**Correction of Answer to Starred Question* No. 2244

RESERVE BANK OF INDIA (AMENDMENT) BILL

The Minister of Revenue and Defence Expenditure (Shri A. C. Guha): On behalf of Shri C. D Deshmukh, I beg to move:

"That the Bill further to amend the Reserve Bank of India Act, 1934, be taken into consideration".

This Bill consists of only 14 clauses and can be called a very small Bill. The purposes of the Bill have already been given in the Statement of Objects and Reasons. Yet, I shall try to explain in brief the salient features of the Bill.

I shall first deal with the necessity for amending section 33(2) of the Reserve Bank of India Act, 1934, under which not less than two-fifths of the assets of the issue department of the Reserve Bank are required to be held in gold coin, gold bullion or foreign securities, the value of gold coin and gold not being below Rs. 40 crores in value. For sometime it has been felt that these provisions are unduly restrictive in the context of our plans for development. The House is well aware that a developing economy needs a growing supply of currency to meet the normal increase in the demand for currency. As economic activity expands, more money is needed to enable the large volume of transactions to be carried on smoothly. The present provisions which require that foreign exchange reserves held by the Reserve Bank of India should increase in response to the increase of notes in circulation, will restrict seriously the ability of the Bank to supply the growing requirements of currency in a developing economy.

Let me explain my point with reference to what we propose to do in the second Five Year Plan and how the present provisions would inhibit the implementation of the Plan as desired. The targets of development expenditure in the public as well as private sectors and the magnitude of deficit financing envisaged in the second Five Year Plan will inevitably involve a substantial increase in the note issue simultaneously with a decrease in our foreign balances. In the memorandum of the second Five Year Plan, it has been stated that the deficit financing might be of the order of Rs. 1,200 crores. In view of the large foreign exchange requirements of the Plan, it is also proposed that the sterling assets held by the Bank may be drawn down by Rs. 200 crores. In these circumstances, the existing provisions set a serious limit to the bank's capacity to expand currency during the second Plan period. On July, 6, 1956, as against the note issue of Rs. 1,502.58 crores, the Reserve Bank had in the issue department in gold coin and gold bullion Rs. 40.02 crores [valued at the rate of 8·47512 grains of fine gold for rupee fixed by section 33(4) of the Act] and in foreign securities Rs. 636.61 crores. The Bank had also on that date foreign securities of Rs. 41.87 crores in its banking department but a working balance of at least this order would normally have to be maintained in the banking department. So, taking into consideration the foreign reserves of the issue department only, under the existing provisions of the Act, the additional amount of currency that could be issued would be Rs. 189 crores only. I am sure that every one would agree that a currency expansion of only Rs. 189 crores in five years would be far from adequate to meet the requirements of an economy where national income would increase by 25 per cent. Even this order of increase in currency would not be possible with an adverse balance of payments. Hence the urgency to amend section 33(2) and also section 33(4) of the Act.

The principle of linking foreign exchange reserves to note issue is in one sense a relic of the past and many countries have modified this principle in the last two decades. As long as

**See Part I Debates, dated 18th July, 1956, cols. 152-54.*

monetary authorities were obliged to tender gold or foreign exchange in return for domestic currency even for internal purposes, it was only prudent for Central Banks and Governments to hold gold and foreign exchange reserves in a certain proportionate relation with note issue. Nowadays, the central purpose of foreign exchange reserves everywhere is to enable a country to tide over temporary balance of payments difficulties. The size of the gold and foreign exchange reserves, therefore, is now determined in relation to the normal fluctuations in the payments position rather than in relation to note issue. In fact, some countries including Canada, New Zealand, Ceylon and the Philippines have gone so far as not to prescribe any reserve requirements in the form of gold or foreign exchange against the issue of currency.

One may ask that we are quoting only some rather undeveloped countries, but it should also be remembered that India also belongs to that category. Moreover, even in the United Kingdom, where the limit of fiduciary issue has been raised periodically, the increase in note issue has been to all intents and purposes without any obligatory increase in the foreign exchange reserves. The amendment in the Reserve Bank of India Act which is now proposed does not go as far as certain foreign countries have gone in this respect. We still propose to prescribe an absolute minimum of reserves both in foreign exchange and gold in order to ensure that some cushion is left against unforeseen emergencies.

I think the hon. friends would realise that the orthodox banking practice of the central banks has now been more or less abandoned by many of the countries, particularly by those which have undertaken similar development work of a huge magnitude as India has done.

On a consideration of this and other alternatives and in the context of Indian conditions it is considered best to prescribe the minimum reserve in absolute terms both in gold and foreign securities. It is accordingly proposed to amend section 33(2) of the Act so that a reserve of Rs. 400 crores in foreign securities may be fixed. This is being done by clause 8(a) of the Bill.

Concurrently with amendment of sub-section (2) of section 33, sub-section (4) of the said section prescribing the rate at which the gold held by the Reserve Bank to be valued is also to be amended. At present the gold held by the Reserve Bank is valued at the rate of 8·47512 grains per rupee, *i.e.* at the rate of Rs. 21-3-10 per tola. It may be admitted that this price of the rupee in terms of gold is not realistic and fair compared to the market value of the rupee. In short, so long the gold is being valued at a very low price, much lower in fact than the parity for the Indian rupee which has been agreed to by the International Monetary Fund. It has now been proposed to revalue the gold at the official parity agreed to by the Fund, *i.e.* at the rate of 2·88 grains of fine gold per rupee or Rs. 62-8-0 per tola. This will result in the value of the gold held by the Reserve Bank being raised from Rs. 40 crores to a little over Rs. 115 crores. I may add that this change is only formal and is intended to reflect more accurately the value of our gold reserves in terms of the official parity of the Indian rupee. Simultaneously with the revaluation of the gold, the minimum limit for the holding of gold by the Reserve Bank is also being raised from Rs. 40 crores to Rs. 115 crores as in clause 8(a). This is in addition to the minimum holding of the foreign securities of Rs. 400 crores mentioned above. The total of gold and foreign securities to be held as a minimum would thus come to Rs. 515 crores. Clause 8 of the Bill deals with these amendments.

Section 37 of the Reserve Bank of India Act provides for suspension of assets requirements with regard to gold coin, gold bullion and foreign securities, subject to the payment of tax to the Government at prescribed rates, the minimum rate being fixed at 6 per cent. per annum. It is desirable to

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have a provision for suspension of assets requirements to meet unforeseen contingencies, but it is unnecessary to have any provision for any penalty in the event of such suspension. The penalty clause was imposed when the Reserve Bank was not a totally nationalised Bank and when most of the shares were held by the private sector. But now it is a nationalised Bank. The Payment of tax is only of nominal significance now since the Bank is a nationalised institution and its surplus profit, after the usual provisions for bad and doubtful debts etc. is being paid to the Central Government. Last year the Reserve Bank contributed to the revenue of the Central Government about Rs. 20 crores. There is hardly any necessity of putting a penalty clause for suspending this provision.

Clause 9 of the Bill provides for the deletion of the existing provision regarding payment of tax to Government and puts a new provision to enable the Bank to suspend the assets requirements with the previous sanction of the Central Government for a period of six months in the first instance which may be extended from time to time for periods not exceeding three months at a time. The present section 37 enables suspension only for 30 days in the first instance, to be extended from time to time by period not exceeding 15 days. The suspension should be subject to a maximum deficiency of foreign securities of Rs. 100 crores; in other words, the holdings of foreign securities should in no event be less than Rs. 300 crores. Further, the suspension should not apply to gold coin and gold bullion, the minimum holdings of which should continue to be at Rs. 115 crores. So, the total effect of this provision would be that instead of Rs. 515 crores to be kept in reserve, the Reserve Bank may, in cases of emergency, reduce the reserve by only Rs. 100 crores and may maintain a reserve of Rs. 415 crores.

Now we come to clause 10 intended to empower the Reserve Bank to exercise credit control. For many years it has been almost universally accepted that the creation and distribution of credit, under the intricate economic organisation existing in most countries should be subjected to some control. Control or adjustment of credit is accepted by most economists and bankers as the main function of a Central Bank. It is the function which embraces the most important questions of central banking policy and the one through which practically all other functions are united and made to serve a common purpose. Three objectives of credit control are mentioned by economists and bankers, namely, (a) stabilisation of exchange rates, (b) stabilisation of general price level and (c) stabilisation of business activity and employment. The traditional objective was the first one—stabilisation of exchange rates; but, with the abolition or suspension of gold standard, more emphasis is now put on stabilising price level.

It is felt that changes in price level cause important changes and disturbances in economic relations within a country as well as between countries, thus causing serious and prolonged maladjustments, dire social and economic consequences, Stabilisation of price level would eliminate such disturbances and maladjustments.

An increasing number of economists now would rather think that the main objective of credit control is the elimination or smoothing out of business cycle. They think that attainment of the other two objectives though highly desirable is but subsidiary to the maintenance of normal and steady rate of growth in the general economic activity, and is expected to prevent booms and slums, mass unemployment etc. In the early thirties, initial emphasis was on price level objective. But the present official monetary policies of countries like Sweden, Great Britain, United States etc. tend to move more and more in the direction of economic stabilisation as objective for credit control.

Then comes the question: What are the methods of credit control? One of them undoubtedly is the lowering or raising of minimum reserves to be kept by commercial banks in the form of credit balances with the Central Bank. This is considered as an additional and more effective means of enabling the Central Bank to expand or contract cerdit-creating capacity of commercial banks. Under the present economic conditions, bank rate policy and open market operations may not prove quite effective or feasible means for credit control. In view of the limited efficacy of the traditional instruments or credit control, it has now been suggested that banks should be asked to keep a certain percentage of their deposits with the Central Bank and that the latter should be authorised to vary this percentage from time to time. This is what is intended to be done by clause 10 of the Bill.

The provision for minimum reserves were intended to sustain the confidence in the currency. In the ultimate analysis, however, the confidence in currency depends in the ability of the Reserve Bank to regulate credit so as to control inflationary and deflationary tendencies. That is why it is proposed simultaneously to introduce this important amendment which will strengthen the Reserve Bank's ability to regulate the credit situation effectively, through the institution of a system of flexible cash reserve requirements for scheduled banks. As a result of the deficit financing envisaged during the second Plan period, banks would acquire substantial independent cash resources. This situation would increase the ability of the banks to expand the credit. Already this year this tendency has appeared. Already indications are that scheduled bank advances have expanded rapidly in recent months. This emphasises the need for granting additional powers to the Reserve Bank to check unhealthy credit extension which under section 42(1) of the Reserve Bank of India Act, scheduled Banks are required to maintain with the Reserve Bank minimum cash reserve of 5 per cent. of their demand liabilities and 2 per cent. of their time liabilities. These percentages have remained unchanged all these years. This is the fixed minimum reserve ratio.

The policy of fixed minimum reserve ratio has been interpreted by many as placing the trading banks in a straight jacket. Cash reserves vary with seasonal movements and also with trade cycle. So a fixed minimum would be ineffective at some time and may prove to be a serious burden to banks at other times. A low ratio is likely to be ineffective at most times and a high ratio may prove quite depressive at one time and ineffective at another stage of the trade cycle. Hence the modern tendency is to have a variable reserve ratio. The psychological reactions to the use of variable reserve ratio are likely to prove more favourable than to those of open market operations as the latter are carried on behind the scenes while the former operate openly. A trading bank can very often ignore a rise in the Bank rate unless it has to borrow money from the Central Bank. But, it cannot ignore the higher reserve ratio because it impinges on its cash balances. In many countries including U.S.A. the method of variable reserve ratio is being used to supplement the open market operations. Open market operations are intended for ordinary occasions. But in case of certain fundamental changes in the banking conditions or in the trade cycle, the method of variable reserve ratio is generally being used and is found to be more effective.

It is proposed to amend section 42 (1) of the Reserve Bank Act with consequential amendments to other sections to give power to the Reserve Bank to vary cash reserves required under that section, within certain fixed limits. It has been customary for schedued banks to keep with the Reserve Bank balances in excess of what they are required to maintain

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statutorily, although during the last 5-6 years such excess has been declining. Thus, during the year 1955-56 on an average the scheduled banks maintained with the Reserve Bank a balance of Rs. 52·5 crores, which was Rs. 13·9 crores in excess of the statutory requirement, as compared with an average balance of Rs. 60·8 crores in 1950-51 and an excess balance of Rs. 25·2 crores. The tendency is rather ominous; we have to take action before it is too late. So comes the necessity of the amendment as proposed in clause 10.

The system of variable reserve requirements is an effective instrument which can be operated in a flexible manner. This system is a normal part of the machinery of credit control in a majority of countries which have the device of statutory reserves. The system of variable reserve requirements obtains in about 25 countries developed and undeveloped, including the U.S.A., West Germany, Mexico, Brazil, Peru, Ceylon, Burma, Pakistan and New Zealand. This weapon of credit control has been used frequently in recent years. It is proposed that the range of minimum and maximum reserves may be fixed at 5 and 20 per cent. in respect of demand liabilities and 2 and 8 per cent. in respect of time liabilities by suitably amending the said section. The distinction between demand and time liabilities for reserve purposes is customary and convenient and may continue to be made.

To enable the flexible operation of the system of variable reserves, the Reserve Bank is also being vested with the power to require scheduled banks to maintain an additional balance computed with reference to the excess of demand and time liabilities over the level of such liabilities on a date to be specified by the Reserve Bank, subject to the condition that the overall balance required to be maintained by a scheduled bank shall not be more than 20 per cent. of its demand liabilities and 8 per cent. of its time liabilities. That means that this special requisition from the Reserve Bank on the Scheduled banks to keep some more funds will not exceed the overall maximum fixed, 20 per cent. in the case of demand liabilities and 8 per cent. in the case of time liabilities. The position may be explained thus. Within a certain period it may be found that the deposits of certain banks have increased inordinately. In such cases, it may be necessary to have this power for the Reserve Bank to ask the scheduled banks to maintain additional balances with the Reserve Bank. This policy will give some relief to the smaller banks. If you always operate on the basis of the maximum and minimum limit fixed, that would be applicable to all the banks. One bank may have within the last year increased by the deposit by a few crores. Another bank may not have any increased deposit at all. If the Reserve Bank would ask that 50 per cent. of the increased demand of this year may be deposited with the Reserve Bank as an additional balance, this 50 per cent. will not affect the smaller bank whose increase in deposits during that year is almost negligible or nil. This provision will ensure equity, in that the impact of any change in reserve requirements will be mainly on banks which have experienced relatively substantial rise in deposits. Provision is also being made to enable the Reserve Bank to pay at its discretion, interest at such rate or rates as may be determined by it from time to time, on the amount by which the minimum reserves required are in excess of 5 per cent. of demand liabilities and 2 per cent. of time liabilities, payment of such interest being, however, conditional on the scheduled bank maintaining the minimum balance required of it. These amendments are being dealt with in clause 10 of the Bill.

It is also proposed to amend sub-section 2(b) of section 46(A) of the Act, with a view to removing the doubt regarding the scope of the sub-section. The present amendment is just in the form of a clarification removing some apprehended lacuna in the language of the sub-section. Section 46(A) enables the Reserve Bank to make loans and advances from the National Agricultural Credit Long Term (Operations) Fund. Such loans and advances include medium term loans to State Co-operative Banks for agricultural purposes as specified in sub-section 2(b) of section 46(A). From the point of view of the integrated programme for the development of rural credit and other rural economic activity, such as marketing and processing, it is necessary that small and medium cultivators should be active participants (as shareholders etc.) in co-operative societies and co-operative concerns connected with the marketing and processing of their own products. However, according to a strict interpretation of the term 'agricultural purposes', it may not be possible for the Reserve Bank under the present provisions to make advances to co-operative banks even in proved cases of necessity, to enable them to lend to small and medium cultivators for the purpose of purchasing shares in such societies and concerns. Clause 11 of the Bill deals with the amendment of section 46(A) of the Principal Act in order to remove the doubt and enable the Reserve Bank to make an advance for such purposes.

Clause 3 of the Bill seeks to abolish Local Boards. Section 9 of the Reserve Bank of India Act contains a provision that a Local Board shall be constituted for each of the four regional areas, namely, the Western area, the Eastern area, the Northern area, and the Southern area and shall consist of five members each to be appointed by the Central Government to represent, as far as possible, territorial and economic interests and the interests of co-operative and indigenous banks. Under the scheme of the original Act the Local Boards were meant as electoral colleges for the purpose of constituting the elected directorate of the Central Board and their principal function was to deal with share transfers, the Bank had made continued efforts to utilise their services as much as possible, and other functions were allotted to them from time to time. Among these the most important was in connection with the banking situation in their region and their advice was sought in all cases relating to the scheduling and de-scheduling of banks, opening of new branches and other actions against banks which the Reserve Bank was empowered to take under the Banking Companies Act. When the Reserve Bank was nationalised, it was thought that these other duties could be usefully continued to be performed by the Local Boards, but their utility of functioning as electoral colleges was no longer applicable as with the nationalisation of the Bank there was no election from the Local Boards to the Central Board. Experience has shown that with the development of the Department of Banking Operations with its large inspecting staff and the detailed manner in which cases relating to banks are now prepared, there is very little that the Local Boards could contribute even in this sphere. It is thus not any lack of desire on the part of the Reserve Bank to consult the Local Boards that their usefulness has diminished. The initiative for abolishing the Local Boards has come, in fact, from the members of the Local Boards themselves who have felt that they were not making any important contribution to the working of the Reserve Bank. The cases relating to banks which are outside the general principles already formulated are now taken before the full Board which itself consists of experienced persons drawn from all parts of India. Thus, regional advice is available in dealing with these cases and there is no special merit in having separate Local Boards for this purpose. As the present system of nomination of Directors on the Central Board secures a wide representation of territorial, economic and agricultural interests, the continuance of Local Boards is no longer necessary.

Other clauses of the Bill are consequential in character, and I hope

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the House will be pleased to pass the Bill.

Mr. Speaker: Motion moved:

"That the Bill further to amend the Reserve Bank of India Act, 1934, be taken into consideration."

Eight hours have been allotted for all the stages of this Bill. How shall I distribute these eight hours? There are no amendments either to the consideration motion or even to the clauses. So, for general discussion we can have six hours and for the rest of the stages two hours.

Shri N. B. Chowdhury: (Ghatal): The proposal to amend the Reserve Bank of India Act, 1934 has come at a time when the Second Five Year Plan has just started working with the provision of a heavy deficit financing to the extent of Rs. 1,200 crores with its consequential expansion of credit by the banks and also speculative activity in the country. We know that when such a Plan is made without adequate guarantee of necessary supplies, the speculating sharks in the country lie in wait to get the opportunity to make money at the cost of the community. The Bill that has been brought forward contains certain provisions which, if properly used, will help the work of regulating such undesirable activities of the banks to a great extent, but it has to be seen how far the powers are used and in what manner by the Reserve Bank.

