also, the decision will be taken as having been concluded by the vote on the Resolution. Or, if necessary, by way of abundant caution, I will put it also. There will be a single discussion. I am not going, to give precedence to the Bill over the Resolution. It is in that order that I will continue.

The Resolution will stop at this stage. The Bill will be moved for consideration. The general discussion will be applied for both. We are evolving procedures. What is the harm?

THE RESERVE BANK OF INDIA (SECOND AMENDMENT) BILL

Shri T. T. Krishnamachari: Mr. Speaker, I beg to move:

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

I am at a disadvantage in that my hon. friend Shri Bharucha has spoken at length on a matter not wholly relevant to my Bill. I shall not, therefore, be replying to the points raised by him at this stage. We have to leave it towards the end. I shall only refer to the Bill that I am placing before the House for its acceptance.

It is a matter of common knowledge that the Reserve Bank of India Act was amended in September 1956 in the light of the requirements of the Second Five Year Plan. Prior to that amendment, the Issue Department of the Bank was required to hold as a minimum gold or foreign securities backing to the extent of about 40 per cent. of the notes in circulation. It was felt that the principle of linking note issue with foreign exchange reserves was anachronistic under present conditions and that it was in any case incompatible with the implementation of the Second Five Year Plan. Accordingly, we then broke away from the proportional reserve system in favour of foreign exchange prescription in absolute terms. The Act as amended in 1956 required the Issue Department of the Bank to hold as a minimum 115 crores worth of gold and Rs. 400 crores worth of foreign securities. The Act also provided for reductions in the holdings of foreign securities below the level of Rs. 400 crores for specified periods after consultation with the Government as long as the holdings of foreign securities were at no time less than Rs. 300 crores. This relates to section 37 and the proviso to it.

In the event, the degree of flexibility that is provided by this amendment has been found insufficient. The House is aware of the continuous strain on our balance of payments since the Second Plan began. Our import bill has gone up considerably in keeping with the requirements of the Plan for capital goods and for raw materials. It has become necessary, in addition, in view of the fact that our food shortage exists, to import large quantities of food and also to add substantially to our defence requirements. Some part of the increased import bill is undoubtedly due to increase in world prices. At the same time, it has not been possible to increase our export earnings substantially in order to meet this gap and in the short run we had to contend with a heavy balance of payment deficit. While a part of this deficit has been met by assistance from countries which are friendly and from international agencies like the World Bank, we had to rely heavily on our accumulated sterling balances for bridging the gap.

In July this year Government permitted the Reserve Bank to reduce foreign securities in its Issue Department below the prescribed level of Rs. 400 crores. The amount of foreign securities held by the Reserve Bank, however, continued to decline and on the 25th of October last, the aggregate amount of foreign securities held by the Issue Department was slightly above the permissible Rs. 300 crores limit. It was in these circumstances that it became neces-

[Shri T. T. Krishnamachari]

sary to promulgate an Ordinance on 31st October amending the Reserve Bank Act so as to reduce the requirements of the Issue Department to a minimum of Rs. 200 crores in gold and foreign securities of which not less than Rs. 115 crores shall be gold. Further, section 37 of the Reserve Bank Act to which I have made reference was modified suitably to permit the Reserve Bank to reduce foreign securities with prior sanction of Government for specified periods. The Reserve Bank of India (Second Amendment) Bill, which I am moving now, is intended to seek the approval of Parliament for legislation embodying the provisions of the Ordinance.

Hon. Members will recall that the Government has taken a number of measures to reduce the drain on our foreign exchange reserves. All non-essential imports have been cut drastically and every effort is being made to permit the imports of even essential capital goods on suitable deferred payment terms. Government are also exploring every possibility of increasing export earnings and of augmenting the flow of foreign assistance. Despite these measures, it has not been possible to halt altogether the decline in our foreign exchange reserve partly as a result of the heavy backlog of outstanding commitments and partly in view of the fact that the implementation of the Plan in vital sectors has made it imperative to enter into some new commitments as well.

Already, the measures taken are beginning to take effect and the decline in our foreign exchange reserves in recent weeks has been significantly smaller than in the preceding months. I have no doubt that the measures that we have already adopted will in time bring the decline in our foreign exchange reserves if not to a halt, at least to certain minimum proportions.

The Government of India stand firmly by their declared policy of honouring all commitments and of carrying forward the Plan to the utmost extent possible, and to this end we continue to exercise the greatest vigilance in regard to promoting exports, eliminating all non-essential imports and attracting foreign resources. I would therefore like to assure the House that we would continue to watch the situation carefully and take such measures as might become necessary from time to time, consistent with our declared policy of honouring our obligations and carrying forward the Plan to the greatest extent possible.

In one sense the amendment is intended to serve these objectives.

While the proposed amendment is intended to meet the immediate situation, I would like to submit to this House that it is also in keeping with the latest thinking in regard to the proper functions of foreign exchange reserves. It is now generally recognised that under modern conditions it is no longer necessary to link reserves in gold and foreign exchange directly with the note issue, and that the proper function of foreign exchange reserves is to enable a country to tide over balance of payments difficulties from time to time. In the nature of things, every country has to contend with balance of payments difficulties periodically and to the extent that foreign exchange reserves are available for meeting these difficulties, it becomes possible to allow time for the necessary adjustments in policies to correct the adverse trend in balance of payments rationally and smoothly. It follows therefore, that high legal requirements as to the minimum amount of foreign exchange reserve that a country must keep defeat the very purpose for which these reserves are intended. Foreign exchange reserves are useful only to the extent they are freely available for use in times of emergency and in times of difficulty. By immobilising a large part of such resources as backing for note issue,

a country merely sacrifices an essential degree of freedom without any corresponding advantage.

The futility of high legal minimum reserves has been aptly pointed out by an authority on the subject of monetary policy, the late Lord Keynes when he said:

> "The legal reserves of the Central Bank merely lock away resources where they are useless, and the effective strength of a Central Bank entirely depends in practice on the amount of its excess reserves. Thus we have the pradox that the more strictly and conservatively the gold reserves of a Central Bank are prescribed by law, the weaker it is and the more utterly exposed to disastrous disturbances from every wind which blows. A Central Bank which was compelled to keep 100 per cent of its assets in gold would not be much better off than one which had no reserves at all."

The point I am driving at has also been illustrated aptly by the well-known analogy given by one of the living economists, Sir Denis Robertson in his remark that committing reserves as a backing for currency is "rather like saying that in order to ensure that there shall never be a shortage of taxi cabs, a certain proportion of taxi cabs must always be standing on the ranks."

It is in response to the considerations that I have just outlined that a large number of countries have modified their central banking legislation in recent years so as to abolish or suspend all reserve requirements. The Bank of Canada, for example, was required before 1940 to keep 25 per cent of its notes and deposit liabilities in gold coins and bullion. These requirements, however, have been suspended since May, 1940, and the bank is now given complete discretion in regard to note issue irrespective of the amount of gold it holds. Similar modifications have also been made in Australia and New Zealand; and countries such as Ceylon and Israel, where central banks have been set up recently, have avoided all statutory provisions of this nature.

