

## BUSINESS ADVISORY COMMITTEE

## Forty-seventh Report

**Pandit Thakur Das Bhargava** (Gurgaon): Sir, I beg to present the Forty-seventh Report of the Business Advisory Committee.

FLOOR AND CEILING PRICES OF  
INDIAN COTTON

**Mr. Speaker:** There are a few minutes more.

**Shri Kamath** (Hoshangabad): If the hon. Minister is here, I shall take up this discussion straightaway.

**Mr. Speaker:** One hour is allotted for the discussion. How long would the Minister like to take?

**The Minister of Finance and Iron and Steel** (Shri T. T. Krishnamachari): I do not think that I would like to take more than ten minutes.

**Mr. Speaker:** All right. The hon. Members who want to take part in the discussion may rise in their seats—I find three.

**Shri K. C. Sodhia** (Sagar): My name may also be included.

**Shri Kamath:** I would take ten to fifteen minutes.

**Mr. Speaker:** The hon. Member may also continue to stand. All right. The time will be restricted accordingly.

**Shri Kamath:** Sir, By your leave, I am constrained to raise a discussion on a shady transaction which was indulged in by the Government with rather dubious motives—a transaction detrimental to the interest of India and detrimental to the large mass of our people. Sir, the discussion proceeds or arises immediately out of certain very unsatisfactory answers given by the Minister of Consumer Industries, Shri Kanungo, on the 5th of this month. He pleaded a uniformly negative answer while replying—a uniform no, an ignorant no—to the supplementary questions that I

put on that occasion, on the 5th December. He did not know whether the price ceilings fixed on cotton were altered last year. Nor did he know whether certain observations had been made by the former Commerce Minister's colleague in the other House—the Rajya Sabha—in the course of the discussion on the Indian Cotton Cess (Amendment) Bill, 1955.

17.57 hrs.

[**PANDIT THAKUR DAS BHARGAVA** in the Chair]

At the beginning of the cotton season, the ceiling was fixed at Rs. 840. Suddenly on the 23rd December, 1955, the Government closed the forward market against the unanimous advice of the trade represented by the East India Cotton Association and the market was reopened on the 7th of January, 1956. For two weeks the market remained closed and on the reopening of the market, the ceiling was reduced drastically from Rs. 840 to Rs. 700, when the prevailing ready price was much higher, was anything between Rs. 740 and Rs. 750.

There are two features to this incomprehensibly odious transaction. I use the word deliberately. One was that the ceiling once fixed was drastically reduced below the ready price on the reopening of the forward cotton market. Secondly, the ceiling was applied with retrospective effect, a thing which has never happened with any other commodity and perhaps in no other year. The Forward Market Commission issued an order to the East India Cotton Association President under the bye-laws to close out all forward contracts and further that the old contracts already made even at Rs. 745 or Rs. 750 should be regarded as having been made at Rs. 700 and settled at Rs. 700. Irrespective of the price at which the contracts were made, even if the contracts had taken place at a higher price, he was asked to treat it as having been made at a lower price. This is an arbitrary, wholly incomprehensible—I would not use the strong term villainous—and odious

[Shri Kamath]

action. The contract proved to be a dead contract because the ready prices at that time were much higher, and therefore an artificial selling was ordered at a price at which no transaction could take place.

Various reasons were given for this action by the Government. They could be summed up in three different ways. It was said that this action was in the interest of the trade, secondly in public interest and thirdly in the larger interest of the economy of India. This was an amazing and fatuous plea. Today I come to the House with a categorical demand. I am glad that the former Minister for Commerce and Industry is also here. This is my categorical demand. Whom did it benefit? I want to know that because, according to Dr. P. S. Deshmukh, the Minister for Agriculture, who, speaking on this matter in the Rajya Sabha on the 17th February, said—I am reading from the script:—

18 hrs.

"I would not like to go into details of what happened in the Government."

Probably, he did not want to disclose the Cabinet secrets and all that.

**An Hon. Member:** He is not a Cabinet Minister.

**Shri Kamath:** But he is invited to Cabinet meetings. Then, "It is not proper for me to say all that." That is all very well, I quite understand that. "But" he says—that is a very strong "but"—"I can safely express my sympathy so far as the growers' prices are concerned and, if it was necessary to act in the manner we have done, I am sure the Minister for Commerce and Industry"—the former Minister, the new Minister was not here at that time and, unfortunately, the former Minister is here with us today—"must have had strong reasons for the action he took. It is for the hon. Members to judge how far the Commerce and Industry Minister's reply satisfies them." This is very curious. He did not wholeheartedly endorse the action taken by

a colleague. It was for the Members to say how far it satisfied them. Then Dr. P. S. Deshmukh said:

"But I am always in favour of the grower getting higher prices, and the more so because this year the cotton grower has really been ruined in many parts of India because of excessive rains."

