

(b) The target of 200 million is expected to be reached when all the 35,000 powerlooms sanctioned for this operation will have been installed.

(c) Only to the handloom weavers who are in the co-operative fold.

(d) It is somewhat premature to take decision on this matter.

12 NOON

STATEMENT RE SUPPLEMENTARY QUESTION TO STARRED QUESTION NO. 129 ANSWERED EARLIER.

THE MINISTER FOR TRADE (SHRI D. P. KARMARKAR) : Sir, with your permission, may I make a small correction in the reply that I gave to a supplementary question on Question No. 129 relating to export of fishing nets? I said that principally the fishing nets were made in the mills. I now understand that they are principally small scale industry products. The yarn and other things come from the mills, but the nets are made by small units.

PAPERS LAID ON THE TABLE

NOTIFICATIONS PUBLISHING THE COTTON TEXTILES (PRODUCTION BY HANDLOOM) CONTROL ORDER, 1956 AND AMENDMENTS TO THE COTTON TEXTILES (CONTROL) ORDER, 1948.

NOTIFICATION PUBLISHING AN AMENDMENT TO THE COFFEE RULES, 1955

THE MINISTER FOR TRADE (SHRI D. P. KARMARKAR) : Sir, on behalf of my colleague, Shri N. Kanungo, I beg to lay on the Table, under sub-section (6) of section 3 of the Essential Commodities Act, 1955, a copy each of the following Notifications :—

- (i) Ministry of Commerce and Industry Notification S.R.O. No. 1077, dated the 8th May, 1956, publishing further amendments to the Cotton Textiles (Control) Order, 1948. [Placed in library. See No. S-281/56.]
- (ii) Ministry of Commerce and Industry Notification S.R.O. No. 1077-A, dated the 8th May 1956, publishing the Cotton

Textiles (Production by Handloom) Control Order, 1956. [Placed in library. See No. S-281/56.]

Sir, I also lay on the Table, under sub-section (3) of section 48 of the Coffee Act, 1942, a copy of the Ministry of Commerce and Industry Notification S.R.O. No. 1674 [15(2)-Plant/56], dated the 17th July 1956, publishing an amendment to the Coffee Rules, 1955 [Placed in library. See No. S-301/56.]

ANNUAL AND AUDIT REPORTS OF THE DAMODAR VALLEY CORPORATION FOR THE YEAR 1954-55

THE DEPUTY MINISTER FOR IRRIGATION AND POWER (SHRI J. S. L. HATHI) : Sir, I beg to lay on the Table, under sub-section (5) of section 45 of the Damodar Valley Corporation Act, 1948, a copy of the Annual Report of the Damodar Valley Corporation for the year 1954-55 together with the Audit Report on the accounts of the Corporation for the year 1954-55. [Placed in library. See S-292/56.]

RESULTS OF ELECTIONS TO COMMITTEES

COURT OF THE ALIGARH MUSLIM UNIVERSITY

MR. CHAIRMAN: Shri Nawab Singh Chauhan being the only candidate nominated for election to the Court of the Aligarh Muslim University, I declare him duly elected to be a member of the said Court.

ALL-INDIA COUNCIL FOR TECHNICAL EDUCATION

MR. CHAIRMAN : Shri Jaspat Roy Kapoor being the only candidate nominated for election to the All-India Council for Technical Education, I declare him duly elected to be a member of the said Council.

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

SHRI H. N. KUNZRU (Uttar Pradesh) : Mr. Chairman, the Reserve Bank of India Act lays down that the expansion of the currency should bear a definite relation to the gold coin, gold

bullion and foreign securities in the assets of the Issue Department. I think the exact proportion between this reserve and the issue is 2 to 5. Now, my hon. friend, the Minister who moved the Bill brought forward a number of objections to the restriction placed by the Act on our power to expand the note issue. He pointed to the expansion of credit that will be needed on account of the second Five Year Plan and claimed that the restrictive position would greatly hamper the Reserve Bank of India in providing the necessary credit. His second objection was that the present ratio between the reserve to which I have already referred and the note issue will, according to the hon. Minister, allow only the addition of some Rs. 150 or Rs. 160 crores which he thought would be totally insufficient for our needs. Then he claimed that the foreign securities in the assets of the Issue Department of the Reserve Bank were variable. They might stand at a particular figure on one date and at another figure on another date. It was therefore, he said, very inconvenient that the expansion of our currency should depend on a figure that is variable. He further claimed that there was no connection between foreign securities and the internal note issue. Foreign securities might be useful for meeting the claims of our creditors when we faced an adverse balance of payments but it had nothing to do with the expansion or contraction of the currency and the expansion of the currency should therefore be completely divorced from the security reserve. He also claimed that the value of our internal currency depended on good administration and not on the existence of foreign securities for any particular amount in the assets of the Issue Department of the Reserve Bank of India. There was no reason therefore why any particular relation should be maintained between the reserve I have already referred to of which the foreign securities form a part and the expansion of the note issue. And in support of his argument he pointed out that there was no restriction on the expansion of currency in a number of countries one of which was the Philippines. It was not a very inspiring example but I suppose that example was given because it suited the hon. Minister's purpose.

