and even, I think, under the Constitution, the emergency provision cannot be applied in parts. You cannot take over a city. If you want to take over, you take over the whole State. Otherwise, city and hinterland, town and country must all be one geographically.

There was one hon. Member Shri Dabhi to whom geography meant nothing. If it means nothing to him, then this whole Bill of territorial reorganisation of States also means nothing to him, and I do not see why he is taking part in these deliberations at all. He is apparently of the colonial mind. He thinks in the same terms as Portugal in respect of Goa to whom also geography means nothing. They call Goa a province of Portugal, the metropolitan State. That we are violently resisting in the international world. Why should we admit it in the national field?

It is clear that the disciplined and devoted Maharashtrian leaders are to be treated as in the junior class for the next five years. The word has gone round in the serried ranks of the worshippers of mammon in Bombay that they would surely make a mess of things in Bombay. This is not stated openly. These things are never stated openly. We are fighting a phantom here. Through sub-terraneous channels words go round that if Bombay ever falls into the hands of Maharashtrians, they will make a mess of it, they will decentralise. If the Congress President uses the word "decentralise" nobody is alarmed, but if a distinguished Maharashtrian economist uses the word, then the dovecoats are set fluttering. So, they are to have—these Maharashtrian Ministers, not the economists—a period of probation. I fear that because of this they will be starting on their difficult task humbled, discredited and dispirited. Unwittingly, although out of good intention no doubt, they will be divided by the newfangled machinery of separate development boards. It is as if there is some kind of destiny that they shall never, never, never get Bombay city.

They are not allowed to try their hand at the governance of Bombay city singly, although they had ruled it in partnership; but on the partnership of the firm, the majority partner is to be denied the authority to deal with assets within his geographical area, his territorial area because the sagacious minority partner will no longer be there. This seems to me to be a kind of historical retribution on a community which played by no means an insignificant part in the independence struggles of the country during the last 300 years and produced two outstanding rulers in modern times. I do not refer to the Maharashtrian Ministers from 1937, but to Sayajirao Gaekwad and Madhavrao Scindia. The British for a time classed Marathas as a non-martial race till they needed them for Kul and Keren, Libya and Italy. The Home Minister has classed them as non-sagacious.

He said the Marathas have valour and the Gujaratis have

to be partitioned, It is absurd to stick to large units for administrative convenience. Where the whole country is being reorganised territorially, and it is our duty to reduce the discomfort of the people to the minimum; and undoubtedly, these territorial organisations cause inconvenience and discomfort. Therefore, the villages should be taken as units, and I fully support the recommendation that this matter should be left to be decided in the light of general principles to be enunciated here by a properly constituted boundary commission.

Reference has been made to the minority safeguards. In some cases, they are inapplicable. In these five lakhs of people, they do not form 15 per cent of the population, and therefore, those safeguards will not apply to them. In any case, fear has been expressed, which I share, that they might easily prove to be illusory unless they are embodied in the statute. Now, I wish to add—and here, I venture to speak on behalf of the Maharashtrian leaders, because they told me—that the Maharashtrian leaders will accept 'uniformally' such an arrangement; in other words they will agree to Akalkot and South Mudhol taluks going to Kannadigas, and all along the border, if necessary.

There is a very peculiar reason here, and that is whatever happens on the Hindi and Marathi border, so far as the borders involving the frontiers of the Indo-Aryan and Dravidian languages are concerned, it is very necessary to be as precise as you can. In this particular matter, I would point out that north of Goa, the Konkani that is spoken is very closely related to Marathi. In other words, I challenge some Kannada-speaking man that he should listen to the Goa radio with somebody else who does not know Kannada but knows only Marathi, and of course, the Kannada speaking man must know only Kannada and not Marathi; and let them try to make sense of what the Goa radio says. You will find that it is an Indo-Aryan language. If necessary, you can appoint a small committee to find out what Konkani is. I do not say it is a form of Marathi because the Konkani speakers get indignant, but I say it is closely

related to Marathi: it is an Indo-Aryan tongue. If you will take all these factors together you will find that all these areas even satisfy the 70 per cent rule. I am not speaking against the Kannada-speaking people, but I must speak the truth, and I am prepared to yield the territories which have been transferred again wrongly, from them to us. As I said, here the Kannada speaking people are only less than 30 per cent, slightly less than 30 per cent, in these areas.

There is much more I could speak about Belgaum city. Its language has been Marathi. The municipal committee's records have been maintained in Marathi for the last hundred years. 54 per cent of its population is Marathi-speaking as against 24 or 30 per cent of Kannadigas. There has been a piteous appeal from the students of Belgaum city to the Prime Minister asking him to reconsider this matter. They will be without any employment. As for these young boys who are just passing out of college with Marathi as the medium, where are they to seek employment? It is all very well to say, well, the whole of India is open to them; but who wants them, except Bombay? That is to say, again, there will be a rehabilitation problem of the students of Belgaum. Then, there is the question of regional development.

