[Prof. Humayun Kabir.]
Reserve Bank, and in any case, to keep an eye on and to scrutinise the operations and the different steps and the measures taken by the Reserve Bank for increasing currency to meet our growing demands?

Thank you, Sir.

MR. DEPUTY CHAIRMAN: The House stands adjourned till 2.30 P.M.

The House then adjourned for lunch at four minutes past one of the clock.

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The House reassembled after lunch at half past two of the clock, MR. DEPUTY CHAIRMAN in the Chair.

## MESSAGE FROM THE LOK SABHA

### THE BIHAR AND WEST BENGAL (TRANSFER OF TERRITORIES) BILL, 1956

SECRETARY: Sir, I have to report to the House the following Message received from the Lok Sabha signed by the Secretary of the Lok Sabha:

"I am directed to inform Rajya Sabha that Lok Sabha, at its sitting held on the 7th August, 1956, has passed the following motion extending the time for presentation of the Report of the Joint Committee of the Houses on the Bihar and West Bengal (Transfer of Territories) Bill, 1956:—

MOTION

'That the time appointed for the presentation of the Report of the Joint Committee on the Bill to provide for the transfer of certain territories from Bihar to West Bengal and for matters connected therewith be extended up to the 10th August, 1956'."

SHRI BHUPESH GUPTA (West Bengal): Sir, I am opposed to the extension of time. I have great misgivings in the matter.

MR. DEPUTY CHAIRMAN: It is the Lok Sabha that has extended the time. We have nothing to say in the matter.

SHRI BHUPESH GUPTA: I think the Motion here is for concurrence. I understand that there is some move by some people to revive the Bengal-Bihar merger proposal and include Orissa also in it and I think these people are seeking time so that they can carry on their conspiracy. I am opposed on that ground.

MR. DEPUTY CHAIRMAN: It is only information that has been sent to us. We cannot discuss that matter.

SHRI BHUPESH GUPTA: In such a position, I would like to know as to what happens.

MR. DEPUTY CHAIRMAN: We have only been informed that the time has been extended. We have no voice in the matter.

SHRI BHUPESH GUPTA: Are we not bound by the extension?

MR. DEPUTY CHAIRMAN: We are.

SHBI BHUPESH GUPTA: If we are, then......

SHRI KISHEN CHAND (Hyderabad): The Report is to be submitted to the other House and if they have extended the time, it is at their option.

MR. DEPUTY CHAIRMAN: It is not a matter to be discussed here.

DR. P. SUBBARAYAN (Madras): The Select Committee emanated from the other House and, therefore, they are seized of the matter. We have only to concur with the decision.

SHRI BHUPESH GUPTA: Suppose we do not concur with it. Have we or have we not got the right?

MR. DEPUTY CHAIRMAN: You will not serve any purpose. It is only information that has been sent to us.

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## THE RESERVE BANK OF INDIA (AMENDMENT) BILL, 1956—*continued*

SHRI BHUPESH GUPTA: Mr. Deputy Chairman, there has been a considerable amount of discussion on this measure which in the present situation is undoubtedly important. Some very important questions have been raised by many hon. Members while speaking on this Bill and we would like to have a proper elucidating answer from the hon. Minister who is piloting this Bill in this

House. There seem to be two important grounds on which the Bill has been brought with a view to amending certain provisions connected with the administration of the Reserve Bank of India. One, of course, is the coverage that the Reserve Bank must have against issue of currency and the other is about the regulation of the banking operations in the country, especially the scheduled banks. Both these considerations are undoubtedly very important and deserve to be discussed at length. Now, Sir, I am not one of those who would dogmatically stick to any arrangements with regard to the issue of notes and all that. I quite realise that it may be necessary in certain circumstances in the economy to expand credit and to extend credit facilities and for that reason also to resort to certain measures of issuing currency at a scale which is not normally done. The question here is as to what should be the protection to such issuance of currency and how the protection should be best enforced. This Bill proposes a certain kind of measure more or less on the old line of thinking. The hon. Dr. Kunzru has suggested that some kind of a proportion should be maintained between the issue of notes and the deposits in gold, bullion or foreign exchange securities with the Reserve Bank. One may debate this point from various angles. I do not say that this is a question which does not admit of a debate or elaborate consideration; there may be different points of view and one might say many things on this which might require serious consideration by the Government. Besides, we are not in a position to offer more concrete suggestions for the simple reason that some relevant facts are not known to us. I am not blaming the Government for that. At the moment, we are not directly connected with the operations of the Reserve Bank or the manner in which it works in detail. Therefore, it becomes difficult for us to go into this question very deeply and furnish a precise and exact answer. That is the difficulty from which we suffer. Nevertheless. we feel that some kind of a protection should be there. Unless that is there, the banking system in the country and the economy of the whole country may fall victim to certain caprices of capitalist economy. That is what I fear. Therefore, I think some kind of a protection against issue of notes and credit should be there, but how that is to be devised is a matter which really requires consideration from different angles. I think that one of the ways in which it could be protected is by maintaining a kind of a ratio—but I am not dogmatic on 40 per cent. or so—but some such thing is perhaps necessary in the present situation. It seems to me that Government has been mainly concerned with its needs for deficit financing in the second Five Year Plan. That is the main consideration behind these provisions of the Bill. Now, I agree that it would be necessary for the Government to find resources to finance the second Five Year Plan and, in that context, it would also be necessary for the Government to expand credit in the country and, if I might say so, take some risk also. I do not want to go beyond that. What is essential for us to understand is whether the risk that we are taking is just the minimum that one should take or whether we are over-reaching ourselves. Secondly, we would also like to know from the Government as to whether the deficit financing envisaged in the second Five Year Plan which require the modification of the rules of the Reserve Bank is something which is wholly justifiable at the scale at which it is contemplated. This also we would like to know from the Government. It appears that Government proceeds on the assumption that there will be deficit financing of the order of at least Rs. 1,200 crores. I do not quite understand that.

SHRI H. N. KUNZRU: Rs. 1,600 crores. The uncovered Rs. 400 crores should be added here.

SHRI BHUPESH GUPTA: I am talking about the second Five Year Plan.

PROF. HUMAYUN KABIR: There is Rs. 1,200 crores plus another Rs. 400 crores.

SHRI BHUPESH GUPTA: I do not think so. Anyway, heavy deficit financing is envisaged. I do not say what should be the limit; I cannot say at this stage. But I think most of the economists, who have spoken on the subject, are united on one thing, that the deficit financing envisaged by the Government in the second Five Year Plan would be something very heavy and, to some extent, might be avoided. This is what they say. I never say that the economists are unanimous on this matter, nor do I say that everybody thinks that the scale of deficit financing

[Shri Bhupesh Gupta.]

proposed is really very high. But in the course of discussions over this matter it has been found that there are many knowledgeable people in the country who think that deficit financing on such a heavy scale was perhaps not necessary although they agree to the principle of a certain measure of deficit financing in the interests of the second Five Year Plan and for the reconstruction of our economy.

Now, Sir, Diwan Chaman Lall made certain very interesting points and I congratulate him for at least bringing up one issue, that is the issue of the withdrawal of the sterling assets of the country that are in the United Kingdom. That is a very relevant point he made and it is one of the salutary contributions that have been made in the course of the debate.

We are dealing with our foreign assets, our currency reserves and all that, but I should have expected in that context that hon. Minister would dilate a little better than he did upon the subject of India's foreign assets, especially our sterling balances, which lie in very very unsafe hands.

Now, Sir, since the provision of the clause with regard to the securities of the Reserve Bank is based on the assumption that there will be the necessity of deficit financing, etc., I would like to go into this question a little in detail. Now let us not delude ourselves by thinking that since we would be creating certain assets in the country through construction and development works, deficit financing even if resorted to on such a big scale would not matter. The hon. Diwan Chaman Lall made a point that since we will be having certain irrigation projects and other things, thereby creating assets, it did not matter if the issue of notes was done on a big scale. Now, Sir, nobody will deny this and it is very important for the economy as a whole to create such assets in the country. We are all agreed on that point, but when we are discussing the question of deficit financing itself, it does not help us very much if we talk about those assets, because they will not by themselves create a counter-balance or constitute a countervailing factor against the inflationary pressure to which the deficit financing is liable. On the contrary, if deficit financing is resorted to on a big scale, that would lead to inflationary pressure, as it does often—we find—and that would change the price structure of the country, and once the price structure is changed, the prices rise and are beyond control. You do not know what will happen to your planning, because the planning has been based, as far as the financial aspect is concerned, on certain assumptions with regard to prices and price movements. If the prices of certain commodities and articles required for planning or required for the administration of planning, were to rise it would mean the expenditure envisaged in the Plan would go up, and naturally that would mean something which would go beyond the financial provision of the Plan, I mean the provision of Rs. 4,800 crores. Either you have to find more money or you have to curtail the targets. Such a thing will happen. Therefore the question of deficit financing should not be viewed from the angle of whether we are for the present creating certain assets in the country, like irrigation projects or power stations and so on. They are very important, but we should view it from the point as to how they affect the economy of the country, how they affect the price in our economy so that we can have better and more accurate calculations with regard to the financial proposals of the Plan. Therefore I say that that particular argument is not quite valid in this respect.

