

**THE RESERVE BANK OF INDIA
(AMENDMENT) BILL, 1957,**

**THE STATE BANK OF INDIA
(AMENDMENT) BILL, 1957**

THE DEPUTY MINISTER FOR
FINANCE (SHRI B. R. BHAGAT): Sir,
may I have your permission to take
up both the Bills together?

MR. DEPUTY CHAIRMAN: The motions
will have to be moved separately, but we can
have one discussion. The time allotted is two
hours.

SHRI KISHEN CHAND (Andhra Pradesh):
The two items are quite different.

MR. DEPUTY CHAIRMAN: All right.
One hour each.

SHRI B. R. BHAGAT: May I again submit,
Sir, that the matters involved are indetical in
both the Bills? The time of two hours will be
the same but it would be inconvenient to the
House if the same observations were to be
repeated.

SHRI BHUPESH GUPTA: (West Bengal):
Yes.

MR. DEPUTY CHAIRMAN: Discussion
will be all right, but the motions will have to
be moved separately and also put to the House
separately. Discussion may be one.

SHRI B. R. BHAGAT: Can I move them
together?

MR. DEPUTY CHAIRMAN: Yes, one
after the other.

SHRI BHUPESH GUPTA: You move both.

SHRI B. R. BHAGAT: The speech would
be the same because the measures are the
same.

MR. DEPUTY CHAIRMAN: You move
the motions separately and then begin your
speech.

SHRI AKBAR ALI KHAN (Andhra
Pradesh): Discussion will be one as the
Deputy Chairman has said.

SHRI B. R. BHAGAT: I move:

"That the Bill further to amend the
Reserve Bank of India Act, 1934, as passed
by the Lok Sabha, be taken into
consideration."

I also move:

"That the Bill further to amend the State
Bank of India Act, 1955 as passed by the
Lok Sabha, be taken into consideration."

MR. DEPUTY CHAIRMAN: You can
begin your speech.

SHRI B. R. BHAGAT: Sir, these two Bills
have a certain object in common and so I
would request that, if the House permits, both
the Bills be discussed together. The common
object is to pave the way for the establishment
of a Refinance Corporation and enable the
Reserve Bank and the State Bank to
participate in it. Members of the House are
aware that according to the orthodox practice
commercial banks are supposed to advance
their money on a short-term basis for trade
and business activities rather than on a
middle-term or long-term basis for industrial
investment. As things are, however,
commercial banks in the country do now and
then advance money to industrial enterprises
but, to keep up the appearances of orthodoxy,
they do so each time on a short-term basis and
go on renewing the advance time after time.
An arrangement of this kind is hardly
satisfactory either to the industry or the banks.

There are bodies like the Industrial Finance
Corporation, the State Financial Corporations
and the Industrial Credit and Investment
Corporation, which advance money to
industrial enterprises. But these tend more to
long-term than to medium-term financing.
Moreover, credit needs are developing fast
with the development of industries and, as
we all know,

[Shri B. R. Bhagat.] -equity capital is shy, particularly to young enterprises.

As a result there has been a conspicuous dearth of medium-term finance, especially for middle-sized industries. I was considering how this gap can be filled up when a sum of about Rs. 26 crores became available in consequence of the Agricultural Commodity Agreement signed with the Government of the U.S.A. in August, 1956. This is popularly known as PL. 480. Under PL.480 the agreement with the Americans is that this money has to be reserved for re-lending to private enterprise in India. The scheme of the Refinance Corporation, as it is taking shape, is that the Reserve Bank of India, the Life Insurance Corporation and the State Bank of India, together with the 14 biggest commercial banks operating in the country, will invest in all a sum of Rs. 12-5 crores and Government will add the American counterpart money of Rs. 26 crores. The institution will rediscount the loans usually for periods between 3 and 7 years given by the 15 participating commercial banks including the State Bank, to industrial enterprises in the private sector. Considerable progress has already been made in the preparation of the scheme, and I am confident that soon after the amendments before the House become law the Refinance Corporation will be set up with a board composed of men of proved ability and knowledge of the credit requirements of the industry but with no connections of a nature which may induce any private bias.

The items concerned with the projected Refinance Corporation are those in clauses 2(h) and 2(iii) in the Reserve Bank of India (Amendment) Bill, 1957, and the first two insertions under clause 4(3) of the State Bank of India (Amendment) Bill, 1957.

The proposed insertion in clause (8A) of Section 17 of the Reserve

Bank of India Act will enable the Reserve Bank to purchase shares in institutions like the Refinance Corporation when notified by the Central Government, and the proposed clause (4BB) will enable the Reserve Bank to make short-term advances to the Corporation when necessary. Naturally the amendments are formulated in general terms and not related to the Refinance Corporation by name. But care has been taken to ensure that the provisions are availed of in practice only in deserving cases; hence the stipulations that the Reserve Bank will buy shares in and advance short-term loans to only such financial institutions as are notified by the Central Government.

The two amendments, just mentioned, in the State Bank of India Act are designed to enable the State Bank to buy or hold shares or debentures in selected institutions like the Refinance Corporation and to advance medium-term loans to industries, loans which will be put up to the Refinance Corporation for rediscounting.

The other clauses in the two Bills are not related as such to the Refinance Corporation project but are proposed with a view to facilitate the work of the Reserve Bank and the State Bank in certain matters.

Clause 2(i) of the Reserve Bank of India (Amendment) Bill is intended to eliminate a provision which was necessary in the past when the Board of Commissioners of Currency of Ceylon used to keep a part of its currency assets in India. When the Central Bank of Ceylon came to be established as a full-fledged currency authority in that country, the Reserve Bank ceased to have any occasion to make advances to them.

Clause 3 of the Bill, meant to modify subsection (2) of section 34 of the Reserve Bank of India Act, is merely a procedural amendment. At present, the Issue Department of the

Reserve Bank carries the liability in respect of the outstanding high denomination notes of values above Rs. 100 which were demonetised in January 1946. The demonetised high denomination notes were allowed to be presented to Government for exchange through the Reserve Bank of India up to the end of February 1947, and since then applications for exchange are not accepted. There may be a few cases of demonetised high denomination notes which could not be presented to Government for exchange by the due date, that is, 1947, because they were deposited with courts in connection with litigation or with the police. There are also a few cases where parties went up to courts against Government decisions to refuse exchange on demonetised notes but the court decrees have not yet come out. While a few isolated consequences of the 1946 demonetisation are still awaiting final settlement, there is, by and large, no point in the accounts of the Issue Department of the Reserve Bank continuing to include the figures of high denomination notes.

Clause 4 of the Bill seeks to enable the Reserve Bank to bring institutions like the Bank of Patiala and State Bank of Saurashtra within the second schedule of the Reserve Bank of India Act, on a notification being issued to that effect by the Central Government. Banks like these have been outside the Reserve Bank's control and supervision in certain matters owing to historical reasons like special dispensations in the old Princely States and subsequently special orders and Ordinances of the Part B State Governments. It is time that such banks came to be integrated into a uniform banking system in the country.

Clause 5 of the Bill is meant merely to bring the language of section 57 of the Reserve Bank of India Act up to date.

The amendments proposed to the State Bank of India Act, other than

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those pertaining to the Refinance Corporation which I have explained already, are fairly simple in nature and content.

Clauses 2 and 3 of the Bill are meant to enable the Chairman of the State Bank to maintain contacts with the Local Boards, contacts which will undoubtedly be beneficial to the working of the Bank as a whole. At present the Chairman is not a member of the Local Board, not even of the Bombay Local Board, unless a notification to this effect is issued specially by Government. This is an unnecessary formality. It is provided that the Chairman will be an *ex-officio* member of the Local Board and this concession has been granted to him so that he will not be disqualified as a member of a Local Board merely on the ground of absence without leave for more than three consecutive meetings.

One more point, Sir. It has come to our notice that the State Bank could usefully advance money to deserving undertakings engaged in hire purchase financing if there was a suitable provision in the State Bank of India Act. Clause 4(1) of the Bill is intended to fill the present gap. By means of it the State Bank will be able to undertake advances to firms and companies engaged in the financing of hire purchase transactions on the security of book debts which will, of course, have been under pinned by hypothecation of goods to the hire purchase firms. It is not intended nor need there be any fear that the State Bank will advance money recklessly for hire purchase transactions of any and every kind. There are cases, where extension of credit facility is very necessary, an example being that of acquisition of trucks and lorries to improve the transport of goods within the country. And in certain parts of the country this provides some excellent opportunity for self-employment as well. The amendment is intended to help the State Bank to meet such genuine needs. I might

[Shri B. R. Bhagat.] explain that the Tariff Commission in their recommendation on the automobile industry made the point that it would be desirable to evolve a suitable scheme for extending facilities for transport operators for purchase of vehicles.

