

[Shri Liladhar Kotoki]
of India, may not in future put forth this plea that it is the responsibility of the States. It will come with detailed suggestions later on.

This Ministry is concerned not only with power but also with irrigation, flood control and protection from erosion. Therefore, I have some suggestions to put forth on each of these items for the consideration of the House and the Government.

I will take one point now. I know, I have to close in a minute or two because there is a Half-An-Hour Discussion. But I would just now mention this point so that I can develop it tomorrow. . .

MR. CHAIRMAN: I think, you better develop it tomorrow. We now take up the Half-An-Hour Discussion.

18 hrs.

HALF-AN-HOUR DISCUSSION
DEMAND FOR INQUIRY INTO WORKING
OF RESERVE BANK OF INDIA
SHRI JYOTIRMOY BOSU (Diamond Harbour) : Mr. Chairman, Sir, the Reserve Bank of India is a key institution for growth in the economic affairs of the country. We see very impressive buildings and they have, no doubt, become big patrons in the field of architecture but not in the field of economy.

Now, a former Governor of the Reserve Bank of India who knows its working thoroughly, Mr. H.V.R. Ienger, has been quoted thus :

"He attributed the present inflation in India to the virtually automatic process of credit expansion and wanted an Inquiry Commission to go into the extent of advice given by the Reserve Bank and accepted by the Government."

The suggestion was endorsed by Mr. R.G. Saraiya, Chairman of the Banking Commission. Mr. Ienger has been further quoted thus :

"Technically, the RBI was the primary currency authority and bank credit. But the real deciding authority was

the Government which was subjected to pressures.

He brushed aside the argument that inflation was a universal phenomenon and that the present inflation in India was part of the world-wide economic process. The effect of inflation in affluent societies was different from that in a poor country like India, he contended. In a poor country, inflation would hit millions of people at the vital spot—consumption of essential goods.

The ex-RBI Governor had also suggested the procedure of a parliamentary debate 'on the limit of credit expansion'".

I would like the Minister to make a note of this. Parliament has been so far, more or less kept in the dark and brushed aside.

Another gentleman has spoken about autonomy for the R.B.I. Mr B. N. Adarkar, the Bank's Governor told a meeting of the Rotary Club of Bombay :

"If there was one reason why the Reserve Bank should continue to enjoy due autonomy, it was to ensure that its power of credit creation was used wisely on the basis of an expert and non-political judgement.

This did not mean that the Bank's policies and decisions should be immune from public or parliamentary criticism. The Bank benefited from such criticism.

In a federal system, the Central Bank was exposed to constant pressure to create monetary resources to make good deficits arising from other sources.

At a time when the resources available to the State Governments were insufficient to satisfy all demands, the Reserve Bank was asked to make good the deficit, either by making additional credit available through credit banks or by agreeing to an increased amount of market borrowing."

This has been a very unhealthy practice.

Another person, Mr Sarwar Lateef, has also issued sentiments and voiced his views. Then, there is an article from the *Hindustan Times* which says :

"Of late, the Reserve Bank has come in for comment on its role in the management of the credit and monetary policies of the Government. Doubts have been expressed over its relationship with the Government and it has been suggested that its advice has not always been altogether free or independent of predilections in Delhi."

This is very alarming. Why should this happen ?

The Finance Minister has, of course, rejected these things.

Now, I would like to quote certain things about the duties of the Reserve Bank as shown in the book entitled "Functions and working of Reserve Bank of India". On p. 4 it says :

"The main functions of a central bank are broadly the same all over the world, namely, acting as note issuing authority, bankers' bank and banker to Government."

It also says :

"It is generally agreed that a central bank's objectives should be to promote or facilitate a high growth rate, full employment, price stability and a viable external payments position.

The Reserve Bank has the sole right to issue notes and it also acts as banker to the commercial banks and to some of the financial institutions including State cooperative banks, holding custody of their cash reserves and granting them accommodation in a discretionary way."

It mentions further :

"...administration of the public debt was the direct responsibility of the Government, although the Public Debt Offices were being managed by the Imperial Bank of India. Both these aspects of Government finance have now been centralised in the Reserve Bank. Further, the Bank acts as banker not only to the Government of India, but in view of the federal character of the Indian Constitution, also to the Governments of the States."

It adds :

"The Bank is also entrusted with the management of the public debt ." etc.

