committed horrible deeds, but still their intention was to serve their own people. The leadership which has been manifested by the leaders of the hostile Nagas should not be allowed to be frittered away, but should be put to the use of the Naga people and of the Indian State.

I would also agree that none in this House would suggest that any solution should be found outside the Constitution of India or outside the Union of India. Any solution must be within the Union of India and the Naga people also should be made an integral part of the Indian Union. I think in that process, the hostile leaders also should be made to co-operate. In this regard, I would like to draw the attention of this House and the hon. Home Minister to what happened in Ireland. De Valera, I think, was put under several charges and capital punishment also was passed against him or something like that. But still, he become the Prime Minister of Ireland. I expect that simply because the hostile leaders have committed some horrible deeds of violence, that should not be any bar to offering clemency to them and making them useful citizens of India helping in the integration of the Naga people with the Indian Union.

Shri Hem Barua: May I say a few words?

Mr. Deputy-Speaker: There is no time. The question is:

"That the Bill be passed".

The motion was adopted.

RESOLUTION *RE*: RESERVE BANK OF INDIA (AMENDMENT) ORDINANCE AND RESERVE BANK OF INDIA (SECOND AMENDMENT) BILL

Mr. Deputy-Speaker: The House will now resume further discussion on Shri Naushir Bharucha's resolution regarding disapproval of Reserve Bank of India (Amendment) Ordinance and the Reserve Bank of India (Second Amendment) Bill, 1957. Out of 4 hours allotted for both, 2 hours and 21 minutes have already been availed of leaving a balance of 1 hour and 39 minutes.

Shri T. K. Chaudhuri may continue his speech.

Shri T. K. Chaudhuri (Berhampore): Mr. Deputy-Speaker, the other day I stopped just at the point when I was elaborating the arguments which impelled me to oppose this Bill and to support the resolution of our esteemed friend, Shri Bharucha seeking to oppose the ordinance on which the Bill before us is actually based.

15.28 hrs.

[PANDIT THAKUR DAS BHARGAVA *in the Chair*]

I am opposed to the ordinance and to the proposed Bill on three principal grounds. Firstly, I am opposed to it by reason of the manner of the passing of the ordinance, the manner in which the question of a major economic policy, financial and monetary policy, was sought to be rushed through by taking advantage of the ordinance-making powers of the President, only ten days to go before the Parliament would meet. Somehow or other, Government have sought to make out that this is not really a Bill of major economic consequence for the stability of our currency, either for its internal value or for its external value, and that although we might slash down the foreign exchange reserves, in the Issue Department of the Reserve Bank we shall be fully able to maintain both the internal and the external value of our currency. But we have to take into consideration the fact that only a year back, this Parliament in its wisdom fixed the total gold and foreign exchange resources held in the Issue Department of the Bank at

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Rs. 515 crores, with some fluctuation allowed so far as the foreign exchange holdings were concerned, within limits of Rs. 100 crores. Therefore, the Bank was never permitted to bring down the holdings to less than Rs. 300 crores in foreign reserves. Now we are heavily slashing down the foreign exchange holdings in the Issue Department of the Bank by about Rs. 200 crores and the Government would ask us to believe that this is really no serious measure.

The way in which they have proceeded in passing this ordinance had all the appearance of a panic measure. It was said by the Principal Secretary to the Finance Department immediately after the ordinance was passed that the foreign exchange holdings in the Issue Department of the Bank had come down to Rs. 328 crores and with our weekly withdrawals of Rs. 8 crores per week. They had therefore to do something and that was why the ordinance was passed. But we have also to take into consideration the fact that within 10 days, the Parliament was meeting. If the measure was so very necessary, why could not the Government wait for one week more?

I had already said about the timing of this ordinance: I need not go over the whole ground here. I must say that so far as the manner of the passing of the ordinance or the question of its timing are concerned, these are of secondary importance. I am opposed to this Bill and to its provisions really because I am fundamentally opposed to the recent trend of economic policies of the Government.

I said the other day that the way the Government has used the fiduciary powers, the almost unlimited fiduciary powers, entrusted in their hands since last year has left little hope that they will employ these powers with wisdom and with any foresight. Already high inflationary pressures are at work. The extent of deficit financing, although we might not call it staggering, is already very large and there is every indication and apprehension that it will go on increasing.

What are we going to do about it? I referred the other day about profit inflation, profit inflation deliberately created in the interests of the capitalists. I might refer the House to the lessons of the recent analysis of the Reserve Bank of India on the finances of 750 companies for the year 1955. It seems from the conclusions drawn from that analysis that the year 1955 was almost a boom year for most of the companies and this was how the First Plan took effect. I might cite some figures here. Most of the principal industries recorded a rise in 1955 in the rate of dividend, the companies as a whole making the highest distribution of Rs. 32 crores in 1955, compared with Rs. 29 crores in the previous year. The average rate of dividend also shows a remarkable rate of rise and we find that some of the companies have distributed dividend as high as 9 per cent and 10 per cent. This is from an analysis carried on under the auspices of the Reserve Bank of India.