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Today, Kannadiga officers are going to visit this area to talk about community projects and national extension service in the Kannada language. Not a word of what they say is going to be understood by the people, and yet in the neighbouring Kolhapur, there are Marathi speaking officers, who are able to attend to all their needs. Why do you increase the number of people first, who will suffer danger, and then provide safeguards to correct that danger, when it is still open to you, even now, to draw a line here instead of there. Nobody loses anything. They are not very rich areas. There are no mineral deposits there except in Supa, where there is some bauxite deposit, I believe, but as for the rest, they are not very rich areas; they are poor areas. Khanapur has a population of 50,000; it is a poor tehsil. Why this craze for territory? I can

never understand. All territory, now in India, is a liability and not an asset, because you have to spend money on its development.

Therefore, these regional development boards and regional councils, which are the Governor's special responsibility are not going to help. They are only going to involve the Governor into unpleasant local problems. The best solution would have been for the Planning Commission to be charged with a study of all these regional disparities. We have said so in the National Development Council meeting. The Planning Commission was the right body because it has no special affiliations. It is equally impartial to everybody. And what is more, it has the equipment for making a study of all these regional problems. And it has had a very good record. For instance, the Deputy Chairman has been able to pluck, shall I say, a very good solution in regard to the Tungabhadra dispute. Those who know the local circumstances know how difficult it must have been for him to persuade both the parties.

Now, I think, myself, that the country has been disrupted by all these mistakes but not by those who squeal against injustice. There is a notice in the Paris zoo which says "This animal is wicked, because it defends itself when attacked" And that is the charge that is made against anyone who speaks out the truth. I am not provincial. I have spent the last fifteen years of my life, at any rate, in the service of the country; which, of course, hon. Members have now decided to overlook, because I indulge in plain-speaking. I am not linguistic. I love languages I do not know seventeen languages, but I would like to know seventeen languages. I love every language. My library contains as many Gujarati books as Marathi books.

Anyway, my time is passing, and I shall only refer now to one more point, and that is about violence in a general way. I am not referring to the misbehaviour of Bombay city. But I saw that you allowed one Member to refer to violence, because he said, nothing has happened to merit a review; except violence

and intimidation. He even went to the extent of saying that my statement was an open incitement to violence. I hope he is not judging other people by himself.

“दिल है उनका तप कराल,
मानों जैसा शीशा लाल”

Now, I say, violence is bad. But I say that unjust non-violence followed by legalised violence is worse, and it points the road to perdition. I prefer the lion to the leech. I shall just finish now with a quotation. And I would draw the Prime Minister's attention very seriously to it. It is from “एक शिकारी से” by अहसान बिन इम्रान

ऐ अनीसे-इस्त ऐ मेरे बहादुर-हम मझार, शेरी फिर दुनाली से गिरा दो जिन्दह बाश मगर
भेड़िये हों रीठ हों चीते हों या खूंखार शेर दस्तेवादी तक बहादुर हैं नशिरां तक दिलेर, यह
कभी आबादियों में आ कर गुंति नहीं, यह किसानों और मजदूरों का हक खाते नहीं इनसे बढ़
कर दरिन्दे हैं शक्के दिल गुंतिवूं, चूस लेते हैं जो मजदूरों की यह रंग का लहू, उनसे बढ़कर वे
दरिन्दे हैं कि जालिम बरमासा, -बोट देते हैं अदालत में सदाकत का गला, इनसे बढ़ कर वे
दरिन्दे हैं बराकलें रहकर, दिन दहाड़े लूट लेते हैं जो बेवाओं के घर।

“I feel that I ought to correct a few statements which were made by the Home Minister yesterday which, in my opinion, are wrong.

He said that there was full consultation at all stages, that there were 14 meetings and nine months deliberation and so on. Now, these matters have no great bearing on the Cabinet Ministers' responsibility. The specific point I made was that between 10th or 11th when the Cabinet decided that there should be a separate city State of Bombay and on 16 January when the Prime Minister made his announcement that Bombay should be Centrally administered, there was no cabinet meeting which took a decision to alter the previous decision and also there was no power given to any Committee of the Cabinet to arrive at such a decision. Therefore, whether after the announcement it was reported to the Cabinet or not is

*Intervening in the debate on August 1, 1956.

immaterial'with regard to this point. There is also the other point that the Prime Minister, without consulting his colleagues, should not have made that announcement of 3 June. Not because I am not prepared to trust the Prime Minister's leadership. If he were alone, if the decisions had been left to him, even now I say, let him decide everything. But, we are working the apparatus of western democracy. I think the responsibility for securing that that apparatus is used properly rests on Parliament. The Prime Minister is not like the President of the U.S.A. who can hear the Secretaries and come to a decision by himself. Therefore, to say that there was full consultation including consultation with his Cabinet colleagues and then decision was taken by the Prime Minister or one or two colleagues in addition, really is not a sound defence. As I said, had it been a matter of the Prime Minister alone, I should not have bothered. But, this kind of thing is likely to be infective. This kind of thing, to my knowledge, happens in many other States. I think in the cause of democracy, it is a very bad trend because other people who are in charge there naturally are not as big men as the Prime Minister. It is in the nature of things bound to be so. Therefore, this authority or competence to exercise authority by the Cabinet as a whole is being diluted at all levels. That is why I attach great importance to this point.