So many things are enumerated. Let us know how much goods they have been able to deliver.

Then I come to the point as to how they have failed. This is from the famous book, *The Menace of inflation*, by Shri Gyanchand. It clearly says :

"The Reserve Bank of India is India's Central bank, and as is true of all central banks, the maintenance of price stability is one of its main functions. It has failed completely in the discharge of this function ; and at a time when the prices are under constant and increasing pressure, it is unable to counter it even by utilising fully all its power and instruments of regulation and control.

"The conclusion, of course, follows that the responsibility for the fact that the Reserve Bank, in theory and practice, has, largely speaking, looked up to and followed the lead of countries like USA, UK, and all other countries with which it shares their virtual commitments to the same major premises, articulate or inarticulate, of monetary theory and practice in all essentials and even in

[Shri Jyotirmoy Bosu]

some cases in non-essentials . . .”
etc., etc.

I do not want to go into the details of that.
It also says :

“But inflation in India—creeping inflation, if we must use that epithet—in spite of all the subterfuges which the monetary authorities and their appointed apologists have tried to find for it, was not and is not inevitable. It could and should have been prevented and even now it can and should be tamed. But the men in power and the interests, which more and more have been fastening their hold over them, are held captive by the views and concepts of the economists which in spite of being obsolete, specially in relation to our conditions and problems, ought to be defunct but are not, besides of course their being in the grip of the narrow minority interests which they represent and serve. The result is that these men in a crisis could only yield to the pressure of U.S.A. as the way out and fall back upon a measure like devaluation as a sovereign remedy of inflation and barter away our economic independence and national honour and dignity for only a mass of pottage—for aid of £900 million to import spare parts and components for some of our possibly highly favoured industries.”

That is the character, this is the achievement and performance, of this Government.

I now come to price rise. Let us see the index numbers of wholesale prices. Taking 1953 as the base year, as 100, we find that, in 1965, in the case of India it was 120 and in November, 1971 it jumped to 174. If you look at Egypt, as against 112 in 1965, it went up only to 119.1; in the case of France, the figures are 104 and 128; in the case of Iran, it was 106.3 in 1965 and it went up to 121.9 in 1971; in the case of Japan the figure was 101.1 and it went up to 110.9; in the case of Pakistan, it was 110.4 and it went up to 141.6, whereas in India as I said, from 120

in 1965 the figure jumped to 174 in November 1971. Today, you know, Sir, where we are, we are indeed in a burning furnace. Then, in the matter of consumer price index—in 1965, for all commodities taken together it was 124 and 127 for food items and then in 1971 it touched 197 and 212 respectively. In Pakistan it was 110 and 115.1 in 1965 and in 1971 it was 146.7 and 156.8. So Sir, in the matter of consumer price index rise we have in fact topped the world.

Then there is the glaring example of deficit financing. What does the Reserve Bank do except displaying its great power and glorious buildings? Regarding deficit financing, Centre and the States combined, it was :

First Five Year Plan 1951—56—Rs. 333 crores, Second Five Year Plan 1956—61—Rs. 954 crores and the Third Plan—1961—66—Rs. 1133 crores and the three annual plans 1966—1969—Rs. 679 crores. Then the increase in money supply was : in 1970—71—Rs. 753 crores, 1971—72, Rs. 998 crores and 1972—73—Rs. 1067 crores and the percentage of variation to annual growth rate was: 4% in 1970—71—2% in 1971—72 and about 1% in 1972—73. And so, we are on the top of the world. That is the Reserve Bank's performance. Then the total actual deficit financing as measured by the bank credit to the Government sector was: 1970—71—Rs. 510 crores, 1971—72—Rs. 1183 crores and 1972—73—Rs. 1342 crores. These are the actual figures of deficit financing and I want to ask Mr. Chavan, I have written to him giving all these points because I want a detailed and elaborate reply from him, what advice the Reserve Bank tendered to the Government and how the Government reacted to the advice and if they have rejected it, on what grounds they have rejected it and if they have accepted it, how they have implemented it.

There has been a hush-hush and I do not know how many skeletons there are in the cup-board, so that they must sit tight.

Nearer home, in India, on December 21, 1957, the Finance Minister said in the Rajya Sabha :

"The Governor of the Reserve Bank is not an officer of the Government. The Reserve Bank happens to be a supreme autonomous body that was created. He is a non-official . . .

