

[Shrimati Renu Chakravartty]

place or not, certain steps like providing gas masks may be provided for.

Mr. Speaker: Are gas masks very costly?

Shri Karmarkar: I have explained to the House what happened as a matter of fact. The tank does not need to be regularly treated as it were. We just wanted to see whether it required any repairs. So far as my information goes, that has been done, and unless it is absolutely necessary there is no question of sending any people hereafter. It is not like an ordinary sewage carrier. It is a tank which has been tested. I should not say anything which I am not sure is correct, but the thing is maybe it may take some time to train the workers in using the gas masks. Therefore, I said all possible protective measures will be taken, and if gas mask is necessary, we shall certainly adopt it, but if there is likely to be any danger because people do not know how to use it, then it will be another question.

Mr. Speaker: In the meanwhile nobody will be sent to run the risk.

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RESERVE BANK OF INDIA
(AMENDMENT) BILL AND
STATE BANK OF INDIA (AMENDMENT)
BILL—*contd.*

Mr. Speaker: The House will now take up further consideration of the following motion moved by Shri T. T. Krishnamachari on the 24th May, 1957, namely:

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

Also further consideration of the following motion moved by Shri T. T. Krishnamachari on the 24th May, 1957, namely:

"That the Bill further to amend the State Bank of India Act, 1955,
be taken into consideration."

Shri T. T. Krishnamachari was in possession of the House.

Time allotted is 2 hours, time taken already is 1 hour 31 minutes, balance is 29 minutes or 30 minutes.

The Minister of Finance (Shri T. T. Krishnamachari): I would like to mention at the outset my gratification because of the fact that a very large number of hon. Members of this House evince an interest in the working of the banking structure in India, and it is good that they have spoken freely about what they consider to be the defects that now exist.

One of the subjects on which some attention was focussed was this question of a new institution that is being incorporated by the provision of medium-term credit facilities for industries. The question necessarily was whether there was a need for a proliferation of such institutions because there is already the Industrial Finance Corporation with its State counterparts in various States, and another private institution called the Industrial Credit and Investment Corporation; whether under these circumstances there is need for another institution, having in view the fact that the I.F.C. itself when it was incorporated was intended to give credit both for long-term and medium-term to industries. In actual practice it was found that the I.F.C. was catering mainly to long-term needs of industry. The other fact that hon. Members have to bear in mind is that at the time we started the I.F.C. our vision was somewhat narrow. We did not expect an industrial development such as the one that we now contemplate, and during the First Plan period the progress has been considerable in the industrial field as is witnessed by production figures. Therefore, it was generally felt that one institution was not adequate. So far as the I.C.I.C. is concerned, it fills a very small part of the needs, and is a private institution. I have been thinking for some

time about the need for an institution to serve the purposes that are filled in other countries by discount houses or issue houses, namely to provide finances for new industries to be started which will not ordinarily attract equity capital, but which can attract equity or debenture capital when it goes into production. The market trends have also been particularly noticeable owing to the fact that while capital was shy in regard to new equity issues, capital was available for issues by existing concerns or debenture issues by existing concerns. It, therefore, becomes apparent that the investor is not willing to wait for any period of time until he gets a return, and he would rather go in for such issues as would promise him a return almost within the end of the year. That is a very significant fact in the monetary apparatus in so far as industrial needs are concerned.

There is, undoubtedly, need for an institution which will provide medium-term credit for industries to be started, keep the credit going until such time as the industry goes into production, and then on the strength of their record of production, it will be possible for them to go to the equity market and call for subscriptions or, even for that matter, go into the debenture market and assure the subscribers of the debentures of their capacity to service the debentures and to repay the debentures after a period of time.

There is another factor which is not normally understood, I think, both in this country and elsewhere, and that is in regard to the concessions that Government are giving to industries, which do help liquidation of medium-term debentures, once the industry goes into production, namely the rather liberal depreciation allowances and the development rebates that we are giving. These will certainly go to help amortise any debenture loan that people might take, once the company goes into production. It is a question of juxtaposing all these factors which

are there, and, therefore, it is apparent that we should use such facilities as we have to provide a medium-term finance institution.

Some hon. Members referred to complaints about nepotism, favouritism and all that sort of thing. I have felt that an institution where businessmen are directors oftentimes stifles the initiative of an applicant for loan. If one director were interested in the production of certain types of chemicals, say, caustic soda, he would not favour the granting of a loan to a new concern which wants to manufacture caustic soda; and maybe, another is interested in another chemical, and he more or less wants the conditions of the loan to be rather stringent.

That is why we have felt that any institution of this nature which we start for provision of medium-term credit should not have any interests associated with it. It is proposed that in the new institution that we are starting, there will only be bankers; that is, a professional banker will be associated, and the granting of the loan itself would be a matter for the banker, because once the bank decides to grant a loan and wants to discount that paper with the re-finance corporation which will be there, the re-finance corporation would undoubtedly go into the question of the solvency of the banker and also the need for the particular industries for which the banker wants to give credit.