THE MINISTER FOR REVENUE  
AND CIVIL EXPENDITURE (SHRI A.  
C. GUHA): I also cited the case of

U.K. and the hon. Mr. Ghose also mentioned particularly the case of U.K.

SHRI H. N. KUNZRU: Yes; he mentioned U.K. also but he mentioned four countries—Canada, New Zealand, Ceylon and the Philippines. He mentioned U.K. only subsequently.

SHRI A. C. GUHA: Not exactly subsequently. In the course of my introductory speech itself I mentioned U.K. in a separate paragraph with some elaborate comments on it.

SHRI H. N. KUNZRU: He read out a long speech. Why he read out the speech, I do not know. Perhaps he was afraid that he might forget some of these cogent examples. He first quoted to us the example of four countries and subsequently referred to U. K. There should therefore, be no disagreement between him and me on a question of fact.

SHRI A. C. GUHA: The difference is there if the hon. Member means by the word 'subsequently' that I mentioned the case of U. K. after my speech introducing the Bill, whereas I mentioned the case of U.K. in the course of my speech introducing the Bill.

SHRI H. P. SAKSENA (Uttar Pradesh): Call it 'afterwards'.

SHRI H. N. KUNZRU: The speech has been delivered and you can send for it and find out whether the statement that I have made is correct or not.

Now, Sir, another point that he dealt with was the value of the gold in the Issue Department. At present the gold is valued at Rs. 40 crores but he wants that it should be valued in accordance with the new rate for gold accepted by the International Monetary Fund. If this rate is agreed to by the House, the total value of the gold will amount to about Rs. 117 crores and of these Rs. 115 crores will be retained in the assets of the Issue Department. I have a few observations to make on the reasons given by the hon. Minister for breaking off all connection between the expansion of the note issue and the reserve maintained by the Government of India in the shape of gold coin, gold bullion and/or foreign securities in the assets of the Issue Department of the Reserve Bank of India. It will be readily

[Shri H N Kunzru] granted that for the carrying out of the Five Year Plan an expansion of the currency will be necessary. The expansion allowed by the law at present may prove too small for this purpose. Government should therefore, be given some power to expand the note issue further, but it does not necessarily show that Government should be given a blank card in this respect and allowed to expand the currency to any amount. The hon. Minister claimed that the value of the currency depended not on the amount of foreign securities but on the soundness of the administration. Now, I should like to ask him whether the soundness of administration has anything to do with parliamentary control or not? If parliamentary control is necessary in order to ensure the soundness of administration, then it is illogical for him to ask that all parliamentary control over the expansion of the note issue should be completely removed. I think it will be admitted by everybody here that parliamentary control exercises a very healthy influence over Governments. They have to act with restraint and caution because of the existence of parliamentary control. There is no guarantee that if the control of Parliament over the expansion of the note issue were removed it would be in the best interests of the country. Here again it seems that while changes in the law providing for a greater expansion of the currency may be agreed to, it does not follow from the promises of the hon. Minister that Parliament should have no control in future over the creation of further credit and that the matter should be left entirely in the hands of the Government. Then he pointed out that there is no statutory restriction on the expansion of credit in a number of other countries including the U.K. I am not acquainted with the case of the U.K. It may have been absolutely necessary for Parliament there to allow the Government to exercise its discretion in this matter. But it is yet to be shown that the time has arrived in this country when it is necessary for us to follow the example of the United Kingdom. Besides I claim that the change that is being made in the amount of securities to be held in the assets of the issue department and the revaluation of gold in that department should be sufficient to enable the Government to meet its needs for some time. The securities will be reduced from Rs 616 crores, the

