RESERVE BANK OF INDIA (AMENDMENT) BILL

Mr. Speaker: The House will now take up clause by clause consideration of the Bill further to amend the Reserve Bank of India Act, 1934. The time allotted is 2 hours.

Shri A. M. Thomas (Ernakulam): Shall I suggest to you that the clauses may be divided into three or four categories for purpose of consideration?

Mr. Speaker: There are no amendments to the Bill.

Shri A. M. Thomas: They deal with specific subjects and so they may be divided into three or four categories. I would humbly suggest that clauses 2 to 6, 12 and 13 dealing with the abolition of the Local Boards may be taken up for consideration together, as one group. Clause 7 is immaterial. Clauses 8 and 9 may form one group. Clause 10, with regard to the raising of the ratio of the various banks, may be taken separately. Then there is clause 11 to be considered.

Mr. Speaker: We will group them under these heads A, B and C. A will be clauses 2 to 6, 12 and 13; B will be clauses 8 and 9; C will be clauses 10. The other clauses are not of equal importance. Now we take up the first group, that is clauses 2 to 6, 12 and 13.

Clauses 2 to 6, 12 and 13.

Shri A. M. Thomas: I oppose these clauses 2 to 6, 12 and 13. Some of the arguments in favour of the deletion of these clauses I have already advanced when I spoke on the general discussion of this Bill. The justification for the abolition of the Boards set forth in the notes on clauses at page 9. It is stated there that the Local Boards at Bombay, Calcutta, Delhi and Madras are mainly attending to the work of the Reserve Bank connected with the transfer of shares, scrutiny of claims to shares belonging to deceased shareholders, etc., with the transfer of the Reserve Bank to public ownership and the disappearance of share-holders the Local Boards have no longer any important functions to perform. That was one of the arguments that was advanced by the hon. Minister also when he made his speech on the Bill while moving the motion for consideration. That argument would have held good if you were in a position to entrust to the Local Boards these functions; and these functions alone. I respectfully ask whether these functions could not have been enlarged. As the Act at present stands, according to section 9(4) you will find that a Local Board shall advise the Central Board on such matters as many be generally or specifically referred to it and shall perform such duties as the Central Board may delegate to it. So, not only these formal and insignificant powers such as recognition of transfer of shares or things like that but other functions of a more material nature and of a more significant nature could have been transferred to the Local Board for consideration and necessary recommendation and advice. This was not evidently being done. The initiative for abolition according to the Minister came from the Local Boards. There is no reason why the Local Boards themselves should have said, "There is no necessity for us to exist any longer and, therefore, abolish us", but for the fact that they were not entrusted with enlarged functions. I do not think in the usual course of things we can expect the Local Boards to take the initiative and say—particularly when they are the Local Boards of such a very important institution as the Reserve Bank—that they may be abolished. So, I think there must be something more than what is mentioned by the hon. Minister in the notes on clauses as well as in this speech for the initiative that has been taken by the Local Boards.

Section 8(1)(b) of the Reserve Bank of India Act reads:

> "The Central Board shall consist of the following Directors, namely:
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> * * * *

(b) four Directors to be nominated by the Central Government, one from each of the four Local Boards as constituted by section 9".

The Central Government was in a position to nominate one person each from the various Local Boards and that was a very healthy provision. It would give representation to the various regions; it would also give a more democratic set-up to the Central Board. Because of the abolition of the Local Boards, the Central Government would not be in a position to make any such choice. This is evidently a retrograde measure when we are moving more and more towards decentralisation. Wherever possible we must see that the principle is given effect to. In the matter of State Bank and insurance corporation, we have adopted this principle. I do not understand why we should depart from that principle in this case. How would the Reserve Bank be in a position to weight regional considerations and the peculiar circumstances in the various parts of the country when it decides on policy matters without the benefit and advice from the Local Boards?

The remedy is not in the abolition of the Local Boards. It lies in giving them more advisory functions and in making them really useful. The Reserve Bank occupies a very important place in the country. It is not only a Government bank; it is the bank of banks and also the stabiliser of prices and exchange rates. It is the guardian of the national finances. Such an important body must welcome the opportunity to get the advice from the Local Boards. The hon. Minister should be persuaded not to press for this provision here. The Local Boards must be given more advisory functions and thus made more useful rather than being abolished.

Shri T. S. A. Chettiar (Tiruppur): In the speeches made during the general discussion, there was unanimity of opinion on one point that the Local Boards should be retained. There are very good reasons for that. The remarks which the Minister made in his speech were something damaging to the way in which the Local Boards were utilised. It is also mentioned in the notes on clauses that the Local Boards were mainly attending to the work of the Reserve Bank connected with the transfer of shares, scrutiny of claims to shares belonging to deceased shareholders, etc., and since it is now owned by the Government there is no necessity for these Boards. What was the object of having these Local Boards? In the Reserve Bank of India Act, it is said that the Local Board shall advise the Central Board on such matters generally and specifically referred to it and shall perform such duties as the Central Board may delegate. That the Reserve Bank did not refer to them certain questions and asked their views and that it delegated only this function is itself damaging to the Reserve Bank. The Local Boards have not been properly utilised.

He has said that the Local Boards themselves had passed a resolution for their abolition. Naturally, if I am in a committee and it is not properly utilised, I would certainly say: "Take this committee away rather than having it and not utilising it properly. Why were they not utilised for any other purpose? That they have not been utilised properly is no reason to abolish them. It is dangerous to do so.

I have already in my speech during the general discussion said that they can perform certain useful functions. The conditions are not the same throughout the whole country. In Madras there are certain banks the like of which do not exist in other parts. There was a type of banks called *nidhis* in these areas. They are small banks with a lakh or two lakhs of capital, catering to the needs of the cultivators, petty traders etc. in that part of the country. They have been serving

[Shri T. S. A. Chettiar]

a good and economic purpose. Who will be there in the Central Bank who will know the conditions of these banks in these particular areas. So, also, there are variations in the condition of the industries agricultural production etc. There are differences in the ways of investment. The supply of credit for agricultural operations may differ from bank to bank; even in the co-operative banks, it varies from area to area. That is why Member after Member stood up and demanded their retention. I have not analysed the speeches but he would find them saying that this was a very retrograde step. There is a strong case for the retention of these Local Boards.

In financial matters, generally the opinions that come from Calcutta and Bombay rule. That influence has not been less with the Reserve Bank. If there are Local Boards, they can ventilate their opinion at least; there would be some opportunity for them to ventilate their opinion. Now, even that is sought to be taken away. It is very dangerous and wrong to do so. I do not think the Government is very well advised in bringing this amendment and I hope that this clause will be dropped in view of the opinion expressed in this House.

Shri S. V. Ramaswamy (Salem): I join the other hon. Members who have spoken against the abolition of the Local Boards. In trying to abolish them, we are moving towards financial autocracy.

Shri T. S. A. Chettiar: Dictatorship.

Shri S. V. Ramaswamy: I accept my friend's amendment. Instead of having a federal structure, we are moving towards over-centralisation. The reference to the abolition of these Local Boards is made with some amount of levity in the Statement of Objects and Reasons. With your permission, Sir, I wish to read that portion, paragraph 2 of the Statement of Objects and Reasons, which says:

> "The opportunity to amend the Act is also being utilised to carry out certain further amendments of minor importance. One such amendment is to enable the Reserve Bank to make advances from the newly-created National Agricultural Credit (Long Term Operations) Fund to State Co-operative banks for such purposes as are allied to or assist agricultural activities and the others are to abolish the Local Boards which have lost their importance after the nationalisation of the Bank."

The way in which they have treated this abolition of Local Boards is somewhat appalling, one must say. The Statement of Objects and Reasons itself says that these are matters of minor importance. One should expect the Government to say that it is a matter of very major and grave importance, because, as my friend the previous speaker has pointed out, this country is a vast one. Conditions differ from one State to another and the conditions in the rural parts differ from the urban parts. We must therefore certainly have Local Boards which will be in a position to understand the local needs, local difficulties and local requirements and adjust the monetary policy accordingly. Instead of that we are going to centralise, perhaps in Delhi. Previously, Sir, I have spoken with a sense of horror about the over-centralisation in Delhi. I confess to that horror again and again. In the matter of finance we are going to have over-centralisation—financial autocracy. I only hope that the Government will be pleased to respond to the sense of the House and see that this clause is dropped.