At the same time, so far as the level of prices is concerned, we find from the Reserve Bank report published last June that the price situation has continued to cause concern. The general index of wholesale prices, with 1952-53 as the base year rose further by 8·3 per cent between June 1956 and June 1957 on the top of a rise of 13 per cent in 1955-56. The average increase for 1955-56 was higher than 1956-57 by 12 per cent. Almost 25 per cent rise has taken place in the two years 1955 and 1956. We know that in 1957 the prices are still continuing rising. The working class consumer price index also shows a similar rise. The report of the Reserve Bank says that in the financial year 1956-57 the increase was 11 per cent higher than in 1955-56.

On the one hand, we are seeing the effects of this inflation, which is telling heavily on the living standards of the working classes. Their day-to-day living costs are rising. At the same time, we find that the major companies are earning a rising rate of profits. It has been made very plain by the recent statements of Government spokesmen, both in this country and abroad, that it is really in the interests of the capitalist class that the Plan is being worked. I refer to certain speeches of the Government spokesmen, particularly to a speech of the Governor of the Reserve Bank, delivered in California.

We know that the three-pronged mission which we have sent to the United States has now come back. The missions were: the governmental mission of our Finance Minister, the mission of industrialists led by Mr. G. D. Birla and the other industrial mission or delegation which went to California. Since their return, though the Finance Minister has kept mum, members of the two other missions have started saying that we have already created a wonderful climate, so far as foreign resources from the United States are concerned. We must now follow up the same by creating a similar climate in this country also. It all now depends upon how they follow up the promise they held out to us. The capitalists want still more advantages, more and more benefits by way of tax concessions, by way of profit inflation and we know what the result would be.

We know that our foreign exchange difficulties have been caused by the demands made upon them mainly by the private sector of our economy or the capitalists. We have also seen how the missions that went abroad have fared. Up till now, so far as our public sector is concerned, so far as our Government is concerned, they have not got any specific promises. They do not know as yet what loans or what resources would be available. So far as the private sector is concerned, however they have already received ample help. We know about the TISCO loan. They have got about 17½ million dollars from the World Bank and they have been able to secure a loan of about 14½ million dollars from the private bankers in the United States. I think the National Rayons have obtained a loan of 2½ million dollars. Mr. Birla said the other day that the representatives of the pharmaceutical industries, cement industries and other big industries that went with his mission, were having negotiations and that they had entered into "semi-final commitments" or they had obtained "semi-final commitments". Another cry is raised as I just now said that they want that the climate that was created in the United States by the visit of the Finance Minister and by the joint visit of all these gentlemen should be followed up here by further action on the part of the Government. In view of all these, although strong support to this Bill has been voiced from this side of the House, particularly by my communist friends and by some of our Praja socialist friends, I have not been able to persuade myself to accord my support to this measure.

The wonder of wonders nowadays has been the so-called theoretical or scientific arguments that have been trotted out by the Government in support of this measure. Our Finance Minister has treated us to a quotation from John Maynard Keynes. If I am right, that book of John Maynard Keynes from which he was quoting was written as early as 1930 and we are in the year of grace 1957. That was the hey-day of the theory of monetary management. But, in the course of these 27 years, many things have happened. If I may be permitted to refer the Finance Minister to a lengthy quotation from a speech recently delivered by Mr. Roger Auboin, General Manager of the Bank

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for International Settlements before the Institute of Bankers in London, I hope I shall be able to demonstrate that even experts or economic scientists are no longer living in the dream world of Keynes while they thought that they could abolish all monetary reserves.

Mr. Roger Auboin says:

> "Once it is understood that monetary policy must not be conceived and carried out in an arbitrary fashion and that, with or without a gold standard, the conduct of a country's domestic financial affairs, on the one hand, and the management of its foreign exchange reserves and its balance-of-payments position, on the other, cannot be regarded as two separate self-contained questions, it becomes clear that an essential problem facing those responsible for shaping and execution of monetary policy is the problem of liquidity, by which is meant the relationship between commitments assumed and available reserves. Since the bank of issue is necessarily the central source of liquidity within the country and is at the same time responsible for the reserves of liquid resources in relation to other countries, it can be said to be the focal point of the whole credit system."

