

been taken to contain the general price rise as well as prices of specific commodities. I have already referred to the measures taken for import of some rice in addition to the decision taken last year for import of wheat for augmenting stocks. I have also referred to the step-up in releases of foodgrains and edible oils through the public distribution system, and higher releases of free sale sugar. Recently, the Government took the decision to reduce prices of fertilizers by 7.5 per cent in order to encourage greater use of fertilizers in the current kharif. The decisions to increase the procurement prices of rice and other kharif crops should further provide incentives for maximising production. Fortunately, after an initial setback, there has been a revival of monsoon activity and the current outlook in this respect is favourable. A good kharif crop would help us immensely to keep price pressures under check. The House will agree with me that higher production and adequate availability of commodities are the most effective answers to the problem of inflation.

In addition to measures to augment availability and production, the Government has been closely monitoring trends in money supply, aggregate demand and liquidity in the economy. In order to mop up excess liquidity with the banking system the Reserve Bank announced an increase in the cash reserve ratio from 7 per cent to 8 per cent in two phases during May and July 1983. After a further review and after taking into account the overall credit requirements of the economy, a further increase of 0.5 per cent in this ratio was announced to be effective from 27th August, 1983. It may be emphasised that these measures were introduced in order to absorb excess liquidity with the banking system, and will remain effective until conditions emerge for the suitable deployment of funds as productive credit. These measures will ensure there is no excessive build-up of credit for inventories or speculative purposes.

I have reviewed the price situation in some detail because I feel that the

need for vigilance on the price front is as great as ever. We have been able to moderate the increase in prices through timely action but the continuation of this trend cannot be taken for granted. I seek the cooperation of this House in our continued efforts to contain inflation.

12.34 hours.

STATEMENT RE GOVERNMENT'S

Decision On Puri Committee Report On Gold Auctions Held in 1978.

THE MINISTER OF FINANCE (SHRI PRANAB MUKHERJEE) : Sir, as the House is aware, the Government had on 17.5.1980 appointed Shri K. R. Puri, former Governor of the Reserve Bank of India, to examine the various policy and procedural aspects relating to the sale by auction in 1978 of gold held on Government account and to advise the Government as to the further course of action to be taken in the light of his findings. Shri Puri's Report was received on 3.2.1981. Copies of the Report were placed in the Parliament Library on 11.3.1981 and on the Table of both the Houses on 26.3.1981.

On a preliminary examination of the Report, it was seen that it covered a wide area and there were a few aspects on which clarification had to be sought from the persons concerned. A Group of Cabinet Ministers was constituted to go into the matter and indicate the course of action to be taken on the Report.

The Group of Cabinet Ministers has completed its work and the Government has come to the following conclusions :

(1) Matters relating to Policy

The stated objectives of the gold sale policy were to curb smuggling and reduce the expansionary effects of budgetary transactions. Shri Puri has held that both the objectives for sale of gold, as indicated by the then Finance Minister Shri H. M. Patel, did not stand scrutiny

[Shri Pranab Mukherjee]

and the policy was thus neither based on sound economic considerations nor was it in the public interest.

The Government, after due consideration, agree with this finding of Shri Puri. Neither of the two objectives was achieved by the gold auctions. Smuggling remained unabated and the budgetary gap was bridged to the extent of only Rs. 86.5 crores as compared to the actual budgetary gap of Rs. 2300 crores, i.e. under 4% only. The scheme of gold sale was announced as a part of the Budget of 1978-79. The proposals of the gold sales was referred to in the summary circulated to the Cabinet before presentation of the Budget but neither the policy nor the procedure of gold sales was put up to the Cabinet or any of its Committees such as the Committee on Political Affairs even though suggestions to that effect had been made during internal consultations and discussions. The manner of taking the decision by the then Finance Minister was neither politically proper nor well-considered. The full implications of this decision were not considered in the Cabinet or in the appropriate Committee, such as, the Political Affairs Committee. There is clear indication of the then Government's intention to sell all non-monetary gold from the available stock and the only quantity to be excluded from sale was 13 tonnes which was earmarked towards the National defence Gold Bonds, 1980. However, actually, 12.956 tonnes of gold were sold in the auctions. This sale did not contain smuggling. Prices continued to increase. The monthly average domestic prices rose from Rs. 564 per 10 grammes in January 1977 to Rs. 691 in February 1978 and as much as Rs. 1694 in December 1980. Had the 13 tonnes of gold not been sold at Rs. 86.5 crores in 1978 it would have been worth Rs. 220 crores in December 1980. On account of the wrong decisions taken, benefits passed on to the purchasers of gold who made profits for themselves by selling the gold obtained in the auctions at a higher price. Even if the scheme was to be treated as an experimental one, it has proved to be a very costly

experiment. To say the least, there has been a gross error of judgment on the part of the then Government in having embarked upon this prodigal venture.

