

# YIP

**CHAVAN**

SELECTED SPEECHES IN PARLIAMENT



EDITOR : R. D. PRADHAN

# Y. B. CHAVAN

SELECTED SPEECHES  
IN PARLIAMENT

VOLUME III

FIANANCE MINISTER  
(1970-1974)

Editor  
R. D. Pradhan

AMEYA PRAKASHAN

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## FOREWORD

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It is with a sense of fulfillment that I write this Foreword to the 3rd and 4th volumes of late Shri Y.B. Chavan's speeches in Parliament. These volumes contain Shri Chavan's speeches as the Finance Minister of India, as the Minister of External Affairs and also as the Leader of Opposition in Lok Sabha. The publication of these volumes marks the conclusion of the project undertaken by the Yashwantrao Chavan Pratishthan to publish selected speeches of late Shri Y. B. Chavan in the Parliament. I must thank Shri R.D.Pradhan who has edited all the four volumes, for his hard work, tenacity and perspicacity in going through all the speeches, selecting the important ones and editing them for the benefit of readers and scholars. I am sure that these volumes will prove to be of invaluable assistance to any serious student of free India's political history.

Shri. Y. B. Chavan was a bright star in the firmament of Indian politics. His life is the story of the rise of a poor boy in Deorashtra to Chief Minister of Maharashtra and then to the high office of Deputy Prime Minister of India. It is an inspiring saga which is all the more remarkable because he himself was the architect of his overarching achievement. His political philosophy had evolved in the crucible of freedom movement. Throughout his life he cherished the ideals of democracy, secularism and socialism. A firm believer in the empowerment of the common people, he ushered in democratic decentralisation

in Maharashtra. His style of governance was characterised by a certain grace, sincere effort to understand others' view points and gentle persuasion. He liked to govern by consensus rather than diktat. Long years in office and positions of power did not blunt his literary sensibilities nor corrode the capacity for spontaneous response to the conditions and concerns of the poor. He could be assertive in the matter of political convictions but he always tried to accommodate differing points of view and to carry all sections of people with him. He had a sense of being a part of independent India's unfolding history and by his steady, dedicated work, inspired by a vision of strong India, he has earned for himself an important place in the history of Maharashtra and India. I am sure that these various facets of his personality will shine through the speeches in these volumes, though they were often made in response to concerns and crisis of those particular times.

With these words. I offer these volumes to the people, the Parliamentarians, scholars and future historians.

**Sharad Pawar**  
President  
Y.B. Chavan Pratishthan

## EDITORIAL NOTE

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This publication is part of a project undertaken by the. Y.B.Chavan Pratishthan, Mumbai, to publish selected speeches of Shri. Y.B.Chavan in the Parliament. Two Volumes of speeches covering Chavan's tenure as the Defence Minister of India and as the Union Home Minister were published in Volumes I and II. The present Volume III covers Chavan's tenure as the Finance Minister of India, between June 26, 1970 to October 11, 1974.

Y.B.Chavan assumed office of the Finance Minister at a difficult period for India. In June 1970, there were strong inflationary trends pushing prices of essential commodities to high levels. The situation was further aggravated during the next two years because of failure of the monsoon. For three successive years acute drought conditions afflicted a large part of the country. A million refugees crossed over from the East Pakistan to India and providing for their succour and relief further strained the Indian economy.

Sections 1 and 2 of this Volume cover a selection of speeches dealing with complicated economic situation and various measures that the Finance Minister undertook to restore the economy to healthy growth. Chavan's speeches show his deep understanding about the Indian economy and also his political savvy to put across his proposals to the Parliament. During his tenure, Chavan initiated measures of far-reaching significance to bring the entire field of insurance under public ownership. He also gave impetus to make the

public sector banking a truly effective instrument of change and to re-orient the same towards the needs of the smallman and the weaker sections of the society. Likewise the concept of development banking was initiated and vigorously implemented. He undertook several measures to place the working of the management of the nationalised banks as well as the trade union movement in the banking sector on a proper footing.

Chavan's speeches dealing with the banking and the general insurance provide very useful reference material. (Sections 3 and 4). Likewise his two speeches dealing with the office of the Comptroller and Auditor General of India laying down conditions of service, duties and powers are of historical significance for that high constitutional office. (Section 5). During the latter part of his tenure Chavan dealt with several taxation laws and undertook measures for maximum mobilisation of resources for defence efforts. He had also to deal with the crisis arising out of the United States decision to delink US dollar from the gold standard. These speeches and especially the one about his intervention in the debate on the 'No Confidence Motion' moved by the Opposition against Smt. Indira Gandhi's Government in July 1974, show Chavan at his politically best, as a debater and as a forceful defender of the Government. (Section 5)

As in the earlier Volumes, I have selected those



speeches which are of relevance and interest to the future. As far as possible, these have been reproduced with minimal editorial changes. However, as an Editor, I have taken the liberty to delete certain repetitive matters and long wordy duels that are part of Parliamentary debate. The selections have been compiled in different sections, each one under a subheading. I have also added brief Editorial Notes to each Section and also some Chapters to give a brief background and the context in which the debate took place.

January 1, 1999

**R.D. PRADHAN**

VOLUME - III

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## SECTION - 1

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### ECONOMIC AND FISCAL POLICY

#### EDITORIAL NOTE

When Y. B. Chavan assumed office of the Finance Minister in June 1970, there were already strong inflationary pressures leading to high level of price rise. The situation further aggravated during the next two years because of failure of monsoon for three successive years and acute drought spread over large part of the country.

The economic situation further deteriorated because of the tremendous financial burden that the Government of India had to bear to provide relief to over one million refugees from across the East Pakistan (now Bangla Desh) into West Bengal.

There were acute shortages of essential commodities especially foodgrains and pulses as well as cooking oil. The Indian economy was already straining under the burden when suddenly, the Petroleum Producing Countries formed a cartel and raised a price of crude oil. Imports became costlier and the Government of India faced a critical situation because of foreign exchange burden.

Four speeches included in this Section bring out Y. B. Chavan's own perception of the Indian economy fiscal situation and issues connected therewith. These also elaborate the various measures taken by the Finance Minister to deal with the difficult economic situation.



## SECTION-1

## CHAPTER 1

## FINANCE BILL 1971

*Reply to debate, Lok Sabha, 27 March 1971*

Mr. Deputy-Speaker, we have had for the last 5-6 hours very useful and constructive speeches made on the budget speech I delivered here. Even from the unexpected corner of the Congress (O), their leader, Shri, C. C. Desai, spoke not merely in a constructive language, but I must say, in very admirable language, and very humble language paying tributes to the leader of our party, Shrimati Indira Gandhi. That only shows the some sort of realism has dawned on all political parties after the elections. It is a good thing. Even the spokesman of the CPI (M), though calling it a capitalist budget, did actually concede some of the points made in it, though he did criticize some other aspects of it. The Swatantra member called it a swatantra budget and went on criticising as if it was a communist budget. So, it only showed that the approach indicates certain new commitments. As it is a vote on account, it continues practically the same provisions except for the arrangements that we have made for the States. For the next year we have added the Central assistance to the State Governments on the basis of the discussions that we had with them. Except that practically it is on the same basis and mostly the taxes are on the same basis. In the light of the new and fresh mandate of the people I have said in the Budget speech that we would like to reorient our approaches in certain directions, reassess the situation and reformulate policies in certain respects. This is the

basic thing, and in the light of this, the commitments and the mandate, we have given some sort of a review of the economic situation as it exists today. We have indicated the strength of the economy and also the weakness of the economy. We have not tried to conceal the weakness. Our efforts in the years to come will be to further strengthen the strong points and to remove the weakness in economy. Therefore, we have mentioned problems of agriculture and industry, particularly, the problem of prices, the policies of the financial institutions etc. You will see that we have indicated certain weaknesses also. We have not said that everything is well.

When discussing the question of agriculture, we have said that our basic weakness today is in the area of the commercial crops, particularly cotton and oilseeds. Some member did ask me the question as to what exactly we propose to do about it. What we can do in this matter is to apply the results of the scientific research made in the agricultural research centers and introduce new varieties of cotton seeds and oilseeds. That is the most important thing that will have to be done. I can assure the Hon. House that in order to make these new efforts in the scientific field and apply the scientific methods for increasing the productivity of cotton and oilseeds, no financial difficulty will be pleaded. I have no doubt in this matter because it is in the agricultural field that we have to achieve the most important breakthrough.

Discussing the question of prices, Shri. Virendra Agarwal, who is a known writer on economic problems, said that I just tried to hide myself behind the explanation that the world prices were also rising. I did make mention about the trend of world prices, but it was not to defend the rise in prices in India. I merely indicated fact of the inflationary trends that are asserting themselves in the world economy, and naturally those trends are affecting us also, we being a part of the world economy.

In order to stabilize the prices, what has to be done? You cannot merely do one thing and say that you will stabilize the prices.

We will have to make an effort on both the fronts of demand and supply. In order to make the effort on the front of supply, wherever there are shortages of important raw materials needed for industrial production, we have tried to increase imports, as for example in cotton.

In the case of cotton there were two reasons. One was that there was a shortfall in production, and because of the shortfall in production there was a very unprecedented rise in prices. One of the Hon. Members from my own State, Shri. Deshmukh, made a reference to the decline in cotton prices. But there was unprecedented rise in December, 1970, so much so that there was such a scare in the industry. We had to take certain steps, because an artificial scare was created that there was going to be a severe shortage of raw cotton and there was fear of closure of mills and so on. So, there was rise in cotton prices and naturally Government had to step in with their fiscal and monetary powers to see that the prices were controlled. What I am suggesting is that in dealing with the price front the efforts have to be manifold. We have to make efforts in the field of production. We have to intensify efforts at production of commercial raw materials. At the same time we have to follow certain fiscal policies very vigilantly. There was larger credit supply during last one year and the Reserve Bank raised the rate of interest from 5 to 6 percent. Some persons referred to it as a political move. Later on it was found that it was having a healthy effect on the prices. We can see what effect production has on the level of prices. Take the typical example of foodgrains. There has been a rise in the production of wheat in the country. Some people say that there was a revolution in the production of wheat. Some people refer to it as a green revolution. Please do not use that word; there has not yet been a green revolution; we are yet to have a breakthrough in many sectors of agriculture. In the case of wheat I concede that there has been some sort of a revolution and it has had its effect on the price level. I do not want to burden the House with the figures that I have. There is a general trend of fall in the price of wheat. The general index of overall food cereals



has gone down as a result of the fall in the price of wheat.

Some members raised the question of rice. In some States the price of rice is somewhat high but compared to last year it is not high. In some States it is lower than last year.

I agree that in certain States they are not lower than what they were last year. Even then rice is available in the market. Of course, if there is shortage of rice in the market in the coming months it will have to be supplemented by imports. It can certainly be done. My main point is that if we want to attack the prices, the attack has to be many pronged.

I referred to this question in the last Lok Sabha and people may wonder whether it is not a hackneyed argument. I must say that we are taking necessary steps in this field and I have no doubt that these will have healthy impact on prices, so that if at all prices rise, they will be within accepted limits, that is, two or three percent. Really speaking, you cannot say that there will be no rise in prices in a developing economy; prices cannot be frozen. It would mean that the economy also would remain frozen.

I was trying to see things in their perspective. What is the perspective? Some Members like Piloo Mody say: you are talking in terms of abolishing poverty; what were you doing during the last 24 years? It is a very common place argument heard many times in the past while we were preparing for this war against poverty.

You cannot start a war against poverty without the necessary weapons for it. The necessary weapons for fighting the poverty is to create the necessary infrastructure in the country. That is exactly what we have done in the last 23 years. Our policy has not failed. Our policies have helped us to create the necessary infrastructure.

Now, it is a fashion for some Members to go on criticising the public sector. There are certainly some weakness and limitations in the public sector. We own them. But I would like to say that we

are going to be more active to see that these defects are removed, and removed very firmly and quickly. But there is no doubt that one of the new sources of strength in our economy is the very well laid out base by the public sector in the country. Whether they involve losses or profits to the country is different matter. There are a number of public sector enterprises which are earning profits. I admit there are certain important public sector units which are losing. But, at the same time, as far as foreign exchange earning is concerned, it is increasing from year to year though there may be certain losses. This is one of the most important weapons - I would call it a weapon - in the hands of the country, in the hands of the masses, in the hands of the common man, to fight the war against poverty. This is the most important thing that we have achieved. We have created a new class of technicians in the country. The wider and deeper base of education; and the technical education, for example, has given a new strength. We have built up a new base of agriculture in the country. A country like India has had agriculture as the sheet anchor of its economy from immemorial times, but it is only within the last 25 years that we can say that we have built a modern base for the growth of industrial economy in this country.

These are three important weapons in the hands of any country which wants to fight the war against poverty. Now, with readiness, with three weapons, with the base of modern agriculture, with the base of public sector and a well-trained, technically oriented personnel, I think we are now ready, we are poised to fight the war against poverty.

I was answering the question of Shri. Piloo Mody. He was asking me what exactly we have done in the last 23 years. I say we have been preparing ourselves to fight the war against poverty. I have no doubt that we will succeed in this task. I do not take a cynical view that he takes; he thinks everything is bad, everybody is bad; everything is going wrong.

Shri S. M. Krishna (Mandya): Except himself.

Shri Yashwantrao Chavan: Yes except himself; I am glad you have said it. That is the difficulty with some of these good people. They are good people, but they just do not see what exactly is wrong with them.

This is the perspective I am putting before the Hon. House. They say we have to emphasize the growth of the economy. Certainly we do stand for the growth of the economy. Who says we do not stand for the growth of the economy? The growth of economy does not come out of prayer merely. In order to have growth in the economy, we have to raise resources. You cannot say that you go on merely praying for the growth and "there will be growth." There was God who said "Let there be water," and there was water. I do not think there is any God to whom Shri Piloo Mody can pray, "Let there be growth" and who will see that there will be growth.

In order to have growth, we have to create resources, and certainly resources can be found out in different ways. Now, our problem certainly is that not only we want to have economic growth, we want to have growth so oriented that it can help us to attack the problem of unemployment which is our most important problem. I quite agree that Government cannot give jobs to everybody Government must create a dynamic economy so that jobs are created for the young, educated people. These are not controversial things. But for that matter certain efforts will have to be made: certain priorities will have to be fixed; certain new approaches will have to be adopted. This is exactly what we propose to do.

Some Hon. Members chose to attack the quantum of provision that we have indicated in my budget speech, viz. Rs. 50 crores for solving the problem of unemployment. It is not our claim that only by an investment of Rs. 50 crores we are going to remove unemployment. It will be very wrong to say so. It is merely a beginning, some sort of a pilot scheme or experiment. We are trying to approach the problem by creating productive rural development

work in some of the poverty pockets in different parts of the country and we are trying to see that we succeed in it. We will gain much experience out of it. Some Members said you are going to make a charity to somebody. No, it is not charity. Certainly those poverty pocket areas are untouched by developmental infrastructures that are necessary. Now we will provide those infrastructures there. For that certainly some educated people will be required.

Some Hon. Member said, we have tried to underplay the question of rural unemployment. It is quite the contrary. When we speak of the question of unemployment, really speaking in the major sector of our society, it is the young uneducated man who is before our eyes. This party is particularly grateful to the younger generation of this nation, because it is only with their support that we are here in this House in such numbers, and we shall not forget their problems. We shall always keep them in. Many efforts will have to be made and we have already made a beginning. We have introduced a certain new approach in that direction. Employment-oriented schemes have been introduced in certain educational institutions. Some engineers have been so trained that they can get immediate employment. Of course, we will have to re-examine the whole thing again after some time. Indeed, I was expecting certain specific suggestions in this regard. As far as the approach is concerned, we have a common approach, but I wanted certain specific suggestions. I would welcome such suggestions even now. Mr. Mody has certainly got some experience. I have nothing to do with his politics. His politics is defeated politics and I am not worried about it. But I do care for his experience in industry. He has got very good experience in farming also. I am glad he chose to enter politics, as a result of which he has come into contact with farming and he has made some good experiments. I want certain useful suggestions from him.

The question was raised about regional imbalances. It is a very important question. This has been recognised not only now. I think during the last two or three years, the Prime Minister herself

has taken deep interest in this matter. The Planning Commission also has tried to look at the question and in the plan itself this question has been dealt with. As a result of that, a new approach has been adopted in this matter. We have now certain criteria to decide which are the backward areas. Certain districts from each State have been selected and named as backward areas and special efforts have been made as far as industrialization is concerned. Certain incentives have been indicated.

Shri Piloo Mody: It is not working properly.

Shri Yashwantrao Chavan: That is going into the details. For that, we will have to seek the cooperation of the State Governments. I am talking about the new approach that has been adopted. In the case of certain financially needy States, some special arrangements have been made. I have mentioned certain figures in my speech. Nearly Rs. 175 crores were provided. Actually more than that was spent as a result of floods, scarcity conditions, etc. We have continued a tapering provision for the next year also. It is not that backward States are forgotten.

I will mention another aspect of regional imbalances. The financial institutions themselves have taken a new attitude in this matter. They have decided that in the case of backward areas they will give certain incentives to those who want to go and establish industries in those areas. So, there is a new approach to the question of regional imbalance.

At the same time, the States concerned must also take care of those regions which are backward. For instance, there seems to be a misunderstanding. The Hon. Lady Member said that I come from a rich State. In our State there is rich city called Bombay, but the State itself, is not rich. There are large pockets of backward areas which are steeped in poverty. So, the States concerned also have to look into this problem. I have no doubt the question of regional imbalance will naturally be solved. But, I do not say that it can be solved in a day or two. Some coordinated, continuous,

intensive efforts will have to be made for a decade or so, so that we can say that we have made some impact.

**Shri Piloo Mody:** What about minor irrigation?

**Shri Yashwantrao Chavan:** I have no detailed figures. I can say from my personal experience that in recent years, in the last two or three years, greater emphasis has been laid on minor irrigation, because major irrigation schemes take longer years for implementation. Shri C. C. Desai referred to the Narmada Project. He made a grievance of having referred the dispute to the tribunal. Really speaking, for a decade or so the Government of India pursued a policy of not referring the matter to the tribunal for two reasons; firstly, it is time-consuming and, secondly, it is not right that States should try to litigate against each other before a judicial forum. We certainly waited for a long time for the States themselves to come to an understanding. When that failed, we ultimately resorted to the tribunal so that we could at least get a solution. Shri Desai suggested that the issue should be withdrawn from the tribunal. I do appreciate and share his anxiety, the anxiety of Gujarat and also the anxiety of Madhya Pradesh.

**An Hon. Member:** And also Maharashtra.

Shri Yashwantrao Chavan: Maharashtra has only a marginal interest. I wish this dispute is settled as quickly as possible. But having referred the matter to a tribunal, it is not so simple a matter to withdraw the dispute from the tribunal; unless the States concerned themselves come to a concrete understanding and then make an appeal to the tribunal or the government. Then the position would be different. My only point is that major irrigation schemes sometimes do create problems. Therefore, the State Governments, the Central Governments and the Planning Commission have consistently laid emphasis on medium and minor irrigation schemes, more particularly minor irrigation schemes.

Pumping stations and tube-wells are some of the illustrations of minor irrigation. Huge amounts are invested on this particular

programme in practically all the States. So, it is not correct to say that minor irrigation is neglected. At last, that is not the approach of the Central Government or the Planning Commission. If the Hon. Member feels or faces any difficulty in any part of his constituency, he may let us know about it.

My Hon. friend, Shri Stephen made a grievance about the fact that the word "socialism" was not mentioned in the budget. I can assure him that even though the word "socialism" was not there, the content of socialism was there.

He is a valued colleague of mine and when he makes a point I should make a reference to it in my reply. I could see his point. The entire thrust of the budget speech is an attack on unemployment, attack on disparities in the society and prevention of concentration of economic wealth. I think that is socialism. Is it not? What matters is not the word 'socialism' but the content. Certainly, if it is necessary, we can use it two dozen times but what is really more important is the content of socialism and as I was covering the entire economic field I did not use that word. There was no other intention or motive behind it. Labels are no doubt important because some of these are symbolic words which characterise our approach to the problem. Therefore, I do not underestimate the importance of what he says. I merely tried to explain what I had in my mind when the speech was made. I have tried to make a reference to some of the general problems that were mentioned.

Some Hon. Member, perhaps, Mr. Stephen, made a reference to the Cochin shipyard. I have got certain facts. If he wants I can give details of it. But I do not want to take the time of the House. According to the present schedule of contract which has been entered into with some firm will be completed within five years from December, 1970 onwards. I think, the programme is going according to schedule. So far, about Rs. 2 crores have been spent. Certain preliminary work has been done. He feels that nothing is being done. Certain things are essential to do the work. For example, you have to have the network of roads and for that you

have to acquire land. You know how much time is taken in the land acquisition proceedings and all that. Those things are being done. I am glad he made a mention of it so that the Ministry concerned, the officers concerned, will be up on their toes to see that there is no relaxation in the work.

Some Hon. Members mentioned specific problems about their States and some of the political aspects. I do not think I should take note of those political aspects. I can only assure the Hon. Members that our commitments to the people are there and our determination to stand by our commitments is there. I know that the problems are complex and the solutions are not easy. But the only thing that we can say is that this Government will not spare any efforts to achieve those objectives. That is all I can say.





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## BUDGET (GENERAL) 1971-72

*Rajya Sabha, 29 March 1971*

Mr. Deputy Chairman, I am thankful to the Hon. Members who participated, in the debate and gave their views very frankly and constructively. I can understand their difficulties because this is a vote-on-account., Naturally. It does not give them more scope for going into detail as to what should be done in the, coming year. At the same time, we have indicated certain directions in which we propose to go. Particularly as a result of the mandate that we have received from the people. I think our Government is committed to certain major directions, though the word "socialism" is not exactly mentioned in the speech, mainly there are two things to be done. One is removing the disparity' in our economy and the other is the question of tackling the question of unemployment. These are really the directions in which we have to go. This is exactly what we mean by the slogan of abolition of poverty. I know that this cannot be done in a year, but if it has to be achieved quickly and in a reasonable time a new approach to the problem will be necessary. We have to review the whole economic situation and the measures we have taken so far and make the necessary reappraisal of our Plan and make a beginning in that direction. This is the basic approach. This is the perspective. And that perspective is indicated in the speech. I do not think there is any dispute on that, as far as I could see. Nobody has tried to dispute this direction.

I was looking forward to some specific, constructive suggestions. Unfortunately I did not get many. I was looking forward to some of the Progressive members to indicate in what direction we should go. But I must say that the speeches consisted mostly of cliches. They have certainly tried to mention certain points. If we go point by point, there are three or four points that have been discussed.

The first is the question of prices, and everybody has naturally tried to enlist the causes of the rise in prices. I do not think there is much difference among Hon. Members as to what are the factors which ultimately lead to the rise in prices. They have said that it is because of increase in the non-plan expenditure, more money supply, and particularly lack of industrial and agricultural production. These are mostly the reasons that are responsible basically for rise in prices in our country.

Sir, my speech deals with this aspect also very frankly. In that speech I have given certain reasons and certain steps that we have taken in this particular field. We have admitted that particularly in the field of agricultural production, the commercial crops which are essential raw materials for our industrial production, are suffering because of lack of productivity. And, really speaking, this is one direction in which we have to make a very bold and consistent effort in the years to come. I am glad that Mr. Raju has expressed a word of appreciation for agricultural scientists. I must say that even in the field of commercial crops they have made a very good beginning, and I can only assure the Hon. House that in the days to come or in the years to come the application of the scientific ideas will not suffer because of lack of finance for this matter. This is one thing I can do. As far as research is concerned, there is certainly a revolution in the wheat production. I cannot say the same yet about rice. Wheat prices have certainly shown a downward trend. And I think the downward trend of wheat prices has had a healthy effect on the wholesale price index and the general prices as well. In the case of oilseeds also we will have to

do the same thing, and I hope that in the years to come. We will follow this up very closely. Many of the Hon. Members have made certain useful suggestions in this matter, of which I shall certainly take a note.

Well, Sir, some Hon. Members mentioned the problems of the State Governments resources. I must say that in this matter the Government of India is very much aware of the problems of the State Governments. And, besides whatever taxes are shared with the State Governments under the award of the Finance Commission, etc., really speaking, on the basis of their plans, certain central assistance is also given to them. Hon. Members must have noted in my speech that the Central assistance that we propose to give for the next year's Plan, is higher than what was given last time. Besides this, in the case of certain backward States, large sums are being provided. I do not want to read that particular part of my speech again, because Hon. Members may have read that large sums were provided for certain States whose financial position was rather difficult. And, looking, to their financial problems special provisions were made in addition to what was granted by the Finance Commission. The Hon. Member, Shri Mahavir Tyagi, who was on the Fifth Finance Commission will know that. In addition to that, we have gone to the help of the State Governments in their difficulties and their troubles. Very large sums have been given in particular cases and, apart from that, some provisions are being made for the next year also. Of course, the special grants are made in consultation with the State Governments and they have agreed upon a certain pattern, which will be a sort of tapering pattern, in the remaining years of the Plan. My main point is that it would be wrong and unjust to say that the Central Government is completely indifferent to the problems of the State Governments. It is not so. Naturally the Central Government will have to be in touch with the problems of the, State Governments even in the future. Most of the implementation of the agricultural plans, for example, has to be done through the State Governments. So, the

performance of the agricultural plan particularly which has such an impact on the question of, unemployment.

**Shri Akbar Ali Khan:** Education.

**Shri Y. B. Chavan:** Education, among other fields but, particularly, unemployment. The whole country is concerned about it, and when I say unemployment I am not merely referring to rural unemployment but also to the question of educated unemployment which is also very, very important. Sir, the present mandate particularly reflects the urge of the young for progressive economic policies and progressive social policies. Really speaking, it is the young who have spearheaded the present mandate in the last election. Therefore, we have to look after them and try to solve their problems. Naturally, that will be our first priority. How we do it, how we manage it, how we make a beginning, is the question. Even in that field we have to get their cooperation and we look forward to it. In the case of unemployment, I quite agree that Government cannot create all the jobs, but Government certainly can help the process by more investment which will create new forces in economy so that it creates more jobs which can be made use of by the younger generation. That, really speaking, is what we have to do and that is the purpose of enlarging the Plan expenditure and properly utilising the provisions that are already made. One Hon. member, I do not know why he made that charge said that unemployment is not taken note of. It is not so, Sir. We have taken note of it, though, really speaking, it is a Vote on Account for the coming few months.

Even though we have not made any provision for the whole year in many cases, for tackling the urgent problem of unemployment now itself, we have provided Rs.50 crores for the whole year. As one Hon. Member has mentioned. I know that Rs.50 crores is just a drop in a bucket. I would say it is a drop in the ocean. There is no quarrel about the comparison but this, really speaking, is the beginning, and the main idea is that we should undertake a massive rural development programme - a programme for creating

the necessary productive capacities and necessary infrastructure in the rural areas which should help to intensify the productive capacity.

These are some of the things that have to look into. Really speaking, we have to make some additional provision in addition to what we are spending, in addition to what there are in the State Plans and the Central Plan. We want to make this a small experiment. I mean, we have to select some poverty pockets in each district and select some productive works which can give employment to at least one thousand people in the area. The idea is to give some minimum wages to them, and preference is to be given to families where there is no earning member. That is the approach. I know it is a challenging job to implement it but I hope that with the support of the hon. Members and the co-operation of the State Governments - naturally we will have to depend on the State Governments, in implementing this particular Plan - we will be able to succeed. We have already written to the State Governments and the Prime Minister herself has taken special interest in this programme and has written to the Chief Ministers to finalise the programme so that the proper work begins early and so that ultimately we may not face the problem of shortfall again when we come to the next Budget here.

I must admit that there is a shortfall in certain vital sectors, particularly in the field of steel and fertilisers, which are really speaking, the major areas of growth, which are the basic things for the growth of the economy of this country. We have taken very serious note of this matter and the administrative steps that will be taken will show certain very good results in the course of the coming months. Some Members did make a mention of certain regional imbalances. Some Members mentioned that one particular State is getting more licenses and others are not. I sympathise with that view, but certainly in the last two years some special care has been taken to give some incentives for starting industrial units and industrial activities in certain backward areas. The public

financial institutions also are following certain new policies in this matter. The State Governments are giving certain incentives in this matter. Certain concessions have been given in the case of supply of electricity, finances and making lands available to them and in many other matters. Many States have formulated such plans and some beginning has also been made. Even in the case of allocation of Central projects certain consideration is also being given for backward areas. So this general question of the imbalance in the regional development is also one of the important matters which will have to be taken care of.

**Shri V.B.Raju:** I made a particular observation that out of Rs.946 crores invested by the financial institutions, about Rs.600 crores have gone only to four States.

**Shri Y.B. Chavan:** I do not have those figures. Perhaps your analysis is correct. That is quite possible because so far the policy of the financial institutions was to help the bigger industries and that is exactly what we are trying to change but even then, the idea is not to starve. Whatever industrial potential we have created in this country, we will have to cater to their needs as well. We can certainly see that no undue advantage is taken by them, that one can do; but our idea is not to starve any legitimate industrial activity.

Even though they are of advanced States, we cannot ask them to stop their functioning.

Then Mr. Raju made one interesting suggestion about certain areas in a State where there is irrigation, flow irrigation as well as lift irrigation and the cost or advantage of one system of irrigation against the disadvantage of other. That one needs to go into. I hope he succeeds in impressing on his own State Government but this is certainly a matter to be considered. However I do not agree that this is a matter between Telangana and the non-Telangana area.

**Shri V.B. Raju:** It is between politics of the prosperous area

and the politics of a poorer area.

**Shri Y. B. Chavan:** Quite right. There can be prosperous area in Telangana and there can be non-prosperous area, in the non-Telangana area. He need not identify that problem with the political problem which he is facing. I am not talking about the merits of that political problem. I do not want him to identify it in that sense. This is the general approach of the Government in this matter. Really speaking, I have made a general appeal in my speech that we have to look around for new resources. Some Members particularly Shri Babubhai Chinai, made one suggestion look into the external borrowings and reduction of non-plan expenditure. I do not know what he means exactly by that and then go on making investments more and more. How one does it by these two means alone. I do not know. But that does not mean that I do not welcome any new suggestions and if the hon. Members have any new suggestions, certainly they are welcome. I am in search of them. Some Member said it is a question of getting more and more and spending more and more. That is the function of any, Government to raise resources and collect resources and to spend them but they should spend them wisely, invest them in more productive activities and thereby build a proper base of economy so that it creates or generates more opportunities for employment and also at the same time, remove the possibility of the concentration of economic wealth. These are, really speaking, the directions in which we have to go. These are the general points which hon. Members have made. I have taken note and that will be of some use in preparing our further programme.

Some members have made a mention of certain specific things and I thought I should try to make a reference to the question of disparity between the revenue receipts and disbursements in respect of mints and gold mines. The position is that the revenue receipts of the mints include the sale proceeds of all stores, refining charges, canteen receipts and other miscellaneous receipts. They do not include the value of the coins minted and put into circulation.

On the other hand the disbursements of the mints include the entire expenditure of the minting organisation. If the value of the coins produced is to be taken into account there would be a profit of six crores. This amount has been included in the other head on page 18 of the Budget Estimates for 1971-72, and if the hon. Member wants, he can refer to that.

In so far as Kolar gold mines are concerned, the bulk of the revenue receipts represents the value of the gold produced by the mines at the International Monetary Fund rate of Rs.84.40 per 10 grams. The value is calculated at this rate in view of our obligations to the International Monetary Fund. The difference between the disbursements and the receipts represents the loss sustained by Government. The production of gold in the mines is declining on account of the lower grade of ore now available in the mines. This is a fact of life as far as the Kolar gold mines are concerned.

**Shri Akbar Ali Khan:** But seven crores expenditure against...

**Shri Y. B. Chavan:** The expenditure on the mines however has been on the increase on account of the grant of dearness allowance and interim relief to the employees. Provision has also been made in the estimates of 1971-72 for the payment of arrears of bonus to the employees from 1.4.1964. That has also inflated the figures. In view of the low grade of the ore the cost of mining has also increased. This is the economics of the Kolar mines. The only alternative is to close down the operations. Is it for the good of the country? If the current price of gold is taken into consideration the loss will be much less. By working these mines the Government will be in a position to augment its reserves of gold which is very very important consideration. If the mines are closed, 13,000 workers who are employed there will also go out of employment. These are some of the considerations that have to be taken into account.

Hon. Bhai Mahavir also made a mention about the allocation of raw materials that are imported. He has asked what exactly is



the basis on which allocations are made because the allocations certainly do create certain jealousies and certain criticisms and lead to blackmarketing. At the present moment broadly speaking these allocations are made on the basis of the installed capacity of the units and their consumption. These are the criteria.

