13.02 hrs.

COMMITTEE ON PUBLIC UNDERTAKINGS

TWENTY-FIFTH AND TWENTY-SIXTH REPORTS

SHRIMATI SUBHADRA JOSHI (Chandni Chowk): I beg to present the following Reports of the Committee on Public Undertakings:

(1) Twenty-fifth Report regarding action taken by Government on the recommendations contained in their Third Report on Bharat Electronics Limited.

(2) Twenty-sixth Report regarding action taken by Government on the recommendations contained in their Second Report on Bharat Earth Movers Limited.

13.02½ hrs.

STATEMENT RE. RECENT MEETING OF THE COMMITTEE OF THE BOARD OF GOVERNORS OF INTERNATIONAL MONETARY FUND

THE MINISTER OF FINANCE (SHRI YESHWANTRAO CHAVAN): This is a lengthy statement. I shall lay it on the Table of the House.

MR. SPEAKER: All right.

SHRI YESHWANTRAO CHAVAN: Sir, I lay the statement on the table of the House.

STATEMENT

Recently a meeting of the Committee of the Board of Governors of the International Monetary Fund on Reform of the International Monetary System and Related Issues was held in Washington on March 26 and 27, 1973.

As the Hon'ble Members are aware, the international monetary system has been faced with serious difficulties in recent years. The persistence of uncertainty that has prevailed in the exchange markets since the middle of 1971 can seriously affect the smooth flow of world trade and payments.

There is now a general agreement that the unsettled state of foreign exchange markets is basically a reflection of the mal-functioning of the adjustment process under the present international monetary system. Over the years, the U.S.A. has had a persistent deficit in her balance of payments, the counterpart of which are large surpluses in the balance of payments of countries like Japan and the Federal Republic of Germany.

The continued weakness of the U.S. balance of payments has not only given rise to massive speculation against the dollar but has also called into question its role as a reserve currency. Until five or six years, the fact that the dollar was convertible into gold at a fixed price provided a strong inducement for countries to hold their foreign reserves in the form of dollars. However, as the dollar holdings of central banks swelled in the wake of persistent deficits in the U.S. balance of payments, many countries began to entertain doubts about the continued convertibility of the dollar into gold. To forestall any attempt on the part of central banks of other countries to convert their dollars into gold, the U.S. Government suspended in August 1971 the convertibility of the dollar into gold. This gave added urgency to the task of devising a new monetary system which would provide for an orderly growth of world liquidity in accordance with the requirements of an expanding world economy. The fact that the U.S. dollar or the pound sterling could not perform this role was recognised when the International Monetary Fund decided in 1968 to create a new reserve asset in the form of Special Drawing Rights as a supplement to other than existing reserve assets. However, the events of 1971 led to the conclusion that it was necessary to move forward speedily towards a system in which a neutral reserve asset like the special Drawing Rights would become the principle reserve asset of the system.

Although the need for international monetary reform has been recognised for many years, until very recently the major developed countries of the West tended to discuss these matters in an exclusive forum such as the Group of Ten. Since the stake of developing countries in a smooth functioning of the world monetary system is in no way less than that of developed countries, we repeatedly stated that it was entirely unacceptable to us that vital decisions about the future of the world monetary system should continue to be taken by a limited group of countries It is largely as a result of strong protests by the developing countries that the International Monetary Fund set up in September, 1972 the Committee of 20 to advise the Board of Governors on international monetary reform. The members of this Committee are the Finance Ministers of various countries.

The first meeting of the Committee of 20 was held in September, 1972 at the time of the annual meeting of Board of Governors. At that meeting, the Committee set up a group of Deputies, consisting of senior monetary officials of various countries, to examine technical issues and make recommendations on reform to the Committee. The Deputies have held so far four meetings and they are due to meet again in May, 1973.