Then he ended by saying:

"The cotton grower really suffered much and my sympathies are with him. He should have been permitted to get the highest possible price."

Then he says:

"But the Minister for Commerce and Industry took a different view."

There again his view is different from that of Dr. P. S. Deshmukh. Shri T. T. Krishnamachari, the then Minister for Commerce and Industry took a different view "because of certain happenings in Bombay". The ex-Chief Minister of Bombay is luckily with us and he knows more about Bombay than the former Minister for Commerce and Industry. "I am not very much conversant with it at present; that is for him to judge, and it is for hon. Members to judge." Said Dr. Deshmukh.

The then Minister, Shri T. T. Krishnamachari, speaking in the course of the debate on the Indian Cotton Cess (Amendment) Bill made this observation:

"If the House is really interested, when the case is clear I shall be certainly prepared to let the House know the full facts of the situation more than what I can explain now."

That is on the 17th February. Then he said:

"About why the price was fixed, on the basis at which it was fixed at present I am unable to say consistent with the traditions of this House."

Of course, Sir, you know the traditions better than I do. Then he says:

"I do not wish to say anything more in this matter."

It is "consistent with the traditions" of the Upper House. Since then there has been no debate in Parliament in this matter and Parliament has really been at a loss to understand why this action has taken place.

Did it benefit, as it was supposed to do, the interests of the trade? Did it benefit the public? Was it in the public interest? Was it in the larger interests of the economy of India? On an earlier occasion when my friend Dr. Ram Subhag Singh raised a question sometime at the end of February, the answer given was "The Forward Markets Commission were compelled to take the action they did to safeguard the interests of all concerned." This is a very good phrase, a very evasive phrase "interests of all concerned". I would request the Minister, the new Minister for Commerce and Industry ably assisted by the former Minister.....

**The Minister of Heavy Industries and Commerce and Consumer Industries (Shri Morarji Desai):** Why not from him alone? he will explain.

**Shri Kamath:** It is for you to settle between yourselves. I will be the last person to come in your way. But both are present here and it is rather helpful to the House. The one or the other may answer the questions I have raised, and I hope the other one who is not answering will ably assist the one answering.

Sir, I would only like to refer to one or two other matters before I close. As I said, the ceiling was drastically reduced from Rs. 840 to Rs. 700, when the prevailing ready price was much higher. In the first two months, that is to say, from the last week of December to the last week of February, growers had to sell cotton artificially at this low rate because they could not help it. They had to sell at the reduced ceiling price. Dr. P. S. Deshmukh was

perfectly right when he said that this action taken by Government was definitely not in the growers' interest. The Forward Market, as you are well aware, Sir,—I should be the last person to try to tell you anything about the Forward Market, you know it better than I do—is the link to establish correct prices between the grower, the merchant and the mills, and as Government artificially lowered the price to this drastically low level of Rs. 700, the reaction of it was dramatically felt by the grower when he went to market his produce.

Now, our Government, animated by the desire to bring about a welfare State is, day in and day out, season in and season out, always saying that they are acting in the interests of the cultivators, the kisans, the producers, the growers and the consumers, who form more than 90 or 95 per cent of the people of our country. I charge them, I would accuse them, the Government, of having acted on this occasion in the interests of a favoured few, a privileged few, and not in the interests of the masses of India, not in the interests of the producers of cotton, not in the interests of consumers, not in the interests of the trade. And the Minister acted with ulterior motives, dubious motives, motives which were not calculated to help the producers, the growers, the trade or the mills.

I would like to know today, therefore, categorically from him, I would like to have a categorical answer from him, which he had withheld in the Rajya Sabha because the time was not opportune, conditions were not auspicious,—propitious or auspicious,—on that occasion—the Minister is smiling, the new Minister, I do not know whether it is just a smile or a knowing smile, he may clarify the smile later on—I would ask the Minister, both of them, to tell the House of the conditions in Bombay on the basis of which Shri T. T. Krishnamachari said on the 17th February this year that the Government was compelled to take the action they took.

[Shri Kamath]

One more fact, Sir, which I raised on the last occasion last week, and to which Shri Kanungo gave a reply "No", an ignorant "No". He said he did not know.