**Shri Akbar Ali Khan:** His allegation is that all go into the black market.

**Shri Y. B. Chavan:** I would not say everything is going into the blackmarket. In some cases it may be but as far as the major units are concerned I do not think it is true to say that. I accept there is a likelihood of this happening in some individual cases but to say that the entire thing is going into the blackmarket would be rather exaggerating the whole thing. I am merely explaining the basis. Broadly the Government follows the principle of going by the installed capacity as well as actual use in the recent past to determine the pattern of allocation. For example, in the case of cotton the allotment to units is on the basis of actual consumption in the recent past and the units have the choice of taking one of the previous three years as the base for the purpose of determining the quantum of allotment for the year. If some units surrender the allotment made on this basis, the balance is reallocated on the basis of actual consumption in the immediately preceding year. Now, Sir, Hon. Shri. Bhai Mahavir suggested that this allotment should be linked with sales tax and income tax. It apparently looks to be a very attractive scheme, but the result is going to be that the producers of superfine cloth will get the best advantage out of it. Those who produce inferior quality of cloth, really speaking it is this variety which is meant for the poor man and for mass consumption, will certainly be at a great disadvantage. So, we just cannot afford to take that into account mere income tax or sales tax paid by the unit. Then, again, some suggestion was made that it is better to put it on the basis of the wage bill, but then I am afraid only the inefficient mills, which carry relatively a higher load of labour, will be favoured. So, personally I feel that, by and large,

the present position of allotment on the basis of the installed capacity and the actual use in the last year or in the immediate past, seems to be the only rational way of doing it. I hope that somebody discovers a hundred per cent foolproof solution for misuse and blackmarketing. If there are any other ideas which can be suggested, I am sure the Foreign Trade Ministry will take them into account.

In order to make an impact on prices, we have agreed to import a large number of raw materials like cotton and oilseeds. The State trading Corporation has been given more and more responsibility in this matter. The new Cotton Corporation started its work in the middle of last year and I must say that it has begun well. Practically the whole of the cotton import is being undertaken by the Corporation. The Cotton Corporation has, also undertaken to purchase cotton indigenously for some of the local units. They have begun well. If they get more expertise and more experience in this particular field, they will certainly take on more and more work in the field of cotton purchase in the country and in the import of cotton as well. I feel that in the direction in which we want to go these are the new initiatives that we are taking.

**Shri Akbar Ali Khan:** Will there be an oilseeds corporation also?

**Shri Y. B. Chavan:** I am at the present moment talking about the Cotton Corporation. As far as the other thing is concerned, if there is any necessity, we shall certainly undertake it. We considered the setting up of the Cotton Corporation necessary because of the large textile industry base in our country. That is the main thing.

Then, Sir, Mr. Sardesai made certain points. I heard his speech with great expectation and great care, but instead of our cliches, I only get cliches from his side. He merely said the relationship between rising wages and prices is a fact of life. He said: You better reject that outlook completely. I cannot think in terms of freezing the wages of workers. That is unfair, in my opinion, but

certainly the wage-price spiral is a reality which they must not lose sight of. It is only taking a review of the economic conditions, as I have myself said in my speech. As regards the strong points of the economy as well as the weaknesses of the economy. I have tried to put a realistic picture of our national economy before you.

**Shri S. G. Sardesai:** I made some specific suggestions.

**Shri Y B. Chavan:** You made certain specific suggestions. We have acted on one or two important matters. One is, we are curbing the speculative elements in the grant of credit facilities. You said that there are monopolistic operations in this matter. Let me tell you that we are certainly trying to make a breakthrough in this regard. The large accounts of the nationalised banks are being very carefully gone into. Let me assure you that we are very particular about it and we are trying to see that the speculative elements do not take undue advantage of it.

I do not think that everything that was necessary to be done has already been done, but we are pushing in that direction, very firmly and with full knowledge of what we have to do it.

Then he said that this idea of selective credit control is wrong. I do not know how total control functions. We have got some experience of undertaking controls we have come to this idea that we have to think in terms of selective controls. That we are doing. Well, he has certainly mentioned some idea about demonetisation. I think there are suggestions before the country, for so many years. I cannot say. If people start a scare that Rs.100 has got to be demonetised, it creates a panic in the society.

**Shri Akbar Ali Khan:** He said Rs.1000.

**Shri Y. B. Chavan:** He said Rs.1000. We did it in 1947 or 1948, I do not know with what result. Of course he has made that suggestion. Of course I did not expect much in a speech of ten or fifteen minutes but I would request Shri Sardesai that if he has any specific ideas, I would very much welcome them. It is not merely

a question of analysis of what is wrong because I think practically all of us know what is wrong, we know some of the factors. The question is how to get over it. Looking into the present picture of the economy if he has got any useful suggestions, I can assure him...

**Shri Akbar ali Khan:** What about reducing the size of the big Ministries?

**Shri Y B. Chavan:** Certainly he has made some suggestions. I think the Administrative Reforms Commission has considered all these aspects. They have suggested breaking up of some of the parts of certain Ministries and something is being done. So far the judiciary was in the Home Ministry. Now Judiciary and Law have been combined. If there are rational steps to be taken, they will be taken. This is a matter which has to be constantly reviewed. There is nothing like a static view about the type of administrative machinery we should have. We have to constantly review it. That will be reviewed, I have no doubt about that.

I generally thank Hon. Members who have made contributions to this debate and those who have made good suggestions.



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## GENERAL DISCUSSION ON BUDGET

*Reply to debate, Lok Sabha, 10 June 1971*

Sir, after this very long, useful, constructive and at times rambling debate of 20 hours, I must express my gratefulness to those members who participated in this debate. The debate has disclosed two types of arguments. One is the line of argument based on the examination of economic policies and objectives. The second category of arguments is based purely on party lines and thus negative in nature. I mainly propose to deal with the first category of arguments which went into the examination of the economic policies and objectives, which are really important. If I get some time at the end, perhaps I may deal with the political arguments because, as a matter of fact, I would like to deal with them.

Let me begin with one statement. In my budget speech I have very humbly stated that I have not been able to achieve all the objectives that I have set before me; not only I have not achieved all the objectives but I am not sure whether I will be able to reconcile all of them. Therefore, I have not made any big claim in my budget speech. But, at the same time, if the Hon. Members would take care to read my budget speech, I have very clearly and categorically stated the objectives and the directions in which we want to go.

In the debate on budget I noted one remarkable thing that is

good for the country. From all sides I find a surprising unanimity on the basic principles to which our economic policies or objectives should be directed. This is a good thing for the country, a country which is going to be run on democratic basis, particularly in view of the emergency on our eastern borders. It was very interesting to see that though some Hon. Members wanted to criticise my budget and its performance, with which I may not agree, at least the test they put for the examination of this budget was the same. Even coming from the young Maharaja of Gwalior, it was very interesting to see that he was prepared to call it a pro-capitalist budget. That is something which I welcome, as it comes from the Maharaja. It is very refreshing. Perhaps he has on him the impact of modern trends and if he maintains this progress he will realise that he is on the wrong horse. As a good horse breeder and a good rider possibly, he has chosen a wrong horse. Perhaps very soon, I hope he will come to realise that he has a place somewhere else.

But let me come to my main point that there was a refreshing agreement about the policies. I know that there is criticism about taxation and if you go into the individual or particular levies there can be views, for and against it. But if we generally look at the problems that we have to face in this country and tackle, it will ultimately be found that there is no other alternative. As far as I am concerned, I can say that I have consciously gone through each and every item and tried to see its effect. Unfortunately, as the tax structure stands today, the indirect tax is a major source of income or taxation in this country. Naturally, therefore, it has to go into a larger number of items. But, while selecting items, I have taken much care to see that the lower strata, the lower income group, the poor man is not touched, as much as possible. Of course, it is very difficult and physically impossible to say that nothing is touched. It was not possible for me to do so. I will come to that aspect a little later.

I think it is agreed on all sides that we have to accelerate the process of growth. It is also generally agreed, at the same time,

that we must ensure that the benefits go primarily to the under-privileged and the unemployed and that we bring about a sizable reduction in inequalities and, at the same time, give price stability. These are the general principles, the principles which were very lucidly stated by my Hon. friend, Dr. V. K. R. V. Rao. I agree with him. As far as those principles are concerned, I think there is no doubt that these are the lines on which we have ultimately to examine ourselves and test ourselves.

If you try to put this test, I must say and I do claim that I have made sincere and serious attempts

I have made attempts and experiments and I have made definite progress in the direction in which our economy has to go. I have no doubt about that in my mind.

It is also true that these social and economic objectives cannot merely be achieved by a budgetary process -- Hon. Members would allow that--not at least by one budget. I quite agree that the budget is a very powerful instrument in this respect and I have tried to make as much use of it as possible, but even then you cannot do it with a single budget; possibly you will have to wait for a series of budgets for the achievement of all over objectives.

I must say, Hon. Members were entitled to ask whether the Budget proposals will take the economy in the right direction or not think, it is certainly legitimate for me that I answer at least on two points, namely, whether the Budget will promote growth and whether, at the same time, it will promote the objective of social justice in the widest possible sense. These are the two criterial on which I would like to speak in this particular matter.

Many Members have said that this Budget is not growth oriented. My Hon. Friend and colleague, Dr. V.K.R.V.Rao, himself said it and I was rather surprised when he said it, because he is an objective intellectual. I have got great respect for him. Certainly, I would like to respond to his points.

He has raised another point which also needs to be answered.

It is a legitimate point that he has raised. He has said that the Planning Commission has said that agricultural production should increase by 5 percent and industrial production by 8 or 9 percent, then alone there can be a 5.5 percent rate of growth. He therefore, questioned my claim that with 5 percent rate of growth of agricultural production and 5 percent inorganised industries....  
(Interruption)

I would like to tell him that there is nothing wrong with the Planning Commission or with me or with my assessment. What we normally do not take into consideration is a very rapid growth of the small-scale industries. The progress made in this sector and other services sector certainly contributes to national growth. Industrial growth is normally understood to mean the other major industries, but the growth of other services and small-scale industries ultimately give us the assessment that the present claim that I make about the national growth is correct.

But to say that this is not growth oriented Budget, possibly was not to understand it, I must say this very humbly.

The major way in which a budget can promote growth is by providing for substantial increases in developmental outlays without adding to the forces of inflation. I think, it is an undisputable statement I am making. Nothing would have been easier for a Finance Minister than to leave the Budget more or less as it was presented in March. If I had done it, certainly it would not have been necessary for me to come before the House with any significant proposals for mobilisation of additional resources. But had I done that, would I really have served the purposes of economic growth?

Hon. Members will recall the provision in the Plan that we had made in the Interim Budget at the Centre was at the same level as in the Budget for 1970-71. True, there was a very large shortfall in relation to budgeted outlays last year so that if fully implemented the Plan provision even in the Interim Budget this year would



have meant a substantial increase in Plan expenditure over the actual level achieved last year. Even in the Interim Budget, we had made a full provision for Central assistance to the States and the Union Territories. I could have very well called it a day and argued that with the unexpected demands made by the need to provide relief to evacuees from East Bengal, it was no longer possible to provide for an increase in the Plan outlay beyond what was budgeted last year. I have no doubt, however, that had I taken the line of least resistance, this Government would have served ill the requirements of growth at the present juncture. The additional provision of Rs. 155 crores that we have now made for the Centre's Plan proper is the absolute minimum that is necessary if we are to maintain the tempo of development in keeping with what has been envisaged in the Fourth Plan.

Quite apart from what has been provided in the Plan, it has been said, and said rightly by many economic commentators, that the pace of investment in the economy both in the public and the private sectors needs to be greatly accelerated. I share that view.

Hon. Members would recall that industrial production over the past year has not increased rapidly as one would have desired. Quite apart from that investment in agriculture, family planning, food procurement, roads, shipping, ports and harbours, social welfare and communications could not have been left at the levels provide for in the Interim Budget without retarding the growth in these vital sectors. I agree that having provided additionally for the Plan, the responsibility for ensuring that these expenditure would, in fact, be incurred is all the greater. But it would certainly be our endeavour to make sure that the increased Plan provisions are fully utilised.

Quite apart from the increase in the Plan provision which will certainly stimulate growth, we have also provided Rs. 75 crores outside the Plan for employment in the rural areas and among the educated young and this provision too whether we call it outside

the Plan or not is developmental in character and will make for both growth and greater social justice. Technically, it is outside the Plan. But really speaking, it is meant for schemes for educated youth, agriculture and rural works which are developmental in character.

**An Hon. Member:** A very small amount.

**Shri Yashwantrao Chavan:** This is how we have to begin. You cannot immediately reach the moon. Certainly, we have to make an attempt and this is a right step in the right direction.

Then, as a matter of fact, my Hon. friend Shri Indrajit Gupta took me to task for making additional Plan provision only for what he thought were infrastructure activities like roads and communications and for not making any additional provision for industry, particularly, public sector industry. It is not merely an increase of Rs. 155 crores. If you take the actual level of expenditure in 1971-72, the increase is more and, including Non-Plan expenditure for employment, it is Rs. 375 crores, a little more than that.

The increase of the order of Rs. 300 crores in the Central Plan provision for 1971-72 against the likely actual level of expenditure in 1970-71 about Rs. 97 crores represents substantial increase in the investment of public sector undertakings. In addition the public sector undertakings are expected to utilise 205 crores from their internal resources. In other words, the total outlay public sector undertakings in 1971-72 will be of the order of Rs. 738 crores as against Rs. 641 crores in 1970-71. This is not a mean provision for public sector....

But to say that it is meant for infrastructure is not correct. Creating infrastructure is not merely providing for the private sector. How do you say that? This is intended for creating communications, is having better roads, better harbours, having rural electrification in the rural areas, etc. The most important private sector is Agriculture. We cannot forget that also. Therefore, to say that

investment in the infra-structure is only meant for the private sector is, I should say, either trying to be blind to the realities or trying to be politically biased; and this is all that I can say.

**Shri. Piloo Mody:** There is a third alternative, ignorance.

**Shri Yashwantrao Chavan:** This is not an argument which shows any objective assessment of the economic principles. It is a politically-biased criticism.

Now, the increase in the Shipping Sector of Rs. 16 crores is primarily meant for Shipping Development Fund which disburses loans to various shipping companies for acquisition of ships. Out of the total provision of Rs. 35 crores, an amount of Rs. 21 crores is already earmarked for the Shipping Corporation of India, a public sector undertaking. The balance amount will be disbursed both to the public sector and private sector shipping companies which may come up with concrete proposals for acquisition of ships during 1971-72. This is a growth contribution.

During the three years of the Fourth Plan from 1969-70, the disbursement out of the Development Fund would be of the order of Rs. 88 crores, of which the public sector shipping companies would get Rs. 57 crores. That shows that the public sector will get major share.

The increase of Rs. 13 crores over the interim Budget for the development, of major and minor parts is meant for development. Modernisation and improvement of the existing major ports particularly Vishakhapatnam, Haldia, Madras and Cochin. This is specially necessary in order to enable these ports to handle larger ships and larger volume of exports of iron ore and import of crude oil.

The increase in the provision in the Central Plan for roads, education and social services which is of the order of Rs. 40 crores is basically employment-oriented. How can anybody say this is merely infra-structure? These 40 crores investments are essentially employment-oriented. When we talk of crash

employment programme and educated employment programme of the order of Rs. 25 crores and many other investments, these are all employment oriented investments. It is said, it is a small thing, a drop in the ocean. Well, I think, we have to take a major share of whatever ocean we have; we cannot take oceans from nowhere. Ultimately the oceans are in our own pockets and they are small pockets. But what can we do about it?

These increased investments in public sector undertakings are essentially employment oriented. The balance of the additional Rs. 300 crores Will be allocated in the following sectors, namely, Agriculture and Food, Rs. 78 crores, including purchase of buffer stocks; Irrigation and Power Rs. 10 crores, P&T Rs. 11 crores and others Rs. 35 crores. If this is not growth, I do not know what else is growth.

So, the main question is whether I would have been justified in raising resources on an even more ambitious scale than what I have proposed for, or leaving a larger deficit in the Budget. I am sure that Dr. Rao will not advocate either of these two courses. For, if I had kept this whole deficit uncovered, what would have been the inflationary effect of it? Really speaking, every Finance Minister of a nation is on the horns of a dilemma in this regard, namely 'Shall I leave the deficit uncovered and have flood of inflationary forces or shall I not?' If he levies taxes, then in a country like ours, where indirect taxes have to be resorted to, some erratic and irrational reactions occur and these certainly let loose certain forces of price instability and inflation. I am quite aware of them. But I shall deal with that matter again when I come to the question of price stability and other matters.

The provision that we have made fully takes into account the requirement of all public sector enterprises which are under way and for all the projects included in the Plan outlay which are likely to be taken up the coming year. I can assure the House that if the enterprises now under construction such as Bokaro, the fertiliser plant and the like require a larger allocation than what we

have now provided, we shall come up with the necessary request for supplementary provision and would not in any case allow the implementation of these projects to be slowed down for financial reasons. If there are any other reasons, I cannot help it. But I can assure the House that if their performance is good and they need some more money they will not be slowed down only on account of financial paucity, I think I have taken care of the point that was raised by Dr. V. K. R. V. Rao about the growth rate.

Now, about the question of the taxation on the corporate sector. This is one of the points raised by many Members. Some have said that I have given an overdose and I have unnecessarily touched the corporate sector and there by created conditions which will not be helpful to economic growth. This was the argument at one end. At the other end, it has been said that I have completely left the corporate sector untouched. So, I think the House would. Know that the truth lies somewhere in between, and there is no doubt about it.

As far as the corporate sector is concerned, the total incidence of the new proposals this year would be about Rs.16 crores, and the total revenue from the direct taxation this year is expected to be Rs. 27 crores. So, Hon. Members would very obviously see that it is very simple arithmetic, that more than 50 per cent contribution from direct taxation is from the corporate sector. So, to say that it is not touched is not seeing the obvious thing.

It has been said on the one side that by raising corporate taxation to the extent I have done, I would be discouraging investment. It has also been urged on the other hand that I have not increased corporate taxation sufficiently. I do not think that any apology is needed for raising Rs.16 crores as additional revenue under the corporate sector in a year in which I have had to raise a total of Rs. 220 crores by way of additional taxation including the share of the Centre and the States. If the corporate sector feels that no matter what the circumstances of the nation may be, they should somehow enjoy permanent immunity from additional taxation, I

am afraid they are likely to have little sympathy from this House or from the people at large.

The only question is therefore whether while recognising the need for corporate sector also to make a significant contribution, would it have been better to raise corporate taxation in general rather than remove or reduce some of the concessions which have outlive their utility? I do not propose at this stage to go into the defence of each of the proposals regarding the corporate taxation which possibly we might discuss at the stage of the Finance Bill.

To those who feel that the corporate sector should have been made to bear a larger proportion of the total tax burden, I would say only this much that particularly the one relating to the development rebate- it is not merely that I have touched the corporate sector, but I have made certain announcements on many other policy matters will cast a much longer shadow than what might have been thought of at first sight. I make no apology for the fact that in general our rates of corporate taxation are somewhat higher than those in the other countries. At the same time, there is urgent need to present something which will stimulate growth of industrial production. I believe that the selective approach that I have adopted will stimulate industrial investment and growth over the next few years and at the same time increase substantially the contribution of the corporate sector to the national exchequer in the long run. This is the approach I have taken in this particular matter.

Now comes the very usual controversy, to which many members referred, about the contribution of direct taxes v /s indirect taxes. The general criticism was that we have laid more emphasis on indirect taxes, but if we see the general trend on increase in direct taxes in the last five or six years, there is a continuous growth in quantum of such taxes in the totality of taxation in the country. This year new levis in the nature of direct taxes are for a limited period; really speaking, the direct taxes to which I have made reference, are going to contribute Rs. 57 or Rs. 58 crores for next

year. Really speaking, this is an additional dose of direct taxation that we have tried to give through the instrumentality of this budget, and I think it is not a less important effort.

Shri Samar Mukherjee of the CPI (M) said that in the last 23 years, the ratio of direct taxes to the total revenue of the Central Government in tax collection has declined and that of indirect taxes has increased. The point raised is a valid one. It has been our anxiety to increase the proportion of direct taxes to the total taxation. At the same time, it must be realised that in the ultimate analysis, it is only by accelerating the process of growth of industrialisation that this purpose can be served. During the last four and five years, we have made significant strides in this direction. Thus, while in the budget of 1968-69 the contribution of direct taxes was Rs. 10 crores, in 1969-70 it went up to Rs. 23 crores; in 1970-71, it further increased to Rs. 36 crores and the taxes levied in the current year (full) will yield Rs. 57 crores. It will not, therefore, be correct to say that all our energies have been concentrated on getting additional resources only from indirect taxes.

It must also be realised that the picture presented by Shri Mukherjee is only partial as the revenues of the State Government have not been taken into account by him. If this is to be seen in its proper perspective, we must take into account the combined revenues of the Central and State Governments and also the proportion they bear to the national income. The low proportion of direct taxes to the total revenue of the Central and State Governments is attributable to two factors. In the first place, in a developing economy like ours, it is inescapable that the major tax contribution has to come from indirect taxes. It is only when the economy develops and the number of taxpayers liable to pay tax increases that the contribution from direct taxes will increase. This is also borne out by the fact that in all countries which are in different stages of development, direct taxes contribute about 3-4 per cent of the total tax revenue as a percentage of national

income.

Another factor which accounts for the comparatively low contribution of direct taxes to the total tax revenue is that the agricultural sector is entirely outside the purview of central direct taxes. The State Governments have not for various reasons found it possible to raise adequate resources from this sector. As far as we are concerned, we have made very clear our stand in this matter. In my budget speech, I have devoted a couple of paragraphs to this particular aspect. There is certainly some constitutional difficulty for us, but I have no doubt in my mind that, whether it be the rich in the urban areas or the rich in the rural areas, they must all be taxed and must make their contribution. In this matter, I have said that with the cooperation and help of my colleague, the Planning Minister, who is also Deputy -Chairman of the Planning commission, possibly we might succeed in our effort to persuade the State Governments to come round and have a new look at this whole problem again. I was saying that it was within the purview of the State Governments. Hon. Members will recall that I had highlighted this point in my budget speech by stating that constitutional prerogatives of the Union Government to initiate measures of reform in the countryside are restricted.

Hon. Members are also aware that there is a persistent demand for increasing the exemption limit for income-tax. During the budget debate several Members suggested that the exemption limit should be increased to Rs. 7,500 or even Rs. 10,000. There is also pressure on me that I should raise more from direct taxes. It is therefore, difficult for me to reconcile the demand to increase the proportion of direct taxation in a developing country like ours with the demand to give relief to the lower class of income-tax payers. But as I said earlier the direction in which our efforts will have to be concentrated is now quite clear.

The other criticism that was made was that there was no incentive for savings. I have read this argument for decades; it was there even when I was not a Minister, or the Finance Minister. It



is a hackneyed argument normally advanced by economic experts and pundits and other people representing big industry. There are two or three factors responsible for this criticism. First of all there are those people who believe that the increase in wealth tax rates will discourage accumulation of wealth. It is one particular class which is trained to accumulate wealth so far. They had no idea and they never had any training that a time will come when there will have to be some sort of a restriction and control over the accumulation of wealth and they go on complaining that there is no scope for accumulation of wealth and that there is no incentive for savings. If incentive for saving means accumulation of wealth, I do not care for such savings. As far as this group of persons is concerned, I plead guilty to the charge that my proposals are aimed at discouraging accumulation of wealth beyond a point. Most Hon. Members and practically all the organised political parties in the country have given up the ideology of accumulation of wealth through perpetuation of inequalities.

As I said to begin with, at least theoretically, most of them have agreed to this proposition and it is good for this country. The complaint from this particular group that there is no incentive for savings is possibly rejected by the country as a whole. If some people do not have an opportunity to accumulate property beyond Rs. 10 or 15 lakhs, they would be discouraged from saving. That is what they say. But this is the price we should be prepared to pay for the larger benefit of spurring the masses of the people to greater effort and for their cooperation in the task of building up the nation. I have no doubt that this effort and cooperation from the vast majority of the people will not be forthcoming unless extreme inequalities of wealth and economic power are effectively curbed.

Those who believe that there can be no accumulation for society as a whole without any opportunity for a few people to amass vast personal fortunes have certainly not understood the social political undercurrent that runs through developing societies today. There

is also a feeling that the increase in surcharge from 10 to 15 per cent in the case of income in excess of Rs. 15000 per annum will reduce the ability of the persons concerned to save. I entirely agree that those who have now to pay more by way of income tax will in all probability reduce their savings to some extent. I do not refute that, but here again, one has to balance this factor against the need of the society to raise some resources for the overall social purposes of development and social welfare. Carried to its logical conclusions the theory that any increase in income tax is not justified because it may lead to some reduction in personal savings could amount to a plea for no taxation whatsoever. I wish I could have spared even those with an annual income of more than Rs. 15000 from the burden of paying additional income tax but if more money is to be raised it cannot be said that no part of it should be raised by way of personal taxation. If personal taxation is to be raised it can hardly be argued that in our conditions those with incomes above Rs. 15000 per annum need particularly to be spared. I do not think that anybody can argue that way.

The charge that my proposals would discourage savings is sometimes sought to be justified with reference to the changes proposed in regard to deduction in lieu of contributions to life insurance, provident fund and the like. Here, as far as savings of Rs. 1,000 and below per annum are concerned, actually the deduction is raised to a full hundred percent, so that there is in fact a greater incentive for savings for the bulk of income-tax payers for whom the total annual savings cannot exceed the figure of Rs. 1,000. In fact, even up to a total saving of Rs. 5,000 per annum the deduction now permissible under the new rules would be greater than what it was before, so that the incentives for savings will increase right up to the level when such savings are a little short of Rs. 5,000 per annum. It is only in cases I agree of those who save more than Rs. 5,000 per annum that the deduction now would be less than before. But surely it is not irrelevant to ask, how many persons there are in this country who

can save more than Rs. 5,000 per annum. It is a question which could honestly be asked by everyone to oneself. The vast majority of people, the largest possible number, cannot save beyond Rs. 5,000 per annum. I have made all possible provisions to see that there is an incentive for saving, as far as this part is concerned. Those who want to save more than Rs. 5,000 per annum, there is a disincentive. I do not want to enlarge on this point. I would only make one more point in this connection.

If the quantum of deduction is reduced somewhat for saving above Rs. 5,000 per annum, then the ceiling on total saving which can qualify for deduction is raised—this is one point which the Hon. Members should take note of—from Rs. 15,000 to Rs. 20,000 per annum. In fact, even for savings between Rs. 5,000 and Rs. 15,000 per annum, since the tax rates have gone up, the value of every rupee of deduction permitted would now be greater. I hope Shri Pilloo Mody would agree with that. I fail to see, therefore, how my proposal in respect of personal taxation can be considered to be detrimental to a large flow of saving over a period.

Another very fashionable argument was made with regard to the budget, namely, that it has adversely hit the common man. I quite understand that point. As I have said in the beginning, because of certain levies on certain items it has affected the common man. I cannot say that the common man is not affected. But what ultimately is the test, what major test one should apply to see whether it substantially affects the common man or not? (Interruptions).

So, ultimately, when we go into the effect on the common man, what is more important is the effect on the wage which goes into his purse, which ultimately affects the consumer price index.

Now, what are those items which go into it? Kerosene: I have not touched kerosene in the budget.

**An Hon. Member :** Indirectly.

**Shri Yashwantrao Chavan:** Not by my budget. The increase was announced by Petroleum Minister, and the increase was due to increase in the international prices. This is not a part of the budget proposals. I must say that I had made it a doctrine, not to touch kerosene in the budget. Sugar, tea, coffee, footwear, matches and vegetable products are not touched in the budget. Soap and cotton fabrics are partially there.

As far as soap is concerned, I have exempted laundry soap. About the other soaps, I have made further enquiries as to exactly what has happened and I would like to give certain information. The prices of Lux and Rexona have not changed after the budget. The incidence of duty of Rs. 2.54 per gross has been absorbed by the company. After the budget, the manufacturers have announced the price structure and they have not increase the price. But I know certain retailers are taking advantage of it. I think after some time, this will be adjusted. Otherwise we will have to think of other steps if retailers are taking undue advantage of it. But after the budget proposals were announced, the companies producing these soaps have announced their price structure and they have absorbed the excise duties. The prices are the same. The same thing is true about another popular soap used by poor people-Lifebuoy. The duty on Lifebuoy also has been absorbed by the company. Unfortunately, at the retailers, level, something is happening and we well take care of it.

Before proceeding further, I may say that I have decided to withdraw the excise duty on maida and coarse cloth. (Interruptions). I have done this because of the overwhelming view in my party. Out of deference to my party's view, I have done it. But I Would ask my party members not to ask for more concessions.

Here I must say one thing. There is one important commitment which as a party we have made. We have accepted the principle of having a children's charter. A charter for the children. In order to create the financial resources for the fulfillment of the children's charter we have to impose taxes. Do not forget that we have passed

this resolution in the Bombay session. So, I had every justification for what I had done. I do not want to go into the arguments again. Some time or other, our country will have to come forward in accepting taxes whose collections will be earmarked for the children. I am giving this as a forewarning. There is no other alternative except to accept taxes, some time or other, if not on maida but in some other form.... (Interruptions) Though I have withdrawn the excise duty on maida, the provision for children is not withdrawn. It will remain as it is. It will only mean to that extent our deficit will remain uncovered.

Coming to prices, this question we have discussed many times, even during' the question hour. I have explained the reasons for the price rise and the steps we have taken to deal with the same. As I said, the prices started rising from the middle of 1969 onwards. The main reason was the shortage of industrial raw materials like cotton, oilseeds etc. Naturally, we had to take a series of fiscal and monetary policy decisions which helped us to reduce the prices and the prices have been reduced in the month of March, particularly food prices.

Now the question is: what will be the effect of the taxes on the prices. I will explain that. We have taken many measures in this particular matter. Sir, if you will allow me, I can give a long list of the administrative steps we have taken in this matter. In the case of oilseeds the price index has come down from 233 in January 1971 to 211.8 in March 1971. The process was assisted by tightening of control on the bank advances against vegetable oils, oilseeds and Vanaspati towards the end of January. Imports of soyabean oil for the hydrogenated oil industry have been continued at a level of approximately 100,000 tones per annum, supplies of rapeseed from Canada further helped to argument the availability of oil for edible purposes. The overall shortage of oils and fats has also been sought to be taken care of through imports of mutton tallow for the soap industry.

An import policy has been framed with the object of ensuring

that actual users do not suffer from lack of essential steel. While exports are being regulated, actual users have been granted an increase in their import quotas. Bulk imports of scarce varieties of steel, such as plates and sheets, have been arranged. The projected import of steel for 1970-71 was of the order of 600,000 tonnes as against an import of 4,25,000 tonnes in 1969-70.

A Bureau of Industrial Costs and Prices was set up during the year to review and examine the cost structure of industries referred to it for study, and to recommend prices; a number of references have been made during the year to the Bureau. Administrative control over prices has been continued to be exercised in respect of a number of commodities. The commodities which remained subject to statutory price control during the year included certain varieties of mill-cloth, agricultural tractors, motor cars and scooters, cement, synthetic, rubber, vanaspati, certain fertilizers, kerosene; sugar and industrial alcohol. Sugar was decontrolled very recently. Two additional categories were brought under statutory price control in 1970-71, namely, aluminium and its products, and electric wires and cables. While the prices of the latter are yet to be determined, the prices of aluminum and its products were frozen at the levels prevailing on February 28, 1970 as an interim measure pending the report of a special study group. During the year, prices of drugs and medicines too were brought under a system of comprehensive regulation and control with the coming into effect of the Drugs (Price Control) Order in May 1970. The cost structure of the units manufacturing drugs and medicines was examined by the Tariff Commission and norms for the fixation of fair selling, prices were suggested. Prices of seventeen essential bulk drugs have been announced, and of other drugs have been frozen pending a detailed study. A Drug Prices Review Board has been set up to assist the Government in the fixation of drug prices at reasonable levels.

The Tariff Commission has also submitted its report in respect of fair prices of rayon tyre yarn, cord and fabric, and a reduction

in the prices thereof has been announced. As a consequential measure, tyre manufacturers have been prevailed upon to reduce the price of truck tyres. On the basis of the study made by the Oil Prices Committee, the retail selling prices of all petroleum products other than furnace oil, motor spirit and naphtha were reduced with effect from June 1, 1970. Informal control over prices has been continued to be exercised in respect of soap, rubber tyres and tubes, bicycles, matches and iron and steel; producers are not expected to increase the prices of these commodities without the Government's prior approval. During the year, the necessity was felt of extending this kind of control to the paper industry, the prices of whose products have risen significantly since decontrol in 1968.