How true ?

" . . . He is entitled to criticise the Government, . . .

I have never heard

" . . . to differ from Government. . .

I have never known.

" . . . we can in matters where Government's policies are to be carried out, issue directives; but the Reserve Bank can hold a different opinion, though they have to act according to the directives issued by the Government for good reason's. He is bound to carry out the direction, but, in doing so, he is entitled to tell me and also publish it in his report that the Government of India was advised in the matter."

I would like to be enlightened on this, Mr. Chavan, and, correctly too.

The Issue Department of the Reserve Bank of India was separated from its banking department as per section 23(1) of the Reserve Bank of India Act, 1934. The details of the working of these two Departments are therefore supplied separately. However there are differences in the details of their working.

Whereas full details of its working are given by the Banking Department, details about the working of the Issue Department are invariably too brief,— Why is it so ? At present, the Issue Department published only a sterile weekly statement. We have a right to know why the Reserve Bank has been trying to hide things from us.

Then, a lot of other information regarding public debt, the types of securities held, their depreciation etc. would be necessary for an intelligent discussion of the Government's economic policy and its implementation by the Reserve Bank of India.

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There also, Mr. Chavan owes an explanation to the House as to how they have deprived us of this vital information. They are obliged to supply it but they have deliberately kept us in darkness. The Federal Reserve System of the USA does publish all such reasonable information about the working of its Issue Department in its monthly and annual reports. As told to the Radcliffe Committee of the FRS, the information given to the public by the Central Bank should be sufficient enough to create public confidence in the motives of those managing the system. It would then be possible in India to pin-point the defects in the actual working of the relationship between the Government and the R.B.I.

At present the general public is in the dark regarding the most important aspects of the working of the RBI. There is no way to know whether the RBI Governor had given any advice to the Government on some aspect of monetary policy, whether it was accepted by the Government, and if not accepted, why not. We will also never know whether there was any difference of opinion between the Governor and the Government. The RBI has devalued the Indian rupee on the sly. For the third time in 14 months the Government has managed to devalue the rupee without saying so. Before 15th February the rupee was worth 0.00333 ounces of gold, calculated at 38 dollars per ounce of gold and Rs. 7.90 per dollar. But on the day when the new international rates came into force the value of the rupee went down to 0.00312 ounces of gold.

I don't want to go into the details of this. I wish to point out how the Government and the Reserve Bank of India have cheated the country and the people of the country, and how they have done this behind the back of the country, and the utter darkness to which the people were kept.

[Shri Jyotirmoy Bosu]

Then I come to currency notes destruction—this has become a public scandal. Mr. Chavan talks so much about employment, but this is what happens. The RBI employees have come out with statement that they will be going on a strike from the 10th, that is, tomorrow. This will be an all-India strike. This will be a major issue. I now say what they have said. This is what the All India Reserve Bank Employees Association says :

“One of the major functions of the Reserve Bank, the country’s Central Bank, is regulation of currency system. As the Controller of the currency it puts currency notes into circulation .

Then they say :

Certain checks are essential to keep the quality and quantity of the currency notes at the desired level. Otherwise bad money overtake good money and this built-in defect puts the country’s currency system out of its gear. This perspective necessitates a systematic and detailed process of through scrutiny and counting of the notes received back from circulation in accordance with the provisions incorporated in the Bank Manual for the purpose.

Upto early sixties this procedure was normally followed. Subsequently the Bank’s management have been insisting that the volume of currency circulation having become unmanageable the standard procedure of counting, checking, sorting etc. has to be abandoned. So came the Emergency Procedure (EP) by which a total lot of notes are punched (defaced) and destroyed after subjecting them to a percentage checking. ”

That is the thing, Sir. That is what is worrying us.

“This wrong step led to the other.

This Emergency Procedure has been revised and Special Procedure (SP) introduced whereby even the defacement of the soiled notes before destruction has been given up.”

Then they say .

“These changes cannot but lead to forged notes being passed off undetected, shortages in packets unnoticed, the actual value of notes in circulation being less than their declared figure due to more notes being in the kettan provided for and notes fit for recirculation being burn to ashes.

Besides putting the currency system in jeopardy these changes procedures affect the employment potential of the institution as well as the job security of the employees. Further the flood-gates of fraudulent practices are opened. Had these procedures not been restored to several thousands of employed youths could have found employment.” etc. etc.