The second meeting of the Committee of 20 was held in Washington on March 26-27, 1973. The principal item of the agenda was to approve the work programme drawn up by the Deputies. At this meeting, the Committee considered a report submitted by Mr. Jeremy Morse, Chairman of Deputies, on the work of Deputies to date. The Deputies have completed a preliminary review of outstanding issues relating to the improvement of the adjustment process and of reserve assets and convertibility in a reformed monetary system. Mr. Morse's report, which is not a public document, revealed that the Deputies had made substantial progress in their work. However, it became obvious that further progress in the preparation of the outline of reform before the next annual meeting of the Board of Governors would greatly depend on the ability of the Committee of 20 to lay down certain broad guidelines about the direction of reform. Without such guidelines, the Deputies' work was likely to suffer from a lack of proper focus as well as perspective.

Accordingly, both in formal intervention in the debate as well as in the course of informal exchanges of views with several members of the Committee, the need for the Committee to lay down certain basic principles of the reformed system so as to enable the Deputies to accelerate the speed of their work was stressed. These views were shared by other members of the Committee coming from developing countries. Our task was not easy particularly since the Committee was meeting soon after the February-March, 1973 exchange crisis which led to a collapse of the per value system for the second time in a period of less than two years. A number of developed countries initially took the view that it was too early to see clearly the outline of the reformed system. However, after some debate, the Committee argeed on a set of basic principls which constitute a definite step forward. Certainly, these principles and guidelines will help to accelerate the work of Deputies. Clearly, as of now one cannot assert with absolute confidence that the outline of reform will definitely be ready before the annual meeting of the Board of Governors. There are still differences of opinion on many vital details of the reformed system. However, the chances of the outline of reform being ready by September, 1973 appear brighter now than in the past one or two months.

Before the major conclusions of the meeting of the Committee of 20 are described, the House may like to know the set of objectives we had in mind for this meeting. First of all, we were very keen that the International Monetary Fund rather than the Group of 10 or the new Group of 14 should be the primary forum for discussion of international monetary issues. Secondly, like other developing countries we strongly feel that a stable though adjustable par value system provides a framework which is most conducive to the expansion of world trade. Developing countries do not have the institutional arrangements to cope with prolonged uncertainties in the exchange markets. Thirdly, we were eager that the Special Drawing Rights rather than gold or national currencies should become the principal reserve asset in the reformed monetary system. Fourthly, we are in favour of control of speculative capital movements so as to ensure that exchange rates are not always at the mercy of speculators. Fifth, during the last few years, we have argued consistently in favour of using new international liquidity to provide additional resources for economic development of developing countries. It is our view that while the volume of new international liquidity should be determined solely on the basis of monetary needs of the world economy, it is both feasible and desirable to use the liquidity so created to provide additional real resoruces to developing countries. This proposal known as the link proposal has gained widespread intellectual acceptance in recent years even though there is still reaistence to it from governments of a number of developed countries.

The results of the deliberations of the Committee are reflected in the Communique issued at the end of the meeting. A copy of this communique is also laid on the Table of the House. Clearly we have still to resolve a large number of unsettled issues before an agreement can be reached on the outline of reform. Nevertheless, this meeting has helped to provide the needed impetus to the work of Deputies.

It is a matter of satisfaction to us that the Committee has affirmed that the exchange rate regime in the reformed system should continue to be based on stable but adjustable par values. However, there is a strong sentiment in favour of greater exchange rate flexibility than in the past and that even though the par value system is likely to be retained developing countries will have to learn to live with the consequences of more frequent changes in exchange rates in the future.

The Committee of 20 has also agreed that the role of reserve currencies should be reduced and the Special Drawing Rights should become the principal reserve assets of the reformed system. This is in line with our own thinking on this subject.

The Committee has also agreed that an intensive study should be made of effective means to deal with the problem of disequilibrating capital flows.

Finally, on the important subject of the link, we have not been able to persuade the Committee to endorse it in principle and to leave its mechanics to be worked out later on Some developed countries have strong reservations in this matter. However, the Committee has affirmed the desirability on the occasion of reform to promote economic development and the flow of real resources from developed to developing countries. Although this cannot be constituted an endorsement of the link, the language of the Communique reflects some positive advance.