The housing position in the country-being what it is, efforts have to be made in a variety of ways to facilitate construction of suitable dwellings especially for the low income groups. Clause 4(2) of the Bill will enable the State Bank to act as an agent for the Central Government or a State Government or any Corporation in the implementation of suitable schemes in this regard and for advancing or lending of money from out of the funds placed at its disposal by the Government or the Corporation concerned.

The State Bank has been feeling the need of a provision in the Act so as to enable it to lend money in suitable cases to Co-operative Housing Societies formed exclusively by its own officers and employees. The last insertion proposed under clause 4(3) of the Bill will enable the State Bank to grant such loans even upon the security of immovable property.

Clause 5 of the Bill relates to internal working and is meant to give the State Bank an extra month to hold its Annual General Meeting.

Sir, as I observed earlier, the amendments proposed in the two Bills are of a non-controversial nature and I have every hope that Hon. Members will extend their support to these provisions.

MR. DEPUTY CHAIRMAN: Motions moved:

"That the Bill further to amend the Reserve Bank of India Act, 1934, as passed by the Lok Sabha, be taken into consideration."

"That the Bill further to amend the State Bank of India Act,

1955, as passed by the Lok Sabha, be taken into consideration."

The discussion will be together.

SHRI SANTOSH KUMAR BASU (West Bengal): Sir, I have to make a few brief observations on the Reserve Bank of India (Amendment) Bill. I should like to raise a fundamental question of principle and that is, whether medium term finance facilities in the private sector of industry should not be extended exclusively through the commercial banks. The Statement of Objects and Reasons has clearly stated that in spite of the existence of bodies like the Industrial Finance Corporation, the State Financial Corporations and the Industrial Credit and Investment Corporation, medium term finance facilities in the private sector of industry are still found to be inadequate for the purpose of the overall objectives of the second Five Year Plan. It may therefore be necessary to establish financial institutions to provide medium term loan assistance to industries. Now, that is the reason why the present amending Bill has been brought forward. Sir, I would invite the attention of the hon. Minister to the undoubted fact that the Reserve Bank of India has *to play* an essential part in the development of the banking system in the country and it has done so in a very significant manner in the past both during and after the war. Through advice, through persuasive efforts and by a system of efficient inspection the Reserve Bank has worked with tact and firmness to maintain a system of sound banking in this country. It has also instituted—if I may cite an instance—the Bill Market Scheme by which commercial banks are enabled to obtain credit facilities from the Reserve Bank to meet seasonal requirements for financing private industry without being compelled to sell their securities. This has resulted not only in strengthening the business of the commercial banks *vis-avis* the industries in the private sector but also in stabilising the gilt-edged*

market. The banks have resorted to the credit facilities provided by the Reserve Bank in an ever increasing degree. The expansion of credit facilities to the industries in the private sector should, in my humble opinion, be done exclusively through the system of commercial banking, and to introduce in this sphere the activities of the Financial Corporations which have been set up would, I submit, be encroaching upon the legitimate field of private banking which has to grow up in this country, in order that it may perform its legitimate function as guardian and sentinel of private wealth in this country. So far as industries in the private sector are concerned, I would therefore, suggest for the consideration of the hon. Minister that it should be left entirely to the commercial banks to provide them medium term credit facilities, and that no encroachment should be made upon that sphere by setting up such facilities through the Finance Corporations.

This question, which I have characterised as a fundamental question of principle in the banking system and in the entire monetary structure in this country, should be taken into account before this Bill is passed into law.

SHRI KISHEN CHAND (Andhra Pradesh): Mr. Deputy Chairman, here are two Bills and the hon. Minister has put them together, but I will take them separately.

First of all I will take the Reserve Bank Bill. As has been pointed out by the hon. Minister, clause 3 really relates to the termination of the liability of the Issue Section regarding the demonetisation of high denomination notes. So that is all right. I have nothing to say about that.

Then, Sir, the main purpose of this Bill is to extend the scope of the Reserve Bank so that it can subscribe to the equity capital of the new financing corporations or companies that are going to be established, or some such similar institutions that

may be established later on. That is the main object. Well, I agree with the hon. Deputy Minister that we want to retain the private sector, and if we want to retain the private sector, it must get some sort of capital. General banks are not permitted to subscribe to the equity capital of any joint stock enterprise or industrial undertaking. Formerly it was the Insurance Companies that used to subscribe to the equity capital of industrial concerns, but now that insurance has been nationalised, funds are not available from insurance for the subscribing of equity capital. The Industrial Finance Corporation that has been set up by the Central Government and the State Finance Corporations that have been set up in the various States, they all advance money as loans. They do not subscribe to the equity capital. There is a clear distinction between subscribing to the share capital of an industrial concern and advancing a loan on a fixed rate of interest. Sir, when we are industrialising, the private sector will need money from the public, slowly and gradually the public is not able to subscribe the share capital. It is the general policy of our Budget that we take away savings from the extremely rich people, and the upper middle class people who have small savings and who are likely to invest them in insurance policies or savings certificates. The result is that if the private sector is to be kept alive, the Government must come forward to take part in the equity capital, and this is being done by these two Bills.

First of all—I forget its name—but at present we are setting up a corporation under the foreign aid which authorised to take part in equity capital. And now with the help of the commodity loan and subscriptions from the main joint stock banks, the State Bank of India and the Reserve Bank of India, the Government wants to set up a corporation with a capital of Rs. 50 crores for helping the floatation of new industrial concerns. Sir, when we have got

[Shri Kishen Chand.] a Reserve Bank of India and a State Bank of India which are both nationalised concerns, I think we should separate their functions. I want the Reserve Bank of India to keep away from taking the share capital of this Corporation which is going to be set up for subscribing equity capital. The Reserve Bank has got very great duties to perform, and in many cases it is the final financial authority in the country. Therefore, I would prefer that the Reserve Bank should not take up the share capital of any such corporation which is going to take part later on in industrial concerns. If the Government wants to do it—and it is a good, laudable object—it should be done by the State Bank of India. When we have got two institutions, both managed under the supervision of the Government, what is the need for giving authority to both the institutions to perform the same function? Let us keep the Reserve Bank as the highest authority in the country in matters of banking. It is an 'issue' bank, all the notes are issued by the Reserve Bank. It controls the money market of the country by controlling the bank rate. When it has got such big responsibilities—and we have another banking institution which can perform the duty desired by the hon. Finance Minister—I would humbly submit that the Reserve Bank should not subscribe to that new corporation which is going to be set up.

Further, there is no need for clause (4BB). Here also the Reserve Bank can advance loans to any financial institution, which is notified by the Central Government, for a period extending up to ninety days. The Reserve Bank has got now the State Bank of Hyderabad, that is also a subsidiary institution maintained by the Reserve Bank, and we have the State Bank of India. Then there are fourteen principal joint stock banks in the country. We have got so many institutions. I think the State Bank of Hyderabad, the State Bank of India and the fourteen joint stock banking

concerns may take up that work. So I oppose the clauses relating to it in the Reserve Bank of India (Amendment) Bill; on the rest of the clauses, I have nothing to say.

Then I come to the State Bank of India (Amendment) Bill. As the hon. Minister pointed out, the State Bank of India cannot advance money for equity capital at present. That is item number one. The State Bank of India cannot advance money to commercial concerns which are engaged in hire-purchase business. You know, Sir, that in foreign countries, especially in the United Kingdom and America, hire-purchase business has advanced so much that almost 90 percent, of the business is on hire-purchase or on instalment basis. In our country, we have some business on hire-purchase basis for lorries and trucks in South India. In Delhi and Punjab also, there are two or three big financial corporations which are doing hire-purchase business. The State Bank of India has taken up many responsibilities on itself. We want the State Bank of India to do rural credit business. They are going to open a thousand branches all over the country, especially in rural areas, so that they can provide easy facilities for rural credit. That is a very big task. We have got 14 joint stock banks. Will it not be better if the State Bank of India confines its activities to rural credit? According to the Bill, the State Bank is going to take up hire-purchase business which is a very extensive business and which is growing in our country. Just now, as I said, there are only a few companies that advance loans on trucks, motor cars and buses.

SHRI P. S. RAJAGOPAL NAIDU (Madras):
Commercial Banks do not advance loans .

