

THE VICE-CHAIRMAN (SHRI JAGESH DESAI): Except Shri Shankar Dayal Singh, nobody else. Ask pointed questions, if you want.

श्री शंकर दयाल सिंह (बिहार): उप-सभाध्यक्ष महोदय, माननीय गृह मंत्री महोदय ने जो बयान दिया वह मैंने ध्यानपूर्वक सुना। मैं केवल एक बात जानना चाहता हूँ। आपने यह कहा कि कोर्ट ने किसी तरह के कंस्ट्रक्शन, परमानेंट कंस्ट्रक्शन की मनाही की है। यू० पी० सरकार का कहना है कि जमीन को पर्यटन विभाग ने लिया है जो उसे समतल कर रहा है। जो तथ्य हमारे सामने आए है अखबारों में और आपने भी वहाँ जाकर के देखा है कि 15 फुट की नींव डालकर उस पर चबूतरा बनाया जा रहा है। मैं आपसे एक बात जानना चाहता हूँ जिस समय हम लोग यहाँ बहस कर रहे हैं और आप जवाब दे रहे हैं वक्तव्य दे रहे हैं अगर आज या कल रात में उस चबूतरे पर कोई मन्दिर खड़ा हो गया कोई भगवान रख दिया गया तो मैं आपसे यह जानना चाहता हूँ कि आप कौन-से कदम उठावेंगे, यू० पी० सरकार कौन सा कदम उठाएगी और कोर्ट का फैसला क्या होगा?

THE VICE-CHAIRMAN (SHRI JAGESH DESAI): You can respond, if you want to. No. O.K. Now we are going to...

SHRI SHANKAR DAYAL SINGH: That is very important. I want to know from the hon. Minister....

THE VICE-CHAIRMAN (SHRI JAGESH DESAI): I cannot compel the Minister. I have asked him.

SHRI SHANKAR DAYAL SINGH: As a protest against the non-committal reply of the Home Minister, we are staging a walk-out.

(At this stage several hon. Members left the Chamber.)

SHORT DURATION DISCUSSION ON THE STATEMENT REG. IRREGULARITIES AND FRAUDULENT TRANSACTIONS IN BANKS AND OTHER FINANCIAL INSTITUTIONS—Contd.

SHRI SUBRAMANIAN SWAMY (Uttar Pradesh): I would like to begin by just taking advantage of your good nature and make one correction. What the Home Minister has said is that the BJP is not pro-Hindu; it is anti-Muslim and all their programmes are oriented that way. Let me not say they are pro-Hindu. They have nothing to say about the Hindus.

THE VICE-CHAIRMAN (SHRI JAGESH DESAI): Go ahead with the subject matter. (Interruptions).

SHRI SUBRAMANIAN SWAMY: There is no doubt in the mind of any one of this House, whether it is the Minister or the Opposition or any other Member, that there has been a scandal of gigantic proportions in which forgery, misrepresentation and a whole lot of other things have taken place. In view of the fact that there is already a CBI inquiry, in view of the fact that there is already a special court and in view of the fact that there is a Joint Parliamentary Committee which has been announced to be set up, I would rather not go into these questions of criminality of a particular Director or a particular bank. That is not the issue. The issue clearly is whether there has been a moral lapse or an administrative lapse at the very top. And if there has been, that could have been prevented by our reaction. I know the Finance Minister and I know his reputation. I cannot believe that willingly he would be part of any of these scams. He has a responsibility to answer to this House by way of presentation of documents, if necessary, that indeed whatever could be done humanly was done. And what needs to be categorically brought out is that when the matter was brought to the notice of the banks by the Deputy Governor of the Reserve Bank of India, as early as July, 1991, why is it that

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the Reserve Bank of India did no more than just wait for another six or seven months before it produced a report, I believe, in January, and ultimately brought it to the notice of the Finance Minister in March this year? Really speaking in the context it was raised by Mr. Yashwant Sinha during Question Hour today, whether certain other bank officials have been asked to go because of the fact that there has been a moral lapse or an administrative lapse. The Governor of the Reserve Bank of India, by the way was not appointed by Mr. Manmohan Singh. He was appointed by our Government. I am not holding him responsible for making his appointment. But I am not able to comprehend as to how the Finance Minister can reach a decision that the Governor of the Reserve Bank of India, is in no way responsible for what has happened. He may not have been benefited by it. But certainly he was the head of the agency which was supposed to monitor this closely when there was sufficient advance warning. Therefore, I would say that it would be in the fitness of things if the Governor of the Reserve Bank of India quits on his own or if the Finance Minister asks him to go because I say that there is no other way. In the case of the Minister it is a much more complex relationship between what has happened below at the administrative level and what comes to his knowledge. That is a question which I am sure the JPC will look at. So the first and foremost thing to be clarified by the Minister is to what extent and at what level was this known and in what period of time. Today during Question Hour, the Finance Minister has answered about himself. But I would like to know whether it is a fact that the Ministry of Finance at the official level knew about this as early as January. Of course, the Reserve Bank of India knew about it much earlier. So I would like him to clarify the extent to which the Finance Ministry itself was in the know of the things before action was initiated.