We know that the note issue is already increasing. During March, 1956 the money supply with the public increased by Rs. 117·3 crores of which Rs. 66·5 crores were under currency, against Rs. 39·4 crores during March, 1955. During the financial year 1955-56, out of the expansion of Rs. 259·85 crores, Rs. 185·7 were currency notes. This also shows a decline from 56·50 in 1954-55 to 51·35 in 1955-56 so far as the reserve ratio is concerned. In March 1956 there have been continuous declines in the ratio from 50.52 per cent. to 47·1 per cent. Along with that, in March, 1956 schedule bank credit shows a net rise of Rs. 61·8 crores as against Rs. 17·5 crores in the preceding month and Rs. 26·5 crores in March, 1955. So, this shows that the expansion of credit by the scheduled banks has already started and it has its effects on the price position also.

We know that just a few months back after questions were repeatedly put in this House regarding the necessity of controlling credit supply against certain speculative purposes, the Government issued instructions calling for certain returns from banks regarding the supply of credit, and as a result of that certain directives had to be issued preventing the banks from giving credit for speculation in grains. That has brought about certain results, but already the mischief had been done. Yesterday the Food and Agricultural Minister, Shri A. P. Jain, said that there was no necessity to give any powers to the Government of West Bengal for anti-hoarding purposes etc. That is creating certain problems with regard to the price position in the country. So, this is the situation in which this Bill has come.

With the provision of Rs. 1,200 crores of deficit financing, certainly the Government would require to clothe the Reserve Bank with adequate powers so that they can adopt, if necessary, certain drastic measures against the recalcitrant banks so far as credit supply is concerned.

Coming to the important provisions of the Bill, I would first refer to clause 8. Here two basic changes are involved. One is, as has already been explained by the hon. Minister, with regard to the very principle of maintenance of reserve in the Reserve Bank. This is not new so far as the central banking systems in the different countries are concerned. We all know that during the thirties, when the economy of France was in jeopardy, according to the method suggested by Lord Keynes they adopted this method of maintaining only a fixed reserve instead of a percentage of the total assets. As a result of that they were able to get over the crisis to a certain extent. Now, instead of the statutory provision as it existed before of 40 per cent. of gold coin or gold bullion and foreign securities subject to a minimum of Rs. 40 crores, it is now being provided that of the total assets, the amount of gold coin and bullion and the amount of foreign securities shall not be less than Rs. 115 crores and Rs. 400 crores respectively in value. So far as this provision is concerned, we have no objection to it. But what I would like to observe in this connection is that while we feel that it would not be possible for Government to provide adequate gold reserve, if we maintain the traditional proportion or percentage of the assets, we find that in the country there are reports about the smuggling of gold. I am sure the Minister must be aware of the report that appeared in several papers the other day that in Calcutta, so far as Surajmals and Nagarmals are concerned, there was a searching of their houses, and a heavy amount of gold has been seized. We do not know the position. I hope the Minister would enlighten us on this matter. So, while we speak about the difficulty of maintaining gold reserve....

Shri A. C. Guha: The hon. Member is making some definite allegations in a case which is still under investigation. I think it may not be proper to do so. I would like to draw your attention to this.

Shri N. B. Chowdhury: I have only referred to the fact that such reports are appearing in the press. We do not know what has actually happened. I have made a reference only to that. Anyway, I am not proceeding further with it.

Now, I come to the sub-clause which seeks to revalue the gold in terms of the rupee. The previous standard was 8·47512 grains of fine gold per rupee, but now that has been reduced to 2·88 grains of fine gold per rupee, according to the International Monetary Fund standard. It is true, as the Minister has stated, that the previous proportion was not realistic and had no bearing on the market conditions, and as such, it may be changed. It was changed in many other countries. So, in the situation in which we are placed today, we may also perhaps adopt the new method in order to meet our requirements. Incidentally, this helps us to build up this reserve of Rs. 115 crores by changing the value of gold; and thus, we are in a position to maintain the reserve of Rs. 115 crores so far as the gold reserve is required to be maintained.

In this connection, I would like to know from the Minister how he is going to account for the profits or the results that will accrue out of this arrangement. In some countries, they have opened some sort of adjustment account for this purpose, while a different method is adopted elsewhere. But here we do not know what exactly is in the mind of the Minister. I would request him to clarify this point further.

Coming to clause 9, I find that here, certainly, some necessary change has been made. Previously, the period of suspension of assets requirements in respect of foreign securities was 30 days in the first instance, and subsequently it could be extended by periods not exceeding fifteen days, but now it has been increased to six months and three months respectively.

At a time of planning, when it is necessary for us to import capital goods for our developmental needs, it may be necessary to suspend the reserve that we would ordinarily like to maintain. Under these circumstances, the extension of the period for the suspension of the assets requirements may be justified. But even in this connection, the point arises as to the dwindling or diminishing of the foreign exchange resources of the country. Only this morning, we heard about certain loans from foreign countries. We do not know whether we are going to get these loans by

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way of capital goods, or we will be provided with some foreign exchange which we can use elsewhere. That point needs a little clarification, so that we may know the exact position with regard to the difficulties in the matter of the foreign exchange resources.

I now come to clause 10, which seeks to amend section 42 of the principal Act of 1934. The purpose of this amendment is to strengthen the credit control machinery. The Reserve Bank of India is thereby going to assume certain powers by virtue of which it can call upon the scheduled banks to provide larger balances with the Reserve Bank. Previously, the rate was 5 per cent. for demand liability, and 2 per cent. for time deposit. But now it has been provided that it may be increased, if Government think it necessary to do so, by some notification, to 20 per cent. and 8 per cent. respectively. In view of the speculative activities which are encouraged by certain banks, it is necessary that along with deficit financing and the larger supply of money, the banks should be asked to maintain larger reserves and larger percentages of the different kinds of deposits with the Reserve Bank of India; and that will, to some extent, be a safeguard against the encouragement of speculative activities.

There is also the provision to the effect that they may call for even larger percentages of deposits from such banks. If the banks do not behave properly, then certainly such action would be justified on the part of Government.

Coming to another section of this clause, I find that there is provision for demanding interest at three per cent. above the bank rate up to one week, and beyond that, at five per cent. above the bank rate, from the defaulting banks. If the banks fail to maintain the necessary balances with the Reserve Bank in respect of their time liabilities or demand liabilities, then Government would be in a position to charge at such penal rates. Since it is obligatory on the part of such banks, according to the provisions of this law, to maintain these reserves, naturally if they default, there will be certainly a justification for such action on the part of Government.

There is one other point on which I would like to have some clarification from the Minister. According to the Act as it stands, so far as penalty is concerned, for banks that fail to observe the principles enunciated therein, there is the provision of punishment. But that provision has been changed to a certain extent in this Bill. The implication of it is not quite clear. Previously, the language was:

"Every director and any manager or secretary", that is to say, every director and manager or secretary could be punished. But now, the language has been changed to:

> "every director, manager, or secretary of the scheduled banks....."

We do not know what the necessity for this change is. I would request that this may kindly be clarified. If, according to the old provisions, every director and any manager or secretary, who knowingly or wilfully encourage such a thing or are involved in such a default, could be punished, I do not know why now the provision should be changed to the effect that every director, manager or secretary who is in default could be punished and not every director and manager or secretary.

[MR. DEPUTY-SPEAKER *in the Chair*]

In regard to local boards, it has been mentioned in the Statement of Objects and Reasons that it is a very minor change that has been made.

The hon. Minister has also stated that the local boards do not serve much purpose today, they do not do much work and they may be done away with. But what is taking place is that in cities like Calcutta and Madras, they are being deprived of facilities of having such headquarters of all-India institutions, and instead everything is being taken to Bombay so far as the financial transactions are concerned. We do not understand quite clearly as to what is the necessity of doing away with the provision for these local boards. The local boards help to a certain extent to maintain contacts with the local banks and other organisations. So it is not clear to us whether the local boards have altogether outlived their utility in this situation. That is a point to which I would like a reply in more detail.

Coming to clause 11, a welcome change has been made. It has been suggested that the words 'for agricultural purposes' should be omitted, so that the bank may make advances to provincial co-operative banks for other purposes also. I do not know what is exactly in the mind of the hon. Minister when the words 'other purposes......' have been used. If it is for purchasing shares of co-operative institutions, then certainly that is a welcome thing. But so far as the recommendations of the Rural Credit Survey are concerned, the Government are not at all prompt in acting up to the needs of the situation. So much criticism has been made from different sections of this House regarding the need for increasing the supply of rural credit and strengthening the co-operative organisations in the country.

According to the recommendations of the Rural Credit Survey, there are to be State-partnered institutions and the State is expected to purchase shares of co-operative societies or co-operative banks so as to improve the condition of the co-operative institutions. Now, here is some provision according to which it would be possible for the Reserve Bank to advance money to provincial co-operative institutions for certain purposes. We do not know exactly what purposes are in the mind of Government. We would like to know whether this would be a measure to expedite work so far as reorganisation of the co-operative societies and arrangements for supply of rural credit are concerned.

Having said this, I would like to point out that while we support the provisions which are in this Bill, we feel that certain other provisions should have been incorporated here. Although there is a mention of control of credit and prevention of speculative activity, etc., we feel that certain other things should have been embodied in the Bill itself. In the *Second Five Year Plan*, it is stated:

> "Deficit financing will augment the ability of banks to extend credit to the private sector. Such expansion will be needed and will have beneficial results up to a point. Care will, however, have to be taken to prevent excessive credit expansion which may react adversely on prices and to ensure that credit does not flow into speculation to the detriment of productive activity. The Reserve Bank has wide powers of supervision and control over commercial banks. It can vary its own accommodation to the banks and can issue directives to them under certain circumstances quantitative as well as qualitative controls on credit, including variations from time to time in the relationship to be maintained between the liabilities of banks and their reserves should, we suggest, be regarded as an important accompaniment to the scheme of deficit financing we have recommended."

We would have liked some selective control or qualitative control being provided for in this Bill. No doubt, when a certain action was called for a few months back with regard to countering speculation in grains, the Reserve Bank did take certain action after certain questions were put in this House. But it would have been better if there were certain

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directives from this Parliament to the effect that wherever there was any possibility of speculation in certain commodities, the Reserve Bank should be required to issue directives to the banks to prevent such speculative activities, because in our country we find that these speculators and other anti-social elements have no social compunction and they are ready to work havoc, as has already been demonstrated to a certain extent. But this is only the beginning of deficit financing as far as the provision of Rs. 1,200 crores is concerned. It is likely to increase. So along with the increased taxation, which may be to the extent of Rs. 850 crores during the period of the Second Plan, if deficit financing is resorted to to the extent envisaged, certainly it may have disastrous effects on the price situation. So unless sufficient safeguards are there by way of special powers for Parliament to call upon the Reserve Bank to take certain action in case the price index rises beyond a certain limit or goes down below a certain level, there are likely to be certain difficulties.

In other countries, for instance, Latin American countries and others, development has certainly been helped through the method of deficit financing. But they have all felt the need for regulation, and discretion is to be exercised not by the reserve bank or central or regulatory bank of the country but by the Parliament of the country, because it is the representatives of the people who can best judge the situation so far as the hardships of the people are concerned. In our country, it is very necessary, in view of the fact that there is a private sector wherein people are not always conscientious and do not work to the best interests of the country, that there should be a statutory provision to this effect that whenever the situation so demands the Parliament should be in a position to direct the financial institution, the Reserve Bank, to adopt measures which will not only check inflation or rise or fall in prices but channelise the financial resources of the country in a way which will really help the developmental activities of this country.

Shri M. S. Gurupadaswamy (Mysore): This Bill is not simple as the Finance Minister observed.

Shri A. C. Guha: I have never said that the Bill is simple. I was very particular about that. There was no Bill which was simple in the House.

The Deputy Minister of Finance (Shri B. R. Bhagat): Particularly when Shri Gurupadaswamy is on his legs.

Shri M. S. Gurupadaswamy: This Bill introduces a major change which will affect both the monetary and the economic fabric of our society.

1 P.M.

Before I deal with the various clauses of the Bill, I would make a few observations about the main purpose for which the Bill is brought. The central purpose is to give enough powers to the Reserve Bank to create cheap money. The Government have to finance a huge Five Year Plan and they have to create new money to the extent of 1,200 crores of rupees. Already, we are creating, this year, new currency to the extent of Rs. 250 crores. More credit accommodation has also been created by the commercial banks.

Before I deal with the effects of this measure, I would like to draw the attention of Government—I think they are aware of it—to the recent statement of the Reserve Bank in respect of currency and finance. The Reserve Bank has said that the year 1955-56 was the most prosperous year from the point of view of trade, commerce and development. I agree. It was true that in the year 1955-56, we achieved a great stability in our economy, a great improvement in our fiscal as well as monetary fields. But, I am afraid, we are not able to keep up that stability in the year 1956-57. What we have achieved in the year 1955-56, we are losing in the year 1956-57. Why are we losing? We are losing because we have been creating cheap money and flooding the market with enormous sums of money as well as credit without power to control the effects of this new creation.

The main purpose of deficit financing is to meet the accelerated developmental expenditure mainly in the public sector. But, unfortunately, much of the money that is being created today is flowing into the private sector. Government, even the Reserve Bank have not yet been able to canalise the new money to productive business and most of the money is being used by private people for financing their unproductive schemes. Government should have set up some machinery to control the expenditure also. Mere creation of money will not lead us to the desired goal unless we adopt other measures to regulate the expenditure. But, unfortunately, we have no machinery. I do not think Government has got even any machinery to collect statistics regarding the distribution of this new money between productive and non-productive enterprises. I hope Government will take my suggestion seriously and think of starting or opening a branch in the Reserve Bank to study this aspect.

I said that the stability we achieved in the economy in the previous year is being lost this year. I support my statement by taking one instance. Last year this House debated a resolution regarding the precipitous fall in prices of foodgrains and other agricultural commodities. This year we are confronted with another type of crisis, *i.e.* rise in the prices of agricultural commodities, especially foodgrains. The Reserve Bank, in its statement, has explained it in a very funny way. I will read out what the Reserve Bank says:

> "The price situation underwent a marked change during 1955-56. Commodity prices recorded a rise during the greater part of the year in contrast to the decline in 1954-55. Over the year the Economic Adviser's general index of wholesale prices rose by about 11·6 per cent. as against a more or less equivalent decline in 1954-55. While to a substantial extent the rise in commodity prices was a correction of the rather sharp fall in the previous year, it also reflected the decline in output of some primary commodities and the rise in exports, in particular, of raw cotton and oils."

What I want to say is that the Reserve Bank have taken a very complacent view of things. They have simplified the whole situation. The real rise is not mere 11·6 per cent.; the rise is nearly 22 per cent. Last year there was a fall according to the statement of the Reserve Bank itself. It is admitted that the fall in prices was about 11·5 per cent. or so. This year the rise is also to the same extent. That means that the rise in prices of agricultural commodities in this period of one year is about 22 per cent. This is rather abnormal. This should have set the Finance Ministry thinking that there is something wrong in the fiscal or monetary policy pursued by Government.

At the fag end of the previous Plan, lot of new money was injected into our economic system. This year we are pumping in more money and there is no possibility of squeezing out this money—getting back this money—for useful productive purposes. I ask the Government to explain why they have not taken any steps to see that the new money they have created goes only to developmental purposes and not to non-developmental purposes.

It is said that the Reserve Bank has ample powers to exercise control over the credit system, especially over the credit operations of the commercial banks. I beg to differ even here. For these one or two years the record of the commercial banks is very bleak. I have got here statistics to show that the Scheduled Banks and other Banks have dealt with the distribution of credit in a very reckless manner and the powers of the Reserve Bank of India were not used to control the activities of the commercial banks. I

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have got with me a list of defects which are prevalent in the banking world and I have noted down, for instance, fourteen defects and all of them were brought out by the Reserve Bank statement itself. The greatest defect of the commercial banks is inadequate and poor reserves, insufficient reserves against bad and doubtful debts and over-extension of advances. There are other drawbacks which the Reserve Bank itself has found, but till now these defects have not been overcome or removed. When this is so the Government again comes forward to give more powers to the Reserve Bank. We have already created cheap money, but we have been helpless to control the use of that cheap money for productive purposes. Now Government says that we should give it more powers to flood the market with more money.

The function of the Reserve Bank is to create credit whereas the function of the commercial banks is to distribute credit. In a developmental economy, the distribution of credit or allocation of credit is more important than the creation of credit. It is easy to create credit but to control its distribution is very difficult. In this respect, the Reserve Bank has failed completely. From our previous experience I am bound to say that I have no confidence in the ability of the Reserve Bank to control the distribution of credit. So, what is the remedy?

Naturally it will take me to another vital aspect that both creation of credit and distribution of credit should be completely controlled by one agency, by the Government. If that is done, then it will be possible to plough all this money to desired ends. Otherwise, what will happen? There may be control at the top, there may be control at the point of creation of money, but if there is no control at the various points of distribution, I am afraid the entire fabric of our economy will break into pieces. The new money that we have already created has depreciated the currency, and the confidence of the people has been shaken. We are already suffering from inflationary effects. The Finance Minister may say that it is just a natural development, the rise in prices is a sign of prosperity and rise in agricultural commodities gives more money to the rural sector. He may justify it in that way. But I feel that it will have a tremendously disastrous effect on the national economy as a whole. This precipitous rise in prices by nearly 22 per cent. should be sufficient indication to show in which direction the nation is going, whether we are progressing according to plan and whether our money is going to the desired ends. We do not know what monetary standard the Government wants to adopt today. By this amendment, I feel, we are unconsciously changing our currency system. I ask therefore what type of standard the Government wants to have. Do they want a limping standard? Or paper currency standard? If Government want this, let them say so. Or do they still believe in reserves, in gold backing, and in the idea that people should have confidence in the currency? Currency is the basis of the economy of any country today. Without good currency there is no good economy. You cannot divorce economy from currency. Whatever happens in the currency world will have its effects on the economic world. It will have a great effect also on international trade and it will affect foreign exchange. If you depreciate your currency, you will depreciate to that extent the value of your economy. This will devalue the nation in a way. I do not like the devaluation of the nation. The Finance Minister drew certain parallels. I know that some other countries have adopted these measures. They have provided for absolute reserves, that is, statutory minimum reserves. The ratio between gold and currency was abolished with a view to finance increased developmental expenditure. But I want to ask the Finance Minister whether in those countries they have contemplated deficit financing to the extent of Rs. 1,200 crores. What was the quantum of deficit financing in those countries? I think the quantum that is contemplated here is the highest in the world. Only Germany of the pre-war days did have such a huge deficit financing as this. They printed lot of paper currency; paper was available everywhere. If you want to do the same, tell us. Then, what will happen? Already ominous signs are visible. Our currency is being depreciated. People are losing confidence in the currency and there is already a great fear in the minds of the people about the issue of the new coins, (*naye paise*) next year, and they are very much puzzled. At present they are purchasing lot of gold in the market. The gold price has consequently increased. The Finance Minister wants to bring down the gold reserves. But are we devoid of gold in this country? I want to know. We are not. The Finance Minister till today has not given his approval to nationalising of gold mines in Kolar. He has not even thought of opening up gold mines in Hyderabad. There is gold there. Why do they not exploit it?