SHRI KISHEN CHAND: I am trying to suggest that the State Bank may not do it, but the commercial banks may be permitted or may be advised

to do that business. The whole question is . . .

SHRI P. S. RAJAGOPAL NAIDU: What about housing property?

SHRI KISHEN CHAND: The State Bank is not doing it just now. It does not advance any loans on house property. It is a question of division of labour, division of activity. If you want the State Bank to do everything—hire-purchase business, advancing money on house property for the construction of houses and the entire rural credit—it will be very heavy. We have got the Warehousing Corporations Act according to which warehouses for stocking grains are going to be established all over the country. Money will be required by the warehousing societies. The State Bank of India has been authorised specially to open one thousand branches all over the country in order to help these warehousing societies in the matter of their construction. So, the State Bank is going to perform other sorts of business.

SHRI P. S. RAJAGOPAL NAIDU: Where is the warehousing society?

SHRI KISHEN CHAND: There is the Warehousing Corporation and connected with it, there will be societies in rural areas. Naturally, the farmer will not bring his produce directly to the Warehousing Corporation, but there will be an intermediary. It did not want to take up the time by trying to explain all the intermediary steps. The warehousing societies are bound to come. Without their coming up, the villager cannot go directly to the Corporation and put his produce in the godowns. So, I submit, Sir, that the State Bank of India will be trying to do too many things. The result will be that probably, the urban areas will be able to get help for the hire-purchase business. They may" be able to get help for this housing work. But the Bank will neglect its main work of advancing money on rural produce and giving credit facilities to the peasantry.

Therefore, I submit that certain restrictions should be placed on the State Bank of India and they should be with regard to the total amount which can be advanced under hire-purchase or under housing schemes. If no restriction is put on it, the result will be that a large part of the funds will be diverted to this side and there will not be enough funds for the rural credit which is going to be its main work.

SHRI AKBAR ALI KHAN: Is it the view of the hon. Member's party or his own?

SHRI KISHEN CHAND: It is not a matter where the question of party comes in. If he thinks that even such financial and fundamental economic matters are to be discussed on party lines, I will be very surprised if the Congress Party, as a Party, has got certain set ideas about banking and economics.

SHRI AKBAR ALI KHAN: Nationalisation?

SHRI KISHEN CHAND: Nationalisation we have done. I am not saying that the State Bank of India should be de-nationalised. I am not saying that. As I said, the State Bank was established for a particular purpose. We passed a special Bill for it. We passed that the State Bank of India should provide funds for rural credit. That is the main object of nationalisation. When the Imperial Bank of India was nationalised, it was one of the main arguments for it and now the hon. Member wants to give up that main idea and wants to make it a party question because I am saying that the housing loans should be advanced by the joint-stock banks and this Bank should confine its attention to rural credit. He thinks that it is party politics.

SHRI AKBAR ALI KHAN: It can be both.

SHRI KISHEN CHAND: I will certainly welcome if the State Bank can do everything, but the funds are

[Shri Kishen Chand.] limited. If you try to do too many things, the result will be that the rural people will suffer. Normally, people in urban areas have got a pull with the State Bank and they will get all the funds. The rural areas will be the worst affected. The result will be that they will not get the funds they need. If the Congress members think that it is better to give funds to the urban areas and not to the rural areas, let them make it a party question. I do not agree with that view.

SHRI RAJENDRA PRATAP SINHA (Bihar): Mr. Deputy Chairman, the two measures that are before us are important in view of the fact that they are meant to provide medium-term finances to the private sector. Sir, so long as we retain the private sector, we have got to see that they are in a position to fulfil the tasks that are allotted to them. If you see the performance of the private sector in the First Plan period, you will find that they failed to make the investments which they were required to do under the First Plan period. It was expected that they would invest a total amount of Rs. 463 crores out of which Private sector could raise only Rs. 340 crores. Therefore, the private sector failed to provide the balance of Rs. 123 crores. In the Second Five Year Plan Report, if you look at page 405, you will find that it is stated there that the private sector will be requiring about Rs. 570 crores for the various items of work that are assigned to them for the purposes of new investments and Rs. 150 crores for modernisation and replacements, for the total requirement is Rs. 720 crores out of which a provision in the present Budget is made only for Rs. 675 crores, leaving a gap of Rs. 45 crores. So I do not think that the private sector will be able to give to the nation all that is expected of it during the course of the Second Five Year Plan, because I do not see how it will be able to raise the resources for the task allotted to it.

Then, Sir, I also feel that the allocation of the resources that has been made is not quite correct. I do not think they will be able to raise even Rs*. 620 crores as envisaged in the Plan.

SHRI B. R. BHAGAT: Sir, it is too large an issue for this Bill.

SHRI RAJENDRA PRATAP SINHA: I was just giving a background, Sir. The total requirement is of Rs. 620 crores. I anticipate that these Rs. 620 crores will not be raised by the private sector. Now this is the background under which these two measures are to be considered, and anything that is done by the Government to augment the resources of the private sector is welcome. Of course, I must say that it is inadequate. But the Government has got to keep this point in view that the savings of the community have got to be divided between the private sector and the public sector, and the private sector must get Rs. 720 crores if they are expected to fulfil the targets that have been assigned to them. Now naturally there are three types of capital requirements, the long term, the short term and the medium term. Now here we are dealing with the medium term. Incidentally, Sir, I was looking into the Report of the Reserve Bank by Shri A. D. Shroff, and they also have the same view that the private sector will not be in a position to raise the amount that is allotted to them.

Now with regard to the medium term loan, Sir, the scheme is that the Government will give probably Rs. 25-5 crores and Rs. 26 crores will be credited from the loan account of the United States and a Refinance Corporation will be established. But the channel of aid to the private sector will continue to be the commercial bank. This is what I have understood from the speech of the hon. Minister and from the Statement of Objects and Reasons. So I do not know how my hon. friend has said that the commercial banks will be affected by that

The commercial banks will continue to discharge their functions in this respect. But as was explained by my friend, they are not at the present moment permitted to give a medium term loan. They have all kinds of devices by which they help the industry. But I know, Sir, from my personal experience that those devices are meant to help only those people who have got a pull with those banks—the big businessmen and the big industrialists—and these facilities are not meant for smaller industrialists. They are not meant to be availed of by smaller industries and by the medium sized industries. Now when this is being regularised in the manner in which my hon. friend is doing, I hope that this facility of the medium term loan will now be available also to the smaller people and to the medium-sized industries, and not only to the big business as has been the practice so far.

Now, Sir, at this stage I would like to submit that whatever provision is being made, the Reserve Bank should see to it that the commercial banks liberalise their attitude towards the smaller men and towards the medium-sized industries, and they should be enabled to profit by the provisions that we are going to make to-day, and not only the big business should avail of the facilities of the commercial "banks. If you look at these reports, Sir, you will find that so far as the large undertakings are concerned, they do not suffer from any financial difficulties. They have the working capital; they have the long term loan; they have the medium term loan, "because they control the business and control the undertakings. Therefore, Sir, the report has very clearly said that the real people who suffer are the smaller men in the banking business. And it has also been very clearly stated that unless these small industries and these medium-sized industries are developed in this country, the national product through the industry is not going to be appreciably increased, nor can the employment aspect of the question be effectively

tackled. Therefore, Sir, I would like to take this opportunity to impress upon the Government and the Reserve Bank that the commercial banks should be made to feel that these provisions are meant more for helping the medium-sized industries than the big industries, because for big industries we have the National Development Corporation and the Industrial Development Corporation and all that. It is the medium-sized industries which suffer from this financial scarcity as has been very well pointed out by this report, Sir.

Now, Sir, another point that I would like to make is this. It is with regard to the hire purchase system. You will remember, Sir, that when we were dealing with the Motor Vehicles (Amendment) Bill, I made the point that it was imperative that some credit facilities should be assured and guaranteed to the transport owners in order to develop the transport industry in this country, and I am very glad that the hon. Minister has taken this opportunity to provide such facilities to the transport owners. You know that this facility that is being given here will largely help the big industrialists, the big capitalists and the big businessmen in this country. Now who will be the people who will be financing this big hire purchase business? It is a few big people who have these business organisations known as the hire purchase associations, organisations or companies. Now there is no provision here to help the small truck owners, may be one, two, three or four. They will have to depend upon the existing institutions of hire purchase owned and managed and financed by the big business. Now they charge exorbitant rates of interest, and apart from the exorbitant rates of interest, they charge all kinds of incidentals and all kinds of insurances which very often do not appear in the books. I can say that from my personal knowledge, Sir. Therefore the Government should evolve some machinery so that these hire purchase facilities should be extended to the small transport own-

[Shri Rajendra Pratap Sinha.] ers through certain institutions to be developed by the Government. I would not like this provision to be availed of by the big businessmen to extend their operations. So far they were dealing with one crore of rupees. Tomorrow they will be dealing with two crores of rupees, thereby increasing their income and profits by way of charging interests. You cannot imagine, Sir, the rate of interest that they charge. And now they will be getting finance at a low rate of interest because of these facilities that are being created. Therefore, Sir, the Government should form some institutions which should take up this business of hire purchase and help the small truck owners or small businessmen. They have already got one small institution for helping the small scale industries. Now I submit, Sir, that institutions of that type should be opened by the Government. Then alone can the small men benefit by these provisions. Otherwise the benefit will be reaped by the big capitalists and the big businessmen.

