

whole. We have time and again experienced the inadequacy of line capacity and shortage of wagons. As an example in point, coal and pig iron deliveries to the State have virtually ceased during the past few months. In consequence, foundries have had to close down, resulting in loss of production and in unemployment. Physical availability and timely and regular supply of raw materials and semifinished products required by the industry are the *sine qua non* of industrial development. It is, therefore, of prime importance that steps are taken to improve rail transport facilities in particular."

That is the situation there. There is great demand in Madras State for a few lines, especially the Chamarajanager-Satyamanagalam line and the Salem-Bangalore line. The States of Andhra, Mysore and Kerala also press for the former line. The engineering and other surveys in connection with this line have been completed, and it has been given top priority by the Railway Board, but it has not been taken up yet. In the past the Minister has promised that it would be taken up, but the promise has remained unfulfilled.

The Salem-Bangalore, link is also very much important, as industries are coming up in Salem, and raw materials and finished goods have to move from Salem to other places. So, these two lines should be definitely taken up in the Third Plan and the needs of Madras State fully met.

Regarding ports, Tuticorin and Mangalore were to be taken up in the Third Plan, but now I do not know whether this has been completely given up. There is great popular demand for this. Commitments have been made, and great hopes have been raised in the minds of the public that they would be taken up, but enough money has not been provided for their development. I hope this will be taken into consideration and more

funds would be allotted for the development of these two ports. If there are not enough funds for the Sethusamudram-Tuticorin integrated project, at least Tuticorin should be taken up, so that its hinterland may improve economically.

Industries should be licensed region-wise, and all parts of the country should be given some basic and heavy industries, so that ancillary industries may grow up around them. Industrial estates should be set up in rural parts also, so that the people there may get some employment, so that the unemployment problem may be solved to some extent.

17 hrs.

Mr. Speaker: It is now 5 p.m. We shall take up the discussion relating to the closure of the Palai Central Bank.

Shri Braj Raj Singh: May I speak for just a minute?

Mr. Speaker: If I intend calling the hon. Member, I shall do so on the next day; if I do not intend calling him, there is no meaning in asking me to call him now. I shall certainly give him an opportunity tomorrow.

DISCUSSION RE: CLOSURE OF
 PALAI CENTRAL BANK—contd.

Mr. Speaker: Under the rules, with respect to a motion under rule 193, only 2½ hours are allotted for the discussion. If the time is to be extended, then an hon. Member has to make a motion that it must be extended.

Shri Punnoose (Ambalapuzha): I beg to move:

"That the provision regarding time-limit in Rule 194 of the Rules of Procedure be suspended with reference to the discussion on the closure of the Palai Central Bank and the time be increased from 2½ hours to 4 hours."

Mr. Speaker: The question is:

"That the provision regarding time-limit in Rule 194 of the Rules of Procedure be suspended with reference to the discussion on the closure of the Palai Central Bank and the time be increased from 2½ hours to 4 hours."

The motion was adopted.

Mr. Speaker: The hon. Minister wanted half an hour.

The Minister of Finance (Shri Morarji Desai): I may take a little more.

Mr. Speaker: At 6.30 P.M. we shall conclude this debate. So, I shall call the hon. Minister at about 5.45 P.M.

Now, Shri A. K. Gopalan. I find that hon. Members have said most of the things.

Shri A. K. Gopalan (Kasergod): There are some new things to be said.

Mr. Speaker: I am not talking about Shri A. K. Gopalan. The other day, I found that after two or three speakers had finished, the others only went on expatiating on the same points which had already been mentioned.

Shri A. K. Gopalan: As far as the liquidation of the Palai Central Bank is concerned, I want to point out that it is not a matter of Kerala alone, but a matter concerning the banking industry in this country and also the economy of Kerala because the whole economy of Kerala is going to suffer on account of this, and the other small banks that are there in Kerala are also going to be closed or liquidated.

Two days back, I got a letter from the S. I. Banking Corporation, Tripunnithura, that the license had been refused to that bank, and, therefore, the banking business there had been stopped. I have got a copy of that letter here. I understand that some other small banks also may be

closed or they will not continue to function, within the next fifteen days, though it may not be on the orders of the Reserve Bank.

I want to point out to the Finance Minister that it is not only the five thousand or six thousand depositors who would suffer, but the whole trade and business in Kerala also would suffer. In Kerala, there is what is known as the chit fund and what is known as the *kuri*. There are about a thousand or thousand and five hundred chit funds operating there, and all these depend on the banks. So, the closure of the Palai Central Bank would make these chit funds also suffer very much. In these chit funds, the small people invest their money, maybe, four annas, or eight annas, or a rupee per month. So, it is not merely the depositors who will suffer, but even the poorer sections of the people would suffer. They have put their savings in the chit funds or in the small banks or in some small business. So, my request is that Government must consider three things.

Firstly, as had been agreed upon by all the previous speakers, and supported by many of the previous speakers, the liquidation proceedings of the Palai Central Bank must be immediately stayed, and steps may be taken to merge it with the State Bank of India, in order to save the depositors as well as the employees and the banking industry in general and the weak economy of Kerala. The second point which had only been referred to, but which I think is very important is that a commission of enquiry should be immediately constituted, including an eminent economist and a Supreme Court judge as chairman, to go into this matter. After the statement of the Finance Minister the other day, so many things have appeared in the papers which go entirely against his statement. The Finance Minister has agreed to answer all those things. But in spite of that, I think it is very

essential that there must be an inquiry into this matter. There are three parties involved in it; one is the Reserve Bank, the other is the Finance Ministry and the third the Palai Bank directors and others responsible for the management of the Bank. One is throwing the blame upon the other.

The most important thing today is to save the depositors and see that they do not suffer. It is also important to see on whom the fault lies and who is the culprit. In this context, an inquiry is very essential.

The next question is about the nationalisation of banks. As far as this question is concerned, we have raised it several times in Parliament and the Government had not agreed with it. But now it has to be reconsidered. Especially as far as Kerala is concerned, it is necessary because there are small banks in Kerala. We also know about the Laxmi Bank. There was a crisis in that bank. We know about it. So it is time for Government to reconsider this question of the nationalisation of banks and also immediately to see that at least as far as Kerala is concerned, the banks there are nationalised.

When we talk of nationalisation, we say it is the duty of the Government to infuse confidence in the people that whatever they save should be put in banks. So either nationalise the banks or take the responsibility to see that the man who puts whatever little he saves in banks has the confidence that his money will be safe and will be available to him in times of difficulty. So when the Government say that they will not nationalise the banks and also say that they do not know what happens, the whole economy of the country will certainly be in difficulty. There will be no money for the Plan; nobody will invest whatever little he has in banks. So, as far as the Plan resources are concerned, they will not get anything.

In Kerala, even if small banks are closed, certainly people will not put their money in banks because there will be no security. Government do not nationalise the banks nor take action by which confidence is infused in the depositors that their money would be safe.

I shall now go into the question of the allegations and counter-allegations the statement of the Finance Minister and also of the directors. I do not wish to repeat what the Finance Minister said here. It has already been said that it is unsatisfactory. But there are certain things which he has said.

Mr. Speaker: What do the directors say?

Shri Punnoose: He is coming to that. The Finance Minister is more important.

Shri A. K. Gopalan: The Finance Minister said in his statement:

"The main purpose of these inspections is to secure that the banks function efficiently and in the interests of the depositors and the Reserve Bank uses them primarily for guiding and advising the management and not as an instrument for the dissolution of these institutions except when it is inescapable in the interests of the depositors".

Whatever has happened is against what he has said. I want to know from the Finance Minister whether it is a fact that in 1951 there was an inspection by the Reserve Bank and the inspector sent a report saying that the Bank should be closed. I want also to know whether in 1956 there was another inspection by the Reserve Bank and the inspector said that the Bank should be closed. It is very essential and necessary to know if the report of the Reserve Bank was to the effect that the functioning of the Palai Bank was not sound. If it is correct, the whole responsibility rests upon the Finance Ministry and Government in

[Shri A. K. Gopalan]

that in spite of what the Reserve Bank had said, they did not do it. Why did they not do it?

