

SHRI BHUPESH GUPTA: The hon. Minister has today made a statement that they have decided for mid-term elections. We are opposed to it. Have they consulted any other party?

SHRI LAL BAHADUR: In order to pacify Shri Bhupesh Gupta I might say that I did not say that we would hold mid-term elections. I said that in principle we agreed with the view that elections in these circumstances should be held as quickly as possible. We are still in consultation with the Election Commission. Therefore, I did not say that we had taken any decision. We will wait.

SHRI JASWANT SINGH: I also had . . .

MR. CHAIRMAN: No more. The question is:

"That this House approves the Proclamation issued by the President on the 25th February, 1961, under article 356 of the Constitution, in relation to the State of Orissa."

The motion was adopted.

THE BANKING COMPANIES (AMENDMENT) BILL, 1961— *continued.*

[MR. DEPUTY CHAIRMAN in the Chair]

SHRI JOSEPH MATHEN (Kerala): Mr. Deputy Chairman, Sir, the other day I was speaking about the responsibility of the Government and the Reserve Bank of India to take the initiative in the case of the Palai Central Bank either for its reconstruction or for some other action that might enable the Bank to enjoy the privileges that were extended to the banks that are now sanctioned moratorium. Sir, in the other House, the hon. Finance Minister stated that before they reopened any matter with regard to the Palai Central Bank two conditions were to be fulfilled: (i) that the honourable High Court of Kerala should agree to the reopening of the question, and (ii) that some

other bank should come forward to take up the responsibility of reconstructing the bank.

Now, Sir, as far as I understand, there is no reason why the honourable High Court of Kerala should object to the reconstruction of the bank, provided the Government of India or the Reserve Bank take the initiative to chalk out a scheme for its reconstruction. And, if at all the honourable High Court of Kerala refuses to give sanction for the reconstruction of the bank, at least the people of Kerala, who have been long suffering because of the liquidation of this bank and who have been complaining against the hasty action of the Reserve Bank and the Government of India with regard to the actions taken against this bank, will be satisfied that it is because of the judicial decision that nothing can be done with regard to the Palai Central Bank.

Sir, as far as I understand, some of the banks have now come forward to take up the responsibility of doing something with regard to the Palai Central Bank. The Canara Bank and the Central Bank of India have offered certain terms to do something to satisfy the demand of the people and the State of Kerala and the people of India in general, to save them from the difficulty that had arisen because of the crash of the Palai Central Bank. Sir, according to them, I understand that they have put up a suggestion that they will do anything to save the bank as the Government has suggested under section 45 of the Banking Companies Act in the case of the Indo-Commercial Bank and the New Citizen Bank of India. Since the Palai Central Bank has been ordered to be liquidated, or rather is under liquidation, now a decision or an agreement of the High Court of Kerala is necessary before we proceed any further in the case of the Palai Central Bank. So they have suggested an interim scheme before we get the sanction of the High Court to do something with regard to the Palai Central Bank. Sir, this scheme also can be submitted before the Ministry

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of Finance so that the matter may be taken up with earnestness and the demand of the Government of Kerala and the people of Kerala may be met in a sympathetic manner.

Sir, some objection may be raised with regard to the offer that has been made by the Canara Bank or the Central Bank saying that previously some suggestion was put forth by some of these banks whose offer was considered very low, and neither the Reserve Bank nor the Government of India could agree to such a suggestion. Now, Sir, the people in general and the depositors and the people who are concerned with the bank are prepared to accept the offer that has been extended to the Palai Central Bank by the Canara Bank or the Central Bank of India. I request the Government of India and the Reserve Bank to take a sympathetic attitude towards the feelings of the people of Kerala and the suggestions that have put forth by the Government of Kerala.

Sir, a word more with regard to the banks which have been sanctioned moratorium. The Government of Kerala has suggested certain schemes to reconstruct these banks without any trouble being created in the credit system of the State. I say that the Reserve Bank and the Government of India should accept the suggestion of the Government of Kerala so that further trouble in the credit system of the State may not be created by our indifference. Thank you.