The three main factors underlying the instability of prices during the year have been inadequate supply of essential goods, a certain excess supply of money and exercise of monopoly power, of which speculative hoarding is but one example. While, given the several imperfections of the system, the last factor does indeed play a part; it is on the central question of adequate supplies and prudent fiscal and monetary policies that efforts at maintaining a stable price level will hinge. Among the shortages that have bedeviled the economy during the year, the most persistent and insidious from the point of view of the price level for essential commodities are those relating particularly to cotton and oilseeds. Even in regard to foodgrains, while the general situation has been good, supplies have been short for pulses and, even for rice, the position is only marginally satisfactory. In the case of most of these bulk commodities, it would be futile to hope that chronic internal shortages can be made good by imports. Even in 1970-71, the import bill for cotton, rice, tallow and soyabean oil has been considerable. There can be no enduring solution to the problem of prices as long as the country is not able to have adequate production of foodgrains, cotton, pulses and oilseeds and such other food articles as milk and vegetables. Among industrial

products too, apart from iron and steel -where output has been hampered by organisational problems - there are areas such as paper and non-ferrous metals where price stability will depend upon substantial increases in productive capacity.

There is similarly need for enforcement of due restraint on the demand side. I must emphasize this particular aspect. While credit for the hitherto neglected sectors must continue to be allocated in adequate magnitudes, the search should be continuously on to enforce credit and fiscal discipline elsewhere in the economy, both in Government and outside. Once success is achieved on this front, the speculative elements will discover that their ability to distort has been effectively limited. This is what generally I have to say about prices.

Now, my Hon, friend, Dr. Austin and some other Members also mentioned about the shortfall in expenditure. They asked whether the Finance Ministry is mostly guilty about this matter. I would like to plead not guilty. In fact we have taken certain steps in this particular matter.

The shortfall in expenditure on the Central Plan schemes in 1971 was about Rs. 179 crores as compared to a Budget provision of Rs. 1195 crores. We have given considerable thought to this question and a detailed study was undertaken to identify reasons for the shortfall. The Prime Minister herself had convened a meeting of all the Secretaries to Government and urged that a continuous review should be taken of various steps with a view to ensure their speedy implementation and various steps four of which I would like to detail here, have been taken.

(1) Task forces have been organized in the administrative Ministries to review periodically both the physical and financial performance of Plan schemes and take steps to remove such bottle-necks as may come to light in order that the progress of schemes may not suffer;

(2) Steps are being taken to modify the existing procedures for



scrutiny and sanctioning of schemes with a view to expedite their clearance;

(3) Likewise steps for expeditious submission of monthly statement of accounts by the accounting officers and;

(4) The scrutiny of expenditure statements in the Ministry of Finance and drawing the attention of administrative Ministries wherever significant shortfalls can be visualised so that they would take remedial measures in time to avoid the shortfall.

So, we have identified the problems and these specific steps have been taken.

Then, naturally, some Members did make a mention of one thing and that is, what new initiatives we have taken. I tried to re-read my Speech again. I thought I should point out the new initiatives we have taken so as to remind the members, at this stage, that this Budget has certainly taken many new important initiatives which got wide social and economic implications. As far as I tried to search for those initiatives, I could find 11 of them, if the Hon. Members go through my Budget Speech probably, they may find more, I have put them as under:

(1) To put down undervaluation of properties, the Government will take powers to acquire properties at prices that correspond to what is recorded in saledeeds.

(2) To discourage benami holdings of property, it has been decided that if at the time of assessment a person fails to declare income from a piece of property or the property itself so as to evade payment of income and wealth taxes, he will be debarred from enforcing his claim to such property in a court of law.

(3) In view of our commitment to reduce the inequalities of income and wealth, whether in the rural areas or in the urban areas, I had stated in my Budget Speech that ultimately the basis of tax has to be the size of income or wealth irrespective of whether it is derived from agricultural or nonagricultural sources.

Several Members were critical of the fact that the new rich class in the rural areas has been left out of the ambit of taxation. There was also a legitimate concern about the evasion of taxes which is taking place as a result of incomes derived from urban sources being shown as rural incomes. I agree that these matters would require very careful consideration and with this end in view, I had stated in my Budget Speech that these and other related matters would be discussed with the State Governments.

(4) The new provision relating to the wealth tax impose a virtual ceiling on holding of wealth to a much lower level than hitherto and take us much nearer to our objective of imposing a ceiling on urban property

(5) The work of recovery of arrears of estate duty is being transferred from the State Governments to the Income-tax-Department at the Centre.

(6) The valuation Cell located in the Central Board of Direct Taxes is being further strengthened.

(7) A committee is being appointed to review the self assessment procedure scheme with a view to suggesting improvement which could reduce leakage of revenue.

(8) A comprehensive review of the Foreign Exchange Regulation Act has been undertaken and an amending Bill for the purpose is being introduced in the Parliament during the current session.

(9) To effectively contract the leakage of foreign exchange through under- invoicing and over-invoicing and other manipulations, a committee was set up and its recommendations which have just been received, are under active consideration of the Government.

(10) To discourage payment of high salaries and remunerations which are hardly in consonance with the norms of egalitarian society, a ceiling has been put on the remuneration of company employees which would be deductible in the calculation of

taxable profits. Together with the existing ceiling of Rs.1000/- per month in the case of perquisites, the allowable overall ceiling on remuneration and perquisites for purposes of taxation will be at Rs.6000/ - per month.

(11) To tighten the incidence of the wealth-tax, the existing provision in the Act excluding from aggregation the assets transferred by an individual to the spouse or minor children is done away with. A similar provision is being made in respect of conversion of assets of individuals into those of Hindu undivided families.

These are some of the new initiatives which we have taken.

Some Members certainly made a point about the provision for Bangla Desh. Some of them think that Rs. 60 crores is small amount; but as I said earlier, this is a problem which will have to be looked at in its proper perspective because naturally we will have to see that ultimately our brothers from Bangla Desh who have come here will go back to their country in an honourable and dignified manner. You cannot make such commitments as permanent factors of a Budget and make provision for that. We want the international community to take its proper share in these responsibilities. Here or outside some important persons say that really speaking the deficit in this budget will go to some Rs. 1100 or Rs. 1500 crores on this basis. Well, this is a very fantastic statement to make. But certainly the provision made in the budget is a symbolic provision that this country can afford to make in its Budget. But this is essentially a political question. We will have to make a judgement not as a purely budgetary matter, but as an important political matter as such.

Now, I would like to come to the performance of Public Undertakings. This is an important matter. Several Hon. Members referred to the performance of Public Enterprises and urged the need for improving their functioning and efficiency all round so as to generate adequate surplus for re-investment.

I share the anxiety and the concern of the House in this important area. As the Hon. Members will recall, I dwelt at great length on this problem in my Budget Speech.

While I am acutely conscious of the deficiencies of the public sector, I must mention that during 1969-70, the performance of the public sector has shown an improvement in comparison to the previous years. Of the 81 running concerns, 49 made a profit of Rs. 72.27 crores as against 41 in 1968-69 which made a profit of Rs. 66.07 crores. 32 enterprises including Hindustan Steel Ltd., made a net loss of Rs. 75.76 crores in 1969-70 as against 32 enterprises which made a loss of Rs.94.18 crores in 1968-69. I am saying that improvement is there.

The overall return on the capital employed in 1969-70 after providing Rs.175 crores for depreciation was 4.2 per cent on capital employed as against a return of 2.7 per cent in 1968-1969. In 1969-70, 24 enterprises declared dividends ranging from 3 per cent to 21 per cent.

To take a particular category of public enterprises and say that the whole thing is wrong, is very wrong. As one of the Members of this side explained yesterday, the public enterprises have got a historical task to perform, they have undertaken initiative in establishing production in very important sectors. There again, we have identified the problems. (Interruption)

I may tell you that in my speech I have said that we have identified the problem. One problem is the problem of inventories. This is one of the problems. We have to go into these matters. We have got problem of proper planning for the maintenance of the units. Then there is the problem of managerial and operational efficiency. That is the second problem. The third problem is the problem of the personnel management and there comes the problem of industrial relationship. The loss incurred by the Hindustan Steels is really speaking a result of the politics of a party which claims to have more interest in the public sector.

I must also mention the contribution by public sector enterprises in the matter of export earnings. We have achieved significant results in this direction. In 1965-66 exports by manufacturing enterprises in the public sector were to the tune of Rs. 4.60 crores. I would like Hon. Members to listen to me carefully because the figures are eloquent. In 1965-66 it was only Rs. 4.60 crores, but in 1969-70 these exports have reached a level of Rs. 84.64 crores. This is something significant. This is about manufacturing concerns. Similarly, the earnings of foreign exchange, by aviation, shipping and ship-repairing concerns etc. have also recorded a marked increase from Rs. 30.20 crores in 1965-66 to Rs. 85.24 crores in 1969-70. Therefore, to say that efforts are not being made and that Progress is not being made, is trying to be unfair to ourselves.

I had mentioned in my budget speech the directions in which we had to take steps. I have just indicated them, and we shall pursue those matters very carefully. I can assure the House that it is certainly our responsibility, and we are not unaware of our responsibility in this matter. I have said in my budget speech that financial surplus from the public sector is going to be one of the very important factors in our economic strategy in this country. And certainly, we are determined to see that day arrive very soon.

I have mentioned about the nutrition programme of children. There was some criticism that there was some shortfall in the nutrition programme. Unfortunately, the administrative arrangements that we had to make were rather delayed and the work was started only late in July last, and, therefore, there were certain difficulties and certain loopholes as one Hon. Member had mentioned. But we cannot be discouraged by these things. We have to take speedy measures. This year, I think that we shall have to increase the age group. Last year we had accepted the age group from 0 to 3. But this year, we shall have to accept the age group from 0 to 6, and we shall have to take more administrative steps to see that the provision that we have made this year is

completely utilised.

Coming to the political criticism, I have to deal with them. But I would deal very briefly. There has been a criticism that this budget is a capitalist budget. I would say that it was merely an ideological, a parrot-like repetition, of the old thing. Some Hon. Members illustrated it also. They said that it was a capitalist budget because there was an increase in the defence budget of this country, because there was provision for police in this country and so on. Now, do those parties want our security to be safe or not?

West Bengal has been the home of patriots at whose feet all of us should sit and learn. What happened to a man like Hemant Kumar Basu? He was killed in broad day-light in the streets of Calcutta, and not a single man was coming forward to give evidence in that case. Have we come to that pass? If we provide for police to combat these activities, they call this a capitalist budget! Why do they call it a capitalist budget? Their main difficulty is this. Our main attack in this budget is on poverty. What is poverty? It was Prof. Dandekar who has mentioned in his book - I may tell Shri Unni Krishnan who referred to this that I have also read that book and I agree with his assessment - that, really speaking, the problem of poverty in this country is a problem of slow development, and unequal distribution of income and wealth.

I have read Marx. But unfortunately I have tried to understand Marx intelligently, not blindly. In the context of the change that has taken place, in the situation in the world today, though the basic analysis in certain matter still remains true and valid the way they are trying to apply it to Indian conditions merely shows that they have forgotten their roots in India. They are misled by certain ideologies which, really speaking, seem to be un-Indian in nature. I do not want to say anything more about it.

Coming now to the political criticism of my Hon. friend, the leader of the Congress (Q) Shri Shyamnandan Mishra, the first

sentence of his budget speech was that this budget 'is a gift to the opposition parties.' If it is a gift to the opposition parties, I have made it; and I have made that gift, free of tax.

The main point is this. Now, the nation has made certain commitments. Let us not try to judge budget from a merely narrow party politics angle.

My main point is that this is a commitment which this nation has made. We have set ourselves on the march towards achievement of socialism in this country. This commitment has to be fulfilled and I am glad that by this one Budget I can humbly claim that on that long, hard and tortuous journey we have taken one very definite and positive step forward. Sir, I have done.



## DISCUSSION ON BUDGET, 1971

*Reply to debate, Rajya Sabha, 14 June 1971*

Mr. Deputy Chairman, Sir, I must apologize to the House that I was not present during all the days when this budget was debated in this honourable House, as I had to give a reply to the debate in the other House. I have heard some speeches today, which can possibly be said to be sort of a sample, of the general criticism of the budget. At the same time, I must say that I have read some of the speeches which were delivered in this honourable House. I find that certain points have been made, and I would like to summarize the line of criticism. It is better that I select some points for offering clarifications if not for reply...

Some Members especially Shri N. G. Goray, said that, this budget does not fulfill the promise of garibi hatao. Some said that it is a routine budget. Some said that this is an uninspiring budget. Others said that the corporate sector has been let off. Some criticized that there is a crushing burden on the common man and the middle class. Another criticism is that there is discouragement to investments and savings. Some said that it does not touch the rural rich.

There have been several suggestions of raising the income-tax limit to Rs.7500. Some people have made a suggestion about economy in the administrative machinery expenditure; some



suggested 5 per cent; some suggested 10 per cent. There was criticism of the performance of the public sector undertakings. Another general criticism was that the deficit left uncovered is under-estimated. Some said that the employment programme was merely a farce; the provision will not be utilized, as the time is too short. The last point which has been made is that the nationalized banks have tightened their credit and that their performance has to be improved. These are some of the major points that have been made against the budget.

Sir, I heard the speech of Mr. Goray very carefully. I heard the speeches of others also very carefully. Mr. Goray set certain tests for examining the budget, and he quoted from my budget speech to show that we have accepted certain norms. That is very fair attitude. Sir, I would like to read those parts again. As he has very rightly said, I have stated in my budget and I stand by that thing:

“The fiscal policy, however, is not a matter simply or even primarily of raising the resources to meet the inescapable demands on the national exchequer....”

This is of course an inescapable demand of the national exchequer, and it has also to be taken note of. But that is not the primary concern. The more important or the primary concern should be the direction in which we want to take our economy. That should be the general approach. And Sir, in this budget I would like to make a humble claim, though I have not completely succeeded in that--that we have certainly taken some steps to go in the desired direction. If he reads the very next paragraph, I have been very frank enough to acknowledge the limitations and I have said there: “It is hardly possible to claim” — and I have not made that claim -- “It is hardly possible to claim that a new social and economic order can be ushered in through budgetary policy alone, much less through a single Budget. In a Budget of this magnitude it is also difficult to reconcile all the objectives we have set before ourselves.” I do not say that this Budget has

brought about socialism. It would, be too tall a claim to make, and I am not making that claim, but my main point is that socialism is an objective which will have to be achieved through a series of policy decisions and their implementation. It cannot be done only through the fiscal policies. But Budget also is an instrument, a very powerful instrument which certainly can help us to achieve some of the objectives, and I would like to claim here that we have made a very serious attempt to go in the desired directions. I entirely agree with one point that Mr. Goray has made, namely, what is the use of saying that we would attack the poverty in this country and remove it from this country if you allow personal wealth to be accumulated. And I must say it is a very, very valid point. You cannot on one hand say that there is disparity and at the same time say that you would like to allow wealth to be accumulated. He has made that point and let me say at the very outset that I am entirely one with him. I have myself devoted a couple of paragraphs in my speech to that point and said that, as far as the rural rich are concerned, there are some Constitutional limitations, and I have myself admitted that there is no doubt that if at all we have to make an attack on the problem of disparity, we will have to equally rope in the rich in the rural areas also for the same treatment that we are thinking of for the rich in the urban areas. I have no doubt in my mind about it.

At the same time let me tell Mr. Goray that it has become a fashion to say that our party is a party of Kulaks. I mean, these are some of the cliches that we are borrowing from some other countries. I know that there is certain exhibitionism of wealth in rural areas. There are some such people, I do admit that. But to say that the entire rural area of India only consists of Kulaks is, to say the least, not a fact. The massive mandate we got from the people, was from both, the poor people in the urban areas and the poor people in the rural area. How do you say then that this is a party of Kulaks? There may be some kulaks and the kulaks may be found in any party. For instance, I can find kulaks in his

party also. So it is not correct when he says that our party is a party of kulaks. It is merely using some sort of a cliché which I did not expect from Mr. Goray, because I know he tried to be very rational and logical in his criticism. I am prepared to take the same criteria which Shri Goray referred and examined what exactly we have done so far and we have not been able to do sufficiently well. I quite agree that this Budget has not been able to touch the rich in the agricultural areas as it should have. But it is very difficult for me to do that. There are certain Constitutional limitations. I have mentioned them and I have also assured the House that we would like to start an attempt in this direction. We would like to discuss such questions with the States. Now we are told that we should have done this. And when the question of the States' autonomy comes, there also Hon. Members stand up and say that in this country the States must have full autonomy to go ahead according to their own lights. And certainly I do understand these aspirations of the States also though I do not agree with the extreme views.

Certainly, I will have to consult the States also. Whenever you have to impose any taxes or do anything in this matter, you have to carry the States with you.

Looking to the present political structure of our country, we have to take State with us. You can say that our Party is in power at the Centre. I shall say that. I do not shirk responsibility, particularly in this matter. Therefore, Sir, I have made an effort in this particular matter.

Now coming to taxation, I know that it is a very unenviable task of the Finance minister. I wish it were the responsibility of a Finance Minister to merely go on distributing the sweets; that would have been good. But he has to come up with taxation proposals. Do not presume that I do not realise it. But ultimately we have placed before us certain principles which can be followed while undertaking the measures of taxation. I have tried to enumerate them and I have tried to stand the test of those principles. If you see, Sir, the

part B of my speech, paragraph 24, before I started giving details of taxation I have laid down certain principles. Sir, I do not want to read it again. If you see (a), (b) and (c) of that paragraph, there I have said that the tax-structure should be simplified and rationalised in such a way that the burden of assessment for the assessee as well as the tax collector is minimised.

Sir, in case of personal taxation, we have taken a major and important procedural step to see that up to a Certain limit Rs.25,000 or Rs.30,000 I do not remember it exactly the income tax officers are now required to do only sample assessments so that they can find more time to devote to the people who have got higher assessments higher income groups. That sort of simplification has been made in case of customs duty also. We have certainly rationalised the structure of customs duties. Instead of 5 or 6 rates of customs duties, we have reduced the number so that there may be more rationalisation and that rationalisation has certainly brought us more funds, as far as the exchequer is concerned.

Sir, again, fortunately or unfortunately, this country has a tax structure which has been with us for the last few decades. The major contribution to our national exchequer is from indirect taxation. I have tried, to be honest to my own conscience in dealing with every proposal that was place before me by my officers. I tried to see as to where we can increase the sources and widen the scope of direct taxation, which, really speaking, attack the incomes either the corporate tax, or the wealth tax or the income-tax—so naturally, I had to take certain steps and on the income of Rs.15,000 and above per year, we have levied additional surcharge. Sir, some Members have said that there is no incentive to the small man to save. May I ask, as I asked in the other House, how many people are there, in ordinary sense, who can, really speaking, save more than Rs.5,000 per year? We have, given many concessions to those whose savings are up to Rs.5,000. There are many incentives for those who can save up to that level. You can again study the Budget Speech

very carefully. For the first rupees one thousand of savings we have given complete exemption. Similarly up to Rs.5,000 there is a large scope and there are more incentives for savings. But on further accumulations, we have not offered any concessions. I would like to claim that the taxation is stiff, so far as the wealth tax is concerned. We certainly put a virtual ceiling on the wealth of every one in urban areas., Can you not say that this is a step in the right direction? Are you not going to concede that much? Certainly this could have been done earlier but at the same time I would say that one must concede that these efforts are at least now being made. Coming back to some of the points which Members have made, I see that some Members said about Garibi Hatao, that the budget does not serve Garibi Hatao. Let us understand the problem of poverty. In this country certainly Garibi Hatao was a very powerful slogan, but it is not merely a powerful slogan. It is the main programme before this country. This is the national programme of the country. We will have to fight the poverty. Let us understand what is poverty and how do we tackle the problem of poverty. I think some Members, not in this House but in the other House, quoted Mr. Dandekar. He has made a very good study of the problem of poverty. He has defined the problem of poverty in a nutshell and I agree with him. He has said that the real essence of the Indian poverty problem is that there is slow rate of growth and the income and wealth is unequally distributed. These are the two features of the problem of Indian poverty. We will have to, see that there is further growth, at the same time this growth will have to be properly or equally distributed among all the sections of the society That is the general approach and I entirely agree with that approach. He has given many suggestions and one of them is that we will have to find massive resources to start rural employment of the range of Rs.800 to Rs.1200 crores.

**Shri N.G. Goray:** From Rs.800 to Rs.1,200 crores.

**Shri Y. B. Chavan:** Yes. When it comes to raising the massive resources, people start shaking in their shoes. It is said that we

have not touched the corporate sector. I would like to say that in this year's Budget we are collecting about Rs. 27 crores from direct taxes and out of this Rs.16 crores are from the corporate sector. More than 50% of this year's direct taxation effort is coming from the corporate sector but at the same time I must say that we have done it by withdrawing some exemptions because our idea was, that if at all we want certain growth of the corporate sector, it will help, if it accumulates certain resources or, if there is higher capital formation. That also is a consideration which I do not want to deny but it is not true to say that we have not touched the corporate sector. We have certainly tried to touch the personal accumulation of wealth. That certainly we have done whether one likes it or not. I do not claim that-it is 100% socialist, but certainly I claim, it is a very definite and a positive step towards the implementation of the socialist programme. This Budget has certainly taken a very important step in a very right direction and my test was when the criticism came. When Mr. Chinai said here in this house that this is an antisocialist Budget, I take it for granted that this must be a socialist Budget. I will certainly say that. Unfortunately he is not present here but I would say this is the very very final test of the character of the Budget.

I will now take certain specific points from the discussion. I would take first of all the question of public sector undertakings because this is discussed constantly and this will have to be discussed constantly. I know, that performance of every public sector undertaking will be discussed through questions and other debates in this House and it is good that the country is always aware of it. But at the same time I would make a humble suggestion that one should not make a generalisation or rather a sweeping statement. I was pained particularly when such a statement came from Mr. Goray also. I thought I should give some detailed information about it because he said that there was absolutely no improvement in the public sector. I know that there is enough scope for improvement. It is one of the important sectors in which

we will have to concentrate our efforts in the years to come, if at all we have to command the heights of economy, in the real sense. And if there is going to be any meaning to our march towards socialism, the public sector will have to give a better performance; I do not deny that. But at the same time to say that there is no improvement at all would be rather very unfair. I would like to say, Sir, that while I am acutely conscious of the deficiencies of the public Sector, I must mention that during 1969-70 the performance of the public sector shown an improvement in comparison with the previous years. Of the 81 running concerns 49 made a profit of Rs.72.27 crores. So I would like to mention that more than 50 per cent of the public enterprises are making profit.

**Shri N.G. Goray:** What is the capital invested?

**Shri Y. B. Chavan:** I will come to that. Of course the point of your main criticism is valid. I am not avoiding your criticism; I am just considering certain aspects of your criticism. In the major investment sector which is very vital for our growth, the steel sector, we are really speaking lagging behind. There we are implying; I quite concede that. But to create a climate that the public sector is not making any contribution or giving an all round bad performance would be wrong. As I said forty nine concerns were making a profit of Rs.72.27 crores as against 41 in 1968-69. Thirty two enterprises including Hindustan Steel have made a net loss of Rs.76 crores. This is also true. Certainly there are some concerns which are making losses. Then, Sir, the average return on the capital employed in for depreciation was 4.2 percent as against return of 2.7 per cent in 1968-69. In 1969-70 twenty-four enterprises declared dividends ranging from 3 per cent to 21 per cent. When you want to make a judgement on the public sector you will take an overall picture of the public sector and not make just a sweeping statement. In another sphere the public sector has made a more useful contribution and that is in the field of earning foreign exchange for our country. We have achieved

significant results in this direction. Now, we can classify the public sector, into two classes, one is the manufacturing enterprises and the other non-manufacturing enterprises. In 1965-66 exports by manufacturing enterprises in the public sector were to the tune of Rs.4.6 crores and in 1969-70 these exports have reached the level of Rs.84.6 crores. Similarly earnings of foreign exchange by aviation, shipping and ship repairing concerns etc. which are in non-manufacturing class have also recorded a marked increase from Rs.30 crores in 1965-66 To Rs.85.2 crores in 1969-70. I am just mentioning these figures and I would request Members to keep them in their mind so that when they criticise, when they try to assess the performance of the public sector, they can find that, it is not all so very bad and one need not be pessimistic about them. I would like to tell Hon. Members that we ourselves are very much concerned about the shortfalls in expenditure; particularly in the case of the public sector. The Prime Minister herself has taken personal interest in these matters and we are trying to take certain steps. I do not want to go on detailing all those steps. We have asked every Ministry to have some sort of a task Force to see where the deficiencies are, to anticipate deficits and to determine what remedial measures could be taken. The Finance Ministry is also, concerned to a certain extent and certainly we will go into this matter. We have identified certain problems. Of course Mr. Goray may say, the same problem the same deficiencies and the same answer. It has happened but the process of growth is like that. According to whatever little study I have made of the growth of the public sector in the course of the last one year, there are four types of difficulties in the public sector which at the present moment we have to face.

First is the problem of inventories. Some steps are needed to see that the inventories are rationalised. The evaluation of the market position the price position and many other factors come into play in deciding this question. The Bureau of Public Enterprises have made a very scientific study of this problem of inventories.



We have given the undertakings new guidelines in this matter how to improve the position of inventories.

The second is proper planning for maintenance of important and vital units of production. I think we have erred somewhere and we find that the question of maintenance of the units could have been taken care of properly earlier. The third problem is that of personnel management. The fourth, and the most important factor, which is somewhat a political problem and there is no use denying that is the question of labour relations, particularly in the steel sector. I will not go into this factor nor hurt any party's sensitivity in this matter, but it is a fact of life that labour relations in the public sector and particularly in the very vital sector of steel, have become one of the major contributory factors for the shortfalls.

These are some political aspects of it. It is not an economic factor, but it is a political factor which has to be considered from some other angle. These are the four major aspects. We have identified the problems and we will have to attack them. Naturally it will take some time. What Mr. Goray said was right. Ultimately we must see that whatever production potential we have established in this country, is increasingly made use of. That is ultimately the commonsense test for any economic growth. So, as far as the public sector enterprises are concerned, we are certainly aware of the position. As one who believes in the public sector and as one who believes that this is the way that we can ultimately go towards the goal of socialism, I feel we must also at the same time be aware of our deficiencies. I can only assure the Hon. House that the Government at all levels including the Planning Commission is very much aware of this problem. As somebody mentioned, they have had discussions and the Deputy Chairman himself made a mention of this problem. We are acutely aware of this to improve the performance of the public sector.

Now, Sir, about what we have done about the wealth-tax aggregation in the case of individuals and families both in the rural

and urban areas. Shri Prithwi Nath suggested that for the purpose of wealth-tax the definition of an assessee should include his or her spouse, his minor sons and unmarried daughters. He felt without such a comprehensive definition, the purpose for which this tax is being levied would be lost. I appreciate the anxiety of the Hon. Member to make the provisions of the Wealth-tax act effective. I would however, like to draw his attention to some of the provisions which we have already made in the Budget proposals to meet the situation. A number of steps have been taken to plug the loopholes and to make the provisions effective. Thus, while no wealth-tax will be leviable unless the net wealth exceeds Rs.1 lakh in the case of undivided family, once they are liable to tax, it will apply to their entire wealth. To tighten the incidence the exemption from wealth-tax currently available for household or personal jewellery and for shares forming part of the initial capital issues is being withdrawn. In the case of conveyances, the exemption will be limited to Rs.25,000 in the aggregate. The existing provision in the wealth-tax Act, excluding from aggregation the assets transferred by an individual to the spouse or minor children, is being done away with. Thus there would now be an aggregation of the wealth of the wife and minor children, with that of the husband when assets are transferred to the former by the latter and this aggregation will be irrespective of the levy of gift-tax on such transfers. A similar provision is being made in respect of conversion of assets of individuals into those of Hindu undivided family. In fact in this budget a considerable dent has been made in the abuse of the institution of the Hindu undivided family by, first subjecting the transfer of personal property to a HUF by the levy of gift tax and then by aggregating with the property of the individual, for purpose of wealth tax, the proportionate share his wife and minor children in the property so transferred to the Hindu undivided family.

Now, Sir, the question is asked whether we have made any effort for the growth of the economy. That is another question. If

we have to tackle the problem of poverty, we have to see whether in different spheres, we are making proper efforts for the growth of the economy. That is really speaking the most important point. I would like to say that if we see the budget provisions compared to the level of actual expenditure of last year we find that this year we have made an additional provision, according to me of, nearly Rs.375 crores or a little more, not less. If you take the provision for what is now technically called non-plan expenditure, we have a provision of Rs.50 crores for rural employment and Rs.25 crores for urban employment. Really speaking, if we have made provision for employment, we are thinking in terms of having an employment programme which would ultimately create real assets in the country. When we start work for having wealth, like having percolation tanks, having bunds, building roads, etc., certainly it is creating a new source of wealth in the country. We have made an additional provision of really Rs.97 crores, in the investment of public undertakings. Then, Sir, the criticism is that we make the provision but do not spend it, ultimately we come with a shortfall. That is certainly the problems somebody has said, that this provision of Rs.50 crores is also going to be a sort of farce. This is a light-hearted criticism.

We are taking steps to see that, this is properly made use of. At the same time this provision of Rs.50 crores and Rs.25 crores is certainly a very insignificant amount. I myself concede it. When you say that even this is not going to be spent, what was the use of providing more? Ultimately we will have to create more administrative capacity to work the programmes which can absorb these funds, and possibly gradually we will go on increasing this provision according to our requirements in this matter. So, Sir, we have taken enough care to see that provisions are made for the growth of the economy. At the same time we have also tried to see that the poor man is also helped. Some people have said that there is a crushing burden on the common man. I must say it will be an impossible task not to cast any burden on the common man.

Indirect taxation is of such a nature that incidence of something or the other ultimately reaches the common man, poor man, in the rural area also. I am not blind to that situation. Ultimately what is the test? Ultimately as an objective test what have I to show? I would like to give certain information about that, the impact on the common man. What are the most important consumer goods which need to be spared was the main consideration with me, because you cannot spare everything. One of the tasks before me was also that I had to raise large resources, because there are serious problems before this country. Some provision had to be made for employment, certain provision had to be made for refugees, and if I had left the entire deficit uncovered, there would have been terrible pressure on prices, there would have been inflationary pressure. I could only leave that much deficit uncovered which the economy would be able to bear. I think it can be of the magnitude indicated in the Budget.

Now, coming back to what are known as the wage goods, let us see which items go into the making of the consumers price index. Following items are known as wage goods: Kerosene, sugar, tea, coffee, matches, vegetable product, soap, footwear, and cotton fabrics. These are the items which go into the consumption of the common man. I would like to say that we have not touched kerosene. The Budget has not touched Kerosene. The Petroleum and Chemicals Ministry because of other causes may have, but the Budget has not touched kerosene. Nowhere has the Budget touches it. Let me go one by one.

In 1948-49 the contribution from wage goods to the total Union excise duty was of the order of 40.6 per cent, and this rose further to as high as 53.7 per cent in 1953-54. This trend, however, got reversed in 1954-55. Since then the percentage of revenue contribution of wage goods to the total excise revenue has been progressively declining, and in the year 1970-71, that is, the last year's Budget when the Prime Minister introduced the Budget, the percentage was only 23.7 per cent. This year despite, the pressing

need for additional resources, every care was taken to see that the wage goods are not materially affected. Therefore the percentage of contribution of the wage goods to the total excise revenue has come down further, and it now stands at 22.1 as against 23.7 -last year. This is a reduction of nearly 1.6 in the percentage of last year. I am only saying that, you have to see that direction in which we are going. It is not enough to say that we are not going in the proper socialistic direction. We have really to take more care of the poor and remove disparities. Some people call this Budget as a very uninspiring Budget. But may I say that some people will never be inspired in their life? Inspiration is a subjective matter.

Some Hon. Members have made some points about marginal cases of wealth tax.