The Reserve Bank of India has got power with regard to Foreign exchange control. I have got a list of 12 items here which was given to me in Exchange reply to a question. They have absolute power to control Foreign Exchange to another question of mine.

“Do you maintain a detailed account of the incoming remittances particularly meant for foreign missions and missionaries ? If so, what are the details thereof ? If not, why not ?”—

Vide p. 53 of the copy of the proceedings—
the answer was :

“there are no restrictions under the Exchange Control regulations on inward remittances to India through

banking channels. However, purely for statistical purposes authorised dealers are required to give particulars...."

But the Reserve Bank does not hold itself responsible for anything in the matter; it absorbs itself and clears out of the passage; because it involves very powerful white monopolists, it cannot do anything.

Then my question was :

"In the context of what he has stated just now, I quote from the Kaul Committee report which, I consider it is a gross under-estimate, says that the total leakage through the manipulation in trade channels is of the order of Rs. 240 crores. Then I place more reliance on this very useful *Economic on Political Weekly* which says that the foreign exchange leakage on all these counts would not be below Rs. 400-500 crores. My estimate is that under-invoicing and over-invoicing takes at least Rs. 500 crores a year. On the top of it, improper remittances and illegal remittances currency smuggling etc. is another Rs. 400 crores. So, a thousand crores of rupees of foreign exchange is the illegal outflow from our country".

I asked a question of a very high official of the Reserve Bank

"The job for which we assemble here is conservation of foreign exchange in the country. Is there a leakage from India, company-wise? Can you give a note on this?"

The answer was :

"We do have a record of each remittance because it has to be reported to the Reserve Bank. But to give for each company, it is difficult because there are so many companies involved".

Can you imagine that a bank which is the Reserve Bank of the country could be so callous where we are losing money by billions?

I put some more questions.

"How many international brand names are being used in India for which money

has been allowed to be remitted—give detailed figures".

The answer was :

"The present system of maintaining statistical data does not indicate the total number of all the brand names of foreign companies which are used in India or of the remittances made for the use of each one of them. Information is, however, available regarding the total remittances made towards 'technical know how' and 'royalties'."

I put another question, on capitalisation of foreign trade marks :

"Capitalisation of foreign trade marks has been permitted by the Government; the amount of money that has been remitted on this account, and if the Government will be putting an end to this."

The reply was :

"From the data presently maintained, it is not possible to say whether any shares have been permitted to be issued to non-resident companies specifically for the use of trade marks."

But are they blind? Don't they read the balance sheets? These are the people who have worked us out.

How could Mundra's keep sterling holdings of about 2 millions in UK in benami names of the following running, controlled and administered public limited concerns : Brahmputra Tea Co. UK Ltd. Hore Miller & Co. UK Ltd., Duncan Stratton & Co. UK Ltd., SB Industrial Development Co. UK Ltd., etc. etc.

I have got another piece of information concerning Shah Wallace & Co. This has become a big scandal, I have been told by very reliable, knowledgeable persons that the Punjab National Bank was in possession of a cable, a telegram, from one manufacturer, Hanover Trust, London

[Shri Jyotirmoy Bosu] informing that Moira Investment, Luxembourg, was being formed with Mr. Kalyan Bose, a criminal man who should be put behind bars, and Mr. G.D. Kothari, who I know is a nephew of Mr. G.D. Birla, and Mr. Sudhar Deb, brother-in-law of Kalyan Bose, and Superintendent of Birla's Hukum Chand Jute Mills.

I want to ask Shri Chavan : what did the Reserve Bank of India do in this context as the authority on foreign exchange control ? I also want to ask him this question. The Punjab National Bank is an authorised as a dealer of foreign exchange by the Reserve Bank.

What action has been taken so far as against the Punjab National Bank ?

Is it true—the story of swindling the money of a West German Bank ? Or is it a smokescreen to make black money white ? Why was not section 4 of the Indian Penal Code applied against these people ? How did the Reserve Bank of India allow a man called Vim Rathko, an employee of Sudarshan Birlas, to go abroad, to London and Switzerland—

MR. CHAIRMAN : If you can avoid names, it would be better.