The idea is something novel, so far as we are concerned, but I have no doubt in my mind, and I have been assured by my advisers that there is need for an institution of this nature. While we wanted to start it and we were looking about for funds, the offer of the American Government under the PL-480 agreement provided us the necessary momentum to go ahead with it. I can assure hon. Members that this will not in any way cripple the style of other financing institutions, but it is an institution

[Shri T. T. Krishnamachari]

intended strictly for the purpose of providing medium-term loans for medium-size industries. It is intended that the loan that should be given should not be more than Rs. 50 lakhs; and it will very largely be a policy which will be approved by the Reserve Bank who will bear in mind the industrial policy which is the basis of the Plan.

Therefore, I think there is need for such an institution. While I am glad that hon. Members have evinced interest in this matter, I have no doubt that the institution, once it is started will go to help towards the industrialisation of this country in desirable channels.

Shri Prabhat Kar asked, 'Why do you bring in exchange banks here?'

I might ask him the question, 'Why not?'. He seems to think that the exchange banks are people who have capital elsewhere and, therefore, their profits are not available for nationals in this country, and hence they should not be brought in. The fact really is that the exchange banks do finance industry to a large extent and they are helpful in a large number of circumstances.

Another point was made by another hon. Member on this side of the House that existing financial institutions like banks were controlled by groups. That is a very valid point, and I think the exchange banks not being controlled by any groups and having necessarily one idea, of making a reasonable amount of profit for their money, serve a very useful purpose. I might relate my own experience about 36 or 37 years ago when I could not get any credit from any of the the Indian banks and certainly no credit from the then Imperial Bank, which was very imperial, controlled by foreigners. I was helped to eke out a living merely because of the spirit of accommodation of some of these exchange banks who lent money not because I had the worth but because

they thought I was likely to be reasonably honest if money was lent to me. Even today from the way in which they are being operated, the exchange banks fulfil a very useful purpose, to my knowledge.

Of course, there are also other benefits. They can bring in money, if money becomes tight here, and cheap in their own countries, which, unfortunately does not happen today. But I see no reason for excluding them because they fall in line with the policy of Government and the Reserve Bank. I think we should be denying Indian industry a very useful channel for affording credit facilities by excluding them from the operation of this Corporation.

Shri Prabhat Kar (Hooghly): My only objection was that their profits went out of India.

Shri T. T. Krishnamachari: The question of profit is, to my mind, comparatively small. I get my income-tax from their earning and, therefore, to me they serve a very useful purpose. The persons who pay income-tax under the present rates for foreign companies and their branches and subsidiaries give me a very valuable addition to the earnings of the exchequer and that alone is a justification for me to ignore the profit aspect of it.

My hon. friend, Shri Mohiuddin, in the course of a very well-informed speech, had a little confusion about the role of the Reserve Bank. It is my intention that the Reserve Bank should remain a bankers' bank, that the Reserve Bank should be the eyes and ears of the Government of India, that the Reserve Bank should be the topmost financial institution in this country controlling practically every movement in finance, and it should be divested of what might be called the day to day banking work. In fact, I have some idea of coming before the House later on to transfer some of these functions of the Reserve Bank, which are in

the nature of pure commercial or co-operative banking, to the State Bank. At the time the Reserve Bank Act was passed, we did not have a commercial bank in our hands, and in order to provide for agricultural credit and other types of credit for co-operative and other institutions, we were using the agency of the Reserve Bank. It built up a fair amount of credit facilities in this sector. But we want a considerable expansion of it. Now that we have a commercial bank, it can also have a non-commercial side or a side which is not purely commercial, namely, the developmental side. It could, in my view, take over the function of lending to co-operative institutions, to agriculture and to small-scale industries with the prospect of their expanding very rapidly, as we want them to expand.

So it is my intention some time later to come before the House with a suitable amendment which will not in any sense detract from the importance of the Reserve Bank, but will certainly leave the Reserve Bank free from certain types of minor work which is not its legitimate duty. In fact, there are many other matters in which the Reserve Bank is taking a great deal of interest, and it is my intention to make the Reserve Bank the supreme adviser to Government in all matters of money, credit and banking.

Some mention was made about the production of luxury goods. The policy that will be laid down in regard to general credit matters has been before Government for some time and I have no doubt that the appropriate Ministry would be able to say what are the goods that will be treated as luxury goods and what not. Oftentimes it happens that in inflationary situation the index in certain quarters is rising and there must be some let-out valve. Maybe some type of goods which we consider as luxury may be necessity. I do not know I have not much experience of it. But

I think that a woman who is starving of many needs usually, polishes her nails and puts on vermillion on it and, perhaps, uses the lipstick. It is not something which is a luxury because our women are accustomed to paint their hands and nails with henna before. Maybe it is a let out. I have found that these fashions have spread even to the hamlets now. So, what we consider from here, from an individualistic point of view, a luxury may not be a luxury to the people there who may want some necessities. There is no yardstick completely to define luxuries and necessities. But, in the main, the assistance that will be provided by these institutions or institutions controlled by Government will be towards furthering the Plan effort and not in directions where there will be no material contribution to the fulfilment of the Plan.