Then I asked this question:

"Is it a fact that on November 29th, only a few days ago, the Finance Minister (i.e. the former Commerce and Industry Minister) said that the price of cotton in Bombay, that is to say, of the Vijay cotton—which is one of the varieties referred to in the statement (the statement was laid by the Minister on the Table of the House that day)—which was Rs. 749 per kandy was reasonably good, whereas last year, he considered the same price exorbitant and reduced it to Rs. 700, though the crop expectation last year was only 43 bales while this year it is 55 lakhs of bales?"

Mr. Kanungo, unfortunately, gave the blank answer, "I am not aware of the statement which the hon. Member has referred to."

That statement was laid by him on the Table that day and he said, "I am not aware of the statement". I will leave it at that.

I have, therefore, been compelled to raise this matter again, and I am sure the House will agree, my hon. colleagues will agree, that the action taken by the Government last year was in the interests of a tiny handful, privileged, favourite few. The House demands today the answer from the Government who those few were. I hope it is time that we get a definite answer, when this Parliament, the supreme body demands it. I would close my brief remarks by asking again, in whose interest this action was taken to reduce the ceiling from Rs. 740 to Rs. 700 drastically with retrospective effect. That is the most dubious feature of the transaction. Who were those privileged few? Let us know their names. If their names are not given by the Government, I

have no hesitation in saying that the Government is acting not in the interests of the people, but in the interests of a tiny minority. They must desist from coming to the House and saying day in and day out, "we are working for a Welfare State". Otherwise, "Welfare State" will become a mockery. I hope Parliament will put an end to this state of affairs and put things straight about this matter, and the House will compel the Minister to give a definite, clear answer to the question I have raised.

**Shri M. S. Gurupadaswamy** (Mysore): Sir, in my opinion the policy of the Government in this matter has been very very enigmatic. It is being shrowded in mystery. Neither the present Finance Minister, who was the former Industry and Commerce Minister, nor the Food and Agriculture Minister has been able to clear the misgivings that have arisen as a result of this policy announced in December, 1955.

What are the reasons for this policy? Firstly, it is to control prices and to check its speculation in the market. Secondly, it is to protect the interests of growers. But by and large, the over-all objective is to guard the interest of trade and the larger interests of the economy of the country. Let us analyse how far these objectives have been fulfilled by the sudden change of policy by the Government. The price fixed at that time was Rs. 700. You must note whether this fixation of ceiling at Rs. 700 proved effective to check the price trend which was in the upward direction. When the ceiling was fixed at Rs. 700, the ruling price was about Rs. 750. There was already a ceiling fixed at Rs. 845 and this new ceiling was within that ceiling. We expect normally that this ceiling would effect the price in the ready market and in the forward market. But let us see if it has achieved those two objectives. After the fixation of the ceiling, the prices

in the ready market shot up considerably. It was then about Rs. 800, Rs. 100 more than the ceiling fixed for the forward market. Even in the forward market, all the contracts came to a dead end, because for some-time there was a total collapse in business and the forward market was paralysed.

The most unfortunate thing is that a small group of people got windfall profits. That might not have been the intention of the Government when they changed the policy, but nevertheless the effect was there. A small powerful group of bears got a huge amount of money. How they got this amount is very interesting. They were able to get this huge amount, because the ceiling was made retrospective. In other words, all the outstanding transactions had to be settled at Rs. 700. Those who entered into a forward contract at Rs. 750 or Rs. 745 had to settle their contracts at Rs. 700. Thereby, the bulls, the purchasers, were very much benefited and the sellers lost heavily. So, a few people who were well-placed had prior information and they benefited most out of this change of policy.

What about the interests of the growers? Let us know whether there was any protection of the growers' interests. As my friend already pointed out, the growers were not at all benefited, though that was one of the objectives of this policy. Dr. P. S. Deshmukh has already supplied an answer to Mr. T. T. Krishnamachari in this respect; it does not require me to elaborate on this point. But let me tell the House that the growers' interests were not at all protected and the growers did not approve the policy of the Government. I learn that the representative of the growers, who was in the East India Cotton Association, did not approve of the new ceiling fixed. Further, I learn that the Central Cotton Committee passed a resolution or expressed an opinion, when Dr. Deshmukh was present, disapproving of the action of the Government. They categorically stated that the new policy of the Government was detrimental to the interests of the growers. So, I feel

that the growers' interests have never been protected.

Secondly, as I have already said, the speculation was not stopped and the prices were not checked. After the fixation of this new ceiling, there was a spurt, a spiral rise, in prices in the cotton market, particularly in the ready market. So, the main objective for which the change in policy was made was not realised.