I do not wish to enter here into a detailed comparison of central banking legislation in different countries, but it is, I think, a significant pointer that the latest advances in economic thinking have found a concrete expression in the central banking legislation of a large number of countries where the futility of prescribing legal minimum reserves has been recognised by legislation. The successive modifications we have made in our Central Bank legislation in this regard are, therefore, in line with the latest trends in economic thinking and with central banking practice in large parts of the world.

I need hardly remind hon. Members that if foreign exchange reserves are useful to the extent that they could be drawn upon in times of difficulties it follows equally that such reserves should be built up by conscious and deliberate policy whenever circumstances are favourable. Balance of payments difficulties, after all, will arise for reasons beyond our control on future occasions also. If reserves are utilised in one period of difficulty, these reserves should also be built up as soon as possible so as to provide a margin of safety in subsequent periods of difficulties. I would also like to mention that during the period 1952—55 end, we did add substantially to our foreign exchange reserves in spite of the fact that we kept our policy in regard to imports at a fairly even level, and I think we added much more than hundred crores. Therefore, I am on fairly firm ground when I say categorically that in all our future policies and plans we shall need to keep a very careful watch over the level of our foreign exchange reserves. The fact that foreign exchange reserves are necessary for meeting balance of payments difficulties and not as a

[Shri T. T. Krishnamachari.]

backing for currency does not imply that there is no need for husbanding carefully our foreign exchange reserves over a period of time. The justification for a greater degree of flexibility in the use of these reserves at this stage lies essentially in this, that our plans and programmes for development are at present in a crucial phase and that by carrying them forward we shall be adding considerably to our economic potential as well as to the long-term strength of our balance of payments. Hon. Members will recall that the emphasis on heavy industries which was given deliberately in the Second Five Year Plan was calculated to strengthen our balance of payments in the long run; and it is in view of this fact that we are giving high priority to projects in the core of the Plan in spite of their heavy foreign exchange content. The Second Five Year Plan has been framed with due regard to the long-term need of strengthening our balance of payments position. As our present plans and programmes get completed and as we take up new plans and projects for implementation, we shall need to adopt such policies as would lead to a general strengthening of our balance of payments and foreign exchange reserves. In this, as in all other matters, eternal vigilance is the price of freedom, and I can assure hon. Members that the Government are fully aware of the need for such vigilance.

I would like to add that in saying this it is unnecessary and indeed futile to link foreign exchange reserves with note issue, I do not imply that money supply or note issue has no bearing on the state of our balance of payments. In fact, the de-linking has already been done, but that does not mean that there is any justification for lack of caution.

12 hrs.

I would like to tell hon. Members that excessive increases in note issue of money supply will inevitably lead to the emergency of inflationary pressures, apart from other kinds of pressures, and if such pressures are allowed to get out of hand, they would react adversely on our ability to export, and, therefore, on our ability to import. The point, however, is that such restraints as are necessary on the total supply of money in circulation are better provided by means other than legal minimum reserves.

Perhaps, the most important factor affecting money supply under Indian conditions today is the operation of the Government budget. Parliament has already full control over budgetary policy, including the policy in regard to deficit financing by Government. The Reserve Bank of India has ample powers both under the Reserve Bank of India Act and under the Banking Companies Act to control the expansion of bank credit to the private sector, and as the House is aware, the Reserve Bank has acquired new powers, of late, to this end, as, for example, the powers to prescribe variable reserve requirements for the banks. There is, therefore, at present adequate machinery for exercising such vigilance as may become necessary from time to time in regard to the overall supply of monetary media for the economy.

There is yet another reason which is sometimes advanced in favour of a high level reserve, namely the need for sustaining confidence in the currency. I can only say that the minimum reserves that we have now prescribed, namely Rs. 200 crores in gold and foreign assets compare favourably with the actual reserves of a great many countries in the world. Our present level of gold and foreign securities at more than Rs. 400 crores amounts to some five months' for normal imports. There are many countries in the world including the U.K., which acts as a banker to the entire sterling area, where the present level of reserves amounts to hardly two months' imports. Even at the minimum level

which is now prescribed, our reserves will compare favourably with the state of affairs in many countries.

Hon. Members would also remember that apart from our own reserves, we are entitled to draw upon the IMF of which we are a member, to some extent. In the ultimate analysis, the confidence in a country's currency depends on the economic potential of the country and on the morale and wisdom of its people and its Government. Whatever that may be, I have no doubt that as long as we hold fast to our policy of honouring all obligations and of taking such measures as may become necessary from time to time for safeguarding our balance of payments position, the confidence in the Indian rupee will be maintained at the very high level which it enjoys today.

Sir, I move:

Mr. Speaker: Motion moved:

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

Shri Bimal Ghose: (Barrackpore): I am not opposed to the Bill which the Finance Minister has moved for consideration, and, therefore, also to the provisions embodied in the ordinance. But I am certainly opposed to the promulgation of an ordinance for the purpose.

It was agreed that ordinances should not be used to cover purposes which could be foreseen. You would remember that during the last session, when the Essential Services Bill was sought to be rushed through, one of the reasons given was that otherwise an ordinance might be necessary.

But so far as this matter is concerned, the trouble about our reserves was something which was not unknown at least to the Finance Minister, and there was also sufficient time before the last session to bring forward a Bill. So, it is really unfortunate that instead of bringing forward a Bill during the last session itself, the Finance Minister should have taken resort to an ordinance

Now, with regard to the provisions of the Bill, two things arise. One is with regard to the reserves that we might or might not consider necessary to maintain against our notes, and the second is the position in connection with our foreign exchange reserves.

With regard to the first point, while I agree to all the arguments which the Finance Minister has put forward for lowering the reserves, I am really surprised that he should argue to maintain any reserve at all. It is true that in the past, most of the countries and most of the central banks used to maintain reserves, both for ensuring the stability of the note-issue and also for foreign exchange purposes. But as he has pointed out—I need not repeat those arguments—those arguments do not, or are not supposed to, hold good today, because it is the Government which has become responsible for the currency. As he has pointed out, Parliament has control over the budget. Therefore, I do not see why there should have been any reason for maintaining any reserves at all.

When the 1956 Bill was moved for consideration—at that time, I was a member of the other House—by the Minister who is now sitting here before us, he pleaded for Rs. 400 crores reserve. We said that no reserve should be necessary. He gave two reasons, the first of which was the psychological consequences of a complete removal of cover provisions. He also said:

"On a consideration of various alternatives, and in the context of our conditions, it is considered best to prescribe the minimum reserve in absolute terms both in gold and foreign exchange."

At that time, Government felt that it should be Rs. 400 crores in foreign exchange, and Rs. 115 crores in gold

[Shri Bimal Ghose]

and gold coins, that is, by way of revaluation.

Shri Naushir Bharucha: Now, they have become wiser, obviously.