Now about the inflationary pressure; some hon. Members in this House have already warned against the inflationary pressure that has set in in our economy. There is no doubt about the fact. Unfortunately the Government is supinely complacent of the developments of our economy and they do not see the dangers that lie ahead in deficit financing on so big a scale. A number of hon. Ministers had spoken on the subject. Shri Ajit Prasad Jain had spoken. The hon. Minister who is piloting the Bill also made a speech in Calcutta. Shri T. T. Krishnamachari—as usual he is very vociferous—also spoke in Madras, and all of them made one thing clear between them, that they are very much alive to the dangers of the deficit financing and that they do not think much of the rise in prices that is taking place in the country to-day. Sir, men in responsible positions, specially connected with commerce, industry and financial administration of the country, think in this manner. I think that it is no less dangerous than the scheme of deficit financing envisaged in the Plan. The whole country is protesting against the rise in prices The common people, the toiling people are groaning under the rising prices alike in the factories and in the fields, and we find the hon Minister getting up on the platform to tell the people that this was not even very important, that this was only a temporary factor, that the Government was quite alive to it and that the Government was keeping a watch over the situation Nobody is satisfied with this sort of statement. Nobody likes this kind of statement because the facts of life belie such a statement and tell a different story altogether Therefore I say that in this connection one must go into the question of credit expansion and the role of the Reserve Bank With much expectation and hope powers were vested in the Reserve Bank some 20 years ago or some 15 years ago that the Bank would control the operation of the other banks in the country We are questioning now what function it has performed Now I do not deny the important part the Reserve Bank of India is playing in our economy in general and the banking system in particular, but in this connection I would like to know from the Government whether they are satisfied with the operations of the Reserve Bank, with the functions of the Reserve Bank in the last six months or so as far as the question of speculation by the scheduled banks is concerned This is a very relevant question to ask to-day. Was it not known to the Reserve Bank that the scheduled banks in the country were financing speculation on a scale never known before in recent years? Was it not known to them from various sources that they were advancing moneys and giving accommodation in regard to purchases of rice and other foodstuffs by speculative elements? Yesterday in this very House we were told by no other than the hon Minister for Agriculture that the accommodation by the scheduled banks as far as the purchase of rice by the traders is concerned went up by 100 per cent, that is to say, such advances doubled Now what step the Reserve Bank took? Every day over the last few months one could see reports in the newspapers about speculative purchases, about soaring and galloping prices and about movements of rice from one place to another to the detriment of the place where the rice or wheat has been produced Yet we found the Reserve Bank of India not taking any note of the situation, on the contrary looking on when the scheduled banks were making financial offers to speculators so that they could hoard foodgrains and make money. It is all very well to tell us that the Reserve Bank has asked for accounts and has got also some returns and all that We know all that But why was not action taken in time? That is something which the Government should explain in this House It is all very well to tell us that we have been wise now after the event but we would like to know why that wisdom did not come when the realities of life were knocking at the door The Reserve Bank of our country which publishes bulletins, which has got its economic research bureau, which has got good connections with the banking system in the country and whose management, I believe, reads newspapers, did not realise the simple thing that until and unless these scheduled banks in the grip of the monopolist elements had been controlled and regulated there would be some danger to our economy and that the people would have to pay the price for it The Reserve Bank today is therefore liable to the charge of dereliction of duty in this matter That is what I say it should be the duty of the authorities of the Reserve Bank while seeking more powers, which we do not grudge to give them, to explain the reason and the circumstances which brought about this dereliction of duty as far as the people and our economy are concerned I would ask that question and I hope the hon Minister would answer it I would particularly remind you and the House and draw your attention to the speech the hon the Finance Minister made while presenting the Budget He himself noted certain rising trends in prices and he said that the Government would be watching and taking timely action Today by an irony of politics the Finance Minister has changed sides leaving the portfolio for no one to pick up but the Prime Minister Nonetheless I would ask him a simple question, I would ask the Government a simple question What steps did they take since that speech was made on the 29th February this year with a view to checking the inflationary pressure in the country in general or with a view to checking fraudulent and harmful operations of banks and profiteers? I hope the hon Minister will throw some light on the subject Therefore, I say that it is not merely a question of giving powers to the Reserve Bank but it is also a question

[Shri Bhupesh Gupta.]

of how these powers would be utilised. It is also a question of whether these powers are based on certain correct general policies of the Reserve Bank and of its administration. Now, we have a lot of things to complain against the Reserve Bank. Why does it happen? It happens because the management of the Reserve Bank of our country, despite Government control, is very closely linked with the scheduled bank management in our country. This is a home truth that I am telling this House. As you know, some of the gentlemen in the management of the Reserve Bank got very annoyed with certain policies of the Government—we do not know what those policies are and why they got annoyed—and they resigned their offices. I should have thought that the Government would make a statement and tell us....

SHRI A. C. GUHA: I did not quite follow the exact words.

SHRI KISHEN CHAND (Hyderabad): He means the State Bank of India.

MR. DEPUTY CHAIRMAN: The Reserve Bank employees have not resigned. Probably he is referring to the State Bank.

SHRI A. C. GUHA: He said Reserve Bank.

SHRI BHUPESH GUPTA: I am sorry. But the State Bank also has its share in this matter. They are all connected. Some of these people are connected. Personally I do not have anything concrete against anyone but naturally when I find some very eminent people are connected with certain other eminent people who indulge in speculation and all that sort of things, certain inferences follow. I am not levelling a charge straightway or indicating them as if in a court of law but I can certainly raise a question of policy and seek an explanation to our satisfaction from the Government. Sir, the trouble with our Reserve Bank is this that it functions on a financial policy which falls short of the requirements of our developing economy. Naturally, they have very many things to do but today when we have embarked upon a developing economy and embarked upon public expenditure on a scale somewhat large, it is necessary for the Reserve Bank to be always mindful of the price trends in the country and take prompt and swift action in such matters. Now it is well known that, when deficit financing had been already large and when there was a proposal for still heavier deficit financing, that would lead to certain speculative tendencies in the economy. And speculative tendencies would be nothing if they were not backed by the financial houses, scheduled banks and other institutions in the country. Now, action should have been taken by them. They should have foreseen that such things would happen and at least the banks should have been so controlled that credit expansion may not take place in such a manner as would encourage and help the speculative elements in our economy. This they should have foreseen and they should have taken preventive action in this matter. Preventive detention is the only preventive thing in which they seem to be interested. Here there was scope for preventive action and that preventive action, I say, the Reserve Bank did not take. Whatever belated actions they are taking, we welcome them, but these are not adequate enough and my complaint is that they do not take timely action. If it had been taken, the situation would not have come to this pass today. Now if the Government think that they should change the fiduciary rules with a view to expanding credit, we would like to know what other measures they propose to take so that expansion of credit does not operate to the detriment of our economy and so that expansion of credit does not lead to speculation on the part of the banks, to hoarding, profiteering and all that. Now, somebody has said that it is necessary for strengthening the economy. I agree that expansion of credit to a certain extent is essential for strengthening the economy but then I would ask the question—have you decided upon the scale of credit expansion after exploring other sources of resources in your economy? That is the question which is very relevant in this connection. In my opinion credit expansion should not be resorted to in this manner without exploring every other possibility to tap resources for financing the Plan. Deficit financing is not the only way of financing the Plan. You can find money and resources even without resorting....

MR. DEPUTY CHAIRMAN: The Plan is coming and......

SHRI BHUPESH GUPTA : I know the Plan is coming.

MR. DEPUTY CHAIRMAN...... the time allotted to this Bill is four hours.

SHRI BHUPESH GUPTA : I can quite understand if......

MR. DEPUTY CHAIRMAN : Please hear me. We have taken 3½ hours and there is only half an hour left. There are three more speakers. And you have taken half an hour. Please wind up your speech as early as possible.

SHRI BHUPESH GUPTA : I understand your point here but I cannot understand when you say that the Plan is coming. How it is relevant I cannot understand. Do you mean to say that the things that I am saying do not concern this measure ? I know so many things are coming. The Plan is coming; very many atrocious proposals are coming—bilingual States and so many other things.

MR. DEPUTY CHAIRMAN : We are concerned with a simple amending Bill Mr. Gupta.

SHRI BHUPESH GUPTA : You can easily say that time is short. Instead of saying that, you say that the Plan is coming. I am not unconscious of that fact.

MR. DEPUTY CHAIRMAN : I am telling you that we are having a discussion on the Plan. As there is not much time, you confine yourself to the Bill.

SHRI BHUPESH GUPTA : That is a different matter. That is the trouble somehow or other when I get up. I know that the Plan is coming and we know how to discuss the Plan. But here I am raising certain points which are connected with this Bill. This point has been touched by others and you were good enough to allow it in their case but the moment I start you say that the Plan is coming. At least I do not find much help in this matter, and I think you are the person who should help most.

MR. DEPUTY CHAIRMAN : You have taken half an hour.

SHRI BHUPESH GUPTA : Yes ; but am I the only one ? Has nobody else taken half an hour ? (*Interruptions.*)

MR. DEPUTY CHAIRMAN: Time is limited ; please wind up. The Plan is only incidentally relevant. It is not the main thing here. We are only concerned with a simple amending Bill. You have talked about speculation ; you have talked about......

SHRI BHUPESH GUPTA : I am extremely sorry that I do not find myself in a position, because of your utterances, to continue the speech. I do not want to take anybody's time. I protest against this kind of interference and I resume my seat.

MR. DEPUTY CHAIRMAN : All right ; if you so wish. Mr. Agarwal.

3 P.M.

SHRI B. P. AGARWAL (West Bengal) : Mr. Deputy Chairman, we are all generally agreed about the principles underlying this Bill. All the speakers who have up till now participated in the debate have more or less supported the principles of the Bill, but where we differ is in the methods which are to be adopted in implementing those principles. Credit is a very delicate instrument, be it with an individual or with a nation. We have to handle it with the utmost care. I find that the credit of our rupee, as we all know, is in high esteem not only in our own country but throughout the world, and it is up to us to see that this credit in no way suffers. Whatever we do, therefore, we should adopt measures in such a manner that the requirements of finance may be met without disturbing this credit in any way. During the last great world war, as we all know, there was an occasion when there was a rush for bullion and silver by the people. The credit of the rupee for a certain time was shaken and all round people were anxious to hoard silver or gold, because the credit was at stake at that time. I think, therefore, we should not adopt measures by which the credit of the rupee may suffer in any way. At the same time, world economics and the art of financing have greatly advanced from what it was previously. At one time it was desired that we hold as much of gold and silver or bullion by which the confidence of the people may be maintained. But now as things have developed, we require—in every part of the world probably everybody requires but we in India require it more at this particular time —finance to industrialise our country and for the development of our Plans.

[Shri B. P. Agarwal.]

But in doing so we must adopt measures which may not shake that confidence of the people in the credit of the country. Therefore, it is essential that this must be done very carefully. Now, what has been proposed in the Bill is that instead of having the reserve at a fixed ratio, it should be at a fixed amount. Rs. 115 crores has been proposed for the gold reserve and Rs. 400 crores has been proposed for the foreign securities. This, I think may create a situation by which there may be so much currency expanded that this may shake the credit and the confidence of the people and affect the credit of the country. It was said yesterday that we must not play to sentiment, but a certain amount of sentiment with the people is there. When they know that there is sufficient backing behind the currency, then that confidence is reposed in the currency; but if the people feel that there will be no gold behind it, then they may start thinking otherwise. But at the same time it is essential and we cannot ignore the fact that we need resources badly and, therefore, the best course for us would be to reduce the ratio, which is at present put at forty per cent. to a more reasonable limit. I think what has been suggested in the amendment—which is proposed by Dr. Kunzru and which is about to come up for discussion—that this may be brought down to twenty-five per cent. would be a more reasonable limit by which we shall be able to get sufficient finances. We can expand the currency requirements, without at the same time disturbing the confidence of the people in the currency. This is one fact which I would request the Finance Minister to take into due consideration. If we expand the currency for the requirements of the Plan ignoring the ratio, and bring it in a way that only a fixed amount of reserve will be maintained, then this risk will be there. This fact we must take into consideration. It has been suggested in the provisions of the Bill that the gold which is at present valued at 8·47512 grains will in future be valued at 2·88 grains. That is, it will be valued at three times the price of what it is at present. In other words, for Rs. 115 crores, the gold which we shall be holding as currency reserve will be one-third of what we would hold otherwise. This is a fact which should be taken into account, that the gold reserves will be considerably reduced. We should not deplete our gold reserves to that extent. That is what I feel.