May I humbly ask the present Finance Minister whether he carefully considered the repercussions, or the consequences of this change of policy? I want to know from him whether he had consulted the people whom he ought to have consulted in his Department; I want to know particularly whether he consulted the Textile Commissioner, and whether his opinion was taken. According to my information the Textile Commissioner was never consulted and the Textile Commissioner read it only in the newspapers. So, it was just announced by the Minister. If I am wrong, I want to be corrected. If I am right, it is really a highly condemnable action.

**Shri T. T. Krishnamachari:** May I ask if the hon. Member can tell the House if the Textile Commissioner himself told him about it—I would like to know.

**Shri M. S. Gurupadaswamy:** No, Sir, not the Textile Commissioner. The Textile Commissioner did not at all tell me and I have no access to the Textile Commissioner.

**Shri T. T. Krishnamachari:** Then how does he know about it?

**Shri M. S. Gurupadaswamy:** I came to know about it from some other gentleman. So, I want to be corrected if I am wrong. That is all that I say. I would be very happy if I am proved to be wrong.

**Shri T. T. Krishnamachari:** How could I prove anything wrong when the hon. Member has no basis for a statement he makes? He does not say that the Textile Commissioner told him; and he wants me to prove something which cannot be proved at all.

**Shri M. S. Gurupadaswamy:** I will be happy if my allegation is proved baseless.

There is one other important thing which is in the background. Who were the parties benefited, if at all, by this change of policy? Shri Kamath asked the same question. I want to ask the Minister whether a small group of people in the forward market were really benefited as against the entire lot of speculators. Even among the speculators, and the business community, there are a special few, a chosen few who are getting the most favoured treatment at the hands of Government. In this particular case I take it I am not wrong if I generalise that a few people among the speculators who are very well placed in the matter of securing information, got the benefit. The tragic part of the whole thing is there is not so much speculation in the forward market; the most speculative element in the whole deal according to me is the Government policy itself.

People begin to speculate about the policy of the Government, about the changes that are brought about from time to time. This is the most speculative element. Unless speculation about Government policy is stopped very effectively, I am afraid, the forward market or any market which deals with speculation and speculative activities will not be free from such evils; and it is not possible to free them from evils. So, I say that with a view to clarify the whole thing, with a view to know the truth of the matter, I would ask the House and the Minister concerned to agree to a Committee of enquiry being set up immediately.

It may be a Committee of Parliament or may be some other committee wherein Members of Parliament may be associated. Anyway, a Committee of enquiry may be set up forthwith to know the truth of the whole thing. If there is really nothing wrong, if it is all a baseless allegation,

we will be really satisfied. But, let us probe into the whole thing and see the real truth. I feel that if such a step is taken, Government and the Ministry in particular, will emerge better. It would be good for the Ministry also to agree to this proposition. So I commend my suggestion for an enquiry into the whole matter.

**Shri N. C. Chatterjee (Hooghly):** Mr. Chairman, in the interests of the Government and the purity of administration, this debate should be welcomed. Shri Kamath has made a very strong case. He usually makes a strong case. But, bereft of all rhetorical flourishes, if you look at the narration of events and facts, you will find.....

**Shri T. T. Krishnamachari.** You find that you can argue the case in a court.

**Shri N. C. Chatterjee:** I am arguing no case. I am stating facts. Facts are more telling than speeches. Any Government should be ashamed of what they have done. I am sorry to say that the Government's *bona fides* are suspect. The sooner the Government clears up the matter and places all facts and figures before Parliament, it is better for them.

Look at the facts. We are complaining about a notification which was issued on the 24th of January, 1956, which ordered the closing of certain contracts at certain rates, which rates we say are not fair and which rates were really put down in the interests of some people, a small coterie possibly. Look at the facts. On the 22nd of December, 1955, the Chairman of the Forward Market Commission issued a directive from the Central Government to the President of the East India Cotton Association of a peculiar character. The order of the Government was this: the Board of directors of the East India Cotton Association should take immediate action to prevent the prices in respect of hedge contracts in cotton for February 1956 settlement from rising above

Rs. 700 per candy. This order is to the autonomous corporation that you must see that all these February settlement contracts should be settled at rates below Rs. 700 at least not exceeding Rs. 700. At that time, under the rules and bye-laws of the Association, contracts had been entered into and those contracts had been going through the clearings from time to time. The contracts were then outstanding at Rs. 745 per candy. One of the greatest industrialists, a man of great integrity and position, was the Chairman of the East India Cotton Association, Sir Purushottam Das Thakur Das. Sir Purushottam Das Thakur Das's Committee met and they pointed out that what the Government had directed is not fair and proper, because, look at the facts. On the 22nd of December, the spot rate for *desi* cotton was Rs. 800 per candy. The prices for hedge contracts in cotton for February, 1956 delivery were between Rs. 737 and Rs. 748 per candy. Also the prevailing prices for hedge contracts in cotton for May, 1956 delivery were between Rs. 700 and Rs. 718. Therefore unanimously Sir Purushottamdas and the Board of Directors said there was no case for artificially making some people lose money and for compelling these contracts to be settled at that rate. The rate was Rs. 745 and if you compel them to accept it or settle it at Rs. 700, they would lose Rs. 45 per candy.