Shri Bimal Ghose: But we did plead then. This shows that in August, 1956, Government had not an inkling of an idea as to the serious conditions of our reserves, because the Finance Minister was sure then that Rs. 400 crores of foreign exchange and Rs. 115 crores in gold and gold coins would be easy to maintain. He also went on to say:

> "We are not only legislating for a Second Five Year Plan and it is not proper and expedient that this matter of currency should be discussed publicly and repeatedly. So, it is better to have one formula which may serve the Government's purpose for some years to come.".

In a matter of about a year here is Government again with a Bill to lower the reserves. With a forward-looking Finance Minister as we have, I do not understand why it should at all be necessary to maintain this minimum reserve. Other countries, as for example, U.K. and also many other countries have done away with the reserves, and there is no cover against the note issue.

We might even adopt the Japanese practice, which, I believe, would appeal to our Finance Minister, where I find that the position is this, that all matters pertaining to the note issue are subject to the decision of the Minister of Finance, who acts.....

Shri T. T. Krishnamachari: It is for that reason that the hon. Member thinks that it will appeal to me?

Shri Bimal Ghose: That is why I say this:

> "The maximum amount of notes that the bank may have outstanding fixes the tax to be charged on excess notes outstanding beyond the fifteenth consecutive day, and determines the types and valuations of paper and securities eligible as monetary reserves.".

I have one objection to maintaining even this reserve at all of Rs. 85 crores of foreign exchange. So far as Rs. 115 crores of gold and gold coin are concerned, we have that by revaluation. Although the Finance Minister has provided that, if necessary, all this provision may be done away with, that is, both the Rs. 85 crores of foreign exchange and the Rs. 115 crores of gold and gold coin, yet whenever he wants to do so or the Reserve Bank wants to do so, Government permission will have to be taken. That means there will be same publicity about it, and then it will mean that the public will start saying that something has gone wrong with position. And again, the Reserve Bank has to take recourse to the provisions in the Act for bringing down the reserves to a figure less than Rs. 200 crores.

Since we know that the position of the rupee or its standing in the international market is quite safe, there should have been no necessity, as I have been trying to argue, for these reserves, because we have seen that although we brought down our reserves from Rs. 515 crores to Rs. 200 crores, the rupee has not suffered in the international market in value, a thing of which we should be proud.

Therefore, I should like the Finance Minister to reconsider and see whether it would not be much better to do without the reserves altogether, or if, he does not agree, at least to bring down the reserves to only Rs. 115 crores in gold and gold coin, and keep nothing for foreign exchange. Then, if he does not tamper with that reserve of gold and gold coin, he will have that all time, without considering whether the Reserve Bank should take advantage of Rs. 85 crores which may be held by it.

Mr. Speaker: At the time Rs. 400 crores was sought to be made the

minimum, the hon. Member suggested that there be no need for any reserve at all. Evidently, Government have now accepted the suggestion and brought it down to Rs. 200 crores. The next step will be nothing. Why should he now force the Government immediately to have nothing, not even Rs. 85 crores in foreign exchange?

Shri Bimal Ghose: Whenever you have a discussion on these matters, people say that there is something wrong with our rupee and Government have to explain such matters. Therefore, in such matters the less discussion we have, the better for the country.

The second point is with regard to our foreign exchange. Everybody knows that it is very difficult. I need not go into the causes why it is difficult today, because we have argued that position on more than one occasion. So far as most of the Members are concerned, I believe they are satisfied that Government policy has also been to blame. The Prime Minister conceded that point day before yesterday when he was speaking on the Plan. But we want certain information as to what is the position today. About the foreign exchange reserves, I want to know what are the outstandings at the moment and how Government expect to meet them.

It has been calculated that unutilised licences amount to about Rs. 400 to Rs. 800 crores. What is the truth of that? What is the amount of our unutilised licences at the moment, licences which were issued not today but quite a few months ago, and what are Government going to do about them? What is the position that Government expect in regard to our international trade? What is the Finance Minister's estimate of the rise in exports that might come about, if any, because the position has not been quite satisfactory in the recent past? Our exports have gone down; at the same time, imports have to increase because of the Plan. So I should like to have from the Finance Minister a sort of balance sheet of the position today for the next year. He gave a figure of Rs. 700 crores. I should like to have the break-up of that figure. How much of it is for unutilised licences and how much he expects to be for licences that have still to be issued, and how he expects that gap to be covered? What does he expect by way of foreign assistance and what by way of our international trade position?

I should like to conclude by saying that the position is really serious so far as our foreign balances are concerned. There is no need to emphasise the point. We want information on that. So far as the cover that he is seeking to maintain against our note issue is concerned, I should like him to reconsider the position and bring it down to only Rs. 115 crores to be made up of gold and gold coin and not to keep anything in terms of foreign exchange.

Shri Sadhan Gupta (Calcutta-East): While I support the Bill, I also have to oppose the Resolution regarding the Ordinance. But in opposing the Resolution regarding the Ordinance, I have to offer an explanation because normally, our party on this side of the House does not approve of legislation by Ordinance. When an Ordinance has to be considered, we have to consider it not only on its merits but on the necessity of promulgating it at all. Even when on merits the Ordinance is unexceptionable, if we feel that it need not have been promulgated without consulting the House, without having the matter discussed in the House, we do not approve of it. In this matter, we feel very strongly on the merits. We support the Ordinance and the Bill on its merits. We also think that in this instance at least the promulgation of legislation by Ordinance was justified.

The reason is that a situation arose where something had to be done. Our reserves were falling short and something had to be done for it;

[Shri Sadhan Gupta]

otherwise, we would have landed in a crisis, in a sort of deadlock. There is no doubt a good deal of truth in the accusation of Shri Naushir Bharucha that the foreign exchange muddle has been the creation of Government. When we were planning for a development economy, we ought to have foreseen very long ago that we would have needed foreign exchange and not pursued an import policy of what I may call a reckless character during 1952, 1953 and even 1954. Through that unplanned pursuit of a reckless import policy of consumer goods, we had succeeded in dissipating our foreign exchange.

Also there is much truth perhaps in Shri Bimal Ghose's imputation that we should have foreseen this foreign exchange crisis and brought forward a Bill in the last session.

In both respects, Government have committed an error. The question is whether on account of that error, we should disapprove of the Ordinance. Government did commit an error. Let us say as the result of an error, a certain situation arose in which a deadlock was threatened. Under those circumstances, if we now disapprove of the Ordinance, what we do is to block the Bill altogether—block the passage of the Bill altogether. Are we justified in doing it, even assuming that Government had been at fault previously? If we do it, we land our country into a mess. There is no other way for it. It is not a party matter. It is a matter concerning the whole country.

If we disapprove of the Ordinance because Government did commit an error, in the first place by following a reckless import policy and in the second place, by not anticipating what ought to have been anticipated long ago, if we disapprove of the Ordinance on these grounds, we will create a deadlock for which I think no responsible Member of Parliament will take any responsibility. That will be creating a deadlock by stopping all supplies when we start on our path to industrialisation and development of the country. That is the reason why in this instance we take a rather exceptional path of opposing a Resolution of the kind proposed by Shri Naushir Bharucha, which we would, in normal circumstances, have supported.