As hon'ble Members are aware that no wealth tax will be leviable in cases where the net wealth does not exceed Rs. one lakh in the case of individuals, or Rs.2 lakhs in the case of Hindu undivided families. Further, where the net wealth exceeds the exemption limit of Rs. one lakh or Rs. two lakhs, as the case may be by a small margin, the wealth-tax payable will be the lower of the tax at the rate of 1 per cent on the amount by which the net wealth exceeds the exemption limit. Thus, up to a net wealth of Rs.1,11,100 the amount calculated under the marginal provision will be lower than the amount arrived at by applying the rate of 1 per cent, to the whole of the net wealth. On the other hand, when the net wealth amounts to Rs.1,11,100, wealth-tax at the rate of 1 per cent on the entire wealth is lower than that calculated by applying the marginal provision. So, if by margin he means Rs. 10,000 or Rs.11,000 more, certainly the new provisions will not cause hardship. But if it goes higher than that, I think certainly the intention is that the entire wealth should covered by wealth-tax.

Sir, some Members have suggested economy in expenditure. This is a rather undisputable point, about avoiding ostentatious expenditure and ostentatious living.

So, it is something which I do not think is a very debatable point. Certainly there can be more efforts in this direction, and specific suggestions in this matter can always, be considered. My party also has passed certain resolutions on this subject and we are trying to find out how we can move in the matter. But there is a general feeling that there is more of non-Plan expenditure. I would like to give some information on that. I am not debating that point because I concede that wherever there is scope for economy, in expenditure, we should certainly effect it. But when we speak about economy in expenditure, what exactly do we mean by it? There is a legitimate feeling that the resources which are being mobilised in the Budget from year to year should be properly utilised so as to make an impact on our pressing problems of poverty and unemployment. Hon. Members are aware that leaving aside the expenditure on Defence, the major part of the non-developmental expenditure is on account of obligatory or inescapable charges like debt servicing, subsidies and aid to foreign countries, relief to refugees from East Bengal subsidies to the Food Corporation and so on. Now, this year we have increased the subsidy from Rs.10 crores to Rs.30 crores for food. Can you say that because technically, it is a non-Plan expenditure or non-developmental expenditure, it is not necessary? Certainly it is meant to give some relief to the poor man. When we want to subsidise the issue prices of food, naturally it is to be viewed as a measure conceived and used to attack poverty. Then about defence, I do not understand how one can say that it is not necessary? It may be non developmental expenditure, but I think it is the most important expenditure in the country, looking at the political picture as we see it to-day. I found some criticism not in this House but generally by some parties - that this is a capitalist Budget. Why? Because we have made a very high provision for defence, for CRPF and other things. Sir, in this country, where in some parts people are murdered - I do not want to mention details - can we say that the provision for Police is a capitalist provision? How can we say that? If at all we have to make criticism, we should make reasonable criticism.

These provisions certainly should be there. I would like to say that in the Budget for 1971-72, out of about Rs.1,171 crores on account of non-developmental expenditure on revenue account, as much as Rs. 8.51 crores is on account of the items I have mentioned, food subsidies, aid to foreign countries, debt servicing, provision for refugees, etc., Of the balance, about Rs. 150 crores is on account of the tax collection machinery and the police organisation. I doubt if there is any scope for any economy in these, but we can certainly see if there is any scope in these two important organisations - the tax collecting machinery and the law enforcing machinery - which are essential for any Government and for any country. The remaining areas cover a variety of activities like Parliament, Audit, External Affairs, Administration of Justice, General Administration. I would like to assure the Hon. House that continuous efforts are being made to effect as much economy as possible. But I am sure honourable members will appreciate that to some extent these efforts could not show any perceptible impact because unavoidable factors contributing to increase in expenditure have been in operation. For example, the recent grant of interim relief to Central Government employees has cast an additional burden of Rs.106 crores and which I know honourable Members in this House asked for... Even now they are not satisfied with it. I know there are still further demands being made. When such demands come up, honourable Members are very keen and they do not think that this is a non-plan expenditure. This is, really speaking, non-growth expenditure. Therefore, if they realise this, they will not make that criticism. And I do not say they are wrong in their demand. We have conceded it because it is the right thing. I am not grudging that we gave them Rs.106 crores. We had to give them because the cost of living had to be taken into account. But while analysing the criticism on the question of Non-plan expenditure we shall have to take several factors into consideration. Non-plan expenditure is, really speaking, a necessity, and only part of it is meant for growth. The provision that we made for urban and rural employment programme was,

technically, non-Plan expenditure. Certainly it is a non-Plan expenditure technically, but it is meant for growth. So that is one aspect. Now, tax revenues. There is a question of arrears of income-tax. Some honourable Members did mention the question of arrears of income-tax. I think it is a much needed education not only for the House but also for myself; therefore, I also wanted to go into this question. As this question is constantly mentioned. I wanted to know exactly of what size problem is...

**Dr. K. Mathew Kurian (Kerala):** Are the arrears also meant for growth?

**Shri Y B. Chavan:** No, no. Arrears are not meant for growth. I would like the Hon. House to know exactly what the size of the problem is and how we could attack the problem. I would like the House to know this question because every time a certain figure is brandied about and it is asked what is being done about it. There are two concepts about it. They are gross arrears and net arrears. And I tried to find out what goes into gross arrears and what exactly goes into net arrears. I find that gross arrears of income-tax are to the tune of Rs.731 crores, but the net arrears come to about Rs.565 crores. I was trying to find out what the reason for it was, why there was this difference. I find that the following items are excluded from the gross demand to reach the figure of the net arrears:

- (i) Amounts pending disposal of appeal wherein stay has been granted;
- (ii) Amounts for which extension of time for payment of tax has been granted by the Income-tax officer and/or other income-tax authority;
- (iii) Demand covered by advance tax which was awaiting adjustment; and
- (iv) Amount not fallen due up to the end of the quarter.

These are some of the categories which had to be taken note



of when we arrived at the figure for the net arrears of income-tax. Even then I must say that the amount of Rs. 565 crores is a big amount. I cannot say that it is a negligible amount. I am not claiming so.

I would like to say that we have certainly taken a number of administrative measures to see that this question is attacked. Well, again I do not want to burden you with all that information of what administrative steps we have taken. The Finance Bill 1971 also contemplates further legislative measures to improve the system of recovery of arrears. It is proposed to appoint 5 Commissioners of Income-tax as Tax Recovery Commissioners. They will have zonal jurisdiction and, apart from supervising the tax recovery work, they will hear the appeals from the orders passed by the Departmental Tax Recovery Officers which have hitherto been going to the District authorities. With a view to speeding up the recovery of old arrears, it has been decided to give special incentives to the Tax Recovery Officers by awarding appropriate advance increments. This is some sort of incentive that we have introduced to recover the old arrears. The measures which have already been taken have contributed significantly to the reduction of arrears. Thus, as against the collection out of the arrear demand of income-tax amounting to Rs. 59.94 crores in 1964-65, Rs. 100.52 crores were recovered in 1967-68, and this figure has further gone up to Rs. 159.61 crores in 1970-71. I am giving this information because I wanted to show that this is a very sizeable problem and this needs make recommendations regarding further fiscal incentives that could be offered to encourage industrial research and the recommendations of the Committee will be given due weight in this consideration.

Well, Sir, I have tried to deal with some of the points, specific issues, which I thought, require some mention in my speech. My general approach as I have already explained, will certainly prove that effort has been made for the growth of the economy. The taxation effort had to be made because there were problems. I

would have failed in my duty if I had not made an effort of that size. But care has been taken to see that the burden on the poor is as less as possible, as small as possible. At the same time, we have made a definite move towards curbing the accumulation of personal wealth. This is, going to have a long-term effect on the whole economy. Hon. Members probably do not realise what, it is. They should certainly try to read the criticism that is leveled against this Budget by those people whom we can call capitalists or the capitalist class and then they will know where the shoe pinches. This, is the reality.

Well, Sir, then the criticism is made that this Budget is against the middle class. I would like to submit that really it affects the upper middle class. Yes, it does. Hon. Members mentioned the tax on petrol. Well, Sir, this price increase was inevitable in view of the rise in the international price of petrol.

Sir, as far as the passenger fares are concerned, as far as the public buses are concerned they use diesel oil which we have not touched. This is the most important fuel for the transport of the poor man, the common man. I have not touched that. Certainly we had to touch petrol. Its international price is going up. Whether the consumption will got down or not, I cannot say. But those who want to consume it, let them pay for it. There is nothing wrong in it; and I have no apologies for it. Well, it is certainly going to put a certain burden on the people who run the rickshaws or taxis. I am not saying that they have not go any problem. We say that they need not raise a hue and cry for a raise in the taxi fares and the rickshaw fares. The Regional Transport Authorities are there and they should certainly look into this aspect. Since we have increased the price of petrol. I think, in the fitness to things that they should get a little rise in their fares. That we have agreed to.

Well, Sir, I have made a mention of many points. Many more points I can mention. Some people mentioned about the nationalised banks. Whatever steps we have taken about the

nationalized banks, I think. I have mentioned many times in reply to various questions and Calling Attention Motions. Sir, I would like to give a brief resume' of some important steps. In order to reach out to a wider section of the people, banks are extending their branch network to hitherto unbanked areas at a fast pace. Between July 1969 and end of March 1971, 3,256 new offices have been opened by the commercial banks in the country. Of these, 2,857 have been opened by the banks in the Public sector and nearly 70 per cent of these are located in the hitherto unbanked centres.

Sir, increase in the number of branches means a very big operation. I do not know if the Hon. Members would realise the operation involved in it. Certainly, to that extent it affords new employment opportunities and it reaches new areas. And when it reaches new areas, unbanked areas and underbanked areas, it means it is trying to reach those people who, are in need of credit. And I would like to say that there are certain States which are still undeveloped. For this, I am constantly in touch with the custodians of the Banks...

As far as the question of security for the loan is concerned, I have said it many times that a comprehensive credit guarantee scheme has been instituted covering lending of commercial banks and credit institutions to small farmers, small transport operators, small retail traders and self-employed persons upto specified limits. A Credit Guarantee Corporation has accordingly started functioning from 1st April 1971. This should further give an impetus to the programme of accelerating lending to the neglected sectors of the economy.

Hon. Members would again ask me: What about the performance? Let us wait for one year because this corporation has just started from the 1st April 1971...

Well, Sir, I have tried to cover almost all the points and I have tried, as far as I can, to give a rational explanation of my

approach to the Budget, of the general principles which governed my thinking while formulating the Budget. As I have myself said, Sir, it was a very difficult task but there is no doubt that the mandate that the people give us was constantly before us, and we are going to pursue the objectives we have set before ourselves. And it is only by pursuing this line that we may succeed in creating conditions in the country which will be not only favourable to socialism but which will also bring about a socialist State in this country.



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## FINANCE (NO.2) BILL, 1971

*Motion in Lok Sabha, 26 July 1971*

*"That the Bill to give effect to the financial proposals of the Central Government for the financial year 1971-72 and to provide for the levy of foreign travel tax, be taken into consideration."*

The important features of the proposals in the Bill were outlined by me in my Budget speech and the details of the specific provisions in the Explanatory Memorandum circulated to Hon'ble Members along with the budget papers. I do not, therefore, propose to take the time of the House in going over the entire ground again, and shall confine myself merely to explaining the principal changes that I propose to introduce in the provisions of the Bill. The valuable suggestions that I have received both from Hon'ble Members and others have been of considerable assistance to me in formulating these amendments and I would like to take this opportunity of expressing my gratitude to those who have provided "Comments on the proposals. I have also met the representatives of various Associations. I have also had the benefit of consultations with my colleagues in the Cabinet.

The main objectives of the Bill are to simplify and rationalise the taxation laws and to reduce opportunities for evasion of taxes, as also to bring about a scaling down of the concentration of economic power and reduction in the inequalities of income and wealth and, if I may so, it has been widely acknowledged that the proposals in the Bill will go a long way to meet these objectives. What I propose to do through the amendments is to suggest a few changes for rationalising some of the provisions of the Bill, in

certain other cases, to make them more effective in achieving the objectives underlying them.

In the field of direct taxes, the Bill contains proposals for imposing a ceiling on the remuneration of employees which would be deductible in computing the taxable income of a company or any other taxpayer. The maximum amount that will be deductible in respect of any one employee will be limited to Rs.5,000 for each month or part thereof comprised in the period of employment of the employee in India during the relevant account year. The expenditure incurred in providing any, perquisites etc. to an employee will also be restricted to 20% of the salary of the employee or Rs.1,000 per month, whichever is higher. In regard to directors or persons who are substantially interested in the company of their relatives, there will be a similar ceiling of Rs.72,000 for "the year. In the case of employees, certain items of expenditure, such as, contributions to recognised provident funds, home leave travel concession, etc. will not, however, be taken into account for purposes of applying the aforesaid ceiling limit. I now propose to make an amendment in the relevant provision in order to place director employees on a par with other employees in this regard. I also propose to clarify that where the expenditure on account of remuneration, benefits or amenities provided to a director does not relate to a full year, the deduction for such expenditure will be reduced proportionately, and further that in a case where a person is a director of the company for a part of the account year and an employee for another part of the year, the deductible amount of expenditure incurred by the company in providing remuneration, benefits or Perquisites to such a person will be limited to Rs.72,000.

The Bill proposes to limit the deductions upto Rs.3,000 presently available in all categories of tax-payers in respect of income from investments in specified categories of financial assets, such as, Government securities, company shares, bank deposits, etc. to individuals and Hindu families only. Having regard to the special

position of married couples governed by the system of community of property in force in the Union Territories of Dadra and Nagar Haveli and Goa, Daman and Diu, I propose to extend the benefit of this deduction to such married couples as well.

There has been some criticism of the proposal in the Bill to include in the 'net wealth for purposes of taxation the first Rs.1 lakh of wealth in the case of individual assesses and the first Rs.2 lakhs in the case of Hindu undivided families, where the net wealth exceeds the aforesaid limits. In particular, it has been urged that this provision will operate harshly in cases of middle class people where the only income derived by a taxpayer is from house property let out to others. Under an existing provision in the Wealth-tax-Act, one house or a part of a house belonging to a taxpayer and exclusively used by him for his own residence is exempt from wealth-tax up to a value of Rs.1 lakh. I propose to provide that this exemption will also be available in respect of let-out house property in the same manner and to the same extent as the existing exemption in respect of self-occupied house property.

In my Budget speech, I had announced my intention to discontinue development rebate in respect of ships acquired or machinery and plant installed after may 31, 1974. We have already issued the notification giving effect to this proposal. It has been represented that the withdrawal of development rebate after the three year notice period would result in retarding decisions for establishing new units. In this connection, it has been mentioned that the various licensing and regulatory procedures take a considerable amount of time before a license can fructify and, as such, the new projects will have to be largely planned on the basis that the development rebate will not be admissible in their cases. We are contemplating certain steps to expedite the work relating to licensing and other regulatory procedures. This, I hope, will result in expediting the decisions by various agencies concerned with licensing and other matters. Although the development rebate has

served a very useful purpose in attracting investments in industry during the last 17 years of its operation, I feel that at the present stage of our development, it is no longer necessary to continue this concession. Development rebate has been criticised by several persons as leading to wasteful use of scarce capital resources and has, to some extent, led to a concentration of economic activity in the hands of existing firms. I am not, however, suggesting that there may not be need for better conceived tax incentives for encouraging industries in certain selected sectors or those in backward areas. We propose to study this problem in depth and I shall be grateful for any suggestions that the Hon'ble Members may like to make in this behalf.

I now turn to the proposals in the Bill regarding indirect taxation. I have already dealt with the proposals relating to Customs and Central Excise in my Budget speech and in my reply to the general discussion on the Budget. Some of the budget levies notably those relating to maida and coarse cloth, were withdrawn at the stage of the general discussion. While the other proposals do not call for any material change, some notifications are necessary and desirable do not call for any material change, some notifications are necessary and desirable in order to remove anomalies or hardship and inconvenience particularly to small producers. And I now propose to indicate some of the modifications regarding Customs and Excise Duties.

I shall first deal with Customs duties. In view of the high margin of profit on imported staple fibre, I had proposed as part of the budget a duty of 100 per cent ad valorem. While the duty on non-cellulosic staple fibre will remain at this level, I propose to reduce this duty to 30 per cent ad valorem in the case of cellulosic staple fibre which is a cheaper variety of staple fibre being imported to meet the cotton shortage in the country. A notification giving effect to this change in duty is being issued.

On the basis of the revised structure of import duties, a rate of 100% was prescribed for all dry fruits. Consequential amendments



have now been made in the tariff values fixed for assessment of these dry fruits and a notification is being issued giving effect to the revised tariff values. The revised tariff values being generally lower than those in force hitherto, the burden of duty will be correspondingly less. In order to remove the disparities in the incidence of duties caused by different modes of assessment, the system of assessment on the basis of tariff values which was hitherto applicable to goods of Afghanistan origin only, has now been extended to all dry fruits.

Coming next to Central Excise duties, I propose, in line with the concessions already announced at the time of the introduction of the Finance Bill in favour of small units, to exempt wholly from excise duty the production of compounded lubricating oils and greases, by units which do not use power.

There have been a large number of representations from the manufacturers of rubber products and vegetable essential oils using solvent extraction process against the increased duty on certain special boiling point spirits on the ground that it would result in higher cost of production and price rise on a number of products. I have carefully considered these representations and have decided to reduce, subject to certain procedural safeguards, the effective rate of duty from Rs.845 to Rs.425 per Kilolitre (nearly half of the present level) on special boiling point spirits with the nominal boiling point ranges of 55 to 115°C and 63 to 70°C which are used in the manufacture of rubber products and solvent extraction of oils, respectively.

Keeping in view the concession already extended in respect of certain specified motor vehicle parts intended to be used as original equipment parts of motor vehicles, I propose to extend a similar concession to such parts going into the manufacture of assembled components like brake assemblies etc. or automobile engines, provided that these assembled components or engines are used as original equipment parts in the manufacture of motor vehicles.

I also propose to extend the concession already announced to the small manufacturers in respect of certain specified motor vehicle parts, to the manufacturers of electric horns.

In order that the levy of duty on oxygen gas does not adversely affect the steel and fertiliser industry, I propose to exempt oxygen gas wholly from payment of central excise duty if it is used in the manufacture of steel and fertilisers.

Further, in order to meet demands from the manufacturers of gases who apprehend considerable difficulties in the matter of declaration of assessable values, it is proposed to fix tariff values in respect of oxygen, chlorine and ammonia gases.

I also propose to restore the pre-Budget rate of 10 per cent, advalorem in respect of electrical porcelain insulators as a measure of reducing the cost burden on rural electrification programme.

In respect of cinematograph projectors, I propose to fix tariff. to fix tariff values for 35 mm and 70 mm projectors to eliminate certain administrative difficulties. Further, as I would not like the cause of education, family planning,

agriculture and public health programmes to suffer owing to the new levy on cinematograph projectors, I propose to exempt 16 mm projectors used for these purposes wholly from the central excise levy subject to certain checks and procedural safeguards .

In the wake of the withdrawal of exemption on agricultural tractors, some points of doubts had been raised whether power tillers would also attract central excise duty. This point has been carefully considered and it has been clarified that for purpose of levy of central excise duty, power tillers cannot be classified as agricultural tractors and therefore the levy imposed on the latter is not chargeable on the former. Customs duty will, however, be charged on imported power-tillers.

The Hon'ble Members will recall that in my Budget speech I had made a mention of rationalisation of the concessions available to

independent processors of cotton fabrics. By this measure, the hand processing units which were hitherto enjoying complete exemption from processing duty, were subjected to a certain amount of duty on the processing done by them. It has been represented by this sector of the industry that the rates propose are too heavy for them and that it will also be difficult, particularly for the smaller units, to follow the normal procedure for paying excise duty. I have carefully considered these representations. I am making a substantial reduction in the rates of duty which were proposed for them. To obviate the procedural formalities and checks, an optional compounded levy scheme is also being notified under which the effective rates will be somewhat less than even the reduced standard rates.

Hon'ble Members may recall that I had proposed a levy on certain ready-made garments and in order to protect the small manufacturers the levy was intended to be confined only to such articles which are manufactured with the aid of power and sold under a registered trade mark or brand name. However, subsequent to this, some of the leading manufacturers of ready-made garments have, with a view to avoid payment of central excise duty, de-registered their brand names. In order to ensure that the big manufacturers of ready-made garments do not get away in this manner, I have made certain modifications in the existing definition. Simultaneously, however, I am providing for adequate relief to the smaller manufacturers by increasing the exemption limit of clearances for ready-made garments to Rs.5 lakhs per annum. This concession will not however, be available to those manufacturers whose annual clearances exceed the limit of Rs.5 lakhs in a financial year.

The maximum number of representations have been received in respect of the levy on bolts and nuts and screws. These representations deal mainly with either the scope of the tariff item or the difficulties experienced by the smaller producers. After careful consideration of these representations, the precise scope

of the tariff items is being clarified to include only, such bolts, nuts and screws which are exclusively fasteners and have no functional utility otherwise. The difficulties of the smaller producers have also been looked into and after considering the various possibilities to alleviate them, I have decided to exempt bolts, nuts and screws produced by a manufacturer whose total value of clearances does not exceed Rs.5 lakhs in a financial year, as in the case of ready-made garments. This exemption, I hope, should meet adequately the demand of the smaller units.

Apart from the relief's and concessions I have mentioned above which all relate to the proposals made in the Budget, I would also like to take this opportunity of announcing another relief, by way of total exemption from excise duty on cigars and cheroots. This industry which is mainly in the cottage sector, and highly labour intensive, has been languishing over the years, fragmenting itself and confining itself more and more to the manufacture of inferior variety of cigars and cheroots as they are not able to bear the incidence of excise duty leviable on the costlier varieties. The loss of revenue by this exemption will be about Rs.7 lakhs per annum. I hope this exemption will help to revive this industry and also give a fillip to the export of quality cigars and cheroots.

A number of letters have been received, including from some Hon'ble Members, about the Foreign Travel Tax. In view of the novelty of the tax in this country and the many representations received, I propose to revise the rate of the tax and now intend to make a beginning with a 15% rate of tax for the Standard first class and only 10% rate for the Economy or Tourist class.

I have taken into account various representations made that relief should be given for certain classes of passengers. Hon'ble Members will recall that even at the time of proposing the tax in the case of students and scientists. It was also clarified in the Memorandum circulated to the Members at the time that in so far as students are concerned, the exemption would apply to all of them who go abroad for studies or technical courses whether

foreign exchange. is released for them by the Reserve Bank or they do not ask for foreign exchange but are otherwise eligible for it. I should like to amplify this by saying that this exemption would apply only to those who travel by Economy class, as Hon'ble Members would appreciate that those who travel by First class, are certainly in a position to pay for that luxury and can therefore afford to pay the tax also. As for scientists, I would like to clarify that the intention is to exempt them from the tax provided they are sponsored by Universities and such other institutions engaged in scientific research as may be approved by the Government of India in this behalf and the purpose of the travel is for participation in an approved international conference, seminar, etc. Here too, naturally, the concession would apply only to travel by Economy class. I also propose to exempt deck passenger travelling by sea for approved pilgrimages like the Haj. Employees of airlines and shipping companies have represented that as a part of their service conditions they are allowed to travel free abroad. once in a while. The airlines companies also give free tickets on other occasions, such as inaugural flights. I propose to exempt such free tickets only as are given to employees as part to their service conditions or for inaugural flights but here too, the concession will be confined to travel in the Economy class only.

As the rules and procedural arrangements have to be finalised before this levy can come into operation, a certain time is needed for this purpose after the Bill is passed. It is my intention is to bring the tax into effect from the 15th October, 1971.

The loss in revenue as a result of the modifications now proposed in the travel tax are very roughly estimated to be about Rs.3 to 4 crores for this year. Taking all the concessions made since the introduction of the Budget, including those in respect of Maida and coarse cloth, the net effect this year will be a loss in revenue of about Rs.15 crores. I hope Hon'ble Member would at least agree that if I had to cast the net wide in augmenting budgetary resources this year, I have been equally responsive to suggestions

for modifications and reductions to remove undue hardship and give relief to the smaller manufacturers.

Finally, I might refer to a matter not connected with the Finance Bill but which has a bearing on mobilisation of resources through the voluntary savings of the people. Hon'ble Members will be glad to know that the net collections under small savings were about Rs.197 crores last year, that is to say, about Rs. 70 crores more than the collections in the preceding year. In view of the urgent need to step up these collections still further so as to counteract the inflationary trends in the economy and to find the much needed resources for development, it has been decided that the limits of deposits in the 7 year National Savings Certificates (II and III Issues), taken together, should be enhanced from Rs.25,000 to Rs.50,000 for individual holdings and from Rs.50,000 to Rs.1,00,000 for joint holdings with effect from 1st August, 1971. It has also been decided that 5 Year Fixed Deposits receivable at the Post Offices and Branches of the State Bank of India and its subsidiaries will not be received after the close of business on the 31st July, 1971.

To enlist the cooperation of the State Governments in increasing the collections under the Public Provident Fund Scheme, it has been decided that with effect from the current year, the Public Provident Fund Scheme will form part of the Small Savings Scheme for the purpose of determining loans admissible to State Governments in respect of the Small Savings collections. I am confident that the State Governments will now take keen interest in stepping up the collections under the Scheme.

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## FINANCE (NO.2) BILL, 1971

*Reply to debate, Lok Sabha, 29 July 1971*

I have heard this debate for the last seven or eight hours and I must say that it dealt with substantially the same points and perhaps in the same style, as were dealt with at the time of general discussion on the Budget. I therefore do not propose to give any detailed reply. I shall merely take some general headlines, if I can put it that way, some general-subjects which need to be referred to, and particularly mention some of the aspects which specifically deal with the Finance Bill as such. We shall have an opportunity to go into more details at the stage of clause-by-clause discussion. There are a number of amendments which will have to be carefully considered.

One criticism which an hon. Member made was that this was a sort of a traditional Budget. I really do not know what he means by an untraditional Budget. A traditional Budget means a form of Budget which seeks to raise more resources; that is supposed to be the major objective of any Budget and this Budget also tries to do so. I do not know what else I could have done. Does he mean by untraditional Budget, — a Budget which does not raise any resources when they are necessary? Nobody tries to raise resources when they are unnecessary. I can understand if one says; you are going in a new direction. The Budget policies seek to achieve certain socio-economic / objectives. As I have claimed

before we have taken some very positive measures in the Budget. Of course I had to resort to certain taxation measures. I know that taxation measures naturally create some sort of an atmosphere - of discomfort. Nobody likes taxation; I too do not like taxation.

There were complaints about prices. I also listened to some lectures in my home because the question of prices is one which affects every household. Let me concede that it is certainly a disquietening question. But as responsible legislators we shall have to consider how to deal with the question -of prices. There is a normal price rise in the slack season every year. What happened unfortunately this year is that the normal slack season rise has coincided with the impact of budget levies on items. Because of the election this year the Budget proposals came at the beginning of the slack season and therefore both these have coincided. If we analyse the price trend we see a very interesting feature, a rather irrational trend. I can understand the rise in prices of those commodities which are taxed. I am prepared to plead guilty for them. One can understand the rise in the price of petrol or other articles on which we have put some additional tax. But what about the price of these things which are not taxed? I can understand the rise in the price of cigarettes. But some Members say that there is a rise in the price of bidi also which is exempted because it is supposed to cater to the smoking habit of the poor man. We had not touched it. There is some sort of irrational atmosphere in the country. Everybody tries to take advantage of the budget, so that somebody can be whipped for it, and it is the poor Finance Minister who is a very easy target for them.

We shall have to go into the reasons and find out why it is happening in regard to prices. Now what are the suggestions? The suggestions are: 'we should have some sort of a price control system. We know that. We have in fact price control on many commodities. I need not go into details. There are many commodities where we have introduced price control as such, for instance drugs, motor cars and ordinary cloth. In some cases



there is some informal price control.

The other method of controlling prices is to see that the production of certain important commodities is increased. Therefore, our major effort in the last five to ten years was in the direction of production of foodgrains, and we have achieved substantial progress. As somebody said, there is a sort of breakthrough in the production of wheat and at present we have got a record of 8.5 million tonnes of foodgrains in the Country. It is very interesting to see that with all this general rising trend of prices in the country, there is a fall in the price of wheat. It shows that production effort is the right effort. I entirely agree with my Hon. friend Shri R.S. Pandey, who gave his lecture and left the House about this aspect.

Where there are shortfalls in industrial raw materials like cotton, oilseeds etc., the only thing that we can do is to import them, so that our production machine goes on because ultimately we must now allow our production machine or production potential to remain idle. In this matter, we did make an effort at the cost of very vital foreign exchange by import of cotton and oilseeds, and we have tried to control the prices that way also. Even then there is a trend of rise in prices and I think we will have to think of further measures.

It is said that we have to think in terms of having some sort of physical control on certain other essential commodities. One will have to think about it, but our experience of physical control in this country is not very happy one. It gives rise to corruption and poorer classes suffer. But even then we will have to see what we can do about it.

I must say that to oppose and resist this irrational rise in prices, what is more important is a consciousness on the part of the consumer and the consumers' movement must be strengthened. I think this should be a part of the garibi hatao movement. Unless we create this atmosphere in the country, it will be very difficult

because you cannot put a policeman behind every person, who puts up the price and, in order to check the corruption of that policeman, you have to put another policeman. Somebody may say that it is a very easy way for the Finance Minister to shirk his responsibility. I am only indicating a direction. That will go a long way to help arrest this irrational trend.

As far as administrative steps. Economic policies and financial and monetary policies are concerned, we have taken necessary steps in this direction. One of the reasons why prices were increasing was that there was increased money supply. We have taken steps to see that it is controlled and it has given us results. There was a sudden spurt in prices in November last year and they went on increasing. Therefore, we had to raise the Bank rate in January of this year, and it has given us some good results.

Regarding fiscal policies, on the one hand I am blamed that I have gone in for very heavy taxation in certain respects, but if I had left this entire deficit uncovered, there would have been tremendous and terrible pressure of inflation which would certainly have pushed the prices further upwards.

Now we have got this problem of refugees in this country. Our economy has to face this huge problem. As a nation we must consciously observe some economic discipline and we must be prepared to go for more sacrifices.

On the question of prices, I do not think, I need go beyond this at this stage. As a matter of fact, I am prepared to take the responsibility for the rise in prices where it is due to our going in for additional taxation. So far as price rise due to other factors is concerned, we have to go into the basic reasons and try to remove them.

The question of the development rebate was referred to. Some Hon. Members of the opposition and one or two Hon. Members from this side asked why we have tried to withdraw the development rebate. This development rebate is in existence for the last

seventeen years. We have given them this concession for these years. This concession had full play for the last seventeen years and it will be there in future for three years more. I am sure it will have some effect even after the statutory period of three years, because the way the concessions under Development Rebate accrue, there will be some spill over for a few more years.

This idea of development rebate has a very chequered career. This idea arose out of the recommendations of the Taxation Enquiry Commission in 1953-54. It was introduced at that stage. Then it was found that it was abused. So, it was again modified. Then it was further modified. At present the rates in respect of new ships are 40 per cent and on new machinery or plant installed in a priority industry, as also in approved hotels and for scientific research 35 per cent up to 31st March, 1970 and 25 per cent from the 1st April 1970; in the case of others it is 20 per cent up to 31st March, 1970 and 15 per cent from 1st April, 1970.

This particular measure has done us service in a way. For a certain time it was necessary. When we wanted to diversify our industrial base, deepen our industrial base, it was necessary. During the last twenty years it has certainly done good. But a certain facility is given, or an incentive is given, to start a thing, to encourage a thing and to consolidate a thing. If it becomes a permanent feature then it ceases to be an incentive. Ultimately, it becomes a privilege to some and a disprivilege to others.

There are three reasons why we thought that we should reconsider this. One argument is that development rebate contains a built in bias in favour of established concerns vis-à-vis new industrial undertakings. This bias arises out of the fact that an established concern is able to avail of the tax benefit through development rebate at once because this benefit gets set off against the tax payable by the concern arising out of its existing profits whereas a new concern has to wait for a few years for availing of the same benefit as it necessarily has to reach a stage for making clear profits before it can avail of the tax benefit of the

development rebate. So, it has a bias in favour of the established concerns.

The second argument is that it is an incentive for the growth of capital intensive industries. Capital intensive industries were necessary and will be necessary but I think they now have a firm base. Now if we have to solve the problem of unemployment in this country we will have to think in terms of giving incentives to labour-intensive industries. As I have said while moving this bill, possibly we will have to give some new thought to this matter, we will have to study this subject in depth to find out new areas where new incentives will be necessary, as far as small-scale industries are concerned, as far as backward areas are concerned. Some Members did raise a question about the regional imbalances e.g. backward areas like North Bihar, backward areas of Orissa, backward area of Madhya Pradesh, Rajasthan, U.P., etc. I tell you in every State there are backward areas. Don't say one State is wholly advanced and the other State is wholly backward. In every State there are areas which are as backward as in any other State. So, we should not think in terms of advanced State and advanced area. It is a question of advanced, regions and backward regions because poverty is there in all the States. I do not want to go into this particular matter and certainly this question has to be looked into. Government have identified the backward regions and industrially backward regions in the country. Different State Governments and the Government of India have given a number of concessions to see that new industries are started. Possibly, we can certainly think of this development rebate also in this context.