Then, the Home Minister said that I resigned—I have the speech before me; I am not quoting from memory—after the three-States formula was agreed to, I suppose in the Cabinet meeting of 10 January. That can't be. He says—

“Shri Deshmukh also did not like it so much so that he tendered his resignation after the publication of that proposal.”

There was no publication of that proposal. The proposal that was published was that Bombay should be Centrally administered, if I have followed what he said. He said that I had been associated with the Sub-Committee. Here again, I think he is, not knowingly perhaps, causing a wrong impression. I did attend some of the meetings of this Committee. That was in connection with boundary disputes all over, Belgaum city, Adilabad, and so on. I attended no meetings of the Committee

which discussed Bombay. The only relevance of this matter is that at one time I did think that the general formula recommended by the S.R.C. about the 70 per cent. was right and that is why I advisedly said in my speech that on mature consideration I think that it inflicts an avoidable measure of hardship on large numbers of people, and that it is our duty to minimise it, and that is why I have supported this proposal that there should be a boundary commission which will do it in accordance with proper orderly procedure. If these questions are going to arise, it is no answer to say that zonal councils will be able to deal with them, because the dispute will be there. The only difference is that the zonal councils, being what they are, will not be able to deal with this question in a proper way, in accordance with the proper procedure, whereas a boundary commission will have far greater authority.

Well, then, reverting to the chronology, I am in a difficulty now. I have correspondence with the Prime Minister which I wish to place on the Table. My own letter of resignation, I think, is not secret, and I do not think that I require the permission of the Prime Minister to place it on the Table of the House. It is not marked personal or secret or anything. Anyway, it is my resignation. So, I would like to place it on the Table in proof of what I am saying that I resigned on 22 January after the Prime Minister's announcement on 16 January that Bombay was to be Centrally administered.

Now, the question will arise why I waited these six days. I did not know what kind of talk the Maharashtrian leaders had had with either the Home Minister or the Prime Minister between 11 January and 16 January. They did not report to me. They did not see me afterwards. They saw me before they went to the Home Minister, but not afterwards. Therefore, I thought, well, it may be that they had accepted Centrally administered Bombay. It was not for me, then, being a financial expert, shall we say and not a proper politician, to raise any difficulties. But, when the Executive Committee of the Maharashtra Pradesh Congress Committee denied that they had agreed and

protested and went to the length of saying that they should resign, then I made up my mind that whatever they had done it was not acceptable to their colleagues or the Maharashtra Pradesh Congress Committee, far less was it acceptable to the people of Maharashtra, and I formed the view that their supposed leaders had failed them in getting what they wanted or in securing their best interests. Therefore, I thought it was right that plenipotentiaries who had failed in their job should resign their job and make way for better people. I cannot see anything wicked or wrong in this.

The next question is why I did not press my resignation. That will be clear from the Prime Minister's reply, but I cannot place it on the Table of the House. I made a general reference to it, and that was that it held out hopes of bigger bilingual States, Dakshina Pradesh and so on, and since as you know I have never wavered in my support of the bigger bilingual Bombay as the best solution, I thought I had better wait. In any case, as violence had broken out I also thought it was the duty of everyone not to do anything that would exacerbate the people further. Therefore I held my hands. Then, there were Members of Parliament who came to me. I did not mention any names, but I do not think they have so turned against me that they would mind my mentioning their names. It is a fact that it was Shri Feroze Gandhi and Shri Dev Kant Barooah who came to me and said: "This matter will now be in the hands of Parliament. Why are you in a hurry?" This was January you must remember and the session of Parliament was to come in February. Also, I was in a responsible position. I had prepared the budget. I had to deliver it. I had to secure the passing of the taxation measures. Then there were various other pieces of legislation which were very important. The Plan had to be finalised. In my humble way I thought it was my duty to stand by the country and not to press the resignation. I do not see there was anything wrong in it. I claim that in those three or four months, I worked harder than I worked in the previous five years. I am hoping—I have some faint hope—that some Members at any rate will acknowledge that something valuable

had been done for the country as a result of my holding back the resignation. But my resignation was never withdrawn. As I said, I refrained from pressing it because of these considerations.

There is only one more letter I would place on the Table, but that can be only with the Prime Minister's permission, but I have to read out of it. It is marked "personal", not "secret" or "private", and it says—this is when I offered to resign again towards the end of April when I found that things were no better—

"Your resignation will obviously not be helpful even, I think, from the point of view of helping in a solution which you so much desire. The Bill is going to be referred to the Select Committee. The final stage will arrive when it comes back from the Committee. I would like you at least to wait till then."