When they are saying all these things, when they are saying that the abolition of Local Boards is a minor matter, it is rather strange that another important matter has not struck the Government as important. Sir, you will kindly see sub-clause 17 of section 13 of the Reserve Bank Act which permits the Reserve Bank in this tenth year of our freedom to open an account with or make an agency agreement with and to act as agent or correspondent of a bank incorporated in any country outside India but not with a bank registered in India. That is the position. We are not seeking to amend that. That does not seem to be a major one. I say we ought to amend that. The discriminate against the banks of our own country is in one sense a blot on the statute-book of India, and the earliest opportunity should be taken to see that this sub-clause is deleted. These are more important things and not the abolition of Local Boards, I would respectfully submit. Sir, I hope the Government would be pleased to drop this clause.

Shri G. D. Somani (Nagaur-Pali): Mr. Speaker, Sir, I rise to support each and every word that has been spoken by the preceding speakers in favour of retaining the present Local Boards. I do not see the slightest justification for the step that the Government are taking to abolish these Boards.

It is rather curious to be informed that the members of the Board themselves have recommended that these Boards may be abolished. I think Shri A. M. Thomas was quite right in saying that, if they have recommended on those lines it must be due to the fact that the Boards have not been given opportunities to render useful advice on many important matters. If it is a question of consulting them only on the transfer of shares and such other minor matters, then certainly it can be conceded that they have no useful role to play. But the point is that our Reserve Bank plays a very crucial role in our economy. There are a hundred and one important problems that arise day to day in the economic set-up of the country in which the Reserve Bank has to play a very important role. Whether it is a question of curbing inflation, whether it is a question of fighting depression, or whether it is a question of expanding credit for the various sectors of our economy, the Reserve Bank has to perform very important duties in the economic set-up of the country, and in that context the advice of the various interests that are represented in the Local Boards will certainly be very useful to the Reserve Bank and to the Government. It is simply not possible for the Central Board to meet so often and to devote so much attention to the various complicated and important problems that might arise, and I think the Central Board would be very well helped if they have the benefit of the advice of the Local Boards on the various important issues which come up for being decided by the Central Board.

Therefore, Sir, I would submit that there is absolutely no possibility of any harm being done by the continuance of these Boards. On the contrary, there is every reason to hope that much useful benefit might result by the continuance of these Boards. I would, therefore, appeal to the hon. Minister to agree to the deletion of this clause and enable the Local Boards to function and to function in an effective and useful manner.

Dr. J. N. Parekh (Zalawad): I also join the previous speakers in their request for deleting this clause seeking the abolition of the Local Boards. I had given an amendment on this point, but due to some technical reasons my amendment has not been admitted. I feel that the functions of Local Boards are vast and varied and they do serve a useful purpose in the functions of the Reserve Bank of India.

Sir, India is a vast country and the regional dispersal of Local Boards certainly give a good idea of local conditions and help in the co-ordination of the functions of the Reserve Bank. If the Local Boards could not function properly, or they did not contribute usefully previously, it was not probably the fault of the Local Boards but probably the fault of the

[Dr. J. N. Parekh]

way in which they have been formed or the functions that were allotted to them. If the Local Boards did not do useful work previously, certainly the functions could be re-allotted with the idea to see that they do contribute usefully.

When the Reserve Bank is going to play a vital role in the economy of the country, when we are out to have credit control and other measures, it will be the Local Boards who will be able to give useful information to the Reserve Bank. In that way we can have useful co-ordination. Recently we heard that there was rice hoarding and in a particular region this was very much more. If the Local Boards are there, they can have an idea of the local conditions, certainly the Reserve Bank could be well informed about them and thereby they can contribute usefully.

There is one more reason why I say that the Local Boards can serve a useful purpose. As I said in my previous speech, shortly we are going to have the Part B State Banks to be incorporated into one unit. We do not still know whether that will be under the control of the State Bank of India or whether that will be functioning under the Reserve Bank. If that is going to function under the Reserve Bank of India, it is all the more necessary that these Local Boards should be there. They are sure to play a very vital and usetul role because these Part B State Banks are very widely dispersed—the State Bank of Hyderabad, Patiala Bank, State Bank of Saurashtra, Mysore Bank and so on. If the working of these banks has to be co-ordinated, the Local Boards will certainly be much more useful.

In abolishing these Boards there are no enabling powers also. Therefore, I would request the Minister, if they are not found useful all this time, to see that the Government is given enabling powers to constitute such Local Boards and to have additional functions given to it. This matter, I request, may therefore be reconsidered.

Shri N. Rachiah (Mysore—Reserved—Sch. Castes): Mr. Speaker, Sir, I rise to support this Reserve Bank of India (Amendment) Bill, 1956. This is a very simple Bill but its implications are very important if you consider the role of the Reserve Bank in the economy of the country. As many hon. Members have said, the abolition of the local boards is really undesirable. We are in a democratic country and we want everything to be done in a democratic way. As Shri S. V. Ramaswamy said, the abolition of the local boards would mean autocracy. As such, I am really opposed to the abolition of the local boards as contemplated by the provisions of the Bill.

There is one other provision which deals with the encouragement to be given for agricultural purposes. For the past five years the Reserve Bank has played a very important role in fostering the economy of our country, but the role of the Reserve Bank will be much more and will be more intensive because the second Five Year Plan is in the offing and this House is going to pass the second Five Year Plan within a short time through a discussion in the House. For the development of the economy and for all-round progress of the country, the role of the banks in general and of the Reserve Bank in particular is vital for the success of the second Five Year Plan. Ours is a country where agriculture is the main industry and without fostering agriculture we cannot achieve the real objective of the Five Year Plan.

In my own constituency, when the Reserve Bank (Amendment) Act was passed last year and when long-term and short-term loans were contemplated to be given to the ryots, actually, I found, and even now I find that the farmers are not in a position to get any financial assistance easily—whether long-term or short-term. Wherever they go, whether to the State Bank or the Reserve Bank, the authorities say that certain orders are awaited from the Central Government and that until then they cannot give credit facilities to the ryots. Therefore, I urge upon the Government to see that agricultural facilities, as is contemplated by the Central Government, are given to the farmers. Then only we can expect a large quantity of produce in the agricultural field.

With regard to the gold value, as Shri Joachim Alva said the other day, you must preserve and conserve more gold in stock in our country. We in our country utilise gold, which is a very precious and valuable asset of our country, in the form of ornaments and other decorations. Actually, this wealth is not taken care of by the Government. I am sure that the Government would within a short time see that all the gold in the country, except for barring the quantity which is essential for other purposes, should be taken over by the Government and utilised for the purposes of the country. If the Government wants more revenue, the Kolar Gold Field in the Mysore State, which is the only gold field in our country and which is producing the largest quantity of gold, should be nationalised. Then only we can expect good revenue both for the State Governments and also for the Central Government and that will be a great source of revenue for the Mysore State Government also. The Mysore State Legislative Assembly has passed a resolution unanimously that the Kolar Gold Mines should be nationalised. They have been urging for this nationalisation for so long, but the Central Government have not given their concurrence to the proposal. I hope the Central Government will give their concurrence very shortly.

With regard to the abolition of the local boards I once again urge, as two other hon. Members have said, that this clause should be omitted. That means that the local boards should not be abolished. In fact, the Government have taken cognizance of the resolution passed by the different local boards on this subject. I think there must have been a wrong selection with regard to the members of those boards. I feel that the local boards have no authority and no powers to pass such a resolution that the boards should be abolished. If competent personnel are not there, some other competent people who know the job better could be appointed. It is our look-out to see that these boards are properly utilised and that they cater to the needs of the nation. For the existence of democracy, the existence of the local boards is highly essential. Therefore, I hope the Minister will not press for the incorporation of this clause which abolishes the local boards. As urged by the other hon. Members also, I request the Minister to omit this clause.

I support, in general, this amending Bill very strongly, and request that it may be passed into an Act.

The Minister of Revenue and Defence Expenditure (Shri A. C. Guha): I quite appreciate the feelings of the hon. Members of this House on these clauses. I request that the further consideration of these clauses may be postponed for sometime and that in the meantime the other clauses may be taken into consideration and be passed.

Mr. Speaker: That means, the discussion on clauses 2 to 6 and 12 and 13 is over. After the reply of the Minister, I shall put them to the vote Now, we shall proceed to clauses 8 and 9.

Clauses 8 and 9

Shri T. S. A. Chettiar: I wish to say a few words with regard to clauses 8 and 9. Certain fears were expressed in the course of the speeches on these clauses the other day. In fact, clauses 8, 9 and 10 are vital clauses in this Bill. We would like to know from the Minister one clarification.