Coming to the merits themselves, today this reduction of reserves is a welcome move, as Shri Bimal Ghose has also explained, because there is no sanctity in maintaining any kind of reserves, except so much as is required to tide over certain difficulties with regard to provision of foreign exchange.

Now, there are countries like Ceylon who do not require the statutory minimum reserve. Those countries are doing pretty well without it. There is no great threat to their currency or to their economy because of the absence of the statutory reserve. As a matter of fact, this system of statutory reserve is a ghost from the old times which need not haunt us any longer.

How did this statutory system of high reserves come to be established in our banking system? We all know that formerly there was the gold standard and gradually with the difficulty of maintaining the gold standard several countries maintained what was called the proportionate reserve system. It was all right for the economy of those days, a normal economy which had no stresses due to the pressure of developmental expenditure. Therefore, by maintaining the proportionate reserve system we restricted the supply of currency and that way we went on till we found, as a result of the execution of the First Five Year Plan and as a result of the projects in the Second Five Year Plan, that that kind of reserve system was such a great fetter on our economy that it would effectively stifle any attempt to develop our economy.

Therefore, we had to abandon the proportionate system in favour of a statory minimum of Rs. 400 crores of foreign securities and currency.

Shri Bharucha has no quarrel with that. He says that the framers of the Reserve Bank Act very wisely foresaw that we would have foreign exchange difficulties and in their wisdom they provided Rs. 400 crores as the minimum, subject to that being reduced temporarily to Rs. 300 crores. Shri Bharucha has no quarrel with it but he has a quarrel with the reduction of the statutory minimum reserve to Rs. 200 crores in the aggregate of gold coins, bullion and foreign securities.

His principle objections are two. Firstly, today the velocity of money has increased and whereas, previously, in their wisdom, the framers of the Reserve Bank of India Act had provided Rs. 400 crores as a protection, we are reducing it today when we should actually increase it because of our velocity increasing.

Secondly, we have to get sufficient foreign exchange resources to meet the foreign exchange demands for the next 18 months or, perhaps, 3 years, and particularly to meet the peak load demands, as he very picturesquely puts it.

May I remind Shri Bharucha that as far as the velocity of our money is concerned, the statutory minimum that was provided by the framers of the Reserve Bank of India Act in their wisdom would be no protection? Today we could reduce the minimum to Rs. 200 cores of foreign securities. But even if we kept Rs. 400 crores foreign securities and Rs. 115 crores of gold coins, Rs. 515 crores of reserves, there was no bar to our increasing the volume of our currency say to Rs. 8,000 or Rs. 10,000 of whatever thousands of crores we wanted and there would be no check on it. The same position remains by reduction of the reserves. If we reduce the reserves now from Rs. 515 crores to Rs. 200 crores, no difference is made as far as inflationary potentialities are concerned because we may still keep on pumping currency.

But there may be something in what he says about foreign exchange resources and that has to be dealt with. He wants us to keep the reserve of Rs. 400 crores so that we can meet our foreign exchange demands effectively. Is it necessary to maintain such huge reserve in order to meet our foreign exchange demands effectively? There are countries which do not have a statutory reserve and yet they are meeting their foreign exchange requirements. And, particularly, I believe, it would be quite the other way round. If we had to keep a high reserve, we would be all the more unable to meet our foreign exchange demands. If today we reduce our minimum from Rs. 400 to Rs. 200 crores of foreign exchange and 115 crores of gold—we would at once be in a position to meet our foreign exchange demands up to over Rs. 200 crores. But if we keep the reserves at the old level, we would at once be in a crisis. We would not be able to meet our foreign exchange demands.

Therefore, what is necessary today is not to be haunted by the old idea of a statutory minimum reserve or proportionate reserves to evolve a safety device inside our own economy so as to stabilise our currency. If we do not ourselves evolve safety devices, if we do not ourselves pursue proper measures to guarantee the stability of our currency, the mere Rs. 400 or Rs. 500 or Rs. 1000 crores of foreign security reserves will not help us out of our difficulties.

What threatens our currency today is not the depletion of foreign exchange reserves but the inability to control prices, the inability to control credit in certain directions. The prices of every commodity are going up today. Yet we do not pursue a price control policy and keep our prices reasonably stable, then we sustain confidence in our currency, whatever might happen to our foreign exchange

[Shri Sadhan Gupta]

resources. Today we are unable to control credit in certain directions; for example, I had on two occasions put questions about the advances against other commodities being utilised for speculation in foodgrains. The hon. Finance Minister, in the first instance, told me that it is very difficult to determine whether such advances were being utilised for speculation in foodgrains. The other day he went one step further and said that some efforts were being made and that it would take years before anything could be done in this direction. This is an acknowledgment of defeat in a very important matter.

Mr. Speaker: Does all this arise out of this Bill? This relates purely to foreign securities, the reduction of gold and foreign securities from Rs. 400 crores to Rs. 200 crores. The other stands as it is at Rs. 115 crores. Of course, the Reserve Bank controls all the currency, but it is not as though anything can be said covering the entire economy life of the nation. I am only asking whether it is appropriate to this particular Bill.

Shri Sadhan Gupta: A point is made out that due to reduction in foreign exchange reserve our currency is theatened with inflationary pressure. I am trying to meet that argument by saying that this inflationary pressure must be checked not by increasing foreign exchange reserves but by other means. I am illustrating what other means to take, what has not been taken and what should be taken.

Mr. Speaker: He need not go into the details. It is enough to say that reduction in foreign securities does not necessarily lead to inflation; for inflation there are other causes. How they will be controlled and all that may be reserved for another subject.

Shri Sadhan Gupta: Foreign exchange reserves are not really the means to control inflation in our country. There are other things necessary. Sir, I will just shortly conclude. If we take years to stabilise, to prevent other advances being used for food speculation and thereby jeopardise the price of food, then it would be very difficult for us to check the stability of our currency through rise in prices. Therefore, I hope that the Government would pursue even a bolder policy in regard to foreign exchange reserves and protect our currency, stabilise our currency by suitable methods of credit control, being cautious in deficit financing and, in particular, adopting selective credit control in the matter of more important commodities of consumption on which the stability of prices would depend.

Therefore, If we adopt all these safety devices we need not be afraid of depleting our foreign exchange resources. After all, our foreign exchange reserves are for meeting our foreign exchange commitments, not for locking them up in our banks in order to create a false sense of stability of our currency.

Dr. Krishnaswami: Mr. Speaker, I listened to my friend the Finance Minister with the usual interest which his speeches deserve. I must say that it was a very learned speech on what the functions of a reserve should be. But, may I point out that many of the arguments that he advanced could well have been advanced in the year 1956 when we decided to snap the link between currency and reserves. We took the step then of having a statutory minimum reserve and in that there was no relation between the amount of currency and reserve. We had done so for the reason that any link between currency and reserve would be purposeless and was but a relic of the old gold standard days. Secondly, with the growth in deficit financing—I have noted the Finance Minister's words—currency was bound to expand, and if the link was preserved it would immobilise the existing gold and sterling assets which would be required to meet our pay-

ments abroad. At a time when this amendment was made the minimum statutory reserves were kept at Rs. 400 crores of foreign assets and Rs. 115 crores of re-valued gold.