One point should be emphasised and that is this. A very responsible officer of the Government is appointed and he has got power under the law to fix ceiling rates. The Textile Commissioner in exercise of the powers conferred on him under the law had fixed the ceiling rate at Rs. 840. Therefore the rate of Rs. 745 which was then prevailing in the hedge market was below the ceiling, and the Association said, Sir Purushottamdas and the Board of Directors said, that it was not proper to artificially inflict this loss on people and therefore they were not going to do it. Immediately that was done, on the 23rd December the Central Government suspended hedge

contracts in cotton and thereby practically they were threatening the Association, coercing the Association to accept Government's directive. The Board again met. Sir Purushottamdas and the Directors said that it was unfair that the Government should put a pistol at their heads and order the suspension of all trading in that manner. They said that the Government might have a giant's strength but it was not fair to use it like a giant. They again met and, discussed the matter, pointed out the facts and pointed out that the prevailing rate was higher, that even the spot rate was higher, and they said when the spot rate was higher it was not fair that they should order this thing to be done.

On the 30th December Government issued a second notification just to penalise the Association, teach the Board of Directors another lesson because they did not submit to Government's vagaries and whims and the Government again suspended the market for another week. There was thus a double suspension. The Central Government extended the period of suspension for another seven days. Sir Purushottamdas threatened to resign and resigned, and then the Board caved in and passed a resolution succumbing to Government's dictation. A suit was filed in the Bombay High Court challenging the legality of that resolution on the 6th January which was ultimately compromised on the 24th January. And on the 24th January the compromise was this, that the Board should meet again and decide it on merits whether they should submit to Government or not, that they should apply their mind and come to an independent judgment. On the 24th January they were to meet in terms of the compromise which was put in before Chief Justice Chagla and another Judge of the Bombay High Court, and on the 24th January when they went back from the court in order to hold this meeting of the Board, in order to arrive at a proper determination as to what should be done, they were served with a notification. The notification was that the

[Shri N. C. Chatterjee]

Government had amended the by-laws of the Association on the 21st January by another notification. It is an amazing piece of executive action that the by-laws of the Association were amended by a notification, and by virtue of that notification Government assumed certain powers, and by virtue of the extraordinary powers assumed by them by that notification they issued the notification of the 24th January saying that all these contracts should be closed at Rs. 700 and that should have retrospective effect.

I have got a copy of the notification in my hand, and it is a string of platitudes which makes it more suspect. It says:

"In pursuance of clause (1) of by-law 52(A) of the by-laws of the East India Cotton Association....."

This by-law 52 (AA) was enacted, of course nobody knew, possibly by somebody in New Delhi and communicated on the 24th January.

"...I hereby notify to you that the Forward Markets Commission is of the opinion that continuation of trading in hedge contracts for February and May, 1956 delivery is detrimental to the interests of trade, detrimental to public interest and detrimental to the larger interests of the economy of India".

Therefore they ordered that all contracts should be closed on the 24th January, 1956 at Rs. 700 for February delivery and Rs. 680-8-0 for May delivery. This trinity, these triple expressions "detrimental to the interests of trade, detrimental to public interests and detrimental to the larger interests of the economy of India", are all surplusages, verbiages, mere eye-wash in order to convince the public that something noble and grand was being done. But, in fact, if you look at what happened, you will find that it is absolutely wrong to say that this was done in the interests of the economy of India.

What remains to be seen now is whether the declared objective—

assuming they are honest—of the Forward Markets Commission—which, at that time, only meant the Government of India and nobody else—has been achieved by the suspension of trade and by this forced fixation of the artificial price of Rs. 700.

Take, for instance, contracts which were to come into force from and after 25th January. At the time when this artificial ceiling price was fixed at Rs. 700, the original selling price was Rs. 840, as fixed by the Textile Commissioner. The floor and the ceiling prices were there, and they were not infringed. And, as it turned out, the production during that year, as my hon. friend has said, was not likely to be more than 44 lakhs of bales, and, therefore, the natural tendency was for the prevailing market price of Rs. 847 to go up, and, therefore, by no stretch of imagination could this price be reduced to Rs. 700.

Again, what happened was this. As a result of this fixation of the ceiling price at Rs. 700, despite this fixation, the ready price continued to take a higher trend.