[Shri T. S. A. Chettiar]

Clause 8, as it stands, puts a definite amount instead of a proportion as in the original Act. In view of the fears expressed by the House with regard to clauses 8 and 9, may I know whether the Reserve Bank has any idea in its mind as to how it expects to regulate this thing and whether it is going to put for itself a self-imposed limit beyond which these reserves will not be brought down?

Shri A. M. Thomas: With regard to the point that has been raised by Shri T. S. A. Chettiar, I wish to say a few words. The stability of currency does not depend upon the ratio of the reserves in the form of gold or in the form of foreign securities. I do not understand, therefore, why my friend still urges the point that we may put some limit by ourselves. Even viewed from the balance of payment angle, the limits that have now been put in the Bill itself would be quite proper, because the House will note that a minimum statutory balance of Rs. 400 crores is not so low as to cause any anxiety either in our country or in foreign countries. If we note the minimum that has been prescribed, we will find that the minimum, together with Rs. 115 crores in gold coin and bullion, will give a total reserve of Rs. 515 crores. This is certainly more than 50 per cent. of the average annual imports that have been estimated during the second Plan period. With such a minimum currency reserve, I think we would be able to supplement our foreign exchange requirements by borrowing from the International Monetary Fund and regulate our position in the matter of import and export controls. I do not think there is any substance in the anxiety that has been shown by my friend. Once we concede that the stability of the currency depends upon the stability and strength of our economy, the other arguments vanish. It is a medium of payment and the strength of the currency depends on the production in our own country. The other thing is more or less a fictional arrangement and I do not think any change is necessary, so far as these clauses are concerned.

Mr. Speaker: The question is:

"That clause 8 and 9 stand part of the Bill."

The motion was adopted.

Clauses 8 and 9 were added to the Bill.

Clause 10 —(*Amendment of section 42*)

Shri A. M. Thomas: Although the provisions contained in clause 10 have been generally welcomed during the general discussion of this Bill, we are clothing the Reserve Bank with extraordinary powers. The main purpose for which these powers are now being given to the Reserve Bank is to control inflation and also the price-level by the volume of credit granted by banks to individuals and businessmen. It is well-known that if more credit is given, the public have more purchasing power and this generally pushes up prices. Similarly, if any contraction of credit is made, that reduces the purchasing power and there will be less money in circulation. These two aspects are borne in mind by the Reserve Bank and the circulation of notes is now being regulated generally by two methods—by adjustment of the bank rate and by open market operations. Besides these two powers, this power is being given to the bank to enforce the quantum of amounts which the scheduled banks can deal in. The provisions contained in this clause form an effective way by which the quantum of money that can be dealt with by the scheduled banks, can be restricted. Therefore, by and large I support this provision.

But, I want Government to remember certain facts in the enforcement of the powers that are being given under clause 10. We have to bear in mind that we have several development plans and ours is a growing economy. Therefore, the caution that has been sounded in the report of the Committee on Finance for the Private Sector, appointed by the Reserve

Bank, is worth mentioning in this connection. At page 43 of their report, they say:

"We have already referred in Chapter III to the difficult labour situated in the country affecting the operating costs of banks and other institutions. In addition, the rates at which these institutions can themselves borrow have for various reasons increased substantially in recent years. These factors together with the subdued state of demand from enterpreneurs at the prevailing rates of interest have, in fact, narrowed down the return on capital employed by the financial institutions and it is doubtful if there is any large scope for adjustments in the investment pattern of these agencies. We should like to emphasise that we are not in sympathy with activities that amount to 'profiteering'; but, we do feel that unless banks and other suppliers of credit are able to earn reasonable returns on the capital employed by them, they will find it increasingly difficult to attract the resources necessary to extend their loan and investment operations."

In another portion of this report, they say:

"It is, therefore, necessary at each stage to take stock of the situation and assess what further scope there is for adding to the money and credit resources. But money supply should not fall behind the actual demand for money. Finance, if it should adequately perform its function as a catalytic agent, has to be elastic enough to sustain genuine activities of production and trade on an upward trend."

I read these portions with this point of view in mind. I have raised during the general discussion the question—the hon. Minister did not touch that point in his reply—that if such a large portion of the deposits, both time and demand, in the scheduled banks are prescribed to be kept in the Reserve Bank, then naturally for the advances made from the residuary amount, the customers would necessarily have to pay a high rate of interest, so that credit facilities become very costly. The Government has to take into consideration that point also.

Another thing which the Government should take into consideration is the composition of the deposits and the trend in the deposit rates in this country while enforcing these powers. With the rise in the bank rate in the United Kingdom, in March, 1952, exchange banks began to seek resources in the local market than in London by raising the deposit rates. Secondly, there has been an increase in rates by major Indian banks so much so, there has been a tendency for competition in the matter of attracting deposits and also in the matter of offering attractive rates of interest. Although the bank rate in the United Kingdom has been modified, that tendency is still there and the Reserve Bank cannot shut its eyes on this trend. This trend has also been referred to in the report of the Bank Award Commission, the Chairman of which was Shri P. B. Gajendragadkar At page 102, he says:

"The increase in fixed and savings deposits as compared to current deposits has meant a larger burden of interest charges for banks. Competition between banks for these deposits has forced the interest rates upwards and made even seasonal reduction somewhat difficult."

He has also made a recommendation:

"I understand that an attempt was made to bring about an agreement among banks regarding deposit rates, but it did not fructify. From the sharply increasing burden of interest charges and the submission by banks before me that they could not reduce the rates of interest

[Shri A. M. Thomas]

unilaterally, I feel that failing voluntary agreement between banks, Government may have to consider the possibility of regulating deposit rates for the safety of funds. I do not, of course, underrate the difficulties of such a procedure, but I would only add that it may be worthwhile to consider this aspect of the matter."

When we resort to these powers, this observation that has been made in the report of the Bank Award Commission has to be taken notice of by the Central Government as well as the Reserve Bank. You must attempt at more or less uniformity in the matter of deposit rates and should not allow the banks to outbid themselves in the matter of offering rates of interest. Then only you can, with justification, impose the restrictions on the percentage of both the time and demand deposits that should be put in the Reserve Bank. I invite the attention of the Reserve Bank to this aspect of the matter. Steps should be taken to achieve some sort of uniformity in the deposit rates at least by the scheduled banks.

There is another aspect that I wish to refer to. It is rather unfortunate that although hopes were entertained of the Reserve Bank that it would come to the aid of the depositors when there is going to be any bank failure or anything like that,—the House may remember the observations of my hon. friend Shri C. R. Iyyunni the other day—it has not been possible for the Reserve Bank to help the failing banks, on critical occasions. For that, you would notice that a suggestion has been made that there must be some such institution as the Federal Deposit Insurance Corporation in America, to protect bank depositors from loss in the event of any bank failures and to enable the banks to serve the community more adequately. The Rural Banking Enquiry Committee also recommended the constitution of a committee to enquire into the various aspects of forming such an institution, and consider schemes. I do not think any steps has been taken by the Reserve Bank in this direction and save the poor depositors in times of crisis. The Reserve Bank has a moral duty to do something in this direction when it imposes controls and exercises supervisory powers, apart from the powers vested under the Banking Companies Act, which enjoin the banks to keep a certain percentage of the deposits in reserve under section 24 of that Act in the form of cash and other securities.

My next point is this. By this clause, you are clothing the Reserve Bank with powers to adopt various rates as between bank and bank. No uniform ratio is given and no uniform percentage is also fixed. With regard to additional deposits beyond a level, this matter has been in a way criticised by the Federation of Chambers of Commerce and Industry. But, I think that such a power is necessary in the light of the different conditions and circumstances that exist in our country. Instead of classifying banks into three or four categories and then fixing the different rates and percentages of deposits that they have to keep in the Reserve Bank, I think it is necessary that the Reserve Bank should be clothed with the power to deal with each bank individually, and fix whatever percentage the Reserve Bank deems fit. When I raised this point, I have in mind the peculiar problems of the banks in my part of the country. Shri T. S. A. Chettiar raised the question when he talked about the necessity of retention of these local boards. The conditions of banks in the south are different from the conditions obtaining in other parts of the country. Unless the Reserve Bank is clothed with powers to take into consideration this regional aspect, it may not be in a position to do justice to the weaker elements. You know, Sir, that the Bank Award Commission to which I have made reference, has already reported about the special problems of certain banks in certain parts of the country. On page 158, it has referred to the problems connected with the banks incorporated in Travancore-Cochin. It says:

"I would begin by discussing first the problem presented by the banks in Travancore-Cochin State. Banks incorporated in the Travancore-Cochin State present peculiar problems of their own while occupying at the same time a very important place in the economy of that part of the country. It is a predominantly small economy, essentially agricultural, and is based on a vast educated lower middle class which forms a majority of the population of that State. Consequently the banking units incorporated in this area are very small in point of paid-up capital, reserves and total resources and therefore, in respect of their profits as well."