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Then, there is another point that I would like to submit for the consideration of the Finance Ministry. Why shall we not empower the State Finance Corporations formed under the State Finance Corporations Act, probably of 1951, why shall we not amend the Act in such a manner that these State Finance Corporations could avail themselves of this facility and extend the hire purchase system in small machineries to the small businessman or industrialist or small truck owner? It will be worthwhile for the Finance Ministry to examine this proposition to empower the State Finance Corporations. I can say from my own experience that the State Finance Corporations have no work; they have no business. They have got money but they do not know what to do with that money. I can say that of Bihar. If this work is given to them, they will be doing a good service and will be making real use of

these provisions. You need not create any new institution and add it to the number of institutions that we are having. Empower the State Corporations to take up the business of hire purchase, and then alone this provision will help the small men.

Now, *one* word with regard to the lending of monies to housing cooperatives. This is a welcome measure but the scope is very limited. It is entirely meant to help the employees of the State Bank alone. It does not extend to others. I hope the Minister will correct me if I am wrong.

SHRI P. S. RAJAGOPAL NAIDU: Quite correct.

SHRI RAJENDRA PRATAP SINHA: Only the employees of the State Bank, of India can form housing co-operatives, and they alone can take loans against the provisions that you are making now.

SHRI B. R. BHAGAT: It will be open to Government employees or co-operative societies.

SHRI RAJENDRA PRATAP SINHA: It is not very clear. I have the Bill before me. If you read . . .

MR. DEPUTY CHAIRMAN: It reads:

"the acting as agent for the Central Government or any State Government or any corporation in implementing any scheme for financing the construction of dwelling houses . . .

It is not restricted to the State Bank employees only.

SHRI RAJENDRA PRATAP SINHA: That is all right then. I had the impression when I read this Bill in the morning . . .

SHRI KISHEN CHAND: It is here*, page 2, lines 33—35.

SHRI RAJENDRA PRATAP SINHA: I will read out this provision:

"the advancing or lending of money to any co-operative housing society, all the members of which are officers or employees of the State Bank . . .

No other co-operative association or society is entitled to receive loans for housing purposes.

SHRI B. R. BHAGAT: Which Bill are you reading?

SHRI RAJENDRA PRATAP SINHA: The State Bank Bill.

SHRI B. R. BHAGAT: What is the line?

SHRI RAJENDRA PRATAP SINHA: Page 2, lines 33—35. You cannot make use of this provision for financing . . .

MR. DEPUTY CHAIRMAN: You read clause (2). That is quite clear. They can act as the agent of the Central Government, etc.

SHRI H. N. KUNZRU (Uttar Pradesh) : What he wants to know is why, when clause (xa) exists, there should have been this (xixc).

MR. DEPUTY CHAIRMAN: Probably this is an additional power given to the Bank.

SHRI H. N. KUNZRU: Why should these people alone be entitled to any particular help? No security has to be provided by them also.

MR. DEPUTY CHAIRMAN: Under clause (2), the Central Government, the States Governments and Corporations are included. In clause (3), it is said that if the employees of the Bank form a society by themselves, the Bank can advance monies to such societies.

SHRI RAJENDRA PRATAP SINHA: I hope the Minister will re-examine this point and extend it to ail.

I welcome the State Bank helping the low income groups or middle income groups to form societies

for the construction of houses not only in the urban areas but both in the urban and rural areas, because the middle classes need to be helped in this con-rection so that housing difficulties-might ease. It is very important that these people should be enabled to construct small houses for themselves, and the more the facilities that we can create, the more welcome it is. I would therefore specifically like to know from the Finance Minister whether these provisions will enable the State Bank to help all co-operatives formed for the purpose of constructing houses, or whether it is limited to Government employees-alone or the State Bank employees alone. Supposing we form in a town or a rural area a co-operative society for the construction of houses worth Rs. 5,000 or Rs. 10,000, will it be possible for the State Bank to help us in that respect or not?

DR. P. J. THOHAS (Kerala): Mr. Deputy Chairman, it is clear from the discussion held so far that there is need for a careful co-ordination of our banking institutions. I have been feeling it for some time, especially after some Government enquiries in which I participated regarding the Travancore-Cochin Banks. The Reserve Bank was started here as an institution more or less on the model of the Bank of England when the British were ruling here. But in this country even before that, banking institutions had been working. In Kerala, these banking institutions were started to meet special requirements of the country. The Reserve Bank has been trying during the last twenty years or more to regulate these institutions, but in this they have been more or less applying the Bank of England's experience. They have no doubt made some enquiries but we know what the results are. Not much has been done, as in America or Germany, to adjust the banking system to the requirements of the different parts of the particular country. In America, banks like the Bank of America have

[Dr. P. J. Thomas.]

expanded banking functions so as to meet the manifold credit needs of that country. In Germany too, there have arisen different types of banks to meet special requirements. They have helped industries too, to a great extent to develop fast. In this country also, we have our indigenous credit institutions. Utilising such experience, we have to build up our own banking system to suit our needs. In the State of Kerala, small banks started from 1900 onwards have been able to absorb nearly all the savings in many areas and are able to lend to the small trader and the agriculturist at low rates of interest comparatively. Even in Bombay¹ where the Reserve Bank works—we have the State Bank there and also the other big Banks—I find that the private money-lender lends to traders and merchants at rather high rates of interest moneys borrowed at low rates from these Banks. In some parts of India at any rate, the banks have thus tried to adjust themselves to the requirements of their particular areas. The Reserve Bank has not much utilised its opportunities to adjust banking requirements to each region. I think that there is need for a careful study of the whole position, and in this we do want to utilise the help and experience of other countries where banking has developed a great deal. I hope that the Finance Ministry will take up this matter and see that independent enquiries will be carried out. We must benefit by the banking experience of democratic countries like Germany and U.S.A., and see also as to how best we may co-ordinate our banking institutions. No doubt we have done well in converting the Imperial Bank into the State Bank, but I do not think we have properly co-ordinated the whole banking system. A searching enquiry is needed for this. There are indeed competent bankers in the country. If need be, we may get help from outside also so that we may profit by other's experience, and have a properly co-ordinated banking system in the country.

SHRI RAJENDRA PRATAP SINHA: | Sir, I just wanted to point out this. At page 2, if you refer to clause 4(2) (xa), you will find that it says:

"the acting as agent for the Central Government or any State Government or any corporation in implementing...."

It does not mean advancing the money but the State Bank is empowered to act as agents. I can empower my own bank to act as my agent whereas the last sub-clause in this deals with the financing of the co-operative societies limited to the employees of the State Bank. I was urging that the scope of this sub-clause should be extended so that it can advance loans to other societies also other than societies formed by the employees of the State Bank.

SHRI H. N. KUNZRU: Sir, as a matter of principle, I agree with those who think that the Reserve Bank of India should not involve itself in commercial transactions. Without trying to enumerate its functions exhaustively, I think I shall be justified in saying that its dealings should be confined, broadly speaking, to transactions concerning the Central Government and banks of a good standing. When this matter was raised in the other House, the Finance Minister seemed to agree with it and said that he intended to transfer such of the present functions of the Reserve Bank as were of a commercial nature like affording agricultural cooperative credit to the State Bank. If this is the intention of the Government, what is there to prevent it now from giving effect to its wishes. The Reserve Bank of India Act is being amended in order to provide medium term loan assistance to industries. The Statement of Objects and Reasons of the State Bank of India also says that the Act is being amended in order to enable the Bank to assist in providing adequate medium-term finance to industries in the context of the indus-

trial development contemplated under the Second Five Plan.