SHRI JYOTIRMOY BOSU : —on behalf of the Oriental Carpet Manufacturing Co., when he was not even an employee ? What about his stay in a posh guest-house in Bargell Square, owned by Birlas in London and Switzerland ?

I say this Reserve Bank is a monument of failure. If you know about the Hindalco, they have been remitting money from all possible sources, digging holes here and there. I do not want to take much time. But this is what they are doing,—commission running into millions of dollars was remitted somehow to Traders International. This was not enough for the Birla bosses. They even managed through manipulation a duplicate remittance of the purchase commission to another office of theirs located in Switzerland, which is known as Messrs. Birla AG., Zug. Similarly, commission remittances were made against exports

and imports since 1962 to both the Birla offices—that is one item—in Washington and Zug (Switzerland) in violation of foreign exchange rules. Not only this. They even managed to get duplicate commission remittances made to these offices against the same contract. What is the Reserve Bank, with its glorious building here and with Mr Chavan at the top, doing ? I want to ask that question

I will finish in one minute.

MR. CHAIRMAN : You want the Minister to reply.

SHRI JYOTIRMOY BOSU : Yes, Sir. The Government have said that they have been fighting black money. When we have been trying to unearth black money, the Reserve Bank had approached the Wanchoo Commission to destroy the report or to withdraw the report. That is the job of the Reserve Bank—not to curb inflation ! Then there is the mysterious story of Nagerwala. What has the Reserve Bank been doing about it ? It is their baby. We want to know what has finally come out.

Then, I want to ask him what is the criterion for the composition of this Board—Central Board of Directors. That a man must be a tycoon representative ? A man must be a *kulak*; a man must be a diehard; a bureaucrat, preferably a British tailored variety. They had been kicking hard on our back during freedom struggle. We have S. L. Kirloskar on the Board. Then there is Bhaskar Mitter. Is that the criterion ? I have got the names here. Mr Kirloskar, Mr. Bhaskar Mitter.

MR. CHAIRMAN : Avoid names.

SHRI JYOTIRMOY BOSU : It is all there in the printed document of the Reserve Bank. How can I avoid it ? On the Central Board of Directors, as on June 30, 1972, Mr Chavan's nominees or Mr S. Jagannathan's nominees are, Mr. Kirloskar, Mr. Bhaskar Mitter—speaks for the White man only, the

British; he was President of the Bengal Chamber of Commerce once upon a time,—Andrew Yule—good people! You know how they boot the Indians—tea, indigo, jute. Then Mr. Arvind N. Mafatal—a socialist, of course. Then, Mr. G. Basu, Mr. D.C. Kothari etc. These are the nominees of Mr. Chavan of the Reserve Bank of India, and talk about—(Interruption) I can give you the whole book. It takes time.

Lastly, before I sit down, I want to bring to your notice a telegram from the Reserve Bank employees, which I received just five minutes before leaving my bungalow this afternoon. It says :

“Refer to-day’s newspapers and inform immediately that of total number of pieces repeat pieces in circulation one and two-rupee notes constitute fiftyone per cent stop Denominations one to twenty ninety-six per cent Stop Explain objection to chest opening by others where our office situated and not in distant places Stop Clarify Public Accounts Department position and Exchange Control Department power delegation Stop. Nearly three hundred persons work of ECD Export Section alone computerised.”

Because a big tycoon must sell his computer services because Mr. Chavan wants—

“Mention that pay revision relates to rising living costs and has no bearing on quota works.”

This telegram has come from the All India Bank Employees Association. It has a curious aspect. The Reserve Bank of India is a house of cards. It has impressive buildings, and impressive rooms, a conglomeration of tycoons and vested interests. The Reserve Bank of India has totally and utterly failed to stand by the common man, the working men in the country. It has completely ruined the economy of the country. Therefore, before I sit down, I would urge that a committee of enquiry should be

appointed. There should be parliamentarians and economists in that committee free from governmental influence and pressure and there should be a thorough probe as Mr. Iengar and other eminent persons have demanded. There should be a thorough probe for the sake of the welfare of the country.