Although there are about 12 scheduled banks in my State, all these scheduled banks, as compared with the scheduled banks in other parts of the country, are comparatively small. If, to all the scheduled banks, you apply one yardstick, it may not be possible for certain banks in a particular part of the country to make the deposits as required. We speak about inflation and injecting more money into the economy of the country, to increase the purchasing power of the people. When we consider an all-India average, there may be some justification for getting alarmed about inflationary tendencies. As far as certain parts of the country are concerned, you will notice that it has not been possible to derive any benefit from the increased money supply. In parts of the country wherein there are large projects, it is quite true that you have been able to inject more purchasing power into the community. But as far as the backward areas and under-developed areas are concerned wherein you have not even now chosen to have any major projects, there is not much possibility of the additional currency that you have created under the Second Plan, to have any impact. So far as they are concerned, for the manufactured goods they will have to pay much more. In these areas the inflationary tendency has not had any impact. I submit that, to the banks in these areas, it is not proper for you to fix the same percentage as you have fixed in the case of scheduled banks in other parts. That would certainly effect a contraction of the credit machinery in that part of the country and that would be ruinous and disastrous to the economy of these backward areas. I would like the Reserve Bank and the Government to bear this in mind and keep a close watch over the circumstances of the various banks in various parts of the country and not to apply the very same yardstick to all the banks whether they are scheduled or non-scheduled.

Shri T. S. A. Chettiar: This is a very important clause. Government wants to take power to avoid inflation, in case deficit financing leads to inflation, by the provision in the proviso to this clause. During the general discussion, there was a lot of discussion over this clause. This clause refers to scheduled banks and they are plenty in number, concentrating in their hands about 90 per cent. or more perhaps of the financial dealings in this country. Government seems to think that by controlling deposits, by immobilising the deposits of 90 per cent of the banks by increasing the deposits to be made by them in the Reserve Bank, it will be able to control inflation.

1 P.M.

In this matter, as also in another matter which has been raised before us, I would like to point out that inflation is a hydra-headed monster. It appears in a thousand forms in many places. And it may be that the inflation may be felt more in a particular area than in another area. It will all depend on which area gets a lot of money out of the activities of the Second Five Year Plan. So, we would like to know whether the notification to be issued by Government will apply to all the ninety banks equally.

[Shri T. S. A. Chettiar]

You know that when notifications are issued by Government, they can apply to all categories of those to whom it applies.

The proviso to clause 10 reads:

> "Provided that the Bank may, by notification in the Gazette of India, increase the said rates to such higher rates as may be specified in the notification......"

What I would like to know is whether a notification can apply to individual banks or whether a notification issued under this clause should apply to all the banks. I believe that it will apply to all the banks normally. If that is so, then there will be difficulties, because the conditions that are obtaining may not be the same in all the individual banks in the country. There may be banks in South India or other parts of the country, in which the inflation may be felt more or less than in certain other places in the country. That is why I would like to know whether a notification issued under this clause will apply to all the banks, or whether power has been taken to apply it to certain specific areas only.

Then, I would like to make a brief reference to sub-section (IB) wherein power has been taken to determine the rate of interest to be paid. In this matter also, I would like to point out that interests paid by the Banks themselves are different in different cases. There are banks which pay a certain high rate of interest in order to attract business when they open a new branch. I know of a particular case, where one of the five biggest banks which opened a branch in Coimbatore paid an interest of one per cent. on current account, with a view to attracting business. Normally, certain banks do not pay interest at all on current account, while there are certain others which pay an interest of ¼ or ½ per cent. But it is a fact that there are banks which in the beginning, with a view to attracting business in a particular area, pay as much as one per cent on current deposits. If such banks keep their demand or time liabilities with the Reserve Bank under the notification to be issued under clause 10 of the Bill. I would like to know whether the return by way of interest. that the Reserve Bank will pay to these scheduled banks will be sufficient to compensate for the loss that they are incurring on account of these deposits with the Reserve Bank, or whether the rate of interest will be at a uniform rate for all the banks. If it is a uniform rate, it will create hardship to some banks and advantage to some others. So, these are matters which have to be gone into.

As far as I have been able to interpret the clause as it stands, I find that the clause does not say that the Bank may pay interest to the scheduled banks at such rate as may be found necessary in respect of each individual bank. That is not quite clear. It merely says:

> "...the Bank may pay to the scheduled bank interest at such rate or rates as may be determined by the Bank....".

I think that should mean that the rate of interest will depend on each individual bank separately. However, this is a matter which is bound to give trouble when this provision is put into effect. I hope Government and Reserve Bank are well aware of these difficulties, and if they can give us some idea of how this provision will be interpreted. It will go a long way in clarifying this matter beyond any doubt.

Shri C. R. Iyyunni (Trichur): When I spoke last on this Bill, I had made certain references to the variations in the deposit rates in Bombay, Calcutta and other places as compared with those in the Travancore-Cochin State. So far as the clause which we are now discussing is concerned, I would like to point out that even in the Act as it stands. there is a provision similar to the proposed sub-section (1) of section 42, under which every bank included in the second schedule has to maintain with the Reserve Bank two per cent of the time liabilities and five per cent of the demand liabilities. There is a similar section in the Banking Companies Act, namely section 24, which requires:

'every banking company shall maintain in cash, gold, or unencumbered approved securities valued at a price not exceeding the current market price an amount which shall not at the close of business on any day be less than 20 per cent of the total of its time and demand liabilities .".

That provision also has to be complied with. That means that every bank, with a view to the liquidity of its cash, has to maintain 20 per cent. of its time and demand liabilities with the Reserve Bank. It can do so in three forms, either in the shape of cash in the bank, or in the shape of gold or in the shape of unencumbered approved securities.

So far as securities are concerned, there are approved and unapproved securities. In this case, the securities have to be approved securities. Besides, they should be unencumbered. Suppose the amount of security is Rs. 10 lakh and the Bank has borrowed Rs. one lakh, then that security will not be approved, because it is not an unencumbered security, even though the bank has the right to obtain Rs. 9 lakhs from out of the Rs. 10 lakhs that has been deposited. So, the amount to be deposited must be in the shape of unencumbered approved securities.

Now, what does the amendment proposed say? It says:

"Provided that the Bank may, by notification in the Gazette of India, increase the said rates to such higher rates as may be specified in the notification so however, that the rate shall not be more than twenty per cent, in the case of demand liabilities and more than eight per cent., in the case of time liabilities.".

In the case of the smaller banks, especially the scheduled banks in our part of the country, the House will be pleased to remember that the current deposits amount only to 25 per cent of the total deposits, while 75 per cent is time deposits or fixed deposits, whereas in Calcutta, Bombay and other places, the current deposits alone account for about 60 per cent of the total and the time liabilities account only for 40 per cent. Now, what would be the effect of this proposed amendment? If the Reserve Bank by notification calls upon all the scheduled banks, whether they are situated in Bombay, Calcutta or any other place or in Travancore-Cochin State, to keep up to 20 per cent of demand liabilites and up to 5 per cent in the case of other liabilities, then what will be the position? I beg to submit that in that case, the scheduled banks in Travancore-Cochin State will not be able to run. Under the clause as it stands, no discrimination can be made between one scheduled bank and another. But my suggestion would be that only those banks which have a deposit of more than Rs. 10 crores should be brought within the category of banks that ought to be required to fulfil this condition.

With regard to scheduled banks which have got a deposit of less than Rs. 10 crores, they should be excluded. That is my constructive suggestion. The reason is simply this. As I have said, there is not only this difference in the rate of interest, but also there is a considerable difference in the amount of current deposits, at least in our part of the country. Whether it is a scheduled bank or a non-scheduled bank, it is paying an interest of about 1 to 2½ per cent.