In our view, the link is a practical means of securing the obective endorsed by the Committee. It would be wrong to suggest that the link proposal will not face any serious hurdles. However, if developing countries remain united, there is a good chance that the link would constitute an important element of the reformed system.

Prior to the meeting of the Committee of 20, the Ministerial meeting of the Group of 24 developing countries was held on 24th March 1973. This group came into being last year to enable developing countries to exchange views and to work out a common position on matters relating to international monetary reform. On our suggestion, the Group of 24 has set up a working party to work out a common position on the link proposal acceptable to all developing countries for presenting it to the Committee of 20. We attach great importance to the work of the Group of 24 for it is only if developing countries are united that their voice is likely to be felt in the forums of the Committee of 20. On our part, we shall make every possible effort to sustain the unity of developing countries in our common quest for a new monetary system which will be more responsive to the needs of developing countries

Communique

1 The Committee of the Board of Governors of the International Monetary Fund on Reform of the International Monetary System and Related Issues (the Committee of Twenty) held its second meeting in Washington on March 26 and 27, 1973, under the chairmanship of Mr. Ali Wardhana, Minister of Finance for Indonesia. By the courtesy of the Organisation of American States the meeting was held in the Pan American Union Building. Mr. Pierre-Paul Schwitzer, Managing Director of the International Monetary Fund, took part in the meeting which was also attended by Mr. Wilhelm Haferkamp, Vice-President of the E.E.C., Mr. Rane Larre, General Manager of the B.I.S., Mr. Olivier Long, Director-General of the G.A.T.T., Mr. Manuel Perez-Guerrero, Secretary-General of the U.N.C.T.A.D., Sir Denis Rickett, Vice-President of the I.B.R.D., and Mr. Emile Van Lennep, Secretary-General of the O E.C.D.

2. The Committee received a report in which the Chairman of their Deputies, Mr Jermey Morse, summarised the Deputies' discussion to date on the adjustment process and exchange rate mechanism, reserve assets and convertibility, and capital flows.

3 The Members of the Committee reaffirmed the need for a world monetary order, based on cooperation and consultation within the framework of a strengthened International Monetary Fund, that will encourage growth of world trade and employment as well as economic development and will support the domestic efforts of monetary authorities throughout the world to counteract inflation.

4. The Members of the Committee exchanged views on the substance of international monetary reform in the light of recent develooment in exchange markets and of countries' policy reactions to these developments and instructed their Deputies to take account of these events and their implications in their continuing work. The Members of the Committee recognised that the various elements of reform are interlinked. Their discussion of a reformed system centred on the following points:

(a) There should be a better working of the adjustment process, in which adequate methods to assure timely and effective balance of payments adjustment by both surplus and deficit countries would be assisted by improved international consultation in the Fund including the use of objective indicators. It was noted that the Deputies are establishing a technical group on indicators. The importance of effective domestic policies for balance of payments adjustment was underlined. Members of the Committee recognised that exchange rates must be a matter for international concern and consultation and that in the reformed system the exhcange rate regime should remain based on stable but adjustable par values. It was also recognised that floating rates could provide a useful technique in particular situations. There was also general agreement on the need for exchange market stability and on the importance of Fund surveillance of exchange rate policies.

(b) There should be better international management of global liquidity. The role of reserve currencies should be reduced and the S.D.R. should become the principal reserve asset of the reformed system. The Deputies were asked to study further the conditions for a resumption of general convertibility including questions relating to consolidation of exc.ess reserve currency balances and to methods of settlement.

(e) An intensive study should be made of effective means to deal with the problem of disequilibrating capital flows by a variety of measures, including controls, to influence them and by arrangements to finance and offset them. It was noted that the Deputies are establishing a technical group on disequiliorating capital flows, including those associated with Euro-currency markets.