The second is what are the steps he is taking to see that such things don't

happen in future? It is not enough just to tighten the Securities Act. But there is something amiss here because there is clearly a nexus between politicians, officials and private sector—shall I say, operators. This nexus has been there for a long time. One knows that when you have a highly over-regulated system, then, this kind of nexus is likely to be strong I would like to know precisely what steps is he going to take to see that such things don't happen in the future.

Finally, I would like to know his opinion, his views on how far the Indian economy has been liberalised, reformed and moderated in the context of what has happened. This is a question that has been asked worldwide. Actually I may say I was in the United States last month and there was an utter shock over the securities scam which could have been forged in this manner. In fact, a good friend of mine, who was a Wall Street banker said that if this is widely known, if this is widely publicised, it will affect the foreign investment that would come to India. Now, I think, there is also a need for us to consider whether the reform, the way we are going about it, has certain dangers which appeared in the share market. I am sure with the booming of the stock market, many people may be gladly thinking that this is an indication of the success of their policy. But any economist knows. And I certainly knew much before March that something was going wrong in the securities market when I looked at the Price-Earnings ratio. This is a very simple aggregate which any economist knows and certainly, Mr. Manmohan Singh knows as a Professor of Economics of long standing. We had been together as Professors. I have great regard for his expertise in economics. Unless he has forgotten all that. . . .

THE VICE-CHAIRMAN (SHRI JAGESH DESAI): Share market, not securities market.

SHRI SUBRAMANIAN SWAMY: When the Price-Earnings ratio, that is, Price of the Share/Dividend, crosses 30, normally it is an alarm bell for anybody. But they were going at 400; in some

cases even at 1000. In some cases, the value was more than the value of the company itself. Unless Mr. Manmohan Singh, at that time, was in the seventh cloud, not caring about what was happening, he would have noticed it. These statistics are regularly brought to the notice of Ministers, particularly the Finance Minister. The Price-Earnings Ratio, as early as in December, was already at sky levels, unheard of levels, at levels which were unprecedented. I wonder whether he, at that stage, should have recognised that the forces that were being let loose were going to create such a situation and therefore, whether he had some new thoughts about the liberalisation packages. I am, of course, very much in favour of liberalisation.

THE VICE-CHAIRMAN (SHRI JAGESH DESAI): I know it very well.

SHRI SUBRAMANIAN SWAMY: I am totally against socialism. I feel that the Indian economy is over-regulated and today we are still a poor country after 45 years of independence because we did not release the energies of the people. But there are ways to release this bottled-up economy; there are ways to free it. Has the Finance Minister given thought to the subject?

These three questions are broadly what I wanted to ask him. Thank you.

SHRI VIREN J. SHAH (Maharashtra): Mr. Vice-Chairman, Sir, since this debate started, events have moved very fast. The Prime Minister announced the setting up of a Joint Parliamentary Committee. There was the resignation of a Cabinet Minister, a very competent Minister, particularly in such economic restructuring, playing a very key role. And a large number of newspaper reports are there which every day bring out something sensational, including the question whether several Ministers and officials are involved. Now, these have brought the Government under a cloud. Not only in India, but abroad also. I share a number of views expressed by Dr. Subramanian Swamy; not always, but in this particular matter, I do.

SHRI SUBRAMANIAN SWAMY: What do you share?

SHRI VIREN J. SHAH: I share the various views, not the share market. If you are in the share market, I am willing to share it with you.