And that is what I did. I waited till then. But, in the beginning of June I found that the Prime Minister had made a statement which, to my mind, spiked the guns of the Joint Committee. In other words, in the way pointed out by Shri Kripalaniji, naturally the members of the majority party who were in the Joint Committee found that because the Prime Minister had now more or less made a pronouncement, it was not right for them to go any further. Now, as I pointed out, had it been something which would help the cause as I understand it, what I stand for, then I would not have pressed the resignation, but it is my honest view that it places Maharashtra in a worse condition than if they had had a city State. The hon. Home Minister said it passes his comprehension. Well, I cannot help that, but I consider that five years is a longer period than one year or two years or three years. That is a simple matter of arithmetic. Also, when it is a Centrally administered area whether to pass an Act or not to pass an Act to terminate it is entirely at the will of Parliament, but they have added a rider by way of an executive pronouncement that Parliament will not be moved to take that step unless the wishes of the people of Bombay are ascertained, not by regular voting but the sense. I do not know

how one assesses the sense. There again I thought that that was worse than if Parliament had entirely been seized of the matter. The trouble with this finding out of the sense of the people is that nobody knows how it has been ascertained. Today, can anyone put his hand on his heart and say that the people of Bombay city want Bombay city to be separate from Maharashtra? What proof is there? The only evidence is that about 45 per cent minus one want that Bombay city should go to Maharashtra. Now, there are five or seven per cent. Konkani-speaking people who, I know, will be taking the same view as Maharashtrians. Then there are, as an hon. Member said, about five lakhs of Tamil clerks. I see no reason why the Tamil clerks should object to Bombay city going to Maharashtra. They are going to ply their living or whatever it is, irrespective of it. They are not allowed to use Tamil there as an official language for the region. They have to learn Gujarati or Kanarese or Marathi for that purpose. So, it makes no difference to them whether they or their children learn Marathi or Gujarati. We have not gone to that length. We are prepared to give any kind of safeguards to minorities. If Bombay should have Gujaratis and Marathis, let them have the freedom of choice. Gujarati is a very important language for the business of Bombay and I would like to make it compulsory for every child in Bombay city to know Gujarati because he then understands business and therefore instead of having only valour or more valour, he will have a little more discretion. Now, therefore, I say that there is no one here who can prove today that Bombay city wishes to remain separate. If that is so, why give an option?

So, according to my view, what the Prime Minister stated did make the matter very much worse, and that statement was made without any reference to any person, to my knowledge, in the Cabinet—at least it was not a Cabinet meeting or Cabinet committee meeting—and poor me who was known then to have offered his resignation, who was asked to hold his soul in patience till the Joint Committee sat and pronounced, was not even consulted, or asked: "Is this likely to meet your wishes? Do you think that would help you?" I am not worth very much. I

have always held that no man is indispensable. I have always acted on the maxim that every man, every officer in a high job, should deliberately try to make himself dispensable and build up his office so that he is not missed afterwards, and I am quite certain I will not be missed; I have been written off already.

So, that is my reason why I attach very great importance to this, and whether this correspondence goes on record or not depends on your discretion. I am not anxious to put the Prime Minister's letter on the Table of the House if you are going to believe me that this is the extract from that letter. But if you are going to say I am quoting from some fabricated letter, then I must put it forward because his signature is there. So, will you kindly give your ruling as to what I should do?

Later on, I dare say the Prime Minister will permit me to publish this correspondence.

Only one short point. I asked for ten minutes, I think I have taken eleven minutes. The hon. Home Minister said that I agreed to the States Reorganisation Bill as every member and therefore there is a kind of estoppel against me. I cannot see how an estoppel can act against me, when my resignation is pending from 22 January, when on 24 April, the Prime Minister says, 'Please wait and see what the Parliament does', when Members of Parliament come to me and say, 'Please wait and see; maybe, we shall be able to do something to bridge the gulf'. I do not remember now the date on which the States Reorganisation Bill was introduced. I have not yet had time to make that research.. But I think it was sometime towards the end of April. I think it was about that time.

When the States Reorganisation Bill was introduced, I said to the Prime Minister that 'Since you are not now going to make a change, will you please allow me to speak against the Bill and to vote against it, and if for that purpose you think that I should not be a Cabinet Minister, then I am entirely agreeable that I should not be a Cabinet Minister'. That letter is on 20 April, to which this other letter is the reply.... It shows that no estoppel can operate against me.

I thank you for allowing me to participate in this debate at this stage, indulgently treating what I said the other day as a somewhat belated personal explanation. I said the other day that I strongly supported the idea of a boundary commission. I am convinced more than ever that it will not be possible for this House conscientiously to take a decision in regard to the hundred and one disputes that have been brought before it. I do not consider that once the House has passed a judgement, it will later on be possible for the zonal councils to deal with this matter. So long as the dispute exists, people's minds will be disturbed whether the disputes are being handled by the zonal councils or by the boundary commission. But if they are to be handled by the zonal councils, then, I fear that they will constitute an undesirable distraction to them, as they have many other far more important functions to discharge. Moreover, I do not suppose that they will have at their disposal the kind of procedure that would enable them to deal with this matter in an orderly fashion. On the other hand, the boundary commission will be a properly authorised and equipped body. It will be given the necessary powers to consult anyone and I think there will be a certain amount—not formal perhaps but informal—of sanctity attached towards the pronouncements when it publishes its findings after having dealt with these matters, as I said, in accordance with the procedure laid down for the purpose. I therefore very much hope that the relevant amendment in this respect which also sets out—I forget the number—the conditions which should govern the work of the boundary commission, will be approved by the House.