In regard to the provision of medium-term finance to industries, the object of both the Bills appears to be the same. There is no reason, therefore, why the functions that are now being assigned to the Reserve Bank in regard to the provision of medium-term loans to industries should not be assigned exclusively to the State Bank of India. Clause (8A) of Section 17 of the Reserve Bank of India Act is being amended so as to insert after the words 'any other bank' the words 'or financial institution'. I shall now read out section 17 (8A) in order to enable the House to understand how the Section runs at present and how it will run as amended in accordance with the proposal made in the Bill. It stands at present as follows:

"The Bank shall be authorised to carry on and transact the several kinds of business hereinafter specified, namely: —

* * * *

(8A) the purchase and sale of shares' in, or the capital of, the State Bank or any other Bank notified by the Central Government in this behalf."

Here the Reserve Bank is authorised to invest money in the purchase and sale of shares in, or the capital of, the State Bank or any other bank notified by the Central Government. It cannot give help of this kind to any other institution. Now by the insertion of the words "or financial institution" the Reserve Bank is being authorised to take part in the purchase and sale of shares of any financial institutions notified by the Central Government in this behalf.

Now take the Bill amending the State Bank of India Act. It is proposed here to insert in Section 33 subsection (3) after clause (xix) the following clause:

"in consultation with the Reserve Bank and subject to the directions of the Central Board, the Subscri-

bing to, buying, acquiring, holding or selling of any shares or debentures of any such financial institution as may be notified by the Central Government in this behalf."

Taking the opening words of Section 33, the whole clause will read as follows:

"Subject to the other provisions contained in this Act, the State Bank may carry on transactions in all the following kinds of business, namely: —

'in consultation with the Reserve Bank and subject to the directions of the Central Board, the subscribing to, buying, acquiring, holding or selling of any shares or debentures of any such financial institution as may be notified by the Central Government in this behalf.'"

It will be noticed there that the language of the proposed Section 33 (xix) is wider than that of proposed Section 17(iii) in the Reserve Bank of India (Amendment) Bill. This is the position. It must be explained why it is considered necessary to ask the Reserve Bank of India also to engage itself in the purchase and sale of shares of institutions notified by the Central Government when the State Bank of India is being allowed to do the same thing.

The only other point that I should like to refer to is that raised by my hon. friend, Shri R. P. Sinha. When he said that the State Bank would be able to advance or loan money from out of its own funds for the construction of dwelling houses of its own employees only, the hon. Minister took exception to the statement and you referred him to the proposed section 33(xa). As has been pointed out by Shri R. P. Sinha, this provision enables the State Bank of India only to act as the agent of the Central Government or of any State Government or any corporation in implementing any scheme for financing the construction of dwelling houses and in advancing or lending money from

Kunzru.]

tids placed at its disposala,, by the Government orCj any person upon such self means that if theGovis interested in clearingthe SK.IU oi if it sets up any corporation for this purpose, then the State Bank of India would be entitled under the foregoing provision to advance money for the construction of a dwelling house on suitable security to any person who probably is living in the slum that has to be acquired. Otherwise, he cannot get a loan under this provision from the Bank at all. The officers and employees of the State Bank, however, if they form a co-operative housing society all of whose members are officers or employees of the State Bank, then the Bank can advance money to them for the construction of dwelling houses wherever they may be living. They may be living outside a slum but the Bank can advance money to them out of its own funds. In other cases, the Bank can advance money for the construction of dwelling houses only as the agent of the Central Government or of any corporation out of the funds placed at its disposal specially for the construction of dwelling houses. There is a world of difference between these two provisions and the hon. Minister should explain why there is this discrimination between the ordinary people of this country and the employees of the State Bank. Is this permissible under the constitution? I do not mind the officers and employees of the State Bank being administratively given facilities that the other people may not enjoy—and the reasonableness of this will be admitted by others—but I cannot see why a distinction should be made between the officers and employees of the State Bank on the one hand and the other citizens of the country on the other.

SHRI BHUPESH GUPTA: Mr. Deputy Chairman, I would only like to say a few words with regard to the broad principles behind these two more or less identical Bills. It appears that Government is not yet in a mood

to frontally face the problems of our monetary structure even when it is facing a crisis in the matter of Planning and especially in regard to the financial resources for planning. As you know, ever since we appeared here in this Great House and the other House, we have been pressing that it would be necessary for the Government, with a view to carrying out the planned development and direction of our economy, to secure better control over the financial system of our country. We have been in particular stressing the urgency of nationalisation of banking. Earlier our suggestions had been treated as if we were introducing certain ideas which were not at all in conformity with the philosophies of the Party in power. Later on, I think, sense dawned upon the Treasury Benches and we had the nationalisation of the Imperial Bank of India. We have got the State Bank of India now. It was a welcome step and the whole country supported it despite the howls that were raised in some quarters. At that time, it was also suggested by some people, interested parties, that if this kind of nationalisation were to be taken in hand, the economy and the monetary system would be somewhat upset and industry and commerce would suffer. Experience has contradicted that kind of approach and has proved them as false prophets.

Now, here comes the great hon. Finance Minister when I am talking of finance.

When the Imperial Bank of India was nationalised we suggested that in so far as it went, it was good but again we ran home the point that the banking system has to be taken under the public sector. We had made this point at that time also but they said that nothing of that kind was necessary and, well, they justified their stand which was very partial. Today we find that they have come up with two Bills to amend the existing laws with' a view jto getting a better grip of the monetary structure in the system of our economy. That is also very *gooi* but

the question is, how long should they proceed in this halting manner? The task is to outdistance the private sector, to overtake the private sector and to develop the public sector. For that, resources have to be found and for that, the monetary system has to be reorganised and remodelled. That approach is not there. It seems that they are still limping behind the private sector with the slogan of the public sector on their lips. This is what I find. It is not that nothing is being done; they are doing some little things here and there but I think too much reliance on the private sector still continues. I would not agree with those friends here who seem to think that in point of principle it should not be permissible for the Reserve Bank of India to participate in any form in equity capital. Now, Sir, we need not go into the banking and monetary systems of different countries. We are dealing with our country and we certainly can profit by the experience of other countries but here, I think, it is necessary for Government to participate in equity capital even in the private sector. That is very very urgent. What we find in this country is that Government is making financial commitments and advancing loans out of its funds to private concerns without going into their internal resources and without taking any part in the equity capital of those concerns. I think that system has to go. I am not saying that there would not be a case where the Government has to advance loans and function as a sort of loaning institution but I think it is also necessary for Government to reconsider its policy in regard to this matter especially when heavy sums are involved in the transactions. For instance, loans to Tatas, loans to the Indian Iron and Steel Co., and some other firms should be backed up by the Government acquisition of shares in the equity capital of those concerns. That is very very important. The Government is not yet adopting that policy. I can tell you, Sir, I can make the prediction here that before long Government will recognise the need for it, the beginnings of which you

find here. They are recognising the need of what we have been saying all these years. Well, we are accused of parading outmoded theories. The hon. the Finance Minister used to say that he had read the works of Marx, his theories, and that we had been quoting them and that we had been living in the old world with outmoded theories, but it seems that the theory we propounded here, we explained here finds some kind of partial recognition in some of the measures taken by the Government; and here is another measure they are adopting. Now the Reserve Bank has to participate in the equity capital of certain concerns that might come into existence. My hon. friend, Shri Santosh Kumar Basu, said that he was opposed to this in principle. I do not see what principle is involved in it. The Reserve Bank of India has to come into the picture more and more and take control of the situation in a much more effective way than it has hitherto done. I think for that reason the acquisition of some equity shares or participating in these companies or Corporation would be necessary and should be supported, and I am not opposed to it. Then, Sir, it has been also suggested by some Member on this side of the House that the financing of the commercial undertakings in the private sector with medium-term loans should be left entirely to the commercial banks, and that nobody should encroach upon that domain. I do not think that either is a right approach. I do not say that the commercial banks, as long as they exist, do not have a function to fulfil in this respect. I do say that, till they are nationalised, subject to the restrictions and control and direction they will have to advance loans to private concerns and commercial undertakings, but it is equally important for the Government to enter that field and take a share in that financial activity of the country. The reasons are very simple. You see from the Reserve Bank of India bulletin that the scheduled banks of India are advancing a lot of funds. You have seen how the advances have gone. I think the advances are

[Shri Bhupesh Gupta.] some 26 crores of rupees during the past few months, and that against agricultural stocks, much of which went in speculation, speculation over food. We have seen in the latest bulletin published by the Reserve Bank how they are advancing about 11 to 13 crores of rupees a year against what they call securities and shares of certain private companies. They are advancing funds; they are advancing loans on those securities and shares. Now I do not say that every such loan given is wasted or abused or misused. I am not saying so, but much of it goes into speculation. This is my complaint that the moneys obtained from the scheduled banks—and that sum is no small sum—against shares and securities is used for purposes of speculation in the country and the country's economy suffers as a result of this, not to speak of gaining anything by way of planned economy. Now I think that has to be checked. It is essential for that reason that the Government controls. That is one point I want to make. Therefore I think this will meet the arguments of those who think that the scheduled banks are the only ones that should be asked to finance the commercial undertakings.