I share his views in regard to factors which have basically brought down the credibility of the Government in India, with the Indian people, and also the credibility of officers and Ministers. Not only in India but abroad also. Now, this is not something that anyone, whether on this side or on the opposite side, would at all want to happen, particularly when we are giving a new dimension to our economic policies. There is an international concern mentioned many times. I think there was a German delegation here which mentioned about the stock markets remaining closed for a long time and said that it was a dangerous signal. They have also said that the international community will be watching how openly and how honestly the Government of India or Parliament or the Joint Parliamentary Committee goes about finding the truth. And this concern affects the restructuring process itself to a certain extent. I believe a very well-known American bank has written a letter to the hon. Finance Minister which has appeared in newspapers indicating—I saw it just this morning—that share markets remaining closed for a day creates problems and here for five weeks they remain closed. The Finance Minister, this morning, in reply to a question, mentioned that it is before the court. But the court has said that all parties must come together and one of the major parties is the Government of India through its custodian and I do not know what has happened today. But I think we should go beyond this fraud. I think this fraud is a manifestation of immense greed that has gone into our system particularly during the last twenty or twenty-five years due to declining moral values. We have had many scams in the past and some of the facts brought out in this very House still merily go on. So, this is one of the major manifestations of greed that we have now acquired for power and money. I

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think, we the politicians, are primarily responsible for that because what starts from the political level goes down to the level that we see. Then we start getting hold of junior officers and others to begin with or people outside. I was thinking that if such a thing had happened, try to imagine what would have been the scenario even from the ruling party benches if Jawaharlal Nehru was the Prime Minister and Feroze Gandhi was alive as a Member of Parliament? How would he have gone about it? How would the Prime Minister and the Government have reacted to it? If you look at the Chagla Commission's report you will find that Justice Chagla did not hold T. T. Krishnamachari or H. M. Patel responsible in the sense of having committed something irregular or improper. But it certainly held that the ultimate responsibility rests at the level. I think, we might want to look at and study the judgement of Justice Chagla. I was wondering whether the response of the Government at that time would have been like what we have had so far. With great respect and with some sense of sorrow, I would like to say that the response so far has been vague and evasive. I know that the Prime Minister and the Finance Minister are concerned about it. But the statements, the Janakiraman Committee Report, they are all defensive. They are before us and I would like to quote the statement made by the hon. Finance Minister on 4th May in this House. I am going to quote two sentences. He said, "increase in prices of shares was on account of several factors including the expectations of the investors generated by improvement of overall economic environment and the rise in the level of foreign exchange reserves." Now, if this is so, it is like a doctor saying that when he finds that the temperature of his patient is going up, it has crossed 101 degrees, 104 degrees, 104 degrees or 106 degrees—the danger level—he comes out and says, "This shows the confidence of the patient in me that I am his doctor. He is a hot-blooded person, a warm-hearted patient and that is why his temperature

is going up and there is nothing to worry."

THE MINISTER OF FINANCE (SHRI MANMOHAN SINGH): You read the next sentence also.

SHRI VIREN J. SHAH: I am sure the Finance Minister will come out with the next sentence. I am going to read another paragraph. I am going to read two more sentences. My time is limited. I have to be selective. I may add "some months ago, I had asked the Reserve Bank to set up a group to look into the bank frauds and to report any additional preventive measures." This all shows that several months back, there was this indication of frauds going on. But it took months for this group to even look at it till on 19th April, *The Times of India*, Delhi edition and not the Bombay edition because the Bombay edition of *The Times of India* killed that news, brought out a report of Sucheta Dalal, bringing out the scam in the State Bank of India and then it was raised in Parliament and subsequent events took place. Why do I say 'vague or defensive'? The hon. Finance Minister on that day said, "there is no cause for undue alarm. The Government is keeping a close watch on the situation." This was the time when signals were there. Now, before I come to the signals, I would like to say that there is also another factor which we must keep in mind. We are having an antiquated banking system which is highly corroded and particularly because of political intervention, over a period of time. (the political) intervention in the banking sector has been such that it has corroded and there is a regime of over-regulations. With that 19th century apparatus, we were planning to move into the 21st century and this also is a factor that has to be kept in mind. This was fuelled by the uncontrolled Government expenditure in the eighties. We have the data from 1980 to 1990, the way in which the deficit went up, the expenditure went up. How did we deal with that? By heavy borrowings by the Central and State Governments. And how do we borrow? By securities. There is not a single decade in the history of

India when such huge securities were issued to the banks and the banks are bound by the SLR ratios which required that they must buy. At the same time the banks which were not making profits, which were window-dressing, and it was brought out in this very House—Mr. Vice-Chairman himself also spoke about it and the earlier Finance Minister had said—have been given a kind of format in which the balance-sheets should be much more open.

So they had a need to make profit and find a way and there were others who indicated how to go about it in buying and selling securities in which the frauds also took place.