In the course of my speech the other day, I also said that I have always been an unwavering supporter of the proposal to have a bigger bilingual Bombay State. What I have heard since then confirms me very strongly in that opinion. I can now sense that there is a very powerful swing of opinion in favour of this proposal in this House. This is a matter of individual judgment. This is my judgment. It may prove to be wrong. But this is how

*Participating in the debate on 3 August 1956.

it appears to me. The swing of opinion is in favour of a bigger bilingual State. Now, I must say that does not mean that I am against a unilingual State as a matter of principle. I think while we are discussing these matters, we ought to avoid the use of censorious terms like parochialism, provincialism, linguistic fanaticism and so on and so forth. These terms are used by one party or the other according to who has the initial advantage. If you have the initial advantage, then you use it against the other party. Therefore, we should try to look at those matters a little more dispassionately.

In the South, I am convinced that by and large, States have necessarily to be unilingual, because English is no longer the current vehicle of expression, as it used to be in this country among the intelligentsia. In any case, with the adult franchise that has now been given to us by the Constitution and with Hindi not widely established as a national tongue, I think unilingual States are generally very convenient from the points of view of statesmen, politicians and administrators, except—and the theoretical possibility is always there—where two tongues are more or less alike, as I understand Tamil and Malayalam are. That is a matter for the Tamilians and Malayalees to decide. As I said, I am an outsider. I was given a very fine history of the Malayalam language by my friend, Shri V.P. Nayar. His father has written a very fine history of that language and I understood that it was derived from the old Durbar Tamil. Anyway, I am entirely against dragooning anybody into any combination which they do not want.

I am only quoting this as a possible theoretical exception to the otherwise universal convenience of unilingual States in the South.

That proposition is not so valid where two Indo-Aryan tongues meet on the frontier, as for instance Marathi and Gujarati or Marathi and Hindi. Unfortunately, at the moment, there is no possibility of any kind of a bilingual State—because, we have just split one—where Marathi and Hindi meet. They were meeting in the old Madhya Pradesh. But, we are now dealing with the frontiers of Gujarati and Marathi, which also are

very closely alike. Although the alphabets are not exactly the same, a person who knows Marathi can read the Gujarati alphabet and a person who knows Gujarati can read the Marathi alphabet, which is the same as the alphabet of Hindi. Therefore, apart from any other consideration, it is entirely feasible to have a bigger bilingual State of Bombay from this linguistic point of view. Indeed, I am convinced that economic interests do not settle round languages merely because languages naturally change and vary as the areas vary. The demand for Samyukta Maharashtra was looked upon as a demand not essentially linguistic, but essentially economic and territorial. There were three strips of territories which went fancying that each had some kind of economic grievance. Whether that was right or wrong, it is not for us to consider, nor do I think it is necessary for the purpose of my argument. Anyway, those were beliefs honestly held and therefore, that arrangement will be approved by speakers of any language which is likely to advance their economic interests further.

I hold that the economic interest of the bigger bilingual Bombay State will not be retarded by the constitution of that State in that way, because there is the surplus of Bombay city, which has been fostering the other areas. As the Home Minister pointed out the other day, no doubt the Finance Commission would have to make some kind of a specific distribution or allocation of the surplus of Bombay. But, as I pointed out myself, it is much better to have natural increasing surplus, to have a right without any other commission intervening, than to have a periodical settlement made by some third party. That is an advantage, which I think should be shared in by those who have been sharing it before at any rate, except the Kannadiyas, who, for certain other purposes or reasons, want to form themselves into a separate Kannada-speaking State. But, we need not have any sense of grievance on account of that. My view is that the economic interest of any constituent part will not be retarded by having a bigger bilingual State of Bombay. What is more important from the national point of view is that all these embittered feelings will subside and, it is my

own personal view that they will subside with astonishing rapidity.

The common man does not bear grudges or does not live at that level of intensity, unless he is excited by—whoever it is, I am not saying by wicked people—people who are their trustees. And trusteeship always drives you into some kind of public posturing attitudinising and stancing. A man who speaks as a trustee speaks quite differently from a man who speaks as the individual. Today, if you ask the cloth dealers in the Mulji Jetha cloth market in Bombay, they will tell you that they are not so much concerned whether Bombay goes to Maharashtra or not. They are happy if they sell cloth. The trade is in the hands of people speaking either Marathi or Hindi. And in the Laxmi Road, which is the main commercial thoroughfare of Poona, fifty per cent of the wholesale dealers are Gujaratis, and not a hair of their heads has been touched during all these days.