This development rebate which is a part of our fiscal policy is really speaking becoming very prohibitively costly because a recent study shows that the estimated cost of the development rebate was as high as Rs.74 crores during 1970-71 and it is likely to rise to about Rs.85 crores by the year 1973-74. This is I very costly affair. I do not mean that this Rs. 74 crores should be saved for

the Government. If it can be saved for the Government it is good. But really speaking it can be made use of for giving incentive to the industries in the backward regions or in some other selective sectors. One needs more study in depth in this matter and I would certainly welcome considered suggestions from the hon. Members. But some people just come and tell me as if, with the development rebate withdrawn, the sky has fallen or the growth has stopped. I heard yesterday an interesting speeches from Mr. Desai and Mr. Virendra Agrawal. The speech was in a telegraphic style which, contained all the adjectives used in a negative political philosophy. It was in a really telegraphic style but, he has collected all the adjectives. If anybody wants to understand the status quo political philosophy they should get all the adjectives from him and study them. They will know what a reactionary political philosophy can be. Really speaking when we have withdrawn the development rebate it means that we want to make selective use of it. Sir, it is merely an instrument to help growth in the right direction. If you give crutches to a man to help him to walk, and if the man wants the crutches all the time, it is not a help to the man. When he is able to walk, the crutches must be allowed to be removed from him. Really speaking by removing the development rebate we are trying to make these industries stand on their own feet and make progress on their own so that this aid can be made use of for further development as such. This is as far as the development rebate matter is concerned.

On the question of arrears of income-tax, I think the criticism of the House was very valid. Of course, the amount was rather exaggerated. I have got certain information and would like to give some more information about this matter. It is not Rs.700 crores as some members have said but it is certainly quite a large sum. The amount of the arrears comes to about Rs.565 crores net. It is not a small amount.

Its break-down is also very interesting. Arrears of 1960-61 and earlier years, that is, over then years, are about Rs.60 crores;

arrears for 1961-62 to 1968-69 are about Rs.285 crores and arrears for 1969-70, that is, one year old, are about Rs.155 crores. I am not yet prepared to call the arrears for 1970-71 as arrears because there are claims still pending. So, I will have to take that out from this amount. So, it really comes to about Rs.500 crores.

I think, very, very drastic steps are necessary to recover these arrears. So, I have decided to make a very, very strict drive to achieve it. Let us see what happens. I hope I succeed in this matter. In this Finance Bill you must have seen that I have made a provision for five additional recovery commissioners. Their main job will be to look into this particular aspect only. We have given them a number of officers. We would give them certain targets and would judge them by their performance in this direction. I know, the question cannot be solved in one year, but I want the collection machinery to be conscious of this matter. If we can make some good progress in this particular aspect, possibly many of our troubles will at least be less severe than they seem to be at the present moment.

So, I would merely assure the House that I am quite conscious about this matter. I have had discussions with senior officers of the tax machinery and I have tried to convey to them the anger of Parliament as far as I could. I propose to pursue this matter further. This is all that I can assure the House at this stage.

..Then. some hon. Members made a suggestion that the crash programme will be a failure. They said that the crash programme will crash because it will be merely a sort of dole. Our idea is not to make it a sort of dole. Our idea is to create work so that there will be certain assets created in the local areas. Having an approach road to a village is an asset in the rural area. It certainly links up with the market; it certainly links them up with the banking place and it certainly links up economic activity all around. So, having an approach road is an asset. Naturally, we will have to see how actually the State administration draws up the programme. Of course, there is the danger of wasteful expenditure. I am prepared

to take your criticism as a sort of warning. We will have to see that ultimately it does not become a wasteful expenditure. That we will have to see. But, the idea was conceived in terms of creating certain assets, certain developmental assets, in the rural areas and in terms of giving employment to the poor who have got no other source of income. That is, really speaking, our idea. I am merely explaining the idea. Unfortunately, some people are in the habit of starting with a negative approach that everything is going to fall. That sort of negative approach is not going to help anybody.

About the arrears of income-tax, I have referred to it. Then, about the prices, I have referred to it. 'About the Plan outlays some Hon. Members made a special mention of West Bengal. They said that West Bengal was being ignored. The hon. Member who spoke on behalf of the C.F.I. said it. That is not true. I am mentioning about West Bengal because West Bengal is certainly a major problem before the Government today. When I say about West Bengal, it does not mean that the problems of other backward areas are not important. Somebody made a special mention of West Bengal. I say, that is not true. I can give some details about it. I know that more needs to be done about West Bengal; I do not deny that. To achieve that the people of Bengal and other political parties will have to cooperate and create a new atmosphere. At the present moment, there is an atmosphere of violence in West Bengal.

We have, however, initiated many developmental activities. The share of West Bengal in regard to Central taxes, etc. during the Fourth Plan is Rs.297 crores as compared to Rs.197 crores recommended by the Fourth Finance Commission for 1966-67. Out of the total devolutions to all States during the Fourth Plan, the share of West Bengal is 8.6 per cent as compared to 6.8 per cent now awarded by the Fourth Finance Commission. The share of devolutions is increasing. We have allotted Central assistance of Rs.221 crores to West Bengal Plan of Rs.320 crores which is almost 69 per cent. For all the States taken together the proportion of Central Assistance to the size of the station Plans is less than 52%.

Developmental activity in West Bengal is not confined to State Plan alone. Outside the State Plan, a very ambitious programme is already being implemented in the Calcutta Metropolitan area. The total outlay for this area during the Fourth Plan period will be nearly as big as Rs.145 crores.

Then, recently, we have started the Industrial Reconstruction Corporation to provide loans and capital on soft terms for the revival of sick and closed industrial units. It is certainly a beginning in the right direction. There is an atmosphere of violence and there is closure of mills and there is a flight of capital because of certain political reasons. But we are taking initiative to start building up the economy on stronger basis. So, this criticism was rather unfair. This is all I can say in respect of West Bengal. (Interruption)

Sir, I must say that some of the points made by Mr. Salve are very very telling points and I now realise that I was a little less severe on the corporate sector. I thought this can possibly wait for some time more. At the same time, although we have not taxed the corporate sector heavily, the most vocal and the most critical sector I find is the corporate sector. Really speaking, one should have done something more about it. Here I, agree with Mr. Salve. They are the most vocal raising a hue and cry that 'Everything is bad. There is-no hope for progress.' I share his criticism about it. Really speaking, we could have done more about that matter.

One or two points Mr. Salve has made. One was about the retrospective effect of the wealth tax on the ornaments etc., and the other point he made which I would like to deal with, is rather a technical point.

Shri Salve made the point that the change in the rate schedule of wealth-tax has resulted in a disproportionate increase in the incidence of tax at lower levels of net wealth as compared to the increase in the incidence at higher levels. To illustrate, he stated that the increase in the incidence of the tax on a net wealth of Rs.5 lakhs was 25% over the existing tax, whereas at the level of



Rs.1.5 lakhs, it is as much as 300% of the existing tax.

Under the Bill, it is proposed to charge wealth-tax on the whole of the net wealth, without any exempt slab, as hitherto, in all cases where the net wealth exceeds the exemption limit of Rs.1 lakh in the case of an individual or Rs.2 lakhs in the case of a Hindu undivided family. This means that in the case of an individual, there will be an increase of Rs.1,000 (i.e. 1% of 1,00,000) in the wealth-tax payable whatever be the quantum of the net wealth. At lower levels of net wealth, the wealth-tax payable being already comparatively lower than at higher levels, the amount of the increase of Rs.1,000 works out to a much larger proportion of the existing tax liability than at a higher level of net wealth. This does not mean that the progressiveness of the rate schedule is impaired. This is because the rates of wealth-tax on successive slabs of net wealth steadily increase from 1% in the initial slab upto Rs.5 lakhs to 2% and 3% in the next two slabs of Rs.5 lakhs each and to a maximum rate of 8% on net wealth over Rs.15 lakhs. Hence, the apparent regressive ness in the increase in the incidence of wealth-tax, due to the proposed change, does not detract from the progressiveness of the rate schedule. Apart from this, it is also to be kept in view that the net wealth is computed after exempt from tax, namely, investments in specified financial assets upto Rs.1.5 lakhs, investment in one house property (whether owner-occupied or let out on rent) upto Rs.1 lakh, agricultural land upto Rs.1,50,000 or Rs.0.5 lakhs (where the tax-payer has a house property in an urban area on which he claims exemption upto Rs.1 lakh), conveyances and other vehicles upto Rs.25,000 besides furniture, household articles, wearing apparel, etc. without limit.

The next argument was about retrospective ness. I would like to go into a little more detail about this matter because there are certain amendments on this aspect. I need not then make any lengthy speech at the time of their consideration and I would refer then to my speech now.

Under the Bill, it is proposed to exclude jewellery from the

purview of the exemption from wealth-tax retrospectively from 1.4.1963. This is being done in order to overcome the decision of the Supreme Court in the case of Commissioner of Wealth-tax Vs. Mrs. Arundhati Balakrishna, where the Supreme Court held that jewellery held for the personal or household use of the assessee was exempt from wealth-tax without limit as it was covered by the expression "other articles intended for the personal or household use of the assessee" in section 5(1) (viii) of the Wealth-tax Act. As it was the intention of Government to subject jewellery to wealth-tax without any exemption from the assessment year 1963-64 this intention is now sought to be given effect to be given effect by a retrospective amendment.

In assessments made over the past several years since 1963-64, jewellery has not been allowed exemption from wealth-tax. If the amendment is not given retrospective effect, then, it would become necessary to revise all these assessments and allow the exemption and grant refund of tax already collected. Hence, it is not correct to say that retrospective amendment would generate more work in revision of assessments; rather, it would save work which would otherwise be inescapable and which would also result in refund of tax already collected. This particular aspect should be borne in mind.

It is, no doubt, true that in some cases, especially in Gujarat, exemption, was allowed in respect of jewellery on the basis of the decision of the Gujarat High Court in the same case and these cases will have now to be revised so as to collect the further tax due. However, the work involved in revising these cases would be far less than the work that would have been involved, if no retrospective effect is given.

The Bill also seeks to give an extended meaning to the term "jewellery" so as to include

"ornaments made of gold, silver, platinum or other precious metal or any alloy containing one or more of such precious

metals, whether or not containing any precious or semi-precious stone, and whether or not worked or sewn into any wearing apparee."

It is also being provided that exemption from wealth-tax would not be available in respect of

"furniture, utensils or other Articles which are made wholly or partly of or which contain (whether by way of embedding, covering or otherwise) gold, silver, platinum or any other precious metal or any alloy containing one or more of such precious metals."

The extended meaning of the term 'jewellery' as explained above, as also the provision for exclusion of furniture, utensils and other articles falling under the categories mentioned above are both being made operative prospectively and will apply for and from the assessment year 1972-73. For assessment years upto and including the assessment year 1971-72, the term 'jewellery' will have the meaning ordinarily applicable to it and furniture etc. would not be excluded from the scope of the exemption even if they incorporate precious metals or alloys.

In giving an extended meaning to the term 'jewellery' and excluding furniture, utensils and other articles falling under the categories described above from the scope of the exemption, it is not the intention to enter into pettifogging enquiries in to the details of such articles so as to cause embarrassment or harassment to tax payers. This will be secured through suitable administrative instructions. Without the extended meaning of the term 'jewellery' and the special provision for including furniture, etc. which incorporate precious metals in their construction, there will be left a big loophole for tax evasion, as wealthy persons could then convert their wealth into such assets which, in the ultimate analysis, do not add to the productive potential of the country.

This is as far as the retrospective part of this provision is concerned.

Sir, some members made a mention about the black-money. It is one of our very biggest problems, sensitive complex and difficult problems. It is true that it is not merely a black-money, but it is a black economy that is functioning in our country; it is a parallel economy. Some Members have mentioned demonetisation as a sort of panacea for this. Sir, I must say that Government have no such proposals of demonetisation at the present moment before it.

These are the general headlines which I have tried to deal with, because I said I would like to deal mainly with the general headlines. There are some other Members who have made some suggestions and some points, but I do not want to go into those details, because once I start going into them, I would again be taking more time of the House. I shall only say that I have taken note of the many suggestions that Hon. Members have made, because I see the force of the criticism that some of the tax proposals are likely to affect the small industries. It is not our intention to affect the small-scale industries. I have in fact made many concessions in the case of small industries. Therefore, I can say that we have made-that effort which was necessary.

I think that tax effort in this country is necessary even to carry on the garibi hatao campaign. Unless we get resources, we cannot implement this programme, of garibi hatao. Garibi hatao programme in a sense means going to the priority sector, to the lower sections of the people and creating opportunities for employment for them. The creation of these employment opportunities is possible only if we have new resources. Therefore, one has to do that. Unfortunately, the tax system that we have inherited depends more on direct taxes. Therefore, one gets this sort of atmosphere that when one tries to touch one item, it touches some more items and immediately somebody asks why that is happening. For instance, I tried to protect soap which is a matter of consumption by the smaller people. But, I could not help it. Similarly; I am sorry I have had to tax the pressure cooker.

I know that the middle class housewife will be a little more angry about it. But I think I will have to put up with that anger because, if I have to have more resources, I cannot help it. Large number of people go without pressure cooker. A very small fraction of people use it. I know the lower middle class is affected. Some families are affected. I know the earning members and so they can afford it and contribute something to the exchequer.

I do not want to go into more details. I had to make this effort. But I think there was no other alternative but to making this effort.

I commend the motion to the acceptance of the House.



## FINANCE BILL, 1972

*Lok Sabha, 15 May 1972*

Mr. Deputy-Speaker, Sir, I beg to move:

*“That the Bill to give effect to the financial proposals of the Central Government for the financial year 1972-73 be taken into consideration.”*

I had outlined the important features of the proposals contained in the Bill in my Budget speech. The details of the specific provisions in the Bill have been set forth in the Explanatory Memorandum circulated to the Hon'ble Members along with budget papers. I do not, therefore, consider it necessary to go over the entire ground again.

As Hon'ble Members are aware, we made a massive effort for resource mobilization during the last 12 months to meet the difficult situation which we faced. We have to utilize these resources to meet the essential requirements of the country as also to speed up the development process. The substantial increase in the outlay for the annual plan for 1972-73 including the provisions for the public sector programmes should step up industrial production and stimulate further economic growth. With a provision of Rs.240 crores for schemes with an accent on social justice, the country should make further progress on programmes of growth with social justice.

The proposals made by me in the field of direct taxes have, by and large, been well received in this House as well as outside. The withdrawal of tax exemption in respect of casual and non-recurring receipts which are in the nature of income will make the taxation law more equitable and in line with the principle of taxing equally persons with equal capacity to pay. As Hon'ble Members are no doubt aware, persons having 'black' money are using the race course and lotteries to convert 'black money' into 'White'. The proposal in the Bill will put a curb on money laundering through such devices. The modifications proposed in the scheme of tax exemption of charitable and religious trusts will reduce the misuse of tax exempt funds of these trusts for giving benefits to the authors, substantial contributors, trustees and their relatives and for acquiring or maintaining control over business and industry. In order to enable the tax administration to tackle cases of tax evasion with international ramifications more effectively, the Central Government will be empowered to enter into tax treaties with foreign countries for exchange of information for purposes of preventing tax evasion and for recovery of taxes in the treaty countries on a reciprocal basis. The extension of the tax concession currently available in respect of provident fund contributions, life insurance premia, etc. to contributions made towards the Unit-linked Insurance Plan of the Unit Trust of India will help in promoting, savings, especially among persons in the middle income brackets. Exemption of recognized provident funds, approved superannuation funds and approved gratuity funds from wealth-tax and of approved gratuity funds from income-tax will encourage formation of irrevocable trusts for the benefit of employees in general.

The modifications in the direct taxation laws proposed in the Bill represent only a part of the effort to tackle the problem of tax evasion and tax arrears and to channelise investment in desired directions. As Hon'ble Members are aware, the Select Committee on the Taxation Laws (Amendment) Bill, 1971 has recently

submitted its report, and the House will soon be considering it. Under one of the provisions of that Bill, the Central Government will be empowered to acquire immovable properties at prices which correspond to those recorded in the sale deeds. Another provision seeks to debar the owner of a property held in benami name from enforcing his claim in a court of law unless he has declared the income from the property or the property itself before the tax authorities. The administrative set up of the official valuation machinery will also be augmented. All these measures will, no doubt, provide a useful instrument of checking tax evasion and circulation of black money.

The Direct taxes Enquiry Committee headed by Shri K. N. Wanchoo, Ex-Chief Justice of India, has submitted its Final Report which contains a number of valuable and far-reaching suggestions for unearthing black money, preventing evasion and avoidance of taxes, reducing tax arrears and for providing tax incentives for savings and investment. We have taken special measures to examine these recommendations expeditiously and I hope to bring forth a Bill to implement such of the recommendations as are acceptable to Government soon.

Turning now to the indirect taxes, Hon'ble Members are aware that taking the mood of the House into consideration which had voiced its concern at the increase in the excise duty levy on kerosene. I had, notwithstanding the fact that there would be a drop in excise and customs revenue of nearly Rs.12 crores, reduced the increase in the levy from the original 6 paise per litre to 4 paise per litre. I had in announcing the concession, also answered criticisms voiced against the proposed increase in levy on other items. I had found myself unable to agree to the suggestions regarding these articles.

In the time between the general discussion and now, I have had the opportunity of carefully examining the various representations relating to indirect taxes by meeting the members of the trade and industry, discussing with my officers, as well as with certain



Members of this House who had particular views to urge with regard to some of the proposals. One feature that I particularly noticed was that the number of representations received consequent on the budget have been comparatively few; which is itself, I would venture to think, go to show that the proposals I had made were reasonably fair. They would not seem to need any further alteration. The concession on kerosene which was considered necessary has already been given effect to. The need for additional resources remains now as strong as ever, and any unnecessary sacrifice of revenue would unduly impair our resources position and I would affect on essential programmes. I, therefore, commend the various provisions in the Finance Bill for the consideration of the House. I shall follow the discussions in the coming days with interest.

Sir, I move the Bill.



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## FINANCE BILL, 1972

*Reply to Debate, Lok Sabha, 17 May 1972*

Mr. Chairman, Sir, I am very grateful to the Hon. House for discussing the Finance Bill for the last nearly nine hours and more. I must say that mostly the Hon. Members have, with very few exceptions and exceptions should always be there, supported the Finance Bill very generously. In the course of the debate, there were many questions of a general nature which have been raised, discussed and debated. The major time of the debate was devoted to the major national problems which are being discussed in the country today, and which naturally, directly or indirectly are connected with the economic problems of the country. Therefore it was very logical that they should be raised during the course of the debate on the Finance Bill though, strictly speaking, they are not connected with the provisions of the Finance Bill. Therefore, I have both a difficult and an easy task of dealing with the debate.

It is difficult in the sense that it is very difficult to give any formal, final, elucidation of government's policy about those matters here and now; it is easy because I can certainly take the matters connected with the Finance Bill and deal with them and get away with it. So, I am going to have, if not a mixed economy, a mixed treatment of both the aspects here.

Sir, the first question that was raised by the Hon. Member. Shri

Bhattacharyya who spoke first, was about the process and the result of the taxation proposals, this is certainly connected with the Finance Bill which I shall deal with a little later. Shri Indrajit Gupta, Dr. Rao, and at the end of the debate, Shyamnandan Babu, also raised some questions of a general nature relating to the general approach of the Government about the Garibi Hatao programme. Dr. Rao raised the question of the ceiling on property; both urban and rural. He expressed certain views; I can say that I agree with him so far as the general approach is concerned. He had asked: what is going to be our attitude to mixed economy. As I said, I do not want to enunciate any policy in this matter, but as one who understands the policy of the Government or the programme of my party, there cannot be any doctrine of a mixed economy, as such, as far as I understand it. What we have to build in this country is a socialist economy. Mixed economy was talked about because it was a recognition of a reality at a certain stage of development in the country. Historically if one sees as we progress, the role of the public sector will certainly increase. There are many aspects of a socialist economy. Some people talk in the technical manner. viz. merely nationalising the means of production. Certainly it is one of the important factors. But I understand it as the restructuring society, as far as relationship of society to property is concerned, relation between income and individual; and the most important one is the distribution of national wealth. These are basic factors which we have to take into account. When Members say: where is your garibi hatao in this Bill, it reminds me of the Pathan who goes for asking for repayment of loan, who moves around the person and says: I have given you so much, why can you not able to repay? Ours is a programme of socialism. I should like to say that it is our commitment to have a socialist programme. We are in a transitional programme, trying to find out the mechanics. How to go through this transitional period? It is a fact of life that there are monopolies.

**Shri Jyotirmoy Bosu:** They are growing.

**Shri Yashwantrao Chavan:** They are not growing ... (Interruptions.) We can argue about it. Our objective is first of all to stop the growth of monopolies, to see that our economy is socially motivated. If there are monopolies, we have to see how they can be really subservient to the general social objectives of the socialist economy... (Interruptions.) This is the general approach. You have to see what we are doing about it. Monopolies are there. Therefore there is the Monopolies Restriction Act. Certainly you cannot stop economic activities, you cannot stop production. We have to see that production continues. When the public financial institutions penetrate into the monopoly companies, when the nationalised banks give these companies loans, they are taking their shares, that is one of the ways of controlling monopolies and weakening them... (Interruptions.)

**An Hon. Member:** Why are licenses given to them?

**Shri Yashwantrao Chavan:** Nobody is afraid of nationalising monopolies. The Prime Minister has said that we shall not hesitate to nationalise anything, if it is, in the national interest...

**Shri Shymanandan Mishra:** You are having a hospital State; you are taking over only sick mills and sick mines.

**Shri. Yashwantrao Chavan:** Hospitals also have a place in society. Nationalisation of banking, nationalisation of general insurance and coal mines, these are some of the things. These are important examples. If you want to put blinkers on your eyes, so far these are concerned, you can do so.

**Shri Shymanandan Mishra:** The coal mines were in great difficulties, they were in a great mess.

**Shri Yashwantrao Chavan:** Unfortunately they have been mismanaged so far. Is not coal production vital for our national economy? That is very important, the mines, particularly. The coal production is very essential and vital for the strength of the economy of the country. Therefore if there are losses at present,

in the long run it is going to strengthen the national economy. Therefore, it has its own priority. The priority of nationalisation has, therefore, to be decided according to the national interest and not according to the whim of the individual member or the individual party.

Shri Jyotirmoy Bosu: Insurance continue to pay them Rs. 33,000.

Mr. Chairman: There will be difficulty. At every stage Mr. Bosu wants to interfere when the hon. Minister is speaking. It is not proper.

Shri Yashwantrao Chavan: Don't bother about it; I will be able to deal with it.

This general criticism, as I said, is very vague. I am certainly prepared to welcome it, if it is really helpful and in a way to concretise programme of social economy. We want ideas. We do not say that we have monopoly of ideas.

You, Mr. Bosu, are another type of monopolist because you think you have the monopoly of ideas. This is the difficulty.

We certainly want ideas. I tell you even in a communist State, this is my personal view, the most important communist state in country even their leadership has not yet claimed that they have 100% socialism yet. Let us accept the fact. It is a process, continuous process, and we are realistic in doing. What we are talking about is democratic socialism. While implementing socialist programme, we have to see that we keep the base of democratic institutions, strengthen the democratic institutions and it is, therefore through the instrumentality of those democratic institutions, that we want to establish socialist programme. We are going ahead with it. Shyamnandan babu, we have parted only about three years ago. Are there such widely differing approaches, now for the socialist programme?

.... I am not talking about syndicate. I am talking about

Shyamnandan babu because he was talking in terms of socialistic programme and democratic socialism. I think, he should understand the mechanics of working of socialism. So, Sir, I would request Hon. Members not to merely talk in terms of a vague sort of position and not to talk merely in abstract terms of negativism. I was, really speaking, eagerly waiting to quench my thirst for new concrete ideas. Certainly some of the suggestions made by Hon. Member Dr. V. K.R.V. Rao will be carried out, after certain analysis on certain aspects which need to be gone into, and I request him as he is one of our leading members of our party and intellectual of country to give us some specific views, which will be useful in this matter.

As far as the ceiling of the property, both urban and rural, it is our commitment now. Debate is going on as to how to make it practicable, how to make it even more radical, if possible. There is no difference of opinion about it.

This is a democratic party. Some of you do not understand the working of it. At all levels, we discuss matters, express our differences and try to hammer them out. Ultimately we take both the economic, political and national considerations into account and accept ultimately the lead given by our leader. This is the mechanics of a democratic party.

**Shri Jyotirmoy Bosu:** Shall I read out to you what Mr. Chandrashekhar of your party has said?

**Shri Yashwantrao Chavan:** Mr. Chandrashekhar is a very important member of our party. If he has said something, it only shows the freedom within our party.

Dr. Rao raised another important question about the functioning of the nationalised banks. Certainly, we have to evaluate their performance. It is not enough to nationalise; we have to see how nationalisation is functioning. That is much more important. He did mention about functioning of the banks.

He threw certain general ideas about it. He said land is a national resource. It is true. Even in the old reactionary conservative land legislation, the basic idea was that land belonged to Government. This is accepted from the very beginning that land is a national resource and a natural resource.

About those basic things, there is no doubt. The question is, ultimately how are we to fix the relationship of the individual of family to the property in the present circumstances. That is most important. Ultimately we have to see that the relationship of an individual to the property must not be such that he is in a position to concentrate power in him and exploit somebody else for that. Ultimately this must be the guiding principle. How to do it is a matter of mechanics -- mechanics of putting it within the framework of law, the Constitution or the political institutions or democratic institutions. These are matters which one has to take into account.

Regarding nationalised banks. I think we have given a series of statistical information to the members of the House in reply to starred and unstarred question.

**Shri Jyotirmoy Bosu:** Discouraging ones!

**Shri Yashwantrao Chavan:** Certainly you are entitled to take that view. I am also not taking a very optimistic view, but I am not taking, as pessimistic view, as you are taking.

**Dr. V K. R. Varadaraja Rao (Bellary):** Why not concretise it and bring forward a white paper on the subject?

**Shri Yashwantrao Chavan:** It can be done. I would not call it by a big name like white paper. But that information can be consolidated. The only point is things are constantly changing. The increase in branches is a continuous process. The figure which was true three months back, is not true today. The expansion is continuously taking place. Deposit mobilisation is also one of the factors. At present, our emphasis has been three-fold: one

was about reaching the unbanked areas and under-banked areas. Secondly when we go to new areas, there should be increase in deposit mobilisation. Third was that having taken over the credit system in such a substantial manner, whether through this system, we can reach the neglected sectors. These are the three aspects of this matter. As far as the first two aspects are concerned. I can say that there is reasonable progress. I do not want to give the figures, though I have got them here. Opening of branches is a continuous process which is going on. There is also substantial increase in the deposit mobilisation in the last two years. This is something very important.

The third question is whether we have succeeded in reaching substantially and effectively the neglected sectors. I am not satisfied here. There are many reasons for it. The first factor is that the commercial banking system, which is evolved so far in our country is yet to equip itself for dealing with this problem, because they are completely urban oriented. Now when they go to the rural areas, they have to acquaint themselves with the rural sector, the rural problems, and they have to acclimatise themselves with the rural conditions. Suppose a man working in Delhi is transferred to a village in Utter Pradesh. He would certainly work in such a way that somebody would like him to be transferred back to Delhi. I am saying this because some members have written to me in this connection. When they told the employees that they are not working satisfactorily, they replied that this is one of the way of getting a transfer back to Delhi as a punishment.

So, the emphasis at the present moment will have to be on the training of the people. It is a question of giving the right type of training and creating the right type of attitudes among the bank employees. In this matter I will need the co-operation of the trade unions, which they are willing to give. Naturally they have their problems, but during whatever discussion we had with them they have promised their co-operation. I also need the co-operation of the labour Minister. Naturally, these things will have to be done



much faster.

**Shri P. Venkatasubbaiah:** What about the insistence on credit-worthiness of the artisans by the banks?

**Shri. Yashwantrao Chavan:** As far as the policy is concerned, we have taken a decision about it. But, ultimately; implementation of this decision is required to be done by the man in the field. What happens is that the person in the field, in order not to create any difficulties, does not take any decision, because the safest way of not getting in difficulties is not to do anything. This sometime creates difficulties. That is why I say that we have to create right type of attitude amongst the people who are incharge of implementing the decision. Therefore, we will have to do a different type of recruitment. We should have a new recruitment policy, a new training policy, a new attitude and possibly we will have to make new institutional arrangements also. It is not only recruitment and training but we will have to think of new type of institutions. We will naturally think of doing it. It will have to be thought to from time to time. We have not come to any final answer. In fact, I was looking forward to some discussion on this point.

Recently, some committees have gone into .the matter. The Banking commission has gone into the general question. Another committee was appointed by the Agricultural commission, which has also into this matter. They have made certain recommendations, which we will consider, and we will see what we can do about it. But those Hon. Members who have got some special experience in this matter, if they give me suggestions, I will consider those suggestions.

Our major objectives of nationalisation is to see that these credit facilities are ultimately made available to the small man in the society, particularly in the neglected sectors, the small agriculturist, the person who wants to have some sort of self employment the small artisan and so on. This is the type of persons we want to

help. For that we have to create conditions. Since he mentioned the nationalisation of banks, I thought I will, by giving an illustration, show how we look at the problem.

**Shri Dinen Bhattacharyya (senampore):** 77 per cent of the credit facilities is enjoyed by the big houses.

**Shri Yashwantrao Chavan:** I can certainly give some information about that, if you want. But I have very little time and I have to answer all the questions.

Now, I will deal with the problem of prices and the effect of Budget on the prices. I think, Mr. Bhattacharyya made a reference to a certain report that appeared in the Economic Times; and he gave certain quotations from that. I have explained on more than once occasion about the indirect taxation that where the overall levels of incomes are low, the contribution of direct taxation has necessarily to be lower and that the principle source of revenue in an underdeveloped country tends to be the indirect taxation.

I have been carefully seeing that the impact of the indirect taxation does not have adverse effect on the price situation. In the last Budget, I carefully avoided touching such items as may cause an increase in prices.

Mr. Bhattacharyya has referred to a report appearing in the Economic Times dated 29th March, 1972 regarding the Budget impact on prices. According to the study made, the changes in the indirect levies proposed in the Budget for 1972-73 were likely to push up the wholesale commodity prices which will be anything between 5 to 6 percent.

I would now come to the actualities. Since the time the Budget was introduced and until today, the index of wholesale prices has in fact, remained steady. For example, in March 1972, it was 192.1. Since the Hon. Member has referred to a press report, it is pertinent to refer to another report appearing in the Times of India dated 23rd March, 1972, wherein it has been reported

that the increased levy on steel has only reduced the unofficial premium charge in the open market and that the market prices have held the prebudget level.

Recently, I indicated in reply to a Question as to how the rise in prices in India over the last four years compared with the rise in prices in selected countries of the world. I do not think I should take the time of the House on that. Really speaking, the question of inflection of price rise is a world problem and the developing countries are facing the same problem. As compared to others, I would like to say that the price level in India is comparatively, I will not say, reasonably; low. Of course, there are different types of demands on the services; there are different levels of production and magnitude of population that we have to look after is also different. These are some of the factors that have to be taken into account.

There is another very important question which I would like to deal with. Certain Hon. Members raised a question about the relationship of the States with the Centre in a federal structure in regard to financial matters. This is a very important matter. Really speaking, the major factor of the Centre-States relationship is now concentrated in the financial field. Some Hon. Members said - I do not know who said it - that the States become the pensioners. I beg to differ with that statement. When we say pensioner, it means that a pensioner has no power to do anything and that he subsists only to whatever is given to him. That is what is popularly understood by being a pensioner. Is it true? I would like to say that it is not true. The Seventh Schedule has given the states powers of taxation. The powers given to the States are not enough. I quite agree. Even the Constitution has accepted it. It is not something that we are giving some new concessions to them. The Constitution itself has accepted the position.

Therefore, they have made a provision by which the Finance Commission, every five years, goes into the question of devolution of taxes. Devolution of taxes is not something like a gift the

Central Government gives them; it is a Constitutional right especially because the Government of India has always treated the recommendations of the finance Commission as awards. What is given to the states is not a gift or a charity. It is, really speaking, their Constitutional right.