Let me come back to the signals. I think Mr. Subramanian Swamy also indicated this. The first signal was inspection of Bank of Karad in 1990 by the Reserve Bank. And in 1990 the Reserve Bank found that the Bank of Karad operations, particularly in securities, were undesirable and they must be regulated. For two years the Bank of Karad merrily went on doing wrong things, the other banks kept on buying at those banks receipts which were fraudulent which were not genuine and it continued. Then the Finance Minister has said—and it was brought out here—that in July, 1991 the Deputy Governor sent out a letter to all the banks which was read out by Comrade Gurudas Das Gupta and the last sentence of the letter was: "They are asking the banks to formulate policies and report back to the Reserve Bank." There is no mention whether any kind of monitoring was done, whether any kind of monitoring was done, whether any questions were asked. "Have you sent it to us?" There is no mention. If it were there, one could see them. But action began only in January, 1992. In January, 1992, six months after that! Apart from that, the signals were very very clearly given by the Bombay Stock Exchange Index, known as Sensex, going up and going up in a manner which was extraordinary and that was at a time when the global stock exchanges were showing a downward trend

while the Indian Stock Exchange was showing a trend of shooting up. When it was shooting up, an extraordinary rise, I remember talking to people abroad, they were wondering what was happening in India when I talked to them and I also like the hon. Finance Minister was made to say that the people seem to be having great expectations of liberalisation. But the reality was different. Let me give you only one number. On 2nd April, 1991 the Sensex was 1,209. Exactly one year later, on 2nd April, 1992 it was about 4,387. Nowhere in the world the index has risen like that. And the Government have the global experience, what is happening in the United States, the United Kingdom, Japan, South Korea stock exchanges. In other socialist countries what happened after what Brezhnev's son-in-law did and amassed several millions or what Ceausescu did in Romania? I am not talking about all these things, but that even did not alert them and there was a flow of heavy funds. Now there was no corresponding industrial growth. There was a tremendous cash crunch for productive purposes and yet the stock exchange was flushed with money. Would not any person in the Finance Ministry of Reserve Bank enquire what is going on, from where these funds are coming? This was not only in March, 1992. In March, 1992 the hon. Finance Minister called the Governor and asked, but what happened even much before that, right from August? Some of the fraudulent practices were done by Bhupen Dalal. We have given too much publicity to Harshad Mehta, but I think the originator of the securities scam was perhaps Bhupen Dalal, who started even in early 1991 and it was going on at a lower rate and Harshad Mehta picked it and did it on a much popular scale.

THE VICE-CHAIRMAN (SHRI JAGESH DESAI): Please conclude, Mr. Viren Shah.

SHRI VIREN J. SHAH: When large scale securities transfers take place, does the Reserve Bank not look as to what is happening, why such huge securities are moving? ... (interruptions) ... I want to take two minutes of yours, Sir.

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The Finance Minister is defending the RBI; rightly or wrongly, I don't know. May be, it is a must for every Finance Minister to defend his officers. Up to a point he must, but beyond that point whether he should or should not is a matter of individual concern.

6.00 P.M.

Let us take the National Housing Bank, which has been talked about—a 100 per cent subsidiary of the Reserve Bank of India—on two aspects. Late Mr. Pherwani was appointed the Chairman. I don't know who appointed him and how he was appointed. He was there and is gone. But there was a particular track record of Mr. Pherwani. He was the sole person managing a very small organisation. He could not be unaware of what was going on. And in his 13-month period the securities exchange was Rs. 26,470 crores. Rupees twenty-six thousand four hundred and seventy crores worth securities were traded by the National Housing Bank in 13 months which was 132 times its paid-up capital. It was 100 per cent owned subsidiary of the Reserve Bank of India. No one thought about it.

THE VICE-CHAIRMAN (SHRI JAGESH DESAI): This is an annual one. You cannot compare it with the fund.

SHRI VIREN J. SHAH: Mr. Vice-Chairman, let the hon. Finance Minister deal with that. One hundred and thirty-two times the paid-up capital in 13 months! It is the same story about the State Bank of India. I want to quote from Mr. Harshad Mehta's letter which is here:

"All banks have been consistently making profits by following the practices for several years. The Reserve Bank of India has been fully cognisant of these practices. I am not aware whether the RBI has ever tried to stop these practices or ever publicly declared that these activities are prohibited."

This is the letter of Mr. Harshad Mehta.

THE VICE-CHAIRMAN (SHRI JAGESH DESAI): It is 6 o'clock, Mr. Viren Shah.