I am speaking of Poona because I spent some time there recently and I made enquiries. Not a hair of their heads has been touched. So, I am quite certain that all these vague apprehensions and fears are entirely unfounded and that the common man will be too glad if these two peoples who have lived together in amity for so many centuries come together again.

Now, I referred in my first statement to the difficulty about leaders. One hon. Member took me to task by saying that I meant Gujarati leaders. He will find that I have never mentioned Gujarati leaders. I said leaders. And if I have to be frank I must say in the cause of truth that I think the difficulty is likely to come more from the Marathi-speaking leaders, not because, again, they are wicked or anything like that, but because they feel that their interests lie that way. I can see Dr. P.S. Deshmukh looking very crossly at me. Now, the Vidarbha people naturally feel that they do not wish to get themselves entangled in another bilingual area, having just separated from one bilingual area. In other words, they have just separated from the Hindi-speaking area and they are somewhat

apprehensive of getting into another bilingual area. Then, people nearer Nagpur are still hoping against hope that Bombay city will not go to Maharashtra so that Nagpur might be the capital. These are all vested interests which are natural to understand but which need not necessarily, therefore, be treated indulgently by this House. It is the duty of this House now and this is the highest body to do justice after having heard everything and to take an action which will bring people together rather than disrupt national unity. It is no use paying lip sympathy to national unity and start carving out different areas: this is Maharashtra, this is Gujarat, this is Bombay City, this is the zonal council here, the development board here, something else there. Are you promoting unity or are you promoting disunity? If there is the slightest chance of your promoting the other thing, then why do you not exert your influence in order to get that about? Why don't you secure that? If you are firm in other matters, why are you not firm in this big cause? I for myself am prepared to undertake a tour—this is not a lightly given undertaking—in Maharashtra to explain to people that the bigger bilingual area would be in the interests of the people at large.

Now, it is quite true that when you divide an area into three, then there are three Ministers, there are three Chief Ministers, three Finance Ministers, three Home Ministers etc., and everything looks very tempting. Nevertheless, I have by bitter experience found that the highest kind of statesmanship and administrative ability is not yet so plentiful in these areas, and therefore, I think it would be perhaps desirable for the aspirants to wait a little and to allow some of the better ones out of them to come together and to make a success of the State. I am myself persuaded that the bigger bilingual State will be one of the finest States in India, and this is not said in order to arouse any jealousy or envy in other parts of the country. I definitely do not agree with Kakasaheb Kalelkar who spoke somewhere in favour of small units and small States. I think it is all wrong because it gives you too many lame ducks and it does not give you the wherewithal to feed them, whereas if you have larger

areas and larger conglomerations of area, then the richer people, the richer parts, as I said the other day, pay something without feeling very much for it or without feeling that they are taxed for it, to the more backward or poorer area. And this kind of give and take ought to be encouraged rather than discouraged. I say this with some kind of feeling, although I am no longer Finance Minister, because I know that all the burden of correcting regional disparities then comes on the Central Ministry of Finance and the Central Minister of Finance is almost driven to distraction in trying to find money in order to bring areas up to a proper standard or a proper level, whereas this other method of having large States inevitably or imperceptibly brings it about. That is why I think also that the decision not to split up Uttar Pradesh was a very wise decision. After all, Western U.P. is, I think, a little better, a little more prosperous on account of sugar and various other things than Eastern U.P. Eastern U.P. is more crowded. I believe it is among the poorest parts of India. I think they are as poor as, shall I say, Kerala. The average holding of Land in Gorakhpur might be about half an acre or so. It is because some surplus comes from somewhere that they are able to manage. For 60 million people they have got a budget of Rs. 65 to Rs. 70 crores. It is a very small budget.

Therefore, I am in favour of large units and it is in accordance with that general theory that I advocate that the House should lend its support to this amendment 462, and I very much hope that the Members of the Congress Party will be allowed to cast a free vote on this.

* Mr. Speaker, Sir, I am now well satisfied with the Bill as it has emerged from the consideration stage especially on account of the amendment which led to the creation of the new Bombay State I must confess that I do not expect wonders from the zonal councils which seems to me only to give a certain amount of legislative rigidity to a procedure which is well-known and which is already resorted to whenever disputes are to be settled between two States. The present practice, in my opinion, is more flexible. I referred to an instance the other day:

* Continuing his speech on 10 August 1956

the solution of the difficulties in regard to the Tungabhadra project which were settled through the intervention of the Deputy Chairman of the Planning Commission. Any way I have no great quarrel with the legislative machinery that has now been created except perhaps in the matter of the provision in regard to voting.