We have started a State Trading Corporation. We are bringing certain commodities under State monopoly. We are seeing people buying gold for the purpose of hoarding it, and all this purchase of gold is going to non-productive purpose, that is, just for hoarding. Hoarding is a sin and I think it is worse than theft. May I ask what Government has done to prevent it? Will the State Trading Corporation undertake the sale and purchase of gold? In my view trading in gold should not be entrusted to private people. I ask therefore why Government should not think of monopolising the trade in gold. Monopolise and nationalise the gold mines. If these two measures are taken I am sure that an adequate bullion backing can be maintained for our currency. Then there will not be currency chaos; we can avoid it. If these measures are not taken and if you go on using the printing press at Nasik to bring out more and more paper money, then there will be inflationary inferno. You cannot avoid its effects; they are however already visible. The idea contemplated in clause 8 is highly dangerous though it looks very simple. My hon. friend who spoke before me was supporting it. I would have done so; I was tempted to do so but the Reserve Bank and the Government have proved incapable of looking after the stability of the currency. When it is so, we cannot support this. I stand for a ratio and not for the abolition of ratio and I stand for currency stabilisation. I do not want currency chaos in this country. If that results, who is ultimately affected? It is the lower middle class and the fixed income groups and the labourers. It is these people who will be affected much. If you create more money, it will irrigate the pockets of the rich. The rich will become richer and the poor, poorer. That will be the effect of this amendment. It is not a simple Bill and it contains revolutionary changes—revolutionary, not in the right sense. It will affect the fabric of our society and the face of our economy, if not immediately, at least in the long run. This ratio and other things are very complicated and I would respectfully urge the House to study them carefully and give its advice. Any step in this direction should be taken after careful deliberation.

I agree with the hon. Minister at least on one point. The variable reserve ratio is adopted in certain countries. I have no quarrel with the principle behind it. Here clause 10 deals with the reserve requirements of scheduled banks. According to the provision it may vary within the range of five per cent. and twenty per cent. in respect of demand liabilities and between two and eight per cent. in respect of time liabilities. I do not dispute the idea but I do not know why there should be such a wide range—five per cent. and twenty per cent. The greatest curse of the banking world today is the extravagance and over-extension of advances to give

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accommodation for business people, especially the directors, their friends and relatives. This had led to so many crashes in the banking world. No steps have been taken to stabilise the banking operations. Therefore if it is provided that a lower minimum reserve should be kept, then the tendency is to approximate to the minimum and not to the maximum provided in the Bill. Therefore, I suggest that the difference between the maximum and minimum should be narrowed down. It should be ten per cent. and twenty per cent. respectively in the case of demand liabilities and four and eight per cent. respectively in the case of time liabilities. I think this will give some stability and strength to the credit operations of the banks.

The money that is created has to come back to the commercial banks in the form of deposits. This is one of the views expressed from time to time by official spokesmen. They say that the deposits of the various commercial banks have increased considerably. True. But, have they increased proportionately? What is the ratio between the note issue and deposits? This rise is not proportionate. Why is this so? It is because much of the money created is going to the non-monetised sector. Much of the rural sector comes under this sector and the money that flows to the rural sector does not come back to the banks in the form of deposits. It stays in the hands of the villagers. One of the things they do is to go to the bullion market and purchase some gold and hoard it. They hoard the currency also. They never go to the banks. Perhaps there may be the fear of the income-tax authorities but that is not the only thing. The rural people do not know the banking practices. The big landlords exchange their produce for money but that money will be in the safe custody of the landlords. The net result is that the money that is created is not going into the productive channels. In the rural sector it is hoarded and in the urban sector it is used for speculative purposes; either way, it is not used for productive purposes. So, it is a vicious circle that you are drawing. So, without having a proper machinery for controlling credit distribution, you cannot think of creating credit. You have no right to create new credit and destroy the confidence of the people in money.

Then I come to clause 11. What does it say? It is related to one aspect. Under this clause more advances are to be given to co-operative banks and co-operative institutions enabling the villagers, agriculturists especially, to become shareholders. Even the shares will be purchased by the bank money for villagers. What a very fine idea! It looks as though it is very socialistic, very progressive. But what is it that is happening in this sector? There is a very curious procedure adopted by the co-operative societies. Each co-operative society should first clear all the money that it takes from the co-operative banks before it draws a further loan or a further advance. "Clear your first loan before taking further loans" is their policy. That is to say, all the villagers who take loans from the co-operative societies have to clear their old loans, without any exception, before they can get further loans.

Shri Kamath (Hoshangabad): Sir, I rise on a point of order. I am sure you will agree that the Minister should listen and not indulge in conversation. He is the only Minister present; there is nobody else present there.

Shri B. R. Bhagat: I am listening.

Shri Kamath: You are not listening, unless you can listen and also carry on conversation at the same time.

Shri M. S. Gurupadaswamy: Before fresh loans are advanced by the co-operative societies, I am told, the previous loans have to be cleared to the very pie. Then what is the result? Suppose one man does not pay back the loan to the co-operative society, then all the others will suffer. No fresh loans will be issued from the co-operative society. That is your system. In my constituency many people have come to me and complained that even though they have cleared their loans, because of only one man who has not cleared his previous loan the co-operative society said that fresh loan cannot be granted to their village. Because one is a defaulter amongst so many the whole village should suffer. Your main purpose of helping the agriculturists flounders on this simple technical point. If one man has not paid back his previous loan, why not wait and collect it later on? What is the harm in that? Your procedural bottle-neck comes in the way of helping these poor classes of people. What is the purpose of your saying: "We are also purchasing shares for you"? Why purchase shares at all? Give a nominal share for eight annas. Why fix Rs. 25 or any other amount that you have fixed? On a nominal share of eight annas he can draw a loan. You give loan on property and not on individuals. Therefore, where is the purpose for fixing this big amount?

I would ask, why are you making a mess of it? I would say that this provision was not at all necessary if you had reduced the share price to one rupee or eight annas. In that way you could have saved some money. You could have utilised the same amount for other developmental purposes.

Sir, I think they are making an experiment in a financial fiasco. That is what I feel. They are just making an experiment how best to create confusion in this country. I would say that these things would not help the country or the economy of the country. On the other hand you are destroying the stability of the currency and you are unconsciously transferring the currency into a paper currency. I think in the long run your currency in terms of exchange value will have to suffer. I know the Minister has quoted some instances of Burma and other countries—all backward countries—who have also adopted these things. There is an inflationary tendency prevalent in all developing economies. But you must follow always a policy of 'playing safety'. The planners say that they do not believe in 'playing safety'. They say that policy of 'playing safety' is good for a normal economy and not for a developing economy. They say there should be an amount of risk. But what is the amount of risk? That is the most important thing. Is it Rs. 1200 crores or Rs. 100 crores? According to the calculations of economists, if you create one rupee coin it would produce credit worth Rs. 1½; that is to say the potential credit created by Rs. 1200 crores will be 1½ times, or you are creating Rs. 2000 crores worth of credit in the country. In the total of Rs. 7400 crores it comes to more than about one third, or in the public sector, where it is only Rs. 4800 crores, it is nearly half.

Shri B. R. Bhagat: Take the national income.

Shri M. S. Gurupadaswamy: I am very glad he has reminded me of national income. Our planners have estimated that after the Second Plan the rise in the national income will be about 25 per cent. It is a good figure. But while calculating this you are not taking the standard of 1939; you are taking the standard of 1960. In 1960 the whole country will be flooded with your paper currency. During the freedom struggle the Gandhi notes were created. They had no value. All these notes I am afraid will become Gandhi notes and in this context you may have a rise of 25 per cent in the national income. There I agree. But what is the use of that national income unless your national income reflects a substantial rise in the standard of living of the masses? Therefore, this comparison between the national income and the expenditure that we are going to incur and then drawing a ratio is

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wrong. I would rather ask the planners to strike a ratio between the standard of living of the masses at the time of the end of the Plan and the national income in physical terms and not in monetary terms. Let them do it. They will themselves see that whatever they have achieved is all illusory. The suffering that will result out of this will be immense and you are destroying the fabric of our economy.

Mr. Deputy-Speaker: I am charged with this defalcation?

Shri M. S. Gurupadaswamy: No. Sir; I am saying this through you.

Shri Kamath: It is routed through you. You are above all these things.

Shri M. S. Gurupadaswamy: Sir, I will only say one thing before I close. If the Reserve Bank of India (Amendment) Bill is passed as it is without adequate safeguards—I do not think they have put in any safeguards—then it will create a currency chaos, a sort of an inflationary inferno, as I put it. I think they should be more careful and I feel that they should have thought more before they brought this measure.

Shri G. D. Somani (Nagpur-Pali): Mr. Deputy-Speaker, Sir, this Bill, that we have before us, introduces two fundamental changes. One is that instead of the present proportionate reserve system, an absolute minimum is suggested as backing against the currency. The next important change is that the Reserve Bank is being given powers to increase up to four times the present minimum reserve requirements of commercial banks. These are really two very fundamental and vital changes which are being introduced by the amending Bill. We have at present a system of maintaining 40 per cent ratio of reserves against our note issue, in the form of gold, gold bullion and foreign securities which are now going to be replaced by an absolute minimum of Rs. 515 crores. The preceding speaker, Shri M. S. Gurupadaswamy, dwelt at length upon the dangers that might arise to our national economy by doing away with this ratio and by allowing the Reserve Bank to go on expanding the currency to any extent to which they think fit. There are two sides of the picture and one can easily take an extremist view. I personally do not share the very pessimistic view of and the very extremist view which the preceding speaker took about the inability of the Reserve Bank to deal with any situation that might arise by the expansion of currency during the second Five Year Plan period. The obvious fact remains before us, as the hon. Minister, while introducing this amending Bill, pointed out, and that is, unless this amendment is carried out, the Reserve Bank will have at its disposal the expansion of only about Rs. 189 crores during the entire second Plan period. That means that the only alternative to this amendment will be that we must slow down the pace of our developmental programme, because it is quite obvious that it would not be possible for our economy to be expanded to the extent envisaged in the second Five Year Plan unless this amendment is carried out.

Then, I do not also share the pessimistic view of the preceding speaker that the Reserve Bank is totally incapable of dealing with any situation of inflation that might arise. This question of deficit financing and the consequent inflation that might arise have been debated on many an occasion in this House, and it is certainly not correct to say that the Government of India or the Reserve Bank are not conscious of the implications of the heavy amount of deficit financing that is involved in the second Five Year Plan. Even the post performance of the Reserve Bank shows that as and when circumstances have warranted, the bank has taken suitable measures as far as could be possible, in the circumstances, to deal with a particular situation. We remember that the Reserve Bank followed consistently a credit squeeze policy when, after the Korean war, inflationary tendencies and conditions continued and it was, I think, to a very great extent, due to the credit squeeze policy of the Reserve Bank that ultimately the inflation was curbed. Indeed we were faced with a situation when everybody was complaining against the precipitate fall in the prices of several commodities.

Then again, only recently we have seen that the Reserve Bank have given a directive to the scheduled banks to limit their advances against foodgrains. Therefore, it is hardly proper or correct to say that this amendment will in anyway come in the way of the Government and the Reserve Bank taking such measures as will be required to deal with any inflation that might arise out of this policy of deficit financing. The fact has got to be faced. If we are really serious in executing the huge developmental programmes in the second Five Year Plan, naturally, the currency will have to be expanded and to that extent, the amendment suggested in the Bill has got to be accepted.

As I said earlier, there is another side of the picture also. Here, I would like to draw the attention of the Government that they would have been very well advised if, instead of doing away with this ratio altogether, they could have amended the percentage to a figure which could have met the requirements of the situation. As it is, so far as the revaluation of gold prices is concerned, that will give the Reserve Bank a certain increase in its holdings and in the ratio of backing against the note issue. At present the statutory limit is 40 per cent. Suppose that limit would have been reduced to 20 or 25 per cent, then, in my opinion, it would have been a more sound way of dealing with the situation than by giving this blanket power of doing away with this ratio altogether and only providing an absolute minimum of Rs. 515 crores. After all, as Shri Gurupadaswamy has said, we have of course to see about the soundness and confidence of our credit system. If by any reason, at any time, in our country or in other countries where our rupee at present enjoys such a high reputation, any lack of confidence is created by an undue expansion of currency and by a very low level of backing in gold, or in foreign securities, then, that might have some repercussions which we must avoid by taking suitable efforts. So, my suggestion to the Government would be that instead of doing away with this ratio altogether, it would be much more desirable if this ratio is reduced and readjusted from 40 per cent to 20 per cent. It will, on the one hand, enable the Government and the Reserve Bank to meet the requirements of our expanding economy and on the other hand, also ensure that confidence and stability in our currency which also has to be given proper consideration.

So far as the present position of the rupee is concerned, it is really very commendable to find that our rupee enjoys a very creditable position among the various countries of West Asia. Indeed, in certain countries like Bahrein and Kuwait, the rupee is used both for internal as well as international purposes. We have, therefore, to formulate our policy in a manner which will allow our present credit that we enjoy in the various markets not only to remain intact but also to increase. We should not, therefore, take any measures which might in any way undermine that confidence in our currency. From that point of view, I submit that some sort of link should be maintained between the note issue and between the reserves which the Reserve Bank is obliged to keep under the present Act.

I would now like to come to the next important amendment before us and that is in regard to clause 10 of

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the Bill which relates to the control over commercial bank credit by the Reserve Bank. Even as things stand at present, the Reserve Bank has already got powers to restrain undue expansion of credit by increasing the bank rate or by reducing liquid balances of commercial banks through the open market operations or even giving specific directions to the commercial banks under the Banking Companies Act, 1949. As it is, therefore, the Reserve Bank has got adequate powers to ensure that the commercial banks formulate their credit policy in conformity with the policy of the Government and the Reserve Bank. This amending Bill seeks to empower the Reserve Bank to increase the minimum reserves which the commercial banks are required to maintain with the Reserve Bank from the present 5 per cent of their demand liabilities to 20 per cent and from the present 2 per cent of their time liabilities to as much as 8 per cent. This is a four-fold increase and I think this is not desirable and justified by the present circumstances. As I pointed out earlier, the Reserve Bank have already got adequate powers to regulate the credit facilities that may be given by the commercial banks in the manner that they think fit. But if the new powers are to be suddenly exercised at the time of the busy season, the commercial banks may be faced with a very awkward situation to fulfil the ordinary banking role which they are doing at present. The entire purpose of taking these powers is, of course, to keep a proper control over the situation which might be created by the policy of deficit financing. Even according to the existing powers contained in the Banking Act, it has not been beyond the powers of the Reserve Bank to take such steps as are necessary to be taken and therefore, such a drastic increase in the maintenance of reserves by the commercial banks with the Reserve Bank might create some avoidable hardship. Even in the United States where this system of variable reserves prevails, the maximum increase which can be made is limited to twice the minimum. Therefore, so far as our country is concerned, the present powers that are being taken are far more than what is warranted by the circumstances. I would like to suggest that these percentages should be double the present ratio and they should not be increased four-fold, as contemplated under clause 10 of the present Bill.

So far as the payment of interest is concerned, I think the clause in question is rather vague. No indication has been given as to the rate of interest which will be paid to the commercial banks for these additional reserves which they may be called upon to deposit with the Reserve Bank. I would, therefore, like to seek a clarification from the hon. Minister as to the rate of interest which is proposed to be paid under this clause. After all, these commercial banks will be deprived of utilising those funds in a commercial manner and to that extent they will suffer. It is only fair that a reasonable rate of interest should be allowed by the Reserve Bank for such compulsory deposits.

I have got only one point more and that is about the local boards. Although it is a small matter, still I feel it is hardly desirable to do away with the present system of having local boards. The constitution of the Central Board is done more on merits than on a regional basis; and, if we have the present system of local boards, that gives an opportunity for regional considerations to be kept in view and the regional representatives thereby get a fair chance of having a proper voice in the operations of the Central Bank. I do not think any harm in any case is being done by having these local boards. I would, therefore, suggest that this abolition of local boards should not be insisted and the local boards should be allowed to continue as at present.

Shri V. B. Gandhi (Bombay City—North): Mr. Chairman, this is an important Bill and a necessary one; and, it has not come before the House any too early. I compliment the Finance Minister on his lucid speech on this subject which, to most of us, was rather of a technical nature. Although I would recommend that the House should give its general support to this Bill, if I had my way, I would make some rather important changes in this Bill.

For instance, if I had my way, I would not give to Government too free a hand in this matter of currency expansion. I will not do it at least at the present time, not in this transitional stage in our economy. I would also not base our proposals on the experience and on the pattern of Canada or the United Kingdom and such other countries referred to in the speech of the Minister. There are many reasons why we should not have these countries as our models. If one is to give one reason, it is this. In the supply of money in these countries, the bank money or the bank deposits play a very predominant role and the currency or the Government money plays a minor role, while in our country, it is the Government money that meets most of the needs of the community whereas the bank money or the bank deposits play a relatively minor role.

I would also see that our legislation provides for the Reserve Bank of India some ability to say "No" to Government sometime. In other words, the Reserve Bank authorities should be placed in a position in which in certain extreme contingencies they can say to the Finance Minister, "we are sorry, Mr. Finance Minister; we have not got enough cover of the requisite kind to issue any more notes". If the Reserve Bank authorities are placed in that position, then the Finance Minister would necessarily have to come to Parliament for help. Parliament, therefore, according to my view, should retain some control over the actions of Government in these monetary fields in certain circumstances. Parliament of course will be there to help the Finance Minister after it has had an opportunity to review the actions of Government. I know that these changes that I have suggested I am doing too late in the day. I realise that there is no chance of these being accepted. However, I am just doing it for what it is worth.