Then, there is another point which has been suggested in the provisions of the Bill, that we may not have Local Boards now as have formerly existed for the Reserve Bank. I think these Local Boards have served a useful purpose in their own sphere. These Local Boards have kept in touch with the develop-and business, the credit requirements of ments and requirements of the industry the rural population, crop requirements, and all that. Now, conditions differ from area to area. When jute moves in one area, cotton moves in another area. These are different commodities, the requirements differing from time to time. So, if the Local Boards are maintained, I think, they will be of help rather than a hindrance and I would like to know what is the purpose behind doing away with these Boards.

PROF. HUMAYUN KABIR : Which Boards?

SHRI A. C. GUHA : They have been kept there. Those provisions have been deleted from the original Bill in the other House.

SHRI B. P. AGARWAL : I see, I am sorry. I am glad to be corrected. Another point which I would like to say is this. It has been laid down in some of the provisions of the Bill that the Reserve Bank should be so empowered that any surplus funds which may come up with the scheduled banks, may be mopped up by increasing the limit of deposits with the Reserve Bank, for the current deposits from five to twenty per cent and for the time deposits from two to eight per cent and then beyond that also it has been suggested that in case of further necessity, these limits may be further increased. I think if any surplus money which comes into the hands of the scheduled banks is to be withdrawn by the Reserve Bank and if the banks are not allowed to utilise that money for helping the industry and trade, that will mean that practically we are nationalising the banks. Now, we have already nationlised the insurance companies and if it is the intention of the Government to nationalise banks, then let us come forward with that proposal in a straightforward and plain manner, instead of going about in this roundabout way. I think that by all these measures the private sector will be greatly handicapped and there will be no scope left for the private sector to expand their activities. Already there are various kinds of handicaps. Now, in regard to one of the objects behind this provision it has been explained that sometimes the banks advance money to traders for foodgrains and that causes scarcity in the market and in order to control that it is essential to have this provision. That is only one side of the picture. I have heard it very often that the prices of the crops when they come to the market after harvesting, are unduly depressed, if there is no holding power in the hands of the people. It was very often complained that in India the grower cannot hold the crops for want of holding power. Now, where was the holding power? The grower was helped by the middleman and the middleman was helped by the banks, and like that. Now, we are doing away with the middleman, we are doing away with the banks in one way or the other. By doing this I think we are creating a situation by which we are increasing unemployment. Already there are a large number of unemployed people in the country and by driving away people from the traditional business and trade we are creating a situation which will become more difficult day by day. I therefore draw the serious attention of the Finance Minister to the fact that this needs very careful consideration. I would urge upon the Finance Minister, Sir, that this question of ratio should be very carefully examined, as the question is clearly a very delicate one and it should not be taken very lightly.

DR. RADHA KUMUD MOOKERJI: (Nominated) : Sir, it is always difficult for a layman to penetrate into the mysteries of the monetary system of the country or technicalities involved in operating the delicate and complex mechanism of its financial adjustments. But I feel at the same time that I should submit before Government certain general observations, especially from the popular point of view, on the provisions of the Bill before us, for after all public or popular opinion is a very important psychological factor in producing that confidence on which depends the success of a financial reform. I am afraid that the reforms proposed in this Bill before us amount almost to a revolution in the established financial system of the country by a complete break with its past and its time honoured traditions which have built up on such a strong and stable foundation the reputation of the rupee and the Indian currency which, in its turn, has stood as a rock and anchor in the uncertain waters and the unchartered seas of international finance I may say that my views on this bill have been also influenced by some of the important technically proficient financial associations like the Indian Merchants' Chamber of Bombay, to cite only a few of these. Indeed in the Statement of Objects and Reasons justifying the introduction of this Bill the Finance Minister, if I may say so, stands condemned out his own mouth. He states that the existing provisions in the Reserve Bank of India Act in regard to reserve requirements place a serious limitation on the ability of the Reserve Bank to regulate the expansion of currency to meet the requirements of the second Plan. The process of planned economic development necessarily implies a certain amount of credit creation and a consequent increase in the note issue. Now I am afraid it is possible to find serious objection of this way of formulating the objectives of this Bill, because the greatest danger in trying to finance a plan beyond our resources would be to create conditions of inflation which cannot be afterwards checked. Now these objectives of the measure for reduction of reserve requirements of our currency, with unfetered tered freedom for its expansion to facicredit creation and increase in note issue for the purpose of financing the second Plan, are really open to grave objections. Now the proposal is that section 33(2) of the present Reserve Bank of India Act may be modified accordingly in order to subserve the principal objectives which are thus formulated. It is felt that the existing provisions as to reserve requirements limit the power to regulate expansion of currency for the purposes of deficit financing. My point is that perhaps it is the other way about. A limitation is necessary to maintain the credit, the strength and the standard of our national currency in the international market. There should be constitutional limitations such as exist now on the power of the Bank to create money and expand credit for the purpose of checking runaway inflation. The only safeguard that may be contemplated in this fearful situation which may be brought on by this unrestricted power to create expansion of credit would be a specified percentage of backing in gold and foreign securities to

[Dr. Radha Kumud Mookerji.]
the total assets or note issue. A self-acting machinery is preferable always to arbitrary fixation of the backing at Rs. 400 crores in foreign securities and Rs. 115 crores in gold, as approved. At present the amount of backing is 40 per cent of the total assets. There is a proposal made to reduce it by 25 per cent. I have not calculated the consequence of this kind of reduction of the limit. But what I am most concerned with is this that this principle should not be departed from by revolutionary banking method, and I may say further that a fixed sum of Rs. 400 crores of foreign securities would be found to be too small an amount against deficit financing on a large scale. My point is that deficit financing is justifiable only to the extent to which it actually finances productive expenditure. But if we fritter away our resources on expenditure that is unproductive, though it may be very desirable in the national interest, I think in that case there must be some check upon indiscriminate expansion of credit. The constitutional safeguard of a proportionate currency reserve is necessary as a brake on unrestrained deficit financing, unproductive expenditure, resultant inflation, and also for the purpose of strengthening credit and attracting foreign aid. Although there is a kind of opinion growing up in the country against this foreign aid, I still think that if foreign aid is available without any conditions, it would be certainly acceptable in the present state of our financial situation. The currency of a country must have an automatic backing and self-acting machinery for supporting it by real assets. On this question of general principle as to the desirability of keeping up the old traditional system of having a fixed percentage of total assets as the reserve requirements of the national currency, I think I need not dilate further on this point because this has been very well argued by previous speakers. I am now referring only to two other details. The first is clause 5 of the Bill which requires scheduled banks to increase their reserves with the Reserve Bank from the existing 5 per cent of demand liabilities and 2 per cent of time liabilities to as much as 20 per cent and 8 per cent respectively. Also there is the proposal of insisting on an additional reserve to cover the increased liabilities of these scheduled banks. Now this will practically hamper the growth of the bank's business with the public in the private sector. So, this is really a very serious point which admits of a very close consideration by the Government. Is it not really an encroachment upon the private sector in the banking sphere? I feel that perhaps the private sector will be left without any resources for raising the capital necessary for carrying out its share of duties in respect of the second Plan. The Reserve Bank wants to control this secondary expansion of credit following an increase in note circulation as a result of deficit financing. This may lead to starving the private sector in the busy season and to banking crises for want of finance in order to support increased industrial activity. I should, therefore, think that the conditions proposed for the scheduled banks in regard to the increase of their deposits require a very deep consideration at the hands of the Government, so that the impression may not be created in the country that there is another attack pending on the private sphere of banking activities. At the most, perhaps, you may arrive at a compromise on the lines of the amendment which has been proposed by Dr. Kunzru, but I, as a follower of conservative finance, do not like to reduce this 40 per cent. of the assets by half, or to 25 per cent.

Now as regards local boards, there is an additional reason for strengthening them. These local boards may be invested with functions that may make them more useful, such as, assessment of local needs and conditions of credit in the remote rural areas. I am rather sceptical of the ways and means by which credit may be made available to rural business, because I feel that with regard to the expansion of agricultural credit in rural areas, the bank, in any case, will insist on security before advancing any loan or credit. And from my special study of these agricultural problems, as a member of many Committees of the Planning Commission, I may say that the peasant today is unable to supply any kind of satisfactory security, on the basis of which the banks may advance loans to him. And therefore, I do not really see what kind of scope is contemplated by the banking authorities in all these regulations, which might have the effect of extending authorities in all these regulations, remote from the centres of banking activities. Therefore, the whole question of rural reorganisation on the basis of extension of credit requires a very delicate, considered and patient handling as between the Reserve Bank and the subordinate agencies of credit institutions, and so on and so forth. I do not think that there is any considerable scope in that respect for carrying credit to the rural areas which are hopelessly bankrupt already. Every small peasant who is cultivating uneconomic holding is practically a bankrupt according to the banking standard, and therefore, I do not know what is really meant when it is stated that better day of prosperity is awaiting the poor peasant on account of the extension of credit facilities to rural areas. So, when the situation is so desperate as far as rural India is concerned, I should think that the Reserve Bank, the Government and the State Bank of India, should between themselves formulate a plan by which these desperate agricultural conditions prevailing in the countryside may be carefully handled. (*Time bell rings.*) The peasant today is working under the greatest possible disadvantage. He has got a small subsistance farm of less than two ac which is inherently uneconomic. The Government should take all the ste necessary to see how these small peasants may again be set on their feet, and how the real rehabilitation of our decadent agriculture may be successfully effected by means of these banking regulations.

SHRI H. P. SAKSENA : Sir, in supporting the Reserve Bank of India (Amendment) Bill, I entertain no apprehensions regarding the loosening of, or the relaxation in the control of Parliament on administrative measures, or the Reserve Bank itself. I believe this supreme Parliament is strong and powerful enough to have full and complete control over the machinery of the Administration. So, so far as this loosening of the control of Parliament is concerned, I have no fear and no doubt about it.