If one studies the composition of the zonal councils, he will find that usually the two parties will be well matched: ordinarily there will be three Ministers on the one side and three on the other and the scales will have to be held even by the Union Minister who is to preside, again ordinarily to preside. Now in a sense that converts him, perhaps inconveniently, into an arbiter and since the recommendations of the zonal councils are to go in many cases to the Central Government, I fear that he will find himself in a somewhat awkward situation having already come to a decision. Nevertheless, I hope that this machinery will work well with the goodwill of all concerned.

I feel greatly troubled by the uncertain state in which all these border disputes have been left, although now we have put the seal of our approval on the, in my opinion, necessarily provisional arrangements that are contained in the Bill as it has emerged from the consideration stage. I have no doubt whatsoever that these disputes will be brought up again before the zonal councils concerned. I have no doubt that the two sides, in the absence of any formula, will take positions and postures and the matter will be more or less decided by the vote, or the casting vote of the Chairman.

Now if one had reason to believe that the Chairman was likely to act on a deep consideration of the principles involved, one might not even object to his arrangement. But I see no evidence that these principles have been well considered. Nor do I find that there will be readiness to refer every dispute to the Central Government for its final decision. The hon. the Home Minister said: "I hope the zonal councils will be able to show better results. And if everything fails and if the problem is really of special significance and there are special circumstances, the Government will take stock of the situation

and see how it can be helped". These are words which are hedged in with so many 'ifs' and 'buts' that I fear that the large majority of border disputes will remain unsettled. As I pointed out yesterday during the course of my intervention, my information is that about 4 crores of people are affected all over. That is a very large number, and I am confident that if one were to revise this present principle that has been applied, one could reduce the number of people involved very considerably. Naturally it is not possible for me to say to what extent that number will be reduced. In the course of his observations, the hon. Home Minister said also—I quote again—

"My request was not for a formula because my own feeling is this. So far as those differences are concerned, they can be settled better if we have no rigid formula than by sticking to a particular formula. Otherwise we have a formula already, a formula that was proposed by the Dar Commission that has been approved by the States Reorganisation Commission and we cannot lightly tamper with that."

In other words, the attitude of the hon. Home Minister appears to be that this is by and large the best formula that one could think of and that unless the two parties thought it fit to agree, matters will be left where they are today.

On a factual aspect of this situation I am not quite certain if by his reference to the Dar Commission the hon. Home Minister intended to refer to paragraph 63 at page 12, because as far I can find, that is the only reference to this 50 to 70 per cent formula. With your permission, because this is an important point, I shall read this out:

"All the evidence before us is agreed that it would not be proper to call any area a unilingual area unless the majority of one language spoken in that area reaches at least 70 per cent and any area below that should be considered as bilingual or multilingual, as the case may be. On this principle, it is claimed by all the advocates of linguistic provinces that all border districts where the majority language is 50 to 70 per cent may be treated

as bilingual and broken up into bits up to villages and their population appropriated to contiguous linguistic areas. This is the way in which equities are proposed to be adjusted in bilingual area between rival linguistic groups who reside there."

Then they go on to say:

"If border districts, which are bilingual and which have developed an organism and an economic life of their own, are to be broken up..."

Then they go on to argue that the same logic might be applied to cities.

From this I infer that they accepted this kind of principle, but it would be noticed that they use this 50 to 70 per cent in the first place to determine which large unit can be regarded as a bilingual unit, as I understand it. It is my view that these questions as to whether a State should be unilingual or bilingual are not influenced by sentiment or passion but by calculation of which arrangement is likely to promote the economic interests of a certain region. It happens sometimes that that region is identical with a language group. Sometimes it may happen that that region might have two language groups or three. Therefore, I am going to say that one should not attach too much importance to this business of unilingual or bilingual State; one should direct one's attention to finding out whether a particular arrangement approved by Parliament is likely to subserve their interests.

In the light of this criterion, I am quite convinced—and I have some little right to say so with authority—that the arrangement in regard to the new Bombay State is likely to sub-serve the interest of all parts or sections of the State. It was with a recognition of this that I was among those who suggested to the Commission that we should have at least one good and leading example of a bilingual State in India.

I have thought it necessary to refer to this small bit of autobiography because Shri H.N. Mukerjee has referred to my perambulations. My perambulations are like *pradakshana* and I have come to the very point from which I started.

The reactions of the people have been communicated to me. Because of recent events, a great many people have been sending telegrams and letters to me. Shoals of telegrams have been showered on me. Generally, I find that the reactions are favourable to this new bilingual State of Bombay. It is true that there is a minority—and I am quite convinced it is only a minority—in both Maharashtra and Gujarat, who are somewhat fearful and diffident but, in my opinion, the apprehensions and dissatisfactions of these minorities cancel each other.

I hold that no solution can be good which is hailed as a singular triumph for one party or one side alone. Indeed, in my opinion, in the affairs of the world a little generosity, just when hopes look likely to be fulfilled, is the path of wisdom and the interests of any particular group cannot be the sole criterion of the success of any arrangement. The promotion of national interest, as a whole, must be equally important and a right solution must reconcile both these categories of interests. I have been satisfied that the bilingual Bombay, approved by Parliament, is such a solution. Bombay city cannot very well throw open its doors to all, as it has always done in the past and let us resolve never to think in terms of partition again. It is only thus that not only Bombay, but all the cities of India will truly belong to India without worrying about the population percentages and so on and they will not regard themselves as belonging to any particular territorial unit. The instruments of Governments have necessarily to be determined by geography but all Governments have to subserve local as well as national interests.