Shri Morarji Desai: Which year is the hon. Member referring to?

Shri A. K. Gopalan: One inspection was in 1951 and the other in 1956. It has already been stated by the Finance Minister that there were inspections in 1951, 1956, 1958 and 1960. The Finance Minister stated:

"The defects noticed in these inspections were taken up with the management and over a long period the Reserve Bank made patient and continuous efforts to make the management rectify the defects, and secure a more efficient functioning of the institution."

"It is tragic that these efforts proved of no avail".

We want to know what was the report in 1951. What were the directions given to the Bank? What was the report in 1956? What was the report in 1958; what was the report in 1960 and what were the directions?

According to the Banking Companies Act of 1949, whatever directions are given to the bank are obligatory. They are not merely given as advice. There are so many sections in the Act and each one of them says it is obligatory. If it is obligatory, we want to know what were the instructions given and why the instructions were not obeyed by the directors of the Bank. If the instructions were not taken by the directors of the Bank in 1951, 1956, 1958 and 1960, why did Government keep quiet. The result of these instructions proving of no avail, what were the things done by the Government—the Finance Ministry? That is very important.

I want to point out that there are so many actions to be taken before the liquidation of the Bank. Sections 35A 36(1) and 45(J) of the Banking

Companies Act give certain powers. By these powers, they can say that so far as the loans and advances are concerned, certain defects are there and so you should be careful or you should not do it.

Section 35A says:

"Where the Reserve Bank is satisfied that—

(a) in the national interest; or

(b) to prevent the affairs of any banking company being conducted in a manner detrimental to the interests of the depositors or in a manner prejudicial to the interests of the banking company....."

it can issue instructions. It is necessary to issue instructions to the banking companies and say these things must be done. What were the instructions given? Why is it that these instructions were not obeyed? These instructions are obligatory. So, if instructions were given and were not obeyed, then, another thing has to be done according to section 36(1) of the Act. Section 36(1) says:

"The Reserve Bank may—

(a) caution or prohibit companies generally of any banking company in particular against entering into any particular transaction or class of transactions, and generally give advice to any banking company;

(b) on a request by the companies concerned..... !

(c) give assistance to any banking by means of the grant of a loan or advance....."

So, have you prohibited them against certain transactions? The Reserve Bank must have seen that their instructions are strictly obeyed.

Then the last thing is 45J. That is after liquidations. Section 45J says:

"(1) The High Court may, if it thinks fit, take cognizance of and

try in a summary way any offence alleged to have been committed by any person who has taken part in the promotion or formation of the banking company which is being wound up or by any director, manager or officer thereof."

So, from 1951 to 1960, the Reserve Bank as well as the Finance Ministry had opportunities to see that the provisions of the Banking Companies Act were applied to this Bank, either section 35A or 36 (1), or, after the liquidation, if any of the directions and others were responsible, to apply section 45J.

Now, to say that the Government or the Reserve Bank gave instructions to the Bank and they did not take them and so they had to liquidate it, is, certainly, to throw away their responsibility. The whole responsibility is of the Reserve Bank and of the Government. If it is correct that the Reserve Bank had given instructions in 1951 and 1956, then, it is naturally the responsibility of Government, the responsibility of the Finance Ministry. If instructions were given in 1951 and they were of no avail, why were they of no avail? Are there not powers according to the Banking Companies Act? Why should the liquidation be resorted to in 1960? There are allegations by the directors and others in the papers that it is vindictive action that is being taken now.

It is the duty of the Finance Ministry to point out from all these reports and other things that it was not vindictive. As far as Kerala is concerned, it is said that the whole thing has been done as a result of the vindictive attitude towards certain communities there. According to the report that we have received from the directors, they say that the assets of the bank today are very good and there is no reason why any action should be taken. They say that 'sticky' advances are those that are regarded by them as fully recoverable after some delay. They also say that today they have assets worth about Rs. 7,15,00,000 and the others that are found to be irre-

coverable are unsecured but that does not mean that they would not be realised. They say that even though advances have been given without any security that does not mean that they would never be realised.

As I said, there are very serious allegations. It is the duty of the Finance Ministry and the Reserve Bank to prove that the facts that have been given to us by others are wrong and make the people understand that the facts as stated by them are correct. That is why I say it is not only a question of giving an explanation in the Parliament. It is highly necessary that a thorough enquiry is made.

As far as the directors are concerned, there are also allegations against them. It is said that there was a run on the bank. But it is only the poor people, the ordinary people, who have suffered. An ordinary man cannot run and when the run on a bank comes he will only be walking because he does not have a car or any other thing. Therefore, when the run on this bank came those who have motor cars got all their money. Only the poor people could not run, they walked and when they went there the bank was closed.

Who are the persons who have drawn their money? There are allegations that some of the directors, their relatives and their friends took all their money.

What are these irrecoverable and 'sticky' amounts? Were these irrecoverable and 'sticky' amounts there before 1951? I want to know this from the hon. Finance Minister. Has this happened only after 1951? If it was there before 1951, it was the duty of the Reserve Bank and the Finance Ministry to see that within four or five years matters were set right. If it has come only after 1951 there was enough time for them to set things right. They receive inspection reports and from those reports they could have seen that irrecoverable and 'sticky' amounts were on the increase. In the last five or six years they could have seen to it that the affairs of the bank were set right

[Shri A. K. Gopalan]

That is why I say that there should be a thorough enquiry about this. Political motives are also attached to it; we do not know what exactly it is. As far as the allegations and counter allegations are concerned, one side says that there is absolutely no reason why the bank should be liquidated in 1960.

Another thing that I want to point out is about nationalisation. Today the position is that certainly the Government has to take responsibility because it was the responsibility of the Government. Even assuming that what the directors have said is not correct, assuming that their allegations are not correct, it was the responsibility of the Government to have set matters right much earlier. The Companies Act was there. They could have prohibited things much earlier. The other day the Finance Minister said that if he had done these things before the same thing would have happened.

Shri Morarji Desai: When did I say that?

Shri A. K. Gopalan: He himself said the other day that if they had reported to liquidation much earlier it would have been bad and therefore you waited for some time. It is just like waiting patiently for some time when a man is sick without giving any medicine to him and then rushing with injections and other things when he is about to die. What was the action that was taken? If the facts that we have got are correct, they not only show that no action was taken but they also show that the action was delayed in such a way that the depositors were all made to suffer. The depositors who deposited their money after 1956 at least could have been saved if action had been taken then. The hon. Finance Minister cannot go back on his statement. It has already been admitted by him that the affairs of the bank were very bad and warnings were given to the directors but they proved to be of no use. If action

had been taken at that time, certainly the depositors who deposited their money after 1956 could have been saved.

That is why I say, Sir, that there should be a thorough enquiry. This is not the case with only one bank. There is also the case of the Lakshmi Bank. There are other banks also in India. So, if there are no rules by which the Government have not got enough powers to check up these things, at least hereafter, the law must be changed in such a way that the man who puts his money in any bank in India is able to have confidence and is able to know that there are enough powers for the Government so that any little money that is invested in the bank will not be taken away by somebody, by the directors or anybody else. It should be seen that their hard-earned money is not taken away by anybody. So, I say that even if this bank is merged with the State Bank, unless and until there is an enquiry, certainly, certain things will not come out. If the Finance Minister says that there will be no enquiry, definitely I will say that there is some thing bad about the Reserve Bank or the Finance Ministry which he feels should not come out. If the Finance Minister says that there will be no enquiry, then he will have to take the whole responsibility and the country will understand that it was the vindictiveness that was responsible for this affair. If there is no enquiry, it would also mean that the Finance Minister will be helping the directors and others, about whom there are charges today. The people want to know who are those people who have withdrawn the money within the last two months before 9th August; how much money was withdrawn; by whom was it withdrawn; was it by the directors or by any others who were connected with it. That is why I suggest two things: there must be an enquiry, and immediately, there must be a merger of this bank with the State Bank.