SHRI BHUPESH GUPTA (West Bengal): Sir, I would like only to offer some general observations on this Bill. Earlier also we have amended the Banking Companies Act. Now, Sir, the problem here is not merely one of amalgamation and 1 P.M. merger. As far as that is concerned, the All-India Bank Employees' Association had made certain proposals for such steps being taken as are necessary. I think they made them in February 1960. I

need not say much about that. But the question is how we are to set about this matter. As far as we understand from what we gather from the various sources available about the banking world, the affairs there are not at all tidy. That is number one. The second point is that the control of the Reserve Bank is not likely to be as effective as one would like to have so long as the scheduled banks and other banks remain in the hands of the private sector. By the very nature of the present arrangement, these things do not operate very effectively. I can give you one recent example. Last year or the year before last, I think, we complained in this House about the unconscionable trading expansions by the scheduled banks of the country and it was pointed out how credit expansions went on, which went to encourage in some respects speculation and especially in the matter of foodgrains. The Reserve Bank then passed certain orders and regulations. Then what happened? Between the 1st of November 1950 and March 1960, according to the admission of the Finance Ministry, substantial and sizeable credit expansion by the banks took place and when the expansion came, there was no corresponding contraction in credit business. Even the Finance Ministry had to admit that a part of this credit expansion had gone to speculative purposes and so on. This is only one aspect of the matter.

Now, what do we see today? We see that the banking industry at the top—and that is concentration of economic power—is in the hands of a certain houses who control banking, who control industries and other undertakings and even control newspapers, with the result that they are in a position to bypass the existing laws and also carry on their machinations, financial manipulations and so on, to the detriment of the entire community. Therefore, I think, Sir, this kind of a thing would not take us very far. I should have thought that after all this experience during the years of our independence, we

should have come to the conclusion that what is needed is not merely nationalisation of the Imperial Bank, but the nationalisation of the scheduled banks in the country. In other words, what is needed is the building up of a nationally owned, a State-owned banking industry as a whole. That should be the approach. Unless this is done, what will happen is that with all this merger, integration and so on, the concentration of economic power will grow and in the existing arrangement the private sector will be in a better position to bargain with the Government and swallow up one after another even the smaller banks in the field. That is going to happen and that will be contrary to the economic policies, as far as we understand them, of the Government, in so far as they stand for the public sector.

Then there is the question of the deposits. As you have seen in the case of the Palai Central Bank, a bank which seemed prosperous all these years, suddenly went bankrupt, or was made to go bankrupt deliberately by those who were in control of it. With deposits worth about Rs. 5 crores it suddenly crashed. Everybody knows how it crashed, because of the fact that the directors had sanctioned a large number of loans without proper securities and it is known that about Rs. 4 crores were advanced without adequate security and so on. That is why the bank came to such a crash. The question here is: Are we in a position to control these things? Yes, to some extent, the Reserve Bank does control them. I do not deny that. But then there are various ways of banking manipulations when the banks are in a state of interlocking arrangement with various other industries and businesses. On paper things may seem all right, but in actual working things may be different. That is how things happen. Therefore, the time has come for Government to review the entire banking system in this country in the light of their own experience and the experience of the country and in the light of the requirements of a developing economy.

We stand for a developing economy and the banking system and the financial institutions have an important part to play in that context. Today the arrangements are not very satisfactory at all.

We can see what has happened in the case of the Palai Bank. We are not in a position to enquire where these deposits have gone. We are rendered helpless. With all the powers that they have in the Reserve Bank, they are not in a position to find out where the money has gone. Yet it is well known that those who were in control and who were managing the Bank had so manipulated that the money has gone to some selected persons connected with the Bank's management, the directors and their friends and favourites. To them have gone the money and the depositors in the Palai Bank stand to lose heavily. I think their hard-earned savings have been taken away and wiped out. That is because some people succeeded in manipulating things at the top. The Reserve Bank with all its authority cannot help very much in this matter. Not that it is doing nothing or should not have done more things. I am not saying that. But we cannot reach these people who are responsible. For example, we are not in a position even to institute an enquiry in the Special Police Establishment, as to where the money has gone, who are responsible, who are the recipients of most of the funds of the Palai Bank. Somewhere it has gone. The properties must be there, even if liquid cash is not there. Some property must be there. Those concerned with the Bank must be holding at the top some property which ought to be attached by the Government, but under the existing laws and regulations it cannot do so.

Then again the question of advances comes in. There are scheduled banks in the country. There are small ones and there are big ones also. Everybody knows these big ones which control the money market as far as

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this sector is concerned and how they are behaving. It is not as if they always defalcate or embezzle funds or run away with the funds of the small depositors. The small depositors bring in money and that constitutes the savings of the entire community. When we calculate the national or domestic savings, we have in mind the savings of a large number of depositors. They are often small men, middle-class men. But when it comes to the question of using those funds, the savings of these depositors with the banks, these scheduled banks with the connivance of the Reserve Bank, I would say, use them in the interest of building up monopolistic concerns in the country, for speculation and for all kinds of reprehensible deals in our economic life. This is the position. On paper you cannot catch them, because they are, broadly speaking, within the four corners of the law. But if you apply some social standards, if you apply broad criteria of judging things by the results that they produce and judging things from the point of view of how they serve the economy of the country, then you come up against all kinds of negative results. This is what you find in the banking system.