[MR. DEPUTY-SPEAKER in the Chair]

13 35 hrs

This amount was thought to be sufficient as a stand-by against unforeseen contingencies such as a war or famine.

My hon. friend quoted from the writings of Lord Keynes and pointed out that the late Lord Keynes was very much opposed to anything like a link between currency and reserves. Lord Keynes pointed out that the purpose of this type of reserve was mainly to serve the purpose of what he called "a war chest" in an emergency or in a famine.

In view, however, of the expectations that large foreign payments were likely to fall during 1957, a clause was specifically put in the old Act of 1956 permitting the Reserve Bank to lower the minimum foreign assets, after consultation with the Central Government. There was also another clause to which I should like to invite the attention of this House, where it was pointed out that the Reserve Bank, only for the purpose of meeting temporary demands and for a limited period, could reduce reserves from Rs. 400 crores to Rs. 300 crores. I am only mentioning these facts to show what were the powers which we gave then.

Now what is it that we have decided to do? We have decided now to reduce the reserve of foreign assets from Rs. 400 crores to Rs. 85 crores and about Rs. 115 crores worth of gold assets. Even so far as these Rs. 85 crores are concerned, we can easily spend them without coming to Parliament for any further sanction, a point which will have to be borne in mind by many of my friends who ask as to why there should be any foreign exchange reserve at all for the purpose of meeting unforeseen demands.

Mr. Deputy-Speaker The situation is very much more serious than my friends are willing to admit, and I should like this House to bear with me for a few minutes as I feel that the time has arrived when we should analyse it as clearly as possible. The rate at which our demand for foreign exchange resources is growing is such that our foreign exchange resources would decline and the country will have no foreign assets in less than a year's time. Our exports continue to be stagnant. We have not as yet had any declaration of policy which would merely give us an assurance that there would be an expansion of exports at least within the next year or 18 months. Furthermore, the Plan is bound to make further inroads on our foreign exchange in about two years' time and this is a point which we would have to bear in mind, we would have additional pressure resulting from the need to pay off our deferred credits. The deferred credits may be credits, but they only defer the date of reckoning and we may as well give up the pretence of having Rs. 200 crores as emergency reserve.

Sir, the nature of an emergency is that it is unexpected and that it does not last for a long time. Our present commitments are neither unexpected nor are they for a short period. They will be with us for a very very long time.

While the present amendment is inevitable, and I do not in the least quarrel with my friend for having brought it forward since the foreign reserves have already touched Rs. 300 crores limit sometime in September, one should not look upon this amendment as anything else but a danger signal. And, it is here that I should like to have considerable enlightenment from the Government on what steps are being taken to meet the contingencies that will materialise possible in another seven or eight months. Have we taken all the measures necessary to increase our exports? What further commitments have we to enter into? Are we going to cut down our imports for some of

[Mr. Deputy Speaker]

our projects in the public sector which are not of a very very high grade priority?

My friend, participating in the debate yesterday, referred to the Rs. 4,800 crores figure which was said to be the financial limit which the Plannuing Commission had drawn up. There is nothing sacrossanct about Rs. 4,800 crores except that It was originally given out as the figure when the Second Five Year Plan was first published. One would like to know on what basis we have come to the conclusion that it is going to be Rs. 4,800 crores. What are the schemes of high priority which are to be pushed through? What schemes are going to be cut down? Because, obviously, if we do not know how we are going to cut down these projects, we are in for a period of very grave danger.

It is all well to speak eloquently on what the functions of reserves are. But in my judgement, that by itself does not touch the heart of the matter. What we have to find out is how we are going to face the new dangers and the new difficulties that are really going to come on us, and possibly in a great flood than we anticipate. In any period of planning, as my hon. friend has pointed out, we are bound to experience great difficulties. But, at the same time, having taken account of the fact that we do not have sufficient foreign resources, it may perhaps be wise even now, not waiting for the later period, to find out which of the particular schemes can be cut down which of the schemes can be pruned, so that we might not be caught napping when the real crisis comes in another eight or ten months. Unless this is done, there will not be an assurance that the successive lowering of the statutory minimum are not engendering complacency inGovernment circles; an assurance that has to be given that everything is being done to maintain the value of the rupee.

I am glad that at present the value of our rupee is being maintained. But do remember that unless we are going to take positive steps to find out how we are going to cut down, to find out where we should cut down the Plan, where we should effect economines, we are likely to face a very dangerous situation six months later when our position might be much worse off.

My hon. friend spoke of foreign aid. I have from the beginning been one of those who has espoused the idea that we should go in for foreign aid and if the Finance Minister is willing to put up a fight for it and take steps for it, certainly we should be inclined to support it. But, apart from our going in for foreign aid, let us find out how we are going to earn foreign exchange resources within the next eight or ten months. Our cotton textiles have not shown any buoyancy in the way of exports and certainly some of the other important articles that we have for exports do not seem to show any increased tendency towards expansion. All these things are very disquieting and unless we are willing to apply our mind to these basic facts, the mere fact that we have altered our present currency system and we have become modern is not going to help us.

The crisis is on us and we might have to face it. There will be a more serious crisis in another eight or nine months unless we take positive steps now itself to build up sufficient resources to meet any contingency.

My hon. friend spoke of our having no foreign currency resources at all. It is true that a country need not specifically build up foreign currency resources which are merely locked up. But for certain emergencies we must have some of them, particularly as we might face very great difficulties. And if the time for payment comes and we do not have these resources, it would be a very very difficult position for us. It is these factors to which I should like our mind to be directed.

I would like to be more enlightened on how far the Government is really attempting to understand the difficult-

like. Even then the prices prevaling we are able to cut down the imports in some part of our public sector and have a rigid economy, it would not be possible for us to have anything like a safe margin within the next eight or ten months. I hope and trust that even now, before it is too late, policies will be promoted which lead to a growth of our exports and particularly attempt would be made to study how these exports should be promoted in the different markets and on what terms.

But, let us also remember that while the present system of deferred credit do not cast a great burden on our current resources, when the time for repayment comes, in the event of our not having sufficient foreign exchange resources, we would be in for a very very difficult situation. Then it is that the threat to the rupee will materialise and then it is that we will suffer for the short-sighted policies that we are pursuing at present.

Shri Heda (Nizamabad): I support the Bill and oppose the resolution. I was surprised to hear one particular word from the hon. Member, Mr. Bharucha. He said that our Government is going bankrupt and the introduction of the Bill and the promulgation of the Ordinance are signs of it.

Shri Bimal Ghose: The Finance Minister agrees with it.