Now, this amount will have to be paid to the Reserve Bank. In that case, is it possible for the bank to run and make profit? There will be establishment charges, there will be stationery charges, rent and so on. So, it will not be possible for even a scheduled bank to run the institution with any profit whatever, because under section 24 of the Banking Companies Act, it will have to deposit cash, gold or unencumbered approved securities with the Reserve Bank.

[Shri C. R. Iyyunni]

In that case, there will not be any cash to transact business with clients in the bank itself. If all the money that has been acquired by the bank by way of current or other deposit is to be handed over—at least the major portion of it—to the Reserve Bank, how can the bank run? How can any bank run, and even if it runs, how can it run at a profit?

Not only this. It is stated in the note on clause 10:

> "This clause vests the Reserve Bank with the power to vary reserve requirements of scheduled banks within the range of 5 to 20 per cent. in respect of demand liabilities and 2 to 8 per per cent., in respect of time liabilities and to require them to maintain in respect of any increase in deposits with them after a specified date and the additional reserves required to be maintained may be up to one hundred percent. of such increase."

So there appears to be a presumption that hereafter there will be an increase in the deposits. I do not know what is the basis for this presumption, unless there are data behind it. I can understand it if during the second Five Year Plan, deposits pour into the banks without limit. Then certainly I have no objection. It may be done. But how can anybody say anything about that? So clause 10 cannot apply to all banks. I can understand it if a Government by notification require a specified number of banks to pay at the rates specified. But if it is going to be a condition that all banks will have to pay, that will be out of the question. The real effect of such a provision will be that many of the banks which are doing good work—they are catering for the needs of the agriculturists, petty traders and other people—will have to close their shop. That is at least what will happen so far as Travancore-Cochin is concerned, because it is a small State, and people have not got much money—I mean such of those people who would like to get some interest for the little amount which they have. In the case of big people who want to deposit big sums, it is a different matter. Suppose one goes to the State Bank and wants to deposit one current account, say, Rs. 2 or 3 lakhs, one does not get any interest. In that case, there will be no difficulty in transferring it to the Reserve Bank. But in the case of other banks or transactions with money obtained from the depositors, the business cannot run like that. Without transacting any business, how can they earn any profit? And if they do not earn any profit, how can anything be done? It will simply be asking those banks to close their shops. That is what is really going to happen.

So my suggestion that this rate may be confined to scheduled banks which have got a deposit of more than Rs. 10 crores, and the rate also may be reduced, say, 10 per cent instead of 20 per cent. In that case, it will not be very difficult for banks which have a deposit of over Rs. 10 crores. But in the case of scheduled banks which have got only a deposit of Rs. 1 crore or Rs. 2 crores, it will be difficult, almost impossible, to run the institutions.

I would request the hon. Minister to consider this aspect of the question, in view of the varying ratio between time and demand deposits in Travancore-Cochin and the rate of interest prevailing in big cities like Bombay and Calcutta and our part of the country. Certainly I do not say that this need not apply. But there may be some amendment made on the lines of the suggestion I have made, that is to say, it may apply to all scheduled banks which have got a deposit of over Rs. 10 crores and the rate may also be reduced.

Shri N. B. Chowdhury (Ghatal). So far as this requirement of maintaining higher percentages of reserve is concerned, I supported it in the course of the general discussion. But I would like to make certain observations with regard to the provisions under sub-clause (a). It has already been pointed out by Shri T. S. A. Chettiar that it is not very clear from the wording here whether the higher percentages might be demanded uniformly or separate percentages might be fixed by notification with regard to particular banks. So that point needs clarification. I say this because we know there are small banks and large banks. There are certain banks for which it will not be possible to maintain these higher reserves.

Shri A. M. Thomas: The provision reads:

"Notwithstanding anything contained in sub-section (1), the Bank may, by notification in the Gazette of India, direct that every scheduled bank shall, with effect from such date as may be specified in the notification, maintain with the Bank...."

That is, only those banks which are specified in the notification would be affected.

Shri N. B. Chowdhury: That is clarified, but in this connection I would like to observe that while issuing any such notification Government will have to keep in mind the specific conditions prevailing in a particular bank. With regard to the application of the notification, banks should be selected properly; otherwise, it may cause certain difficulties for certain banks. We know that due to indiscriminate notifications some banks suffer difficulties.

Then as regards the requirement of higher percentage of balances, we support it because in view of the credit expansion and the creation of money contemplated under the Second Five Year Plan, it is necessary to control the undesirable activities of speculators who can indulge in such activities only because of the credit facilities which they get from certain banks. At the same time, we would also urge upon Government to see that not only a higher balance is demanded, but a watch is also maintained over the kind of investment that is made with the credit obtained from the banks. We know that in our country there are certain monopolists who have their own banks and these banks and other banks provide money only to those monopolists. The result is that even so far as the private sector is concerned, it is only the monopolist that is helped by such banks. There should be sufficient power in the hands of Government and Government should be vigilant as to the nature of the use of the money or the credit obtained from such banks.

I do not agree entirely with what Shri Iyyunni has said although we feel that there should be some reasonable standard so far as the financial code is concerned. According to the provision in 10(1A) and (1B), the interest rates have to be determined by the Reserve Bank in certain cases. While fixing such interest rates, we would like to see the Bank taking into account the behaviour of such banks with regard to the supply of credit. Some time ago, we referred to the speculative activities encouraged by some of the banks. With the provision for huge deficit financing to the extent of Rs. 1,200 crores, there is likely to be inflation. We already see the beginning of it. Unless drastic powers are there in the hands of the Government to control the credit supplied by the banks, it would be very difficult to bring the situation under control. As there is likely to be a serious rise in prices along with deficit financing, if the speculative activities are not severely controlled, it will have serious repercussions on our economy. I would, therefore, request the hon. Minister to state clearly whether, while taking such powers, they are also going to see that whenever there is a rise in prices beyond a certain point or a fall in prices below a certain limit, Government would take adequate action so that the prices may be brought to a reasonable level so that people may not suffer due to a rise or fall in prices.

[Shri N. B. Chowdhury]

It is felt that these powers alone may not be sufficient to keep the economy even and for that purpose it has already been urged in this House by several Members that it is high time that the banking institutions in this country are nationalised because, with mere regulatory powers to the extent conferred by this clause, it would not be possible for Government to control undesirable activities successfully.

Dr. J. N. Parekh: Sir, this is a very important provision, no doubt......

Mr. Speaker: This was discussed threadbare during the general discussion.

Dr. J. N. Parekh: It gives wide powers.

Mr. Speaker: We must conclude discussion on this Bill by 2 o'clock. If hon. Members want some time for the third reading, we must provide for that also. The hon. Member will kindly bear that in mind.

Shri Bansal (Jhajjar-Rewari): We can go up to 2-30 because so many want to speak.

Mr. Speaker: We have fixed 6 hours. One after another hon. Members are trickling into the House. We have only two hours for today.

Shri Bansal: I am not going to speak.

Mr. Speaker: I do not prevent any hon. Member from speaking. I rather welcome them. But, there is a time limit and I drew the attention of the hon. Member to that.

Shri N. B. Chowdhury: Five hours were taken up by this Bill the day before yesterday.

Mr. Speaker: For clause by clause discussion and third reading 2 hours were allotted.

Shri A. C. Guha: It was decided that there should be 6 hours for the first reading and 2 hours for all the other stages.

Dr. J. N. Parekh: This clause gives wide powers to the Reserve Bank. In the case of developing economy with increase in note circulation as well as rise in the bank advances, it is necessary to have this power in the hands of the Reserve Bank to have credit control. We have seen this paradoxical phenomenon of increase in note circulation of money supply and the scramble for funds by the Scheduled Banks with the result that even the call deposit rates of certain of the banks have gone up. Particularly the foreign banks have entered into the field of call deposit and are almost quoting higher rates because of the higher rate prevailing in the foreign countries and therefore they would like to utilise Indian funds.

On the one hand there is increased production and on the other there is a rise in prices. So, just to keep these inflationary tendencies under check, this credit control mechanism has to be geared to the economy of the country. Therefore, this power in the hands of the Reserve Bank is very necessary and vital. Just as the bank rate plays a part, this idea of having a variable Reserve ratio is very important and the Reserve Bank can mop up the increased money supply and control the credit. This power will enable the Reserve Bank to squeeze as well as to bring down the diequilibrium if there is any. I think the Reserve Bank will certainly use this power judiciously. It may be a little hard for the smaller banks to keep and maintain such high percentages of ratio but there also the Reserve Bank has been given power to notify certain minimum for all banks; so, they will take into consideration the hardships of smaller banks.