What has the Reserve Bank done? The Reserve Bank in our country is a kind of superlord in the banking system, I know, but they are not in a position to control many of the operations. There are some broad rules and regulations, and that is about all. They are enforced, sometimes they are not. In the case of the Palai Bank, you see how things continued year after year with the Reserve Bank either not being in the picture at all, or even if they were in the picture, doing practically nothing to stop it. In any case, it could not stop it. That is a fact. If the Reserve Bank had been so effective as to fulfil its functions, we would not have had the crash of the Palai Bank, and we could have prevented it. This should cause Government a little rethinking over

this whole matter. This is another aspect of the matter. Bank failures will take place because of competition and because of the fact that there are people who are getting involved in all kinds of malpractices, speculation, hoarding, blackmarketing and profiteering at the top in the financial hierarchy. These are the people who really determine the operations of banks. We know then as to what will happen. Whatever the regulations, whatever the restrictions, the millionaire class will make mincemeat of them, make nonsense of all these restrictions and carry on as they are carrying on. Are we not to stop it? Apart from the fact that nationalisation of the banking industry would bring it under public supervision and put it under Government control, and it is easier for Government to handle the whole thing under that arrangement, what is more, huge funds, hundreds of crores of rupees would be placed at the disposal of the Government to be invested in a manner which is in the interests of the economic development of the country as we understand it, not as the capitalist class understands it. This is also very important. This is not a big radical or revolutionary suggestion. In very many countries, even under the capitalist system, banking industry has been nationalised. Even in our country, after a lot of hesitation, Government came to the conclusion that one of the premier banks of our country, the Imperial Bank of India, should be nationalised but they stopped short at that. This is what we object to. They stopped half way. They should go the full length and the time has come today. We talk about domestic savings. Yes, Sir, it is a big problem today. It is said that unless we raise the domestic savings and find resources for investment in the Plan, we shall be coming up against all kinds of difficulties with the result that our foreign obligation would go on increasing but at the same time, we have reconciled ourselves to a position where we allow private banks and monopolist elements in the private banks to con-

tinue. Look at the United Commercial Bank, the Punjab National Bank, the Bank of Baroda and so on, controlled by a few, a handful of millionaires serving the interests basically of the millionaires and controlling the entire savings of the community. Small Government officers, small businessmen and the professional classes go and deposit their savings with this kind of banks but once the fund is built up, they have no control at all, and even if a small businessman wants to start a business, he does not get the necessary financial accommodation, and all kinds of difficulties, legitimate and some illegitimate are created by the manipulating authorities in the banks. Whenever it is necessary for the big businessmen, they go and ask for the money and they are given the accommodation; they are placated. They sometimes use them and make profits but sometimes the money is lost and they make it up from other sources. I know it for a fact that banks have been utilised by business concerns who could have very easily found the resources from their own internal resources for the development of expansion of certain sectors in their industrial units. Instead of utilising the internal resources they declare bonus shares or put them in the reserve and go in for bank advances especially when they know that they are connected with some banks. This is what is going on, and the Reserve Bank—I sometimes read the reports of the Reserve Bank—reports do not throw any light. I think at one time you were connected with some Commodities Committee and you would have found out that there were lots of complaints from the small and medium businessmen that the banking world is behaving in such a way today that they do not get any financial accommodation for the development and for carrying on their industries and trade. This complaint is not coming from the Communists or from others lower down in the ladder of the social order, economically speaking, but people higher up, medium and small industrialists are

also complaining against the manner in which big business is functioning. The other day the Finance Minister said that the Communists did not want any companies at all. I do not know who told him. I do not know whether Mr. Shanti Prasad Jain, his friend, told him. I do not know but I can tell him, since he is the Finance Minister, that we do want medium and small industries especially to be given all legitimate assistance. We want them to be built up because they have an important function to discharge in our economy today. We cannot have big plants and big industries all over the country; we want small and medium industries to play their part. It is admitted in the Plan also but when it comes to the question of giving them financial assistance, let alone the supply of raw materials, intermediary materials and so on, nothing happens. It is because the monopolists are in a better position today despite all regulations to deny them the necessary financial accommodation. These people who are making huge profits at the top use the funds for their own purpose. Why can't we call upon the Reserve Bank to make a survey of all the small and medium industries in the country and find out how they are being helped or not helped? The Reserve Bank itself should conduct such a study not only in the interests of the small and medium industrialists but in the interests of the country as a whole. Kerala, for example, is not a land of big industries; it is a land of small industries. The Palai Central Bank went and several other banks faced difficulties. Do you mean to say that the Tatas and the Birlas are suffering there? No, it is the small industries which are in the process of being built up which are suffering today. Of course, those who deposited the money are suffering no doubt but the other aspect of the matter has to be taken note of.