figure at which they should now, to Rs 400 crores in accordance with the Bill before us. This means that Government will have the power to resort to deficit financing to the extent of Rs 200 crores in order to import the goods required in connection with the Second Five Year Plan. Now, take the total amount of foreign assets and the gold that will have to be maintained even under the Bill before us in the assets of the Issue Department. The hon. Minister argued that there was no connection between foreign securities and the note issue and yet asks us to agree to a provision which makes foreign securities an essential constituent of the assets to be maintained so that public confidence in the currency may be maintained. Either, as my hon. friend Shri Bimal Comar Ghose pointed out yesterday, a reserve of this character is needed or it is not needed. I could understand the Government coming forward boldly and saying that no such reserve is needed and Government have the power to dispose of the foreign securities completely, but they have not done so. On the contrary, they want to reduce the assets in the shape of gold and foreign securities from Rs 656 crores, the figure at which they stand now, to Rs 515 crores, which is the figure at which they will stand under the Bill before us. I have pointed out that the foreign securities will under the Bill be reduced from Rs 616 crores to Rs 400 crores, but the gold will be revalued and it will in future be valued at Rs 115 crores. The total amount of gold and foreign securities will, therefore, amount to Rs 515 crores. Now, if my amendment is accepted, Government will be able to expand the currency up to a limit of Rs 2060 crores, as the note issue at the present time, I think on the 27th July 1956 amounted to Rs 477 crores. It is clear that Government will be able to expand the currency to the tune of Rs 600 crores.

PROF. HUMAYUN KABIR (West Bengal) 1400 crores or 400 crores?

SHRI H N KUNZRU The present note issue amounts to about Rs 1477 crores.

PROF. HUMAYUN KABIR You said Rs 400 crores.

SHRI H N KUNZRU It is Rs 1477 crores. And as my amendment allows Government to expand the note issue up to Rs 2060 crores, it pro-

vides for an addition of about Rs. 600 crores of currency. Now, taking the expansion of the currency and the depletion of the foreign securities, it is clear that Government will be able to resort to deficit financing to the tune of Rs 800 crores. Is this a small figure? Is there any reason, in these circumstances, for asking Parliament to allow the Government to increase the note issue to any extent it likes? I think, Sir, in view of the serious effect that the expansion of credit in the country may have on our economy, it is necessary, however able the Government may be, that the last word should rest with Parliament. If things go well and if there is a proved need for further expansion of credit, why should it be supposed that Parliament will assume an unreasonable attitude and decline to allow any expansion of the instruments of credit? Government have not given the slightest reason, Sir, for supposing that the retention of parliamentary control would be unreasonable or that Parliament will exercise its power unwisely. We know, Sir, that there is some uneasiness in the country on account of the deficit financing that took place during the First Five Year Plan. The amount of it, so far as I can find it out, is not large. We reduced during the Plan period our cash balances from about Rs 160 crores to about Rs 50 crores, that is, we spent Rs 110 crores out of our cash balances. Then the securities held by the Reserve Bank of India including treasury bills which amounted to Rs 586 crores at the end of March 1951, amounted to Rs 726 crores at the end of March 1956. There was thus an increase in the securities held by the Reserve Bank to the tune of Rs 140 crores. Adding these two figures we find that there has been a deficit financing of the order of Rs 250 crores. This has, it seems, created an inflationary pressure. The measures that Government may be able to take in the future may remove all our apprehensions on this score. But I think it cannot be denied that prices have recently risen whatever the extent of the rise may be. This, Sir, is another reason why we ought to be very careful in this matter and see that parliamentary control is not entirely abrogated.

SHRI P N SAPRU (Uttar Pradesh)  
May we know what is the nature of the parliamentary control which the hon. Member means?

SHRI H N KUNZRU: The Reserve Bank of India Act can be changed only by Parliament and it is on a change in the provisions of the Reserve Bank Act that the expansion of the note issue depends. Now, Sir, the question that was put to me was what was the parliamentary control that I was referring to.

SHRI B. C. GHOSE (West Bengal):  
Relaxation of the 40 per cent. ratio requires parliamentary sanction.

SHRI H N KUNZRU: I have already pointed out that the Reserve Bank of India Act can be changed only by Parliament.