About rate of interest, no doubt, there is provision (1B) that the rate of interest for such deposits or increased or excess amount kept with the Reserve Bank should be negotiated and settled with the Reserve Bank and the Scheduled Banks concerned. If certain maximum and minimum are fixed, it will go a long way, because it may not be possible to fix a rate of interest in view of the changing money conditions. If certain maximum and minimum could be fixed, it would be certainly better and helpful.

Shri A. C. Guha: Several doubts have been raised by some hon. Members, but I think most of the points were discussed day before yesterday also.

The main point is whether the variable reserve ratio will apply to all banks uniformly or whether it will vary from bank to bank either on individual basis or on the basis of category. If hon. Members had read the Bill carefully, they would find that the intention of the Bill is that this ratio will apply uniformly to all scheduled banks. The apprehension felt by certain Members, particularly Shri Chowdhury, has been taken care of by clause 10(1A). There is a provision for some additional balance being required from the banks and that will be calculated on the basis of the increase in the deposit of banks during a particular period. The first provision of variable reserve ratio will be calculated on an average basis so that all the scheduled banks may bear the burden. But when the Reserve Bank or the Government find that certain banks have been extending their credit creation activities and have also accumulated some more deposit during a particular period, which advantage other banks might not have got, then in those cases the Reserve Bank would ask the banks to deposit a certain percentage of the increased deposit during that period. So, the banks which would not have the good fortune of having a huge increased deposit in that period will not be much affected by the second provision. But those banks which have increased their deposit during that particular period to a considerable extent will have to deposit with the Reserve Bank some considerable amount as special reserve, and that will check their credit expansion activities and also the tendency to speculation leading to price rise. The second provision of sub-clause (1A) should be read with the main provision of clause 10. My hon. friends will then realise that the apprehension which they felt has been taken care of by the Reserve Bank, by the second provision here. According to the first provision, the variable reserve ratio will apply uniformly to all scheduled banks, but that will be on a moderate basis, so that all banks may bear the burden. For some categories of banks which may have some good luck during that period, the second proviso will apply effectively.

About the rate of interest on the reserves that the scheduled banks will keep with the Reserve Bank, I think that day before yesterday I stated that it would be difficult to specify any rate of interest as that would vary according to market conditions.

Shri Chowdhury mentioned something about adequate action to be taken on price fluctuations. I think hon. Members should not feel unnecessarily alarmed at the price fluctuations during the last three or four months. If we take an overall view of the price fluctuations during the First Plan period, we will rather find that there has been a fall in the cost of living index by about 4 or 5 per cent. Of course, it is admitted that during the last three or four months there has been some rise and the Reserve Bank is taking action to stop the speculative hoarding of essential commodities. It has been alleged that these hoardings are being helped by some advances through scheduled banks. It is admitted that during the last few months, advances have increased, and that might have helped some hoarding, leading to price fluctuations, but now adequate steps are being taken. In a rapidly changing and developing economy, we must always give some latitude for short periods when there might be some untowards happnings, but immediately

[Shri A. C. Guha]

the Government or the Reserve Bank will take appropriate action in this respect. I am sure the action taken by the Reserve Bank in this matter will bring down the hoarding capacity of the hoarders, and the advances of the scheduled banks in that respect will also be curtailed. At the same time, as I mentioned day before yesterday, hon. Members should also remember that the price level should not be compared with the price level prevalent during last year from the middle of 1954. That was rather a slump period for agricultural goods. We should compare the price level with some previous years' price levels.

Shri Thomas has mentioned about the earning capacity of the banks. His apprehension is that by this provision of variable reserve deposit, the earning capacity of the banks will be curtailed. I can say that that is almost one of the indirect purposes of the Bill. When the banks would be advancing too much money, creating credit to an inordinate degree, they also must be earning profit. Unless we put a curb on the profit in this respect, no steps will be properly effective. Of course, the Reserve Bank will see that adequate normal profit might be earned by these scheduled banks.

I think the hon. Member has also mentioned about the smaller banks and I have already replied to that.

Some Speakers have referred to the need of applying the provisions in such a way that the conditions of the particular categories of banks are taken note of. I have already stated that that has been taken note of by the provision in (1A) of clause 10 at page 4. This provision will check the activities of those banks which have accumulated huge deposits and might have been indulging in improper advances.

Mr. Speaker: The question is:

"That clause 10 stand part of the Bill".

The motion was adopted.

Clause 10 was added to the Bill.

Mr. Speaker: Before coming to the clauses left over, let me put clause 11 also to vote.

The question is:

"That clause 11 stand part of the Bill".

The motion was adopted.

Clause 11 was added to the Bill.

Mr. Speaker: The hon. Minister has not had his reply in respect of clauses 2 to 6, 12 and 13. He may now reply to them.

Shri A. C. Guha: I think it is better for me to bow down before the unanimous demand of the House, and I agree that these clauses may be deleted. These are not relevant for the real purpose of the Bill. As has been stated in the Objects and Reasons, the Reserve Bank or rather the Central Board of the Reserve Bank thought, and the Government also concurred with them, that the opportunity might be taken also for the abolition of the Local Boards as they have not been serving any useful purpose. But we had nothing to say that these Local Boards have been in any way obstructive or harmful to the working of the Reserve Bank. In view of the almost unanimous demand of this House, we agree to the deletion of these clauses but with your permission, I would like to make a formal change in clause 7.

I beg to move:

Page 3, line 1—

for "the principal Act", *substitute* "the Reserve Bank of India Act, 1934 (hereinafter referred to as the principal Act)".

Mr. Speaker: I will first put the clauses 2 to 6, 12 and 13 to the vote of the House.

Shri A. M. Thomas: The sponsor of the Bill says that they may be deleted

Mr. Speaker: He says he is willing to agree to let them be voted down. So, the hon. Members may say 'No' to these clauses.

The question is:

"That clauses 2 to 6, 12 and 13 stand part of the Bill."

The motion was negatived.

Mr. Speaker: I shall now put the amendment to clause 7 to the vote

The question is:

Page 3, line 1—

for "the principal Act", *substitute* "the Reserve Bank of India Act, 1934 (hereinafter referred to as the principal Act)".

The motion was adopted.

Mr. Speaker: The question is:

"That clause 7, as amended, stand part of the Bill."

The motion was adopted.

Clause 7, as amended, was added to the Bill.

Clause 14 was added to the Bill.

Clause 1, the Enacting Formula and the Title were added to the Bill.

Shri A. C. Guha: I beg to move:

"That the Bill, as amended, be passed."

I do not like to say much now. The principle of the Bill has been agreed to by the House and therefore, I hope that this will meet with the approval of the House.

Mr. Speaker: Motion moved:

"That the Bill, as amended, be passed."

Shri H. N. Mukerjee (Calcutta North-East): Sir, we are on the point of passing a very important Bill which deals with certain powers which, the House concedes, should be exercised by the Reserve Bank in its objective of expanding credit facilities which are necessary in the context of the second Five Year Plan. It goes without saying that the Reserve Bank is the pivot in our economic set-up and the tasks of the second Plan certainly demand that there should be necessary adjustments in the rights and powers of the Reserve Bank authority. So, by and large, we have welcomed the Bill. But, there are certain matters to which reference has already been made in the course of the discussion but which I wish to reiterate because I do want to bring to the attention of the Government the sense of urgency in the country regarding the danger of inflationary tendencies appearing in our economy.

In the second Plan it was stated very clearly that the prices of food and cloth occupy a strategic position in the Indian economy and a sharp rise in these prices has to be prevented by the use of every device. We have noticed on many occasions how there is on the part of the Government, a suggestion of complacency on this point.

I have tried to follow the proceedings of this House in regard to this Bill and I was rather disappointed that Shri Guha, in spite of having been to West Bengal lately where he observed certain things and made certain pronouncements very rightly, has come here to express himself in a manner which suggests—to my way of thinking, the way he has expressed his views suggests—that he does not take a very serious view of the rise in prices which has happened all over the country. I hope, Sir, we shall have an opportunity in this House before long to discuss this question of the rise in the prices of food stuffs and other essential commodities but when we have an opportunity in connection with the Reserve Bank of India Bill, I wish to point out that we desire the Government to express itself unequivocally in regard to the desirability of exercising those resources including even physical controls which would be necessary in order to prevent this attack on the living standards of our people. It has been pointed out by a paper like the

[Shri H. N. Mukerjee]

by *Statesmen* in its issue of the 12th of July that the choice by the Government's spokesmen of the year 1950 on which to base the ideas of what should now be considered the normal price is a little odd. The average man and woman in the country when he or she makes the purchase, think of 1939 or some such year.