There is another aspect which is not very often kept in sight. Today infla-

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tion is taking place largely due, of course, to the regressive taxation policy of the Government and deficit financing but then in the private sector also there is deficit financing; it is in the form of ill-advised credit expansion by the bank institutions of the country. Therefore, added to the 1100 crores of rupees of deficit financing, the credit expansion of Rs. 900 crores will give you what kind of picture we have in the country. Therefore, deficit financing is not the only thing. It is a vital and important thing but the banking institutions today are fleecing the people and are bolstering up the monopolist elements by means of credit expansion. This is another factor. When we think in terms of rise in price, we have in mind not only the advances that are made by the banks to certain odd individuals who indulge in hoarding or profiteering but we have also in mind the mechanics of the banking system in our country where we see the credit is so handled that it goes to bolster up the monopolists and strengthen the rise in prices. I do not see as to how much can be done. These are only palliatives in so far as they go. Whatever control is put on the private banking system, it is good and we welcome that but we make it clear again, as we have been stating in this House, that these palliatives will not do and the decision should be taken by the Government for the nationalisation of the banking system. That is the task of the hour and if we do not do it today, it may be too late when the country would have suffered considerable loss and we would have lost precious time. Therefore, with these words I would like to submit to the Government that this matter should be considered. As for the other amalgamation, I say the employees should be guaranteed security of service and so on and the depositors, especially the case of the small depositors should be given priority in the matter. Again the limit of Rs. 250 is not enough; anyway I am not going into those details. I would only say this. A depositor who has got a lakh

of rupees should not be put in the same category with others. I would rather pay a little more to a person who has, say, Rs. 2,000, Rs. 3,000 or Rs. 4,000. That is how the law should be understood. As far as the Reserve Bank is concerned, I am told that with all their best intentions they are being by-passed in many matters. They should have their own economic intelligence service to find out the manipulations and they should have better contacts not only with the small and medium businessmen but with those in the industry and also with the public to understand what kind of action should be taken and when.

THE MINISTER OF REVENUE AND CIVIL EXPENDITURE (DR. B. GOPALA REDDI): Sir, the scope of the amending legislation is very limited. Of course, whenever such an amending Bill comes before the House, the entire banking system, the powers of the Reserve Bank, the scheme amalgamation of banks, all these naturally come up, but as far as I am concerned, I shall confine myself to the criticisms levelled against the provisions of the amending legislation.

Mr. Santhanam complained that we rushed through the amending legislation in September last. Sir, we did explain at that time the need for the Bill and, but for the passing of that Bill, we could not have given moratorium to the 12 banks as we have done now. Prior to that we had no powers of granting moratorium to a bank when it was in difficulties. We had to allow it to run its course and go and declare a sort of bankruptcy but today, Sir, as soon as we learn or as soon as the Reserve Bank learns that a bank is facing difficulties, then it immediately gives respite to that bank, grants it a moratorium and the whole thing can be looked into and perhaps a scheme can be drawn up at an appropriate stage. We explained clearly then that the need for legislation was there and looking retrospectively I can say that the

power that has been given to the Reserve Bank and the Government has been very useful to these 12 banks which came into distress and to whom a moratorium has been given today.

Mr. Santhanam also said that the old legal rights have been tampered with under this amending legislation. Sir, I cannot understand how all the previous legal rights could be preserved and also a new scheme could be drawn up. As soon as a new scheme is drawn up, all the previous contractual obligations are wiped out and new contractual obligations are brought into being. Therefore you cannot bring in a new scheme and also have all the old contractual obligations in the new scheme which envisages new contractual obligations. Some of the old ones may have to be wiped out and new ones may take their place. Therefore as soon as a new scheme is brought into being, it means that the old obligations are nullified, and it is not as though we are tampering with the existing legal rights.

Mr. Santhanam also complained that we were compelling all the persons to be taken in and that the transferee bank might find it difficult to take in all the people. Perhaps some of them were responsible for the mismanagement of the bank and for the downfall of the bank. It is not as though we are compelling the transferee bank to take in all the people; we only said that all the workmen should be taken. I suppose Mr. Bhupesh Gupta will be very happy that we are not throwing out anybody and that there is no retrenchment. All Award staff will be retained but the non-Award staff need not be taken wholesale. Their cases can be scrutinised and if the transferee bank does not want some of them, they could be discharged. Of course, when they are discharged, compensation under the law would have to be paid. As far as the Award staff is concerned, all of them are retained and if there is any disciplinary action to be taken against any of them, the new bank can proceed

against them as though the old bank was taking action. Therefore I think this is a very wholesome provision and our friends in the Opposition must welcome this as there is no question of anybody being discharged.