The only point to be remembered in this connection is that our country has not that kind of a developed monetary economy where only bank credit rules the day. The currency or note issue also plays a part. There are quite a number of things to be said in favour of a conservative policy of a solid backing behind the new issue. The only argument that can be used in favour of slashing down the holding of foreign exchange reserves or gold reserves is that we are immobilising all our available liquid reserves. That is the only argument, if I might say, very humbly, for flexibility. But if the Government, by a simple amendment of the Reserve Bank of India Act, suitably change this proviso to section 37 of the Reserve Bank of India Act, they can get all the flexibility that they want. But, what they are doing at present is, they are practically abolishing all reserve requirements for all practical purposes. Because, taking sections 33 and 37 together, when this proviso is abolished, this amount of Rs. 85 crores of foreign exchange reserves which are required to be held, has got no meaning. Because, Government can permit the Reserve Bank to bring down the foreign exchange reserves below the limit of Rs. 85 crores. This limit of Rs. 85 crores as envisaged now has, for all practical purposes, no meaning.

I might also read out here from the writing of another International financial expert, who is now the Economic Adviser to the Bank of Belgium which operates in Belgian Congo. He has uttered a very sound word of caution about financing capital developments in under-developed countries which, I hope, our Government will remember. Here this gentleman Mr. L. C. Ameye says:

> "....some Governments have had recourse to practices which are, perhaps, less happy—(he is referring to undeveloped countries, backward countries which want to develop themselves speedily—using monetary expansion as the means for financing capital development. There is, of course, a great temptation for a government, desirous of giving a strong push in aid of an industrialisation programme, to use the easiest—and apparently the cheapest—way of finding the money. This is the path of

recourse to central banks and of monetary inflation. Nowadays we all know that such a policy, if you cannot hedge it round with unsurmountable barriers of exchange control and import regulation, leads inevitably to an unbalanced trade account, rising prices, currency depreciation and the rest; so that the finance of industrialisation by monetary expansion not only comes quickly to its limit but also brings in its train a number of very serious drawbacks, if it goes beyond what has been called 'the gentle rise of prices'."

I submit that inflationary pressures here have brought about already an alarming situation and we are no longer within the limits of gentle rise of prices. The Finance Minister has said that we must exercise vigilance. It is no longer a question of exercising vigilance. Whatever vigilance we exercised in the past, we have found in practice that that vigilance has been of no avail and that the means, either for controlling the internal value of our currency or the volume of credit, that are open to us and to the Reserve Bank have been of no avail. We learnt the other day that even with regard to advances against foodgrains, the Reserve Bank could not do very much, because the economy of our country is composed of two parts. The larger part is beyond the pale of organised monetary economy or banking economy. Under the circumstances, we must exercise greater vigilance, we must exercise greater caution so far as the backing behind our note issue is concerned, because note issue and currency are potent factors in the total monetary set-up in the country, and the way we are going ahead with the policy of expansion, the policy of deficit financing and the abolition of any solid backing behind our currency issue will simply spell disaster. I hope the Government will yet try to review the position and adopt suitable measures.

Kumari M. Vedakumari (Eluru): We are now realising the position the country is facing, especially the foreign exchange shortage.

We have drawn up the Plan firstly for the economic development of our country, and secondly to pave the way for a socialistic society. This economic development is achieved by raising the national income, through a rise in the *per capita* output so that every consumer will be in a position to consume more.

In the raising of resources we always think of internal as well as external resources. As far as the internal resources are concerned, no problem has arisen so far, though there is a very great opinion against the rise in internal prices.

So far as external resources are concerned, the planners should have known the amount the country needs and the amount we can get from other countries. I cannot say that the Plan is very ambitious, but we must have been a bit more conservative and cautious in drawing up the Plan.

The First Plan has been considered almost successful. We never had the trouble of dealing with foreign exchange shortage in spite of deficit financing, but we faced a decline in the prices of agricultural products and its success was due to other fortuitous circumstances. The circumstances have changed in the Second Plan. So, we should have had some notion as to what amount we want, especially from other countries, and what amount we can get from other countries. We are facing trouble, and our Finance Minister has made global perambulations also for raising capital.

Judging from the low level of consumption and the national income, some of the targets of the Plan are

[Kumari M. Vedakumari]

not so bad, but coming to the circumstances, the real conditions, the nature of our problem and the nature of the country, we have to deal with it in a different way. It would have been far better if the Plan framers had provided a margin for a rise in prices and other factors.

To this over-stretched economy, a bolt from the blue in the form of demands for defence, had added more difficulties.

Too much reliance on doctrinal theories has landed us in this trouble. After all, life is not guided by statistics alone. There are three kinds of lies—lies, damned lies and statistics. Our so-called grandiose second Five Year Plan is based on statistics alone. I think, that is the whole villain of the drama.