It might be said,—as Shri Guha said the day before yesterday twitting my friend Shri Gurupadaswamy,—that we on this side of the House wanted the agriculturists to have a reasonable price which sometimes meant a high price compared to what had prevailed at a particular period. But I wish the Government to be reminded that the Government's duty is to ensure a parity economy where as between the prices of industrial goods and agricultural prices, there is a kind of correspondence. In regard to that point, the Government has failed altogether and that is why we have a feeling that in regard to this question of prices, the Government is not as earnest and urgent as it ought to be. I know that the Reserve Bank has taken certain steps in regard to the speculative trading in food stuffs through the instrumentality of banks. But I know at the same time that the Reserve Bank has admitted itself that in 1056, in spite of a fairly good crop, the situation created by speculative trading through the instrumentality of the banks, which it is now trying to prevent, has caused the upset, so to speak, in the equilibrium of prices. Now the Reserve Bank has told the banks to diminish the quantum of money which they can advance in regard to foodgrains, but there is no straightforward ban in regard to such transactions. I feel, therefore, that there is a great deal still to be done.

I see also, when we look at import and export figures, that we import things like whisky, perfumery, tinned fish, tinned fruit, confectionery and even packs of cards to a fairly substantial amount, and we do so at a time when we can easily do without such imports and, therefore, it would not be necessary for us to export certain things which are all of essential importance to our country. We export things like mustard seeds, export of which has recently been stopped. But we export these things because we want to have money in the world market, and at the same time we import things like whisky, perfumery, toiletry, tinned fish and all that kind of thing.

We can go into this question, Sir, later on. But I feel that the position today in the country is such that there should be a basic examination of the entire position. There should be an attempt at having a real parity economy so that the peasant won't suffer as well as the people in the towns also would not suffer. There should be at the same time a rationalisation of our export and import policy.

I wish to refer also, in connection with this Bill, to the question of gold,—this yellow metal which has been the cause of so much trouble in the world's history. I do not see, Sir, why the Government has not come forward, now that we have an opportunity of this discussion, to say that as far as our gold resources are concerned we are going to maximise it. And there are ways and means of doing so, as has been proved by the effect of the recent smuggling operations against which the customs authorities are at the time—at least for the time being they are particularly active. In Calcutta, as has been mentioned already in the course of the debate, there has been find of gold even under fashionably kept shrubbery in the houses of very well-known industrialists—gold hidden in that way. We have heard how in the process of customs examination gold has been found on the persons of people who are apparently very respectable. We have heard at the same time bullion merchants complaining that they are trying to carry on honest trade but they are being harassed, while actually the villains of the piece are those who smuggle gold and other bullion into this country by all kinds of dubious means and go scot free. I want the Government to come forward with a statement that we can increase our gold resources if only we stop this kind of smuggling and, at the same time, we can unearth gold which is there already. The gold which is in the mines somewhere in the jungles of some country or other is just as dead as the gold in the secret security vaults in our country. Why don't we try to tap these security vaults here and now? We can increase the gold resources of our country in a fashion which would certainly strengthen and fortify the economy of the country which the Reserve Bank is there in order to maintain and develop. With regard to this matter, therefore, I wish that the Government proceeds in a fashion which is consistent with the desires of the country.

I wish also to refer to another matter and that relates to the report of resignations which were given by certain very high officers of a sister organisation of the Reserve Bank, the State Bank of India. Sir, I am not going into any detail over it, but we were told only the day before yesterday that no specific reason was given by these worthy gentlemen who decided to resign from the State Bank of India. If they had given a reason—health, or age or something like that—I could have understood it, but I take 'no reason' to be a very dubious proposition. I refer to this matter in order to tell the Minister that he should make it a point to tell those who are at the top that they have to serve the country on the country's terms. He has also to make up his mind that he has to get the support of those who are down below. My friend the Labour Minister here knows how the employees of the Reserve Bank of India have a great deal of grievances which they noise about from time to time. But I tell the Minister that it is better to come to friendly terms with those who are down below than with those who are at the top. As far as I am concerned, I am prepared to mobolise tne services of Members of this House who are experts in banking, but I would tell them that they have to serve on the country's terms and not on their own terms. Their patriotism today is on trial. I am prepared to accept the assistance of those people who are now leading personnel in the banking industry. That is why we have great hopes about the successful prosecution of the nationalisation scheme in regard to banks. We are told all the time that we have not got the personnel. The State cannot command the services of the right kind of people. We are told this by the same group of gentlemen who parade all the time their patriotic desire of promoting the interests of the country and that same set of gentlemen are at the head of the banking industry. We can tell them that they have to give an examination in regard to patriotism and if we want to take over the banks they have to work on the banks on the terms that the country lays down and not on the terms they choose for themselves. That is why I suggest the Minister bears in mind the fact that he has to mobilise the co-operation of those who are working in the banks from day to day with no other interest than that of earning their keep, and not those who talk of serving the country but really serve their own interests. He has to be very careful. The resignations of the officials at the top of the State Bank of India are a very significant pointer of which, I am sure, the Government will take serious note in regard to the direction of the Reserve Bank of India. Also, steps should be taken which, as I have said before, are in conformity with the interests of the country.

In regard to nationalisation—this is my last point, Sir,—I would say that I cannot ask the Government to have nationalisation straightaway, but I can certainly ask the Government to control the banks in a greater measure quantitatively and qualitatively than it does today. Reference has been made to the monopoly concerns in this country. We know about the Tata Bank, the Birla Bank and so on and

[Shri H. N. Mukerjee]

so forth. The Government should control those banks straightaway in a much more close and intimate fashion than it is done today. Here and now you can set a target date, not specifically, so to speak, but you can say that it is only a matter of time before the banks are going to be nationalised. You can say the Government has made up its mind about nationalisation. Do not repeat what you did in the case of the life insurance people, for example. You sprang a surprise on many of our friends in the House. Tell them here and now that we have this policy of nationalisation of banks, because without the kind of control which nationalisation alone can bring we cannot direct the economy in the manner which the Plan requires. Tell them it is a matter of timing. Tell them also that their patriotism, which they have advertised so often in this House and outside, is on trial and when the Government adopts those ways and means which are necessary for the successful prosecution of the Plan, their co-operation will be mobilised and if they do not co-operate they shall do so at their peril.

Shri A. M. Thomas: Sir, I will finish in one minute. I must express the gratitude of the House to the hon. Minister for the very healthy attitude that he has adopted in the matter of the deletion of the clause with regard to the Local Boards. It is good that he has, to use his own words, "bowed down to the unanimous desire of the House".

Shri H. N. Mukerjee, when he spoke, referred to the very important position that is occupied by the Reserve Bank of India. When I went through the provisions of this Bill I was reminded of the report that has been made by the committee which was appointed by the Government of India as early as 1913. Although the Reserve Bank came into existence only in 1935, you will notice, Sir, that the distinguished economist Mr. Keynes, as early as 1913, has indicated the role that a bank of this kind would play in the economy of this country. This recommendation has been made by Mr. Keynes in a separate note as an annexure to the main report. With regard to the quality of that report of Mr. Keynes this was what was stated by Dr. Marshall at that time:

> "I dipped here and there (into the report), then read the conclusions, and finally turned negligently to the annexe. But that held me. I have been entranced by it as a prodigy of constructive thinking. Verily, we old people will have to hang ourselves, if young people can cut their way so straight and with such apparent ease through such difficulties."

2 P.M.

The dream of Keynes is being realised gradually by the expansion of the functions and the authority that this House vests in the Reserve Bank. In this connection I only want to impress on the Government the necessity of bringing other measures also to bring the dream of Keynes true and fulfil his ambition with regard to the role of the central banking institution in India. I mentioned when I spoke on the clauses the necessity of empowering the Reserve Bank to adopt some sort of uniformity in the matter of deposit rates. I also emphasised the necessity of having some insurance for the depositors of the various banks which may fail. I have only one word more to add. The hon. Minister while speaking on the discussion on clause 10 said that as far as the minimum ratio is concerned which the Reserve Bank fixes, it will apply to all the scheduled banks. I was at first under the impression that a distinction can be made between bank and bank. But now I am told by the hon. Minister that with regard to a particular minimum percentage, it will be uniformly applied to all banks. In that case I want to submit that that particular percentage must be as low as possible, so that it may be within the financial competence of each and every scheduled bank. You may exercise your discretion in the matter of fixing the ratios with regard to additional deposits, but when you fix the minimum, I would again and again emphasise the necessity of fixing it as low as possible; otherwise, the smaller banks will suffer.