Then again the question of interlocking comes in, because most of the scheduled banks in the country are controlled by some big financial houses, who control many industries, many business concerns and many enterprises, and the same people also control these scheduled banks. In some places you find that a man's son is sitting on the board of directors in a bank and another son is on the board of directors of the company. That is how things are managed. The technique is so complicated for us to understand that I cannot go into it in detail very much, but it is well known that there is a lot of interlocking in this matter, and the moneys advanced are manipulated. The commercial and industrial undertakings which have got a pull over and connection with a scheduled bank get precedence

and they get funds, but the others who may be needy but do not have that pull go without the financial backing and assistance from the scheduled banks. That is happening in our country. Is it not a fact that large numbers of our industrial undertakings, small and medium and so on are suffering for want of financial assistance, for want of loans and advances? It is well known in Bengal, for instance, that there are some very top industries, big undertakings at the top, which never suffer for any lack of financial activity or assistance from the bank. But there are thousands of small and medium ones which are being weeded out of existence for the simple reason that they do not get financial accommodation and backing without which it is difficult for them to keep them running. That is what, we find today. We have also seen how these scheduled banks under the influence of the big business houses have been interested in crushing the small and medium industries with a view to strengthen the monopoly sectors in our economy. That also we have seen. These facts have to be taken into account when we discuss this question. Therefore I say that it is essential that the Reserve Bank and the State Bank of India should more and more operate in this sphere, which now is almost exclusively given to the private sector. Now here it seems that provisions will be made whereby the funds that will be at the disposal of the Refinance Corporation will be available to the private sector, for economically helping the industries there. We do not know along what lines the loans will be disbursed or distributed. We have no idea. We know that the Refinance Corporation will come into existence and that will administer the funds at its disposal. Here again I oppose the idea of associating the exchange banks with the Refinance Corporation. I do not see as to why these foreigners should be brought in every time we form a corporation in our country or every time we make certain changes in the financial sys-

tern of our country. As long as these commercial banks and scheduled banks exist I can concede that you can take some of their representatives but there should not be overcrowding by them. But I do not see any reason as to why the four people or some people from the exchange bank, from the foreign exchange bank should be taken. I do not at all see the reason behind it. I think they should be excluded. And again there, in the Refinance Corporation, since public money will be invested in it and since Government's commitments will be very heavy I want absolute control by the Government. I do not want the gentlemen from the private sector to be there in order to push their ends, to push things in their direction. I think they should be kept in proper places. That is very important. The Government should control it. If you need advice from the private sector you can ask for that advice. I think it is possible to get advice from them. On merits you can judge this thing. But it seems that the private sector almost makes out, rather it seems that Government takes it for granted that until and unless you allow the private sector, the representatives of the big business, to be entrenched even in this institution, you are not going to have their expert opinion and advice, their business acumen and experience and all that. I repudiate that kind of idea. I think it is possible to draw upon their experience and advice most of which of course will not be acceptable to us, but whatever is valuable, whatever will help our work can be utilised in conducting the affairs of an institution like this. Therefore I am a little afraid when I find that too many bankers, too many people from those quarters will be associated with the administration of this new institution that is coming into existence.

Then, Sir, with regard to the loans. Well, in the second Five Year Plan it was stated that the private sector would find Rs. 620 crores. That private sector brought a lot of pressure to bear upon the Government, in the

Development Councils and in other places, to get their quota raised, their allocations raised in the private sector, and the hon. the Finance Minister, then Commerce and Industries Minister, was particularly keen on giving them concessions as much as possible. The other gentleman who preceded me said that he had given the green light and there was competition between the two as to who can woo the private sector best. Therefore, we would ask, how is it that the private sector, which promised to find for the planned economy Rs. 620 crores in the course of five years, today needs money from the Government through certain agencies? We would like to know this thing. Here again a line has to be clearly drawn. I hope that the funds that will be distributed through this new institution—Refinance Corporation—would not be made again available to the big business who have got plenty of internal resources. For instance, the Tatas are getting loan on the one hand from the Government and on the other hand they are speculating in Bombay on landed estate property. It is a well known fact. I know that Volkart Brothers, I think, and similarly various other building properties were being bought by the Tatas or people on behalf of Tatas while they were pleading financial cut and stringency with a view to getting handsome loans from the Government. Now, this kind of thing should stop before any loan is advanced. The Government must go carefully into the internal finances of all these private concerns and see whether they at all need them. It should be their task to ensure that the money that is being given is being invested in directed channels of investment. We are not for investment in any sundry thing. When we are in the midst of a planned economy, when we have set before ourselves ideas of industrialisation of the country, when we have fixed priorities and targets, it is essential to see that the funds flow in the right direction, that the funds flow into the right channels. Therefore I would ask the Government to be very very cautious. The trouble

[Shri Bhupesh Gupta.] with the Government is this, that it says so many good things at times and then it forgets them when it comes to the question of practice. It says and talks about socialism when it makes speeches in Parliament and more so at election meetings but when it comes to the question of dealing with cash, it forgets that socialism and helps the capitalists. That is the trouble with our Government. I hope that a repetition of the old thing would not be there and I hope that these moneys will be properly invested. The hon. Finance Minister must know that the private sector, especially the big ones at the top, to whom he has given bounteous tax concessions, has let down the Government at every point. When we say harsh things the hon. Minister gets angry and he hits back. Well, we can take hits.... Since we give we can also take, But when these people, the private sector, I mean the organised private sector and I mean again the top notches, in the financial world, when they let down the Government, when they go back upon their commitments and carry on all kinds of manipulations and speculations, our Government does not take any effective action against them. This is another trouble with our Government. Therefore I say, today the Government has to consider the question of the entire banking system. I repeat that these piecemeal measures, this tinkering with the problem here and there, this becoming wise after the event and that too not in respect of the entire picture, will not take us very far. The time has come to integrate the entire banking system under one sector and that would be the public sector. That is very very important. You have got the Industrial Finance Corporation; you have got the State Financial Corporations. (*Time bell rings.*) You have got a number of other institutions. A plethora of institutions has cropped up in the country but still we are in the midst of a financial mess. I say that that kind of thing will not work. Today the time has come for the Government to review

its entire policy with regard to the monetary system of the country and reconsider the whole question so that before long they feel the need of nationalising the banking system because it is necessary for us to have the completest possible control over the banking system of- our country, over the financial system of our country in order to ensure that balanced development takes place, in order to ensure that monopoly centres and monopoly combines are broken, in order to ensure that industrialisation progresses along the lines on which we would like it to progress, along directed channels. I want to stress particularly in this connection one thing. I know there will be many more amending Bills. Amendments will be piled up but we shall not give our votes for them unless and until you take our banking system under the public sector and say good bye to the speculator and the monopolist, say *adab arz* to the speculator and the monopolist, who are controlling the financial systems of the country today. Nationalisation of the State Bank of India has been a significant step and that assault has to be carried forward and the whole thing has to be taken within the purview of the State sector in the interest of the economy of our country.