Shri Heda: I thought that Mr. Bharucha had better choice of words. What are we doing at the moment? In fact, what we are doing now is making sound investment. We are using our foreign resources for a better purpose so that the country's production may increase, our standard of life may go up and our internal resources may expand. Even if we take a narrow view, from the point of view of foreign exchange, all that we are doing at the moment by losing this foreign exchange is that we are not only not saving but in future we will be earning more foreign exchange. Therefore, what the Bill proposes to do is not to make us bankrupt but to enable us to make sound investment. In fact, more sound investment cannot be envisaged. Let us look into it with the proper perspective instead of taking an alarming view and creating unnecessary care. I agree with Mr. Ghose and Mr. Sadhan Gupta that there should be no need for maintaining any statutory reserve in foreign exchange at all. Why should there be such a reserve? We are an independent country. Our rupee has its own standard and it finds a very good place in the international market. There are countries where our rupee is preferred even to the sterling. There may be a country or two where our rupee is preferred even to the dollar.

Therefore, when we have established our own name, when our country has established a name for meeting the obligations and making payments in time, there is no need for us to have some statutory foreign reserve in the shape of gold, bullion or foreign securities. We have already taken the first step. Now if we take the second step of scrapping out the provision for maintaining foreign reserves, the country would be taking the right step and in this respect I support the views expressed by Mr. Ghose and Mr. Gupta and others.

Mr. Gupta, while discussing the stability of rupee, mentioned one factor. He said that we are not able to control the prices and, therefore, the rupee is not stable. A month or two ago, an international survey was made about the stability of different currencies—dollar, sterling, rupee and other currencies. In the survey it was found out that our rupee has got better value and stability than even the dollar and far greater value than the sterling. In the last ten years, the survey tells us, the price of rupee has gone down by about 11 per cent in the real market, whereas the dollar has gone down by about 30 per cent and the sterling something like 45 per cent. Therefore, to say that we are not able to control the prices is not the whole truth. Maybe we are not able to con-

[Shri Heda]

trol the prices to the extent we would like. Even then the prices prevailing in this country are much lower than those prevailing in countries all over the world.

Mr. Bharucha while discussing the foreign exchange position, referred to a news item that appeared in today's papers. Today's newspaper told us that President Eisenhower is not in favour of introducing a Bill in the Congress to give a large loan to India. That is a small item of news and from that our friend has concluded that probably no aid, no foreign exchange, would be coming from the United States. Therefore, he has been asking the Finance Minister from where he expects to get foreign exchange.

How much of foreign aid in the form of loan or deferred payment we can expect from the United States or West Germany, or France or England, or any of the countries, it is impossible to say for anybody—even for the Finance Minister: I am not one of those who would be inclined to rely upon such aids. But let us not unnecessarily rush to conclusions that no help would be coming at all. We may not depend upon it. We may build our plants on the loans or aids that would be coming, or as they would be coming. But let us not rush and come to conclusion that we will not be getting any assistance so far as our foreign exchange difficulties are concerning.

There is increasing appreciation of the Plans that our country has put through Nowhere in the world is there any doubt about the success of the First Five Year Plan. In my tour of the United States and other countries I found that students of international economics and politics were feeling that our Second Five Year Plan is quite ambitious. There is no doubt about it. But then it is very necessary that we have to make adequate progress, if the objective of a social welfare State is to be achieved.

The recent tour that the Finance Minister made to the United States of America and other countries has again created a climate and I cannot pay more glowing tributes than has been already paid by Mr. Masani. Whatever its results may be and whatever may be the aids that would be coming, there is no doubt about it that he did a fine job in a country where for some reason or another there has been some misunderstanding and a sort of prejudice against our economic policies. America is a country where the word "socialism" is taboo. The feeling in the United States is that since they have made the greatest economic progress, the rest of the world should follow them. Therefore, there is a feeling there that we are not proceeding on the lines they did.

In such a country the Finance Minister created a good climate and I think whatever the aid that may be coming, and whatever its quantum may be, we should not rush to any conclusions that nothing would be coming. Moreover, different countries have different procedures. In the United States there is a particular procedure. In certain respects, the President there is more powerful than our Prime Minister; but in certain other respects, our Prime Minister has more power and authority than the President. Here, the Finance Minister in certain respects is much more powerful than the President in the U.S.A. under the American constitution.

Our Finance Minister can bring a Budget and that Budget is generally passed without a comma being altered and therefore he can guide the nation's economy. There, though the Budget is presented formally by the President, it is scrutinised and amended, not once, but many times. So, the procedure in the United States is quite different, and if we take that into account, I do not think there had been any move, or there had been any indication that the aid or assistance in foreign exchange may not be forthcoming. Rather a student of United

States economics and politics would come to the conclusion that all things are moving in the right direction, so that we may expect quite a satisfactory assistance from the United States and other countries.

Mr. Bharucha in his speech asked one question and that question is generally asked all over the country. We do not know what are our requirements even for the core of the Plan, so far as foreign exchange is concerned. Last week, and even today, quite a few questions were directed to the Planning Minister and he gave us an idea as to what is the core of the Plan from the foreign exchange point of view. But when it was asked as to how much foreign exchange it would involve he was not able to reply. The country in fact would be glad if the Finance Minister would tell us that so far as the core of the Plan is concerned, how much foreign exchange is involved and out of that how much is already met and how much we have to meet, so that we may know whether there is any real ground for anxiety or no anxiety at all. If we feel that there is no room for anxiety at all and that we have already met our commitments towards the core of the Plan we will be glad. Rather they say that they have selected particular items as the core of the Plan. In fact, the Finance Minister included into the core the power projects. Some of the Members were of the opinion that these power projects—Mr. Dange was one of them—may not be included in the core of the Plan at all. He said that it can wait for the third Five Year Plan.

So some of us feel that the Finance Minister was emphatic in including these power projects, simply because he was quite sure or had already made arrangements for that much of foreign exchange. There are some—I believe Mr. Bharucha is one of them—who feel that out of the Rs. 700 or Rs. 800 crores of foreign exchange that is needed for the next eighteen months, barely Rs. 80 or Rs. 100 crores is available and we have not much in reserve. Thus we will have to muddle through. Whether this section is right or that section is right, it would be quite clear if the Finance Minister takes the country into confidence and states, so far as the core of the Plan is concerned, how much foreign exchange is involved, out of that how much has already been arranged and out of the rest, we can judge by our reserves and other resources.

14 hrs.

No doubt, there is one very happy development. Whenever a Plan is made, estimates are made and the foreign exchange involved in it is separately mentioned. Formerly, it was not done. That was not the practice. Now that is done. But, it is too meagre and that is not sufficient. Let me state that we are not happy that in the last two weeks, for so many supplementaries, the Finance Minister avoided the question and he was not able to give us the actual figure about our present condition of foreign exchange.

Mention was made about our export and import position. It was stated that our imports are increasing and exports are not increasing accordingly and, therefore, we will be in further difficulties after a few months. On the face of it, it looks like that. If we analyse the imports that we are making, we will find one very praiseworthy feature. It is that we are not importing consumer goods. Rather we are importing raw materials essential for our industries. We import so many chemicals, the type of chemicals that we are not able to manufacture in our country. These are chemicals necessary to run our various industries. So the composition of the imports is such that it is not only saving our foreign exchange, but it may help us in speedily industrialising our country.