Now, there was the question of the tax-payers' money being spent to

relieve the suffering. I do not want to go into that matter now. But, then, if at least two naye paise, so to say, of the tax-payers' money is not spent for this, I can say that 150 lakhs of tax-payers in Kerala will not be there, because this affects the people of Kerala very much; not only does this affect Kerala but it will have serious repercussions in the South—Tamil Nad, Mysore and other places. The whole area there is affected by this affair.

I request the Finance Minister to be good enough to see that this bank is merged with the State Bank. If proper action is taken in regard to the liabilities as they stand today, then the Minister will not have to spend the money of the tax-payers. The money will certainly come in. Suppose there may be a man who had nothing but who had taken some money. If strong action is taken, the others will be there and, they will all rush and deposit back the money. So, strong action is necessary, and the Finance Minister need not touch a single pie of the general tax-payer if he very boldly merges the bank with the State Bank and takes strong action. I request him to do that and also to see that in public interest an enquiry is conducted. Therefore, I request that my suggestions may be accepted by him.

Shri Jinachandran (Tellichery): Many hon. Members have already dealt with the aspects of the Palai Central Bank. So, I will just give some of the salient features. I may state that the position of the bank on 5-8-1960 was far more satisfactory according to the standards set by the Reserve Bank. If a comparative study of the financial position of the Palai Central Bank on 5-8-1960 as reported by the Reserve Bank and the financial position of all scheduled banks put together, as announced by the Reserve Bank, is made, it would be seen that the Palai Central Bank maintained as cash assets 15.68 per cent of its demand and time liabilities including borrowings from banks as against the

all-India average of 10.15 per cent for all scheduled banks.

The main charge against the bank is that it had too low a percentage of cash resources. The above figures show that the charges are not correct. Taking both cash assets and Government securities into consideration, they constitute 44.93 per cent. of the same liabilities for the Palai Bank as against 46.17 per cent. for all scheduled banks

According to section 42 of the Reserve Bank of India Act, a scheduled bank has to maintain with the Reserve Bank five per cent of the demand and two per cent. of the time liabilities. According to this, the Palai Bank ought to have a little more than Rs. 24.5 lakhs against which the Bank had more than Rs. 45 lakhs. If we analyse the bank's figures further, it will be seen that the bank's admittedly realisable assets constitute more than 80 per cent. of the liabilities, excluding, of course, the advance amount of some Rs. 2.27 crores stated to be irrecoverable by the Reserve Bank, and mentioned by the Finance Minister in his statement.

Shri Maniyangadan yesterday submitted to this House about the Bhara-nanganam Bank, in whose case the Reserve Bank committed a huge mistake. The Reserve Bank said that they will not be able to pay the depositors, whereas within six months they paid all the depositors and they have already paid 12 annas in the capital. This shows the Reserve Bank also sometimes commits mistakes.

Whether it was necessary or not, a crisis has happened. Now it must be our endeavour to find a way out not only to safeguard the interests of the depositors and the employees, but also in the general interest of the country.

In this morning's papers, we find mention made of some workable schemes under consideration to safeguard the interests of the depositors. One alternative suggestion seems to be that the depositors may voluntarily

[Shri Jinachandran]

agree to set aside part of their deposits as reserve against bad debts and following this, the State Bank may take over the bank without liability to itself. This is a good idea and worth exploring. An estimate of the deficit as correctly as possible should be made out within the shortest time. Supposing the shortfall is 15 per cent of the total deposits—or whatever be the deficit—make a provision to write down the depositors' amounts by 15 per cent., of course with the full consent and approval of the depositors. Out of the 15 per cent, 10 per cent. may be transferred to a special bad and doubtful reserve and the other 5 per cent. to be converted into share capital and shares issued to the depositors who have thus foregone the 15 per cent. Write down the present share capital to 10 per cent of the original value, the balance 90 per cent. having been deemed to be lost by the present shareholders. The amounts so released from share capital shall also be credited to the bad and doubtful reserve. By this process, the bank will have more than Rs. 2 crores as bad and doubtful reserve including the existing general reserve. This will more or less meet the possible bad debts at a liberal estimate.

Thereafter the management could be taken over by the State Bank. The Reserve Bank could help the reconstituted bank with necessary funds on the security of loans and advances of the bank. To create confidence in the public, the State Bank of India must take shares in the bank to the extent of some 10 lakhs and the State Government may deposit with the bank Rs. 10 lakhs to Rs. 15 lakhs. This will not only enable the bank to tide over the present difficulties, but will create an additional sense of security in the minds of the public.

The amounts thus foregone by the depositors and credited to bad debts reserve should not be treated as profit for the purpose of taxation. The bank should get at least a tax holiday for five years. If, during further ins-

pection, it is found that the bank was actually running at a loss from 1950 on account of bad debts, the income-tax levied and recovered from 1950 onwards are to be refunded. This amount will also go to the reserve.

By these suggested methods, the depositors stand to lose only 10 per cent. of their deposits, but they can be sure of getting a dividend on the 5 per cent. converted as share, if the scheme is properly worked out. If liquidation takes place, they may or may not get even half and that too after a number of years. Neither the Reserve Bank nor the State Bank take any big risk and no taxpayers' money is involved.

In conclusion, I will say that the Palai Central Bank is the biggest bank in Kerala. Kerala, as everybody knows is a problem State with every conceivable problem. After the political upheaval of the past few years we have just emerged and are trying to put our house in order. We are fighting hard to march abreast with other parts of India in building our industry and production. We are still lagging far behind. We have now settled ourselves and are going in the right direction. Now, as if a bolt from the blue, this Bank crash came on the 9th August. This has upset the very equilibrium of the State. This crash, if not remedied, is going to have serious repercussions on the economy of our State and will vitally affect our Third Plan and all that. As already stated, the Bank is not so bad and beyond redemption as to warrant closing down. I would submit to the House and to the hon. Finance Minister specially to be very considerate to the State of Kerala and to revive the Bank on the lines suggested earlier.

I would like to add one more thing. Unfortunately the Reserve Bank did not act impartially with the Palai Central Bank as we find on going through the accounts. I request the hon. Finance Minister not to be Lord Shiva, the Destroyer but to become

Brahma, the Creator. I humbly request him once more not only on behalf of the shareholders but also on behalf of the depositors to be the merciful Brahma.

Shri Joachim Alva (Kanara): Mr. Speaker, Sir, a sentence of death on a person, liquidation of a bank and insolvency for an individual are three grave and important matters in the life of an individual, a Corporation or a company. All these three acts have to be fulfilled within the ambit of the highest principles of justice, equity, fairplay and morality. I do not know whether all these principles have been fulfilled in the execution of this one act, namely, the closure of the Palai Bank. I do not envy the hon. Finance Minister. He is in the most unenviable position. He does not know whether to smite the directors or to extract the last gold tooth from the mouth of the creditor or to oblige the poor depositor. He has also perhaps been warned that the Finance Ministry has had the largest number of elusive holders of office, namely, within the last ten years three have gone out of office, the three who did not vitally belong to the Congress Party. But the present holder of this office is a tough man who has his roots within the Party and he will not run away from any crisis. I think we expect him to do fairplay and justice whatever hardships he may have referred to in the first instance.

Speaking on the Banking Companies Bill in 1953 I had said that the age of guinea pig directors was over. I am sorry that within a space of seven years I have to eat my own words. The age of guinea pig directors is not over and the guinea pig directors are very well described in the Banks Liquidation Proceedings Committee. They said:

"The failure of banks for the most part can be ascribed to mismanagement or incompetence on the part of their directors. We find that it is not uncommon that the

directorates of most of the banking companies which have gone into liquidation consisted of one or two dominating directors and a number of complaisant directors who, in England, have been aptly called guinea pig directors because they merely said "yes" at Board meetings and departed with the prescribed amount of guineas as fees after having been provided with a lunch."

This seems to be the state of affairs even now in many large companies. There are a hundred families which want to own the wealth of this land, a land where there are 400 million impoverished people, and huge amounts are transferred from one account to another.