Now, Sir, I pass on to the provisions relating to the scheduled banks. At present the scheduled banks are required to deposit with the Reserve Bank of India 2 per cent of their time liabilities and 5 per cent of their demand liabilities. Now the Bill raises the former figure to 8 and the latter figure to 20. The object of this is to enable the Reserve Bank, that is the Government, to exercise complete control over the expansion of the note issue, over the expansion of credit through banks at a time when the unrestricted expansion of credit may have a very serious effect on the development of our economy. The objection raised to this provision is that section 21 of the Banking Companies Act already enables the Reserve Bank to require the scheduled banks to follow any policy that may be laid down by it for the expansion of credit through the banks. This provision is a salutary provision but it does not show that the need for raising the percentages of the deposits to be maintained by the scheduled banks with the Reserve Bank of India is superfluous, that the necessity for raising this does not exist. But I think it will be easier for the Reserve Bank to persuade the scheduled banks to follow any policy that may be laid down by it if it first reduces the amount of the balances that will remain with them. In principle I am entirely in favour of this provision but it is at the same time desirable that the Reserve Bank which may require the scheduled banks to increase their deposits with it should pay some interest on the additional deposits that the banks will have to maintain under the law with the Reserve Bank. This has been provided for. But the provision is of such a character as to enable the Reserve Bank to

[Shri H. N. Kunzru.]  
 pay interest at different rates on the deposits of different banks. I agree with my hon. friend Shri B. C. Ghose that this is very undesirable. Whether a bank deposits a small or large sum with the Reserve Bank has nothing to do with the rate of interest that it should be paid. It is quite possible, Sir, that even among the bigger banks some banks may follow the Reserve Bank's policy willingly and faithfully while others may follow it grudgingly or may try to go against it in so far as the law permits, that is, may try to take advantage of the loopholes that may exist in the policy enunciated by the Reserve Bank. But can we, on that ground, lay down different rates of interest for payment to different banks? If that is the object, it should be laid down clearly in the law. If, however, there are any other grounds which justify a differentiation in the rate of interest as between different banks, they should be stated in the law itself. That should not be left to executive discretion. It may be, Sir, that the machinery will be more flexible that way, but I think in a matter of this kind it will be better to sacrifice a little flexibility in order to ensure that the provision relating to the rates of interest will be equitably carried out.

Sir, this is all that I have to say, and I shall listen with great interest to what the hon. Minister may have to say with regard to the urgent need that compels the Government to ask Parliament to allow it to expand the note issue to any amount it likes without coming to Parliament again for its approval.

DIWAN CHAMAN LALL (Punjab):  
 Sir, I have listened with a great deal of interest and attention to the speech of my hon. friend, Dr. Hirday Nath Kunzru, as one always does. The very concise points that he has made are of very great interest, and I have not the slightest doubt that my hon. friend, the Minister in charge, will take full note of the issues that he has raised.

[MR. DEPUTY CHAIRMAN in the Chair.]

The issue, as I see it is much larger than that of wanting to obtain a certain amount of interest on deposits which the scheduled banks place at the service of the Reserve Bank. The issue is whether we are going to stick to the old method in the socialist pattern of

society that we wish to establish, or whether we are going to adopt a new and revolutionary method of financing the socialist pattern of society. That is the issue at stake. And I take it that although we were tied in the past, as we have been, to a particular ratio between the gold reserves and the securities on the one side and the note issue on the other, we have not scrapped that old system of reckoning the amount of currency that should be available to the country. What we have done is to change the aspect of that particular ratio system. Instead of the old system, what we are suggesting now is a revaluation of our gold stocks which stood on the day of the introduction of this measure at Rs. 40.02 crores. I take it, and revaluing it at Rs. 60 and odd, we find that we will be able to get another Rs. 75 crores added to our potentiality, as far as our currency is concerned. And we find that on that very day the securities stood at Rs. 636 crores. Therefore it has been suggested that we should adopt a new ratio in regard to our currency, namely, that the gold reserves should be Rs. 115 crores, and the securities should be Rs. 400 crores. That is the limit to which my hon. friend wishes to go.

Now, Sir, economists and financial experts deal with this matter in the context of an economy which is capitalist-dominated. And I do not know whether our financiers in the Finance Ministry will deal with it, in the course of the next five years, not in the context of a capitalist economy, but in the context of a socialist economy. Now, when we talk about gold reserves on the one side and security reserves on the other, and when we say that a certain minimum is to be kept in order to back our currency, what do we mean by that? What we mean is this that it is not merely the currency that has been put into a reserve for this particular purpose, or the securities put into a reserve but the utilisation of that currency in order to create new assets under the socialist economy is also something to be reckoned with, when you are expanding your currency. This is the new aspect, and I do not know whether that new aspect is prominently in the mind of the officers of the Ministry or not, but I take it that it is in the mind of the Ministry. When I indulge in, as my hon. friend, Dr. Kunzru, stated deficit finance to the extent of Rs. 250 crores, then what is this deficit finance utilised for? Gene-