Sir, the hon. the sponsor of this amending Bill said in his opening remarks that the Reserve Bank of India was a wholly nationalised bank now. I wish the masses including myself knew that it was a wholly nationalised bank. But it is a tragedy, Sir, that the nation does not know—in fact, it has never been told—that the Reserve Bank now belongs wholly to the nation and it has been completely nationalised. You know, Sir, that we had nationalised the Imperial Bank. So, the country knew—and at least the educated classes came to know—that the Bank which bore a very disgraceful name before, namely, Imperial Bank, has now been converted into the State Bank. The State Bank belongs to the nation. But nothing like this was ever done with regard to the Reserve Bank. At any rate, I take it now that the Reserve Bank is a wholly nationalised bank.

SHRI A. C. GUHA : That Act also was passed by Parliament in 1948. I think the hon. Member seems to have forgotten that.

SHRI H. P. SAKSENA: I am sorry that my memory failed me, and I stand corrected. But it was done perhaps in secrecy. Sir, a friend behind me informs me that the Reserve Bank of India has got nothing to do with the public.

MR. DEPUTY CHAIRMAN : Perhaps the hon. Member was also a Member of Parliament at that time—the Constituent Assembly.

SHRI H. P. SAKSENA: It is immaterial whether I was a Member of this Parliament or I was not a Member when the Reserve Bank of India Act of 1934 was passed or amended in 1948, as the hon. Minister informs me. But all the same, I was talking of the people, of the nation. My friend, the sponsor of the amendment, may be forgetful of the people, of the masses, but I cannot. Sir, this was after all beside the point.

Now, Sir, I look at this amending Bill from two standpoints, and they are these. This amendment should give no rise to that formidable thing known as inflation. Every one of us has got a solemn and bounden duty to see that inflation does not step in. If it does, all our schemes, all our plans, all our hopes and aspirations for the future development, will be dashed to pieces. The second thing is that this inflation, this dreadful thing should not give rise to a rise in prices. Both of these factors are unfortunately within sight, and they are taking place right under our very noses and right under the nose of the hon. Minister. I do not know what measures the Reserve Bank of India is contemplating or bringing into execution in order to see that both these things do not occur. Now, this is a question where I see that doctors differ. My hon. friend Dr. Chiman Lal pleaded......

SHRI S. N. MAZUMDAR : Is he Dr. Chiman Lall ?

SHRI H. P. SAKSENA: Diwan Chaman Lall. I am thankful for this correction.

SHRI S. N. MAZUMDAR (West Bengal) : He does not know the name of even his neighbour.

MR. DEPUTY CHAIRMAN : He is equating the two titles.

SHRI H. P. SAKSENA: Diwan Chaman Lall pleaded that a more revolutionary amendment of the Reserve Bank Act should have been placed before us. On the other hand, my venerable friend Dr. Mookerji, sees a revolution in this modest amendment and thinks, the conservative financier that he is, that there will be trouble here and troube there.

Now, the question of the public sector was also brought into the debate. Being a public worker, I do not have much sympathy with the private sector, but at the same time, as I have repeatedly said in this House, the country stands in need of the working of both the private and the public sector ; but the effect of the private sector can never be permitted to be detrimental to the interests of the public sector. The public sector will always have a superior and predominating influence over the private sector, because the private sector is only intended for the pockets of the individuals while the public sector is intended to serve the interests of the masses.

I admire the ingenuity of the hon. the Finance Minister in raising the value of the assets of the Government by about Rs. 80 crores by revaluing the gold with the Reserve Bank. While I admire his ingenuity, I warn him that these assets may gladen the heart of the Minister but these fictitious assets can never add to the wealth of the nation. I would have been happier if he had devised some other method of raising the value of the assets of the Government and presented it before us. On the other hand, what he has done is this that he has revalued the gold with the Reserve Bank at the present international value. From what I have learnt of commerce and fiscal matters, assets can be only relied upon if they are tangible and marketable. Now, I possess a house which used to be valued at Rs. 10,000, and since presently there is an acute shortage of built-up houses, the value of my house has risen to Rs. 12,000. If I take the value of my house at Rs. 12,000, it will be a wrong assessment, and therefore I want to submit that in assessing our national assets, this factor should be taken into account.

SHRI A. C. GUHA : Suppose the value of the house has gone down by Rs. 2,000, would you still assess it at Rs. 10,000 ?

SHRI P. D. HIMATSINGKA : For mental satisfaction.

SHRI H. P. SAKSENA: Then, there was a talk about our sterling balances. We all know that we had sterling balances to the tune of Rs. 1,600 crores at the end of the war in the U.K. Now, they have dwindled to Rs. 600 crores. Diwan Chaman Lall expressed his regret that all this money was lying idle there, and said that it should be taken out and used for carrying out the second Plan or spent in some other way. If such a thing is done, I do not think it will be wise on the part of Government of India. On the one hand, the U. K. Government is not going to part with all that money so easily as we believe. On the other hand, it will not be a wise policy to withdraw that money which has stood us in good stead on several previous occasions and will again stand us in good stead when we need it in future.

So far as credit control is concerned, I believe that credit control should be the most important responsibility of the Reserve Bank, and the Bank should have full and complete discretion in allowing credit or not, because it is the Reserve Bank alone which can determine the period and the amount which should be allowed for credit, with this exception that the credit allowed should not result in hoarding.

There was mention of public confidence also. Public confidence is there. There is no fear about it. The position of the Government of India, from all standards, is not shaky. Our only concern should be that this confidence is not shaken. The only thing that can shake this confidence is rise in prices of the essential commodities of life. I am sorry that even Government circles, even responsible Ministers, do not pay as great an attention to it as they should. Whenever there is a little fall in prices, the champions of the classes who produce foodgrains come forward and cry that a terrible calamity is going to befall the country, but when the prices rise and it becomes difficult for the ordinary man to make both ends meet, they are happy. There comes my friend, Prof. Ranga, who is the greatest champion of the agriculturists. I do not yield to him in my sympathy for the agriculturists, but perhaps our differences are fundamental, and so they shall ever remain. I have never seen him shed a single tear when there is a rise in prices, which affects not only the urban people, among whom he includes me......

SHRI JASPAT ROY KAPOOR (Uttar Pradesh): Prof. Ranga always smiles. He never weeps.

SHRI H. P. SAKSENA : I am sorry for the interruption. It was meaningless.

This rise in prices is a calamity which can prove dreadful and which can assume very serious proportions and it should be checked and checked with courage and valour. The two dangers that are on the horizon are the inflation and the rise in prices of the essential commodities and while giving my support to this amendment of the Reserve Bank of India Act, I hope that proper and due attention will be paid to it and in the future at least this rise in the prices will be checked. Now my friend Mr. Kabir was also complaining of the rise in prices and he thought that there was only rise in certain commodities. It is not that. There is a continuous and steady rise in prices and once the prices rise, they never fall.

PROF. HUMAYUN KABIR : I talked of general price index.

SHRI H. P. SAKSENA: I am talking of the prices of which the index is prepared. Index does not emanate from the Heavens and it is out of the current prices that index is prepared. Therefore whatever be the prices, I have always pleaded and advocated that if there is a top price, say the price for wheat should not go beyond Rs. 10 a maund, there ought to be a downward price also below which it should never go. That has never appealed to my friends of Prof. Ranga's variety and therefore I am helpless and the rise in prices is steady and is growing and growing and I simply wish and hope that it will be put to a stop.

SHRI J. S. BISHT (Uttar Pradesh): Mr. Deputy Chairman, Sir, I support clauses 5 to 7 of this Bill whole-heartedly. I think the Burnstein Commission itself brought it to the notice of the Government in its report with regard to the dangers of deficit financing that it should be controlled from every angle and that merely controlling deficit financing or the expansion of currency is not enough if the bank credit is not at the same time controlled by the Government. Therefore these additional powers that are being conferred on the Reserve Bank in order to control bank credit is very welcome in the circumstances. It is already stated in the Statement of Objects and Reasons as follows :

> "Deficit financing in the Plan may also result in a large addition to bank reserves with consequent increase in the capactiy of banks to create credit."

That is very welcome but I think in spite of what the *ex*-Finance Minister Mr. Chintaman Deshmukh repeatedly said, the very dynamism of the socialist objective of our economy will force the Government one day to nationalise the banking system of our country and I hope that the sooner they do it the better it is for the economy itself. These regulatory provisions are very good but our experience shows that there are cleverer men in that sector who can always find ways and means of evading these controls and the best solution will therefore be that after having nationalised the Insurance business, the next step should be to nationalise the banking system as a whole, so that the Government then will be in a very strong position to regulate the financial economy of this country. With regard to clauses 3 and 4, I am not wholly in agreement with the provision as laid down in this Bill. The old Reserve Bank of India Act laid down a certain proportion with regard to the expansion of currency. It said :

> "Of the total amount of assets, not less than two-fifth shall consist of gold coins, gold bullion or foreign securities provided that the amount of gold coins and gold bullion shall not at any time be less than 40 crores of rupees in value."

Now it is a very controversial question as the hon. Minister himself said that there are countries that have no

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such ratio. May be so. But he will also remember that in the first Great World War during 1914-18, a stage came when the Government of India was forced with what was looked at with great horror, namely, inconvertibility, that is to say, you could not convert your rupee into silver coins and Sir Ranfus Isaacs who later on came here as Lord Reading, was specially deputed to America to negotiate a loan of silver to the Government of India in order that the Government of India may not be faced with this problem and he was successful in bringing that silver to this country. Now those were days when people looked with horror if the currency was not backed by an equivalent amount of silver and gold in the Government Treasury. In fact this very Reserve Bank Act required, before the amendment of 1948 that this rupee had to be silver rupee. It was later on amended in 1948 by Section 7 when the word 'silver' was taken out. But gradually both financial as well as public opinion has veered round so much so that today the silver rupee has totally disappeared from circulation and even this alloy which goes by the name of silver rupee which is half nickel and very little of silver, even that is not seen in the market and the paper currency is current. In fact the paper rupee is taken almost as silver rupee and people find it very convenient also. It is a matter of faith and confidence but at present in our country the opinion has not advanced so far that they do do away with all this ratio, that is to say, if today the people came to know that there was no backing for the currency say in the shape of gold bullion and foreign currencies, there might easily be a run and if Government moves gradually as Dr. Kunzru has very rightly tabled an amendment, namely, reduce it from 50 per cent. to 25 per cent.—that is one form—then you might later on, after 3 or 4 years, if your economy so requires, reduce it further, so that as public confidence develops in this new order of things, you can probably come to a stage when you could do away with it. A little calculation will show that today our foreign securities are of the value of about Rs. 616 crores and the gold coin is of the value of Rs. 40 crores only but if it is to be revalued at the rate which is the international rate at present, then its real value is Rs. 115 crores whatever may be the legal value put down in the Act. So if you add Rs. 616 crores and Rs. 115 crores, the total backing today is Rs. 731 crores as against a note issue of Rs. 1,477 crores and odd. That is to say, nearly 50 per cent. of the currency is covered by good security in the shape of gold and gold coin and in the shape of foreign securities. What you are going to do today is that you are going to detach it from that ratio altogether and you are laying down a certain fixed sum, that is to say, you are putting the same quantity of gold, same weight of gold and revaluing it at Rs. 115 crores and then reducing the value of foreign securities to Rs. 400 crores. This comes to about Rs. 515 crores as against Rs. 731 crores, of course revaluing gold at the present international market rate that is now being introduced here. So even today it is about one-third or 33 1/3 per cent., if we take it as Rs. 1,500 crores in round figures.