Coming to balance of payments, apart from political implications, it is purely a problem of supply and demand. If you are exporting at the same rate to the countries from which you are importing, there will be no problem. We need more capital and consumer goods, but the import policy of the Government in recent years has certainly not been beyond criticism. I will read some of the statistics.

	Plant and machinery	Raw materials	Consumer goods
	Rs.	Rs.	Rs.
January-July, 1955 ...	45 crores	177 crores	111 crores
January-July, 1956 ...	67 ,,	229 ,,	99 ,,
January-April, 1957 ...	66 ,,	200 ,,	58 ,,

The Government has allowed a large volume of consumer goods to flow into our economy and eat away our precious foreign exchange. If they had applied the brake two years ago, the problem would not be so acute today. It is in the nature of an expanding economy and the difficulty about foreign exchange cannot be defended on any other account except that the planners were in an unplanned and relaxed mood. Had they been more realistic and applied the brakes a couple of years ago, the problem would be easier to tackle today. They allowed import of goods which were not at all important, and are now applying the brakes on imports. We have banned the import of some of the essential goods like drugs, blades etc. In my house my brother and father shave every day, and it is their experience, every time they shave, they to undergo the skin peeling operation. By allowing large-scale consumer goods to be imported earlier and now applying the brakes on essential goods I think we are doing a great injustice to the country.

Hon. Member Shri Bharucha has moved a resolution disapproving of the policy of Government, but he has also raised the question as to how we are going to fill the gap. Some people have also raised the doubt that the value of the rupee fall, that we cannot restore the confidence of other countries in the rupee. I think that by honouring our commitments we can restore the value of the rupee more.

The five-pronged drive of the Government to correct this imbalance has been realistic as it has been framed in such a way that the expansion of our economy is allowed and unemployment is eliminated.

As far as the quota system of imports is concerned, I think importers can live comfortably. It will be more useful if manufacturers divert their demand to indigenous materials. From German history we find how stringent exchange control and bilateral agreements have helped them to improve their condition. Only the system of stringent exchange control and rapid rise in productivity will save the country. After all, we are in a developing condition.

So far as deferred payments are concerned, we, especially, from the Congress, and some others also in the country are very hopeful about it. But one thing that I would like to point out in this connection is that we must be in a position to make all these payments, when they become due, for, we are only postponing the evil by resorting to deferred payments.

16 hrs.

In order to have adequate gold security, I would urge Government to inaugurate a drive with a view to inducing the people to give some gold to Government and thus make our rupee more valuable. It was said by somebody that nearly Rs. 15000 crores worth of unproductive gold is there in India. If only the wealthy men and women of India contribute a bit of their gold, I think that would certainly bolster up the value of the rupee.

Shri D. C. Sharma (Gurdaspur): Why does the hon. Member not set an example?

Kumari M. Vedakumari: Some hon. Members expressed the doubt that if the bullion reserves are kept at Rs. 115 crores, it may destroy the confidence in the value of the rupee. But I think this fear is only the result of a long habit of having large reserves in our country. In my opinion, that is not really a thing of which we should be afraid. A minimum level of Rs. 115 crores is quite consistent with the levels maintained by the other countries in the world. That is why I am not of the opinion that the value of the rupee will be destroyed if we brought down the minimum level of our reserves.

Even though the situation is grave, I feel that by raising the productivity and by keeping the reserves at Rs. 115 crores at the minimum, and also by adopting stringent measures of exchange control, we shall be able to help the country to regain its position and also develop further.

In spite of the fact that the situation is very bad, we can say as Napoleon has said 'The battle is lost, but there is time to win another'. Further, there are no roses without thorns. So, with this hope, I hope we shall march forward; we shall march with hope and guidance and confidence not only in the rupee but in every deed that we do.

With these words, I give my full support to Government and to this Bill.

STATEMENT *RE*: ACCIDENT TO BOMBAY-CALCUTTA MAIL ON 23RD NOVEMBER, 1957

Mr. Chairman: The Minister of Railways would make a statement now.

The Minister of Railways (Shri Jagjivan Ram): I wanted to take the earliest opportunity to make this statement. But as the plane arrived after 12-30 P.M. I could not make the statement then.

It is with deep regret that I have to inform the House that there has been a serious accident to 1 Down Bombay-Calcutta Mail on the Central Railway. At about 22·45 hours on 23rd November, 1957, this train derailed between Padali and Asvali stations on the Bhusaval-Igatpuri section. As a result, the engine and the following eight bogies were derailed, out of which four (third to sixth) capsized, the last three bogies however, remained on the rails. Nine persons lost their lives and fifty-one were injured, most of whom fortunately have received minor injuries.