rally, apart from the beneficent departments like Health, Education, and so on and so forth, it is utilised for the creation of a new asset. When you set up the Sindhi Factory, you are creating a new asset whether that asset is in gold or it is in securities, you are creating a new asset upon which you can base the structure and the foundation of your currency. This is a new aspect, and it should not be lost sight of, particularly when, for our new Five Year Plan, we are attempting to create vast public assets in the country, and vast public undertakings owned by the State for which deficit financing may have to be resorted to, and if it is resorted to, it is not, in reality, a deficit finance because we are creating a new asset. It is not like going to war building a war-ship and having it sunk in the sea. That asset is gone for good. But here you are creating a new asset upon which you can base the further expansion of your currency. This is entirely a new aspect which, I think, the hon. Members have not really examined with any care. My hon. friend, who sits there as the Leader of the Opposition, is perfectly well aware of the value of this particular aspect of this problem, because in those countries in which everything is owned by public, this particular aspect, is the most important aspect in the matter of foundation of the currencies of those countries. Here, we are, in a measure, going towards that particular aspect that particular aim, and we are trying to adopt a system which will radically change the structure of our finances.

Now, Sir, another aspect that strikes one is this. We have altered the values of gold etc. whereby, I take it, we shall be in a position, according to my hon. friend, to add Rs 189 crores more to our currency. But I am directing his attention not only to this particular limited aspect of being able to expand our currency only to this extent but also to the wider aspect, namely, to be able to finance our further projects without any fear of inflation, as has been pointed out by the previous speaker. Go ahead with the financing of these projects, because you are not sinking your money in the sea, but you are actually creating new assets upon which you can depend for the foundation of your currency. Now, Sir, on the day my hon. friend brought in this measure, I believe, our note issue was to the extent of Rs 1,500 crores. We have got the

Second Five Year Plan, and I am told that the public sector will consume Rs 4,800 crores.

SHRI A. C. GUHA. And the private sector will consume Rs. 2,400 crores.

DIWAN CHAMAN LALL. Yes, yes. But we cannot take advantage of the private sector for the purpose of basing this new theory of our finance. We can only make use of what we have in the public sector for building up a firm foundation for our currency. Now, Sir, out of Rs 4,800 crores, let us take it that at least Rs 3,000 crores will be utilised for creating new assets. And when you talk about inflation and deficit financing, you are forgetting the fundamental and basic fact that you are not destroying your assets, but you are producing something which is valuable and something which pays you a very good return indeed. And, as I have pointed out, you have every right to go ahead and demand further and further currency for the purpose of meeting your demands in the public sector without any fear either of inflation or of any danger to the structure of your finances.

Now, Sir, one question arises, and that is the question of sterling balances. I do not know if hon. Members have touched upon that question, because I have not heard this issue being raised here. But it is a very important issue, namely, the securities that we have got—Rs 636 crores worth of securities—apart from bullion and the gold which if revalued, will amount to Rs 115 crores, but if revalued at the current price of gold will at least be Rs 25 crores more than Rs 115 crores.

SHRI P. D. HIMATSINGHA (West Bengal). On the internal prices?

DIWAN CHAMAN LALL. We are not reckoning on the internal prices at the present moment. Obviously in revaluing the gold, my hon. friend is taking the world international price. May I know why we have been so remiss in not drawing on our vast sterling balances? Have we got a guarantee that what happened the other day to a friendly neighbouring country, Egypt, in regard to her sterling balances, will not happen in our case at some date or other? I do not wish to say that our relations with Great Britain are such that there is an immediate possibility of such a thing happening in the near

[Diwan Chaman Lall.]

future, but in politics and in world international affairs, there is no finality, Mr Deputy Chairman. There is no finality in regard to such matters, and what is good today may not be good tomorrow and a man or a country who is friendly today may not be friendly tomorrow. Therefore, I should have thought that wisdom would have dictated that my hon friend should have taken steps to withdraw our sterling balances in order to make those sterling balances a secure factor in the foundation of our currency. Today these balances are lying as a book entry in the India Office or in the Treasury in Great Britain. In the case of Egypt, for political reasons these balances were taken hold of, very wrongly taken hold of, I must say. And in this connection I have not the slightest doubt that this House fully supports the action taken by our friendly neighbour, Egypt, in regard to the nationalisation of the Suez Canal.