2 P.M.

Now, after these preliminary remarks, turning to the provisions of the Bill, we see that there is a certain vital assumption behind this Bill and that assumption is that in this country there is going to be a growing need for a steady and substantial expansion in the volume of money. The Finance Minister in his speech has rightly said that a developing economy needs a growing supply of money. That is correct; the assumption is valid. Even if we look at the trend as it exists today we find that the trend is towards an expanded volume of notes in circulation. For instance, in 1952-53 note in circulation were Rs. 1,119 crores; in 1954-55 they increased by more than Rs. 100 crores to Rs. 1,236 crores and in 1955-56 there was another increase by almost Rs. 200 crores and the circulation stood at Rs. 1,424 crores. So, the trend is there and I suppose we do not want to change it and we certainly cannot stop it. Now, there are other good reasons why we should accept and welcome this trend and we should be prepared to give to our country an expanded volume of money. Some of the speakers who preceded me have already referred to these reasons, for instance, there is the objective of the Second Five Year Plan, namely, that we are aiming at an increased national income of 25 per cent. Now that would certainly require an additional supply of money by at least that much, if not more. Then of course there is this contemplated deficit financing in our planned programme. This deficit financing of Rs. 1,200 crores is already mentioned. Now we understand that some Rs. 200 crores will be provided by drawing down our sterling balances and therefore perhaps the possible net addition to our supply of money would be somewhere of the magnitude of Rs. 1,000 crores. But even then, there

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they are, these one thousand additional crores! Even if we take an approximate or crude illustration, our currency or notes in circulation at the present time are of the order of somewhere about Rs. 1,500 crores. Another Rs. 1,000 crores are to be added to it and ultimately in the course of the next five years we are going to have a possible volume of Rs. 2,500 crores of notes in circulation. Now, if the ratio of two-fifths of the special kinds of assets, as provided in the existing Reserve Bank of India Act were to hold good, then it would require a thousand crores to make up the statutory minimum reserve in gold or foreign securities. Now on the face of it we know that it is a kind of an impossible proposition. We do not have that much available in foreign securities. Taking our gold at Rs. 115 crores, surely there will still be Rs. 885 crores of foreign securities necessary if the present ratio were to be allowed to hold good. We have not got that much in sterling securities; we do not hope we shall ever have that much available. Our present sterling balance is somewhere in the neighbourhood of Rs. 750 crores. Now with all our programme of development under the Second Five Year Plan, a lot of capital goods have to be imported. With all these in front of us it is obvious that we shall not have even these Rs. 750 crores of sterling balances for long with us. They will soon be depleted and therefore it is an impossible situation and we must help the Government to have some of the limitations on their power to increase the volume of money in the country relaxed. My difference with the Government on this point is whether this relaxation of limitations should be done in the manner suggested in the Bill or in some other way. The Bill suggests doing away with the present system of ratio of minimum reserve and replacing it by some kind of a fixed amount of minimum reserve. In view of the special circumstances of our country, I for one would suggest that we still continue for some time this ratio pattern of our currency reserve.

Supposing instead of two-fifths, we change it to three-tenths, or go even lower down and make it one-fifth we find that at one-fifth proportion it is still possible to have a note circulation of the order of Rs. 2,500 crores. That is just the kind of level we expect to reach by the end of the second Five Year Plan. Now it will be quite possible for Parliament to review at that time the situation, to reconsider the facts that may have emerged during the second Five Year Plan period and then decide whether this ratio should be further changed or it should be given up in favour of a fixed amount reserve of the kind suggested in the Bill. One serious shortcoming of this fixed amount reserve is that it gives Government too free a hand in the matter. Here we have a reserve of Rs. 515 crores, unalterable, immutable in a way. It can of course go down by a Rs. 100 crores, but it is not necessary to increase it. On the strength of this Rs. 515 crores Government under this Bill will have the freedom to support a currency of any amount. With this "fixed amount" system, with the proposal that is there in the Bill, Government will have freedom to support on the basis of these Rs. 515 crores, any volume of currency in circulation: not Rs. 1500 crores that is there today, not Rs. 2,500 crores that we expect it to be in five years, but even Rs. 55,000 crores, if Government so pleases. That is the kind of blank cheque that Government is likely to get under this new system of reserve.

Take the amendment suggested to section 37 in the matter of suspension of assets requirements. There also, the Government is going a bit too far and too fast. Section 37 in the existing Act provides for a period of 30 days to be extended by other periods of 15 days each. Here, the Government is providing for a period of six months at one stretch with possible extensions of three months each, for this lapse from the minimum requirements of reserves. I do not know, but after all, let us be clear about one thing. When we are legislating, we are legislating not only, for this excellent and good Government, this Government which is responsible to this Parliament, we are legislating for all kinds of Governments, all kinds of imaginable Governments that may follow. Therefore, we must make sure that in every legislation, some kind of moderation and proper check is provided. Any irresponsible Government, any Government that chooses to follow rash policies, any Government that has forfeited the confidence of this House can have enough time in six months, with further additional periods of three months each to do irreparable damage to our economy without the Parliament having any opportunity to review this action of the Government and check it. I will just leave it at that.

It was rather a kind of an amazing argument which the Finance Minister made in respect of the proposal in this Bill to remove the tax that used to be there for this lapse from the required minimum reserve. That tax was a kind of a penal arrangement. It was not an arrangement of profit to the Government. For the Minister to tell us that we are removing the tax because the Reserve Bank belongs to the Government, the surplus profit of the Bank goes to the Government, and whether we collect it by way of a tax or whether we collect by way of profit of the bank, is the same to the Government, is rather a far-fetched explanation. The principle behind that tax is that it is a penal arrangement to check the Bank and the Government which owns the Bank from going beyond certain limits. Some of the fears that I am expressing here are really not groundless and they are not being conjured up by any nervous minds here. But, Governments have been known to have done all these things. I may perhaps have an opportunity to refer to some of these things presently. We may be asked why we are attaching so much importance to these currency reserves and the ratio of these currency reserves. We may be told that after all it does not matter what kind of backing or what kind of assets you have behind your currency for the value of your money. The value of your money in these days is, in a sense, independent of the kind of backing you have for your money. True. We agree. But, then, there is some kind of relationship between the value of money and the quantity of money that is in circulation in the country. If, instead of Rs. 1500 crores worth of notes that are in circulation today and that are doing the "money work" in this country, we have Rs 55,000 crores worth of notes in circulation, would not that make some difference to the value of your money? It certainly would. Leaving that aside, there is another factor, and that is the confidence of the people in their money. That is a very important factor. All the most disastrous inflations in recent history, such as the inflations in Russia, Austria and Germany after the first world war in the early twenties of this century, have reached their excesses, not because of the un-ending stream of Government money that was being poured into circulation, by the Governments of the countries, but because the people had lost confidence in their money. Once the people lose confidence in money, something happens to the rate of velocity of circulation. Velocities go up to tremendous rates and the disaster is complete. All these considerations should not be easily lost sight of in providing for proper checks, for proper moderation, for some limitation on the powers of the Government in this matter.

Finally, I shall come to clause 10, which amends section 42 of the Reserve Bank of India Act. I support the idea of giving wide powers to the Reserve Bank to regulate the expansion of bank credit and to control bank credit. The Central Bank of every country should have these powers. Especially in the context of inflationary possibilities that we envisage as a result of our planned programmes, such power must be placed in the hands of the Reserve Bank of India. But, I would only

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say here that the powers as provided in the Bill are rather of an extreme kind. Powers to vary the reserve requirements to such a high percentage as 20 and 5 are rather of a stringent kind. I only hope that the Reserve Bank authorities will use these powers in moderation and will use them only in cases of grave emergency.

Finally, as I said, this Bill is a necessary Bill. It is desirable that the limitation on the powers of the Bank should be relaxed in some manner, but I would have it recorded here that in giving these powers which are a bit too wide, in giving too free a hand to the Government, this House had its qualms.

Shri Joachim Alva (Kanara): While making my observations on this Bill, may I pay my humble tribute to the institution of the Reserve Bank of India! The Reserve Bank possesses a character, authority and influence in our national and economic affairs almost in an unparalleled degree. It should be the duty of every patriot to preserve the authority and influence and character of the Reserve Bank as it was founded and preserved by its promotors. The retiring Finance Minister has played a notable part in shaping the policy and character of the Reserve Bank.

In paying a tribute to the Reserve Bank, the bank which is the pride of our national economic life, the fulcrum of our industrial activity (though it may not have a lot of gold in its coffers) I would point out that it has not tackled some of the major, vital problems that face our national life.

I would say hands off the Reserve Bank, not a cent of decrease in its reserves. The day you start tinkering and tampering with the reserves shall start our downfall. We have launched on a very big five year plan to be succeeded by other five year plans, and so the character and the strength and the weight of the Reserve Bank should not in any way be tampered with or affected. Instead, we must keep fool-proof and rigid these requisites of reserves and retain them all whatever the emergency may be. As some friends said just now, Governments may come and go, but the Reserve Bank is the foundation of our national economy and its character must be preserved. When the Finance Minister comes before the House saying that the Reserve Bank shall have Rs. 515 crores of reserves and it could be reduced by Rs. 100 crores if necessary, it does produce a lot of qualms on our conscience. We are really worried as to what may be our fate, if not five years hence, at least ten years hence. We do not want any lessening of the percentage of cash balances on account of the demand and time deposits in the scheduled banks. The scheduled banks must be kept under tight and rigid controls. Otherwise, quite many of them who have indulged in nefarious, blackmarketing activities committed by their directors or their associates or relatives will play ducks and drakes with our finances and we shall be helpless against that current.

I would mention three impertant points which have not been tackled by the Reserve Bank yet. I do grant that the Reserve Bank has been doing a very big and splendid job. It has been the first to provide quarters to its employees. We have the rich foreign banks which only cater to the white employees at the top and do not care to give any kind of quarters in large industrial cities to their underpaid employees. The clerks drag on their existence, and the Indian officers in many of the foreign banks or Indian banks are not provided with quarters. If we are going to have a Welfare State we must provide all these amenities.

Then I come to gold which is everything in this world, which will do everything to the Reserve Bank, which has assumed a factor of tremendous importance. The Soviet Union today claims to be the second largest holder of gold in the world as well as being the second largest producer of gold in the world. Thirty years ago the gold in the Soviet Union may have only consisted of jewellery the czars and czarians wore. These are facts which should induce us to see why we cannot also produce gold. The Reserve Bank cannot merely sit and discharge only clerical, supervisory or organisational functions and forget this major function of seeing that the country produces gold. Tell me how much gold you have and I shall tell you what your strength is.

The non-Soviet countries are producing 27·15 million oz. of gold and the Soviet Union has been producing anything between 8 and 15 million oz. of gold per year, that is two-fifths of the world's output. How is it from merely having the black gold of coal or steel they have come to have this yellow metal?

We, in India are quibbling with the problem whether the Britishers or our Welfare State will control our gold mines. We do not come to a decision about foreign banks, about the gold which is right under our feet, and then we say: reduce the reserves which have been sanctioned from the day the Reserve Bank started. On the one hand we are thinking of expanding our economy during the Second Plan. At the same time we are trying to be less rigid, less careful about the reserves. I would say it is better that we be warned in time about the lessening of the reserves, or the rigidity and control over it, than come here one day to be faced with the fact that the gold reserves have vanished.

I am quoting from the *Bullion Review*, 1955 by Samuel Montague of London which has splashed these figures. The Soviet holdings are anything like 200 million oz. of gold, equivalent to Rs. 3,325 crores. This is because their economists were as much careful as their revolutionaries in regard to their gold reserves. I recall a remark made by my Professor of Economics at Bombay St. Xavier's College nearly thirty years ago, Professor Correia Fernandes was a Roman Catholic who was not enamoured of the Soviet Union, but he said "They have humanised money in the Soviet Union". They are standing abreast of the world and putting the gold on the markets of Zurich, Washington and London, and even Bombay, and thus shaking up the foundations of the world markets. It is time that we do not neglect our gold mines. The gold companies of London are holding our mines; we are only discussing who will own them!

In the year 1954 we produced 239,162 oz. of gold in India.

Shri V. P. Nayar (Chirayinkil): Fine ounces.

Shri Joachim Alva: I do not know about the fineness. I only know the word "gold". I am not a connoisseur of gold; I possess very little of it. In 1955, 210,880 oz. of gold was possessed by India. Out of this the four reefs in Mysore produced not less than four-fifths, with Hyderabad producing less than 20,000 oz. of gold. Fortunately, Mysore is going to be a very large State. It should see to it that gold is extensively mined and increased. Has the Reserve Bank egged on the other departments of the Government of India to see where our gold lies under our feet elsewhere in the country? It is not the duty of the Reserve Bank merely to audit bank accounts in general, not merely to be a depositor, not merely to lay down the security in terms of gold, but also to actively survey other departments of national activity connected one way or other with its main activity and thus help to produce more gold I want to emphasise this gold producing factor, because I find that this point is not taken due note of. We can also rely on figures in regard to gold production by other countries. However, where do we stand in the world of gold, which is dominated by the Soviet Union? Where do we stand when compared with Canada which comes third or the U.S.A. which comes fourth—the Union of South Africa topping the list. We

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are almost in the last rung of the ladder so far as gold is concerned. Unless the Reserve Bank is going to tackle this point, we shall be nowhere in the world. If the Finance Minister thinks that I am off the point or that I am talking not to the point, I can only say that he is suffering from a lack of deep love for enriching his own country. Unless we emphasise these national points of wealth, and unless we find out where the gold is lying in different parts of the country, we cannot put guts into our bank. So, I would once again earnestly request the Finance Minister to see that the Reserve Bank of India lays its hands on almost all aspects of our national economy and to see that we explore every avenue of gold-prospecting in our country, so that our gold producing and holding figures may jump up.

I now come to the foreign banks. What are these foreign banks doing? On the one hand, only this morning, the Minister told us—I am not quite sure whether he told us, but I have got these figures with me—that Rs. 20 crores are going to be advanced to us by the United Kingdom for the Durgapur steel plant, Rs. 40 crores are going to be advanced to us by the U.S.A. for development and food projects, and Rs. 63 crores are going to be advanced by the Soivet Union for the Bhilai steel project. On the other, we find that the figures of the Soivet Union loan even on paper are higher. Perhaps, they are able to give us more because of the strength of the gold behind them; the gold which they can just throw about on the bank vaults of Zurich, Washington and even Zaveri Bazar in Bombay where there are in operation the worst speculators and blackmarketeers, damaging the interests of their country, who are making their fortunes, as they did when Britain went off the gold standard. You know how India shook when Britain went off the gold standard and you know also how a few blackmarketeers who put their hands on every kind of national industry made their huge fortnues. They started on the great road of fortune-making from the year 1931 onwards, clubbing with perhaps the Congress on the one hand, and on the other with the blackmarketeers and speculators, and thus multiplied their fortunes when Britain went off the gold standard.

I am concerned with this aspect, because I want to point out that unless we control this horde of blackmarketeers who are on our stock exchange, unless we bring forward an all-embracing Bill meant for all aspects of our national life, we cannot really go ahead.

Now, what is the position in regard to the foreign banks? I know it is an old subject beaten on every aspect, but we cannot help it. If the Reserve Bank has not done its duty properly in controlling the foreign banks, it is certainly our duty to point it out. The foreign banks are still going on as merrily as when Robert Clive first came to India. I would like to draw your attention in this connection to the news item that has appeared in the front page of the Times of India, today, in regard to the attitude of, I would say, a black Prime Minister of a colony which is the largest colony of the British Empire, but which is not yet independent.

"Mr. Nzamdi Azikiwe, Premier of East Nigeria served notice today that he planned to resign and accused the Colonial Secretary, Mr. A. T. Lennox-Boyd, or insults, antagonism and interference."

The Ministers have threatened to resign also.

Now, what is the charge against Mr. Lennox-Boyd? The charge is this:

"We must decide where our money must be banked and you cannot properly interfere in order to protect a British banking monopoly."

The news item further goes on to say:

"The resignation of his Ministers, Mr. Azikiwe said, would enable Mr. Lennox-Boyd 'to rule arbitrarily 4,000 miles away on secret information from obdurate and old-fashioned Governors'."

You can just change the commas and dots and apply these charges and counter-charges where India is concerned.

Again what has the Reserve Bank done in respect of the thirteen foreign banks which have a stranglehold on our economy? Has it lifted its finger and said that the higher executive shall be an Indian? I know that the Commerce and Industry Ministry has at least started thinking on these lines and has made a beginning in this direction where foreign firms are concerned. If you look at the proportion of the money paid to the higher employees in these banks, you will find that it is a colossal percentage. It is simply staggering. I do not want to merely make this statement without linking it up with facts. The facts are as follows. The average emoluments per officer in the Class A foreign banks was Rs. 17,310 in 1948, whereas that in the case of a Class A Indian bank was Rs. 5,460. The highest and lowest emoluments per officer for 1954 in a Class A foreign bank was Rs. 38,640 and Rs. 14,000 respectively, while in the case of a Class A Indian bank they were respectively Rs. 9,040 and Rs. 5,370. The average emoluments per member of the clerical and subordinate staff in 1948 was Rs. 1,880 in the foreign banks and Rs. 1,170 in the Indian banks. Finally, the proportion of average emoluments per officer to average emoluments per member of the clerical and subordinate staff in terms of percentage for 1954 was 787 in the foreign banks and 409 in the Indian banks.

Sir, these facts speak for themselves. These facts go to show how huge the deposits with the foreign banks are, and how they have manipulated the payment to their staff. There are things which the Reserve Bank must take note of. The Reserve Bank must not merely say to the Indian scheduled banks, 'You put your house in order, otherwise, I shall have to close you down, I shall not give you the certificate of working'. It should say at the same time to the foreign banks also, 'What about Indianisation? What is the progress that you have made in this direction'? They may have Indians as accountants, clerks and so on, but they will not have Indians on the higher executive jobs. Again, the foreigners who are there can get six months' leave when they have put in only 24 months of service. These are the privileges which the foreign executives enjoy. In this way, they are taking away a lot of money from our land. Unless we stop all this, we shall not be able to save our money from being taken away from our land.

Why is it that I say that the Reserve Bank must once and for all put a stop to any foreign bank coming and operating on our soil adopting these methods. We have got thirteen foreign banks in our country. I shall not say a word about the banks from our neighbouring countries. There is the Habib Bank from Pakistan which is our neighbour and there is also the Bank of China from our friend and neighbour China. The money that they are taking out is infinitesimally small compared to what is being carried away by the other eleven banks. So, I shall separate the wheat from the chaff, and when I say anything about foreign banks, I shall not apply those arguments to the Bank of China of the Habib Bank from Pakistan, operating from Pakistan having been first founded in India. I shall apply my yardstick only to the other eleven foreign exchange banks.