PANDIT S. S. N. TANKHA (Uttar Pradesh): It is Rs. 1,500 crores in April.

SHRI J. S. BISHT: Yes, today I know it is a little less, but I am taking it as Rs. 1,500 crores in round figures and so the present figure of Rs. 515 crores is still one-third. Therefore, I would appeal to the hon. Minister to give serious consideration to the suggestion of Dr. Kunzru, even if it meant a little trouble in having to go back to the other House with an amended measure. He has given you the authority to reduce it further to one-fourth. Then the Government could expand the currency to the tune of even Rs. 2,060 crores. From the figure of 1,477 crores they can go up to Rs. 2,060 crores. That in itself is a very big margin, a margin of about Rs. 600 crores which is more than enough for the time being. And that is also more than enough for the country to recover its confidence, not only this country, but those other countries too, like Nepal, Kabul, Afghanistan and Iran and the surrounding countries like Ceylon, Burma and others. All these countries look up to the rupee as the world looks up to the American dollar or the pound sterling. This is a confidence which we should maintain, even if it be a mere psychological factor. Even from that point of view, it would be advisable today not to go beyond 25 per cent. Later on, you can, if you find the circumstances are more favourable, go beyond that.

There was another point that was raised by my hon. friend Diwan Chaman Lall. He said that in a socialist society we must have a revolutionary conception of currency. And he went on to say that we are creating mills and factories and so many assets and therefore we should not peg ourselves to any particular ratio. That was a rather novel argument and it was, I think, very surprising to many. Perhaps some day, he will, like Lord Keynes, write a thesis on this so that we may be able to study this problem in all its aspects. At the moment, we have to bear in mind that we propose to spend Rs. 4,800 crores in the second Five Year Plan in the public sector. In other words, we are creating new assets to the tune of Rs. 4,800 crores. Therefore, if the hon. Member's logic is to be followed, Government will be free to expand its currency to another Rs. 4,800 crores and that, of course, is *reductio ad absurdum*. Even the Planning Commission and the committee of economic experts who examined this question did not have the courage to go beyond the limit of Rs. 1,200 crores for deficit financing. To finance the whole public sector to the extent of Rs. 4,800 crores, they expect about Rs. 2,400 crores out of Government revenues and for the balance of Rs. 2,400 crores, they hope to scrape together another Rs. 800 by utilising provident fund, external aid and so on and so forth. And that left them Rs. 1,600 crores. But even that sum of Rs. 1,600 crores was not recommended for the purpose of deficit financing. Rs. 400 crores was advised to be left as a gap uncovered, in the hope that probably payments may not have to be made or that the works would not amount to that extent and they felt that the utmost limit to which they could go would be Rs. 1,200 crores. We are told that Prof. Kaldor, in his report has put the safe limit at only Rs. 600 crores. By the by, Sir, I would like to make an appeal to the hon. Minister and say that though a copy of that report had been laid on the Table of the House, no copy has been supplied to us and we have never been able to get a copy.

SHRI A. C. GUHA : Copy of what?

SHRI J. S. BISHT : Copy of Prof. Kaldor's Report. I would request the hon. Minister to kindly get the report printed and distributed among the Members, since it is a very important document and it will be very useful for us in studying and examining the various taxation problems, in implementing the suggestions of the Taxation Enquiry Commission, the Budget and so on. They are distributing so many books that are really not very important. I hope it is not too much if I appeal to him to distribute copies of this report as well. From hearsay I understand that Prof Kaldor's recommendation is that the limit should not be more than Rs. 600 crores. If that be so, then Dr. Kunzru's proposal gives the Government enough margin. The hon. Minister can go up to the safe limit of Rs. 600 crores. By that time the Finance Ministry can see if they are able to control the inflationary pressure, that is to say, the rise in prices, which they have said they have ample power to control. We raised this point at the time of the Budget and the Finance Minister said he had many weapons in his armoury and that he would use them, if necessary, to bring down prices. But from January to August now there has been no impression on the market and prices are still going up. Prices of foodgrains especially are up by about 25 to 30 per cent. and the general index has increased by 15 or 20. In this state of affairs, it does not seem to be a safe thing even in the interest of the Government, that they should allow this ratio to be completely given the go-by. After all you put it at Rs. 115 crores, plus Rs. 400 crores which is in fact only Rs. 300 crores, because in clause 4, the Government is given the power to reduce it to Rs. 300 crores. So it is now Rs. 300 crores plus Rs. 115 crores or Rs. 415 crores. That is the lower limit. And as for the upper limit, there is no ceiling, it may be Rs. 4,000 crores or Rs. 5,000 crores. There is no relation between the one and the other. Therefore, I say, it is in the interest of the Government itself that this ratio is maintained. I say all this, because we are functioning under a democratic Constitution and the Government of India is subject to as much political pressure as any other body. We know, for instance, when the second Five Year Plan was under preparation, there was considerable pressure from the State Governments to make bigger and bigger grants to them. I know, for instance, that the Government of U.P. had asked for no less than Rs. 700 crores. Ultimately, of course, they were given about Rs. 250 crores. Similarly other States would plead. At that time it

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may be that the Government of India is not as strong or has not as strong a lead as it has today. And there may be such tremendous political pressure that the Government of India might adopt the line of least resistance, *i.e.*, resort to deficit financing and to the Nasik printing press. They can do that because there will be nothing here to stop the Government from doing that. On the other hand, if there is this ratio, it can at least be pointed out that such an action is beyond their power, that if they have to go beyond that limit, they have to come before Parliament and it will not be easy to get the sanction of Parliament if the economic conditions of the country show that the inflationary pressures were great. Therefore, I would earnestly appeal to the Government to reconsider the point and to agree to the proposal put forward by Dr. Kunzru.

SHRI A. C. GUHA : Mr. Deputy Chairman, I think I can claim that the main principles of this Bill have, more or less, been supported by the Members of this House. Of course, there may be and there will surely be some difference of opinion on details ; but about the general principles underlying the Bill, I do not think there has been any opposition in this House, just as there was none in the other House.

SHRI B. C. GHOSE : But there are objections to the reasons.

SHRI A. C. GUHA : Sir, the main points made by the Members may be put under three or four different heads. The first is this de-linking of note-issue from any proportionate reserve in gold and foreign securities. The second point was about the utility of the variable minimum reserve requirement to be demanded from the commercial banks by the Reserve Bank. There has also been some difference of opinion as to the rate or the rates of interest to be paid by the Reserve Bank on the deposits kept with it.

4 P.M. Mr. Ghose has asked whether the powers that are intended by this Bill to be given to the Reserve Bank would be quite adequate for controlling credit expansion facilities by the commercial banks. There are some other minor points, many of them not quite relevant for the purpose of this Bill. In the beginning, I think I should refer to one matter and that is about the scope of deficit financing. Prof. Kabir has mentioned that it would be to the tune of Rs. 1,600 crores.

PROF. HUMAYUN KABIR : On paper.

SHRI A. C. GUHA : I am rather surprised that Pandit Kunzru also lent his support to this and corrected Shri Bhupesh Gupta when the latter stated the amount to be Rs. 1,200 crores. If the hon. Members had read the Planning Commission's Report carefully, they would have found out that Rs. 1,000 crores would be the real created money. Out of Rs. 1,200 crores that we have as deficit financing, we must set off the drawing down of Sterling Balances by Rs. 200 crores. The remaining deficit of a thousand crores of rupees is the net addition to currency in response to Government's budgetary operations. This will be the real amount to which Government will take recourse to create money. As far as the Rs. 400 crores are concerned, I would refer hon. Members to page 78 of the Planning Commission's Report which says :

> "It is recognised that the gap has ultimately to be filled by raising additional domestic resources, and given the limits to deficit financing to which reference is made later, as also the fact that the scheme of financing as outlined here already relies heavily on borrowing, the only possible source that can be drawn upon for meeting this gap is taxation......"

So, the Planning Commission as also the Reserve Bank have made it absolutely clear that there is no possibility of going beyond the deficit financing of a thousand crores of rupees for implementing the Plan through created money. I am now reading from the Report of the Reserve Bank on Currency and Finance :

> "The outside limit of deficit financing is placed at Rs. 1,200 crores. In assessing the likely reaction of the proposed deficit financing, it may be noted that against the proposed deficit must be set off the drawing down of Sterling Balances by Rs. 200 crores. The remaining deficit of a thousand crores of rupees represents the net addition to currency in response to Government's budgetary operations".

More or less the same language has been quoted in this Report. As Prof. Kabir himself has stated, it is a sort of undue fear of inflation. I think this sort of calculation would rather lead to more undue fear of inflation. Neither the Planning Commission nor the Government have been unconscious of the dangers involved in the Plan that they have initiated. It is stated that "the best defence against inflation is, in a sense, to keep clear of it; but a policy of playing safe is not always conducive to development" and "no amount of prudence in financial management may by itself eliminate completely the risk of inflation in an economy attempting to develop rapidly." So, we are conscious of the danger and of the risk of undertaking a Plan of this magnitude. The Planning Commission in its Report has also suggested certain corrective measures to be taken and this Bill contains a provision which would constitute one of the corrective measures that Government think necessary to be undertaken to stop or at least neutralise the inflationary tendencies that might arise out of the expenditure involved in the second Five Year Plan.

Then I come to the main point, that is of de-linking the note issue from any gold or foreign exchange reserve. Previously, in the good old days, any note was to be redeemed in gold; but those days are over. Then came the days of gold exchange standard which means that a note was to be repaid by bills and other assets which must be convertible into gold currency. After the first world War this also has been abandoned, particularly in the depression following the first World War, in the late twenties and the early thirties, more particularly in 1931 when almost all the countries abandoned the gold currency. In those days, a note could be exchanged for any foreign exchange currency. So, things have been changing so rapidly in these matters that there cannot be a rigid standard. So, when we propose in this Bill that our note issue should not be connected with any proportionate reserve in gold or foreign exchange, we were just following the modern trend of central banking and that also for the purpose of implementing our development programme.