**Shri Jyotirmoy Bosu:** What is the outcome?

**Shri Yashwantrao Chavan:** I will tell you what is the outcome. I would certainly like to give figures for that : the additional Central Excise Duty levied is made available to the State Governments : another example is the estate duty on agricultural property which again, for the purposes of uniformity, is collected by the Centre but made available to the States as it is rightfully theirs; increasingly larger devolution of resources has been made under the Finance Commission's awards and how States have participated in the growth of revenues of the Centre would appear from the following figures : Whereas the amount transferred to the States under the Finance commission's award during the First Plan was only Rs. 386 crores, it rose to Rs. 1,549 crores in the Third Plan and was estimated by the Fifth Finance Commission to rise to Rs. 4,266 crores in the Fourth Plan period, but will actually be much above this figure. The budget estimates for 1992-73 which we are discussing now alone involve a devolution to the extent of Rs. 1218 crores to the States. Please take into account these figures.

You see the method of distribution. You are talking about Central assistance. Ultimately the Central assistance for the Plan is also decided according to the formula agreed by the Chief Ministers in the National Development Council. This is not something that is arbitrarily decided by the Finance Minister or any other Minister or even by the Cabinet.

**Shri Jyotirmoy Bosu:** NDC is an informal consultative committee.

**Shri Yashwantrao Chavan:** You better ask one of your Chief Ministers: If it was an informal consultative committee, Mr. Jyoti

Bosu would not have attended that. Treat this matter in a more serious manner. We are talking about certain serious matters. As I was trying to say, the question of States Finances problem is a very serious one. That is how we are taking that. It is not a something that they have their own resources. I would like to give the figure, here also. According to the review of the overall budgetary position of the States conducted by the Reserve Bank of India I would like to mention this for the information of Dr. V.K.R.V.Rao --, published in the Reserve Bank of India Bulletin, August 1971, for the year 1969-70 it appears that out of aggregate receipt of Rs. 4,889 crores received by the States, as much as Rs. 1896 crores are the States own revenue receipts and Rs. 791 crores are the resources transferred from the Central under Finance commission's award, making a total of Rs. 2,687 crores. Adding the state's own capital receipts of Rs. 806 crores, this makes the States own resources amount to Rs. 3,493 crores out of Rs. 4,800 crores. The remaining is naturally the assistance for planned development, or sometimes it is also a gap in the Plan expenditure; sometimes loans are given for different purposes. Therefore, if you look to the budget and the funds that are spent for the State administration, you will find that the large amount is controlled by the States themselves.

This is not something that somebody is giving by way of charity. Of course, I do not mean to prove thereby that the States have no problems. The States have got problems; the Centre has also its own problems, and therefore, we have to sit together, discuss the matters and find out solutions for these matters. Every year, continuously, the Planning Commission meets the Chief Ministers and the State representatives and discusses annual plans with them and ultimately decides, what should be done or what should not be done, informally also, as Shri Jyotirmoy Bosu said, we are meeting in the NDC and discussing matters.

One Hon. Member made a reference to the problems of overdrafts. It is not peculiar only to Andhra Pradesh. It is there in many other States. This problem will have to be dealt with

individually by discussing with them, but at the same time, we must see that overdraft is not a solution to the problem. Overdraft is a deficiency It is a weakness. It is a disease, if I may be permitted to call it so. It is a disease, and we are trying to cure it. By borrowing somebody else's blood. One can not continue to live. So, this type of thing does not help anybody at all.

**Shri Shymanandan Mishra:** It is like deficit financing by the Centre.

**Shri Yashwantrao Chavan:** If everybody starts deficit financing in this way, then we shall cease to be a national economy. Certainly deficit financing will have to be done, but that will have to be done in a controlled matter, looking to the national interests as a whole and that has to be thought of by the Central Government. I do not think that Shri Shyamnandan Mishra will have any difference over this matter. If there are problems of the State Governments, certainly they will have to be looked into. Naturally, backward states have got more priority in this matter. If at all we want to do something about this matter then the Centre should have a little more discretion in this matter so that the backward States and the backward people in the backward States also, because it is not a question of only the backward States but there are backward people also in the backward States, have to be given some special priority in using the resources at our disposal.

**Shri D.N.Tiwary (Gopalganj):** Backward areas also.

**Shri Yashwantrao Chavan:** By backward people, I mean the backward areas; after all, it is not the area which matters but it is the people.

**Shri. D.N. Tiwary:** There are affluent places in backward areas.

**Shri Yashwantrao Chavan:** I have no difference over the substance of what the Hon. Member is saying; I do not want to quarrel about the phrase that he is using.

I have thus tries to deal with the general problems raised by Hon. members Since this was one of the important aspects which I thought was related to the Finance Bill, and particularly the Finance Ministry therefore I tried to deal with this aspect, which as Dr. V K. R.Varadaraja Rao has particular emphasized is an important problem and is going to assume more and more important in the days to come. Of course, some people tried to raise a political stick....

**Dr. V K. R.Varadaraja Rao:** Not I.

**Shri Yashwantrao Chavan:** Not my Hon. friend, but there were other Members. Politicians regard, naturally, every stick as good to use, and therefore some people are using it in a different sense. I would submit that it should no; be used for that purpose. It will have to viewed and treated as a national problem and considered as a national problem and its solution will have to be found in the national interests. It is not an individual or the interest of any particular areas or State or people that should be the criteria in this matter. That is why I had mentioned this matter.

I have taken more time to deal with the general problems. Some Hon. members have raised some individual problems about the tax proposals as such, I do not think that I need go into them now, because some of them have tabled amendments and I might deal with those suggestions when we deals with the amendments.

As far as I am concerned, I have never claimed that this one Finance Bill is going to effect Garibi Hatao. This is not the claim at The Finance Bill and the budget are important instruments.

As far as wealth is concerned, by the new measures introduced last year, there is virtually a ceiling on it. We have to go into what further, measures have to betaken.

Many members raised the question of black money. I have talked about it on many Occasions. There is the Wanchoo Committee

Report which is very important in this respect and which goes into this entire question and the restructuring of the tax system.

Shri Salve made a very important point that the Wanchoo Committee has raised certain questions which will make us review some of our basic policy decisions. Therefore, we have to look into this problem, very carefully. As far as the size of the problem of black money is concerned, it is certainly staggering. I have no doubt about it. At the same time, it is not a very easy question to deal with. Some member suggested demonetisation.

I think Shri Salve made a reference to the raids and seizures that have taken place. He said that even these seizures have not produced much, that in the last so many years the total amount of money seized comes to only about Rs. 7 crores. Even the figure of Rs. 7 crores is not final because some of it might have been returned. It may be that there may be certain defects in conducting Raids and seizures. But that supports the point which I would emphasize for the consideration of Hon. Members, that this black money is not hoarded money. That is the greatest danger of it. It is active money; it is in circulation; it is in the process of production. It is not merely static money; it is constantly it is continually creating new money also. It is an operation. Therefore, we have to think of steps whereby this type of dynamic black economy can be checked.

As far as this black money problem is concerned, certainly we are dealing with it. We have already taken a series of steps. One of the recommendations made in the interim report is being implemented by introducing a Bill in parliament. It is coming up for consideration in the next week perhaps. It had gone to the Select Committee, and the Select Committee has already presented a report.

We have to take a number of steps. This will be only one step. There will have to be a series of steps. If you have any suggestion, certainly make it. But the only suggestion that you are making



is, "publish the interim report." What a contribution to make? (Interruptions.)

The Hon. Member, Shri Jyotirmoy Bosu produced some document suddenly I just tried to have a look at the document. Really speaking, that document is not connected with the Congress party or the Prime Minister. The only thing is, when the Prime Minister's photo is published, he is afraid of that. I mean the poster. (Interruptions.) What he is afraid of is the publication of the photograph of the Prime Minister. What can I do about it?

**Shri Mukharjee (Calcutta-North-East):** Mr. Chavan cannot laugh away the matter. When the Hon. Member referred definitely to election posters printed allegedly to the extent of several lakhs at the expense of a large sum of money, for which the bill was sent to an industrial tycoon, he cannot laugh it away just like that by merely saying one thing or the other.

**Shri Yashwantrao Chavan:** As far as the other aspects of the Finance Bill are concerned, they will have to be dealt with at the stage of the amendments. I have already dealt with the major points of criticism that were raised during the debate. The detailed questions will have to be dealt with at the amendment state. I have finished.



## FINANCE BILL, 1973

*Reply to Debate, Lok Sabha, 3 May 1973*

Mr. Chairman, I must thank all the members who participated in this very long, interesting, rambling discussion for the last 12 hours. It included the separation of Telangana and it went from Telangana to Japan. Though I wish to deal with most of the subjects and items referred to by the Hon. and distinguished members, it is physically impossible for me to deal with every item. But I can assure them that some of the useful suggestions and ideas that they have thrown up will be not only kept in mind but will be carefully examined and considered. This is all I can say at beginning. I propose to deal with some of the major issues and major criticisms relating to the Finance Bill as such. Because, many Hon. Members used this occasion, and there is nothing wrong about it, to deal with the problems of their regions or their own constituencies and point out certain measures of development which are very necessary like irrigation, power supply and so on which are causing shortages in many vital sectors. I say that. They are entitled to refer to those things and it is quite legitimate that they do so and it is necessary both for the Central and State Governments to take note of what they have said.

I saw repeatedly an argument made by many Hon. Members that we have become some sort of a prisoner of our own tax system. Many of the Hon. Members suggested that there must be

some sort of restructuring of the tax system. It is a very good idea and certainly, I wish to do that if I can.

The most important point is that the tax structure is something which has to do with your own economic pattern. It is something which grows out of your own economic system; it is something which has to do with your own economic institution; it is something that deals with your own methods and patterns of economic production. It is not something which is super imposed out of imagination of 'X' or 'Y' or 'Z'. Therefore, mostly, the culprit in the tax System in India appears to be indirect tax system.

Most Hon. Members criticized indirect taxation. I would like to say that nobody likes to tax every commodity. There are certainly some compulsions in the Indian conditions which I wish we could avoid. My Hon. friend, Shri Dinesh Singh and the Hon. Member, Shri Baladhandayutham, made a reference to tax system which is not a tax system. They referred to the sources which are non-tax sources. These are resources. The nomenclature that was used was different. It is true in some countries it is so. In Soviet Russia, they depend upon the earning in the public sector. They have all public sector. There is no question of having any private sector. They have also got turn-over tax which is basically an indirect tax. In our country, self-employed sector is the biggest sector and the organized industrial sector is the sector which has a very narrow base. I do not think you can avoid commodity taxes at least for some time to come.

As very rightly pointed out by Shri Baladhandayutham, the performance of the public sector certainly becomes a very relevant factor in this matter. Shri Dinesh Singh also made a reference to this. This is, certainly, a very important thing. Even today, if you see our own Budget, it is not that there are no tax resources in our own Budget. I was just trying to find some information by way of illustration. We have got commercial undertakings and, in this budget, we have budgeted for nearly Rs. 34/35 crores in 1973-74. Take for instance the Railways. This is another example. The

interest and the contribution from the Railways comes to nearly Rs. 173 crores. So does the P & T. I am just giving some illustrations. Even in our own Budget, there are certain non-tax resources.

We have made a very heavy investment in the public sector. A point of criticism was that they have not been able to become the major important source of revenue to the State, to the Government, to the national exchequer. We will have to examine the performance of the public sector and that will require some special treatment. I personally feel and nobody denies that, nor even Shri Dinesh Singh and Shri Baladhandayutham, the public sector is certainly making an improvement. But they have got certain difficulties.

At the present moment, there is a high-powered committee of experts which is going into the functioning of the public sector and is trying to identify the problems. There are problem of maintenance, problem of large inventories, the problem of future planning, and the problem of modernization. The hon. Member, Shri Baladhandayutham was giving an example of Japan. I was delighted to hear about that. At least, for the sake of change, he is prepared to look to the east for some sort of guidance. But I can tell him one thing; he may possibly be knowing more because he had been there recently. I saw one very important fact in the industrial relationship in Japan. They have, certainly, a very well organised and very powerful trade union movement there. But there is also a very important factor which, I was told, exists there. They have a great sense of national discipline. They are so production-minded that if they have a problem with the management, they certainly protest but they have also one very important rule; they never do anything which will result in loss of production. This is the important thing. If they have to protest, they will, I am told, wear black badges on their arms and come out during recess time and raise slogans. Really speaking, this country needs the production-minded national discipline which will be the most important asset. If we have that we certainly can break-through because at the

present moment the size of our public sector is quite big and is in very vital sectors. Our investment is colossal. I should say. Not only that, it is also increase every year; and it will have to increase every year because we want it to increase. That will certainly give the new basis for the new society that we would like to have in our country. I do not want to go into this aspect in, details. I just wanted to make a mention that it would be necessary.

Our tax system will, certainly, have to evolve itself; with the changes in social structure, economic pattern of production, methods of income distribution, the tax system will naturally have to change. Merely passing one law will not help.

We have appointed many Commissions. There were some suggestions made by hon. Members. Dr. V K. R. V. Rao also made a suggestion that there may be another taxation commission. I always consider the suggestions made by him to be very relevant and important; one cannot just ignore them. But I must say that, even in the last couple of years, we have had two Commissions to go into the problem of taxation. Very recently, the Wanchoo Committee completed its examination and produced a very valuable report which is before you; it went into the question of tax evasion; they have considered the question of direct taxes. We had another Committee, Raj Committee, which went into the question of agricultural wealth tax and income tax problem in the agricultural sector. They have made recommendations which are before us and some of which we have already implemented and some of which we propose to implement. I will come to that aspect when I deal with the question of black money. But my main point is that it is not merely enquiry commissions or committees that are likely to help us in the matter. If necessary, we shall certainly think about it. I am not against that. But we have enough material to act on, and we propose to act on this. We propose to bring a legislation in this Session: at least we will introduce it in this Session-based on the recommendations of the Wanchoo Committee. Members will possibly, while they examine that Bill,

come to know that we have taken a number of steps which should help us to deal particularly, I cannot say 'wholly', with the problem of black money.

Some Members raised the question of black money. They wanted to know as to what exactly we are doing about it. I know this question of black money is not something that can be solved overnight. But I can certainly enumerate some of the steps that we have initiated and also those that we want to initiate in this matter. Some of them are statutory and some of them are administrative.

As I said, we have already passed two Bills—one, to acquire immovable property at a price which has been recorded in the transfer deed and another for curbing the widespread practice of benami holdings of property. To curb this we have already passed a law.

It was only in November that this law became effective and the procedure is that the property which is transferred is to be registered and this information goes to the concerned. Income Tax Collectorate and if they find that the valuation differs by as much as Rs. 25,000 or more, then they are supposed to take action. I have made arrangements to get information from every Collectorate every month and I see that at least in a few Collectorates some cases have been registered. Half a dozen Collectorates have registered cases, not all the Collectorates. That is the information I have received. It is not the number that matters, the existence of this very Act is giving to be a deterrent.

I have just received information that so far nearly 50 cases have been detected where notices have been issued and proceedings will start.....

Provision has been made for deduction of income tax at source from payments made to the contractors by the Government, local authorities, statutory corporations and companies. The scope of this provisions is being extended to co-operative societies as well.

The provisions of punishment for tax offences has been made more stringent. The Bill we are considering will have many of these things. I do not want to go in greater detail, but I am trying to say that we are trying to deal with the problem of black money in different ways. It is a hydra-headed monster-this black money...

Some members did make a mention about the price rise and inflation. This is a very relevant question. I have never made a claim, and I would like to repeat it, that the budget by itself can be the only instrument to deal with prices. It can certainly be made use of to curb one of the factors responsible for price rise, inflation. Here comes the major point that unless one resorts to taxation, it is very difficult to say that one can control inflation. Therefore, this is the only modest claim that we can make, that we have tried to see that inflation was not allowed to be runaway one; we tried to put some sort of reasonable limit on it. This is the claim, I have made in the case of prices.

Some people say 'your taxes on the commodities do affect prices.' I would say indirectly yes; I cannot say they do not have effect on prices at all. That would be rather unscientific, incorrect statement to make. I will not make that statement.

But what is the reason for that? I wanted some members to go into that. I have tried to go into the question as to how many are the wage commodities the prices of which, really speaking, matter in the life of the ordinary person, commodities that I have taxed? I have gone into this matter and I find that this year's budget will hardly touch any wage goods unless one considers motor spirit, cigarettes or rayon and synthetic, fibres, refrigerators and air conditioners as items of mass consumption. They are not. Out of the total estimated yield of Rs. 118 crores from Union excise duties, namely 85 per cent or Rs. 100 crores will come from five items, nearly cigarettes, motor spirit, iron and steel, rayon and synthetic fibres and other luxury items. This is about excise.

If you come to the impact of customs duties increase on the

price level, it is no doubt difficult to quantify. It is very difficult to do so. However, more than one half of the total estimated yield of the proposed changes in the customs duties will come from raw cotton and machinery and the effect of the increased duty on these items on the prices level will not depend upon the total weight of these items in the index, which is about 8 per cent, but more importantly on the significance of the improved varieties in the quotations used for the compilation of the price index. This is my defence of the budget provisions we have made.

Certainly we have to resort to commodity taxation but we have taken care to see that it did not affect the wage commodities, wage goods, as they are called, which, really speaking go into the consumption of the large masses. I know the question of prices is there. This is something of a very serious problem. But this problem can be dealt with effectively by other methods as well as and that, as I had said previously, is a question of effectively managing demand, It is a question of production, it is a question of proper distribution. In that respect, we are taking many steps. The takeover of wholesale trade is a step in that direction. I hope we shall get the cooperation not only of all the political parties but of all sections of people, traders, producers, distributors of different levels, co-operatives, State Governments and even consumers. There are many difficulties, administrative difficulties also. I think we will have to ask not only for co-operation but a little more than that; from the administrators as well, because ultimately they will have to deal with the different systems at different levels. So, as far as the prices are concerned, these prices are being dealt with in many other ways. The shortages today are much more evident, and the reason for it, as we see it, is failure of one monsoon by which the entire economy got completely distorted. Unfortunately, still, the major base of our economy is agriculture which, really speaking, is a gamble in monsoons in many areas.

In the green revolution, we have achieved results in Punjab and Haryana and western UP and in some other parts of the country



also. We are possibly going through a difficult position. Otherwise, I do not know what we will have done. We are trying to deal with this problem, with the failure of monsoon, without much of import. We have stopped PL 480, and certainly we are resorting to some minor imports; these are purchases and not aid. As compared to the requirements, it is a very marginal quantity.

What is our objective of Planning? What is our national objective? It is to see that we liberate ourselves from the element of uncertainty, dependence on many factors like that. The failure of the monsoon does not merely effect agriculture now. 10,15, or 20 years ago, one could say that it affected only agriculture, but the failure of the monsoon now affects industry also and power generation. Because it is linked up with power generation take Madras for example. My Hon. friend from Madras can very well support me on this point.

Now, I would like to go to some other problems. I think it was Dr. V K. R.V. Rao who mentioned one point. He said that one of the most important programmes that we took up, despite our difficulties last year, was the emergency rabi production programme. I must say that that was one of the best programmes that we could think of. It has made us stand in good stead. This year, we have made a provision for Rs. 150 crores for advance action programme. He wanted to know what exactly are the components of this advance action programme. It is a very relevant question, and I thought I should give some indication about it, because we are yet examining it, and the Planning Commission is going into it. I can give you the approach for the advanced action programme is meant to lay emphasis on those schemes which will help us increase our agricultural production in the shortest possible times. If the schemes which are included in the plan go in the normal way possibly they may take years to complete. We should like to select some of them, not all of them, which are likely to give some results like the irrigation programmes, power projects and some other agricultural production programmes. I cannot say where

these are.

**Shri Jagannath Rao asked:** what are we doing about the real savings; the real savings are small savings. We should lay emphasis on small savings. We have certainly made very good progress. Rs. 300 crores is quite a good progress if you compare it with the performance of the previous years. We are making good progress in that direction. I owe an explanation to Mr. Dinesh Singh. The other day he raised a question about the L.I.C. in the backward areas. I must say his impression is not correct. My main point is that the investment made by the LIC is as a sort of a partner, in some sort of consortium, for the new projects. These new projects are based on licenses given. My main point is that while licenses are given, concessions are given particularly in the case of backward areas. As you must have seen in this budget, we have indicated our policy. A new line in this matter: instead of development rebate we give concessions to projects in the backward areas or to labour intensive projects.

The Hon. Member, Shri. Mavalankar has made a reference to the tax arrears. He also made many other interesting points. The major point that he made was that the people to-day live differently. This is an accepted proposition and therefore we have to change the way of life and the conditions of life, the level of life and the quality of life. The quality and level of thinking is also improved. That certainly is an accepted proposition. He made one other point. That was regarding the Finance Bill itself. I am making a reference to that. As regards tax arrears. What he said is correct. The figure is inflated. For that purpose, we have made an arrangement to indicate the gross arrears and the net arrears. The arrears which are due but have not reached a finality are excluded from the gross arrears, the arrears which are pending before the Tribunal etc. and which are stayed, are excluded from that. I think that for the March-end, 1972 the figures would be available some time in the month of May. But, for the year 1971-72, I think it is about Rs. 430 crores or so. I am giving only the approximate

figure and this is sufficiently a big figure. We are trying to see how to reduce tax arrears as effectively as possible.

Dr. Rao made mention about a cell on fiscal policy. On this particular point, I recognize the need. There are many other areas also in which the fiscal policy, needs a fresh look in order that we may accelerate the growth. Only recently, a small cell has been set up for the fiscal policy under the Department of Economics Affairs in the context of the objectives of our Fifth Five Year Plan. The Cell will have an inter-ministerial working group to study in depth the various aspects of taxation including the possibilities of making this system more progressive, equitable, elastic and balanced in its overall social and economic effects.

Now I come to the last point. I do not want to take much more time of the House because I myself am keen to see that the Bill is passed to-day. The Hon. Member, perhaps, Shri. Era Sezhiyan made a point about the constitutionality of the problem of the aggregation of agricultural income with the non-agricultural income. I have got some constitutional view. Also this question was examined even earlier. The Raj Committee itself made a recommendation. This Committee had consulted the Law Commission and they have given their constitutional view. Also this question was examined in the Law Ministry. They have also given the same view; the Law Minister himself examined this and said that it is quite constitutional. I do not think that there is anything unconstitutional. As far as this House is concerned it can deal with it. I have no doubt in my mind that this is perfectly constitutional.

He said that certain alterations in the rates were made by notification. He has mentioned about the view of the Attorney General also. He is partly correct in the sense that the Attorney General has given the opinion that change from specific to ad valorem rate or vice versa cannot be done by executive orders by the government. After we got this view, we are trying to correct the whole position. In this particular budget, in the case of raw

cotton, the statutory provision was 40 per cent. We were levying only 10 per cent. Now we have raised it to 40 per cent. So, in this budget we are observing that rule.

He has also said that certain changes were made in the central excise tariff schedule, where effective rates have been prescribed, by statutory notification. He has referred to the opinion of the PAC questioning the correctness of operating rates of duty by such modifications. I do not want to go into the matter in detail now because he was the Chairman of the PAC and the matter has been raised by the PAC. I am sure the Department of Revenue who are dealing with it would carefully go into it and give their comments. Then the hon. Member may examine them. I would only say that whether it is the Tariff Act or a schedule to the Central Excise Act, certain statutory rates are prescribed and it becomes necessary on occasions particularly at the time of the Finance Bill to grant concessions based on various considerations; Hon. Members will recall that in moving the Finance Bill for consideration this year. I had announced a few concessions for small manufacturers which necessarily to be given effect to by, statutory notifications, in exercise of the powers vested in the Central Government by the relevant enactments. There might be other considerations also, of which I would like to quote another instance. In this very budget, to ameliorate the hardship caused to black and white films, I had announced a reduction in import duty on white and black, negative and positive cinecon. There are other equally valid considerations into which I need not go now. Whenever it becomes necessary to do this by statutory notification, the notification is laid before Parliament soon after it is issued along with a brief statement explaining the object of the notification. Parliament is given full opportunity to discuss it. When the Parliament is not in session, and we have to take action, we do take action but we come back to Parliament and lay it before Parliament. It is the right of Hon. Members to raise the question and ask for the Government's explanation. When we lay it on the Table, we give the reason for

issuing the notification.

He has raised another legal-cum-political point. He said, we have amended the Income tax Act in 1959 and taken the corporation tax out of the Income-tax Act and therefore, it has been withdrawn from the divisible pool. I would like to point out that corporate tax is not income-tax. Article 270 which deals with Income-tax and tax to be distributed between the States and the Centre specifically mentions that corporate tax is not a part of income-tax. Therefore, if you want to make the corporate tax a part of the divisible pool, possibly you will have to amend the Constitution - It is not our intention to amend the constitution for this purpose.

I think I have tried to deal with the major aspects.

**Shri R. S. Pandey (Rajnadgaon):** Last year he mentioned about the mass communication and educating the tax payer:

**Shri Yashwantrao Chavan:** I thought you made a very good mention of it. I did not repeat it. In your inimitable way you described it.

**Shri N. K. P. Salve:** Sensible step.

**Shri Yashwantrao Chavan:** Whenever we take steps, we always take sensible steps.

**Shri N. K. P. Salve:** I hope it will not give you a sense of complacency.

**Shri Yashwantrao Chavan:** That is the last thing that I am capable of. The main intention was to see that we do not waste our time on a small number of small tax-payers and the saved manpower can be concentrated on big guns. I was very glad when he referred to it, not because it was a compliment but it will give encouragement to a large number officials who have to deal with this problem. And if they are encouraged, naturally they will try to do their work with greater speed.

**Mr. Chairman:** The question is:

“That the Bill to give effect to the financial proposals of the Central Government for the financial year 1973-74, be taken into consideration.”

The motion was adopted.



## FINANCE BILL, 1974

*Reply to Debate, Lok Sabha, 4 May 1974*

**Shri Yashwantrao Chavan:** Mr. Deputy-Speaker, Sir, it was good that this day was specially allocated for the discussion of the Finance Bill. I must say that I heard today, in the course of the debate, some of the finest speeches in this debate.

Naturally, when the Finance Bill is being considered in the present context, it is very legitimate and natural that general economic issues also come in, and criticisms are made in the course of the discussion. If we merely go by clause as such in the Finance Bill, there cannot be enough scope for discussing the issues at present. Major economic issues in the present economic context were discussed, criticised and some suggestions were also made. I do not want to go into details of those things because, they were also discussed at the time when the General Budget discussion took place. I have tried to give them some of our own views and some of our clarifications about certain things.

I would, certainly, like to deal with some of the general issues which were raised today in the course of the debate before I come to the specific suggestions made in the Finance Bill as such.

The main point made about the budget covering the economic policy and the taxation policy is that there is some sort of reversal-of policies. Shri Shyam Babu tried to formulate it or rather he

expounded a theory of reversal not only of economic policy but also reversal of political policy and the general approach the Government towards it. Shri Vajpayee made a reference in the course of his speech to one of my budget speeches in the year 1971, I think. If I have understood him rightly he said that we have not got a consistent approach on our tax policy. At that time, we increased the personal income tax from 83 per cent or 84 per cent to 93 per cent and then we increased it to 97 per cent. Now we have come back to 77 per cent in the personal in income-tax. At the same time, he also said that in economic matters, one should not go by sentiments but by certain logic. I really do not see the logic behind the two Propositions. I would like to clear one thing that as far as our commitments to our basic policies are concerned, those commitments stand and we have not made any departure from those policies. Some of the concessions had to be made. I would like to make a distinction between the two propositions. Shri Vajpayee said that there should be some sort of 'sidhant' (doctrine) or some special 'vyavhar' (practice). We certainly have tried to do something in these matters. At the same time we are not taking any doctrinaire approach in these matters. I concede these distinctions between the two propositions but we do emphasize that, on the question of more taxation in the personal income, we must make an effort to remove the disparity between the incomes of the highest paid and the lowest paid. This was, really speaking, the approach behind it. We would certainly stand by that even now. The steps we have taken today are not taking leave of that principles. It is really speaking an experimental measure taken to see how we can meet the greatest menace in the tax sphere, that is, menace of evasion of tax. Shyam Babu made a reference to appointing committees on direct taxes and Shri Vajpayee said what has happened to change the thing in-between. What has happened, is the monster of evasion of tax, which is the mother of black-money. As such, it has to be fought and fought systematically. It is not merely enough to raise certain slogans against us and blame 'a' or 'b' individually or 'a' or 'b'



party It is a question of trying to find out how we can resist this monster. This is one of the suggestions made by people who were entrusted with the duty to advise us and they were high- placed people; people with certain economic experience and people with certain administrative experience, and they made a suggestion: let us make an attempt on reducing the direct taxes.

It is not a question of experimenting. It is not meant to give benefit to those people. It is meant to take away the incentive for evasion. It depends on how you look at it. You look at it from the point of view of certain concessions being given to a particular income group. Not at all. It is with a view to take away the incentive for evasion. This is what has prompted us. There is no question of departing from our policy. But, Sir, if we merely take a certain regimented or a fixed position without taking into consideration certain new situations that are developing then here you would say people will certainly have to leave their corpses behind. This is how Shri Vajpayee tried to explain. Naturally, we are dealing with economic situation in this country and we have to take into consideration what actualities are and what realities are. How can we implement those policies. And to that extent certain changes are being brought about. These are tactical changes and not changes in principle.

**Shri Shymanandan Mishra:** Like the wheat take-over policy.

**Shri Yashwantrao Chavan:** Now, what is the principle behind take-over? The main idea behind all this as I understand it is that in the case of essential commodities like food we have to see that there are enough stocks with us-to go round for the distribution system. We have not given up the principle in that case also. Public distribution system has to succeed if at all there is any principle. If you try to find out what are the objectives of a policy and what is its relevance to the present economic situation then try to judge a policy in those criteria. Do not merely go by the fact that once wheat had taken over and how you are giving it

up. We have not given it up completely to the private trade. The agency of Government purchases is there and it is meant to be implemented.

I entirely agree with the Hon. Members on one point, that is, the present economic situation is certainly a difficult and a serious situation. I quite agree with them. But I do not join the song that there is a very deep crisis and we are going to be overwhelmed by that crisis: I do not believe in that. Certainly, there is the difficulty of inflation, as some Hon. Members have said. I have myself given some information on the floor of the House and I would say that certainly the inflation is of a very serious nature. It is there. But if we see the world, perhaps there is no country in the world today except certain socialist countries where there is no inflation. Even the great country to which my Hon. friend referred....

Except a few countries, the rest of the whole world is at the present moment suffering from inflation. Even the highly technological and highly developed country to which my Hon. friend Shri Piloo Mody was pleased to make a reference, namely the USA also suffers from inflation. It is much more than four per cent today. I do not exactly know what it is, because it must be changing from day to day, and therefore, I do not want to stick myself to any particular figure. I do not say that what is happening in this country is entirely due to the international forces but certainly the international forces have something to contribute to our present position. I am glad that some Members at least from the Opposition side have said so. Prof. Mavalankar was to that extent more realistic. He has conceded that it would be wrong to put the entire blame at the doors of the Government. For the first time, I heard a statement which was rather a balanced one from a Member of the Opposition.

The major point is the question of inflation and the question of money supply. These are the economic arguments which are always given to explain the reason for the inflation. But both the question of money supply and the question of inflation ultimately

are linked up with the production processes into the country. Do my hon. friends deny this position? If that be so, can they just put the blame entirely on certain policies of the Government here? Many people say that money supply is at fault. What exactly does it mean? The problem of money supply arises when there is no relationship between the money supply and the production. It is only then that money supply becomes really money supply. Unfortunately in this country during the last two or three years when we mentioned drought or when we mentioned Bangla Desh, it was not for the fancy of it that we were mentioning them. These had created certain conditions and affected certain productive forces in this country.

Many people had said that as a result of the restriction on the supply we have starved certain productive processes. But there were certain emergent situations, and when you have to deal with those emergent situations and you have to invest money for that purpose, that would certainly mean encroachment on the money supply. As a responsible leader in this country what answer would my Hon. friend have, if there were a drought in this country? I have asked this question many times on the floor of the House. If there were drought conditions in the country involving nearly ten million people, what answer would he give to the people and the States? The basic argument today is that whatever be the position, whenever people are in difficulty we must be with the people. Here, when nearly ten million people were in difficulties, what would have been our responsibility?

On the question of deficit financing, which is also linked up with this, we did make last year efforts to economise. We certainly; introduced certain measures by way of selective credit control. Certain new policies and credit restrictions were also resorted to. I find that they, certainly produced some results. In the last Budget I had mentioned the figure of deficit financing at Rs. 650 crores. It has been now established that it is about Rs. 320 crores, instead of Rs. 650 crores.