Mr. Santhanam also complained that we were changing the expression 'national interest' into 'public interest'. This is being done in order to bring this in line with the provision contained in section 396 of the Companies Act as it was amended last year. The House passed the Companies (Amendment) Bill only a few months ago and there the wording was 'public interest' and so in order to bring this in conformity with that provision we are now changing this national interest into public interest.

Sir, Shri Avinashilingam Chettiar said that we were trying to put different dates. After all it is an administrative matter and the House need not bother about it very much, as though we are trying to create any difficulties for the transferee bank. Of course, we can say an officer or an adviser should be appointed to improve the bank; that provision may come into force on a particular date. If we say on the other hand that there will be a transfer to another bank, this will become effective at a latter date when the moratorium is lifted. Therefore different dates are necessary and that need not cause any concentration.

More than anything else, Mr. Madhava Menon and our friends from Kerala have repeatedly referred to the Palai Bank. At the time of the Palai Bank's trouble, this power for giving moratorium was not there, and the entire matter is now before the Kerala High Court. Perhaps, the Kerala High Court has also considered all the schemes placed before it and it gave certain decisions. Anyway, certain suggestions have been made here in the course of the debate for the revival of the Palai Central Bank. I do not want to deal with that subject at length now as it does not arise directly out of his Bill. But the court must have taken into consideration the schemes that had been proposed for the reconstruction

[Dr. B. Gopala Reddi.] of the Bank before the final order for liquidation was passed. The matter is in any case now before the court and the Special Liquidator appointed by the court has already taken certain steps to realise the assets of the Bank and to expedite payments to the depositors. It is extremely doubtful whether any arrangement other than the continuance of the liquidation proceedings will be in the interests of the depositors or even feasible as there are several legal and administrative difficulties in adopting any other course.

Mr. Madhva Menon said that the money that is being collected by the Palai Bank was likely to be taken away by the Liquidator for salary and other things. Sir, I think from the depositors' point of view, the Liquidator will incur less expenditure than if the Bank were to be merged with another bank. They will then have to go to the courts to get decisions and decrees against defaulters. As soon as the liquidation proceedings get the approval of the High Court, it becomes a sort of a decree and the Liquidator can proceed against the defaulters straightway. But if the Bank is to be merged with some other bank and then if it were to recover the dues, they would have to go through legal proceedings to obtain a decree and that will take a long time and the legal proceedings will consume a lot of money. Therefore, there will not be any saving. On the other hand, the liquidator is cheaper than going through all the legal processes. Anyhow, the matter is there. It is a matter for the Kerala High Court also to consider. I can straightway say that there is no lack of sympathy on the part of the Reserve Bank or the Government. Just now, as it is, the liquidator is proceeding with the recovery of monies and he is trying to arrange to pay the depositors to the extent possible. There is no undue delay in this matter.

Anyway, as far as the provisions of the amending Bill are concerned, I take it that most of the hon. Members are in complete agreement with them.

They have said nothing against the merits of the Bill, except that they wanted to seek some clarification. Mr. Bhupesh Gupta, of course, welcomed the Bill, though he called it a palliative. And he wanted bigger issues to be taken up, viz., the powers of the Reserve Bank, the nationalisation of the scheduled banks, how the monies are being used and things like that. They are all bigger issues and I do not want to go into them at this stage, when dealing with a simple amending Bill. I am glad that the provisions in the amending Bill have received the general approval and support of all the hon. Members.

MR. DEPUTY CHAIRMAN: The question is:

"That the Bill further to amend the Banking Companies Act, 1949, as passed by the Lok Sabha, be taken into consideration."

The motion was adopted.

MR. DEPUTY CHAIRMAN: We shall now take up the clause by clause consideration of the Bill. There are no amendments.

Clauses 2 to 6 were added to the Bill.

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

DR. B. GOPALA REDDI: Sir, I move:

"That the Bill be passed."

The question was put and the Motion was adopted.

THE APPROPRIATION (RAILWAYS BILL, 1961

THE DEPUTY MINISTER OF RAILWAYS (SHRI SHAH NAWAZ KHAN): Sir, I beg to move:

"That the Bill to authorise payment and appropriation of certain further sums from and out of the Consolidated Fund of India for the service of the financial year 1960-61 for the purposes of Railways, as passed by the Lok Sabha, be taken into consideration."

The question was proposed.