Again, how is it that the Reserve Bank is not liberal in granting licences to Indian banks for foreign exchange operations in foreign countries? If I have to make any remittance to a foreign country, I must go to a foreign bank, and all the commission is to be earned by the foreign bank even though the Indian bank may have to-

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do all the preliminary work. It may be that there are one or two or even five Indian banks that have been allowed to operate on foreign exchange, but they have been allowed to do so for hardly a few years now. Why is it that out of so many banks, nearly 65 Indian banks, you have found hardly five worthy of being given certificates for operating on foreign exchange? The result of this has been that we have lost several millions of pounds, which we have given just like *bakshies* to the foreign or exchange banks, because we are not able to do anything. Do you mean to say that you have no confidence in the eight Class A Indian banks whose working funds are above Rs. 20 crores? Do you mean to say that you have no confidence in the eight Indian banks whose working funds are below Rs. 20 crores but not less than Rs. 6 crores? Again, do you mean to say that you have no confidence in the 49 Indian banks whose working funds are below Rs. 6 crores but not less than Rs. 2 crores? You can certainly pick out at one stroke at least 24 banks out of these for foreign exchange operations. I do not know the figures quite well, but I would like the Minister to enlighten us on this point. At present, I think there are not more than six Indian banks which are operating on foreign exchange. I thought that when the former capable and patriotic Reserve Bank Governor became the Finance Minister of India, he would try to bring down these anomalies and put things right, so that our banks also could earn foreign exchange commissions; I thought that he would do something in order to prevent this draining of our funds, and help in the building up of our economy in the right way by allowing our banks and agencies to operate in foreign lands, so that they could be a matter of pride for our country. But I am sorry to find that nothing has been done in this direction at all.

I have laid emphasis on these aspects of our national life, because I feel that they ought to be really taken note of by the Reserve Bank. The Reserve Bank has still to play a very large and historic role in our national economy. Unless it goes on discharging that responsibility, which I find it has not even initiated at present to discharge, we shall be going down the hill. If the Bank of England is able to play its role effectively and seriously, unmindful of whatever protests you may launch, if the Federal Bank of the U.S.A. is able to do what it likes, I do not see why our Reserve Bank also should not play its important role in the manner in which it ought to play it. If it is prevented from doing so, then what is the reason for it? The reason is, let us not forget, that we are still entangled in the sterling bloc. The sterling bloc had its stranglehold upon us. This House before it became Sovereign in 1947, was rocked with great controversies, the economic controversies of the exchange ratio. In the days gone by, before 1930, we wanted the exchange to be at 1/4 whereas Britain wanted to thrust on us the rate of 1/6. Britain always saw to it that she placed the best men to manage the financial affairs from her point of view. These men have sat on our Treasury Benches and then they have been sent back to the City of London. In the case of Defence and Finance, Britain ruled us with an iron hand and she never let go down a single pie or penny of her pound where India was concerned. So far as Finance and Defence affairs were concerned, these great men Britain sent, went revolving from London to Delhi in such a succession that India was in their ambit ruled with an iron hand. That was before independence. But still, after independence, we somehow or other seem to be morally under their influence, though physically we may say we are free! Morally we are still afraid of many of the strangleholds and restrictions that Britain had imposed on us. It is no use saying that we are tied up to the sterling bloc. I want the Reserve Bank of India to take the initiative in this matter of having our own bloc, a bloc which can stretch from Cairo right up to Tokyo, to embrace all those countries which are pulsating with a new life, with a new economy balanced by five year plans, so that they can shake off the restraints imposed on them by the West.

It is no use saying that we are in the sterling bloc because we are in the British Commonwealth. Canada, which is the number two member of the British Commonwealth, is tied up to the dollar bloc. What is good for Canada is certainly good for us. After all, even in respect of Canada, let us not forget that there is a strong political and economic campaign raging in Canada because 60 per cent. of their major industries are in the grip-hold of the Americans. If Canada, which is the third largest producer of gold in the world, is finding it difficult to fight the hegemony of the U.S.A. in regard to 60 per cent. of its industries in Canada itself, what about India which has been under the influence of Robert Clive and Clive Street and which has been struggling to get out of the stranglehold of Britain?

I would, therefore, implore the authorities to have a good look round at the operations of the foreign banks. I would request them to see that the Indian banks, which are of our flesh and blood, are helped to get more foreign exchange business and to establish more centres for foreign exchange abroad.

Lastly, I do not know whether it is time for the Reserve Bank to come to a decision that all the banks should be nationalised. If the Finance Minister has boldly followed a policy of nationalisation of insurance companies, it is time that within a few months or within a year or two, the Indian banks were nationalised.

Shri Barman (North Bengal—Reserved—Scheduled Castes): Not being a financier myself, I shall not deal with the problem so far as the financial considerations are concerned. I shall just say a few words about the economic and social effects or outcome that we expect out of this Bill. It has been stated in the Statement of Objects and Reasons:

> "The process of planned economic development necessarily implies a certain amount of credit creation and a consequent increase in the note issue."

This is in relation to the Second Five Year Plan which we have as our national objective. If we concede this claim of the Ministry that in order to fulfil our national objective of the Second Plan it is necessary to have a certain amount of credit creation and consequent increase in the note issue, then automatically it follows that we have to give our assent to the Bill so far as clause 8 is concerned. Keeping our gold reserve as it is—we are not going to diminish our gold reserve in any way—what the Ministry is doing is just to revaluate the price of the gold in the reserve; it is the aim of the Ministry to revaluate it with the purpose of viewing currency circulation from the ratio standard.

At present, it is up to a certain ratio in relation to the gold reserve that the Reserve Bank is authorised to issue currency. The Ministry wants that it should be untied so far as the ratio is concerned. But so far as the gold is concerned, it is there and it is certainly only being revalued on the basis of the present value of gold. We all know that the price of gold has gone up. The hon. Minister himself has given the price of gold at present as Rs. 63.......

Shri A. C. Guha: Rs. 62-8.

Shri Barman: ..whereas it is valued at the artificial, old rate of Rs. 21 only.

Shri A. C. Guha: Rs. 21-3-10.

Shri Barman: I am speaking roughly. What is the difficulty in this? The only objection that I apprehend has been raised by some Members is that once we give a free hand to the Ministry to issue currency irrespective of the ratio, it may run amuck and create inflation in the market.

We should understand the time when this ratio was fixed and the time when this Bill is before this

[Shri Barman]

House. At the time the ratio was fixed, there was a Government which was not really directly responsible to the people. Now by no stretch of imagination can it be said that the popular Government can ever dare to do something to bring in inflation in this country which will disturb and disorganise all economic activity of all strata of society and create chaos, and will still remain intact in their seat. Nobody can suggest that. So what is our basis? Our basis is our confidence in the Ministry. That Ministry is constituted by this House which is again costituted by the people. Having our reserve there already, we need not have any apprehension that once the currency issue is freed from that ratio, there will be all disorder and chaos in this country so far as the economic condition of the country is concerned.

The hon. Member who preceded me spoke of the gold reserve of this country and that country and he incidentally mentioned that it is only those countries which have gold reserve which are helping us. I do not know what is the reason for his statement. If today Russia is helping us with capital machinery worth Rs. 63 crores in order to instal a steel plant here, it is not because Russia has much gold, but it is because of Russia's productive capacity in respect of capital machinery which she can supply to other countries, thereby helping them. So it is not based on the gold reserve but on the capacity of that country to produce capital goods. If that be so, how does it matter whether we hold in this country a certain quantity of gold and do not try to hold a greater reserve of gold? If it is to be embedded or put in an almirah or a safety vault or in the government treasury, I think it is all the same whether it is gold or iron, provided the confidence in the Ministry remains that it is not going wrong and that it is going in the right direction so far as the economic and social uplift of this country is concerned. I do not put much value upon the quantity of gold that our Government possesses nor do I despair that our Government is not trying to have more gold reserves.

I had an occasion to visit a place in my State, the Gosaba zamindari of Sir Daniel Hamilton and I had the good fortune of remaining with Sir Daniel and Lady Hamilton in his zamindari. When I was going round with them, he observed how he had made that desolate country very prosperous. It was a jungle; it was marshy land and there was nothing growing in that area. After he took the lease he converted it into a productive area. For that purpose he had produced the Gosaba note. That was one rupee note which could not be in circulation outside his zamindari; but, within the zamindari he applied that for mobilising the labour forces there and transforming that desolate part of Bengal into a fruitful area. I cannot elaborate on that but it is a fact. The simple mechanism was that while the labourers were working in clearing the jungles they were paid in that currency and when those people had to pay rent to the zamindar they paid back in those notes. So, Sir Hamilton said that currency is nothing but a medium invented by man; that is the proper function of currency. He said that it is the man that produces wealth and not currency. In order to mobilise that manpower we require a medium and that is currency. He said that it is the man and not the dead metal, gold or any other. He concluded by saying that the dead metal should not rule over the living. So, we should not be bound by the gold standard or the quantity of gold that we possess. It is enough if we have sufficient reserve to deal with foreign exchange or with other countries in money matters. That being the position, I think, in order to fulfil the objective of the Second Five Year Plan, Government require the provision to be amended and so we should certainly accept that position. It is not the currency that is circulated that creates inflation but it is the abuse of that currency that creates it. That is my reading of the situation. If the currency is utilised for the purpose of the creation of wealth and if the planning and execution are all right and if it be an economic proposition and we get results out of it, then, certainly the currency can be brought back to its proper place after doing its job. That is our purpose. What is necessary is that at the time Government issues currency in order to mobilise our man-power, in order to utilise our natural wealth which we have in abundance in our country, it is necessary that the Ministry should see that the planning is all right in all its bearings and that no money is wasted and everything is done in an economic way. If that is done, I do not think there is any fear about inflation because of the issue of currency.

As regards control of commercial banks, I want to mention in brief that this is a mechanism devised by the Ministry to which I give full support. But, I go further than that and say that by this mechanism alone the desired result cannot be achieved. So long as there is money in private banks and that money is under the control of private business, it is very difficult, by rules and regulations, to have the desired utilisation of that money. Government may make a rule and may change after some mischief is done but, ultimately, the only solution is that just as Government have proceeded with the nationalisation of the Imperial Bank they should proceed as early as possible to nationalise all banks. It is not the money belonging to a particular person but it is the money belonging to the public with which they play havoc in the social life of the country. Therefore, I fully support the present proposal.

Coming to another important clause, clause 11, I support this also. In order to help agricultural activities, Government should do whatever is possible. In 1953, by the amendment of the Reserve Bank Act, we have expanded the scope of agricultural operations, by including animal husbandry, marketing of produce and all that. All these are included under agricultural operations. Government should now try to have a machinery at their disposal to bring it into actual practice in the rural areas. In the rural areas, there are two things necessary. Co-operatives should be formed with the help of government money but that money should not be misused or wasted. There should be personnel trained by Government in the art of co-operation. In that way Government can do a lot in the rural areas. Left to themselves the rural areas will be exploited as is being done by the middlemen today. Whatever attempts Government make in that direction would be welcome in the rural areas. It is an urgent matter. Along with the development of this country in all other spheres of life, the rural areas should also be developed gradually and they should enjoy all the benefits that accrue to this country due to the development plan.

I wholeheartedly support the Bill.

Shri T. S. A. Chettiar (Tiruppur): Nothing has changed so greatly as economic theories and practices during the last two decades. When we were studying in colleges we were told that the Central Bank the Reserve Bank should always have in reserve an amount of money equal to the amount that has been issued as notes outside either in the form of gold, silver or other securities. But, then came the first World War and with it came a reorientation of money values. The idea of created money came into vogue and the countries which were ravaged by the War thought that by created money they could solve their difficulties. In the post-war years there were also certain tragic circumstances among which one was about the limits of created money. I think every economist, every trader, even in India, knew the tragic stories of the German marks. The German marks were depreciated so much that so many people who purchased those marks broke down. That was undue speculation, but along with that speculation, there is this great truth that there is a limit to the extent of created

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money. If you transcend this limit, the natural laws are put into action and indeed we are paid back very badly by the rise in price of various other things. The very industries which we wanted to buck up and build, the very products which we wanted to produce, received a setback when due to inflation many bad effects arose out of this created money. So we will be well advised and the Government will be well advised to think a hundred times before taking large steps in the matter of going in for created money. In our Second Five Year Plan there is a programme for Rs. 1,200 crores of created money. In the present circumstances, in the circumstances of our production we think that Rs. 1,000 crores will not be too much of created money and will not create conditions in the market which will bring in inflationary conditions. Money is to be the man's slave and not his master. While I am for using the money as our own instrument for progress, I am also a conservative, and am conservative enough to think that every instrument must be properly utilised. This system or project of deficit financing or created money must also be used wisely as every instrument, if not used wisely, will come back upon ourselves and do harm. Even this instrument of created money may do us harm if not used wisely and within limits.

3 P.M.

Now I come to clause 8. Section 33 of the original Act has an automatic limit for deficit financing and a certain proportion is prescribed. I need not read to you the proportion that has been fixed. It says that of the total amount of the assets, not less than two-fifths shall consist of gold coin, gold bullion or foreign securities. But clause 8 does not put any limit. It puts certain absolute limits such as Rs. 115 crores and Rs. 400 crores, that is, for gold coin or gold bullion. This means that any amount of deficit financing might be resorted to provided this amount of reserve is kept in the Reserve Bank. I want the Government to consider and the Reserve Bank to consider whether it is wise for us to allow this deficit financing to any extent. Under this amendment, the Parliament gives the Reserve Bank power to issue any amount of deficit financing provided they keep within this amount of reserve mentioned in this amendment. Then it goes further, and clause 9 gives the exemption. In the original section 37, there is a period of 15 days, but this clause goes very much further and says "with the previous sanction of the Central Government, for periods, not exceeding six months in the first instance". You know what an amount of harm can be done in the financial market. In six months, it can upset the whole market, and once it is upset, it is very difficult to rebuild it. What is being done under clause 9? For six months in the first instance, even these limits of reserve need not be kept. Of course, there is a provision that the amount of foreign securities so held shall not at any time be less than Rs. 300 crores in value. This is for the purpose of exchange. But the gold may be spent away and there is no restriction on that. Barring this Rs. 300 crores, which is mentioned in the proviso to section 37, as in clause 9, every other thing can be spent away, with the consent of the Central Government, for periods not exceeding six months in the first instance. I think the present Government is a wise government. We are a Congress Government and I have faith in the Congress Government. But we know what is meant by government. Two people make the government—the Finance Secretary and the Finance Minister—and between them is the Government. The Governor of the Reserve Bank is on the other side, and between them they can upset the balance of the whole country. I want you to consider whether it is wise for us to give such powers to any government. After all, there is the ordinance-making power. Within six weeks of the issue of the ordinance they can come to this House. As a conservative in financial matters—I am proud to be a conservative in financial matters,—because in financial matters the whole nation is concerned,—it is not your own finance, it is not a particular family's finance, it is not a particular community's finance, but it is the finance of the whole country—I would suggest that a little more conservatism is necessary and such absolute powers as are being given here to Government are not proper and not wise. We can as well say that the Reserve Bank can do anything with the consent of the Government. This is what is being done in clause 9, and I say that it is not fair and not good. Here my hon. friend told us that the Government is elected by the House and the House is elected by the people. For five years we are good in any way. This is not a matter of election, I think, but it is a matter of doing a wrong which we can never put right. I consider that powers like this should be vested in the Legislature, and Legislature only, and such absolute powers should not be vested in the Government and should not be given to the Government.

I now come to clause 10, which is a corollary to the action that we want to take, that is, to control the finances of this country. When we have taken to deficit financing, it is possible that we have got a lot of money in the market and that inflation may come about. For the present, we want to control inflation by restricting the advance of money by banks. When we want to do that, this sort of power must be taken. The power that is taken is that the Reserve Bank may own any bank under clause 10(a) (1), to deposit in the Reserve Bank five per cent. of the demand liabilities and two per cent. of time liabilities and 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 20 per cent. in the case of demand liabilities and more than eight per cent. in the case of time liabilities." But here also much depends upon the wisdom with which it is used. It is possible for any bank to deposit a certain amount of money with the Reserve Bank. I would like to know whether this deposit, like the current account deposits, will bear no interest. As you know, the practice varies from bank to bank. There are certain banks which pay no interest on current account liabilities, like the old Imperial Bank and the present State Bank of India. There are certain other banks like the co-operative banks in my own district, which, up to Rs. 10,000 pay one-fourth per cent. or half per cent. interest and above Rs. 10,000 pay no interest. There are certain other banks which do not pay any interest up to Rs. 10,000 and pay some interest only above Rs. 10,000. If a creditor has a current account for the amount less than Rs. 10,000, no interest is paid on it, but if a creditor has a current account for an amount above Rs. 10,000, some interest is paid. This interest itself varies from bank to bank. The Bank of Baroda may not pay, for instance, the same rate of interest as some other banks. Some banks pay 3½ per cent. while others do not want to pay more than 2¾ per cent. interest. What is the interest which the Reserve Bank will pay to these banks when it asks them to deposit these large amounts with it. Take a bank X which is asked to deposit Rs. 50,00,000 with the Reserve Bank. Nothing is said here about the rate of interest to be paid in respect of it. It is only stated that if the banks do not deposit the amount, there will be penal action, and there is a penal section for it. In fairness to the banks themselves so that they may be good to their creditors, you must pay some interest as they are already paying it to their creditors. I would like to be made clear on this point as to what is intended by this clause. Is it their intention to say that this money is withdrawn for fighting inflation and so no interest will be paid? They may say that all this money will be lying in the Reserve Bank itself and it will not be utilised and for that reason no interest will be paid. Or, will some interest at a uniform rate be paid to the banks? We must think over these

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matters and come to a conclusion. I wish these were dealt with in the Bill itself so that it may have been clear to the banks as to what is to happen.

Clause 3 seeks to abolish the local boards. The hon. Minister said that they mainly dealt with the transfer of shares and that since all the shares had been acquired by the Government there was no necessity for them. If you refer to the Reserve Bank Act which deals with the constitution of these boards, it says that a local board shall advise the central board on such matters as may be generally or specifically referred to it and shall perform such duties as the central board may delegate to it.

India is a large country and unfortunately it is true that the Centre is more influenced by Bombay and Calcutta than any other State. In Calcutta and Bombay there are people with a lot of money and there are many monetary dealings; they are the main monetary centres in India and they will influence the central board when representation is not given to the other States or areas. There may be matters or particular trades or phases of monetary activities which are peculiar to certain parts of this great country. The agricultural commodities, the trades, the industries and the lives of the people in different parts are not uniform. So, it will be a mistake not to have these local boards. They will be able to voice or say what they think good for that part of the country though it is left to the central board to accept or not to accept those suggestions. They will know the needs of the people and the Government is not well-advised in abolishing these local boards. It is not merely for the transfer of shares. It is the smallest thing that any directorate does; it is a very formal matter. The local boards were meant to take stock of the situation in that part of the country and to go into the trends, conditions, etc. of the trades or industries in that part and then advise the central board to take effective steps as are necessary for the uplift of that part of the country. In my opinion, it is a mistake to abolish these local boards and I hope the Government will consider this point.