Now, with regard to its being retrospective in operation, what happened was this. We want to point out that even in respect of contracts which were already in existence until 24th January, 1956, neither the growers, nor the consumers nor the general public were benefited by the artificial reduction of the price from Rs. 747 to Rs. 700. All that happened was that only those sellers who had sold their stocks were saved from their commitments, and they were benefited to the extent of Rs. 47 per candy. But the buyers suffered a very serious loss. The East India Cotton Association had a number of members, and they were carrying out the business under certain vigilant regulations. By the closing of these contracts at artificial prices, it was only some section of the sellers and some section of the buyers who stood to gain or to lose. So, the whole thing was done only to benefit a small section of people and not to benefit the consumers or the growers, for they did not benefit.



Now, the pertinent question is this. Why did you do it? Who moved it? In whose interest did you act? The *bona fides* are suspect. They are to be cleared up. The sooner they are cleared up, the better will it be for all. And Parliament will be failing in its duty if it does not demand a full probe into this matter and make a thorough investigation.

**Shri K. C. Sodhia:** I do not know what reply Government are going to give to the points that have been raised. But at the time when the business in the forward markets of the East India Cotton Association was closed, there was a hue and cry, and there were articles and articles on this question; and I happened to study the question well. My impression from what I read then was that the East India Cotton Association thought themselves to be the masters and the lords of the cotton market.

You know that the prices of cotton react upon the prices of cloth and if the prices of cotton are allowed to go higher, than even the ceiling rates warrant, then clearly it will be going against the interests of the vast masses of people who use cloth.

Now the East India Cotton Association thought that they were the masters of the situation. Knowing full well that the crop of cotton was rather poor that year, they thought that they could raise the price of cotton as high as possible, from Rs. 700 to Rs. 740, then to Rs. 750, then to Rs. 800. That was a rise which no Government could view with equanimity. Evidently some action was considered to be necessary, and I think the Government did the best thing possible in the circumstances.

You know that if the *fadka* prices go up, they react on ready prices. The ready prices were even higher at that time than the *fadka* prices. The *fadka* prices were allowed to go on rising. This had repercussions on the ready prices and on the cloth market; the prices of cloth began to go higher and higher. Therefore, it was but proper that the

Government, in spite of what the Cotton Association and its masters considered improper or detrimental to their interests, thought proper to take action in the interest of the consuming millions of this country.

As regards the point that Dr. P. S. Deshmukh, who represented the Agriculture Ministry, said something which was in the interest of the agriculturists, which happened to differ from the view of the Minister of Commerce and Industry, that is but a natural thing. After all, the Minister of Commerce and Industry has to look to the interests of all the people of this land, while Dr. P. S. Deshmukh is only confined to agriculture (*Interruptions*). Therefore, there is nothing to be wondered at in that.

I do not know about the charge against the Government that certain people were benefited by this action of Government. Of course, in *fadka* there are people on this side and on the opposite side. Of course, one set of people must gain. Therefore, those who were the sellers, gained while the buyers did not gain. That was a natural thing.

So I do not see anything very extraordinary or anything which might strike us as going beyond the ordinary limits that should weigh with this Parliament to go into the question again or to appoint a Committee or Commission to inquire into the matter. It is an academic question which has been prompted by certain big people of the cotton trade. My hon. friends opposite are pleading their case and casting aspersions on the Government. I considered this matter then very seriously and came to those conclusions, and I am still firm on those conclusions.

**Shri G. D. Somani (Nagpur-Pali):** I had no intention of taking part in this debate when I saw this item on today's Order Paper about the discussion on the floor and ceiling prices

[Shri G. D. Somani]

of cotton, because I never knew that the action of Government, which was taken about a year ago, was the subject matter of today's discussion. But being connected with the textile industry, I claim to know something about what happened at that time; although I had no opportunity of checking up the details—I could gather only just now from the speeches of hon. Members that this matter was under discussion—I still claim to know something as to what was happening in the market at that time and what repercussions would have been there if the particular action which was taken by the Ministry had not been taken. I am afraid that my hon. friends seem to have been very well briefed by somebody but do not appear to be very well acquainted with the dealings of the Forward markets. It is exactly the supply and demand position which my friend Shri Kamath referred to. The cotton crop last year was only 43 lakhs bales and this year it is expected to be 55 lakhs and that was exactly the reason why there was a great danger of the prices going out of control if no action had been taken. Those persons who were long in the market, those powerful bulls could certainly have taken the price to the ceiling of Rs. 840 in a few days but for the action taken by the Government. Therefore, to say that the action of Government did anything to benefit the few of the favoured parties is absolutely contrary to facts.