SHRI D. K. PANDA (Bhanjanagar) : Last year there was a discussion on the forward Contact Regulations Act and during that debate it was brought to the notice of the Hon. Minister that speculators and hoarders had been granted liberal loans and that false statements were made by those speculators. In that connection Mr. Chavan made a statement in this House that the speculators would not be granted loans and there would be more strict scrutiny in such cases. Within two or three days of that statement, the Governor of the Reserve Bank of India made a statement, and since then the Governor in violation of that order or declaration or promise to this House has been granting more loans to the speculators, a most flouting the hon. Minister’s promise. What steps are being taken to stop such violations by the Reserve Bank of India authorities ? Even after the hon. Minister’s promise and declarations to observe the rules strictly while granting loans to the speculators and hoarders, why has it been allowed to happen.

THE MINISTER OF FINANCE (SHRI YESHWANTRAO CHAVAN) : I have heard the strong speech full of quotations from h.m. colleague Shri Jyotirmoy Bose. He had raised a few points. Some of them were relevant to the subject matter that he had promised to raise. But he will kindly excuse me if I say some of them were not relevant.

SHRI JYOTIRMOY BOSU : It is a matter of opinion.

SHRI YESHWANTRAO CHAVAN :

It is a matter of opinion. He has raised a discussion with a view to ask for an enquiry and probe into the working of the Reserve Bank of India. I think it is much better if I make it clear at the very beginning that it is not the intention of the Government to start any such enquiry because it is not necessary. It appears that the purpose of this debate was to create doubts in the minds of people about the most important institution, the Reserve Bank of India, which is the central banking authority in our country. Let us go into the basic functions of the Reserve Bank of India. Even according to those who wanted to criticise the Reserve Bank of India—I was very pleased to see Mr. Bosu quoting H.V.R. Iengar—the twin purpose, the twin objective of the Reserve Bank of India is to secure or assure the stability of currency and also to work in such a manner that it would subserve the national interest and the country's economy. These are, in broad terms, the objectives of the Reserve Bank of India.

Now the question that Mr. H.V.R. Iengar has raised and hon. Member Shri Bosu also raised was about deficit financing. I have read the speech of H.V.R. Iengar and I have got with me some portions, some quotations from his speech I would read one of those quotations which is very relevant. His main point about deficit financing was whether there is any safe limit to deficit financing and whether in that matter the Reserve Bank of India has given any advice to the Government and if it has given any advice why should there not be a public dialogue. Why can there not be a public discussion in Parliament? That is the point he has made.

In this connection it would be very necessary to point out what Mr. H.V.R. Iengar has to say about the general problem as such, I have got a part of his speech. Possibly you also quoted from the same part of his speech. This is what he says.

“The furtherance of planned economic objectives in the case of a developing country such as India could only mean a continuous inflation of prices, which means a continuous erosion of the stability of currency. This is inevitable in any developing process and by no conceivable stretch of imagination could a country such as ours possibly raise resources by non-inflationary means, enough to meet both current needs of the administration as well as the needs of massive development effort.”

This is what Mr. H.V.R. Iengar says. It is not Chavan speaking.

“The question has never been as to whether we can do without inflation.”

According to him, the question has not been as to what we can do to stop inflation but the question has always been as to what is the degree of inflation that the country can tolerate. This is a very reasonable thing which we have also accepted. This is not a point on which any dogmatic views can be expressed. Also he has stated that there can be tolerable limits. But, on this matter also there cannot be any dogmatic views. This is what he says :

“Dogmatic views cannot be expressed because the problem is not one of more economics. It is intermixed with the problem of psychology. The Reserve Bank is a primary creator of currency and bank credit and technically, has the major responsibility for creating monetary conditions which create and sustain inflation. But, unfortunately for the Bank and the people of this country, the Reserve Bank is not the sole deciding authority as to the degree to which the currency and credit can be expanded at any particular point of time. It is true that the Reserve Bank cannot take final view in the matter, and the reason is that the real deciding authority is Government and Government is

subjected to several pressures. I am not saying, for the moment, that Government should not decide this." That is what Shri Iengar says. Obviously, there can only be one sovereign authority in a country and that cannot be the Reserve Bank and that should be the Government elected by the people and responsible to the people. The Reserve Bank is in no position to assess the options open to Government and Government should assess the extent to which it is possible to resist political pressures etc. One thing is certain that the Reserve Bank, in this matter, has a certain role but the final responsibility for taking decisions about the limit of deficit financing is that of Government. Government is responsible to this Parliament.

SHRI JYOTIRMOY BOSU : We wanted to know as to how you react ?