All of us are agreed on clause 11. We have passed amendments in the previous session that the Reserve Bank must be in a position to advance loans for agricultural purposes. Clause 11 helps in the implementation of that programme.

I heard two Members speak about nationalisation of banks, others might have spoken in my absence. I was one of those who advised the nationalisation of insurance and I think Government was well-advised in doing that. But, I think it is wrong for us to rush ahead in these matters. Insurance has been nationalised. I cannot say that it has been organised on a proper basis. It requires a great deal of man-power, effort, wisdom and direction to organise it on a proper basis. With the resources and material available to us, it is wrong for us to nationalise large aspects of the economic life of our people. We should have men with the necessary aptitude for this purpose. In a socialist country where there is a lot of nationalisation, it is the bureaucracy that rules—not even the Minister. The Minister is the figurehead. With more and more nationalisation, it is vested on the officers of the Government to administer them. The result will be this. We may pass laws in this House. The Ministers may say: 'Yes'. What will be done will not be in the spirit with which we passed here but what will be interpreted to have been passed by the petty people in the districts. We have not got the kind of bureaucracy which will be kind to the poor man. That quality of democracy where one will work for service and not for power is not prevalent. In the absence of it, I should think a great deal before nationalising this or that.

There was a Secretary to the Government; he is no more here. He told me one day in an expansive mood that he could take up Tatas and run it the next day. The Tata industries were built in the course of a century and is highly technical in character. This man, because he was the Secretary here, says that he can run them. That shows how our people think. They think—an I.A.S. man or an old Civilian—that they can do anything. That is what is happening today. It is dangerous for us to talk about nationalisation without knowing the implications. We will be putting ourselves completely into the hands of these permanent paid bureaucrats. They will do any harm they like and the poor Ministers could do nothing. They want to sack them and punish them but they could not and so they come here and justify their actions. So, unless we develop the necessary spirit, the necessary technical personnel and the aptitude in the minds of our people, let things be left as they are today. Let us not have too many disturbances.

When we talk about finance and economics these are matters which concern everybody. It concerns every widow, every poor man and every labourer. A rich man is not very much affected by inflation. It is the others who are affected. I support the Bill generally but I would advise greatest caution in taking action under these clauses.

Shri C. R. Iyyunni (Trichur): It is true that the Government will have to carry on the administration and work the Second Plan with deficit financing. Probably, it would be necessary for the Government to have the maximum of credit and currency. The banking concerns in the West have developed in a manner which probably may not quite fit in with the banking institutions that have developed in our country. Taking into consideration how the Government of Germany and other Governments had to suffer because of the loss of currency after the First World War, they have fixed a ratio, that is 40 per cent. must be available so that the notes in currency may be 100 per cent. That is the ratio they have fixed as something satisfactory; otherwise it may be tilted down.

Here also we have been following the same tradition. The point is that it may be difficult to maintain that ratio. Therefore, we have reduced it, not in percentage ratio but in figures—Rs. 115 crores and Rs. 400 crores, that is Rs. 515 crores in all. To that extent we must have gold coin, gold bullion and foreign securities. As Shri Somani has already said, my own personal view is that it is always better to put it in the form of percentage ratio and not in the form in which it is stated here. Now one does not know what is the value of the notes in currency. It may be crores and crores and here we have got only Rs. 515 crores in gold coin, gold bullion and foreign securities. Personally speaking I would say that the impression that will be created in the minds especially of foreigners and foreign companies would be that the Indian Government is printing notes without any reference to anything. They are bound to have only Rs. 515 crores and the value of the notes that they have received may be so many billions or may be anything. Therefore, at least in view of the impression that we create in the minds of foreigners, what I would say is that it is better to have it in percentage ratio.

What I want to say next is with regard to the amendment in clause 10 of this Bill. From my experience in the banking world I would say that the Madras State and Travancore-Cochin State stand on an entirely different footing from the banking institutions that are run in the rest of India. Why do I say that? My reason is this. We have got about 142 banks in Travancore-Cochin alone and about 153 or 154 banks in Madras, whereas in U. P. there are only 25 banks, in West Bengal there are only 32 banks and in Bombay there are only 53 or 54 banks. What exactly is the reason that in South India there are so many banks? One difference that I can easily point out so far as the banks there and the banks at other places are concerned is, that there the

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demand deposit is only 25 per cent. and the time deposit is only 75 per cent. whereas in the banks at Bombay or Calcutta the time deposit is 60 per cent. and the demand deposit is 40 per cent. In spite of that, you find in the Banking Act there is a section which says that a flat rate of 20 per cent. should be maintained in each of the banks without reference to the percentage in time liability or demand liability.

I say that is a wrong procedure. It is not justifiable too. The whole point is, in respect of demand deposits most of the banks like the State Bank, the Central Bank or the Indian Bank do not pay any interest whatever. If at all they pay any interest it is only half a per cent. or below one per cent. whereas in the case of fixed deposits the interest will be 3 per cent., 3½ per cent. or even 4 per cent.

What do you find in Travancore-Cochin and in the Madras State? There even for the current deposits they are paying much more interest and in the case of fixed deposits it will be very much more. According to section 24 of the Banking Companies Act you have to maintain 20 per cent. of the time liability and the demand liability. What I am pointing out is this. The banks which are run in cities like Calcutta, Bombay, Delhi and so on, get plenty of money. Most of the people there deposit money even without interest. That is not the case with smaller banks. We have got only smaller banks in South India. We have only 10 or 12 scheduled banks and the others are all below Rs. 1 lakh—Rs. 50,000 and so on. Our economy is completely tied up with those smaller institutions. What is the kind of work that they do? They lend money to all and sundry and that is how we are somehow or other trying to maintain our economy. Even by doing that we do not succeed.

Now let us consider what is stated in the amendment here. By this amendment power is given to the Reserve Bank to ask the other banks to pay or to maintain 20 per cent. of one deposit and 8 per cent. of the other deposit. Is it possible for these small banks to do it? It is impossible; that is what I would say. It may be that by a notification the Reserve Bank may say that all other banks will have to pay 20 per cent. of demand liabilities and 8 per cent. of time liabilities. They cannot make any distinction between the banking institutions in Travancore-Cochin or Madras and the banks situated in other parts of India. The result will be that the banks in Travancore-Cochin and Madras will not be able to do it and they will have to be closed down. That is what is really going to happen. It may be said that the Reserve Bank will show all kindness to the various banking institutions in India. That is correct. They do generally take a compassionate view. I certainly concede that position. They have been doing so especially with regard to the banks in Travancore-Cochin. In spite of the fact that the banks maintained 20 per cent. of the time and demand liabilities for one year they were good enough to allow retention of only 15 per cent. I can perfectly understand that. I agree they are also people who know what will be the fate of these banks if, strictly speaking, the amount equal to 20 per cent. ratio is to be maintained. The kind of work which these banks are doing is one which no other bank, not even the State Bank which was originally known as Imperial Bank, would be able to do. I have some experience of the State Bank. What is the kind of business they are doing in my part of the country? They are giving overdrafts for half a dozen people and giving loans on securities of goods besides exchange work. As a matter of fact, there are about 30 banks in my own place started by the people of the locality and incorporated there. What is it that they are doing? The ordinary man will go to those banks, and not to the State Bank, the Central Bank or the Indian Bank, because it would be very difficult for him to do so. It is the smaller banks that can help such people, and it is the smaller banks that can help all kinds of people. The smaller banks could easily help the merchants, the small industrialists and the small-scale industries. Therefore, I submit that giving of such vast powers in the hands of the Reserve Bank is not quite desirable. I would also say that the introduction of a Bill like this, at the present stage, will create an impression in the minds of the foreign nations that there is something risky or shaky about the financial conditions of our country. It would have been better if the Government brings this Bill sometime later, say, after two or three years, that is, during the second or the third year of the Second Five Year Plan.

Shri A.C. Guha: I would request the hon. Member to read clause 10. It applies only to the banks in the Second Schedule. So the clause is not applicable to most of the Travancore-Cochin banks.

Shri Iyyunni: I know that. So far as those banks situated in Travancore-Cochin are concerned, the ratio is about 25 per cent. of the demand liability and 75 per cent. of the time liability. But with regard to the banks situated in Bombay, Calcutta and other places, the ratio is 60 per cent. current deposit and 40 per cent. time liability. It is true that out of the 142 banks in my part of the country, only 12 will be affected. That is all right. I can understand it. But it is only with regard to these banks that I am making my observations now. What I submit is, with regard to these banks, the difference should be noted. It is well and good to say that we are following the traditions of the banking institutions in America and Europe. But India is a vast country and, as the previous speaker said, everything is different in India. The lives of the people are different, the kind of work that they do is different, the commercial produce is different and thus everything is different. This is a vast country consisting of millions of people. India is something as big as Europe without Russia. There is no other country like ours which varies in so many respects. If you are going to make a law which will apply uniformly to all people, certainly it will be very difficult to make such a law. In certain matters, the local conditions will have repercussions and the local conditions cannot be taken care of by the amending provisions of this Bill. But that is exactly what is being done. The ultimate difficulty will be that these clauses will have very serious repercussions on the local conditions of the people of certain parts of this country.

What does clause 10 say? I am not so much concerned with clause 10(1) as such, as with the proviso. The proviso reads thus:

> "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."

So, by mere notification, the bank may increase the rates. It says that the rate shall not be more than 20 per cent., that is, four times the present rate. So, what I submit is, this is a matter which must engage the serious attention of the Finance Minister. Of course, I understand that the Finance Minister does not do this with a bad motive. But he must consider the serious repercussions this will have so far as the banks in our part of the country are concerned.

[SHRI BARMAN *in the Chair*]

Then I come to the payment of interest. If a scheduled bank is not in a position to maintain the balance as per the provisions of this Bill, it has to pay an interest to the Reserve Bank at the ordinary rate plus three per cent. more. The clause says: "...three per cent. above the bank rate". If the bank has to maintain a balance of Rs. 1 lakh and if there is a deficit of Rs. 50,000 or Rs. 25,000,

(Shri Iyyunni)

then, it has to pay an interest on that amount at the market rate plus 3 per cent. more. Why should the Reserve Bank be guided more by a profit motive than by anything else? That is what I cannot understand. After the prescribed period, the interest would be raised to five per cent. plus the bank rate. I would say that if the bank is not in a position to maintain the minimum balance, some reasonable time may be granted to it. If, within that time, the deficit is not made up, then the bank may be allowed to carry on with its business. It is not proper to say that the Reserve Bank should get three per cent. more than the market rate also. Why should it get it? What is the kind of help that the Reserve Bank renders? As a matter of fact, at the time of the crash of the Travancore-Quilon National Bank in Travancore, the Reserve Bank did not go to the help of that bank. In spite of it, that bank which crashed was able to pay 12 annas, 13 annas, 14 annas and finally even 15 annas in the rupee to the depositors. This is the kind of help that the Reserve Bank gives to the smaller banks! This is the kind of help that the smaller banks can get at the hands of the Reserve Bank. Of course, it is too much for anybody to say further. What I submit is, the Reserve Bank should not be guided by the motive of profit. The Reserve Bank may say, "If you are not able to make up the deficit, you will be given only such and such time within which you must come up. If you are not able to do it, we will close your shop". That is all that the Reserve Bank can say. Instead, what does it do now? The banks which fall in deficit will have to pay three per cent. more than the market rate. If the deficit continues, say, for a certain period, the interest is charged at a higher rate plus the market rate.

Therefore, I submit that it is time that the Finance Minister should carefully and guardedly move in this matter. Otherwise, I fear that the impression that will be created in the minds of the people abroad will be something different from the impression that the Finance Minister himself has got so far as this Bill is concerned. That is all that I have got to say with regard to this Bill.

Pandit S. C. Mishra (Monghyr North-East): Mr. Chairman, Sir, one of the best speeches in support of this Bill certainly came from you. But my friend who spoke last said that Government should be more careful. At the same time, he said that the Government are not realising what they are doing. I feel that Government are wilfully doing these things. They have taken into full consideration the consequences that will follow. A certain devotee of Lord Buddha asked him, "If a man commits a sin without knowing about it, is he more guilty than the man who commits a sin with the knowledge that he is committing a sin"? The obvious and more logical reply that will come from anybody will be that the man who commits a sin without knowing about it is not so guilty as the other man who commits a sin with the knowledge that he is committing a sin. But, the reply that came from that great lord was just the reverse. He said, "the man who commits a crime with the knowledge that he is committing a crime is less guilty than the man who commits it without knowing about it". The devotee was very much perplexed. Lord Buddha asked him, "A man puts his finger in fire knowingly and another man puts his finger in fire unknowingly. Whose finger will be burnt more"? The obvious reply is that the man who puts his finger in the fire knowingly will be more cautious. Therefore, if the Finance Ministry is quite innocent, as my good friend was saying, then it will be more dangerous for the country. If they are proceeding knowing that they are committing a crime, I think there will be less danger for the country. Therefore, I am also trying to give my bit to them in understanding what they are going to do.

Of course, in the Finance Ministry there is the Minister, Deputy Ministers, advisers and so on; have they thought over the matter as to what is the main purpose of currency? I can understand that we have used up all the accumulated wealth that we had at the end of the last war. We have perhaps used up everything that we could get from the country. The Finance Ministry has squeezed our nation white and all the resources have been used up. Now we are at the last stage of inflating the currency. Certainly I agree that we are on the threshold of development. Certainly our country is developing and we are having many things in the form of assets. We have the Bhakra-Nangal Project, the Damodar Valley Project and many other things and we are really adding to the wealth of our nation. I will accept it; but, what is the relationship between currency and the wealth of the nation? I think we shall all agree that only that portion of a nation's wealth is related to currency which is required for daily use. All goods, all that wealth which is in the form of fixed goods, 'fixed wealth' does not require any currency. Therefore, if we are going to relate our currency not to the goods that are in circulation but to the goods that are fixed in the form of fixed wealth, certainly we shall bring our nation to disaster. I think the Government already have the advantage of that amount of wealth which is the difference between the deposits and the actual circulation of notes. The benefit of that difference has already been given to the Government. Now we are going to increase currency without any reference to the ratio etc. We have got a very good hall here; this is an asset of our nation. If any person possesses it, he will be a wealthy man. But, there may be a time when a cup of tea, a loaf of bread or any little particle of food may be more valuable to a man than a whole hall or a river valley project. The real question about relationship should be that. Our great lord, Mr. Krishnamachari, is not here.

An Hon. Member: Lord of lords!

Pandit S. C. Mishra: Of course, he is lord of lords.

Shri A. M. Thomas (Ernakulam): On a point of order, Sir. Is it open to the hon. Member to speak in such derisive terms about another Member of the House? Can he talk in such contemptuous terms?

Shri V. P. Nayar: Is saying that he is a "lord" contemptuous?

Mr. Chairman: It is rather out of the way to speak about a Member of the House as "lord".

Pandit S. C. Mishra: I said nothing contemptuous. Anyway, I may call him the "greatest commoner". If "lord" is ruled out, I may be allowed to call him the "commonest of the commoners".

Shri B. S. Murthy (Eluru): You can say "my hon. friend".

Pandit S. C. Mishra: All right if humour is banned, my hon. friend...

Mr. Chairman: Hon. Members should remember that while they are making deliverances in the House, every Member has got equal right and equal obligation towards each other. How will the hon. Member himself like to be called in that way? That is a matter to be considered by every Member. It is better that we keep a happy relationship while mentioning about each other.

Shri A. C. Guha: The hon. Member said that a time may come when a cup of tea will be more costly and more desirable than this big hall.

Pandit S. C. Mishra: I said, there may be a time when a man will require a cup of tea or a loaf of bread more than a great hall. He may be dying of hunger and at that time the hall may mean nothing to him; the only thing he will need will be a cup of tea or a piece of bread. He may have many other fixed assets, but he will need a cup of tea more than anything else. That was what I was saying. I had nothing to say derisively about that hon. Minister.

[Pandit S. C. Mishra]

My point was this. We had occasion to hear something during the Question Hour a day or two ago about cement in the north of Bihar. Cement sells at Rs. 6 or Rs. 7 ordinarily. Perhaps the import of cement has been banned and in north of Bihar...

Shri A. C. Guha: Does the hon. Member say that import of cement has been banned?

Pandit S. C. Mishra: Yes; I am only stating a fact. You will find that no more cement is being imported. I am going to tell the consequences.

Now, in North Bihar,—you may perhaps call it black market, I say open market—in the real market, cement is selling at Rs. 18 a bag. Mark the difference between Rs. 7 and Rs. 18. What is the result? All sorts of corruption. Anybody who has influence and wants money approaches the officials and gets permits for cement in many ways. People who really require cement are buying at the rate of Rs. 18. Here, in our national economy, round the table we sit and calculate that import will be harmful to our nation and say that we must do with what we are begetting and that also through the Government. The ultimate result is corruption, dishonest money. I was going to say, if the currency becomes disproportionate to the quantity of goods in circulation, a result like this follows. We have also known what has happened in Germany, and in other countries where there was inflation. There was a breakdown in the currency system. My advice is this. Some of our friends thought that perhaps this would come in the last stage. We have not yet reached the end of the Second Five Year Plan. We are just in the beginning of it. The first thing that is let loose is the currency of our country. I would request my friends, whoever be incharge of these things to consider whether, even after getting power in their hands, they should not proceed cautiously. Besides, our friend has said that the impression outside will be something against us. The impression inside will be even worse. People will now think that perhaps whatever they are holding in the form of current assets are going to become useless. After that, I think the insecurity in the minds of even the smaller people will increase. People are not attaching any value to future prospects. They do not know whether any wealth that is lying with any person is secure. Now even these little current things will become insecure. I hope certain people in the Ministry the advisers at last are not changing and advisers are always the masters. Of course we cannot advise the advisers. We can only advise the so called masters of the advisers. And to them, I will say only this. Leave the currency aside. You mop up everything that is in the pockets of the people. Try to get more wealth. But, please do not let loose the currency. Otherwise, we will have disastrous results.