SHRI P. S. RAJAGOPAL NAIDU: Sir, the hon. Minister has said in reply to certain suggestions made by hon. Members in the other House in regard to the role of the Reserve Bank, that the Reserve Bank/ must remain the top-most financial institution in the country controlling practically every movement in finance, that some of its present functions which are of a commercial nature like affording agricultural credit etc. would be transferred to the State Bank. Sir, the hon. Finance Minister considers that the agricultural credit wing of the Reserve Bank of India is of a commercial nature and that should be taken away from the purview of the Reserve Bank and transferred to the State Bank of India. As we all know, the Reserve Bank of India is advan-

cing moneys to the various rural credit societies through the Apex Cooperative Banks and the District Cooperative Central Banks and providing credit at a very cheap rate of interest. Mostly, it is at 2-1/2 per cent, and because the Reserve Bank is able to advance moneys at 2-1/2 per cent, to the Apex Co-operative Banks, the members of the village co-operative societies are able to get loans at a very cheap rate of interest, at 5-11/2 per cent, to 6-1/4 per cent. It is said—and one has to admit it—that progress is made by co-operative banks in the field of rural credit because of the great assistance rendered by the Reserve Bank of India in the matter of field of rural credit. What I feel is, any alteration at this stage or any attempt to alter the pattern of rural financing will in my opinion cut at the very root of the rural credit. As we all know, the State Bank of India, by tradition, by outlook as well as by administrative set-up, is purely trained for the purpose of commercial banking and I do not know of the State Bank of India will play its part when this agricultural credit wing of the Reserve Bank of India is transferred and handed over to the State Bank of India. Sir, the experience gained by the Reserve Bank of India all these years will become useless if rural credit is to be handled by the State Bank of India with its commercial outlook, I have got my own fear whether this experiment will be a successful one. I am not pleading either on behalf of the State Bank or on behalf of the Reserve Bank but I am pleading on behalf of the various borrowers in the rural areas who are now able to get finance at a very cheap rate of interest. If the hon. Finance Minister can give an assurance that the rural credit societies will be able to get finance at the same rate of interest that is charged by the Reserve Bank to the Apex Cooperative Banks, namely, 2-1/2 per cent, in the matter of short term loans, I will have no grievance if it is transferred to the State Bank of India or even to other commercial banks. They should be able to get finance 29 RSD—6.

at the present cheap rate of interest. As the hon. Minister knows, the Reserve Bank has created a stabilisation fund—I do not know what it is called—and thereby they are able to get interest-free loans, that is, loans for a period of two or three years without interest and thereafter at a very cheap rate of interest starting with 2 per cent. This enables the Apex Co-operative Banks to participate in the share capital of various co-operative Institutions. I do not know whether that will be made available now if this is handed over to the State Bank of India.

Sir, I will have no grievance in supporting the objects with which these two Bills are brought. Sir, we all know that great difficulties are experienced by the industrial co-operatives in the matter of getting medium-term loans or long-term loans for the purpose of establishing various co-operative industrial undertakings. Sir, we collect the share capital. The State Government contributes or participates in the share capital. The State Government borrows the money from the Central Government or from the Warehousing Board for the purpose of becoming a share-holder in that cooperative industrial undertaking. Sir, the co-operative institution has to look forward to the Industrial Finance Corporation of India or the State Finance Corporation for the loan to establish a factory. Now one of the terms imposed by the Industrial Finance Corporation of India is that the money will be paid only after the factory is erected. How to get the money for the erection of the factory, that is the question. If the co-operative institution can find the money to erect the factory, it certainly need not apply for a loan to the Industrial Finance Corporation of India. The authorities of the Industrial Finance Corporation of India insist that they must see the plant being erected and that the building is up. It is only then that they advance money on the specific hypothecation of the plant as well as the building including the land. In the meantime by way of interim finance

[Shri P. S. Rajagopal Naidu.] with a view to erecting the factory the industrial co-operative is of course left with nothing. I understand that the State Bank of India has come forward with a sort of scheme for the advancement of this interim loan on some basis; it has not yet finalised the scheme. I will be very glad, Sir, if by the amendment of this Bill the State Bank of India will be able to advance loans to the various co-operative industrial undertakings, particularly those co-operatives which are now starting heavy industries like sugar mills and all that. The State Bank of India should come forward and advance by way of interim finance the required loan for the co-operative to erect the factory till such time at least as the Industrial Finance Corporation of India will be able to advance money to the co-operative institution . . .

Sir, I am sure the hon. Deputy Minister is aware of the enormous difficulties of the Bombay co-operatives who had been granted licenses to establish 13 sugar mills. I was told that in the absence of the State Bank of India or any other bank coming forward to advance this money, it fell to the State Co-operative Bank of Bombay to advance as much as Rs. 2 crores by way of interim finance to these co-operative sugar mills. As a result of this the entire medium-term resources of the State Bank of Bombay have been completely drained. Sir, I am sure that by the amendment of this Bill that difficulty will be got over and that the State Bank will be of great use to the industrial co-operatives in advancing money for the purpose of erecting these heavy industries.

MR. DEPUTY CHAIRMAN: It is time.

SHRI P. S. RAJAGOPAL NAIDU: Only one more point and I will stop. My hon. friend Dr. Kunzru has correctly pointed out, also Mr. Sinha, the sort of partiality

MR. DEPUTY CHAIRMAN: It has been pointed out. He will deal with it.

SHRI P. S. RAJAGOPAL NAIDU: Another point in the same connection. We all know that Government is advancing monies directly to the housing co-operatives; at any rate, that is my experience in Madras State. In so far as money is required for the members of the Co-operative Housing Society, they have to borrow through the agency of their Society directly from the Government. These Housing Co-operative Societies do not look to the Apex Co-operative Bank either in the district or in the State for the purpose of borrowing monies for the construction of houses. Sir, I would have felt happy if this is made applicable not only to the employees of the State Bank but to the employees of all the other banks in India. Sir, this will be a heartburn to the employees of other organisations. Why do you give this sort of facility only to the employees of the State Bank of India? Why not it be given to the employees of the Reserve Bank of India? I know that the Reserve Bank has very many more employees, at any rate in certain metropolitan cities, than the State Bank of India. Sir, I suggest that this particular clause be deleted so that there shall not be any heartburn amongst the employees of other* banking companies in India.

Sir, these are the observations I have to make.

SHRI B. R. BHAGAT: Mr. Deputy Chairman, I must confess that much larger issues of credit policy and banking practices as also the problem of nationalisation and the role of the private sector in the economy have been raised over these two measures. Sir, I think it is hardly necessary for me to enter into those larger controversies. But certainly I would like to refer to the hon. Dr. Kunzru who made a point about the Finance Minister's speech, which he quoted from some paper, mentioning that he would like that the Reserve Bank should be divested of all commercial banking activities and that these should be transferred to the State Bank. This

point has also been made by the hon. Member who spoke last.

SHRI P. S. RAJAGOPAL NAIDU: Let it do it directly. Why ...

Sir, there is some misconception about this matter. As a result of this measure the Reserve Bank is not entering into any commercial activities as such. What it is doing is that it is participating in the shares of the Refinance Corporation, which the State Bank and other commercial banks will also do, and together with a portion of the fund arising out of the Commodity Agreement with the U.S.A. we will have an institution to finance medium-term credit. Again, there is another misconception of the hon. Member, Shri Kishen Chand, that this Refinance Corporation will participate in equity capital. This is not correct. It will advance medium-term loans. So, the Reserve Bank by associating itself will give prestige, strength etc. to this Corporation, which are necessary for a new institution like this. But the participation in the day-to-day advancing of loans will be done by the State Bank. So, Sir, I would humbly suggest and submit that the ambit of the functions of the Reserve Bank is not being extended to commercial banking. And I do not think it comes in contrast or incognity with the statement of the Finance Minister.

5 P.M.

Some hon. Members spoke about the State Bank financing co-operative societies and its employees. As will be evident, the nature of the two clauses 4(2) (xa) and 4(3)(xixc) is different. As the hon. Mr. Sinha said, under the first the State Bank will act as the agent either for the various State Governments or the Central Government or any corporation and administer funds placed at its disposal for the construction of dwelling houses. The other is a provision merely for a domestic purpose and the State Bank, out of its funds which may be specially created, will provide loans to the co-operative housing societies the members of which are employees of the State Bank.

SHRI B. R. BHAGAT: So, the nature of these two clauses is different.

The point raised by Dr. Kunzru, Mr. Sinha and other hon. Members is: why has this section been inserted as a discrimination in favour of the employees of the State Bank? Sir, if you go into it, you will find that this is no discrimination. It is the normal function of any institution whether it be a State Government or any society', to provide certain amenities for their employees, which may be restricted to a certain section of the people.

SHRI P. S. RAJAGOPAL NAIDU: I may be pardoned for intervening, Sir. The recognised system is to advance directly to the employees funds for the purpose of construction of houses, and not to advance money through the co-operative society which will be governed by certain rules and regulations of that particular Act. By all means, give the money directly to the employees. Nobody will question that.

SHRI B. R. BHAGAT: No, no. It is not for the employees of the co-operative societies, but to any co-operative housing society . . .

SHRI KISHEN CHAND: But the moment it is a co-operative society, it is governed by the Co-operative Societies Act.