Mention was made about hire-purchase. Though the powers are being given, the present scope is limited more or less to motor trucks which I have found—and my information has been corroborated by what the Reserve Bank of India has investigated and found—that we have need for increasing the number of vehicles on the road, but this question of finance is a bottleneck. I am told that even an eighteen months' credit would be useful in this direction.

But what should we do in future, whether we should limit it to particular articles will depend from time to time on what we tell the Reserve Bank and what the Reserve Bank chooses to do. We might consider the refrigerator a luxury but it is not in the case of a man who has got a hotel. I may also say that in future when we are able to build houses, maybe a housewife would like to have a refrigerator because it stops waste of food. So, this question of on what type of articles the hire-purchase aid should be given will have to be decided from time to time. But, for the present, there is undoubtedly

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need for some kind of credit facilities so far as motor transport is concerned—so far as motor public transport is concerned.

The hon. member, Shri Tayabji had made certain remarks so far as any control exercised by the Reserve Bank over the State Bank is concerned. It is there because most of the shares of the State Bank are held by the Reserve Bank.

The question of high denomination notes raises certain queries. The facts are simple. The 1946 Ordinance declared that denominations above Rs. 100 would cease to be legal tender from 12-1-46. The time was extended up to end of February, 1947. After that there have been no applications. But, there might have been cases where high denomination notes were deposited with the courts or the Police before 12-1-46. These cases cannot, therefore, be treated as closed and claims come up. They have to be examined on merit. There are also a few cases where parties went to court against the Central Government's refusal to grant exchange of high denomination notes. The decisions in all these cases have not been made and that is why we want to strengthen ourselves by this amendment and also make the total amount of note issue something real.

That is about all that I have to say.

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 question is:

"That the Bill further to amend the State Bank of India Act, 1955, be taken into consideration."

The motion was adopted.

Mr. Speaker: There do not appear to be any amendments so far as the

Reserve Bank Bill is concerned. Therefore, I shall put all the clauses to the vote of the House together.

Mr. Speaker: The question is:

"That clauses 2 to 5 stand part of the Bill."

The motion was adopted.

Clauses 2 to 5 were added to the Bill.

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

Shri T. T. Krishnamachari: I beg to move:

"That the Bill be passed."

Mr. Speaker: The question is:

"That the Bill be passed."

The motion was adopted.

Mr. Speaker: Now we shall take up the clause by clause consideration of the State Bank of India Bill.

Clauses 2 and 3

Mr. Speaker: The question is:

"That clauses 2 and 3 stand part of the Bill."

The motion was adopted.

Clauses 2 and 3 were added to the Bill.

Clause 4

(Amendment of section 33)

Shri T. T. Krishnamachari: Sir, I beg to move:

Page 2,

in lines 19 and 20,—

for "on the recommendation" substitute "subject to the directions."

This is a very simple amendment. The Central Board of the State Bank are the controlling institutions and they need not recommend; they give directions. That is why the amendment has been made.

Mr. Speaker: The question is:

Page 2,

in lines 19 and 20,—

for "on the recommendation" substitute "subject to the directions."

The motion was adopted.

Mr. Speaker: The question is:

"That clause 4 as amended stand part of the Bill."

The motion was adopted.

Clause 4, as amended, was added to the Bill.

Clause 5 was added to the Bill.

Mr. Speaker: The question is:

"That clause 1 stand part of the Bill."

The motion was adopted.

Clause 1 was added to the Bill.

The Enacting Formula and the Title were added to the Bill.

Shri T. T. Krishnamachari: Sir, I move:

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

Mr. Speaker: The question is:

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

The motion was adopted.

*DEMANDS FOR EXCESS GRANTS
—1953-54

Mr. Speaker: The next item is the Demands for Excess Grants for 1953-54.

DEMAND NO. 1—MINISTRY OF COMMERCE AND INDUSTRY

Mr. Speaker: Motion moved:

"That a sum not exceeding Rs. 13,999 be granted to the President to make good the amount spent during the year ended the 31st day of March 1954 in respect of 'Ministry of Commerce and Industry'".

DEMAND NO. 25—MISCELLANEOUS EXPENDITURE UNDER THE MINISTRY OF EXTERNAL AFFAIRS

Mr. Speaker: Motion moved:

"That a sum not exceeding Rs. 1,81,526 be granted to the President to make good the amount spent during the year ended the 31st day of March 1954 in respect of 'Miscellaneous Expenditure under the Ministry of External Affairs'".

DEMAND NO. 32—PAYMENTS TO OTHER GOVERNMENTS, DEPARTMENTS ETC. ON ACCOUNT OF THE ADMINISTRATION OF AGENCY SUBJECTS AND MANAGEMENT OF TREASURIES

Mr. Speaker: Motion moved:

"That a sum not exceeding Rs. 573 be granted to the President to make good the amount spent during the year ended the 31st day of March 1954 in respect of 'Payments to Other Governments, Departments etc. on account of the Administration of Agency Subjects and Management of Treasuries'".

DEMAND NO. 37—SUPERANNUATION ALLOWANCES AND PENSIONS

Mr. Speaker: Motion moved:

"That a sum not exceeding Rs. 8,51,416 be granted to the President to make good the amount spent during the year

*Moved with the recommendation of the President.