I shall confine myself to the role of the Reserve Bank and also the depositors. We want the Reserve Bank to hold a very powerful umbrella over our economy. The Reserve Bank cannot lend the umbrella at summer time and take it away in the monsoon time. The Reserve Bank has to take the World Bank as its model. The World Bank in the last 15 years has established a wonderful record. I would like the hon. Finance Minister and those running the Reserve Bank to read the article which appeared in the *Manchester Guardian Weekly* as recently as 18th August last. The paper sent out one of its best writers, J. S. Morris, to the World Bank, and he came to certain conclusions, and I hope the House will bear with me because if we build up a bank, let us build it up on very sure foundations.

I is a tragedy that the first English Governor of the Reserve Bank—unfortunately I forget his name—got fever in Delhi got into the air-conditioned compartment and as a result got more fever and died. If he had lived for a longer period, with his experience and uncanny wisdom he might have been able to build up the Reserve Bank on surer foundations. I would like to repeat some words

[Shri Joachim Alva]

which I had said on a former occasion, words of gravity and responsibility for which I was taken to task. What I said was: the first Indian Governor of the Reserve Bank cannot be succeeded by his next-door neighbour, and the third Governor of the Bank who was to succeed, but did not succeed, could not be his old friend and class-mate! and; the first Indian Managing Director of the State Bank cannot be the brother-in-law of the second Governor of the Reserve Bank! I gave these facts without quoting the names. The Finance Minister who is perhaps new to his office and the working of the Reserve Bank—I do not doubt his ability to handle any subject under the Sun—should be aware of these facts, and should know how the Reserve Bank functions.

I put many questions about the failure of the Exchange Bank of India and Africa. The Exchange Bank of India and Africa was hardly within 100 yards of the Reserve Bank, and Rs. 80 lakhs were lent to that Bank. The managing director of that bank committed every kind of fraud in the heart of Bombay. When I raised the question in the House, the then Finance Minister was very touchy about it. Dr. John Matthai, who was earlier the Finance Minister then, and who is no more,—I am saying this with all sincerity, I shall never try to tell an untruth—said: “Alva, Mr. Deshmukh is very touchy about the Exchange Bank.” I told him I did not question the integrity of Shri Deshmukh, but if he allowed Rs. 80 lakhs through some kind of negligence to go down the drain and the Exchange Bank crashed, it was a serious matter. The crash of that Bank had a terrible effect in Africa. Before that you could go to Africa and collect so much money, for any Indian enterprise but today after that crash you will not be able to collect a rupee, because they say: you collected our money and you allowed that bank to crash.

The Reserve Bank must build up a team of first class men, must bring in fresh blood from the Exchange Banks. The half a dozen Exchange Banks in our country may be foreign banks, but there are first class Indians there with 15 to 20 years of standing. The State Bank does not handle all kinds of intensive commercial and foreign exchange business. So, able men from the Exchange Banks must be brought over, and in a crisis like this it is such experienced men that will be of help.

Shri Morarji Desai: May I put a question to the speaker? Would he kindly let me know who are the relatives in the Reserve Bank management?

An Hon. Member: He did not say that.

Shri Morarji Desai: Then, why was it mentioned?

Shri Joachim Alva: Shri Handoo, when he became the first Indian Managing Director of the State Bank was the brother-in-law of Shri B. Rama Rau, the then second Indian Governor of the Reserve Bank. The reason for my mentioning this is this, namely, that lesser people follow in the mistakes laid down by the others. It has been said that in the Palai Bank, all the directors up to 1959 were all members of the same family. You cannot allow this kind of thing. It is also said that 20 out of 25 managers of the Palai Bank were all relations in the same family.

The Reserve Bank had a moral duty to put down that kind of thing with a firm hand. If they had put down these things firmly, today, the poor depositors numbering about 85,000 would not have to suffer. There was a piteous tale in Bangalore. There was a meeting of the depositors, and this is the report of *The Deccan*

Herald dated the 22nd August, 1960. I shall read it out. It says:

"A lady depositor of the Palai Central Bank, speaking at the meeting said, that while she endorsed the views of Finance Minister Morarji Desai that the general taxpayers should not be asked to pay for the loss of individual concerns, she could not but appeal to the Prime Minister that the money available under his Relief Fund should be utilised to help the poor depositors. The bank crash was a major tragedy affecting 85,000 depositors unlike natural calamities which were mostly local."

The report adds:

"When she made the statement, she was in tears."

We cannot on the one hand claim to be a welfare State and on the other say that we cannot ask the poor depositors to bear the liabilities of the private sector. We cannot have it both ways. The banks in the private sector are near enough to the public sector, and yet far away from it. They are near enough to claim all the privileges of the private sector but far away when the question of the responsibility of the public sector comes. Since 1926, we had 300 bank crashes. And what have we done to put our house in order? Did we profit by past failures? Have we framed any rules and any code of ethics that if a director is involved in a criminal case of cheating or breach of trust, he shall step out of the bank directorate gracefully without being asked to do so, and come back the moment he is acquitted by the court? We did not do anything of that kind.

The Reserve Bank perhaps does not feel strong enough to have the guts to ask the directors to keep out in such cases. I do not blame the Finance Minister for this, but this is a matter which concerns the future of India and the future of the community. Finance Ministers may come and go, but the Reserve Bank has to be a

very powerful factor; it is the fulcrum of our national economy, and if the Reserve Bank fails, everything will have failed.

We want to take care of the employees too. I remember about two years ago, the employees of the Grindlays Bank in Delhi had gone on strike and they went on shouting, standing on the tables although I was half-hungry, at about 3 P.M. I walked up to them and told them, 'Why is it that you are doing something awkward and wrong? We cannot allow you to do something like this which will shame us before foreigners.' We are concerned with everything in the Reserve Bank. Unless we put these matters right, we cannot take care of our depositors, who number about 85,000.

I would like that all the moneys of the depositors who had deposited up to Rs. 10,000 be paid out straightway. Government owe a duty to the depositors. If there is anyone who has deposited money up to Rs. 10,000 he should be paid straightway, because he should not have a ruined home, he should not have penury, he should not have difficulties to face. We know what it means to them if they are to go without money, and if they have to forgo three or four months' salaries. I have asked many of my friends, especially journalists, 'What is it that made you go to the Palai Bank?'. Everyone of them said, 'They gave us facilities; they allowed us to draw money in time; they sent money to our relatives in time when cheques were cashed and so on. And this is the role which the State Bank of India has to play. The State Bank of India must play the role of the small bank. You cannot go to a State Bank and expect overdrafts etc. because when you see the collared gentlemen there, you do not feel like asking for any money by way of overdraft etc. But this is the role that the State Bank of India has to play in its numerous branches.

As I said, while speaking on a similar Bill in 1955 or so, we must have

[Shri Joachim Alva]

men running the banks, wearing even dhotis; by 'dhotis' I mean there must be men with humanity, men with kind feelings, to whom you can go and ask what you want, men who will come to you and ask you what you want.

In this connection, I would like to read out to the House what Mr. James Morris has to say about the World Bank. This is what he says:

"Develop a pleasing telephone manner" says one of the banks pamphlets of secretarial advice. Make the person who talks to you over the telephone glad he called you by expressing in your tone of voice a real desire to be of assistance."

And now, here is something very important. The World Bank has been in existence for about 15 years, and the article in the *Manchester Guardian Weekly* goes on to say that it is also due to the man at the top. It goes on to say:

"Not least to the man at the top of it at all. High above H street, in a room hung with golfing pictures, cartoons, splendid maps, portraits of eminent contemporaries, scrolls of honorary degrees, sits Eugene Black himself, the presiding genius of the affair. He is a powerful, enigmatic, possibly rather lovable man. He likes Shakespeare, and golf and grand-children, and views the world from his unique vantage-point with a gimlet eye of irony."

"The World Bank has been run from the start on the most professional, most demanding business lines".

This is what we want the Reserve Bank to do, and these are the type of men on whom we will have to entrust our economic destiny.

The hon. Prime Minister made a very interesting remark that we shall

have to take a lot of deficit financing. In regard to deficit financing....