Apprehensions have been expressed here that the Reserve Bank may go on issuing notes recklessly but I think Members should know that here in India it is not on the initiative of the Reserve Bank that a note is issued but it is on the initiative of the Government of India that a note is issued.

SHRI H. N. KUNZRU: That is the danger.

SHRI A. C. GUHA: That may appear to be a danger to him but it may not be a danger to the majority of the House and to the majority of the people. Over and above all this, the cover is there in gold and foreign securities held by the Reserve Bank of India and the rupee securities and the Treasury Bills. That is the present convention. If you refer to section 33 of the Reserve Bank of India Act, a part of which is going to be amended by this Bill, you will find that besides the gold and foreign securities, the assets of the Issue Department shall consist of gold coin, gold bullion, foreign securities, rupee coin, rupee securities of such aggregate amount as would be not less than the total liability of the Issue Department. So, there are other securities also against which the notes are issued and which are kept in the Reserve Bank as support for this issue of notes. When I have stated that the Government is quite alive to the dangers and risks of deficit financing which may result in producing inflationary tendencies, I should also say that the Government of India is determined to take effective measures to check those inflationary tendencies.

SHRI H. P. SAKSENA: When?

SHRI A. C. GUHA: It is not only the question of keeping the foreign value of our currency as Mr. Ghose and several other Members have mentioned but it is also a question of maintaining the cost of living in the country. Also the process of implementation of the Plan would be hampered if there is any considerable and general inflation in the country. Sir, Shri Gupta has mentioned about the present rise in prices.

SHRI BHUPESH GUPTA: I was asked by the Deputy Chairman not to proceed with the subject with which you are dealing now.

SHRI A. C. GUHA: He mentioned about the rising prices in recent months, and several other Members also did the

[Shri A. C. Guha.]
same. Sir, I think it would not be quite correct to say that these indications are those of a general inflation. It is, as we expect and desire it to be, only a passing phase. We have changed from the expenditure structure in the second Plan from that in the first and in consequence there may be some dislocation, some disjointing in the economic structure and we are sure the Government and the Reserve Bank would take effective steps to neutralise the inflationary tendencies at present. At the same time, Sir, I should like to remind the House that even as late as December, 1955, in the Bengal Assembly the Opposition Members moved a Resolution to give price support to agricultural goods. So as late as December 1955, they considered that the prices of agricultural goods were uneconomic for the agriculturists. So if the price has now risen by some percentage it is to be taken that it is in a way a corrective of the slump period that was prevailing for near about 18 months starting from the middle of 1954 up to near about the end of 1955. We sometimes speak of the disparity in income between the urban and rural sectors, and unless we are prepared to give a somewhat higher price to agricultural goods, that disparity will continue, not only continue, will rather grow. So when the Members five or six months ago were fighting for giving price support to the agriculturists they are now turning round and saying that they are going to have a famine....

SHRI BHUPESH GUPTA : Because you have created one in some places.

SHRI A. C. GUHA : But I know, Sir, how in 1943 when there was the famine they fought against the famine then. Anyhow that was irrelevant for the purpose of this Bill and I shall not dilate on that.

Then, Sir, as Mr. Ghose has rightly said, there is hardly any necessity now, in the modern central banking traditions, of having a link between note issue and our gold reserves and our foreign exchange reserves........

SHRI B. C. GHOSE : I did not say that.

SHRI A. C. GUHA : ....but then he went to the other extreme and has given notice of an amendment that even the provision that we have made of a fixed minimum of gold reserve and foreign exchange reserve may be deleted. That, of course, may be the logical consequence. I think, after some years, that may be the general policy to be followed, but as yet we feel that we should take into consideration the psychology of the people, the people not only in our country but also outside the country. We should keep some reserve in gold as well as in foreign exchange so that people may feel that our currency has got some backing.

Sir, several hon. Members have mentioned that the Indian Rupee is almost a legal tender in some middle-eastern countries. We know that, Sir, and we are eager to maintain that position, and I can also envisage a time when there will be a rupee area just as now there is the sterling area and the dollar area.

But, as Dr. Kunzru has tried to put in my mouth, I have not said that the stability of our rupee would depend "on good administration" or, as in another place he has said, "on soundness of administration". What I stated was : ".... to maintain external and internal stability of the value of the currency,—that will depend, on the one hand, on the country's ability to discharge its foreign financial obligations and, on the other, on its success in achieving internal price and economic stability." That is the idea, Sir, that I put in my introductory speech, but I do not know where Dr. Kunzru got "good administration" or "soundness of administration." Of course I would surely say that the need for a development with economic stability which I put as conditions for the stability of currency could also form part of good administration. Surely it is an important part of good administration, but to say simply that by 'good administration' which usually means simply maintaining law and order would be quite enough for maintaining the stability of our currency, is not correct. And I think by his observations Dr. Kunzru has not done justice to me. Again when I quoted the case of four countries, Australia, New Zealand, Ceylon and the Philippines, he simply picked out Philippines and said that that would not be an inspiring example. I also cited the case of U.K. He persisted in maintaining that I mentioned the U.K. case subsequently. I do not know what he meant by 'subsequently'. If it is meant that somebody corrected me or somebody mentioned it to me or on second consideration I mentioned this thing, that is not correct.

He said that I read out a written speech. I think, Sir, in such a matter it is better that I read out a written speech and in the same speech, Sir, I mentioned about the U K case also. About the other four countries I mentioned their names, but about U K. I spoke rather elaborately with some details as to how the currency system worked there Anyhow, Sir, I was rather surprised that the Chairman of the Indian Council of World Affairs, taking this opportunity, had a dig at the Philippines.

Then, Sir, there is the variable minimum reserve requirement and I think there has not been any opposition to that. Only Shri Ghose asked whether this would be quite enough He mentioned section 24 and section 21 of the Banking Companies Act Sir, section 24 is altogether for a different purpose, and we don't like the Reserve Bank to interfere normally in the working of the commercial banks. Section 21 gives that authority to the Reserve Bank.

SHRI B C GHOSE I could not follow your reference to section 24 I did not say that there was any question of interference by the Reserve Bank in relation to section 24 It was for a different purpose I mentioned that section.

SHRI A C GUHA But he mentioned section 21 also.

SHRI B. C. GHOSE : 21 ? Yes.

SHRI A C. GUHA : Then he also mentioned about the qualitative control That qualitative control would come under section 21 But when we have to fight a general tendency towards inflation then this provision would help the Reserve Bank and the country For particular purposes, say when the Reserve Bank has to issue some directions to the scheduled banks that advances on such and such commodities should not go up or should be reported to the Reserve Bank, for such purposes section 21 was quite all right, but when there is a general tendency for inflation—it is not for a particular article or for a particular region—then this power that we are now going to confer on the Reserve Bank will be much more useful than the power given by section 21.

Then I think Prof. Kabir has referred to some points. I think it is not quite correct to say that the Reserve Bank gave definite directive banning advances on paddy and some other agricultural commodities and his surmise was that the scheduled banks have neglected that directive. It is not quite correct to say that. The Reserve Bank only indicated that no further advances over certain ceiling be given and whatever advances were given might be reported to the Reserve Bank.

PROF HUMAYUN KABIR . I meant no reflection on the scheduled banks. I only said that I understood that the Reserve Bank had given some directions. If the hon Minister prefers the term 'indications' I accept it.

SHRI B. C. GHOSE . Is it the hon. Minister's contention that the duty of the Reserve Bank is finished merely by saying that advances are increasing ? Need they not take any action in regard to that ?

SHRI A C. GUHA : I think the hon. Member knows fully well that the Reserve Bank has taken action and advances against certain agricultural commodities have gone down considerably.

MR DEPUTY CHAIRMAN . But it was so late , that is the objection. The Reserve Bank took action after the mischief was done , that is the allegation

SHRI B. C. GHOSE : What were they doing so long ?

SHRI A C. GUHA : I think the Reserve Bank took action as early as possible. It is not just possible for the Reserve Bank to take any action immediately It must see that tendency and as soon as it came to its notice that there is a general tendency of bank advances being abused—the Reserve Bank also admits that there may be some hoarding of agricultural commodities—it took immediate action. At the same time we should also remember that due to shortage of production, the price of foodgrains was naturally higher and so the actual money figure may not give the actual amount of foodgrains against which money was advanced.

SHRI B. C. GHOSE : That is not true. The Food Minister yesterday said just the opposite. They are making contradictory statements.

PANDIT S. S. N. TANKHA : I thought the hon. Minister himself said that the prices of foodgrains had gone up considerably and that they had to be brought down.

MR. DEPUTY CHAIRMAN : That was in December 1955. Yes ; go on.

SHRI A. C. GUHA : Prof Kabir also asked whether the figure of deficit financing required any modification. I think he said this out of some wrong idea about the total amount of deficit financing. I can say that we have to have some more amount of deficit financing this year to keep up the tempo of development that has been developed in the first Five Year Plan. It is our idea to raise Rs. 450 crores by fresh taxation during the next Five Year Plan and the cumulative effect of this taxation will be available only by the end or by the third or fourth year, of this Plan. So during the first and second year we have to depend more on deficit financing than on tax revenue. Then, I think Dr. Kunzru said that in the last Plan we had deficit financing to the extent of Rs. 250 crores. That is also not quite correct ; it is about Rs. 400 crores and this year....

SHRI H. N. KUNZRU : Can he give his calculation for that ?

SHRI A. C. GUHA : Just now I cannot give him the calculation. I know the total is about Rs. 400 crores ; it may be a little more or a little less. In any case it is very much more than Rs. 250 crores. For this year also what we have taken in the Budget is about Rs. 400 crores. Maybe that the entire amount of Rs. 400 crores will not be spent; there may be some revenue surplus also.

SHRI H. N. KUNZRU : I mentioned two sources from which the Government drew its funds—the cash balances and the Reserve Bank. The Reserve Bank holds securities of the Government of India and I pointed out by how much these securities had risen at the end of 1955-56 as compared with 1950-51. Now, what is the third source from which the Government of India manage to get funds for deficit financing ?

SHRI A. C. GUHA : It is not possible to give any reply in mathematical figures now. If the hon. Member wants, I can supply him the figure later on.

I think I have more or less covered all the relevant points. Several Members have made references to the Local Boards. Local Boards have been retained and we shall examine the suggestions made in the other House and here and see what authority and powers can be given to them. Prof. Kabir has also said something about adverse balance and that it will neutralise deficit financing.