It is also possible that as time passes, there would be lesser and lesser need for importing these materials. Therefore, we will be switching on some other materials which are more and more necessary for more developed industries. Therefore, if we look at the breakup of these imports, we may come to the conclusion that planning

[Shri Heda]

in this connection is very commendable. As time passes, there is every likelihood that imports of these particular commodities will go down.

If we look at the exports, there, again, we find that some of the items are such which we cannot control. Take the case of tea. It is not possible for us to control the price. It involves a very complicated question. Even in exports, I think the trends, as they are, are hopeful. Therefore, as I stated earlier, because of his insistence on including power projects into the core of the Plan, if we find out our present foreign exchange position, the country may be able to come to its own conclusion whether our foreign exchange position is sound or whether there is anything left for anxiety.

With these words, I suport the Bill and oppose the Resolution.

Shri Parbhat Kar (Hoogly): Sir, I welcome the Bill. But, I would say the time and why it has been presented have given rise to so much of discussion which easily could have been avoided and apprehensions in the minds of the common people and persons in interested quarters which easily could have been stopped.

In 1956, when the legal minimum was reduced to Rs. 400 crores, it was suggested that there is no necessity to keep this legal minimum. Because even the Finance Minister today admits that in advanced countries the Central Banks do not insist on maintaining a higher legal minimum, easily the amount of Rs. 400 crores could be reduced. I would have liked the Finance Minister to give the reason only that, as it is not necessary to maintain a proportional reserve to the currency, as today the old gold standard is outmoded and as we want to utilise this amount of foreign securities which we are holding, we are reducing the legal minimum and we are completely eliminating the foreign securities holding.

As he has presented that the whole country is passing through a crisis because of our folly, becauses of the policy that we have pursued and as a result of that it has become inevitable today to reduce this minimum to Rs. 200 crores, naturally the question arises, why this crisis. This, naturally, will make us discuss about the foreign exchange position and import-export policy. The last part of the Finance Minister's reason could have been the only reason to bring down the minimum. But he has put the foreign exchange crisis as the main reason. Subsequently, in supporting this, he has quoted Lord Keynes and other countries' Central Banks and sought to justify his action.

I would suggest that it does not tell upon the stability of a country's currency if the legal minimum is reduced The rupee is as stable as it was before and the stability or value of the rupee has not diminished because of this legal minimum. But, before reducing this legal minimum, an atmosphere has been created. Take first the cry of dearth of foreign exchange. Then, to go round different parts of the world for certain financial help and to make even this statement that without financial help our Plan will not succeed; the Finance Minister comes back; the people come to know that there is no possibility of help; then to pass an Ordinance to reduce the foreign exchange reserve of the Reserve Bank. Common people will link up this matter that because we are today facing a crisis, we have been forced although we should not have been and naturally, today, there is a possibility of even the papers thinking in terms of devaluation of the rupee. This requires a categorical assertion on the part of the Finance Minister that this reduction in the legal minimum of the reserves does not give the picture of the insecurity of our currency, nor is it a financial bankruptcy, but that as we want today to utilise money more and more instead of keeping it in reserve and blocking it, this step has

been taken. It could have been done earlier. We did not do it, but we are doing it now. If in August 1956 when the reserves were reduced to Rs. 400 crores this step had been taken, perhaps there would have been a sense of security in the minds of everybody that this is not because of an inevitable situation created by our own policy, of the failure of our policy even in planning.

We do not take things seriously. Today we are reducing the reserves to Rs. 200 crores—Rs. 115 crores of gold and Rs. 85 crores of foreign securities—but what is the basis? Why was this not done in August 1956? Why are not foreign security holdings completely eliminated, but Rs. 85 crores are retained? The Finance Minister has not said anything about it. He has not taken the House into confidence as to the reason why this limit cannot be reduced further. After making the minimum Rs. 400 crores, it is now being made Rs. 200 crores. Again he may come forward with an amendment that this Rs. 85 crores of foreign securities may go.

Shri Bimal Ghose: That will not be necessary. We can reduce it to zero under the Bill.

Shri Prabhat Kar: We are not opposed to it, but at least let the country know and have full confidence that this has got nothing to do with the stability of the currency, that the rupee is as stable as it was before, and that there is no need to keep the reserves in the present advanced banking and economic situation.

I quite realise why Shri Bharucha has raised this question. It is because of the situation created by the Finance Minister. Already there is a feeling that because of our foreign exchange crisis, our Plan is going to be completely pruned, and though it has not been stated exactly what part of our Plan we are going to adhere to—we have made certain vague statements—the net result is that our economy is in a crisis. Naturally Shri Bharucha raises objection and wants a categorical statement.

So far as the ordinance is concerned, again it gives rise to this feeling that we were almost on the verge of a crisis, and in order to save that crisis we passed the ordinance. We could have waited for some time for the Bill, but that has not been done. So, today if there is a sense of insecurity, if there is a talk against this particular step of the Finance Minister outside the House or amongst interested quarters, I would say the reason is the policy of the Government, the way this reduction has been made, and for that I would say the responsibility lies with the Finance Minister.

I would like that we should be very, very serious now. The other day the hon. Prime Minter said: "I am perfectly prepared to admit that with a little more careful planning, a little more looking ahead in regard to our import and export, the strains would have been slightly less." After putting the country into a crisis, if we say that we are prepared to admit that with a little more careful planning we could have slightly lessened the strain, it does not speak well of a responsible Government. It gives the feeling that even in serious matters we do not take care or take cognizance of what others says. We carry on in our own way without caring to listen to what the others say, and at the last stage we come forward and say: "All right, we are prepared to admit that there may be some mistake, but after all, the major framework is there and we will go forward." When we made a reduction in August 1956, it could have been reduced to Rs. 85 crores, but now we are doing it without giving the basis why we are keeping this Rs. 85 crores or Rs. 200 crores.

I would only point out that although we are still insisting that there was no necessity for us to keep this minimum, in order to dispel the psychological impression that may be created in the country, there is need for certain categorical statements. We

[Shri Prabhat Kar]

should make it clear that with some more vigilance we shall be able to tide over the difficulty of foreign exchange, and that this step that we have taken to reduce the minimum limit of reserves is not going to effect our business policy.

Seconly, I think a categorical statement will be required that the stability of the rupee will not be affected, because in the common man's mind for a long time there has been a feeling that the currency is backed by a certain amount of gold. If the people know today that the gold reserve or the security reserve is being lessened, they may feel that perhaps the rupee will lose its value. We have got to tell them that it is not so. We have to make a statement that even if the sterling balances disappear altogether, it will not hamper our trade. It requires a statement from the Finance Minister.

We have got to make sure that the rupee does not lose its value and that it is as stable as it was before. This categorical statement is also necessary from the Finance Minister because there are persons in interested quarters who have already started speaking against this particular action, and saying that this is going to create further complications in our trade, that without sterling balances it will be almost impossible to carry on trade. In order to stop this gossip of the persons interested in discrediting India's economy even in the international market, this statement or assurance from the Finance Minister is necessary.