SHRI B. R. BHAGAT: That is true. But what I am saying is, the intention is, that there is no discrimination involved against anybody. For example, Parliament may have its own canteen for the Members out of its funds. An Army Society or a Soldiers' Club may have amenities. But the discrimination would be there if the funds are used for certain other society's purposes and not for its own. So, it is restricted to the amenities of the employees themselves, not of any other person. So, there is no discrimination involved there.

[Shri B. R. Bhagat]

Shri Bhupesh Gupta raised a point about the multiplicity of these financial institutions and, I think, some other hon. Members also raised that point. Because there are various financial institutions, there is a sort of confusion. If you go into the nature of these institutions, whether it be the Industrial Finance Corporation or the Industrial Credit and Investment Corporation or the State Finance Corporation, you will find that their functions are different. The compass of activity is not coterminous. The State Finance Corporation has a limited purpose to finance, on a small-scale industries in the States. The Industrial Finance Corporation provides long-term loans to the big or the medium industries. The Industrial Credit and Investment Corporation participates in the equity capital or participates in the venture. As the hon. Mr. Sinha quoted from the Shroff Committee's Report and various other reports on the banking policy or the credit need of the country, the need to help medium industries has been felt. Now medium industries are coming up and they are up against heavy odds so far as the matter of finance is concerned. So, the main idea is to provide this long-felt need. And I think it will not be adding to the confusion. There is no confusion as such, because the functions are clearly demarcated and those who deal with them, know to which institution they will apply. I think the coming up of this new institution into the family of the various Corporations will go a long way in fulfilling the much-needed want of medium-term credit.

A point was raised that the Re-Finance Corporation would make funds available to big industries and not to small or medium industries. Mr. Bhupesh Gupta said that big firms like the Tatas should not be helped. I think a similar view was expressed about the State Bank by the hon. Member who spoke last. Quoting from the Finance Minister's speech, he said—or he inferred rather—that the rural credit functions would

go to the State Bank and expressed a fear that the same facilities regarding terms and the rate of interest as are available to the apex co-operative banks from the Reserve Bank may not be available from the State Bank because the State Bank will be guided by commercial interests or by profit or other considerations. I think they miss the point that, whether it be the Reserve Bank or the State Bank, they are all nationalised institutions. They are there to fulfil a certain role in the economy of the country. The Reserve Bank is the guardian of our credit and monetary policy. The State Bank has been created with a definite purpose to fulfil a role. So, their functions are demarcated under our economic policy and programme, whether it is the First Five Year Plan or the Second Five Year Plan. So, transferring some function from the one to the other will not mean any aggravation of the difficulties so far as rural credit is concerned, because, as some hon. Members said, it was mainly for the purpose of facilitating rural credit that the State Bank was created and I think it is a misconceived fear to say that by transferring this function to the State Bank-----

SHRI P. S. RAJAGOPAL NAIDU: That is what the Rural Credit Survey Committee's Report says. If your recommendation is to be accepted, that means that the Rural Credit Survey Committee's Report will have to be overlooked.

SHRI B. R. BHAGAT: I do not think, Sir. But I may submit that these are larger issues for this Bill and I can only assure the Member that his point of view will be earnestly borne in mind.

SHRI P. S. RAJAGOPAL NAIDU: I want an assurance.

SHRI B. R. BHAGAT: Well, I cannot satisfy the hon. Member wholly. But I can only state what the Government thinks desirable.

Now, Sir, regarding the hire purchase system, it was suggested that

there should be a ceiling fixed for it, and a fear was expressed that the funds may come from the rural credit. I think the answer to that point is that it would not be advisable to provide any ceiling. It should be left to the banks themselves because they would be guided by commonsense and experience, and the Bank is not different from the Government. It is an institution of the Government itself. So, the general economic policies of the Government will be borne in mind. Similarly, Sir, I do not think that the hire purchase problem is such that, the funds will come from the rural credit, because the rural credit problems are enormous. More and more funds will have to be made available to the rural credit, and therefore I think that that fear is also unfounded.

Then, Sir, one small point was made about the Exchange Bank. It was said that the Exchange Bank should be kept out from participation. However strong the feeling against the Exchange Banks or the Foreign Banks may be, it must be conceded that they are fulfilling a very useful role in the economy of the present time. We cannot shut them out from their legitimate banking functions. Of course, if we find that they are establishing some stranglehold, we are quite capable of dealing with such a thing and untie the knots that they may create. But I think this is not the way we can deal with them. So I think it is not proper to keep them away. I do not know. Sir, if there are any other points left, because I have tried to meet in my humble way all the points that have been made by the hon. Members. With these few remarks, Sir, I have done.

MR. DEPUTY CHAIRMAN: The question is:

"That the Bill further to amend the Reserve Bank of India Act, 1934, as passed by the Lok Sabha, be taken into consideration."

The motion was adopted.

MR. DEPUTY CHAIRMAN: Now we shall take up the clause by clause consideration of the Bill.

Clauses 2 to 5 were added to the Bill.

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

SHRI B. R. BHAGAT: Sir, I move: "That the Bill be passed."

MR. DEPUTY CHAIRMAN: Motion moved:

"That the Bill be passed."

SHRI KISHEN CHAND: Sir, I have heard the reply of the hon. Deputy Minister and I am quite dissatisfied with his answer. Our main objection was this. When we have got two institutions, it is essential that the Reserve Bank of India should be kept apart from these commercial activities. That was our main objection. The hon. Minister replied by saying that if the Reserve Bank takes the share of the Refinance Corporation, it will add prestige to it. Supposing the State Bank of India takes shares of the Refinance Corporation, will it not add prestige to it? Simply for the sake of adding prestige to the Refinance Corporation we want to break the principle that the Reserve Bank should not do any commercial banking business. In the matter of taking shares of banks it was only for providing the State Bank of Hyderabad that we broke the convention and permitted the Reserve Bank of India may take shares of any banking concern. The Reserve Bank of India is a Bank which is carrying on not* issue, and therefore, Sir, it is very essential that the hon. Deputy Minister should make a careful note of this point. When the question of the State Bank of India will come up, on the third reading I will have something to say. But this I am saying only about the Reserve Bank.

SHRI B. R. BHAGAT: Sir, I have already replied to that point. But I might just add that the Reserve Bank by participating in the Refinance Corporation does not indulge in day to day commercial banking. It does not advance any loan. That will be the function of the State Bank.

MR. DEPUTY CHAIRMAN: The question is:

"That the Bill be passed."

The motion was adopted.

MR. DEPUTY CHAIRMAN: Now I will take up the second Bill, the State Bank of India (Amendment) Bill, 1957.

The question is:

"That the Bill further to amend the State Bank of India Act, 1955, as passed by the Lok Sabha, be taken into consideration."

The motion was adopted.

MR. DEPUTY CHAIRMAN: Now we will take up the clause by clause consideration of the Bill.

Clauses 2 to 5 were added to the Bill.

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

SHRI B. R. BHAGAT: Sir, I move:

"That the Bill be passed."

MR. DEPUTY CHAIRMAN: Motion moved:

"That the Bill be passed."

SHRI KISHEN CHAND: Mr. Deputy Chairman, Sir, in regard to this Bill also, the hon. Deputy Minister has tried to reply to only two or three points. Here again, I beg to submit that it was not a real reply, but only an apology for a reply. The first

thing that he said was that in permitting loans to employees of the State Bank of India no discrimination is made. There is no objection to that. But the moment . . .

SHRI B. R. BHAGAT: Sir, is it relevant at the third reading stage?

SHRI KISHEN CHAND: I am replying to his argument.

MR. DEPUTY CHAIRMAN: You cannot go on replying like that. Do not repeat the same argument. If you have anything fresh, you may do it. But you have said that you are not satisfied and you have put forward your arguments also. I think there is nothing to add. So I will put it to the House.

The question is:

"That the Bill be passed."

The motion was adopted.

THE CENTRAL SALES TAX (AMENDMENT) BILL, 1957

THE DEPUTY MINISTER FOR FINANCE (SHRI B. R. BHAGAT) : Mr. Deputy Chairman, I beg to move:

"That the Bill to amend the Central Sales Tax Act, 1956, as passed by the Lok Sabha, be taken into consideration."

Sir, the Central Sales Tax Act, 1956 provides for the levy, collection and distribution of tax on the sale of goods in the course of inter-State trade or commerce. It also specifies the goods which are declared to be of special importance in inter-State commerce and lays down in section 15 the conditions to which the Sales Tax Laws of the different State Governments must conform in order to tax the goods thus declared.

The Central Sales Tax Act, with the exception of section 15, was enforced on the 5th January, 1957. The enforcement of section 15 was postponed in