Dr. J. N. Parekh (Zalawad): Sir, I consider that it is a very important measure which is before the House, and that it is very necessary in a developing economy of an underdeveloped country. The provisions of this Bill can be divided into three or four parts. First is the de-linking of the currency from the gold and bullion assets and reserves. Then, there is the revaluation of gold. The valuation that has now been accepted by the International Monetary authority from Rs. 21-7-0 has been raised to Rs. 62-8-0. As has been explained by the previous speaker and as pointed out by the Minister this is necessary in vew of the deficit financing that we have got to undertake in our Second Five Year Plan. No doubt, there are dangers in this measure and the weapon that we are giving is certainly an important and a dangerous one. It will have to be judiciously used by the authorities concerned. But, when we are out to launch on a very ambitious and big programme of deficit financing to finance our Second Plan, there are certain measures which are inevitable, and which we have got to resort to. The Finance Minister in his budget speech the other day said that we have to prefer between stagnation and stability or development and deficit financing. A bold programme has been enunciated. I am sure when things are to be handled by experts and people who know their job, there would not be any inherent dangers. At the same time, the authorities will have to be watchful. I am sure if a proper check is kept and a vigilant eye is kept, there would not be much to be afraid of.

One idea is about credit control that is proposed by this measure. For that, certain powers are to be assumed by the Reserve Bank, the scheduled banks have to maintain a certain percentage of their time deposits and demand deposits, with the Reserve Bank. This ratio is now altered to be 20 per cent. and 8 per cent. This is also necessary. Because, when the country is going with the Second Plan, when the monetary policy is regulated, when production rises, when the capital structure and investment market is undergoing a change, when deficit financing is resorted to, there will be surplus money. When we are pumping more money into the villages for our Second Plan, if it is not properly moped up, there are dangers. This is one of the weapons which can be resorted to. Another weapon is the additional bank rate. Inflationary tendencies all over the world are making headway. In other foreign countries also, prices are rising. Even in the case of necessities of life, prices are rising. If increased production and coordinaton of all these factors is not attended to, more inflationary pressures will be the result. This is merely an enabling measure to mop up the surplus. We know that the Bank of England, and some other countries also, had to raise their bank rate. It is 5½ per cent in England. This was done with a view to bring down the disequilibrium in the financial structure. India is placed in a peculiar position. On the one hand, we have an ambitious development programme. We have to import so many things. At the same time, whether cheap money conditions and cheap rate money policy could be resorted to indefinitely is a question. It may be that the Reserve Bank may have to come out and move in the matter with their eyes on the bank rate also.

Just as the Finance Minister said, this policy of having a variable reserve ratio, which is in vogue in other countries, has to be resorted to as a monetary curb which is also very necessary for credit control. Otherwise, there may be disastrous results and inflation of a high degree. It is very essential that our monetary policy should be geared to the present circumstances. Price levels and price fluctuations are dependent on many factors. Long-term, medium-term and short-term price levels in the country are dependent on the Government policy, on budgetary policy, on the taxation structure and other factors that are operating in our country and the impact of international economy that may be felt here. Therefore, this aspect will have to be very judiciously looked into and I feel this is a very important power that is being taken by the Reserve Bank. I am quite sure it will be judiciously used.

4 P.M.

My friend just now referred to the interest that will be given by the Reserve Bank to the scheduled banks on the deposits kept by them. There is provision (IB) in page 4:

> "....any balance with the Bank the amount of which is not less than that required to be maintained by such notification, the Bank may pay to the scheduled bank interest at such rate or rates as may be determined by the Bank from time to time on the amount by which such balance actually maintained is in excess of the balance....."

[Dr. J. N. Parekh]

So, the power to give interest for the amount in excess is there, and I am quite sure that will be settled by mutual discussion and adjustment.

The lacuna that is found in regulating the supply of agricultural credit is sought to be removed by clause 11. When the co-operative movement and the agricultural economy are playing a very vital part in our country, such a sort of financing is very necessary and essential. More so, when marketing, processing and other things are to be taken up. This is also an enabling provision which is necessary.

Here I would like to mention a word about agricultural credit that is given by the Reserve Bank through the apex banks and taluk banks. The Reserve Bank gives the money at a low rate of interest so that the agriculturists at the other end may get the benefit of it, but what is happening in certain States is that the apex banks are charging a rate higher than that of the Reserve Bank, and in their turn the taluk banks do the same. Moreover, the co-operative societies also are charging much more so that the very idea of giving cheap credit to the agriculturist is nullified, because whatever the intention of the Reserve Bank there is no scrutiny or check or control over the way the whole thing is done.

The abolition of the Local Boards is envisaged in this Bill. Some of the speakers have said that this requires a little re-thinking. I would also request the Minister to think about it, because the Local Boards have had to play so far and have to play in the future a vital part. They are a useful wing in the different areas, and their existence will go a long way to help the area. There is also another reason why they should be there. I understand we are having in this House a Bill which will undertake the control or management of State Banks in the Part B States. It is not clear whether the State Bank of India or the Reserve Bank will be in charge of them, but it was reported in the papers that they may come under the control of the Reserve Bank. If that is so, it is all the more necessary to have these Local Boards because they can act as a liaison and make for contact and close co-operation between the different areas, because these banks are scattered far and wide in different States. I think the Local Boards will perform a useful function in this connection. So, this idea may be reconsidered.

Shri A. M. Thomas (Ernakulam): Mr. Chairman, Sir, although this is a very important measure, I do not think it is a controversial one. One of the Members who spoke on the Bill, Shri Alva, said that we should not tinker with the Reserve Bank. It appeared from the trend of his speech that we are doing something which is unhealthy, we are adopting a procedure which is questionable. Although you, Sir, in your humility said that you are not a financier, I think your speech was the best defence of the provisions of this Bill. One can very well understand if a note of caution is sounded that we should not create currency to any indefinite extent, that we must keep a close watch on inflationary tendencies. That we can very well understand, but one cannot at all quarrel with the provisions of the Bill which will enable the Reserve Bank, which is the central banking institution, to shape the currency structure in such a manner as to meet the requirements of the Second Plan.

Some other Members also, perhaps, influenced by orthodox conceptions of maintaining the reserve for the minting of coins or of currency, have stated that we must be beware of of the impression that this measure would create in the foreign countries. You will note that even in a country like the U.S.A. whose financial position is very strong, they loosened the provisions with regard to the ratio to be observed when they found their economic position to be a little difficult. During the

Second World War, the United States, when faced with the problem of rapidly declining currency reserve, did not hesitate to reduce the statutory currency reserve limit from 40 to 25 per cent. So this measure, I should humbly submit, is not one which in any way affects the economic stability of the country or the respectability of the Indian Rupee.

There are four main provisions in the Bill. One enables the Reserve Bank to reduce the ratio of the reserves, another authorises the Reserve Bank to compel the scheduled banks to increase the percentage of deposits with the Reserve Bank of their time and demand liabilities. The third enables the Reserve Bank to make advances from the newly created National Agricultural Credit Fund to the State co-operative banks and for agricultural purposes, and lastly there is the provision to abolish the Local Boards. I must confess at the outset that I was not at all impressed by the arguments advanced by the hon. Minister in justification of the abolition of the Local Boards. I venture to submit that this would be treated as perhaps a reactionary and, if I may say so, retrograde measure. Criticism has been levelled outside this House also that this step is bound to be unpopular.

According to the provision in the Act as it stands,

> "A Local Board shall be constituted for each of the four areas specified in the First Schedule and shall consist of five members to be appointed by the Central Government to represent, as far as possible, territorial and economic interests and the interests of co-operative and indigenous banks."

The function of the local board is laid down in the following terms:

> "A Local Board shall advise the Central Board on such matters as may be generally or specifically referred to it and shall perform such duties as the Central Board may delegate to it."

One can very well understand that with the nationalisation of the Reserve Bank, some of the advisory functions which these local boards were exercising have ceased to exist. But considering the enlarged activities of the Reserve Bank which is permeating into the entire economy of our country, I fail to understand how the advice of the local boards would not be useful for the Reserve Bank to carry on its functions effectively and to the benefit of the country.

I said that the abolition of the local boards would be treated as a retrograde or reactionary measure. I have my own arguments for that. When the State Bank of India Bill was discussed by this House, the opinion was voiced from various sections of this House that in order that the State Bank may function efficiently and satisfaction may be given to the people all over the country, it would be desirable to have regional boards in various parts of the country. And that principle was accepted also by Government. When the Life Insurance Corporation Bill was passed, the very same argument was advanced, and Government had conceded that it would be desirable to have zonal boards. I do not understand why when that is the general policy of Government, they have not thought fit to retain a machinery which already exists under the present Act, and which would be very useful also. The functions of the Reserve Bank are very much varied and complex, and it requires a great deal of local knowledge. Besides, its policies will have to be shaped after taking into consideration the circumstances existing in the various parts of the country.

My hon. friend Shri C. R. Iyyunni's arguments with regard to the keeping of the reserves in Travancore-Cochin were taken to be not very relevant to the provisions that we are now going to legislate. But they indicate that it would be useful to have these local

[Shri A. M. Thomas]

boards for they will take into account the local circumstances and then make recommendations to the Reserve Bank to shape its policy or modify its policy in the light of those circumstances. As far as banks in Travancore-Cochin are concerned, I could say that the recommendations of the local boards set up under this Act were very useful. They really took into account the economy of the local areas and then made the necessary recommendations. The Reserve Bank also considered those recommendations and made the necessary modifications in regard to the percentage of reserves of demand and time liabilities as far as Banks in Travancore-Cochin were concerned.

What I would like to impress upon this House is that these local boards fulfil a very useful function. If Government are of opinion that the present functions allotted to the local boards do not justify their existence, then I would like to know what is there that stands in the way of Government in giving more powers and more functions to these local boards. For example, in the matter of catering to rural credit and in many other matters, I submit, the advice of the local boards will be very useful. Therefore, I think it would be very good if Government could be persuaded to reconsider their position.

With regard to the percentage of reserves to be kept with the Reserve Bank, the Minister has assured the House that while enforcing the provisions of this Act, the Reserve Bank will take into consideration the circumstances of the various banks and would take such steps as would be necessary to meet the particular circumstances existing in various institutions and in various areas. That is an assurance which I very much welcome. But I would like to ask how, if such high percentages of reserves are to be kept with the Reserve Bank, the banks will be in a position to make advances to their clients at reasonable rates of interest. Of course, the restriction extends only to scheduled banks. That is good so far as it goes. But how would it be possible for the scheduled banks to give advances to their customers at reasonable rates of interest, if such high percentages are to be kept with the Reserve Bank? That is also a point which has to be taken into consideration by Government. Though it may apparently appear to be a discriminatory measure which authorises the Reserve Bank to adopt different ratios in respect of different banks, yet I think that that is an important provision which is necessary, for the Reserve Bank has necessarily to take into account the local circumstances and make a distinction between bank and bank. For example, there are very big banks and foreign banks functioning in our country, which attract very heavy deposits, while there are also other scheduled banks which are not in a position to attract so much of deposits. So, I would submit that such a provision is a desirable one, and it should not be attacked on the ground of discrimination.

With regard to the provision that enabled the Reserve Bank to make advances from the National Agricultural Credit (Long Term Operations) Fund for the purposes enumerated, I do not think that anybody would raise his voice against it. In fact, a provision of this nature was long overdue. I therefore submit that the provisions of this Bill are necessary and welcome. But the only consideration that Government have to keep in mind is that the Reserve Bank should be very careful while enforcing the provisions of this enactment I hope Government also would keep an eye on the way in which the Reserve Bank functions in relation to the legislation that we are now seeking to put on the statute-book.

With these words, I support the Bill.

Kumari Annie Mascarene (Trivandrum): I oppose the Bill. I feel this is one of the most unwise steps that a Finance Minister can take regarding the financial structure of the country. A bank is a very delicate structure of monetary resources, and any change to such a financial structure should be carefully thought out before it is made.

We are just a growing nation and our plans are in progress. I am surprised at this Government always calling upon the resources of the economic structure of the country to build up the country. If they will only look around and see how China had built up and how Russia had built up their countries without monetary resources at their command, when the wealthy nations of the world refused them help, they will see how they had put in manual labour in co-operation with the people with a patriotic motive to build up their country. They have succeeded that way. Those of us who read the reports of how China had built up herself, will feel that the present China and also the present Russia have grown to their stature not so much by financial resources but by human co-operation and labour.

With regard to this amendment, I oppose it because the Statement of Objects and Reasons clearly shows that the amendment is meant not for the stability, growth of credit or the reserve of treasure in the country but to utilise its resources on the excuse of the Second Five Year Plan. The Statement clearly says:

"The process of planned economic development necessarily implies a certain amount of credit creation...."

I agree—

"and a consequent increase in the note issue". That is where I disagree. We have had bitter experience of inflationary tendencies after the late war, and the nations have hardly recovered. "Consequent increase in the note issue" means we are going in again for inflationary steps. That, in the long run, will not be very economic to our financial structure, nor to our industries and agriculture. The repercussions of this step will, in the long run, be very adverse to the nation.

Again I wish to invite the attention of the Government to the Reserve Bank itself. I have been studying in great detail the statistical statements maintained by the Reserve Bank as we find in the Library and I have noticed that the statements kept continuously do not agree with regard to the correctness of accounts. I have pointed out this during my budget speeches and have also written to the Finance Minister for an explanation with regard to these incorrect accounts found there. He has given me a reply but I am not convinced. In the light of these facts, here we are going in for further amendments which will more or less confuse the accounts rather than correct them.

Now section 33(4) is being amended to revalue gold at the rate agreed to by the International Monetary Fund. I wish the Government had considered it before they had included this amendment. What is the real rate of the I.M.F.? What is our treasure, the value of our gold reserve? What is the value of the gold in their hands, especially the wealthy nations of the world like America and England? What is our share in the I.M.F.? What are their shares, and what is their hold on it, and what is our hold on it? And also what will be the repercussion of the rate of gold on our rupee value? Surely it is depreciating the rupee. Why are we doing so? They say it is necessary. Necessity and reality are two different things. Necessity may not survive or may pass off but reality will survive. We have to be very careful with regard to our treasure.

I wish to invite Government's attention to one or two facts regarding our gold and other metals. Tourists who come to this country go

[Kumari Annie Mascarene]

to our shops, especially where ornaments are sold. I have seen them buying gold and other ornaments. They buy gold ornaments, they buy silver ornaments, they buy even brass and take these away. And here we have paper currency. I have seen them taking these things away with my own eyes. The tourists, ladies and gentlemen, who come to this country engage tongas and they just pay Rs. 5 to the tongawalla, not for fare but for the brass ornament around the horse's neck. They have got it and they have shown it to me. I have seen it. That means that gold, silver and even brass treasure is being taken away from our country. There is nobody to check this. They are carrying it away and here we are getting paper currency. I wish the Government had taken note of these facts. I have been watching them for the last two or three years, and I am convinced that these metals are being taken from our country outside. What is the monetary rate compared to the treasure in their hands and the treasure in the country?

Take the statistical accounts maintained by the Government regarding industry and commerce, import and export and the treasure in the country itself. I would invite you to just have a cursory glance at the first page of these statistical statements retained at great cost by this Government regarding industry and commerce. You will find that every year in spite of our plans the imports are increasing and gold reserves are going out of the country. Day before yesterday, I heard the Food Minister say that owing to exigencies we are importing rice and wheat almost every year. That means, in spite of the plans, in spite of utilising the resources of our banks for building up the country, in spite of eight years having passed, we are not yet self-sufficient with regard to food And hereafter we are going to utilise the resources of the Reserve Bank, the reservoir of all the banks in this country. Amendments like this agreed to by the I.M.F. regarding rate and the inflationary tendency in the note issue, all these are going to have repercussions not of a very profitable character in this country.

This is a measure which is very dangerous. Government are handling the resources of the Bank. Sometimes nations do that. We have seen how Japan had grown up a few years back, before the second world war, and how she had utilised the world bank's resources and how the inflationary repercussions of that reflected on Japan afterwards. If you only have a cursory glance at how monetary resources are utilised for spending by each nation, you will find that this is a very unwise step.

With regard to the Reserve Bank itself and with regard to planning, I humbly suggest that as far as banks are concerned, they must be maintained taking into account the stability of reserves, metallic value, not by the Government but by the bank authorities who should not be subservient to Government. Banking is a very delicate structure and it does not require much to crash a bank. We in Travancore have had bitter experience of bank crashes, of how for no reason, power-seeking politicians have come up and have crashed our banks, and people had gone to dogs. This was for no reason whatever, and after the liquidation, they found that they had got 16 annas in the rupee. Therefore, handling the Reserve Bank resources for the Second Five Year Plan should be done with great care and consideration. The amendments are not to our advantage. When you go into the accounts of the First Five Year Plan, the reports say that about Rs. 10 crores are flowing through in Bhakra-Nangal expenditure itself. That shows Government is very much concerned with money resources from the banks and spending them not with any care. If you examine the accounts of the first Five Year Plan, you will find that there are many loopholes in it which cannot be accounted for and yet the common man has to pay through the nose for it.

Now, we are going in for the Second Five Year Plan. Government will not ask the labourer for the patriotic offering of his services or for the common man's co-operation but this money has to be utilised in many ways.

I oppose this measure and I request Government to adopt this measure, if they are strong on it, with great care; and, if they are going to push it through, I hope, a day will come when they will regret it bitterly.

Mr. Chairman: The hon. Minister.

Shri Matthen (Thiruvellah): I thought I would get a chance.

Mr. Chairman: Does the hon. Member want to speak?

Shri Matthen:: Yes, Sir.

Mr. Chairman: Yes, he may speak.

Shri Matthen: I thought there would be other hon. Members standing up. But, when I heard you were asking the hon. Minister to speak....

Mr. Chairman: Yes, he may continue.

Shri Matthen: I have only just a few observations to make.

[MR. SPEAKER *in the Chair*]

Mr. Speaker, Sir, first of all I have a submission. Heavy Bills like this—and this is a very important Bill—should not be brought for discussion so early in the session when everybody is engaged in one committee or the other. There are other Bills which do not require so much of thought and so much of study and which could have been taken up. I hope you will keep this in mind in future.

Mr. Speaker: There is no time for the others. There is the Planning Commission Report, the States Reorganisation Bill and others; they are taking a lot of time. Only yesterday in the Business Advisory Committee we were discussing it and 100 hours are being allotted.

Shri Matthen: Before I start, I hope I can make such a general suggestion.

After hearing the speeches here I fear there is an honest misunderstanding that increase of note issue is inflation. There is a lot of difference. When the economy is developing and growing, naturally, note issue will grow. I admit it can develop inflation but it need not. Mere increase of note issue is not inflation, if the economy of the country justifies or supports it.

The hon. lady Member was striking a very serious and disastrous note about this Bill coming at this stage. With all due respect to my friend, I am not able to support her views. What is the great disadvantage or catastrophe of this Bill coming in? It it a natural Bill for a developing country. It is a Bill for empowering Government to have a reduction in the matter of gold reserves or other securities for the development of the country. I just want to tell my hon. friend, Shri Gurupadaswamy and others that Hitler's economy was not supported by any gold reserve or anything of that sort.