PROF. HUMAYUN KABIR : To some extent.

SHRI A. C. GUHA : True ; but still the fact remains that we have to have deficit financing up to Rs. 1,000 crores, and that will not be neutralised, whatever may be the adverse balance.

PROF. HUMAYUN KABIR : May I ask a question of the hon. Minister ? Has any assessment been made of the possible adverse balances over these five years ? Once you have done that, will the figure still be Rs. 1,000 crores?

SHRI A. C. GUHA : This amount of Rs. 1,000 crores will be internal deficit. For external deficit, I think the hon. Member can work it out—Rs. 800 crores from foreign aid and Rs. 200 crores drawn from sterling balances.

Some hon. Members have suggested that sterling balances should be withdrawn. I do not understand what that proposal means. How can you withdraw sterling balances? With the balance resulting from our international trade we can either purchase some commodities and bring the goods here or we can transfer that balance from London to Washington or some other place. But I do not think that that will improve matters and I do not think there is any justification for the apprehension expressed by those hon. Members that our sterling balances will some day be grabbed by some foreign power.

SHRI GOPIKRISHNA VIJAIVARGIYA (Madhya Bharat) : Is it not true that we can use our sterling balances only to the extent that they allow ?

MR. DEPUTY CHAIRMAN : It is governed by a separate agreement.

SHRI A. C. GUHA: There is a separate agreement and there has been no difficulty about meeting our external obligations from sterling balances and I should say here that the United Kingdom has been quite fair in this matter.

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: We shall now take up clause by clause consideration of the Bill.

Clause 2 was added to the Bill.

*Clause 3—Amendment of Section* 33

SHRI H. N. KUNZRU: Sir, I move:

1. "That at page 1, after line 18, the following be inserted, namely:—

'Provided that the amount of gold coin, gold bullion and foreign securities shall at no time be less than twenty-five per cent. of the total amount of the assets'."

SHRI B. C. GHOSE: Sir, I move:

2. "That at page 1, for lines 12 to 18, the following be substituted, namely.—

'(a) sub-section (2) shall be omitted'."

MR. DEPUTY CHAIRMAN: The clause and the amendments are open for discussion

SHRI H. N. KUNZRU: Sir, as I pointed out in my earlier speech, the object of this amendment is to prevent the Government from expanding our currency to any extent that it likes. I pleaded that the control of Parliament over the expansion of the currency should be retained to a certain extent. That was the argument referred to by almost every speaker but the hon. Minister has not said a word about that He has not shown that the economic interests of the country will be jeopardised unless the Government are given the powers that they have asked for in the Bill. He has dwelt a good deal on some subsidiary points but he has not touched the central point at all. Even if it is granted that we can create money to the tune of Rs. 1,000 crores during the next five years without damaging our economy, it has still to be proved that it will be desirable for Parliament to give the Executive immediately the power of expanding the currency to such an extent. Now, Sir, our ability to create a thousand crores without at the same time raising the prices of the things commonly in demand will depend on a number of factors. The most important of these is the increase in agricultural production, particularly in the production of foodgrains. I know that while the second Five Year Plan provides for a fifteen per cent. increase in the production of foodgrains, efforts are now being made to persuade the provincial Ministries to increase the production by forty per cent. without asking for a greater grant from the Central Government or the Planning Commission. So far those Ministers have not agreed to such a position and it remains to be seen whether the States will be able to increase the production of food to the desired extent even if they are given financial assistance that they have asked for.

Then there is the question of the production of cloth. If the Government had proceeded in accordance with ordinary considerations and wanted the mills to increase the production of textiles, probably the necessary amount of cloth would have been produced in the next five years, but Government want to rely to an appreciable extent on the Ambar Charkha. This creates an uncertainty. We have to see to what extent the Ambar Charkha yields the production that is expected of it. Without going into the details I may say that the desired daily production would accrue only if a man could be found to work the Charkha for eight hours a day. I mean the revolutions would have to be rapid and I am very doubtful indeed whether we can find men in large numbers with the necessary strength and with that religious zeal for the Ambar Charkha which will enable them to produce the necessary amount for only twelve annas a day.

Take again, Sir, only one more factor and that is foreign loans. We depend on that to the tune of Rs. 1,200 crores. We expect about Rs. 800 crores. The Planning Commission, therefore, say that there would be an uncovered gap of about Rs. 400 crores which would have to be met practically by means of internal taxation. Now, are we quite certain that we shall get Rs. 800 crores of funds from foreign sources? If we do not, will our ability

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to resort to deficit financing to the tune of Rs. 1,000 crores still remain in tact? I think it should be realised—and I am sure that my hon. friend, Shri Guha, realises—that in order to prevent inflation two things will be necessary: (i) internal production and (ii) purchase of the goods required for the carrying out of the Second Plan from abroad. Now, if we are unable to get the funds needed for paying for the purchases that we make abroad, it is not to be supposed that the internal Plan will remain totally unaffected. The two, our ability to get foreign loans to the extent of Rs. 800 crores and to create money to the tune of Rs. 1,000 crores, are not two distinct things without any connection with one another. I think the connection between them is close and that unless we can secure the goods that we desire from abroad, it will not be possible for us to create additional money to the extent of about a thousand crores of rupees. These are only some of the uncertainties of the situation that I have mentioned.

Now, in this situation is it unreasonable to ask that the Government should not ask Parliament to part with all its powers immediately? I think it will be in the interests both of the Government and of the country that Parliament should retain the power, that Parliament should be in a position to decide, after and examination of all the facts, whether the note issue should be further expanded or not. My hon. friend, Shri Guha, referred to the possibility of inflation, to which some speakers had referred. But I think the reasons, I mean what he said created the impression that there was no inflation or inflationary trend at the present time. All that had happened was that prices which had become unduly low were again going up. Now, if that is a full explanation of the situation, why did Government........

SHRI A. C. GUHA : I do not think I have said anything like that. I have said that there is no general inflation. It is premature to call it a general inflation. Certainly there has been a rise in prices, but to a certain extent this is a corrective to the slump.

SHRI H. N. KUNZRU : I cannot understand. I am frankly unable to understand; I am totally unable to understand the hon. Minister today. If his arguments meant anything, they meant that those who say that there is an inflationary pressure today are in the wrong. If he did not mean that he should have made himself clear on that point. The entire object of his argument........

MR. DEPUTY CHAIRMAN : What he means is that there is no general inflationary trend, but this was only a temporary phase........

SHRI B. C. GHOSE : What is the meaning of temporary or permanent phase ?

MR. DEPUTY CHAIRMAN: ..... and the Reserve Bank took action to check that inflation. And earlier when there was a fall in prices, they gave price support.

SHRI H. N. KUNZRU : We shall have to see what the result of the measures taken by the Reserve Bank will be. But at present it must be admitted, in view of the facts that are known to us, that there is an inflationary pressure and that pressure exists in respect of foodgrains. And to prove my point I shall only mention that when prices began to go up—notwithstanding the slump in prices to which my hon. friend, Shri Guha, drew our attention—Government stopped the export of foodgrains and began selling foodgrains themselves in order to bring down the prices.

SHRI A. C. GUHA: Yes.

SHRI H. N. KUNZRU: But in spite of these things the prices continue to go up. I do not think therefore that the hon. Minister is justified in making light of the thing in the manner in which he did. The danger of inflation is ever present to our minds and is a real danger. Nothing that the Planning Commission has said and nothing that the hon. Minister can say can make us believe that Government may go on expanding the note issue without creating the danger of inflation. It was the Planning Commission's task to present its Plan in the best possible light and it has done so, but has it succeeded in creating conviction in the minds of men who have read its report with some care and who are endowed with some critical faculty? Anybody who reads the report can say that the deficit does not amount to Rs. 1,200 crores but it amounts to Rs. 2.400 crores. To what extent we shall be able to get loans from abroad and to what extent we shall be able to raise taxation in addition to Rs. 1,000 crores are things that are totally uncertain. But my hon. friend Shri Guha thought that what the Planning Commission had said was the last word on the subject.

I do not want, Sir, to prolong this discussion any more. I think that what I said earlier and what I have said now is quite sufficient to enable anybody to see that we have to act with a great deal of caution, and that there will be a far greater chance of caution being observed if Parliament reserves to itself the ultimate say in the matter. This argument has appealed not merely to the members of the Opposition but to those who support the Government, and they too feel that Government is going too far in asking Parliament to give a blank card to the executive Government and to let it increase the currency. Sir, I do not think I need refer to the extent to which the index relating to food articles, particularly cereals and rice, has increased. I shall be able to deal with this matter when the discussion on the second Five Year Plan is resumed. If the time and occasion permitted, I could cite figures to show that the rise that had taken place was real in spite of what the hon. Minister said. The fact that the Planning Commission and the Government are now desperately trying to induce the State Ministers to raise the production of food by 40 per cent. shows that they are much more alive to the danger than Shri Guha is. I do not think that I need refer to any other argument on this occasion. I think that nothing will be lost but a great deal will be gained if my amendment is accepted. I therefore press my amendment to the attention of the Government and of the House.

MR. DEPUTY CHAIRMAN : Let us try to finish this Bill today.

SHRI B. C. GHOSE : Sir, the fact that I have moved my amendment does not mean that I am opposed to Dr. Kunzru's amendment.

SHRI A. C. GUHA : I am unable to make out his stand in this respect. How does he support his amendment ?

SHRI B. C. GHOSE : I am speaking on the general clause. I will prove to him as to how I can do both. I was going to say that I myself would have moved the same amendment if Dr. Kunzru had not done so, and also moved the amendments that I have today moved in this House because, since I do not know what the Government's intention is, I feel that logically the Government should accept either the one or the other position. Therefore, if the Government do not accept Dr. Kunzru's amendment then I shall press forward my amendment, and I do not think that the hon. Minister is at all right in saying that I cannot support Dr. Kunzru's amendment and at the same time, if that is not accepted, press my amendment. That is the position, and I hope the hon. Minister sees the logic of it, although he does not always see that.

Now, Sir, on the amendment moved by Dr. Kunzru I believe that nobody in this House has been convinced by the reasons adduced by the hon. Minister, although I am sure that he will carry his motion ; but that does not mean that he will also have success in carrying conviction to members. The hon. Minister had begun his observations by giving us a review of the evolution of monetary standards. Sir, that is a long story. I might have gone myself into it and taken hours........

SHRI A. C. GUHA: I only made a very short story, in a few lines.