SHRI H P SAKSENA Everybody here

DIWAN CHAMAN LALL. I have not the slightest doubt that the sentiment in India is entirely in favour of that action. Suppose my hon friend, in the advancement of the socialist pattern of society, takes a similar step which might injure the interests of Great Britain or any other similar power, what would be the result as far as our sterling balances are concerned? Therefore, I would very humbly suggest to my hon friend that, although he has done rightly indeed in revaluing the gold and suggesting a new basis for the foundation of our currency, he should also take this further step and be absolutely certain that these vast assets which were created by the blood sweat and life of our people during the war years, do not remain any longer at the mercy of any foreign power, howsoever friendly that power may be. Ordinary wisdom and circumspection demand that steps should be taken to withdraw these balances and we should not just go on either leaving these balances where they are or adding to these balances because of the trade position of our country. Therefore, I would beg of my hon. friend that, when he next considers this matter, he should devote his mind to this very serious problem of our sterling balances. Meanwhile, I make a little present of this argument to him that will help him in the great task that he has got, a very great task indeed, of

finding the finances for the great projects that we are going to build in the Second Five Year Plan. I make him a present of this little argument that he should look further and wider a field and consider that all the concepts that we have got of financing our plans—those ideas and concepts—may be changed and we may start on a new basis of reckoning the amount of currency that should be available to us for financing our projects in view of the fact that we are creating assets all the time. I wish my hon friend complete success in the new steps that he is taking. I hope that these will not be the only steps that he takes, and that in the next five years he will reconsider the entire position both from the point of view that I have suggested of the socialist pattern of society and from the point of view of the vast assets that are lying in foreign countries.

PROF. HUMAYUN KABIR Mr Deputy Chairman, I think that it will be generally agreed that a Bill of this type is almost unavoidable at the present stage. There may be differences about some measures and also about the extent to which the Government proposes to go. That some fiscal control would be necessary at this stage when we are having development programmes on a very large scale, a good part of which would be financed through deficit financing, will I hope, be uncontested. I think the fact that in the Second Five Year Plan the greatest emphasis has been placed on heavy industries, especially on the production of certain types of capital goods, lends further force to an argument of this type. I am aware that the Second Five Year Plan has also provided that there will be an expansion in consumption, but I have no doubt—and I think the House will agree with me—that the greater emphasis on capital goods will result in at least a temporary shortage in consumption goods and this may lead to further inflationary pressure.

To a certain extent such pressure has already been felt. The recent rise in prices is a kind of warning of the kind of situation that may develop, unless we are careful from the very beginning. Therefore, I would say that this measure of the Government, in so far as I can understand it—I am not an expert in financial matters, and I only speak as one who is interested in economic problems—has a two-fold aim. On the one hand, to increase the capacity of the

Reserve Bank for creating money by note issue and on the other hand, to put restrictions on the creation of credit by private banks.

The first aim is intended to ensure that the money that is required for the economic development of the country will not be lacking. The second is to see that unregulated creation of credit by private scheduled banks will not create a situation whereby inflationary pressures would become too great. To that extent, everybody would be agreed that a Bill of this type is unavoidable.

I have, however, a few questions to ask of the hon. the Finance Minister, and I have no doubt he will be able to meet the doubts which I have in my mind. My first doubt is whether there is not an undue measure of fear about these inflationary pressures. In the Second Plan, there is an uncovered gap of Rs. 400 crores, and there is also a proposal to have Rs. 1200 crores of deficit financing, and so we may say that deficit financing would be of the order of Rs. 1600 crores, because after all the uncovered portion has to be met somehow or the other. I do not know whether sufficient credit has been taken of a possible adverse trade balance which is bound to develop during the first two or three years of the Second Five Year Plan. We are going to industrialise on a fairly heavy scale, and as we import machinery on a large scale, an adverse balance of trade is bound to develop. This adverse balance of trade will, to a certain extent, act as a check against any inflationary pressures. Then, again, there is the question of production of foodgrains and other materials within the country. Our economy is an expending economy at the moment, and I think that by the end of the first year of the Second Plan or some time during the second year of the Second Plan, many of the measures which were undertaken during the First Plan will start yielding results. Many of the major irrigation projects will give full dividends, and the production of foodgrains in the country is bound to go up. As the production of foodgrains goes up within the country, it will again be a check on inflationary pressures. Also, some of the industries which were established during the First Plan will start yielding results.