From my personal knowledge, I know that some of the powerful bulls were hit hard and adversely affected by the action of the Government inasmuch as they could not achieve their object of forcing the cotton prices to the ceiling in view of the very limited supply and in view of the very heavy demand from the mills. Such things are not new in the forward markets. Those people who come in day to day touch with those markets are well aware of the, resourceful genius of the speculators who are able to manipulate the prices

to suit their own end, and take advantage of the supply and demand position. At that time the supply position of cotton in the market was such and so unsatisfactory that it was really very easy for those who were operating the forward markets to have forced the prices to a high level. It is only from that point of view that I wanted to make a clarification. Though we may not agree with the merits of the case or though we may honestly differ from his policy, there was absolutely no doubt in my mind that if no action had been taken by the Minister, there was nothing which could have prevented those speculative elements from taking the prices to the higher level that could have been permitted under the ceilings. Therefore, I do not think that the charge that the Minister's action benefited a few of the powerful persons can in no way be substantiated.

So far as the merits of the case are concerned, I say, one may have honest differences of opinion about the particular action which the Minister took. But, after all, the main and primary objective of the Forward Markets Act is to ensure the proper functioning of the markets and to save national economy, and the particular market from undue advantage being taken by the speculators of the supply and demand position at a given period. From that point of view, I do not think there was anything *mala fide* or there was anything of a nature which benefited a few persons in this action which Ministry took. I think, the action, to some extent, helped to keep the prices under check, which was very essential from the point of view of national economy.

**Shri T. T. Krishnamachari:** Mr. Chairman, I shall now say a few words because I was in charge of this Ministry at the time this occurrence is supposed to have taken place and I am glad that my colleague has given me this opportunity to speak on this occasion.

At the outset, I must express my gratitude to my friend, Shri Sodhia, who has brought an objective outlook to bear on this matter and who has been following this matter even though it is a year old now. I am also grateful to Shri Somani for putting the businessman's point of view in this matter. I would like to tell the hon. Members that the question of the price of cotton, the supply of cotton etc. are matters which have been very closely followed by the Ministry of which I had charge some time back. In fact, in February 1955, the supplies were rather on the high side and the prices were dropping. I was almost ceasing my personal interest in the Ministry, nevertheless I had to go to Bombay and to buttress the market by allowing some export quota. The whole matter has been so carefully followed and so carefully looked after that we kept the prices at an even keel. But round about the end of 1955 I think some time in November, the Chairman of the East India Cotton Association came to Delhi and wanted to see me. I think he came to my office and told me that he was very worried about the market auctions. Auction dealings were rampant, and speculators were really getting hold of the whole thing. He said that Government must act. I told him, what could I do? I said that unless the Association could help us, we could not catch or get hold of the people indulging in illegal auctions. He could not do anything to help us, but he said that we must take firm action.

Then came the squeeze. One point every discerning Member of the House like Shri Somani missed is this. Apart from the short crop, the speculation was on a particular type of cotton, where the tenderable quantity was very small—1316 Jarilla, the quantity which was available for supply against the hedge contract made was just a fraction. That is a point which hon. Members who have been briefed about it as my friend, Shri Somani said, have not been correctly briefed. The basic point is not the floor or ceiling. The tenderable cotton of that

particular staple length was not available and it was sold several times over. Therefore, naturally it is a question of a free hunt for people who indulged in speculation to squeeze other people up. Circumstances were as my hon. friend, Shri Somani, mentioned. The quantity of cotton was less. The quality of cotton had deteriorated because of rains being non-seasonal. Altogether it was a fairly serious situation when the demand was rising, when more mills were being established, and it was a question whether the prices will reach not merely the ceiling but even beyond.

In regard to the question of floor and ceiling, hon. Members are not aware of the significance of it. The floor price of Rs. 495 has been fixed so as to indicate to the grower that if it went to that level, Government will enter and buy the cotton at the price of Rs. 495. The ceiling has been fixed so that if purchases are to be made beyond that, the Textile Commissioner will issue an order to the mills not to purchase beyond that price. Of course, there may be a few auctions which will happen underhand—we know about it. In the case of floor, it has a direct connection with the grower. In the case of ceiling, it has a direct connection with the mills. This question of floor and ceiling is not a matter which is something that my hon. friend knows.