SHRI B. C. GHOSE: With my limited intelligence I did not understand the point which the hon. Minister was driving at. How did he prove, by giving us an evolution of monetary standards that for India the right thing is to do away with the proportionate minimum reserves? That is the point at issue. It is true today that different countries have different monetary standards and that the backing against notes in different countries varies. The hon. Minister stated, I believe, that at least he was following modern practices. What is the modern practice ? Is it the practice that is followed by Great Britain? Is the U.S.A. following a very primitive practice ? Is the U.S.A. not a very modern or advanced country ? What is the position in the U.S.A. ? Why is it that they still have the proportionate reserve ratio, if it is an anachronism. There are histories behind the practices that we find today in various countries. The question is what is best for us. In Great Britain through an evolutionary process they have come to the present standard. During the war Great Britain had no gold. They could not maintain the gold standard or backing of the currency

[Shri B. C. Ghose]
over and above the fiduciary issue of hundred per cent. gold. It was not possible for them and at the same time they had built up the reputation of the pound sterling. The question is, have we done that ? Can we say that today the position of the rupee is the same as that of the pound and that we have no fear as regards the strength or the reputation of the rupee currency ? Why is it, Sir, that in any country there is a reserve sought to be maintained against the notes issued ? The hon. Minister should try to explain why there should be reserves. There need not be any reserves. But in every country there is a system of reserves that is maintained against the currency notes issued. That reserve is maintained obviously, if I might say so, for two main purposes. One is to correlate the currency issued in the country to the price structure within the country. Secondly, it is to maintain the stability of the price of the internal currency in relation to foreign currencies, to maintain international confidence in the currency of one's own country. Now the hon. Minister will have to show us that if Dr. Kunzru's amendment is accepted, either of those things will be impaired. He has stated in the Statement of Objects and Reasons that it is necessary to expand the currency to meet the requirements of the second Five-Year Plan. We have already conceded that. We have agreed with that point of view. Is it absolutely essential for this purpose to do away with the proportionate reserve system which has certain merits ? If you say that it has no merits at all, then say so plainly, say that a proportionate reserve system has no merits and that wherever it is found it should be discarded. But the hon. Minister has not advanced that argument. He has said that for certain purposes it is not feasible, and one of the purposes is that an expansion of the currency is required. But we have tried to show that the expansion of currency that is required during the second Five Year Plan will not be prejudicially affected if a certain minimum proportionate reserve is maintained. If it does not stand in the way of the fulfilment of our object, then let us have the better system continue in this country. That is the point at issue, and I am afraid that the hon. Minister has not satisfied us on that point. He said that many countries have done away with the proportionate reserve system. He mentioned four countries. I should like him to mention some important countries which have the fixed minimum reserve system. There are countries which do not have any reserve requirements. But I am sure that he will not be able to point out many countries which have got this system of fixed minimum reserve. The better system is certainly to have the proportionate reserve. That is the system that was adopted by the U.S.A.

SHRI GOPIKRISHNA VIJAIVARGIYA : Are we not better than those countries which have no proportion at all ?

SHRI B. C. GHOSE : Are we better than the U.S.A. which has the proportionate reserve system ? Well, you have your own opinion.

I think, Sir, that the hon. Minister has not given us any reason to commend the motion to our acceptance. If he can show that the acceptance of Dr. Kunzru's amendment would stand in the way of the second Five Year Plan being financed, taking into account the deficit financing that is envisaged, then I can say that he would be in the right. But I have not seen any one solid reason advanced by him to say that Dr. Kunzru's amendment should not be accepted, except to say that many countries have given this up, and this is not the modern practice. As against that I told him that the U.S.A. is following this practice. Therefore, I again strongly urge that the hon. Minister should give his serious thought to this matter and try to accept Dr. Kunzru's amendment.

Now, Sir, if you say that that is not necessary, then I do not see any sense in having this fixed minimum reserve, because the only reason that the hon. Minister has given in this respect is that we should take into account the psychology of the people both in this country and in other countries. What I feel, Sir, is that it would be better to have a proportionate reserve system which is certainly better than a fixed minimum reserve system in order to inspire confidence. We can say that the system of fixed minimum reserves should be adopted only if the hon. Minister can show that by no stretch of imagination we can maintain a proportionate reserve system. If he had proved that the maintenance of a proportionate reserve system would stand in the way of our progress or advancement, I could have understood that position. But he has not done that. It would appear that according to the hon. Minister, no reserves are really necessary except as a measure of concession. That is why he is still maintaining a fixed minimum reserve. We need not have any concessions. Therefore, let us do away with all the reserve requirements, if the hon. Minister feels that that will in no way impair, but on the contrary, strengthen the position that the rupee currency has attained.

SHRI A. C. GUHA : Sir, in the general reply I have not said many things which I should have said in relation to this particular amendment. Those things, I could not say at the time of the general discussion.

Sir, Pandit Kunzru has referred to Parliamentary control on the note issue. Parliamentary control is over the Government's expenditure, and the Government expenditure will determine the quantum and the volume of the note issue. Parliament has full control over the expenditure of the Government. That is the Parliamentary control which already is there and which will continue to be there. The Parliament will get opportunity of discussing the Plan—any time; and that will ensure sufficient control to the Parliament. By simply putting that provision I do not think there would be proper control which Parliament can exercise over the issue of notes. Even with that provision probably there may be a reckless issue of notes which may not really be necessitated by the need of the situation. So, the real control of Parliament is already there over the expenditure of the Government.

Then, Sir, Mr. Ghose complained that I had not said how the acceptance of this amendment will affect the implementation of the Plan. Sir, it is not quite possible now to envisage the amount of currency expansion during the second Five Year Plan.

SHRI B. C. GHOSE : Not more than Rs. 1,000 crores.

SHRI A C. GUHA: That is not covered by Dr. Kunzru's amendment. Dr. Kunzru's amendment would give us only about Rs. 550 crores.

SHRI H. N. KUNZRU It gives you about Rs. 600 crores out of Rs. 1,000 crores.

SHRI A. C. GUHA : I think it would be rather risky......

SHRI H. N. KUNZRU: Sir, may I say again that on the 17th July the note issue amounted to Rs. 1,477 crores, and my amendment would enable the Government to expand the currency up to Rs. 2,060 crores ? This means that the Government would be able to expand the currency by about Rs. 600 crores.

SHRI A. C. GUHA : I have said, a little over Rs 550 crores Sir, it would rather be risky on the part of the Government to limit the expansion of currency to that extent only. Moreover, we are not legislating here only for the second Five Year Plan, and it is not proper and expedient that this matter of currency should be discussed publicly and repeatedly. The more we discuss it, the more doubts will be encouraged. So, it is better to have one formula which may serve the Government's purpose for some years to come. Moreover, Sir, it is for the hon. Members to prove that their formula would be more useful and more beneficial for our purposes. That they have not been able to establish.

SHRI B. C. GHOSE : I have done that.

SHRI A. C. GUHA : Sir, it is not for the Government to say that this particular amendment will be particularly harmful for our purpose, but it is for them to prove that this particular provision in the Bill will be harmful and their amendment will be an improvement on the Government's proposition.

5 P.M. That they have not been able to say. They have shifted the burden of proof on the Government that their amendments will not be helpful for Government purposes. I think it will be dangerous for the Government to accept these amendments and to put our whole development programme in a sort of strait-jacket. So, I cannot accept these amendments.

PROF. HUMAYUN KABIR . Before you put the question, I would like to ask a question of the hon. Minister.

SHRI A. C. GUHA : Mr. Ghose asked if any other country has got a fixed minimum reserve. Japan has got a fixed minimum reserve. In Australia, the amount of gold reserves has been fixed

SHRI B. C. GHOSE : These are the two important countries ?

MR. DEPUTY CHAIRMAN : They are some countries.

SHRI A. C. GUHA : We cannot compare ourselves with a country like the United States. The U.S.A. is an advanced country, while we are an under-developed country, which has taken up a huge programme of development.

SHRI B. C. GHOSE: Japan is undeveloped ?

SHRI A. C. GUHA : We have taken up a vast development programme, which is not the case with the U.S.A. and we shall have to have some devices to see that the money supply is adequate for our development purposes.

PROF. HUMAYUN KABIR : I wanted to ask this question only. The hon. Minister himself has been saying that, even though on purely theoretical grounds there is no necessity for having any fixed ratio or to have any fixed amount and that some of the foreign countries have actually been managing their currency without this kind of reserve, he felt that for psychological reasons within and outside the country, some kind of compromise was necessary. If that be the approach, would it not be better to have a 25 per cent. or 20 per cent. ratio and then gradually......

SHRI A. C. GUHA : Provided only that it will serve our purposes.

MR. DEPUTY CHAIRMAN : You put your question. You cannot make a long speech.

PROF. HUMAYUN KABIR : This is a question. This is a complicated matter and so the question has got to be a little detailed.

SHRI A. C. GUHA : That will not serve our purpose. That will not give us the flexibility which would be necessary for the implementation of the second Plan and also the third Plan.

SHRI H. N. KUNZRU : Flexibility means unfettered power. That is his definition of flexibility.

MR. DEPUTY CHAIRMAN : The question is :

1. "That at page 1, after line 18, the following be inserted, namely :—

"Provided that the amount of gold coin, gold bullion and foreign securities shall at no time be less than twenty-five per cent. of the total amount of the assets'."

*(After taking a count)*: *Ayes*—12; *Noes*—27.

The motion was negatived.

MR. DEPUTY CHAIRMAN : The question is :

2. "That at page 1, for lines 12 to 18, following be substiuted, namely:

'(a) sub-section (2) shall be omitted'."

The motion was negatived.

MR. DEPUTY CHAIRMAN : The question is :

"That clause 3 stand part of the Bill."

The motion was adopted.

Clause 3 was added to the Bill.

MR. DEPUTY CHAIRMAN: Then we come to clause 4.

SHRI H. N. KUNZRU : I think it will be better if this is taken up tomorrow.

MR. DEPUTY CHAIRMAN : The time allotted for the next Bill is 7 hours. We have to take up the States Reorganisation Bill on Monday. Then Members may require some more time for the Industrial Disputes Bill. I think we should sit for another fifteen minutes and finish this.

SHRI H. N. KUNZRU : It is better to sit through the lunch hour tomorrow rather than prolong the discussion now.

MR. DEPUTY CHAIRMAN : Is that the sense of the House ?

*(No hon. Member dissented.)*

MR. DEPUTY CHAIRMAN : We will sit through the lunch hour tomorrow. The House stands adjourned till 11 A.M. tomorrow.

The House then adjourned at five minutes past five of the clock till eleven of the clock on Wednesday, the 8th August 1956.

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