From this point of view, I would also like the hon. Finance Minister to con-

sider whether the pattern of deficit financing which has been adopted in the Second Five Year Plan is sound or may require some modification. To my mind, it appears that the decision to put the maximum amount of deficit financing in the first year of the Second Five Year Plan is not appropriate. Perhaps it would be a wiser thing to put the maximum amount in the second year of the Second Five Year Plan because by that time the factors which I have mentioned just now will have come into operation. There will be more production of foodgrains within the country. Some of the result of industrialisation during the First Five Year Plan will begin to be felt and as there will be a larger volume of commodities of every type in the country, a larger dose of deficit financing in the Second year of the Second Five Year Plan may prove a more salutary measure than the decision to have the largest dose in the first year.

There is another reason why I am a little apprehensive of having the biggest dose of deficit finance in the first year of the Second Five Year Plan. If once the inflationary process starts, if once there is any disturbance in the psychology of the market, the results are difficult to foresee. If, therefore, in the first year of the Second Plan, we proceed a little more cautiously and have the biggest dose in the second year and perhaps a little less in the third, and then start tightening up and reduce the deficit financing, you will have three years, the third, fourth and the fifth of the Second Plan both to watch and to take such remedial measures as may be necessary. This is a suggestion which I would like the hon. Finance Minister to consider. I am mentioning it here because I think it has a definite relevance to the proposal he has made for currency expansion by doing away with the ratio between the gold bullion, gold coins and the securities and the actual issue of currency in the country.

Another question that I would place before him is this. This dilemma before the country is as follows. If on the one hand you follow a tight-money policy, you control the inflation but you retard the development of the country. At the present stage, a certain amount of risk will have to be taken. We are taking that risk consciously but at the same time we have to measure the amount of that risk. If we follow a cheap money policy, production will be



[Prof. Humayun Kabir.] encouraged and there will be an expansion in every kind of industrial activity but we have to be very careful that this expansion does not go beyond certain permissible limits and that is why I suppose the Government propose that the Reserve Bank should exercise a very strict control on the creation of credit by banks. They want to reserve the power of creating fresh credits almost entirely to the Reserve Bank but this also is a question which requires further consideration.

Here I would like the hon. Finance Minister also to keep in mind the pattern of credit creation in our country and in other countries of the world. In our country on the whole—certainly till before 1939 and, I think it is true even today—more credit is created by note issue than through bank operations. But in many of the advanced industrial countries of the world the banks create far more credit than is done by issue of notes. I am told that in certain countries the ratio is as much as 1 to 2½. The credit created by the banks is sometimes 2½ times as much as the credit created by the operation of note issue. I do not for the moment suggest that in our country we can have any ratio like that but would it not be proper, in view of the tendencies which have been developing over the last 15 or 20 years, to accept at least a parity between the two types of credit creation? I believe that today the credit created by the banks is roughly of the order of 75 per cent. of the credit which is created through the issue of currency. If that is so and if from less than half it has come to about 75 per cent. in the course of the last 10—12 years, and in view of the expansion in economy which has taken place, should we not at least canvass the possibility that the banks may be given facilities of creating credit at least of an amount equal to the credit which is created by the issue of notes?

Another question I have to ask the hon. Minister is that with all these measures, will the indirect control be adequate? The control which the Reserve Bank will now be exercising on the creation of credit by banks will be indirect by raising rates whenever the Reserve Bank so decides. I know that in certain cases even positive directions have been given—for example when recently there was an inflationary tendency and a rise of prices, I believe

the Reserve Bank had asked the banks not to issue credit for purchase of foodgrains, groundnuts and certain.....

AN HON. MEMBER : For paddy.

PROF. HUMAYUN KABIR:.... specified commodities. Therefore directions are sometimes given, but would it not be necessary for Government to have a clear policy in this matter? But in deciding that clear policy, I would suggest that the possibility of allowing the banks to create more credit than they have done till now should be kept in mind and in the place of the 75 per cent. which has been the share of the banks, perhaps parity with the Reserve Bank may be allowed.