I am confident that this partnership is bound to succeed if the partners studied the laws about the formation of partnerships and not the laws governing dissolution.*

*The Bill, as amended, was passed.

APPENDIX

DR. C. D. DESHMUKH: A CHRONOLOGY

- 1896 (14th January) Birth
- 1917 B.A. (Cambridge).
- 1919 U.K. Bar Examination.
- 1919 Entered Indian Civil Service.
- 1932 Life Member and Member, Advisory Committee, Bombay Natural History Society.
- 1932 Member of the Legislative Council, Central Provinces and Berar till 1937.
- 1941 Resigned the Indian Civil Service.
- 1943 *Kalidasa's Meghadutam*—a translation.*
- 1943 Deputy Governor, Reserve Bank of India till 1949.
- 1944 India's delegate to the World Monetary Conference, Bretton Woods.
- 1946 Governor for India, International Monetary Fund and International Bank for Reconstruction and Development till 1956.
- 1946 President, Indian Statistical Institute till 1964.
- 1949 Financial Representative of India in Europe and America till 1950.
- 1950 Member, Planning Commission.

*Lectures, Addresses and books authored by Dr. C. D. Deshmukh.

- 1950 Chairman, International Monetary Fund and International Bank for Reconstruction and Development.
- 1950 Member of Parliament, Union Minister of Finance till 1956.
- 1950 Ex-Officio Member of Planning Commission till 1956.
- 1956 Chairman, University Grants Commission till 1960.
- 1957 *Gandhi Sukti Muktavali: Selected sayings of Mahatma Gandhi in Sanskrit verse with the original.**
- 1957 Hon. D.Sc. by University of Calcutta, Hon. Doctor of Letters by University of Annamalai.
- 1957 Chairman, National Book Trust till 1960.
- 1959 Hon. D.Litt. by the Universities of Nagpur and Punjab.
- 1959 Ramon Magsaysay Award for Government Service.
- 1959 *Citizens of No Mean Country: Rt. Hon'ble V.S. Srinivasa Sastri Memorial Lectures.**
- 1959 *In the Portals of Indian Universities: Convocation and other addresses.**
- 1959 Founder Life President, India International Centre, New Delhi.
- 1960 Chairman, Administrative Staff College of India, Hyderabad.

*Lectures, Addresses and books authored by Dr. C. D. Deshmukh.

- 1960 Vice-President, Indian Council for Cultural Relations till 1967.
- 1962 *Pre-Requisites of Development in Underdeveloped Countries*: Reprint of a series of three Kinkhede Memorial Lectures delivered at Nagpur University.*
- 1962 Vice-Chancellor, University of Delhi till 1967.
- 1963 Called to the Bar as a Member of the Inner Temple.
- 1963 Hon. Doctors of Laws by University of Princeton, New Jersey, U.S.A. and Leicester, U.K.
- 1963 Hon. D.Sc. by Indian Statistical Institute, Calcutta and University of Karnataka, Dharwar.
- 1963 *John Matthai Memorial Lectures*, Kerala University.*
- 1964 *Commonwealth as India Sees it—Smuts Memorial Lecture* delivered at Cambridge University in May 1963.*
- 1964 Chairman, Indian Institute of Public Administration.
- 1965 *Perspective Planning and Education for Economic and Social Development*.*
- 1968 *Sanskrit-Kavya-Malika*: A collection of poems in Sanskrit.*
- 1970 *Free But Fettered: The Illiterate Citizen*. (Bombay: Forum of Free Enterprise).*
- 1970 *Social Change in India* (Bangalore: Gokhale Institute of Public Affairs).*
- 1970 President, Population Council of India till 1982.

*Lectures, Addresses and books authored by Dr. C. D. Deshmukh.

- 1972 *Reflections on Finance, Education and Society.* (Delhi: Motilal Banarsidas).*
- 1972 *Aspects of Development—Analysis of political and economic events in India.**
- 1972 *Hindustani: Rashtrabhasha or Lingua Franca.* (Bombay: Mahatma Gandhi Memorial Research Centre).*
- 1972 *University of Poona Convocation Address .*
- 1973 Hon. Doctor of Letters by University of Delhi, Hon. D.Litt. by University of Poona and Guru Nanak University.
- 1974 *The Course of My Life: Autobiography.**
- 1976 *Bhagavadgita: Commentary.**
- 1977 *Dhammapada: A study of the doctrine of Buddha.*
- 1981 *AMARAKOSA: Gems from the treasure house of Sanskrit words.**
- 1982 (2nd October) Died.

*Lectures, Addresses and books authored by Dr. C. D. Deshmukh.