SHRI YESHWANTRAO CHAVAN : Certainly, about deficit financing also, we cannot take a dogmatic view. The tolerable limit of deficit financing depends upon many factors.

SHRI JYOTIRMOY BOSU : We want to be told about that.

SHRI YESHWANTRAO CHAVAN : This is a continuous dialogue.

SHRI JYOTIRMOY BOSU : Can't you lay it on the Table of the House ?

SHRI YESHWANTRAO CHAVAN : These things cannot be placed on the Table of the House because a continuous dialogue and discussion goes on from day-to-day. It is not that on one point they just give orders to Government and the Government says 'No'. The hon. Member Shri Bosu must try to know how the administration runs. It is not that anyone point the Reserve Bank issues a *Dama* to Government saying that there should not be any deficit financing beyond 'X' limit. (Interruptions).

MR. CHAIRMAN : Mr. Bosu, one minute please. I think that when you spoke nobody interfered. Nobody asked anything, nor interjected. Would you not allow the same liberty to other hon. Members including the Ministers ? That puts him off from the argument.

SHRI YESHWANTRAO CHAVAN : So, Sir, the point that I was mentioning was this. As regards deficit financing, for example, if we want to raise a public loan, naturally, we go and discuss it with the Reserve Bank as to what is the safe limit for raising the loan ? Normally, in this particular matter we go by the judgment of the Reserve Bank. So, on many points we have accepted it because ultimately in the matter of public loans raised by the Centre, the States or autonomous bodies like the State Electricity Boards etc. We go by the advice of the Reserve Bank of India. He quoted the statement of Mr. H. V. R. Iengar. It is a wise statement. I do not entirely agree with all the statements he has made. But he said, it is not merely an economic issue, but deficit financing is also an issue where you have to take certain political policies into consideration. In this particular matter Government always keeps Parliament informed. When the budget is presented, Parliament is taken into confidence and told that these are the possibilities. Whenever we come forward with further supplementary demands, if at all we have to go in for deficit financing, we do it with the approval of Parliament. Mr. Bosu may or may not approve of it, but this Parliament, as a sovereign body, approves of it. So, there is nothing done behind anybody. Nothing is concealed. It is an open matter. The fact we are discussing it here today shows that it is an open matter. As far as deficit financing is concerned, certainly the Reserve Bank has its independence to give us advice and it has been giving us such advice. Ultimately Government takes a decision with the approval of this sovereign body.

SHRI JYOTIRMOY BOSU : Did it at any point of time ask you not to do it ?

SHRI YE WANTRAO CHAVAN :

This is a matter between the Reserve Bank and the Government. cannot tell you at what time what advice it gave. Sometimes they say, don't do it. Sometimes we have to do that. Sometimes they publish their own views in their own bulletins, which are not favourable to Government. They have the autonomy and the right to do it.

SHRI JYOTIRMOY BOSU : Even in capitalist country like America, these matters are given far wider publicity than in this country which professes socialism.

SHRI YESHWANTRAO CHAVAN

I did not know that you were praising the American system and ideas.

SHRI JYOTIRMOY BOSU : I did not say that.

SHRI YESHWANTRAO CHAVAN:

I do not want to go into polemics about it. He is a good friend of mine. He says that we resorted to devaluation on the sly. It is not correct.

SHRI JYOTIRMOY BOSU : Have you made any announcement on the floor of the House that you are devaluing? You are devaluing it gradually bit by bit. Have you ever taken the House into confidence about it?

SHRI YESHWANTRAO CHAVAN :

I have made statements many times on the floor of the House about the international monetary scene as far as exchange rates are concerned, in reply to questions etc. Only the other day, I made a long statement about the monetary situation in the world. You are living in a world where there is a hot war of exchange rates; I would not say it is a cold war, it is a hot war. When the other currencies are either revalued or devalued, you cannot isolate yourself from the rest of the world. It has a certain effect on us. But the Reserve Bank takes care to see that we are the least affected. That is the only thing I can mention. There is no truth in the statement that we are devaluing on the sly. It is a question of

merely making an assessment of the international scene of exchange terms as it is today.

Then, he mentioned many names of individuals and firms in connection with foreign exchange. I do not know what the Reserve Bank has got to do about it. It is very unfair to make all sorts of allegations without any foundation, without any evidence. He has asked many questions which we have answered on the floor of the House. Now he has mentioned half a dozen companies.