Mr. Speaker: The hon. Member is going from the Palai Bank to deficit financing. He might have an opportunity to deal with that during the debate on the Third Plan.

Shri Joachim Alva: I am coming to the point.

Shri Morarji Desai: May I say that I have also to speak?

Mr. Speaker: Apart from that, it is not relevant.

Shri Joachim Alva: On the 1st September 1939, notes in circulation were of the value of Rs. 172.37 crores. Now, that is, in July 1960, we reached the figure of Rs. 1835 crores. How much of this money has gone down the pockets of these poor depositors? A very infinitesimal part of it has gone down the pockets of the poor depositors who have deposited their money. We owe a solemn duty to them. The Finance Minister has a very difficult job. But the Reserve Bank must play its part and must pay very fairly upto all depositors.

Shri Morarji Desai: Sir....

Shri Punnoose: May I point out before the hon. Minister rises to reply that I have received telegrams from the small banks who have deposited their money in the Palai Central Bank. They say that unless something is done immediately for them to get back their deposits, they will have to close down.

Shri Morarji Desai: May I say that he could have given that to me even afterwards? Nothing is going to crash within half an hour. I am sorry I have to say this because I do not understand the sense of proportion in this question.

Mr. Speaker: Copies of such telegrams are received by all Ministers. They would have got copies.

Shri Morarji Desai: I have been hearing very carefully and very patiently all the criticisms made of the Finance Ministry and the Reserve Bank. I have also been hearing patiently and very carefully all the suggestions made to me for better management of banks and also as regards the steps to be taken in connection with the proposed liquidation of the Palai Bank. I feel a little sad that in this House where we ought to be very careful about the economic structure of our country we are talking so lightly about the Reserve Bank on which the economic structure depends a great deal. I would not have minded severe criticism being made if there had been a failure on the part of the Reserve Bank to take some action or if they had gone wrong in some matter. In that case, the criticism should certainly be severe, according to the responsibility that a person or institution carries. But it is a matter of pride for me and for the country that the record of the Reserve Bank in this country is one of the best and is better than that of some other banks in other countries also. I therefore feel sorry that there should have been such a light talk about the responsibility of the Reserve Bank.

I am not surprised at the demand by the hon. Member from Kerala, the Deputy Leader of the Communist Group in this House.

Mr. Speaker: Now Leader.

Shri Morarji Desai: I am sorry I made a mistake. I must apologise to him.

Shri C. D. Pande (Naini Tal): He is officiating leader.

Shri Morarji Desai: I am not surprised that he asked for a Commission of Inquiry. He is always fond of a Commission of Inquiry about everybody except himself and his Party.

Shri Nagi Reddy (Anantapur): That does not come now.

Shri Morarji Desai: If a Commission is appointed, he will not even accept its findings if he does not agree with it. I do not see how one can satisfy a demand like this. A Commission of Inquiry would be required if the facts are not clear. In this particular case, it is argued that what I have stated in this hon. House on two occasions in connection with this affair has not been clear or that it has been contradictory with something else stated by some other people. I wish that the hon. Members who said this had a talk with me or discussed with me....

Shri A. K. Gopalan: May I make a personal explanation, Sir? He is saying that I demand the Commission of Inquiry. I have read in the papers that the Kerala P.C.C. has also said that a Commission of Inquiry should be appointed. (*Interruptions*).

Shri Morarji Desai: I do not see any personal explanation is required in this matter.

Shri Punnoose: We made a demand for the Commission of Inquiry. Instead of dealing with it the Minister is dealing with our conduct and all that.

Shri Morarji Desai: It is very relevant. It is not irrelevant. I am only saying that when a Commission of Inquiry is asked for properly and is believed in, I can understand the demand is genuine. It is only to prove that the demand has no meaning that I said this. (*Interruptions*).

Shri A. K. Gopalan: He is saying that we talk all this here. But everyday I see in the papers in Kerala something about the Reserve Bank and all these things. It is written not in our paper but in his own paper. Let him stop that.

Shri Nagi Reddy: Government have not accepted the recommendations of Commissions so many times. Have they not appointed Commission before. (*Interruptions*).

Mr. Speaker: I allowed hon. Members on this side to speak at leisure. I never interrupted them nor did any other person from the right side interrupt them.

Shri A. K. Gopalan: We expected a reply.

Mr. Speaker: He is replying in his own way. All that he says is that a Commission of Inquiry is no doubt asked for; but, from his experience he says that nothing absolutely new will turn out. Even if a Commission of Inquiry is appointed, there is no guarantee that those who sponsor the Commission of Inquiry will accept its findings. We cannot quarrel with his opinion. He is entitled to say that as much as any other hon. Member is entitled to express his opinion.

Shri Morarji Desai: I am very sorry that hon. Members do not have any patience to hear their own criticism; but, they are ready to criticise other people. (*Interruptions*).

Shri A. K. Gopalan: Let the Speaker say that. I want to say that I am the most patient man here and you have never seen me impatient in this House.

Shri Morarji Desai: I am seeing the exhibition of patience just now. I did not interrupt the hon. Member.

Shri Sadhan Gupta: He is insinuating *mala fides*.

Shri Morarji Desai: There is no insinuation. That is a definite statement. I am not given to insinuations. I am only given to stating facts.

Shri Sadhan Gupta: And that is done with *mala fides*.

Shri Morarji Desai: I was patient when the hon. Member made charges against me and the Reserve Bank, and against the Government. I did not get up and contradict him; nor did I try to interrupt him. (*Interruptions*).

Mr. Speaker: Order, order. I have been hearing some hon. Members attributing motives for the liquidation of this bank. Therefore, the hon. Minister is entitled to reply to that. (*Interruptions*). Order, order.

Shri Morarji Desai: The hon. Member said that this action was vindictive.

Shri Pannoose: That is the allegation. (*Interruptions*).

Mr. Speaker: Let there be no interruptions please. I am afraid I will have to ask the hon. Member to resume his seat. If the hon. Member has the right to say that it is vindictive, is it not open to the hon. Minister to say that it is wrong? On the other hand, those persons who accuse him have got some other motives behind them. If they have a right to accuse others, the others have a right to defend in their own way. (*Interruptions*). Let us hear calmly.

Shri Morarji Desai: The hon. Member went so far as to say that this action was vindictive or will be considered vindictive if a Commission of Inquiry is not appointed. He also said that he will be free to draw a presumption or an inference that I have something to hide and, therefore, I am not appointing a Commission of Inquiry. If I try to reply to an allegation like that, it is said that I am making insinuations. I do not know what they expect me to do.

I should like now to say that in this particular matter, there are three things which are said. One is that the Palai Bank which has been taken or which is being taken to liquidation was in a sound condition on the day it was being taken to liquidation. Whether that is correct or not it will be my endeavour to convince the House. After hearing me, if hon. Members want to frame any opinion they can do so and they can condemn me if they want to do so. The House is free to do that. But without hear-

ing me to say that nothing has been done is not right. When I made the first two statements they were not statements which were completely on every issue, because I was not called upon to do so at that time. I only said that I made a statement which may be made the basis of a discussion because I wanted to help the hon. Members in this House to discuss a matter which they wanted to discuss so that they discuss it properly. And that is being taken as a want of giving proper information. Now, Sir, I cannot understand this sort of an attitude.

The second argument or second charge is that the Reserve Bank did not take action earlier. The third charge is that it took the action precipitatedly when it should not have taken. These last two arguments are very contradictory. That is what I said even in my statement. That is thrown in my face by the hon. Member. He said that I mentioned in my statement that if it is delayed this would happen. I have said that this is what would be said by hon. Members. I did not say that that would be so. But these are two contradictory arguments which are given in this very House. It is therefore that I have got to deal with them.

It was also said that the run on the bank had ceased when this had happened or when proceedings were taken for liquidation. It is on these matters that I should like to give a full explanation to this hon. House so that the House can judge whether the Reserve Bank was right in the step that it took or whether it failed in doing its duty.