If you analyse the price structure at the present moment - prices are certainly increasing from time to time, from day to day - the major culprits in this matter are the food items and industrial raw materials, raw materials either of our own production or those we import. If we import them, to that extent, we import inflation. This is the position today. Whatever we import today from the international market, it is importing nothing else but inflation. In the local sphere, our production of wage goods, which really speaking, is the major factor to control prices, has been affected.

These are the problems. If at all you want to give co-operation, we want to seek the co-operation of the opposition parties; I do not think we have ever taken the position that we do not want the co-operation of the opposition parties. But if you really intend to give co-operation, it is in these fields that we would welcome it.

If at all co-operation is needed, certainly at the political level, the opposition may not agree with us on all the issues; it is not possible for them to agree with us, but at least on the economic issues, these are the issues where co-operation is needed and if you mean to give co-operation, it is needed in these fields. To help the productive forces in this country, co-operation is invited.



## SECTION-2

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# INFLATION AND RISE IN PRICES

### **EDITORIAL NOTE**

Indian economy during the years 1970 to 1974 was marked by acute shortages of essential commodities and spiralling prices. This was a period when India was going through green revolution but was still to reap the benefits of the same.

Finance Minister had observed that the price rise and shortages were not merely restricted to essential commodities like foodgrains. Other sectors of economy such as industrial production was facing equally serious situation. The Finance Ministry had to arrange imports of industrial raw materials such as cotton, soyabean oil, raw rubber, raw wool, etc. This put additional burden on scarce foreign exchange resources:

Economic situation had further been aggravated because of influx of refugees from East Pakistan which had led to shortages in the foodgrains available for public distribution system. These economic difficulties were further compounded when during the next two years, namely 1972 and 1973 crude oil prices increased steeply.

Speeches in this Section bring out Y. B. Chavan's understanding of the Indian economy and the steps that he had to take as a politician to handle the difficult situation.

## STEPS TO CHECK PRICES OF ESSENTIAL COMMODITIES

*Rajya Sabha, 8 December 1970*

Sir, most of the speeches that I have heard, have emphasized one aspect of the problem, namely; price rise. If this was the point to be proved in the debate, I think it is proved. I do not dispute that prices have risen. The only question is, what practical remedies we can find so that the price rise, if it is inevitable, is within the reasonable limit.

That is the question which an administrator, one in charge of financial affairs, has to look into. If I try to look at it from this point of view, I can put the speeches into two categories. In the first category, most of the speeches were descriptive speeches about what is happening in the present-day economy, describing rise in particular commodities, some giving priority to the essential commodities and some giving priority to the other industrial raw materials, and ultimately trying to prove that the State of things is not very happy. The other Category of speeches. I can say; was of ideological speeches. Some trying to examine, looking at the present conditions of the prices, as to what sort of an ideological interpretation they can give to them. Somebody said that the present set up of democratic socialism may not be useful, some have suggested that possibly this might give rise to fascism and other things. There were, of course, certain speeches which I would rather call welcome speeches, because they gave some

specific suggestions, relevant to the present economic conditions of the country.

Sir, the question of prices, as very rightly pointed out by many Hon. Members, cannot be isolated from the other facets of the economy. Ultimately, this is something which results from the functioning of an economy in developing stages. One point was made by Shri Arjun Arora. He tried to chart the price rise from the days of the Second World War and tried to prove that there is a continuous price rise. It is a fact of life and nobody denies that. But, the point that he raised had an answer. Mr. Chinai from the other side said that there has also been development. I am surprised at Shri Arora's question 'Where is the development?' I do not think we can start discussing this problem from A, B, C. There may not be enough development. Whether the present development is enough may also be a debatable point, but to say that there is no development is something which is incomprehensible to me. I am not merely criticising the point of view that he expressed. But there is development and there is certainly a continuous rise in price and in a developing economy, we must all accept one thing, as practical people, politicians and administrators, that there is going to be some rise in prices. You cannot say that you pick the prices of 1960 and say that there would be no further rise, because that would be deluding ourselves and deceiving others. At least I do not propose to do that.

I must accept that the rise has gone beyond the limit set., I do not want to deny that and particularly when it is reflected in the essential commodities, it very badly affects the living standards of large sections of society who have got fixed wages at lower levels and large sections of people who are not getting any wages at all. When we try to compare the wages, we forget the large section of society which does not, become part of our organised economic structure. Somebody at least can say that he got Rs.100 or Rs.150. But there are a large number of people I think running into millions, whose wages you try to work out and you arrive at

some averages and then you put them under some category of wages. So, I agree that this point has become very urgent and important.

Sir, I am not merely trying to defend the Government and I know that even if I defend, it will not be defended. But, in the present circumstances, what is more important is what exactly are we trying to do and what exactly we have to do. One point that was made by an hon. Member here, I think, Shri N. G. Goray, is that the plan is based on certain assumptions and certain targets. The assumptions are that at one end we will have a certain growth of economy in the fields of agriculture and industry and there will have to be some sort of price stability at the other end. These are the two basic assumptions on which the planned economy is thought of. Naturally something has gone wrong and it is likely to effect the planning also. Therefore, not only in terms of today's difficulties of the consumer's, but in terms of our perspective of planning also, the question of prices is of crucial importance.

Somebody tried to quote some authorities to show that if this question is not solved, what will happen? It is not necessary to quote anybody. It is a commonsense question. It, really speaking, we do not find a reasonable solution within a reasonable time, things are going to be difficult for planning in this country, things are going to be difficult for the common man in this country. There will be some difficulties; I am not unaware of that. But what can be done is, the major question.

Sir, generally speaking, some of the suggestions that were made are acceptable to me in the sense that there will have to be some sort of a coordinated wage policy or income policy. I have myself been saying this for the last few months since I took over Finance Ministry. But merely by saying it cannot come about. Naturally it will have to be developed. It will have to be overlapped by the implementation of our policy in different fields of economy. But ultimately we will have to take into consideration this very important problem that unless we have got some co-ordinated



approach in this matter, things are not likely to improve as we want them to improve. If it is question of mere acceptance in theory or principle about the necessity of having a coordinated income policy or wage policy, I am one with you. This will have to be done in course of time. Unless it is accompanied by this approach, planning itself is likely to be disturbed at different levels in different periods.

Sir, now coming back to the prices, particularly this price rise which is phenomenal in the recent months. Of course, there has been a price rise in the last three or four years. But from the statistics I find that the persistent pressure on prices started after the middle of November, 1969, and then in January, 1970. Earlier, sometimes it rose; sometimes it was stationary. But after March, 1970, it is gradually increasing, though in the recent weeks there was some sort of a downward trend. I do not say that it is very significant. We sincerely hope that some of the steps that we have taken during the last few months, may assert themselves and help it to go down further. But it is a matter of observation. We will have to wait and see how far ultimately it goes. Recently we have taken certain steps. I am coming to those exact steps that we have taken.

Sir, it is true that although the general index has shown a declining trend during recent weeks, the present price level, when compared to the position a year ago, remains significantly higher. The general index in terms of monthly averages in November 1.970 is higher by 7.3 per cent as compared to its level a year ago.

Let me say here that Mr. Arjun Arora gave some figures about the consumer price index. I do not deny his point. But the only difficulty why we do not make use of it, is that in the availability of the consumer price figures there is a certain time-lag. But even from a comparison of the general index with the consumer index, I do not think there is any difference, because it confirms the same trend.

So, now, Sir, 7.3 per cent is the price rise indicated by the general index. But if we actually look at it itemwise, we find that there are at least some commodities where prices are showing a downward trend. That also has to be taken note of. Of course, their general effect on the wholesale prices is not so significant. What does it show? Now, for example, if we take foodgrains, cereals, wheat, jowar, bajra, pulses, gram, etc., we find that there is a decrease in the prices compared to the level in March, 1970. At least it has shown that we were wrong when for years we were attributing price rise to shortages of cereals only. Our presumption that food prices were the basic determinant of the price structure and unless we make some improvement in the food item are showing a downward trend, it is not affecting the general price trend in the whole economy. So we will have to think in some other terms. At least this one position seems to be partly disproved, possibly because of the change in the pattern of economy that also may be the reason for that. It is true that merely increasing the production of food is not going to affect the entire field of economy but it cannot be denied that when there is an increase, whether there is an increase in production in certain items, the prices of those items are certainly affected.

**Shri S.D. Misra:** Is it not a fact that even the food prices have gone beyond 7 per cent during this period?

**Shri Y. B. Chavan:** My point is, in the case of cereals, for instance if you say foodgrains, I can give you information if you want.

**Shri A.P. Chatterjee:** According to you even rice has shown an increase in price.

**Shri Y. B. Chavan:** During the last nine months there is a decrease of 5 per cent in prices of foodgrains. In the case of cereals it is a decrease of 5.4 per cent, in the case of wheat the decrease is 13.5 per cent, in the case of bajra the decrease is 22.9 per cent and, in the case of pulses it is .3.3 per cent and in the

case of gram it is 21.3 per cent decrease.

**Shri S.D. Misra:** Please also give the increase.

**Shri Y.B. Chavan:** I have accepted your point that there is increase in the wholesale prices. I have not disputed that point. Do not say that I am trying to disprove that. I have accepted that. What I am trying to prove is that wherever we have succeeded in our effort to increase production, the prices are affected. This is all that I say. So ultimately one thing emerges that wherever there is a definite way to increase production, there is a way-out. Naturally we will have to find out how we could have similar impact on the other items. This is the case I am making. In the industrial sector the manufacturing prices also are going up but the major factor in that area is certainly the prices of oilseeds, cotton, etc. and in these there is certainly an increase. So the question of production does arise. We have not been able to make that break-through which we achieved in the case of wheat for example. It is a question again of emphasising and trying to work out very effective programmes and trying to achieve whatever we can do about it. I do not want to give all the details but somebody said I think Mr. Mohta that it is a case of complete failure of the Government or neglect on the part of the Government and so many hard words he tried to use. I am glad he knows these words. Possibly we can make use of them against him very very effectively sometimes. But I can give some figures. For example, in the case of cotton, with the object of producing long-staple cotton, by adopting intensive cultivation methods through package scheme, 4.54 lakh hectares are to be covered during 1970-71. I am giving all these details. The same type of efforts are made about oilseeds, about the development of sugarcane and the development of banana and the development of cashew nuts. All these efforts are being made. It depends on how quickly we reach that stage which we have reached in the case of wheat. So these are the attempts that one should make. If anyone asks me, "what are you going to do about the prices, I cannot merely say, "prices, you are

arrested", as a constable or a policeman tells an accused. I just can't say so. The Finance Minister has to work in different fields of economic activity and try to introduce measures which would ultimately affect the prices. Our production is lagging behind, so we have to think of new measures and new steps, and we shall have to plan for higher production. Now, it cannot be planned on a long-term basis. Naturally we should be held responsible, if we do not produce results in a given long term. Then certainly it can be said that we have failed in this job. The same thing was said about wheat also, and the other cereals, but ultimately we reached the stage when we could do it. The question of increasing productivity in these matters is a very vast problem. This is a very vast problem in the field of agriculture, because ultimately everything connected with increase in agricultural production has to go to the cultivator. He has to know the new techniques. The equipment for the new techniques will have to be, given to him. So it is a long process. I think most of us, who are aware of the problems of agricultural development, will realise this thing. In the case of industrial activity, you can certainly concentrate. But agriculture is highly decentralised and spread out. For that we are anxious to pursue a programme intensely over a reasonable length of time. Then alone you come to results. Now, Sir, this is about production. We have taken many other steps also. I would like to mention them hurriedly if you permit me to do so. Now in the case of food prices, why are they low? It is because we have been able to work out certain buffer stocks of food grains: Even then, as we have seen, we have to maintain the system of distribution of food in a particular manner. Even with the increase in things reach the consumers properly, it is a very common proposition that there must be a certain better system of distribution as well. And it is being done in the case of food. Therefore we have got better results in food.

**Shri K. S. Chavda:** Why don't you abolish the Zonal system?

**Shri Y B. Chavan:** This is again a point, the usual point made

in this connection, because we try to think in terms of some slogans.

Now in the case of industrial production, as I have said, we have certainly the scarcity and shortfall in industrial raw materials. But we have quite an ambitious programme for imports of these materials. During the 1969-70 season about nine lakh bales of cotton, are estimated to have been imported as against 4.4 lakh bales in the entire season of 1968-69. For the vanaspati industry soyabean oil is imported and in the current year more than one lakh tonnes of imports have been arranged. Further to relieve the pressure on the limited domestic oil supplies, substantial quantities of mutton tallow are being imported for the soap industry. The position with regard to the availability of other basic raw materials is also reviewed from time to time and imports are arranged, subject to the availability of foreign exchange, to make up for the shortfall in domestic output. For instance, a higher quantity of raw rubber was imported in 1969 to ensure a regular supply to the rubber industry Imports of steel are being arranged in order to relieve the present shortage of this basic material. Raw wool is also being imported in a sizable quantity. Now this shows that these are the pragmatic steps that we have to take from area to area.

Ultimately import is not the final solution, I agree with you. I was referring to the efforts that we are making for increasing production. There also I had mentioned that certainly it required further looking into. I do not say that everything is being done. Naturally this point I will have to take up with the Agriculture Ministry. They feel that they are taking steps for the production of these items in accordance with the Fourth Five Year Plan. Whether they have done it or whether these are good results or not is certainly a matter into which we can go in greater detail.

I was coming to the other points, the steps that we are taking. About the measures taken by the Reserve Bank of India etc. I have many times repeated on the floor of the House the steps that

they have taken. Some people think these are the normal things and they do not produce results. A series of steps have already been taken. The forward transactions also create problem, The Forward Contracts (Regulation) Act empowers the Government to take steps for curbing speculative activities in the trade in major commodities. There has been, for some time, a ban on forward trading in foodgrains and major oilseeds. In view of the abnormal rise in the prices of cotton, Government felt the need for tightening up the marketing of cotton in the country. To this end, futures trading in kapas (cotton) has been suspended with immediate effect and the period of nontransferable contracts in cotton has been, with immediate effect, reduced from six months to three months. Steps are also being taken to secure the registration of all N.T.S.D. Contracts for the sale or purchase of cotton in excess of 1,000 bales entered into under the auspices of the East India Cotton Association. State Governments have also been requested for their co-operations in securing movement of kapas from the farms to the markets and persuading cooperative societies to help in augmenting the ready availability of cotton. Some other steps are being taken. One is the selective use of price and distribution controls. I think it is much better that I also give some information about this. The position in regard to the use of price and distribution controls in respect of individual commodities is reviewed from time to time. At present statutory price controls exist on a number of goods such as popular varieties of cotton cloth, sugar, vanaspati, Cement and kerosene oil. In order to maintain prices at reasonable level statutory price control has been further strengthened. In addition to statutory price controls, recourse is also taken to informal price controls whereby the manufacturers are restrained from raising prices without the approval of the Government. At present such informal price control is exercised in respect of soap, matches, rubber tyres and tubes, bicycles, iron and steel, hurricane lanterns, and dry cells for torches. This is also another area where we can take steps, and I am merely conveying this information that we are quite sensitive to this aspect of the

problem, and we are constantly reviewing the matter from time to time and taking necessary steps.

Some members said that there are certain contradictions in the present economy. I think there are some contradictions but not contradictions of the type that Mr. Chatterjee referred to. He was trying to build up certain ideological considerations. Here we are confronted with one particular aspect. I myself find no contradiction about it. This is about the price rise that we sometimes give for procurement of food articles. From the economic point of view one feels that there is a case for doing so. But if you look at it from the production point of view, it is very difficult to say that whatever we do is likely to be helpful. I am myself in doubt about it. I am mentioning my own dilemma because there has to be incentive for further production. That also cannot be forgotten. These are some of the contradictions that we will have to solve in times to come. I am not making any case to disprove this price rise, but by mere argument this cannot be solved. We are certainly taking it as a challenge that will have to be accepted. With the co-operation of everybody concerned we will have to solve the question. (Interruption) I hope Shri Babubhai Chinai will also co-operate with me. I am trying to get the cooperation of Mr. Chatterjee, but I am afraid I will never get it. When the point is made that wages must be linked with production, it does not mean that there is going to be a suppression of the working class. He was mentioning a larger point because this also becomes a part of the income, wages and wealth policies. The idea is not to suppress. I am very glad that Mr. Goray also mentioned about certain categories of specialised workers taking advantage of their own organised position. He mentioned certain cases. That is really happening. If we take note of the problems of dearness allowances etc. of certain classes of wage-earners, we have also to look after large section of society which is not wage-earners. We have also to take note of the unorganised sector of workers; they are also working.

**Shri chitta Basu:** Are you only expressing sympathy?

**Shri Y. B. Chavan:** We are also trying to do something. Somebody mentioned that we are merely talking in terms of political slogans when we say we want to provide employment to half a million people. It is not just a slogan. We are working on that I did not want to turn it into a political discussion. I really wanted to treat it as a practical pragmatic question before us, how through various measures as laid before you some the steps we have taken in this matter.





## ACUTE SHORTAGES AND RISE IN PRICES OF ESSENTIAL COMMODITIES

*Lok Sabha, 15 May 1973*

Mr. Chairman, all of us had the privilege of listening to different Members in the last four hours, and I had the privilege of listening to most of the speeches. I must say that most of the speeches were constructive. This is the second time in the course of this session that we are discussing the question of prices in this House. That itself shows the seriousness and the importance of the problem. We agreed to this discussion, because we thought we should try to explain the basic question of prices and the economic problem as a whole.

Sir, I do not want to go into the detailed arguments or suggestions made by the hon. Members because it would be physically impossible for me to do so. But, I can, at the same time say that whatever constructive suggestions have been made will be taken note of. As the criticisms and constructive suggestion have come from both sides of the House, that is, from the Members of this side as well as from the Members of the Opposition side, I do not want to distinguish between the opposition parties and my party as far as these are concerned.

Looking to the general debate, I find it was a sort of description giving the actual position in the respective constituency in the respective States and the Member's appraisal of the situation is

largely correct.

It is a legitimate task of the members to state what people feel because they represent the people and so they must put the picture as they see it and express the minds of the people in this House. So, it was very correct as far as that part was concerned. And I have nothing to argue about it. Most of the description of the situation and the expressions or feelings of the people are correct. We would certainly share the concern of all the Members. But I would like to tell them that we are not merely concerned about that, but at the same time we are taking continuous steps and I would broadly indicate what those steps are, as I proceed further. Some Members mentioned the sad plight of the housewives. They certainly have got every reason to complain about the present situation. I would like to say that this is a very difficult situation and there is no doubt about it. At the same time, I must repeat what I had said last time namely that this is a passing phase and this situation, according to me, has arisen out of certain national and economic difficulties which we went through in the last few years. I know Shri Piloo Mody is showing his mischievous smile. There are certain economic and basic issues involved in this regard. The other aspect is regarding the reason for the present situation. For some people our policy is basically wrong as the Hon. Member Shri Mody was trying to argue. Some Members tried to indicate that our policies were very much right but our implementation was faulty. Some Members have gone still further and tried to say that our implementation is faulty because of the bureaucratisation of implementing machinery. This is also one way of looking at the problem. I would like to plead here that we should go into basic causes as to why we are passing through this present situation. Price rise is certainly a feature of our national economy as also of the economy of other parts of the world. Shri Mody does not like this to be mentioned. He says what is the use of comparing ourselves with the other countries? We are a part of the world-economy. We also have to get many commodities from

other countries. Suppose we are short of foodgrains, sometimes we have to import foodgrains from there. The inflation in other countries reflects in our country through such imports and there are distortions in our economy. There are many commodities that we import from other countries. Sometimes we have to import raw materials and important commodities like petroleum products and inflationary condition in those countries also affects our economy. We are a part of the world economy and though some Members said that it was not so, I do not accept that. We are a part of the general world economy Any person, if he is broad-minded, is prepared to see the world in its totality but, when it comes to the Indian economy and Indian price situation, he does not want to recognise this world phenomena. I do not want merely to plead that. Atal Bihariji made one statement and at least once I have got an Opportunity to say, that I entirely agree with him. For the first time, he has not only understood the policy of our Government but he has read our Congress resolutions.

**Shri Atal Bihari Vajpayee:** I was referring to the manifesto of our party.

**Shri Yashwantrao Chavan:** This is exactly where we are. The basic problem of the price rise is the question of production. I fully agree with Mr. Nimbalkar that when we talk in terms of socialism, we should not talk in terms of scarcity. Naturally, socialism is the philosophy of prosperity. Prosperity has to be found to remove scarcity, and for that production is the most important matter. It is a fact that in the last two years on the agricultural front, there was some sort of slide-back. There is no use denying it. It is a fact of life. But have we not done anything about it? I do not want to repeat those same things because some people are rather sensitive about it. I do not want to mention about those 10 million people who came, the war we had to fight, and the damage it has done to our economy. Even after these 10 million people went back, we had to take certain responsibilities of supplying foodgrains to them. But we did not stop there. In 1972 it is not

only in the drought affected areas that we lost the Kharif crop but practically throughout India, in the major parts of the country we lost the Kharif crop, which is a very important crop for this country. Some members, who merely talk of theories of economics, do not know the food habits of our people. As Mr. Nimbalkar said, if at all you have to understand the food price problem, you have to understand the eating habits of the people. The largest number of people in this country depend on cereals like jowar, bajra, ragi - what we call coarse grains - which are mostly Kharif crop in some areas, what else will happen except prices rise? There is a great pressure of demand and the supply is not proportionate to the demand. In addition there are drought conditions in some major areas. It is a great achievement that at this moment more than 83 lakhs of people are working in the drought affected areas and we have been able to give them employment and purchasing power also. We have taken full responsibility. Shri Piloo Mody gave me some rules and reasons and said, "eschew deficit financing." It is a very sound proposition theoretically. But can I take that position when such a large number of people are suffering? When there is no production and no employment we have to provide them with some purchasing power. Can we say "my economic advisers and scholars like Shri Piloo Mody have advised me that it will certainly add to the so-called technical deficit 'financing and so nothing could be done about it"? I think that is the most inhuman thing that can be done in this country.

**Shri Piloo Mody:** I did not expect you to twist what I have said. Nobody suggested that you should not employ these people today. In fact, I recommended to you to employ twice as many people. I was speaking about resource mobilisation.

**Shri Yashwantrao Chavan:** I can go into that also. But this is how he started. He said eschew deficit financing. This adds to the inflationary trend. But what can we do about it? Therefore, we have to concentrate our attention on increased production. I would say again that we anticipated this position and took a very

courageous stand, despite financial difficulties, of undertaking a very ambitious and, at the same time, very realistic programme called rabi emergency production programme. The hope that we have of achieving our target of rabi procurement of wheat of nearly 8 million tonnes is because of this effort that we made. If we had not made that effort, the position would have been more difficult. Some people conveniently manage to forget the efforts that we have put in. They ask; "What have you done? What is there Government's policy?" Even today some members asked what we were doing. They said that long-term programmes alone would not do and that we should do something about irrigation, generation of power etc. We have provided this year nearly Rs. 150 crores for advance action. Advance action means advancing and expediting completion of the projects which will help agricultural and industrial production in this country and also irrigation and power generation. These are the major components, though there can be other parts as well. These are the efforts we are making on the front of production. So far as industrial production is concerned, the Industries Minister mentioned during the course of his reply to the budget debate some of the detailed steps he has taken. Last year we have seen industrial production has gone up because we had taken those steps. Fortunately this time sugar production has gone up by nearly seven lakhs tonnes. Despite all this, there is price rise, and that is the difficulty. Here comes the major problem.

The second point of Shri Vajpayee, with which I agree because he agrees with us, is 'vitaran ki samanata', the arrangement of distribution, which is the most important thing. We have to see what we can do in this field. Here we took the major step in the field, or take over of the wholesale trade, to begin with. May I ask the hon. member, Shri Vajpayee, through you: If we have to bring about some sort of equality in distribution can it be done without undertaking responsibility of taking over the wholesale trade?

**Shri Atal Bihari Vajpayee:** Sir, may I reply how it can be

done?

**Shri Yashwantrao Chavan:** Since he asked the question earlier, I thought I should ask him the question now. I did not try to reply to him then. He can certainly reply to me some other time.

What happens to the kisan?

He said you give more price to the kisan. I have got more interest in the kisan than what Mr. Vajpayee claims to have got. We certainly know their difficulties. Let us go into the question of fixing the prices of foodgrains, particularly wheat and other commodities. The prices of wheat were announced even before the cultivation started. Are they suggesting that because of the scarcity conditions and certain difficult conditions, as the prices in the open market are increasing, we should go on increasing the issue price is well? Is it an effort to stabilise the prices, to control the prices or to give further fillip to rise in prices?

I know, the kisans may have some sense of grievance. But we will have to tell them, as representatives of the people, "Look here, possibly you may be feeling that you are getting less price as compared to the open market price. But this is the price you will get for all time." There were occasions, in the past, when the prices were depressed and the wholesaler had taken advantage of it and exploited the kisan. You can explain that to the Kisan.

What is happening today is that some of the wholesale traders who are, fortunately or unfortunately; supporters of Mr. Vajpayee's party are trying to mislead the kisan saying; "You don't go to the market now. After sometime, we will come and give you more than Rs. 100, even Rs. 140 per quintal." The poor man is mislead.

**Shri Atal Bihari Vajpayee:** Why don't you educate the kisan?

**Shri Yashwantrao Chavan:** As a party, as the Government, we will certainly make an effort. We can certainly try to do that

also. But at the same time, if they are misled, we cannot allow the people to suffer. If some of the people are trying to stick to their hoarding, certainly the Government in its own wisdom will take necessary steps to see that his hoarding is not allowed to continue.

I do not want to plead the feeling of helplessness. Fortunately, when everything is going wrong, at least the foreign exchange position of our country is somewhat comfortable. Possibly, we will have to go in for some imports to see that the people do not suffer. We hate import of food. We have always been against the import of food. But if it is a question of starvation of the people, if it is a question of rise in prices of food grains certainly, we will have to think in terms of importing also. Possibly then, these kisans will realise that they have been misled by the wholesale trade people.

I would like to have the co-operation of all the Members, the co-operation of Mr. Vajpayee, in this matter. The Government has invested hundreds of crores of rupees in irrigation facilities and in giving certain other facilities to them. Therefore, certainly at the present moment when the society is in trouble, when the society is suffering, it is their duty to see that they come forward and co-operate with the Government to make it a successful programme. This is the only way of tackling the problem of rise in prices.

**Shri. D. K. Panda:** Why not graded levy?

**Shri Yashwantrao Chavan:** Ultimately, it comes to the same thing. Prof. Madhu Dandavate gave a theoretical proposition about "marketed" surplus and "marketable" surplus. These are acceptable theories. Why should we not have gone in for "marketable" surplus? That was his question. We have gone in for the "marketed" surplus. And these are the difficulties we are facing. You want us to be practical or not? We want to be practical.

**Prof. Madhu Dandavate:** This is a half-hearted way of doing it.

**Shri Yashwantrao Chavan:** This is more easily said than done. It is very much a theoretical proposition. I would like to tell him one thing. He comes from the State from which I also come. I have been the food Minister of the State during a very difficult period. I know what methods have to be adopted. This is the most practical way of dealing with it now. We are not thinking in terms of having rationing as such. But, certainly, it is necessary for us to establish a distribution system through which we can try to supply essential goods to the people. We have done that in the case of foodgrains. For example, this month we are distributing nearly 11 lakh tonnes of foodgrains.

Some people say that when they go to the fair price shops, they do not find foodgrains there. Some Hon. Member quoted Mr. Behl here. I am told that Mr. Behl himself has contradicted that statement. It is quite true that occasionally you may see a shop without foodgrains because the foodgrains are sent there not to be stored but to be distributed and when they are distributed there may be a period of gap. It is fact that in 1972, we have distributed more than 10 million tonnes of foodgrains in this country, and we will have to continue to do the same thing. That means, in urban areas, for working class people and for people living in places vulnerable to drought and in tribal areas, we will be supplying foodgrains at controlled prices. You will have to take note of what we are doing. It is certainly a very important thing that we are doing. But, despite that, there is a problem. I know that.

There is the problem of oil, for example. There was shortage of nearly 40 per cent in the oilseeds production in the country. When there is shortage in oilseeds production what are we going to do? There is shortage in pulses production also in the country. We have some programme of importing oil-seeds also. And if we have to do that, naturally we will have to see that we have some hand in the distribution. I quite agree that there are some initial difficulties in the way of establishing this organisation. There will



be some difficulties of administration. I quite agree because this is a problem that we have to face for some time; in fact, we have been facing it for some time, whether it is our government or somebody else's Government. So, this question of administration will be there. But at the same time, we will have to deal with the problem, and we propose to deal with the problem effectively.

We are trying to understand the basic problem of prices. I do not say that I have got answers to all the questions. I cannot say that I am going to work a miracle so that the prices will start sliding down from tomorrow onwards. This is not my claim. My claim is we have analysed the reasons for the rise in prices we are trying to take basic policy decisions and create new institutions which are necessary to implement the policies, and we are taking the necessary steps for that. As I said in the beginning, this is a passing phase; it is not a question out of which one should make political capital. This is a difficult time; this is a time when we must try to create confidence in the minds of the people. Unfortunately, I find that some people in the name of putting forth the grievances of the people, are trying to demoralise them, and I personally feel that this will be the greatest disservice to the nation at the present moment.

Now, one member mentioned - he is not here; he just makes the speech and goes away like a good professor - Mr. Mavalankar said: 'What are you doing about the defence expenditure?' This is also one of the important things we have to take into account. When you consider the question of production, prices and other difficulties, you cannot forget the problem of the defence of the country whatever your difficulties may be, whatever your price problems and whatever your other problems, it is necessary to take care of the security of the country. We have to take that into account. We will have to do that. So, what is the use of merely talking in the air about it? When you talk about prices, then you ignore the problem of defence. When you are talking about defence, you forget everything else and then talk about

defence only. That is not the way. You have to look at the national problems in their totality.



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## SUPPLY OF CRUDE OIL

*Reply to Discussion, Lok Sabha, 21 November 1973*

Mr. Speaker, Sir, in the course of the last one year, I find that we are discussing this problem of price rise for the third or the fourth time. Therefore, I can very well understand there is a repetition of the motion in the same words and ... most of the speeches delivered were also similar. I will try to see that I do not deliver the same reply.

**Shri Piloo Mody:** That means he has learnt something.

**Shri Yashwantrao Chavan:** But you have not. If at all we have to deal with the problem of prices as I said last time, we will have to see the entire question: of prices in its proper national, economic perspective and also political perspective. As we have seen, this rise in prices is effected by both internal factors and external factors. I am mentioning external factors not merely to explain away some of the factors that are responsible for the price rise, but it is fact of life that we are to a certain extent dependent on the supply of some of the important commodities from other countries; we import these commodities which are necessary for carrying on some of the economic activities in our country. This is also because we have brought certain sophistication in our economic life. We see that the prices of certain commodities have been rising in the world market fertilizers, crude oil, steel, and

nonferrous metals necessary for industrial production. Their prices were rising and our country cannot merely wish it away. These are some of the external factors which are exercising their pressure on the price structure in this country.

Of course, internal factors were there. Some of them are still there. For example, there were certain factors exercising pressure on the demand side, and also on the supply side. There was shortage of supply because of decline in production of agricultural commodities like coarse grains, oil seeds, etc. Oil seeds particularly exercise tremendous pressure on prices. If you analyse the price rise in the last four years you will see that the price rise in the case of foodgrains and oil seeds has exercised a major influence on the rise in prices. There are other reasons also. Some of them have been repeated by Hon. Members and we have also conceded them. For example, Shri Vajpayee emphasised the increased money supply. There was more Government spending. If money supply has increased because of government spending, we shall have to examine reasons why we were required to resort to deficit financing. It is not for merely luxury's sake that we resorted to it. I am giving this information which has been given repeatedly before, but it is necessary for us to understand the point in proper perspective. Mr. Mavalankar wanted me to say what exact steps were taken and what policy measures had been adopted to see that the price problem is solved to our reasonable satisfaction. One of the steps that we have taken is that there should be an economy of nearly Rs. 40 crores in our expenditure in the course of this financial year. We have asked the States Governments also to effect an economy of nearly Rs. 100 crores in their expenditure. It is not that we have not taken any step, to restrict Government spendings. I do not know whether I have understood Mr. Vajpayee correctly. He might correct me, if I misinterpret his remarks. He said that it was not relevant to what extent the areas were affected by drought and failure of crop, but it was ultimately the percentage loss of production that was much more important.