SHRI SUBRAMANIAM SWAMY :
Why not prosecute them ?

(2) **Matters relating to procedure in terms of formulation and implementations**

SHRI PRANAB MUKHERJEE :

Shri Puri has concluded that the adoption of the method of auction as the only mode of sales, the fixation of high limits of minimum and maximum quantities for bids by individual dealers, and receipt of bids as also delivery of auctioned gold only in Bombay directly helped the Bombay based bullion dealers to manipulate the entire operation by forming syndicates, financing the marginal dealers and cornering gold.

The Government feel that the manipulation of the operation and forming of syndicates by the gold dealers as concluded by Shri Puri could not be attributed to the procedure followed, but was the direct result of the wrong policy pursued by the then Government.

(3) **Matters relating to the conduct of auctions**

Shri Puri has held that the Reserve Bank of India conducted the auctions without being appointed as an agent of the Central Government. On this, the Government hold the view that having regard to the close inter linkage in the working of the Central Government and the Reserve Bank of India and the need for secrecy and speed, entry into a formal contract for the purpose was not necessary.

Shri Puri has also held that there were deviations made from the specific norms for the fixation of the minimum accepted price and that as a result of these deviations over 4 tonnes of gold valued at Rs. 27.38 crores were sold.

The Government consider that Shri Puri has based his observations on a rigid concept of reserve price. The Government would observe that consi-

derable discretion was called for on the part of the officers concerned with the conduct of the auctions and that the discretion vested in them had been exercised *bona fide* and with due care.

As follow-up action on the Report, investigations were initiated in respect of many of the purchasers of gold. In all 134 premises have been searched by the Income-tax Department *and prima facie* unaccounted assets worth about Rs. 1.7 crores have seized. Incriminating documents were also seized and are under scrutiny.

Similarly, the directorate of Revenue Intelligence and various Central Excise Collectorates conducted investigations in respect of transactions of gold dealers and certified goldsmiths concerned with the dealings with the gold acquired in the auctions. A total number of 55 gold dealers and 30 goldsmiths were arrested and 74 prosecution complaints have so far been filed.

Further investigations by the Income tax and Gold Control authorities are in progress.

The Government would also like to observe that apart from tracing violations of law, identification of motivating factors etc., for appropriate action, one of the major purposes of the enquiry was to draw lessons for the future. The Government consider that such an exercise should not be repeated.

12.40 hours.

[Mr. Deputy-speaker *in the chair*]

MR. DEPUTY-SPEAKER : Now, Mr. M. S. Sanjeevi Rao to make a statement on Measures to further accelerate the rapid development of Electronics.

(*Interruptions*)

MR. DEPUTY-SPEAKER : Hon. Members, it is a *Sau Motu* statement by the Government.

(*Interruptions*)

MR. DEPUTY-SPEAKER : You must hear me. No clarifications can be asked on this and I would request the hon. Members to give notice if they want.

DR. SUBRAMANIAM SWAMY : I gave notice this morning.

MR. DEPUTY-SPEAKER : You are doing it according to the rules, very good. I thank you. Please sit down.

(*Interruptions*)**

MR. DEPUTY-SPEAKER : I am not permitting you. Don't record any thing of what Mr. Vyas says.

Now Mr. Sanjeevi Rao.

12.45 hrs.

STATEMENT RE MEASURES TO FURTHER ACCELERATE THE RAPID DEVELOPMENT OF ELECTRONICS

THE DEPUTY MINISTER IN THE DEPARTMENT OF ELECTRONICS AND IN THE MINISTRY OF FOOD AND CIVIL SUPPLIES (SHRI M. S. SANJEEVI ROY) : I wish to place before the House information on a package of measures intended to facilitate the growth of the electronics industry in our country.

The emphasis of this package is on promotion rather than regulation. We propose to encourage enterprise, to reduce input costs and to quickly attain economies of scale.

The package of promotional measures will consist of a set of rationalised and liberalised policies with regard to licensing and creation of capacities; reduction in input cost to the industry through a rationalised duty structure, investments by Government units in critical and strategic areas such as Silicon, Microwave Tubes, Large Scale and Very Large Scale Integrated (LSI/VLSI) Circuits, R & D for Electronic Switching Systems (ESS), etc. It is