Shri A. C. Guha: I am thankful to the House, particularly to those Members who spoke on this Bill, for the general support to the provisions of this Bill. I may take it that the passing of this Bill will be the seal of approval of this House on the financial policy that would naturally follow in the course of the implementation of the Second Five Year Plan and the deficit financing involved therein. So, this Bill is of very great importance from the point of view of the future development of the country.

Shri Mukerjee and Shri Thomas have mentioned many points in the course of the discussion on the Third Reading. I think most of them would not be quite relevant to the purpose of this Bill; but since, Sir, you have allowed them to be mentioned, I shall try to reply to the points in as brief a manner as possible. Shri Mukerjee referred to the rise in prices during the last few months; he also made a reference to some of my utterances in Calcutta. In his own words, he might be enunciating some anxiety or intention on my part of somehow extricating myself from my public statement in Calcutta. I may, however, tell him that he need not have any such lurking suspicion in his mind. I stand by what I said there publicly. But he might have just a misconception about what I said.

My point was that in so far as the rise in prices was due to the hoarding and that hoarding being helped by bank advances, to that extent Government must surely take action and the Reserve Bank also has been taking action. I think he himself has admitted that the Reserve Bank has taken some action and the prices, even if they have not fallen appreciably, have at least been kept more or less at the same point. I think in Bengal the prices of some of the essential commodities have gone down somewhat. I do not say they have gone down appreciably; at least, the rise has been checked.

Shri M. S. Gurupadaswamy (Mysore): It has been stabilised at a higher point!

Shri A. C. Guha: Higher point than what?

Shri N. B. Chowdhury: Beyond the purchasing power of the people.

Shri A. C. Guha: Which section the people?

Shri N. B. Chowdhury: Vast majority of the people.

Shri A. C. Guha: I am presently coming to that.

Shri Mukerjee also referred to the disparity in the prices of agricultural and industrial goods and removal of income between the two sectors. There comes the real crux of the matter. If you want to remove the disparity in the income between the agricultural sector and the industrial sector, the rural sector and the urban sector, you must be ready to pay a higher price for the agricultural commodities. Unless the country as a whole is ready to make that sacrifice, it will be very difficult to remove the disparities between the income in the agricultural sector and the industrial sector, or broadly between the rural sector and the urban sector. In this connection it should not be forgotten that about 80 per cent. of our people live in the rural sector and they are mostly dependent on agricultural income. So, it would be suicidal for any nation to ignore that 80 per cent. of the people. It should, at any rate, be realised that the increase in the national income during the last few years, or at least a considerable portion of it, has gone to the rural sector, including the agricultural sector. It is not so much now a case of distress

[Shri A. C. Guha]

sale of agricultural commodities as in previous years. Now, at least a section of the agriculturists have got the holding power. They can hold on to their stocks and try to get better prices.

Shri A. K. Gopalan (Cannanore): The agriculturist does not get; it is the middleman who gets it.

Shri A. C. Guha: I think the position has changed considerably during the last few years. Only a week ago the Deputy Minister of Food, Shri Krishnappa and the West Bengal Minister went round the rural areas of West Bengal and they found considerable stocks of food-grains lying with the agriculturists; of course, some also with the traders.

Shri K. K. Basu (Diamond Harbour): Do not refer to the Bengal Minister; he had a bad show in the Assembly.

Shri A. C. Guha: I do not think so.

Shri A. K. Gopalan: I do not know of the position in Bengal; but in the other parts of the country, while the agriculturist gets 12 annas, it is sold in the bazaar for 15 annas.

Shri A. C. Guha: I have never claimed that the position is ideal, or that there is no scope for improvement. What I stated was that things have changed considerably during the last few years, even at the lowest bottom of the agricultural sector. They have changed considerably. Anyhow that is a long term measure and I think the disparity between the two sectors will disappear gradually.

I could not understand what Shri Mukerjee meant by suggesting an increase in our gold reserve and also the smuggling of gold. Anyhow that is not very much relevant to the Bill. He also referred to the resignation of the Chairman and the Managing Director of the State Bank. He said that these higher-ups in the banking structure must be told that they must serve on the terms of the country. I think they have been told that. The terms have been given to them. Why they have resigned I do not know. Surely the Government thought that under the present circumstances they would be the fittest persons to discharge the obligations placed on the Bank, and Government would have been glad if they had continued in their office. But somehow they have decided to tender their resignations and not to serve the Bank. The resignations may in due course be accepted. The resignation of the Managing Director has to be accepted by the Central Board; the Central Government has nothing to do in the matter. The resignation has been submitted to the Central Board and not to the Central Government. Nationalisation of the bank is an old topic. In particular this question has came up earlier and there was a debate on these matters, and I have also stated the Government policy thereon.

Shri A. M. Thomas has again raised the question that the variable reserve ratio may be hard for the smaller banks. I have given him the assurance which he has been asking for, namely, that the Reserve Bank will see that the ratio which may be fixed may be bearable for all the scheduled banks. It will see that the rate may not prove too much a burden for the smaller banks, and the bigger banks may be in a position to bear that burden. So, that will be the attitude of the Reserve Bank. That is why there is a provision in clause 10 (a)(1A). In certain circumstances the Reserve Bank would be entitled to ask for an additional special reserve. That would be calculated on the increased deposit of the banks during a particular period and that will not affect the smaller banks. That will affect mostly the bigger banks which may have greater deposits during a particular period.

I hope that the Bill will now be passed by the House. I am thankful to the Members for their suggestions and I take it that this House gives its seal of approval for the financial and monetary policy implied in the Second Five Year Plan.

Mr. Speaker: The question is:

"That the Bill, as amended, be passed."

The motion was adopted.

INDUSTRIAL DISPUTES (AMENDMENT AND MISCELLANEOUS PROVISIONS) BILL

The Minister of Labour (Shri Khandubhai Desai): I beg to move*:

"That the Bill further to amend the Industrial Disputes Act, 1947, and the Industrial Employment (Standing Orders) Act, 1946, and to repeal the Industrial Disputes (Appellate Tribunal) Act, 1950, be taken into consideration."

I do not want to go into the long history of the Bill. As the House is aware, the Industrial Disputes Act, 1947, was passed about nine years back. It has been worked during the last so many years and in the course of its working, certain shortcomings and defects were found and the Government wanted to rectify them. During the last two or three years, in the time of my predecessor, Shri V. V. Giri, various conferences were held and this Bill is the result of those conferences. I may not be able to say that it has got more or less the unanimous consent of all, but I can say without hesitation that this Bill is more or less based on the consensus of opinion prevailing among those who are interested in this law.

The House is aware that there has been a consistent demand by labour that the Labour Appellate Tribunal should be abolished. The Appellate Tribunal was introduced in the country in 1950 with a view to bring about uniformity and also co-ordination of judgment from time to time. It has no doubt, as far as that particular aspect is concerned, served a good purpose. The judges of the Appellate Tribunal have certainly taken the matter into their best consideration and have tried to bring about uniformity and co-ordination in certain judgments which were given by the tribunals. As against this merit of the Appellate Tribunal, certain defects were found and they were: justice was being delayed to particularly in matters which relate to industrial sphere. In the industrial sphere, any justice that is delayed will more or less disturb and dislocate the industrial production. The discontent and dissatisfaction were such that it became necessary to see that the justice that is made available to the workers should be made quick and expeditious. With that end in view, the decision was taken by the Government to abolish the Appellate Tribunal. When we are taking steps to abolish the Appellate Tribunal, we have also taken this opportunity to amend certain other relevant sections of the existing law so as to make the industrial disputes settled in an amicable and smoother way.

The main features of the Bill, as the House is aware, are four or five in number. In dealing with the provisions of the Bill, I may first invite the attention of the House to the abolition of the Labour Appellate Tribunal. As this House is aware, the Appellate Tribunal was established in 1950. Though the principle of the Appellate Tribunal was good in itself, as I have already said, there were delays in the dispensation of justice. When we abolish the Appellate Tribunal, we have come to the conclusion that it should be substituted by a system which, while it has got the status and stature of a good judiciary, should see that whatever disputes are referred to it are expeditiously decided. By the alternative

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*Moved with the recommendation of the President.