I would say that I am opposed to Shri Bharucha's resolution because the step that has been taken is welcome. Although generally we do not like that ordinances should be promulgated, that the law should be made through ordinances, since in this case we are in agreement with the aim that the Government wanted to achieve, we are not opposed to the promulgation of the ordinance. I would, however, like the Finance Minister to make it clear to the nation while this Bill is passed that this does not show a sign of the bankruptcy of our economic policy.

Shri T. K. Chaudhury (Berhampore): In spite of the strong support that has been given to this Bill by some hon. Members on this side, I must categorically state that I oppose this Bill and I support the resolution moved by Shri Bharucha. This means I oppose the ordinance which we are discussing.

Firstly I am opposed to the manner of passing the ordinance, the manner in which the ordinance has been rushed through. I am opposed to the timing of the ordinance. Although Government spokesmen did say as soon as the ordinance was passed that this should not be regarded as "a pessimistic footnote" to the disappointing results of the Finance Minister's tour abroad soliciting foreign exchange aid for our Plan, people know how to put two and two together. The Finance Minister goes out to solicit foreign exchange aid for our Plan, comes back, keeps mum, and then the Government comes out with this ordinance. And people need not even put two and two togester. Even Government themselves have been frank, for they have stated in the Statement of Objects and Reasons:

> "Experience has shown that consistently with the requirements of the Second Five Year Plan, it is not possible for the Reserve Bank to comply with the requirements of section 33(2) of the Reserve Bank of India Act in regard to the size of the foreign securities holdings....".

So, Government have been very frank inspite of the solicitude of Shri Prabhat Kar and his friends about the good intentions of Government. Government have plainly

stated why they are bringing forward this Bill, and why they passed this ordinance.

Thirdly, I am opposed to this Bill on a more fundamental ground, namely in so far as it raises the question of confidence in the Government. This Bill gives almost unlimited fiduciary powers in the hands of Government. If we were convinced that these powers would be judiciously used, if we were convinced that these powers would be used in running the national economy for the good of the common man and not for the benefit of the privileged classes, then we would certainly have accorded our support to this Bill.

Unfortunately, however during the past one month, various statements have been made by Government and Government spokesmen, which have clearly brought out the fact that the present-day economy, in spite of our high-sounding ideological professions, is run in the interests of what has come to be known in rather equivocal terms as the private sector.

I might refer here to the speech of one gentleman, which has gone rather unnoticed in this country. I mean the speech made by the gentleman who happens to be the Governor of the Reserve Bank of India, delivered at California lately. I do not know how he happened to be there, and in what capacity he was there. It was reported that it was an international conference of industrialists. Our esteemed friend Shri M. R. Masani was there on behalf of a group of industrialists. Some members of the Birla Mission were also there. The Governor of the Reserve Bank also went there. I was astounded to read that speech wherein he has made the statement that although the justification for the Plan is given in ideological terms, as a matter of fact, there is nothing ideological behind it, and that our economy is dominated by the private sector and will continue to be dominated by the private sector for the foreseeable future.

Now, this is the statement that has been made by one of the two gentlemen, in whose hands we are giving these fiduciary powers, the other being, of course, the Finance Minister who has come forward with this Bill before the House seeking those powers.

Shri Heda just referred to the excellent climate that has been created by the tour of the Finance Minister abroad, in the USA, in Germany, in Great Britain, in Canada and everywhere. Not only Shri Heda, but another esteemed gentleman, although he is not a Member of this House, namely Shri G. D. Birla, who led the Industrial Mission to USA and other countries lately has been saying—and he had started saying it even while he was on tour in the USA—that a wonderful climate has been created by our Finance Minister. I do not know whether the Finance Minister has been reported aright. Sir, these are very embarrassing days. I do not know whether he has been quoted by press correctly. But it has been reported that in the USA he somewhere made the remark that the USA itself was a socialist country. Naturally, if he makes that kind of statement in the USA, the people in the USA would certainly like our variety of socialism or socialistic pattern very much; there is no doubt about it.

Now, coming to the provisions of the Bill, the Finance Minister has said, our Communist friend Shri Sadhan Gupta has said, Shri Bimal Ghose has said, and last but not least, Shri Prabhat Kar has said, that this is a very ideal type of measure, and that really this fiduciary reserve is not at all necessary. Lord Keynes had said that as early as 1924. Why then did Government take so much time to discover it, and discover it only on the morrow of the Finance Minister's return from the USA? Do Government want us seriously to believe that had the Finance Minister's mission been more successful in getting foreign exchange resources for our Plan, he would have come forward with this Bill? Does the Minister really want us to believe, and do our hon. friends who have supported

[Shri T. K. Chaudhury]

this Bill want us to believe that this has been done only on text-book grounds, only on the grounds that an eminent economist of the calibre of Lord Keynes had advocated for the abolition of these currency reserves?

Sir, the facts are very plain. We are short of foreign exchange resources, and we must have them, and, therefore, we are, so to say, scraping the bottom of the barrel. But that is only one aspect of the matter.

Now, there is also another aspect of the matter. We are entrusting Government with unlimited powers to print notes in unlimited quantity. Where is the guarantee that Government would not misuse that power or would not employ that power for profit inflation of the so-called private sector, which the Governor of the Reserve Bank said the other day, is dominating and will continue to dominate the Indian economy in the foreseeable future? That aspect of the matter has to be taken into consideration very seriously.

We are thankful to Government spokesman, from the Finance Minister down to the other official spokesmen who do not occupy his exalted position, for frankly stating that we are running our economy today for the benefit of the private capitalist sector.

But what is the guarantee then that this power to print notes in unlimited quantities which we are giving in their hands will not be utilised for creating an atmosphere of profit inflation so that the eminent gentlemen who went to the United States and other countries in an industrial mission or the other eminent gentlemen—Shri M. R. Masani was amongst them—who represented or sought to represent our country in that international conference of industrialists at California, may profit not unduly benefit?

Mr. Deputy-Speaker: Is the hon Member likely to take some more time?

Shri T. K. Chaudhuri: Yes.

Mr. Deputy-Speaker: Then he may resume the next day. We take up non-official business now.

COMMITTEE ON PRIVATE MEMBERS' BILLS AND RESOLUTIONS

NINTH REPORT

Shri Easwara Iyer (Trivandrum): I beg to move:

> "That this House agrees with the Ninth Report of the Committee on Private Members' Bills and Resolutions presented to the House on the 20th November, 1957."

Mr. Deputy-Speaker: Motion moved:

> "That this House agrees with the Ninth Report of the Committee on Private Members' Bills and Resolutions presented to the House on the 20th November, 1957."

Shri Tangamani (Madurai): We find that there is a Bill to be introduced by Shri P. K. Deo to amend the Constitution of India. Permission is being withheld to this in the Report. There is also a reference to the findings of the first Committee Am I to take it that whenever an attempt is made to amend the Constitution of India, leave to move the Bill will be withheld by the Committee?

Shri Easwara Iyer: In fact, the Committee had considered the question of amending the Constitution raised by the Mover of that Bill Really, it is not a case of withholding permission always. But it is a case where he wanted to amend particular articles involving amendment of various other provisions of the Constitution also. We thought that it would not, in the circumstances, be desirable to admit it. It was only on that ground that the Committee withheld permission.