Let us, Sir, understand the history of all these banks, to some extent, in the beginning, in the few sentences that I would like to put before this hon. House. The Banking Companies Act came into force in March 1949, and the figures which I have for the end of that year show that there were 620 functioning commercial banks at

that time. The number is very large but the deposits were mostly with the bigger banks and with the other banks the deposits were very small. Over the last ten years during which the Act has been in force a number of tiny and unsound institutions have gradually been weeded out. So the number of functioning banks declined to about 360 as at the end of 1959. This shows that about 260 banks or so went out of action in all this time and the hon. House has not noticed them at all. That is what has happened. It has come to the notice of this House only when the Palai Bank is being taken into liquidation. Even when the Luxmi Bank was taken into liquidation more than two months back, nobody noticed it here. It is only when the Palai Bank has been taken into liquidation that all these things are being said. I have no objection to that, and it is good that this is discussed. I wish the other things were discussed even before because in that case we would have come to a knowledge of the proper facts earlier.

18 hrs.

Sir, the closing of a bank at any time cannot be a pleasant thing for anybody, and in this particular case I know the intense misery that has been inflicted on many people on account of what has happened about the Palai Bank. I am not unaware of it, but the question is whether the Finance Ministry or the Reserve Bank could have helped it and whether it is the Reserve Bank which is responsible for inflicting this misery; whether it could have been avoided or whether action could have been taken earlier, or should have been taken earlier. Action could have been taken earlier; I do not say that it could not have been taken earlier, but the question whether it *should* have been taken earlier is more relevant than whether it *could* have been taken earlier.

When all these banks came under the purview of the Banking Companies Act, they were not licensed.

[Shri Morarji Desai]

There was no necessity for a licence at that time. Licensing came in afterwards. Even then the provision was that for three years no licence was necessary; after that licensing would take place. This Act was applied to Travancore-Cochin as it then existed in 1951. Up to 1954 there was no question of licence or refusal of licence. Therefore, when we mention 1951 and the inspection of 1951, it must be remembered that at that time there was no question of refusal of a licence. There was no other step which the Reserve Bank could have taken except saying, "you must see this and you must see that." The authority for issuing effective directions also came in more in 1957 than in 1951. It was only after the amendment in 1956 end that full powers or the powers which exist today were given to the Reserve Bank. Yet, it can be said that since 1956, three years have passed: 1957, 1958 and 1959. We are in 1960. Therefore, I do not plead for a moment that the Reserve Bank had not had ample time, but when we examine the past history we must also bear these facts in mind.

I should first like to take the point about the run, because that has decided this issue. I would say that if there had been no run on this bank this action would not have been taken even when it was taken, as is seen from the inspection note issued to the bank on 21st July. Much is made of that 21st July, but it was done in course of time. The inspection was done in January or February. Several things were asked for and some other things were done. Two directors had to be appointed and after these two directors were appointed they proposed to send a note so that they could consider it along with the new directors. Therefore, it became a little late and it went up to 21st July. It so happened that the run began to take place on this bank from 24th June practically from where the position has to be seen. It is said that this run had ceased on the 4th August when the Reserve Bank took a preli-

inary decision that it would have to take liquidation proceedings for this bank.

I will give the figures of the withdrawals from this bank week by week. For the period from the 6th May to the 1st July, the withdrawals were Rs. 12 lakhs; for the week ending 8th July, Rs. 17 lakhs; for the week ending 15th, Rs. 20 lakhs; for the week ending 22nd, Rs. 23 lakhs; for the week ending 29th, Rs. 29 lakhs; and for the week ending 5th August, Rs. 35 lakhs. It will thus be seen that the run did not disappear as it was argued here: I do not know from where the facts were obtained. I have argued this matter with some of my friends; I have discussed it with them; and they said that the run had stopped on the 5th, 6th or the 7th August.

Shri Jinachandran: Is it not a fact that out of Rs. 35 lakhs more than half was withdrawn from the New Delhi Branch?

Shri Morarji Desai: I was coming to that. If he had waited, I was going to give the figures, because I had a discussion. It was said that the Delhi branch had this run. Out of Rs. 35 lakhs, Rs. 16 lakhs are from the Delhi branch. Yet, Rs. 19 lakhs are from other branches. So, it can be seen that even the other branches were not free from the run, on the 5th August. On the last two days. I believe, if I am right, withdrawals from the Delhi branch were Rs. 5 lakhs each day. It may have lessened after 5th or 6th and it may be Rs. 1 lakh each day. I cannot get those figures now, because the branch offices are closed, and it is difficult for me to get them.

Therefore, it will be seen that the Reserve Bank had to consider the position very seriously on the 4th August. When they got the information and when they found that Rs. 1.5 crores had already been withdrawn and when they found that the bank had only Rs. 1.5 crores more to distribute immediately, they had to consider whether they should allow that also to be finished and afterwards leave the remainder to the winds. That is what they had to con-

sider. I think the Reserve Bank would have failed in its duty if it had not taken the step it took on the 5th August. That is my own view. I may be wrong. If I am wrong and if the House, in its wisdom, thinks that I am wrong, I am prepared to pay any penalty that the House may lay down. I consider that the Reserve Bank had not been wrong in this particular matter.

It is argued that the figure I had given first of all as Rs. 1.5 crores also was wrong. They said, it was Rs. 1.3 crores. There is not much difference between Rs. 1.5 crores and Rs. 1.3 crores. But it is not even Rs. 1.3 crores, because advances were given on deposits where the deposits could not be returned. That was Rs. 18 lakhs. So, if that is added to Rs. 1.3 crores, it comes to Rs. 1.5 crores. Then, I said Rs. 1.5 crores as remaining. That is also being disputed. I can go into that and just show what I said is correct.

It is said that the bank had cash in hand of Rs. 56 lakhs. It had a balance of Rs. 46 lakhs with the Reserve Bank and a balance of Rs. 61 lakhs with the other banks. It had Government and trustee securities of Rs. 311 lakhs. These were its assets. These, they said, should be considered liquid assets at the time. Let us examine whether they are liquid assets. They said that considering all this, they had borrowed Rs. 118 lakhs on the Government securities. That means, the total of Rs. 472 lakhs which they said was the liquid asset at the time is reduced to Rs. 354 lakhs when you deduct Rs. 118 lakhs. But whether it is Rs. 354 lakhs or Rs. 150 lakhs has to be seen now.

The bank had a cash of Rs. 46 lakhs. But as long as liquidation is not taken, the bank has to keep cash in every branch to work. It cannot, therefore, utilise all the Rs. 46 lakhs for payment as regards the run. So, they could have utilised out of Rs. 46 lakhs only Rs. 15 lakhs, because they had 26 branches and there must be at least a lakh of rupees for each branch. So, if you consider that, it would not come to more than Rs. 15 lakhs or Rs. 20 lakhs.

As regards the balance with the Reserve Bank, that is statutory. Out of Rs. 46 lakhs, at least Rs. 35 lakhs has got to remain there until the day of liquidation. It is only when liquidation is taken, that those Rs. 35 lakhs would be available. Till then only about Rs. 10 lakhs are available. As regards Rs. 61 lakhs, which is the balance with the other banks, the amount is there for transactions with those banks and all of it cannot be withdrawn. Therefore what could be withdrawn from there also would be only Rs. 25 lakhs and nothing more. If you total up all this, it becomes Rs. 50 lakhs.

Then, it is said that Rs. 311 lakhs are Government and trustee securities. They excluded trustee securities and said it is Rs. 290 lakhs. Out of Rs. 209 lakhs, Rs. 118 lakhs which was previously withdrawn has to be deducted. This leaves Rs. 1.7 lakhs, or Rs. 127 lakhs to be more exact. But out of Rs. 1.73 lakhs there are several securities which require to remain there, with the bank. If this is deducted and also if it is borne in mind that the full value of the security is never advanced—it is always somewhat less—then it will be seen that more than Rs. 104 lakhs could not have been advanced on these securities. Now if this is totalled up it becomes Rs. 154 lakhs. That means that I am wrong by Rs. 4 lakhs. But Rs. 154 lakhs and Rs. 354 lakhs are far apart. These very friends of mine will see . . .