Now if these doubts and questions which I have raised have any validity, the question of what kind of reserves should be held in the Reserve Bank to maintain the value of the notes issued becomes very relevant. I find that in 1938-39 the total issue of notes was Rs. 210 crores and only about Rs. 182 crores of notes were in circulation. In other words, when the Reserve Bank Act was passed and when it was laid down that there will always be Rs. 40 crores of bullion, the actual note issue was only for about Rs. 200 crores. In other words even though the Act at that time provided that the reserves in the banks may be 40 per cent. counting bullion, gold coins and all kinds of foreign securities and foreign securities, in fact, what happened was that the bullion itself covered almost the entire amount which was required to give protection to the currency. That perhaps was very conservative financing and I certainly agree with the hon. Finance Minister that that condition has to be relaxed. But do we have to go to the other extreme? In view of certain observations I made earlier deficit financing may not be of the order of Rs. 1600 crores it may be very much less. It is Rs. 1600 crores no doubt on paper, but in view of the adverse trade balance, in view of the increased production of foodgrains and other commodities, it is very likely that the actual deficit will be much lower. An Economist, for whose opinion I have a great deal of respect, estimated—this is of course an estimate and nobody can be absolutely sure of the figures but this Economist estimated—that the actual deficit financing for the Second Plan may be of the order of about Rs. 700 crores. If the actual deficit financing

in the Second Plan is of the order of only Rs. 700 crores and we have a note issue of about Rs. 1500 crores today, I don't think that there is any reason to go very much beyond the figure which my hon. friend Dr. Kunzru had suggested. If the formula which he has proposed is accepted, even then, the Reserve Bank would have the power to issue currency to the extent of about Rs. 2,000 or may be Rs. 2100 crores. This would adequately meet the requirements of the country and at the same time not leave our currency to any of the vagaries of the market place.

I think this is a factor which has to be very carefully considered by the hon. Finance Minister because in a sense the whole plan as we are shaping it, will depend upon confidence. I agree entirely with my friend Diwan Chaman Lal when he said that if you are creating assets, if you are creating industries, if you are creating physical assets, they are also considerations which should be taken into account in deciding what amount of money may be in circulation. Certainly so, but I don't think that they can be used in quite the same manner as the reserve which is necessary with the banks to give confidence both to those who deal with banks and also with foreign countries with which we have to deal. I think he will agree and I am sure the hon. Finance Minister will agree that at the present stage of our development when we are undertaking these very vast programmes of expansion, we should do nothing which may, in any way, shake the confidence of any foreign country or any foreign national in the stability, endurance and the strength of the Indian currency. I have travelled fairly widely and fairly often and I have been very happy to find that our currency is a very strong currency in many areas of the world. In certain parts of the Middle East I have found that they prefer our rupee to the pound Sterling and sometimes you get a little premium for the Indian rupee as opposed to Sterling. I am of course talking of very small transactions because as a traveller I had to change small travellers' cheques. But nevertheless I found that there was general confidence in the rupee. I believe in a country like Iran the Indian rupee is regarded either as a legal tender or almost as a legal tender. If that is the position, we should do nothing whatever which can in any way shake the confidence of the international

market and other countries in the stability and the strength of our rupee. From that point of view, I would ask the hon. Finance Minister to consider whether he should altogether sever the connection between certain assets which he holds and the currency which is issued from time to time. 40 per cent. may be too great and it may be necessary to relax that. Reduce it to perhaps 33 1/3 per cent. or may be 25 per cent. or may be even a figure lower than that. Nevertheless, unless there is some relation between the currency which is issued and the assets which are in the Reserve Bank, a very very difficult situation may be created. I know that the Reserve Bank is served by very competent experts and I know that the Government of India are very cautious, but nevertheless when this great expansion programme is going on, there will always be a temptation for the Government of India perhaps to exceed by a little what they have first regarded as a safe margin. And if the safe margin is continually pared down there is very real risk that a situation may arise when we may be in financial difficulties. I would, therefore, request the hon. the Finance Minister to consider whether it is not possible for him to determine some ratio—whatever that ratio may be—in this respect. I entirely agree with him that uncontrolled creation of credit by the private banks ought to be avoided. But I would also plead with him that uncontrolled creation of credit through the issue of notes is equally dangerous. And so I submit that nothing should be done which may place that temptation before the Government.

I want to make one suggestion before sitting down. Since the whole future of the Second Five Year Plan and therefore the future of the country depends upon a stable and progressive economy, on a dynamic economy which is expanding all the time, but expanding on healthy lines and increasing in strength would it not be desirable to have some very high power committee—not a large one—may be a committee of about seven having a representative of the Reserve Bank, one representative of the scheduled banks, one each from organised industry, management and labour, and perhaps two representatives from Parliament—one from each House? Would it not be desirable to have a body like that to advise Government and sometimes to advise the

[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.

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.

SHRI 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.

#### 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