SHRI JYOTIRMOY BOSU : I made a

specific allegation that a cable came to the Punjab National Bank from Luxemburg about Moira Investment of Mr. Kalyan Basu. Secondly, the Reserve Bank is the supreme and final authority in the matter of control of foreign exchange, and the Punjab National Bank is one of the nationalised banks. How is it that the Reserve Bank did not act in the matter although there is evidence in black and white in the records of the Punjab National Bank? Is it not because of the powerful influence of Birlas?

SHRI YESHWANTRAO CHAVAN : I

personally think that the Reserve Bank is not in any way connected with this. He has mentioned certain facts. I cannot say that the Reserve Bank can be held responsible for this. I am sure that whenever any matter is brought to the notice of the Reserve Bank, it goes into it. That is my presumption.

Then he mentioned about the directors of the Reserve Bank, perhaps from some old list. For his information I may say that Shri S. Jagannathan is the Governor and the other members are Shri P. N. Damy, Dr. R. K. Hazari, Shri S. S. Shiralkar and Shri V. V. Chari, all Deputy Governors, Prof. M. L. Dantwala, Chairman, Agricultural Finance Corporation Ltd., Bombay, Shri A.N. Haksar Chairman, India Tobacco Co. Ltd., Dr. Bharat Ram, Chairman & Managing Director, Delhi Cloth & General Mills Co.

Ltd., Shri C. Ramakrishna Advocate, Madras, Shri C. P. Srivastava, Chairman & Managing Director, Shipping Corporation of India, Shri M. P. Caitale, Chartered Accountant, Bombay, Dr K. Kanungo, Dean and Joint Director, Indian Agro Research Institute, Dr. B. Datta, Calcutta, Dr. G. Parthasarathy, Vice-Chancellor, Jawaharlal Nehru University, Dr. V. Kurien, General Manager, Kaira District Co-operative Milk Producers Union Ltd., Dr. P. B. Gajendragadkar, Chairman, Law Commission and Dr. A. M. Khusro, Professor, Indian Institute of Economic Growth. This is the galaxy of economists and eminent public men sitting on the Board of Directors of the Reserve Bank and it is something of which we should be proud. Merely to mention some names here and try to give a very distorted picture is very unfair to Shri Jyotirmoy Bosu himself, unfair to the Reserve Bank and unfair to the country. Therefore, I do not accept any of the allegation made against the Reserve Bank. I repudiate all the allegations made against them and refuse to accept the demand for an inquiry.

Then one hon. Member said that the Governor of the Reserve Bank said something which in effect flouts one of my statements. I do not think anything of that sort has taken place. If he sends me more details, I shall look into it.

SHRI JYOTIRMOY BOSU: Shri Bharat Ram had to leave the Board because he was involved in a scandal about DC aircraft to be purchased from a foreign monopoly concern.

SHRI YESHWANTRAO CHAVAN : How can they do anything when there is such a large number of people sitting in the Board ?

How can I say that the allegations are true or not ? Therefore, my presumption is that the allegations are not true unless they are proved. These are eminent persons there. How can we go on accepting allegations of this type ?

Then, it was said that the Governor of the Reserve Bank of India agreed to give loans to speculators. The Reserve Bank Governor does not directly deal with giving loans. It is the Banks which give loans. What I have said is that we have taken steps and made certain arrangements in the banking procedures to see that speculators will not be able to get loans. This is what I have said. This is the policy even today, that we must see that the money that is given in the form of loans and advances must be for genuine economic viable purposes and for productive purposes. If on the sly somebody is taking advantage for speculation, certainly, it deserves going in to the facts and looking into them. But it is beyond my imagination how the Governor of the Reserve Bank of India is connected with this sort of thing.

I would like the hon. Member, when he makes a statement on a very important forum like this, to be more careful. I would request that whatever their views may be about 'A' or 'B' or 'C' let them remember, the Reserve-Bank is one very important structure of Indian economy which is very necessary for the stability of the country. It is the interest of everyone of us. Parliament, the country, the economy, that we keep up the prestige and dignity of this great institution, the Reserve Bank of India.

18.51 hrs.

The Lok Sabha then adjourned till Eleven of the Clock on Tuesday, April 10, 1973/Chaitra 20, 1895 (Saka).