A second factor is this. While there is a hedge contract rate, the spot rate is different. The spot rate depends upon the physical supplies available. At the time Government took action, the prices were somewhere between Rs. 745 and Rs. 759. The spot rate had gone very much higher, because it depends upon the quantity or quota that is tenderable. The hedge rate depends upon the mere position of there being enough number of speculators—one to offer, the other to hedge. The fact that the ceiling rate was being, dangerously pierced had certainly made it necessary to cause speculation. If the Forward Market

[Shri T. T. Krishnamachari]

Commission, which has been established and approved by Parliament, did not do what it has done, I am afraid they will be failing in their duty. To say that it has been done to benefit any one particular person is wrong, because I understand that the total number of people who really tried to squeeze on the market knowing full well that the quantity of that particular variety was not available was about five or six. I think they have exhausted all the remedies nearly and undoubtedly they must have lost.

But, I do not know who were these five or six. I do not know anything about them, except perhaps now, after one year or so, the connected one or two or three of the five or six, must have approached Shri Kamath and Shri Kamath must have briefed Shri Chatterjee.

**Shri Kamath:** He knows briefing very well.

**Shri T. T. Krishnamachari:** Like a lawyer he is, he can always speak without preparation and he spoke in that particular manner.

**Shri Kamath:** We want to know the facts.

**Shri T. T. Krishnamachari:** My hon. friend, Shri Gurupadaswamy..... My hon. friend, Shri Gurupadaswamy assumes an air of profundity on matters which are of no importance at all.

**Shri Kamath:** He has an air of perfidy....

**Mr. Chairman:** This is not the way to interfere. The hon. Member has used very hard words as villainous; then this side was quite silent. Now, I expect that he should have patience. .... There is no question of speaking even when the Chair is standing.

**Shri T. T. Krishnamachari:** There is one humble submission which I want to make. I would not like the Chair to be angry with Shri Kamath because his reactions are involuntary. What is the object of being angry with such a Member?

**Shri Kamath:** I would like to know what his reactions are. Is it capitalist reaction?

**Shri T. T. Krishnamachari:** How can he help it? He has merely proved it. The trouble about him is that some of these reactions are infantile and we must put up with it.

**Shri Kamath:** This is an idiotic reaction. Let him come to the point.

**Mr. Chairman:** I would just request the hon. Members not to use the language in the heat of the moment, which subsequently they would not like to have been used by one side or the other.

**Shri T. T. Krishnamachari:** The other thing he mentioned is this. Some papers were laid on the Table by my hon. colleague, Shri Kanungo. A statement was placed in which I may also have said that the price of Vijaya Cotton at Rs. 749 was good. The prices are fairly steady. The floor of Vijaya is Rs. 569 and the ceiling, Rs. 925. In fact the attempt is to get the price between the floor and the ceiling. We should be happy so long as Vijaya continues to be Rs. 749 or Rs. 750. Irrespective of the fact that I am no longer in charge of the Commerce and Industry Ministry and that I am the Finance Minister, I shall remain happy because the prices are on an even keel neither going down to the floor, nor to the ceiling.

Another point was made that the growers were at a loss. At the time we took this action, the goods started moving and it is not correct to say that the growers had large stocks. We were quite convinced in our mind, as we knew how the goods were moving, that it is the middlemen who lost.

So, where is the question of a committee of enquiry or anything like that? The hon. Member was in the House a year back. So was the hon. Member, Shri Gurupadaswamy and so was Shri Chatterjee. He is not always in the House sometimes here and sometimes is the Supreme Court.

But, what did they do for the last one year? I would have mentioned this if the hon. Members wanted the information in the other House! I would have given it if they wanted information here. What can I do if the hon. Member who raised this question did not go to Bombay for a whole year and went only now? What can I do if probably somebody informed him just now?

**Shri Kamath:** Since February it has been raised three times.

**Shri T. T. Krishnamachari:** Shri Gurupadaswamy said about the Textile Commissioner not being consulted. In all these matters, if he has precise information, he can make a statement. The Textile Commissioner happens to be an officer of the Ministry. He cannot ask my colleague if he has consulted him. Sometimes we do consult the Textile Commissioner. Sometimes we ask him ourselves. The Minister is ultimately responsible for

any action that is taken. He is not going to take over that an officer of his advised him badly or well. In this particular matter it is not a question of consultation with the Textile Commissioner. It is a question of the Forward Market Commission and the general economy of the country. I would like to say emphatically that where we interfered in these matters, we interfered correctly. We interfered to do justice. We did well by the economy and I think any impartial judge of events, if somebody is going to write the history of cotton market, would say, the action that was taken between November 1955 and January 1956 was in the best interests of the country.

**Shri Kamath:** A make-believe, a big make-believe!

19.01 hrs.

*The Lok Sabha then adjourned till Eleven of the Clock on Thursday, the 20th December, 1956.*