Shri Jinachandran: Can they not sell the securities?

Shri Morarji Desai: How can securities be sold immediately like that? Even if some of them can be sold all of them cannot be sold. If it is taken into liquidation then all can be sold. But that is what is happening. To say that all these should be taken into account to satisfy the run on the bank is something which is very wrong.

Therefore it will be seen that it was not in a position

Shri C. K. Nair (Outer Delhi): The Reserve Bank could advance some money on the strength of the securities to allay the fear of the people.

Shri Morarji Desai: As I said, it could have given Rs. 1 crore on this. That would have made it Rs. 150 lakhs. But suppose, the Reserve Bank gave another Rs. 1 crore, even then what? That has got to be seen. Then what remains afterwards is zero for all other people and Reserve Bank might also lose its money. That is all that would happen. That was a matter, therefore, which had got to be considered very carefully.

Now let us take also the liabilities. The liabilities are Rs. 8.69 crores on the 5th August, 1960. As against that the advances are Rs. 569 lakhs. Out of these Rs. 569 lakhs, Rs. 219 lakhs are irrecoverable; doubtful are Rs. 18 lakhs and what is called sticky are Rs. 112 lakhs. This comes to Rs. 349 lakhs or something like that or Rs. 350 lakhs nearly. Now it is said that "sticky" means that they can be recovered later. That is not so. Even interest is not recovered in some cases. I examined some advances of the sticky nature. One advance I found of Rs. 17 lakhs and the total property of that person and the family is Rs. 5 lakhs. Now you can see that even if I sell lock, stock and barrel the property of that person I would receive only Rs. 5 lakhs and not even Rs. 5 lakhs when it is put to auction. I do not think then I will get more than Rs. 3 lakhs out of the property of Rs. 5 lakhs. Therefore, the sticky advances mean Rs. 112 lakhs. Therefore, I say that about Rs. 3 crores are like this.

Now it is argued as to why this was allowed to go on for all these years when they noticed this condition earlier. That certainly is a very relevant question and if the Reserve Bank has not got a proper explanation for it, it stands to be condemned. Here, in this country, unfortunately I have been seeing that every action of an

authority is doubted. In the first instance it is doubted. Nobody wants to believe any action of the authority. The presumption is against the authority. It is a very dreadful state of affairs for this country because we immediately attack the credit of the authority and then we think that we must be more effective. How are we going to be effective? We must wait to see whether the authority has done something wrong. I have found—I have experienced it myself—that if a Minister is in a car and meets with an accident for no fault of his immediately the people draw an assumption that the Minister was responsible for the accident. That is the sort of atmosphere people have created. We are also, in our wisdom here in this House where we are the custodians of the whole country, adding to that sort of atmosphere. Is it right, and will it be helpful for the development of the country? I do not know. That is what I would beg of my hon. friends to consider, because, after all, it is not actual authority which is useful or which is effective, it is the acceptance of authority which is effective. However clever the authority may be, if it is not accepted, and if its *bona fides* are doubted, it will never be able to work. That is the position. It is therefore that I am pleading in this connection.

I am very glad and happy also that this debate has taken place, because it also helps us to resolve many issues and to clarify our minds about several things. Why was this not done? They went on telling them that they should take certain steps to remedy the state of affairs. After 1954 or so, the Reserve Bank also found that all such advances practically ceased to be made. These irrecoverable advances are mainly the old advances plus interest added on to them. That is also a very strange thing, for many of these advances, I think more than 51 per cent, are only clean advances, only on personal security, and interest also is

not received on them, but the interest is credited to profits and dividend given on it, and income-tax also paid on it. Then it is added on to the advances, saying advances have increased. That is how it goes on. This was also pointed out by the Reserve Bank, but all the while the directors of the Bank disputed the figures given by the Reserve Bank and went on saying that the Reserve Bank's figures were wrong and their own figures were correct. All the while they went on disputing. I will go so far as to say that in 1958 end, the Reserve Bank asked this Bank not to pay a dividend, to curtail it, to finish it, because they were not making any profit, they were making a loss which was eating into the share capital. There was nothing left of the share capital, the deposits were getting wiped out, therefore the Reserve Bank asked them not to pay a dividend. In reply a long letter was written to the Reserve Bank in the beginning of 1959 by one of the Directors saying that the Reserve Bank was wrong, that the Palai Bank was very sound, that the Reserve Bank was unnecessarily hampering its working, and but for that interference the Palai Bank would have doubled its deposits. The Reserve Bank was wise enough to accept this advice or argument, and insisted that no dividend should be paid and proper accounting should be undertaken. The account being rendered from time to time was not in accordance with the Banking Companies Act. They could not have shown this interest which was not recovered as recovered and shown it in profits and paid dividends out of it. So, when the Bank prepared its balance sheet in March, 1960, it had to show this and therefore for the first time a loss of Rs. 14 lakhs and more was shown. That made the trouble for the Bank.

As they said they did not agree with the figures of the Reserve Bank, the Reserve Bank patiently argued with them, and ultimately they said they were deputing a responsible officer to sit down with them to convince them

or to be convinced. They sat down in January-February, and the directors had to admit that the Reserve Bank's figures were correct. They admitted it orally, and now they say they do not admit anything, but there are witnesses for it. It is not that it is not right.

Now they have admitted that these are irrecoverable, and these are sticky. I gave you a sample of the "sticky" business, and you see what it means. They are not recoverable to a large extent. That is the position today. If out of Rs. 5.69 crores, about Rs. 3 crores could not be recovered, how is the Reserve Bank going to maintain this Bank after a run takes place? It only means that some amount can be taken away, the rest can go wherever they want to go. Therefore I said that the Reserve Bank was completely right in taking the step that it took at that time. If it had not done so, then certainly I would have blamed the Reserve Bank and I would have said that it had failed in its duty. If they were not strong in the earlier days, and if they did not refuse a licence, they did so because they would then have had to refuse licence to several banks. And what would have happened then? Just now, when this bank crashes, many of my hon. friends argue that the whole banking industry will fail and people will lose their confidence. But if many of these are refused licence, what will happen?

Therefore, the Reserve Bank had to exercise patience and proceed and see that the other banks are helped to rehabilitate themselves. That is what they are doing.

I must say that the Reserve Bank have done a good piece of work. Somebody can do it better, perhaps, I do not know if it cannot do it better; but from what I can see, at least I could not have done better than the Reserve Bank. That is what I have got to say. It is, therefore, that I am

[Shri Morarji Desai]

supporting the Reserve Bank or I am saying that the Reserve Bank is right. If the Reserve Bank was wrong, I would have not hesitation in telling this House that it is wrong. Government are not interested in maintaining any wrong anywhere, or in supporting it even when it feels that there is a wrong. That is the attitude that this Government have always adopted in all matters.

Therefore, it will be seen that no commission of enquiry is going to alter these facts.

Shri Punnoose: May I seek a clarification?

Shri C. D. Pande (Nainital): It is so clear.

Shri Punnoose: It is not so clear to me. All people are not equally intelligent. Therefore, may I seek a clarification? The hon. Finance Minister said that it was right that the Reserve Bank did not intervene earlier. I agree, but was it not possible for the Reserve Bank at some stage to step in and take over the management or appoint their own General Manager and dismiss the existing Board of Directors?

Shri Morarji Desai: They did this in 1960; the General Manager was appointed. As I said, if the run had not come, then they would have also taken steps to see if it could be rehabilitated by various methods. That was why that General Manager was appointed. He took charge on 1st July. And because the unfortunate officer took charge at that very time, and it has gone into liquidation in his time, now, everybody is trying to pounce on that officer and on the Reserve Bank and do not see any wrong in the management of the bank earlier.