Kumari Annie Mascarene: That is why it crashed.

Shri Matthen: He was able to maintain the economy in spite of the very large means to which he resorted and which you may call legitimately as deficit financing. The important thing is the development of the economy of the country and the more important thing is the watching of it by a competent Finance Minister and a competent Reserve Bank executive. Therefore. I am not worried about this Bill coming in. In fact, I was really wondering why it had not come earlier.

Shri Gurupadaswamy was telling the House that the banking system will suffer. I did not follow my friend at all. (*Interruption*). The provision is perfectly clear and empowers the

[Shri Matthen]

Reserve Bank, if they think so, to raise the minimum which the Scheduled Banks have to maintain with the Reserve Bank—both demand liability and time liability—if they find that there are inflationary tendencies and the banks are going in a careless way. There are penalties also provided in this Bill. If the Reserve Bank executive is competent, I think, this Bill provides ample power.

Shri M. S. Gurupadaswamy: Has it been competent?

Shri Matthen: That is a different matter. I am only telling you that the provision in this Bill...... (*Interruption.*)

Shri M. S. Gurupadaswamy: What about commercial banks?

Shri Matthen: They are progressing very well.

Shri M. S. Gurupadaswamy: No crashes?

Shri Matthen: I certainly do not support my friend, Shri Gurupadaswamy's suggestion that banking should also be nationalised. They have nationalised one bank the Chairman of which has resigned and the Managing Director has resigned; I do not know why. Do you want other banks also to be nationalised? We have already nationalised the insurance companies; we do not know the fate of that. Let us go slow in the matter of nationalisation.

Mr. Speaker: That is not now before the House.

Shri Matthen: I was only referring to a remark of my..............

Mr. Speaker: The hon. Member may ignore such remarks which are not relevant to the issue.

Shri V. P. Nayar: No side-tracking of the issue.

Shri Matthen: He wanted to nationalise banking completely. I was only referring to it. I said it was better not to do it now. We have nationalised our insurance companies. We are on the eve of the Second Five Year Plan. It is better not to nationalise more.

I entirely agree with the hon. Finance Minister that this Bill is nothing very startling. It is necessary to protect the economy of the country by the reduction of gold reserves or other securities. These are very minor matters. If the economy is developed properly and controlled properly, and I have no doubt, the economy of our country is developing very well.

Therefore, I have great pleasure in supporting this Bill.

Shri V. P. Nayar: I want my hon. friend who has very great experience of banking in my State to clear a doubt. A point was made by Shri Iyyunni that in respect of the banks in Travancore-Cochin, the proportion of demand liabilities to time liabilities was very much different from the proportion in other parts of the country, and that this will particularly affect the banks of Travancore-Cochin with a different proportion. I want to know whether the hon. Member has any suggestion to make about that provision in the Bill.

Shri Matthen: There is no new suggestion except the empowering one.

Shri A. M. Thomas: This is only an enabling measure.

Shri Matthen: It is an enabling measure. In case of emergency it ought to be done, whether in Travancore-Cochin or any other place.

Shri V. P. Nayar: His case was that the proportion of demand liability and time liability in Travancore-Cochin was the reserve of what we have got in the other States and that this particular provision relating to them will affect the banks of Travancore-Cochin and the whole economy of the State will crumble.

Shri A. C. Guha: May I intervene for a minute and say that this clause will apply only to scheduled banks? But I think that most of the banks in Travancore-Cochin are not scheduled banks and so, that clause will not apply to those banks in Travancore-Cochin.

Mr. Speaker: I call upon the hon. Minister to reply as I find none others wishing to speak.

Shri A. C. Guha: Mr. Speaker, Sir, I think this Bill has more or less been welcomed by this House except perhaps three hon. Members. Shri Gurupadaswamy, with his inverted logic, agrees to and commends the nationalisation of banks but demurs at some power being given to the nationalised Reserve Bank to control the vagaries and activities of the commercial banks, about which activities he is so much afraid and so much uncertain. Another hon. Member, Pandit S. C. Mishra of the same party, condemned this Bill and so also the lady Member from Travancore-Cochin. The lady Member has said that Russia and China have performed all their development works without any fiscal or monetary policy, without taking recourse to any money or anything like that. It is not only Shri Matthen who has not been able to follow her, but I think most of us on this side have not been able to follow her in this matter.

Let me now come to the main items of the Bill. There are three or four main items. The first is that instead of having the ratio basis of reserves against note issue, we are providing here a fixed reserve for note issue. The second item is a variable reserve deposit from the scheduled banks to be kept with the Reserve Bank. The third item is revaluation of Gold reserve of the Reserve Bank. The next item is the abolition of the Local Boards. That item is not so much important for the present purpose and so I can keep it separate from the real purpose of the Bill.

Shri Matthen has said that he feels that the provisions of the Bill are quite useful and necessary. Of course, he has suggested two provisos—if the economy of the country develops properly; and if the Reserve Bank authority is competent.

I do not like to take the help of the argument which Shri Barman put forward that the Ministry is elected by this House and is responsible to this House. That is, of course, the fundamental fact which this House should bear in mind. Apart from that, I would like to say that India can feel proud that in spite of so many handicaps and difficulties with which Independent India started, we have been able to keep our fiscal and monetary policy quite sound, we have been able to keep our fiscal and monetary position quite respected throughout the world. Only in today's papers we find a summary of the review of the Reserve Bank about the economic position of the country. I hope you will allow me to read out a few lines as to the trends in the matter of economy.

> "The trends in the main economic indicators during this quinquennium were an 18 per cent rise in national income; a 25 to 30 per cent rise in industrial production; a 20 per cent rise in agricultural output; a 10 per cent rise in money supply with the public; a 13 per cent decline in wholesale prices; and a 5 per cent decline in the working class cost of living index."

Shri M. S. Gurupadaswamy: That was in the previous year, 1955-56.

Shri A. C. Guha: This is for the First Plan period. I do not think Shri Gurupadaswamy will object to these figures.

Shri M. S. Gurupadaswamy: The position is now changed.

Shri A. C. Guha: During the First Plan period, it is recognised not only in India but also abroad that India has been able to maintain its economic position; the value of its currency in the international market is kept intact. I can say that our economic reputation has increased during the First Five Year Plan. In the Second Five Year Plan we have undertaken a very big and ambitious scheme. From the point of view of our resources, surely, Rs. 4,800 crores to be spent

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in the public sector with the proposal of Rs. 1,200 crores to be spent by deficit financing is an ambitious scheme. That is from the point of view of our financial resources. But as every hon. Member of this House knows, every Ministry of the Central Government and every State Government put forward their demands at a much higher level. That is because they are conscious of the eagerness of the people for rapid and quick development. They were all eager that India should develop at a rapid pace. Considering that, they put forward their demands and their programmes of development the Planning Commission and the Central Government cut down those programmes and the financial implications by about the half, and that is almost the minimum which the development work of the country would demand of this Government. The implication of this development work is not unknown to the Members of this House or to the Government or to the Reserve Bank. The Reserve Bank in its report again says:

> "It is of the utmost importance that the considerable inflationary potential arising from the developmental expenditure in the public and private sectors and deficit financing under the Plan should to be held in restraint. In this task fiscal and monetary policy will have to play an increasingly important role."

So we have accepted the Second Plan and the expenditure target involved and implied in that Plan. We must accept the risks and dangers inherent in this and we must also have the courage and the promptness to take adequate action to forestall those dangers which we all can realise and which the Report of the Reserve Bank has also put before the public.

Shri Gurupadaswamy just interrupted me and referred to the price structure prevailing at present. During the last few months, the prices have risen somewhat abnormally. But, at the same time, I should like to remind him that the present price structure could not be compared with that of a slump period. From the middle of 1954 till the end of 1955, there was a demand even form Opposition parties to give price support to agricultural commodities as they were selling very much below an economic price. I do not know whether he suggests that the prices should go down to that level which his party deemed to be uneconomic. Leaving aside the Korean war boom period, if we compare the present prices with those of 1949, 1950 1951 or 1953, they are not very high. Before January 1956, the prices were four or five per cent. lower than those of 1949, 1950 and 1951. After that there has been some rise. But they are not so high as to make his friends in my part of the country organise a famine resistance movement. I do not know where the famine is. It is as if they are preparing to fight the traditional windmill in their eagerness to fight.

Before coming to the clauses of this Bill, I would like to dispose of some other matters which have entered the discussion. I think Shri Alva is under some misapprehension about the position of the foreign banks. The position has been rapidly improving even in regard to exchange business. The deposits of the foreign banks have surely increased but simultaneously the deposits of the Indian banks have also increased. But the percentage of business of Indian Banks in foreign exchange has considerably increased. In 1948 the Indian banks were doing only thirteen per cent. of the total sterling exchange business it has now increased to about twenty five per cent. Similarly with regard to dollar exchange business it was eighteen per cent. in 1948 while it is 43 per cent. now. In the matter of deposits also, the rise in the deposits of the foreign banks has not been anything spectacular or disproportionate to the rise of deposits in the Indian banks. I can assure him that the Government is keen and careful to see that the Indian banks play their due part in the economy of our country, particularly in the handling of foreign exchange. But he has said that the Reserve Bank should take steps to ban the foreign banks. We cannot go back to the 18th or 19th century. He said "The Reserve Bank must once for all put a stop to any foreign bank coming and operating in India".

Shri Joachim Alva: I never said that. I am afraid the hon. Minister has misunderstood the position. They must liberalise the terms to the Indian banks in the matter of foreign exchange. I would like him to quote the figures. How many permits were given to the Indian banks?

Shri A. C. Guha: The Indian banks are also working in foreign countries. Whenever there is an application for opening a branch of an Indian bank in a foreign country, the Reserve Bank has surely been treating such applications liberally and with sympathy. I may assure him that I have no quarrel with him in this matter. I fully share his anxieties and feelings and the Government is also keen on this matter and the Reserve Bank will surely implement the policy of the Government. Thus, the Indian banks will play an increasingly important part in the economy of the country.

Perhaps the most important and contentious provision in the whole Bill is about the fixed reserve against the note issue. I have said in my introductory speech that many countries, including U. K., are not restricting their note issue on the basis of a proportionate reserve in gold or foreign securities. Suggestions have been made to fix a lower ratio. We may fix a particular figure. On some occasions, it may be found unnecessary to keep that much of foreign securities and then it will amount simply to a sort of hoarding them; they may be so essential for our development work. In certain cases to fix a certain propotion of foreign securities to be kept as a reserve against note issue may be found to be a handicap for the expanding economy of the country.

The hon. lady Member from Travancore-Cochin has agreed with the Statement of Objects and Reasons when it says:

> "The process of planned economic development necessarily implies a certain amount of credit creation......"

But, she is unable to agree with the concluding portion which says: "...and a consequent increase in the note issue." She must have her own economics. Anyhow, it is known to most of the Members of this House that credit lead to an increase in the note issue and it will not be quite proper for the Government to put any handicap or bar on the Reserve Bank's capacity for note issue.

Here again, I would ask the hon. Members to recollect that the Reserve Bank and the Government have been acting cautiously in this matter. We have not so far been using the present reserves for the issue of notes wrecklessly. In future also, I can assure this House that the Government and the Reserve Bank will be very careful in the issue of the notes even though they are unfettered by any fixed ratio. They will not use that unless the economy of the country demands it. When we say that it will be necessary to create credit, we also know the inherent dangers. The passage that I have just now quoted from the report of the Reserve Bank show that the authorities, both of the Reserve Bank and of the Central Government, are quite conscious about the inherent dangers of this policy. That is why we should immediately take the precautionary steps and those precautionary steps we are providing in this Bill.

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Mr. Speaker: How long is the hon. Minister likely to take?

Shri A. C. Guha: I will require at least 10 or 15 minutes more.

Mr. Speaker: Now that he has starte explaining things I think it is better that the trend is not broken. What is the good of putting it off to some other

[Mr. Speaker]

day for 10 or 15 minutes? If he and the House is willing, we may sit for another 15 minutes.

Shri A. C. Guha: I would prefer to finish it today.

Mr. Speaker: The subject is fresh in the minds of all people. I would therefore request hon. Members to stay for another 15 minutes more in which it will be finished.

Shri A. C. Guha: Sir, I was speaking about the steps taken by this Bill to counteract the possible inflationary tendencies inherent in this credit creation.

Mr. Speaker: I find Shri B. R. Bhagat leaving the House. If Ministers themselves go away, others will also go away.

Shri A. C. Guha: Ministers belonging to the same Ministry, Sir.

Mr. Speaker: My difficulty is about the quorum.

Shri A. C. Guha: Shri N. B. Chowdhury mentioned about the increase in profits to the Reserve Bank arising out of the re-valuation of gold. I should like to tell him that the Government is considering this matter. It may be that we may allocate the profit to the Reserve Bank to be added to the reserve fund of the Bank or we may decide some other course. Anyhow, if it is necessary we may come before the House with another Bill about this matter.

Shri N. B. Chowdhury: Why do you not provide for it in this Bill itself?

Shri A. C. Guha: No, that is not possible. This matter came up later and it was not possible to put this under this Bill. Anyhow, if occasion needs it we shall come up before this House with another Bill. It may be that we may be able to do without any further Bill also.

He also enquired about the loans from the foreign governments, how they will be paid, in what foreign exchange the loans will be and so on. The loans will be in the shape of capital goods for the projects indicated and they will not be in the shape of foreign exchange currencies to be utilised for purchase of capital goods. This will however mean saving of foreign exchange to that extent to the projects for which capital goods are required or included in the Second Five Year Plan.

Sir, some Members enquired about this foreign loan or foreign aid and raised some objection. They asked as to why we should go to America or other countries. As already stated during the Question Hour, it is our policy, irrespective of politics of the particular country, if we can get any loan from any country without any political strings we shall accept it. We need this and I should say we are grateful to the benefactor countries, whatever power bloc they may belong to, who have come forward to help us in this development work. I think Shri Joachim Alva mentioned about Rs. 40 crores from the United States of America. This Rs. 40 crores is only the present allotment. It will not be technically quite correct to say that it is the annual allotment. I think previously we were getting allotment almost annually and that position may continue. It may also happen otherwise, but we expect that that position will continue. Other countries also, some Commonwealth countries and some smaller countries have also come forward and rendered some help. Whatever the quantum of help, we are grateful to them who have helped us. But such help must always be without any political strings.

Shri Gurupadaswamy said that we should take adequate measures to control the credit situation. That is what we are providing in this Bill. The Reserve Bank has also got some authority already. Just a few minutes ago he interrupted me about the present inflationary position in the country and the expansion of cred by the scheduled banks. The Reserve Bank has already asked the scheduled banks to give a periodical return of any advances given against agricultural goods. The present tendency of inflation may, to some extent, be due also to hoarding with advances from the scheduled banks. The Reserve Bank is already taking action and if necessary adequate action will be taken so that the inflationary tendency may not be helped with the aid of advances from banks for hoarding and profiteering.

Shri M. S. Gurupadaswamy: Is it not true that much of the hoarding of grains recently was due to the liberal accommodation that the merchants got from various banks? Now if you apply some restriction on that, is it not too late because the season is over?

Shri A. C. Guha: I do not think it is too late. I cannot deny that there has been some hoarding and that may be with the help of advances given by scheduled banks. But from the time this question has taken a cognizable size the Reserve Bank and the Government are moving in the matter. They will take adequate steps. I do not think the position has come to raise up a cry of famine or anything like that. It is simply creating panic among the people and in a way helping the hoarders so that they may take advantage of the panic created amongst the people.

A few friends have mentioned about re-valuation of gold. Sir, we are a modest nation and full of humilities. So long we are valuing our gold at the rate of Rs. 21|3|10 per tola. It is very much out of date. According to the International Monetary Fund value of gold in terms of our rupee is at Rs. 62-8-0 per tola and we are putting here the same value as is recognised by the International Monetary Fund and in the international monetary market. So, we are not doing anything egregious or dishonest. We are just putting into practice what is the reality of the present market.

Shri Gurupadaswamy has suggested that the Government should engage themselves in gold trade. I do not know how this suggestion could have come up. In this connection, particularly, I think he should know that Government has practically banned the import of any gold. We do not like to waste our valuable foreign exchange by importing gold. So, there cannot be any question of the Government taking up the trade in gold. I do not know what purpose it will be serving.

Shri M. S. Gurupadaswamy: Internal trade.

Shri A. C. Guha: Shri Somani and Shri N. B. Chowdhury also referred to the interest to be paid by the Reserve Bank to the scheduled banks for the excess reserve deposits that the Reserve Bank may demand from the scheduled banks.

In the Bill no fixed rate is mentioned. Shri G. D. Somani and Shri T.S.A. Chettiar both feel that there should be a fixed rate. But it is necessary that the provision regarding payment of interest should be somewhat flexible. The rate would have obviously to depend upon the money market conditions which vary from time to time, the trend of bank earnings and on the amount of expenses incurred on the banks in acquiring the deposits. It is not possible to provide for all circumstances in the Act and it is best to leave it to the discretion of the Reserve Bank of India which will consult Government whenever necessary. I think I have more or less replied to all the points.

Mr. Speaker: He may refer to the other points, if any, during the course of discussion on the clauses.

Shri A. C. Guha: I have only one more point about the Local Boards which an hon. Member from behind has reminded me. I have stated in my earlier speech that the initiative has to come from members of the Local Boards themselves. I can understand the feelings of the people against

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the abolition of the Local Boards. Though the Reserve Bank has tried to utilise these Local Boards, it has not been able to make any use of the Local Boards. The members themselves have felt that they are hardly of any use for the Reserve Bank or for the economy of the country.

Shri A. M. Thomas: It is because they are not taken into confidence in serious matters.

Shri A. C. Guha: There must be some limit between the functions of the Local Boards and the Central Board. The Central Board has delegated some powers and functions to them, but they have not been found to be very useful to the Central Board. I do not think it will do much harm to the country, even though there may be some local feelings, if the Local Boards are abolished. I can appreciate the local feelings, but still, for the co-ordination and for the centralised administration of the Central Bank, the provisions that we have made may be agreed to. I hope that the Bill will be accepted by the House.

Mr. Speaker: The question is:

"That the Bill further to amend the Reserve Bank of India Act, 1934, be taken into consideration."

The motion was adopted.

Mr. Speaker: The House will now stand adjourned till 11 A.M. the day after tomorrow.

5-13 P.M.

The Lok Sabha then adjourned till Eleven of the Clock on Friday, the 20th July, 1956.