SHRI VIREN J. SHAH: I will quickly mention one or two points. I just want to draw the attention of the Finance Minister to five articles—I hope he has read them—that came in the *Business Standard* from 20th to 24th June written by Shri T.V.R. Shenoy—in which very strong and clear-cut accusations have been levelled.

Sir, if you could permit me I would like to make some suggestions. The Joint Parliamentary Committee must be made credible. I had the privilege to talk to the Chairman of the American House Committee which was in charge of the impeachment of Mr. Nixon, two weeks back and I have learnt that tremendously absolute and independent investigations were made. They are not bothered as to whether the Governor of Reserve Bank comes out in bad light or any Cabinet Minister comes out in bad light. So, honest information must be made available to the Joint Parliamentary Committee. It must be made credible to the people of India and abroad because the experience of the past one is not extremely praiseworthy. The Janakiraman Committee's two interim reports—how many more reports will come, no one knows—appear to shield the top persons of the RBI. Apparently he is the Deputy Governor. He cannot write much. He has said something about the Public Debt Office and what not, but it should be more careful, etc., after having denied that. I will not read that. I don't know how you can make the CBI fearless, because the answer is we have given it to the CBI. We have seen how the CBI has been functioning in the last five years, how it is allowed to function and how it is even prohibited, sometimes obstructed, from getting into the truth of the matters. I hope that this matter does not end up that way. A few more suggestions and I have done. We must move fast towards further proper deregulation keeping in mind that when thirty years of wrong doings are opened out cockroaches will come out, the dirt will come out. But we must be able to take care of that

and move fast and not slow down. It has already slowed down in the last six months. Implementation has been much more slowed down. Implement the Narasimhan Committee Report. Grant autonomy to the Reserve Bank of India in monetary matters which it had earlier during the British time. When Mr. C. D. Deshmukh was appointed the RBI Governor, the then Finance Member, Sir Jeremy Reisman, opposed an Indian to be appointed. But they persisted, the RBI got the first Indian to be made the Governor because of their independence. Amend the RBI Act. Reduce the high interest rates and the Government must refrain from interfering with the stock market through mutual funds and financial institutions. Let them function in a proper manner. are talking about transparency. But transparency in disclosure of mutual funds and F.I. operations are also required. It must be borne in mind.

THE VICE-CHAIRMAN (SHRI JAGESH DESAI): Please conclude. We have other business.

SHRI VIREN J. SHAH: Two more points, Sir. Stock-holding corporation be created for securities like PSU bonds in units and the public sector undertakings' investment the way in which it has to be off-loaded must also be done in a manner that satisfies everybody and does not invite criticism.

MESSAGES FROM THE LOK SABHA

(I) The Jammu and Kashmir State Legislature (Delegation of Powers) Bill, 1992.

(II) Re: Election to the Joint Committee on Offices of Profit.

SECRETARY -GENERAL: Sir, I have to report to the House the following messages received from the Lok Sabha, signed by the Secretary-General of the Lok Sabha:

(I)

"In accordance with the provisions of rule 96 of the Rules of Procedure

and Conduct of Business in Lok Sabha, I am directed to enclose the Jammu and Kashmir State Legislature (Delegation of Powers) Bill, 1992, as passed by Lok Sabha at its sitting held on the 14th July, 1992."

(II)

"I am directed to inform you that Lok Sabha, at its sitting held on Tuesday, the 14th July, 1992, adopted the following motion:—

"That this House do recommend to Rajya Sabha that Rajya Sabha do elect one member of Rajya Sabha according to the principle of proportional representation by means of single transferable vote, to the Joint Committee on Offices of Profit in the vacancy caused by the retirement of Shri Som Pal from Rajya Sabha and to communicate to this House the name of the member so appointed by Rajya Sabha to the Joint Committee."

I am to request that the concurrence of Rajya in the said motion, and also the name of the member of Rajya Sabha so appointed, may be communicated to this House."

Sir, I lay a copy each on the Table.

SHORT DURATION DISCUSSION ON THE STATEMENT SEE IRREGULARITIES AND FRAUDULENT TRANSACTIONS IN BANKS AND OTHER FINANCIAL INSTITUTION—Contd.

THE VICE-CHAIRMAN (SHRI JAGESH DESAI): At 6 o'clock we were to take up clarifications on the statement by the Minister of Railways. Do you want this to be taken up or the scam issue?

SOME HON. MEMBERS: Continue this.