The bank was told all the while to mend matters but it contested about the figures. I have got two letters before me as to what was written then

in 1958, when they said that this dividend should not be paid. The Reserve Bank said that in the letter that was written. It shown what the Reserve Bank has been saying; but the management of the bank were contesting all the figures, just as they are contesting even now, but they are contesting it outside. None of them saw me. That is also very peculiar, because I would have shown them the figures to show that what they were saying is wrong. My hon. friends here believe in talks in the lobby. Well, I do not want to cast any reflection on the lobby, but it was referred to by one hon. Member here, that so many things are heard in the lobby. Many things are heard in the lobby. In the lobby, something was talked about my friend and predecessor. It was said to him that I had found fault with my predecessor in this matter, and this was conveyed to him. There could not be any greater lie than this. How could I ever find fault with him? If he is found fault with, then, I am equally responsible. I am not so stupid as to lay fault on somebody else, which also comes to me. I may be a rogue, but I am not so stupid a rogue.

You can call me a rogue if you like; that does not matter to me, because if I am not a rogue, then, whatever you tell me does not matter at all. That is how I take it. But, at any rate, I do not, and I would not accept the charge of stupidity in this matter. That is all that I have got to say.

Therefore, one has to be patient in this matter to know the facts. Now, who is going to alter these facts? I want to know. And who is going to suggest new facts? Now, this is the position of this bank. Is it very seriously argued that the State Bank or any other Bank should take it up and write off the loss of Rs. 3 crores? How can that ever be done? It is not merely the depositors' money in this bank that would come up, but the other depositors in other banks also

will raise this question immediately. If any bank which is very prosperous takes this up and writes off the loss, I may have nothing to say, but there again, you will say that the Reserve Bank have failed in their duty in allowing this bank to take up this liability, and if it afterwards comes into trouble and has to go into liquidation, you will say that this Reserve Bank and this Finance Minister were absolutely rotten. Let us not argue both ways. It is, therefore, that the Reserve Bank cannot look upon such an arrangement with any favour. They have got to give correct advice. If in spite of all this any bank wants to take it up, I certainly would not stand in its way. But I will try to see that it is sound and that it will be able to bear the loss of Rs. 3 crores.

Therefore, the only question which remains is how best to serve the depositors who have come into a very sorry plight. Many of them have been in a very miserable condition. I have no doubt about it. But what am I to do with this misery? I cannot remove all the misery. It was said that Government give money to refugees or to other people and that is also tax-payers' money and that is given to a few people. That is not so. We do not give money if any fire breaks out. We do not give money when thefts take place or robberies take place. We do not compensate people in those situations. But when natural calamities take place, we give help to rehabilitate themselves. We do not compensate anybody. We cannot because that is an impossibility.

Shri A. K. Gopalan: Why not catch the thieves?

Shri Morarji Desai: In this matter, there is no question of helping the creditors and depositors because they will receive some money. It is not that all the money is lost. Thanks to the action of the Reserve Bank, the depositors will receive some money. We will try to see that they receive

the maximum money. That is all I can promise to this hon. House. To that end, we are thinking of taking several steps. We will have to get the law amended. We cannot do it otherwise. But we will try and assess the whole thing quietly and find out how much money can be recovered, and whatever can be recovered can then be distributed quickly. Then the State Bank or its subsidiary can take up that part and distribute it quickly. They need not have to wait. The State Bank or the liquidator can recover the money as quickly as possible.

We also want to see, if the House, accepts it, an amendment can be made to the existing arrangement which is for paying only up to Rs. 100 in full. I should like to make an amendment— or Government may like to do so— whereby we pay up to Rs. 250 in full, and then the remaining is paid *pro rata*. Of course, before that, there will be some preferential claims also which will have to be paid even before the depositors are paid. They are salaries of servants and things like that. All these things come in. When one takes into account the assets, one forgets the other liabilities; it is not merely the depositors who have to be paid; there are also other liabilities. The shareholders are not going to get a farthing. If they had not paid fully their share capital, perhaps they would have been called upon to pay more. That is all that would have happened to the shareholders. But in this case, the shares have been fully paid. Therefore, there is no question of calling upon them to pay more.

Shri Warior (Trichur): They have got undue dividends already.

Shri Morarji Desai: But they have lost their capital completely.

Therefore, it will be seen that Government are not unkindful of this. We are also now thinking of taking several steps in regard to all the other banks which are there. We will try to take steps and do every-

[Shri Morarji Desai]

thing to see how best we can make their position so strong that such a crash does not occur again. I cannot guarantee that such a thing will not occur again. But we are trying now to see that that does not happen. For that also, an amendment of the Act will be required. We want to amalgamate certain banks. There are 100 banks in Kerala. You can imagine what the 100 banks can be, of what size they can be. Again, they are not all of them bad banks. Many of them are doing well. But they cannot stand if there is any difficulty.

Shri Warrior: Most of them are collapsing.

Shri Morarji Desai: No, none will collapse in spite of all your desires.

Shri Punnoose: On a point of order. Yesterday also when I said that there was going to be a general crash out of genuine apprehension, the hon. Finance Minister said that that was perhaps what we wanted. Again he says immediately my hon. friend interjected that that is what we want. It is very wrong on the part of a senior Minister to get up and say that we want the crash of banks. Anyway, he will go down in history as the Finance Minister who has been responsible for the crash of several banks.

Mr. Speaker: There is no point of order. I am really sorry at this. The hon. Minister takes the full responsibility to see that, as far as possible, there is no crash that takes place. That is his endeavour and responsibility. Hon. Members are aware of it and, therefore, they have had an opportunity to discuss this matter. Now, if hon. Members make an allegation that the banks are collapsing, that they are crashing, is it not proper for the hon. Minister to ask, 'Why are hon. Members making this allegation here?' It is trying to accelerate the banks' collapse.

Hon. Members can make statements here; but then it will lead to a run on these banks. Hon. Members must realise their own position here. It is not an easy thing. So, when the hon. Minister asks, 'Is it your desire?', though it may not be their desire, the effect will be that. Therefore, hon. Members will try to be patient. This is a very delicate matter. Nothing shall be said against a bank unless one has got inside knowledge. The Reserve Bank after looking into the affairs of this Bank said something and it comes up for criticism. Hon. Members may say on the floor of this House that they are likely to collapse. But they ought not to say that. It is a very delicate matter.

Shri A. K. Gopalan: We have got three telegrams. That is why we say that. We do not say that all the banks have gone. (*Interruptions*).

Shri Morarji Desai: I may say that all telegrams may not be believed. Even after the House knows the figures that I have given, is there any doubt that the figures I am giving are not correct? Then, why go about it in this manner? I have said, even before, that the Reserve Bank is trying to take every step to see that no bank which can be saved is allowed to go to ruin. That is what I have said. That is what we are trying to do. (*Interruption*). Certainly, if one bank cannot be saved what can we do? I cannot injure the good on account of the bad. That I cannot do. Therefore, I say that all the while when my hon. friends are saying that there is going to be a crash, it is helping the crash and it is not preventing it. If you want to promote confidence, for God's sake, do not say that they are going to crash. That is all I have to say. If the word 'desire' that I have used has hurt them, I am sorry. I would not like to use that word.

After all, hon. Members can have many jokes and repartees and so many things; but one repartee they

cannot bear. Why should they mind, if there is no desire. It is only when the cap fits that the man gets angry. If it does not fit, why should he get angry. I do not know why they should have felt hurt. I will be careful, certainly, to see that I do not hurt their feelings. I have no desire to hurt their feelings. I would be wrong in doing so. But I thought that in parliamentary life people take these things in a sporting manner. (Interruptions).

I hope what I have said will satisfy the hon. House about the rightness of the steps taken by the Reserve Bank and the Government in the Palai Bank case.

Shri A. K. Gopalan: One clarification, Sir. What about action? When there are thieves and robbers, are they going to take any action to see

that those who are guilty are caught and punished?

Shri Morarji Desai: I said, even before, that wherever any legal action can be taken, I am going to see that legal action is taken. But legal action is always a difficult thing, as the hon. Member who is trying to get up, Shri Sadhan Gupta, knows. He is concerned every day in getting accused acquitted. That happens and one has to be careful. Government has to be very careful in that matter.

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

18.34 hrs.

The Lok Sabha then adjourned till Eleven of the Clock on Wednesday, the 24th August/Bhadra 2, 1882 (Saka).