(d) There should be a strong presumption against the use of trade controls for balance of payments purposes. Developing countries would, however, be exempt wherever possible from trade and capital controls imposed by other countries and their particular circumstances would be taken into account in assessing controls that they themselves felt it necessary to apply.

5. The Members of the Committee recognised the concerns of developing countries under current conditions and their interests in a reformed system. They affirmed the desirability on the occasion of the reform of promoting economic development and the flow of real resources from developed to developing countries.

6. The Committee approved their Deputies' program of future work. In directing the attention of the Deputies to these aspects of reform which have an important bearing on the current sitaution, they recognised that procedures are already established for coordinating the work of the Executive Directors of the Fund with that of the Deputies. They noted that the Deputies plan to expand their meeting schedule and to intensify their work between meetings. and they instructed the Deputies to proceed urgently with the preparation of a draft outline of the reform, in which the major issues would be presented to the Committee for decision.

7. The Committee will meet again at a time to be proposed by the Chairman in the light of the progress of the Deputies' work.

SHRI JYOTIRMOY BOSU (Diamond Harbour): Will you allow me to put two or three questions?

MR. SPEAKER: No, please. Now, Shri Chattopadhyaya.

13.03 hrs.

TEXTILES COMMITTEE (AMENDMENT) BILL*

THE MINISTER OF COMMERCE (PROF. D. P. CHATTOPADHYAYA): Sir, I beg to move for leave to introduce a Bill to amend the Textiles Committee Act, 1963.

MR. SPEAKER: The question is:

"That leave be granted to introduce a Bill to amend the Textiles Committee Act, 1963".

The motion was adopted.

PROF. D. P. CHATTOPADHYAYA Sir, I introduce† the Bill.

RE PAY COMMISSION REPORT

MR SPEAKER: Now, Shri Banerjee.

SHRI S. M. BANERJEE (Kanpur): Mr. Speaker, Sir, with your permission, I would like to place one or two very important issues. I invite your kind attention to the *Statesmen* dated 6th April, 1973 stating that some of the Members of Pay Commission discovered distortions in the Report. I am surprised to read the banner headline appearing in this paper. It seems that there are serious questions raised in this. And it appears that Members did not know about these perhaps before signing the Report. Another very serious thing to which I want to draw the kind attention of the hon. Minister is this. This is about the chapter on I.A.S. This was perhaps drafted by the Member-Secretary Shri H. N. Ray and two I.A.S. Officers, Shri R. D. Thapar and Shri Naresh Chandra. One can very well imagine that this Pay Commission which is supposed to be an independent body should have allowed this Chapter to be drafted by the outsiders.

Our suspicion is that some of the Pay Commission members—with due apoligies to them—were tinkering with the fate of the millions of Central Government employees and Armed Forces I would request you to allow a discussion and ask the minister to appoint a commission immediately to find out if this is correct, action should be taken against the Member-Secretary.

MR. SPEAKER: Under rule 377, you can just invite attention, not make a speech

SHRI S. M. BANERJEE: I would request the minister to make the necessary investigations. Now that the fate of 20 lakhs of Class III and Class IV employees has been sealed by the Pay Commission I want that bilateral talks and negotiations with the employees' associations should start.

श्री अटल बिहारी वाजपेयी (ग्वालियर) : अध्यक्ष महोदय, चूंकि यह मामला उठाया गया है, इसलिए मैं भी एक मिनट लेना चाहता हूं। मुझे बड़ा ताज्जुब है—आपने समाचार देखा होगा—स्टेट्समैन में जो कुछ छपा है, उससे पे-कमीशन की प्रतिष्ठा को गहरा धक्का लगा है। पे-कमीशन के बारे में जो इस तरह की खबरें छपी हैं कि उसके मेम्बरों ने बिना रिपोर्ट को पढ़े उस पर दस्तखत किए हैं तो कर्मचारियों में उस रिपोर्ट के बारे में क्या विश्वास पैदा

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*Published in Gazette of India Extraordinary, Part II, section 3, dated 6th April, 1973.

†Introduced with the recommendation of the President.