That was the point he emphasised. You can take into account the percentage of production at the end of the whole year and possibly put your case statistically in a proper way, or in an improper way. But when it affects a large area involving a very large percentage of people, production rise or production fall in average terms at the end of the year, does not help. For example, in this case we were required to provide employment to nearly a crore of people in large parts of our country at the expense of the Government and the Central Government had to provide a major part of its expenditure. We have to give employment to 94-96 lakhs of people, nearly a crore of people. Can I merely tell them : no, there is a fall in production, there are my statistics, and therefore it is difficult to provide money. You cannot produce that very sophisticated argument that, "There is going to be no more increase in money-supply and therefore you will have to suffer the consequences of the drought". No democratic Government can say that. You have to take a certain responsibility and risk. This risk was there in the increased Government spending.

In the course of last year, people had suffered and there is an element of suffering even today. I know there are people who are somewhat dissatisfied with the present situation. We are aware of it and we are trying to do our best to remove the sufferings from the lives of the people. The situation was such that possibly any political party or any Government would have been overwhelmed. The only claim of achievement we can make is that during this very difficult economic situation and political situation, we did not allow ourselves to be overwhelmed. We must thank and congratulate the people that they also helped us not to be overwhelmed by these very serious difficulties. I know the opposition parties perhaps may not like this statement of mine. But it is fact of life that they did their best to make an explosive use of the critical economic situation, but I must say, the people in their wisdom saw through their game. The people were angry and wanted to protest, but they did not fall a victim to that sort of propaganda unleashed by

the opposition. We will have to see it in this political perspective.

**Shri Shymanandan Mishra:** Nor will they heed this propaganda you are making.

**Shri Yashwantrao Chavan:** This is not propaganda. I am making a statement of fact after the event. Mr. Shamim said that no argument has been produced from that side as to how we can get out of it because there was no intention to find a solution to the problem. (Interruptions). I can certainly give a long list of what we have done in the course of the last few months to see that the prices do not rise...

**An Hon. Member:** What is the outcome?

**Shri Yashwantrao Chavan:** The outcome is that we have been successful in maintaining the political stability in this country and we have used this stability to strengthen the forces of production in the agricultural and industrial sectors. Without allowing ourselves to be overwhelmed, we quietly applied our mind to the problem and tried to find out how we can organise the productive forces properly. I must say that this has started paying dividend now.

We have taken a series of steps for controlling the price rise. The Reserve Bank of India has taken a package of measures in the last four months. May I say that the Bank Rate was raised from six to seven per cent and the minimum lending rate was prescribed for commercial banks excepting lending for certain specified sectors. At the same time, the statutory reserves have been increased from three to five per cent and then to seven per cent. These steps have had the effect of immobilising about Rs. 400 crores.

**Shri Shymanandan Mishra:** All these had been quoted last time also.

**Shri Yashwantrao Chavan:** What can I do? You have raised the very same points again. When you have raised some points, we have to make a reference to the realities and state them. These

are continuous steps and results. So, must make a mention of the fact that the effect of those steps is being felt now. I must make a mention of this thing because these are very effective answers to the points you have raised, which you do not want to hear.

**Shri Shymanandan Mishra:** We want you to be a financial wizard.

**Shri Piloo Mody:** We want to turn you into a financial wizard.

**Shri Yashwantrao Chavan:** If Shri Piloo Mody has that much understanding, it is a good thing.

Now I will say what we have done in order to augment our supplies, though this is not something which is new. We had to resort to import on a very large scale; import of foodstuffs and different types of oil for example. During January to September 1973 the import of foodgrains amount to 2.1 million tonnes. Further imports of 1.7 million have also been contracted. Of course, you all know of the offer of Russia of 2 million tonnes of wheat. This has started arriving in this country at the very right time. This has also increased the availability of foodgrains in this country. This creates a good psychology. The prices have gone up mainly because of certain shortages, because of certain internal factors. This is one point. But the psychology of scarcity has also resulted in price rise. Therefore, this step of importing foodgrains, different types of oilseeds and oils has changed the complexion of the problem.

Today some hon. Members made a mention of what the Prime Minister said yesterday in our party meeting, namely; that we have seen the worst part of it. That does not mean that we are completely at the end of the problem. We have still some problems to deal with, but certainly the complexion of it has changed. At the present moment, because of the good crop and good availability of foodgrains in this country, we have seen that there is a decline in the prices of oilseeds, bajra and wheat. If I can refer to some of the figures which are available for comparison sake, in the case of

wheat, for example.... (Interruptions). As regards the whole sale price index numbers which are announced by the Government from time to time, in the case of wheat, for example the price index of wheat in the month of July was 227 and in the month of October revised index was 211.5. So, as a matter of fact, there is a decline. In the case of jowar decline is 3.6; in the case of bajra it is 28.4; in the case of groundnut oil it is 9.9. I am merely mentioning some of the important foodgrains oilseeds which were mainly responsible for the price rise last year. As regards oilseeds which were mainly responsible for the price rise, there is also the same trend - - I know that this trend has not yet become some sort of permanent thing. This particular trend shows the availability of important articles the scarcity of which created problems for us. When these things are there, it means we have certainly crossed the worst. (Interruptions) There is some sort of a confidence coming back in the minds of the people. That is what really speaking is troubling you.

As we proceed further, as the winter crop is going to be a better one and, as the industrial. Production is also going to improve, I am sure..... (Interruptions).....

The point that I was making was that with the improvements in the availability of some of the important articles which exercised influence on the price rise, as they are showing a healthy trend, I am sure, the things are going to improve in days to come... (Interruptions) I am not making any prophecy about the price fall. I say that the present trend shows that there is going to be a stabilisation of prices. I cannot say that there is going to be a very sharp decline. But certainly, our efforts will have to be directed towards that. (Interruptions) The prevention of further price rise will have to be our objective and our entire plan and effort will have to be in that direction. This is the strategy that we are trying to follow for controlling the prices, for stabilising the price.... (Interruptions) I have made a mention of some of the steps that we have taken....



**Shri. Shyamnandan Mishra:** Why are you asking us to reconcile ourselves to the stabilisation of prices at the highest level since Independence?

**Shri Yashwantrao Chavan:** We are dealing with the problem of prices in the course of last year. I am trying to make you understand the trend of prices as it is proceeding from month to month. If you are trying to find solution to the problem at hand, you must first try to understand what the problem is. I will define the problem for you. But you do not want to understand it. Then what can I do? (Interruptions)

**Shri Shymanandan Mishra:** I do not want to get a certificate from you.

**Shri Yashwantrao Chavan:** You may think that you are the wisest man in the world. You may have that satisfaction. I do not want to come in the way of that satisfaction.

**Shri Shyamnandan Mishra:** You have not learnt anything about economics. Shri Yashwantrao Chavan: You have no patience to hear me.

**Shri Shymanandan Mishra:** You must use a proper language.

**Shri Yashwantrao Chavan:** What improper language have I used?

**Shri Shymanandan Mishra:** Why do you ask us to be reconciled to the stabilisation of prices at the highest level since independence?

**Shri Yashwantrao Chavan:** I have only said that I am not making any prophesy about a sharp fall in prices; I cannot make that prophesy. Our objective will now have to be to see that there is no further rise in prices, and possibly the prices may have to stabilise at a higher level. This is what I am trying to say. (Interruptions)

Now I want to mention the steps that we have taken. One of the arguments, made by the Opposition was that the Government, instead of taking steps for reducing the prices, - this is a new line of argument that they have started - the Government itself has started increasing the prices and the illustration they gave was the rise in the case of issue prices and the rise in the case of petrol and kerosene. Our answer to that when there is rise in price, the most important thing that we have to do is to see that there is more availability of some of the foodgrains. Those who are criticising the Government today about this had themselves said that there ought to have been reasonable prices given to farmers and producers (Interruptions).

Now, in order to make the availability, when we give a rise in the procurement prices to the produce, it is the same people who are coming forward with the argument that we are increasing the issue prices. With the rise in procurement price, there will be more availability of coarse grains and the rice.... (Interruptions).

The decline in the prices of coarse grains, the decline is the prices of Bajra and the decline in the price of rice to a certain extent is because of the possibility of availability of grains in the market because the Government have offered more price to the producers....(Interruptions). These things are giving the results.

Now, they have started the argument that the government is raising the price. With regard to petrol prices, the Minister for Petroleum and. Chemical ... (Interruptions).

**Shri P. M. Mehta:** The prices of everything have gone up.

**Shri Yashwantrao Chavan:** I have not made statement about everything.... (Interruptions)

I have not said about everything. I mentioned specific items and I mentioned specific articles. I said in such and such a case the price has shown a declining trend. I am not mentioning cement. I have mentioned wheat. I have mentioned oilseeds. I have mentioned

bajra. I have mentioned specific things. I have not made a general statement at all. I should not be misinterpreted. I do not at the same time want to unnecessarily paint a rosy picture. I am taking a realistic assessment of the situation and my only submission is, there is an improvement in the situation to a certain extent and if it continues then there is going to be more improvement in the days to come.

Therefore, Sir, taking into consideration all the steps which we have taken and the assessment that we have made, one should not take a pessimistic view or an alarming view of the situation and I think if the present trend continues we will be out of the woods and this is my hope. Thank you.



## SECTION-3

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### GENERAL INSURANCE

#### **EDITORIAL NOTE**

This Section incorporates five speeches delivered by Y. B. Chavan in connection with the taking over of the General Insurance by the Government, pending nationalisation of the same. Speeches delivered by him while moving the Bill to take over the General Insurance and reply to the debate in the Lok Sabha and in the Rajya Sabha are useful as reference material.

Section also contains Motion moved by the Finance Minister on the Report of the Joint Committee of two Houses on the Nationalisation of the General Insurance Business.

These speeches reflect his own clear thinking about the Government taking over the General Insurance.

## GENERAL INSURANCE (EMERGENCY PROVISIONS) BILL

*Introduction in Lok Sabha, 2 June 1971*

I beg to move:

“That the Bill to provide for the taking over, in the public interest, of the management of General insurance business pending nationalisation of such business, be taken into consideration.”

This Bill really proposes to convert the Ordinance into an Act. This has to be done within a limited period and hence this Motion in the early part of the session. This question was debated for many months, perhaps, many years. There was a growing demand for nationalisation of General insurance along with nationalisation of banks. There was certainly different thinking, at different times. Some people possibly thought that this Government itself had taken a certain position in 1968 and made certain statements but now in 1971 we have come forward with proposals to take over the management and, ultimately, to take over the ownership of the entire structure of general insurance.

I am trying to anticipate the arguments that might possible be made although the hon. Member who wanted to move that motion of disapproval is not here. It is much better that I cover his arguments.

There is one point which has been made that there is not much of funds available in general insurance business. The other point

is that there is not much of profitability in this business. The third point is that there is so much scope of discretion and so many cases calling of the use of discretion, and that there will be much more risk in this matter. Therefore, the argument is advanced that not much of public interest is likely to be served by the taking over of general insurance. This argument has been advanced by those who wanted to oppose the Government's move.

In reply I would like to say that the volume of funds depend upon the volume of activities. I quite concede the point that the volume of funds available at the present moment is comparatively small. But I find that it is small because the general insurance business had confined itself to very limited fields of activities, only to Commerce and Industries. They could go and expand their activities to other social purposes. It may certainly take more time. Therefore, the argument that there is a small volume of funds and therefore we should not go in for it, does not stand the test of logic.

The second argument is that its profitability is low. If the profitability, was not high, I do not know why the companies were agitating and opposing the proposal for nationalisation. If there is no case of profitability where is the cause for opposition to its nationalisation? Really speaking, it is not merely the question of profitability alone that matters. That certain assets are becoming available more and more for social purpose is the most important factor which we have got to take into account in this particular case.

Personally I feel that there is more justification to take it over, because after nationalisation, under the directions of this Parliament, and under the direction of public opinion in this country possibly, the general insurance business as such will break some new grounds, see some new horizons and try to serve more social objective. The investment policies also will have to be more socially oriented, and we can achieve some new objectives by nationalisation. So, this was the main ground on which we took

this decision. Certainly, it was one of our major commitments to the electorate. When we went to the electorate, this was one of our major planks, and I am glad that I am in a position to come here and say that we have fulfilled at least one of the important promises that were given to our electorate.

I would like to give certain information which would be useful for discussing this Bill and the general scheme of the Act. As you might be able to see, at the present moment, we are not taking over the ownership, but we are merely taking over the management. But for taking over the management, we have decided to give them certain compensation per month. This formula is included in the Bill itself.

The general gross assets are worth Rs. 240 crores. I think the compensation that we shall have to pay to these companies will be about Rs.28 or 30 lakhs per month varying according to the formula prescribed per month. The basis that we have taken for paying compensation is the average annual distributed profits of all Indian insurers during the last three years, namely 1967, 1968 and 1969. It works out to about Rs. 2.03 or Rs. 2.04 crores. The profits of the foreign insurers is not known; it might be about a crore of rupees. I find that the total premium written by the Indian insurers in 1969 was about Rs.108 crores, and by the foreign insurers in 1969 was worth about Rs. 23 crores. This is just by way of information.

The House would be interested to know the number of insurers whose management has been taken over. There are 64 Indian, (including three subsidiaries of the LIC) and 42 foreign insurers who are covered by the Ordinance. The three subsidiaries of the LIC are the Oriental, the Jupiter and Indian Guarantee companies. The employees involved in this whole business number about 25,000.

I have given a general outline of the organisation that we are taking over, the purpose of taking it over and I have also expressed

our further intention to bring forward a Bill. When we take over the ownership, naturally, that matter will have to be gone into very carefully and considered fully. I know some members want this Bill to go to a select committee. Actually, there is a motion also tabled to that effect. That will defeat the very purpose of this Bill and this Bill may not then become an Act within the stipulated period. I cannot afford to entertain that idea. Certainly when we come to the House with a Bill for fullfledged taking over of the ownership, it can be referred to a select committee.

I do not think, I need take any more time at this stage. According to me, this proposition is non-controversial. I think it is in fulfillment of the demand of the people that we have taken this step. So I hope without much of a controversy it will be accepted.





## GENERAL INSURANCE (EMERGENCY PROVISIONS) BILL

*Reply to debate, Lok Sabha, 2 June 1971*

Mr. Chairman, the Bill has had perhaps with the only exception of the Hon. Member H. M. Patel, the fullest possible support that it deserves. Even, Mr. Patel did not controvert the issue, he merely expressed his ideological attitude towards the question, though he accepted it as a reality and tried to make some constructive suggestions which I consider more important. Two points were debated here. One has legal implications and the other has political implications. I am sorry that Mr. Chatterjee of the CPM who made a very good contribution to the debate is not present here now. I should like to take his point first. He referred to article 31A (1) (b): taking over of the management of any property by the State for a limited period either for public interest or in order to secure proper management. The point is that the management is to be taken for a limited period. It is to be taken for a limited period either in public interest or for proper management, but ultimately the intention is to return the management. We have got some history behind this law. I find that there was some Supreme Court Judgement in 1964 in the Dwaraka Das Shrinivas versus Sholapur spinning and weaving Mills Ltd. After this judgement article 31A was substituted. It is after that the Life Insurance Corporation Bill was introduced. The present Bill is modeled on that Bill. There, management was taken over, and arrangement for compensation

was made.

The reason was that when the management was taken over it was not taken for a temporary period or for any definite period. The intention is to take over the management and ultimately to take over ownership also. We are not making any secret of it. That is our commitment and it is the direction in which we want to go. Hon. Member Mr. Mahajan very competently pointed out the circumstances when it can be considered as a sort of a malafide action. We have to take the fact as it is. The Hon. Member Mr. Stephen pointed out that we have to function at the present moment within the constitution as it is, and the interpretation given to it. When we pass a legislation today we have to take these facts into account. Whether one agrees with it or not, it is a different matter. I am not going into the question of compensation for acquisition. That is a matter which is completely different and which will be debated and considered on merits when it comes up for discussion. I have no doubt that politically speaking it is quite essential that we go into the question of amendment of the Constitution. As for the right of property we want to regulate it so that there would not be any-disparity or concentration of wealth. These are two basic commitments which we have made in our manifesto.

In the light of all that, certainly certain amendments to the Constitution are called for. But that is a different matter. At the present moment, when we frame a law and when I commend any legislation here, we must take into consideration the present legal position as expounded in the judgements of the Supreme Court. Therefore, it is very difficult to accept the interpretation given by Mr. Chatterjee. It will be making fun of ourselves if we have to take some chance interpretation and bring in a legislation on that basis and get it reversed. It brings unnecessary conflict between the judiciary and the legislature and it creates unnecessary tension in the country. We do not propose to do that sort of thing.

The hon. Member, Shri Banerjee, made a reference to a

certain law that they had passed in West Bengal when the State Government took over their tram service: would like to read the section under which they had taken it over. They had taken it only for a definite period; not only for a definite period but this is what they have said. It is a very interesting. In section 3 of the West Bengal (Calcutta Tramways Company) Act, they have said:

“Provided that the State Government may with the approval of the State Legislature cancel such an order at any time before the expiry of the said period.”

So, in the legislation that they had passed, they indicated their intention, not only of returning the management at the end of the period but also with the approval of the Legislature, to cancel the take-over even earlier than the due date. This is not our intention when we are taking over the general insurance business here. We do not propose to do so.

The main point is this. Politically as I have said, our approach to this Matter is what it is. Coming back to the question of management, etc., some Members raised the question of certain employees connected with the Claims Bureau, This is a point which we will go into sympathetically. I do not want to make any final commitment. That is an aspect which deserves to be gone into, and we will certainly discuss this matter amongst ourselves and, if necessary, with the leaders of some of the Opposition parties also, those who are interested the problem. Mr. Banerjee came and discussed it with me this morning. We ourselves have already started thinking about it, but I cannot make any final commitment on this issue, because this is a matter which needs to be gone into very carefully.

Some hon. Member raised the question whether it is right to put the same people in charge of this, the people who never had any faith in nationalisation. Well, yes and no; the answer is both ways. Certainly we should not have such people as are so prejudiced against nationalisation that they are likely to subvert the whole

thing. But there are some people who have got experience and who are committed to insurance. Whether nationalised or not. If we can make use of such experts, there is nothing wrong. When Mr. H. M. Patel was a leading officer-Secretary in the Finance Ministry-as Government servant, I think he did excellent service in constructing the nationalisation law. When his capacities were nationalised, he did good work. Now, when he is a Swatantra, he is quite different. If we can make use of honest, capable, experts for constructive activities in the nationalised sectors we should do so.

If there are certain people whose antecedents are such that they are likely to prove harmful to the working of nationalised general insurance, certainly we will have to take action. The appointments we have made are provisional. There were some people who had opposed nationalisation. I must say some of them are very honourable persons. When we offered them this new responsibility, they said, "Let us think about it. We do not want to say 'yes' immediately." They thought about it and said, "We have been committed lifelong to this insurance, and we are prepared to give our best to nationalised insurance also." When such people offer themselves, we should not refuse them. Ultimately, they are also Indians. If we can make use of the expertise and dedication of Indians for nationalised insurance, we should certainly do so. But if later experience proves otherwise, we will not hesitate to get rid of them. When we nationalise something, it becomes a pragmatic, practical proposition to implement it properly. In the transitional period, we will have to be very careful. In the atmosphere of criticism and doubt that is being created by very powerful forces in the country, when we are undertaking the responsibility of nationalisation, it is our duty to see that it succeeds. We have to see that we make a grand success of it. Therefore, we want the co-operation of all, and even of those who have opposed it. We find people are flexible. Prof. Ranga opposed any move for nationalisation when he was here. When he is outside the House,

he is supporting nationalisation. People are liable to change their views. Certainly we want co-operation from every sector to see that general insurance becomes a success.

I do not want to reply to Mr. H. M. Patel's argument. He has merely put on record his general ideological attitude towards nationalisation. He quoted our Prime Minister saying, "We do not believe in nationalisation for nationalisation's sake." Certainly it is so. We are not making a dogma of nationalisation. But when nationalisation is a powerful instrument to strengthen the social forces in the country, certainly we do believe in it. I do not want to go into ideological question. In his entire speech, his attitude was one of constructive co-operation and I welcome it. When we construct the new Bill, if he can give suggestions, they would be welcomed. In the meanwhile if he has other suggestions about running the management in a more efficient manner, certainly we will welcome those useful suggestions from him.

Sir, I do not want to say anything more. I thank the House for the very splendid support it has given to the Bill.



## GENERAL INSURANCE (EMERGENCY PROVISIONS) BILL, 1971

*Introduction in Rajya Sabha, 7 June 1971*

Sir, I beg to move:

*“That the Bill to provide for the taking over, in the public interest, of the management of general insurance business pending nationalisation of such business, as passed by the Lok Sabha, be taken into consideration.*

Sir, if I may be allowed to make some preliminary observations, I would like to submit that this Bill seeks to convert the Ordinance which was issued to take over the management of general insurance companies in India into an Act. I heard the speech of the hon. Member which indicated as, if the private sector and some good individuals there were constrained and forced to carry on the burden of a very unprofitable business - - a business which is full of risk, a business which is full of corruption, and they were really groaning under that burden. Perhaps one of the reasons in nationalising this business could have been to remove that burden from the individual private owner. What is this interesting argument that there is no profitability? If there is not profitability, why are you making a big noise about it? Government is not taking over this business for the purpose of mere profitability. That is not the only criterion. The criterion is that we have seen so far that general insurance, after many decades of existence in this country, has remained confined merely to commerce and industry Small dwelling

houses were not insured to any sizeable extent. There were other sectors of the economy; there were other sectors of social life which really needed to be attended. It is not nationalisation for nationalisation's sake. We are trying to seek those areas where, by taking over, we will be able to serve the more important social objectives. It is not merely the size of the assets. And the size of the assets also is not very small; it is Rs.240 crores. It is not a small amount. And this base can be enlarged. Yes, he reminded me that the Government at one stage thought contrary to this. Well, at that time, possibly that argument was thought of because there were some other priorities. Now, the entire outlook about the economic policies and the social policies has changed. I think he is still living in old history, in the old decade. He has not taken cognizance of the change in the social and political scene since 1969. And really speaking this is a programme which has been accepted not only by my party but the country as a whole. This is one of the very important items which the country has accepted and for which there was a mandate. It is in fulfillment of that promise to the people that this Bill has been brought forward, and this Ordinance was issued. Now, Sir, he asked what exactly is going to be the future pattern of business?

As I said, this is the first step and the next phase would be to bring forward a Bill before this honourable House and that Bill will certainly take into consideration the future set-up of the organisation. At the present moment, as we have indicated in the Press communiqué issued when the Ordinance was issued, the thinking is that it is better to have more than one corporation. Or our idea was to have four corporations so that there can be an intrinsic amount of competition in its functioning.

The essential business of general insurance is quite distinct from the life insurance business, though both of them are called insurance. There is qualitative difference between the two. Here the risk involved is greater and the shareholders here have got much more interest in it than, in the life insurance. So, really

speaking, these are two different types of business. We quite realise that it is full of risk and we will have to plug this very important source of corruption which possibly is the temptation for the private sector to retain the business with them. That is exactly what we want to do. I am quite aware that when it becomes public sector it does not by itself remove the defect. I am quite aware of it. But I think it is much better that under the strict supervision of these two Houses of Parliament we should run the business so that it would be under the public gaze because if there are any sources of corruption, certainly this country is not going to forgive anybody for that. They can be very severely exposed and criticised, and they will be made to suffer... Therefore, I think this is a right step at a very right moment. On that point I have no doubt in my mind.

Sir, I do not think I should make a very long speech at this stage. I think this is such a non-controversial Bill because excepting a few individuals, nobody thinks that this is an encroachment on the individual liberty. Mr. Mohta, I do not know in what type of India you are living today. It now affords a better opportunity to the neglected sectors and individuals. Neglected sectors and individuals was, one of the causes of the ills of this country. Therefore, we are taking this step. I think as an enlightened capitalist...

**An Hon'ble Member:** Industrialist.

**Shri Y .B. Chavan:** I would certainly call him an industrialist. But the arguments that he put forward are not the arguments of an enlightened industrialist, a model industrialist. He still thinks in terms of a nineteenth century industrialist. Actually, he should have come forward and said, "Well done, Mr. Finance Minister. I give you my full support and co-operation." Certainly, I should like to profit from his experience in the field. He should meet me and tell me some of the ways in which this corruption takes place certainly, that would be a great help to me in tackling the problem in this new field. I depend upon his co-operation in this matter. Instead he comes and asks for permission to disapprove of the Ordinance.



This is an unfortunate thing. I would request this Hon'ble House to debate this Bill, of course to row more light and give me some constructive suggestions and then pass it unanimously.

**Shri M. K. Mohta:** What is the guarantee that there would not be vindictiveness if somebody wants to insure and the Government says they will not insure?

**Shri Y B. Chavan:** Parliament itself is the guarantee.



## GENERAL INSURANCE (EMERGENCY PROVISIONS) BILL 1971

*Reply to debate, Rajya Sabha, 7 June 1971*

Mr. Deputy Chairman, Sir, during the last couple of hours when this Bill was discussed, I found that the House had, by and large, supported it, except Mr. Mohta.

Mr. Mohta said that I have not been able to make out a case. Even if I had produced tonnes of arguments, how could they affect a closed mind? Unfortunately, it appears that he has a closed mind. Though I must admit he has his own mind, but he has closed it. As I have told him, the real case for this is not what was thought of about three, four or five years ago. As Shri Babubhai Chinai says, historically this was not our programme. But history cannot put the future in a straight jacket. So, really speaking, what was said two, three or ten years back, the exact words do not matter. What happened in the last decade was the beginning of what is happening today. I would like to read out a paragraph from my Budget Speech which possibly will explain our entire approach to this problem.

I have said this in paragraph 13 at page 5 and I would like the Hon. Member to re-read it

"Honourable Members, I am sure, are happy with our decision to take over the business of general insurance in the country. This decision marks a culmination of the process which was started when

we nationalised the Imperial Bank of India and the life insurance business and to which we gave a major thrust less than two years ago through nationalisation of Major commercial banks. With these measures virtually all the savings of the people mobilised by financial institutions can now be deployed in accordance with national priorities."

When we used the words 'commanding heights of the economy', possibly they understood the meaning in a physical sense. When we say the 'commanding height', it is not a bank or two banks or three banks. 'Commanding height' in the economic sense means the financial institutions which are in a capacity to mobilise the people's savings. General insurance is one of them. Therefore, it forms a part of the commanding height.

**Shri. Babubhai M. Chinai:** It is only a sum of Rs.2  $\frac{1}{2}$  crores.

**Shri Y B. Chavan:** The figure of Rs.2  $\frac{1}{2}$  crores is not the important thing. It is the capacity of not merely collecting profits, but also of giving social service to the people. That has also to be taken into account. That is much more important. When you think in terms of "commanding height" what matters is that these are the financial institutions which have got a great potential capacity to mobilise the people's savings, to give social service and also to serve the cause of national priorities. This is the philosophy behind it. If you really accept this philosophy, then support the Bill. Do not say you are committed to oppose the Bill, therefore you are opposing the Bill. That is not good.

**Shri Babubhai M. Chinai:** We would like you to spell out your philosophy.

**Shri Y.B. Chavan:** I am spelling out. Really speaking, when you say commanding height, Commanding height is not to be measured in terms of money, crores, two, three, four or five; even four crores is much more important if it comes to the aid of the poor man, if it goes to the aid of some priority economic sector or

vital sector. Four crores of rupees annually is not a small amount. It can certainly increase. I also want the general insurance to break some new ground. What those new grounds can be or should be is certainly a matter for further consideration, further study and further programming for it. That is a different matter, but really speaking this is a very important matter for the country's economy, and the process was not started today. This is not something new. The process had started a long time back. Unfortunately we said one thing, we did something else. That has really speaking brought us where we are today. That is the unfortunate part of it. It is an agonising thing.

About the premium also how can I now say that I will reduce it or increase it? This is a matter of detail. Our idea would be naturally to provide service to the society at the minimum cost possible. If this is the principle and you want on assurance and a commitment, I say yes, to provide service to the society and to the sections of society which need that service, it should be at economic cost. It is a directive principle, and whether it can be immediately reduce or not I do not know. I am not an expert of this matter but my mind is absolutely clear about one thing because this is one of the social service institutions. It provides certain social service and when the social service is given to the needy sections of society, we must not try to make undue profit or try to exploit.

Some people have raised the question of employees. My Hon. friend Mr. A. R. Bhatt said that the employees' co-operation should be sought. I certainly stand for it. We will discuss this matter. Already the employees have sent a Memorandum. While we formulate our proposals, we may agree with them or we may not agree with them, we will certainly consult them in this matter.

Ultimately a Bill will be brought before the House. I propose to take that Bill to a Select Committee. It will be considered from all aspects. Even now I am prepared to make that commitment that it is better that a Joint Committee of Parliament should go

into all aspects of the Bill and consider the matter. But I must tell you one thing. It was said if you merely raise the wages of the employees, the whole profits will go towards the betterment of employees etc. I must say employees will not be so unreasonable. I think the employees are as much interested in nationalisation of these institutions as we are. But it is necessary that we get them involved in it. It is much more important. I have got very good experience as far as nationalised banks are concerned. When I put to them some aspects of the nationalised banks problems I got an encouraging response from them. I am not pessimistic about it. We are interested in the success of nationalisation. So are they. It is the people's demand, people's decision. It is not merely a Government decision now. Therefore I have every hope that they will certainly give us cooperation in this matter.

There was one point which was raised, that step was something very new, something ill-conceived, something which was very prematurely brought about. The Hon. Member asked whether it was on the agenda of the Cabinet or not. He said that it was suddenly brought forward. He knows that such actions have to be taken with an element of surprise because there are many risks involved in that ... (Interruptions) I do not know. The companies have not, tried to manipulate. We ourselves were so careful, so they would not have been able to do that. But I do not say that there were people who wanted to do that. I am not making any allegation or casting any aspersions against them. This was one point.

Then, Sir, the other Member from the CPI (M) supported the Bill but as was expected of him, I think, he also did his duty of criticising the Government.

Sir, he has raised certain legal points. I would like to read that particular article of the Constitution because let me make it clear that I believe in the Constitution, and I want to function within the framework of the Constitution. If we want to amend the Constitution we shall do so. We are also committed to the amendment of the

Constitution in certain respects. But at present about the Bill which I am moving, I am certainly bound by the Constitution and by the decision of the Supreme Court also. Unfortunately, he does not believe in the Constitution. That is my difficulty. I said, we are committed to change the Constitution.

We are committed to change the Constitution also in certain matters which we have indicated, because we are not against private property. We have made our point very clear in our election manifesto. But what we are against is the concentration of property and that concentration is giving rise to disparities in income. In order to achieve this end, we are committed to amend the Constitution. Let me be clear as to what we stand for. We are committed to that and certainly at the right time, Government will come forward with the proposal. At that time we will expect support from them also on that point.

Coming back to the present position of the Constitution, what is the present position? He mentioned article 31A (b). It reads like this---

“the taking over of the management of any property by the State for a limited period either in the public interest or in order to secure the proper management of the property”

There, compensation is not necessary. I am making it clear that we are not taking over the management temporarily; we are taking it over with a view to nationalising it ultimately. The Constitution says that if you take over the property for a definite period with a view to returning it back, then compensation is not necessary. If it was intention to take it over for three years and then make it more profitable and sound and hand it over back to Mohta and Company - when I say 'Mohta and Company', I mean people like him, I do not mean anything personal.....

This was the article referred to. The Attorney General, Mr. Setalvad, was there then. When life insurance business was taken over, this question was gone into. The present Bill is drafted exactly

on the same lines as that of the Life Insurance Corporation. Now, Sir, he made a mention of certain Acts which his Government in West Bengal passed while taking over the Tramway Company of something like that. I had tried to see what that Act contains. In that Act the State Government had made it very clear, that by the consent of the Legislature the act could be cancelled, the management could be restored before the due date. It was in a way indirect promise that even before the definite period the whole thing could be cancelled and the management returned back. Our intention is certainly very straightforward. We say we are taking it over as a first step towards nationalisation. Therefore, my legal advise was that we have to give compensation for taking over management (Interruptions) if the intention is to take over the management without compensation you have to take over for a definite period.

**Dr. K. Mathew Kurian:** Why can you not amend the Constitution?

**Shri Y. B. Chavan:** You do not know what you are talking. That is all I can say. That was my only point.

**Dr. K. Mathew Kurian:** You cannot get away with that. What about amending the Constitution to take over big properties without compensation? That you have not considered necessary.

**Shri Y. B. Chavan:** When we come to acquisition, you can raise your argument then and we can discuss.

**Dr. K. Mathew Kurian:** You have not discouraged.

**Shri. Y. B. Chavan:** I am not going into any principles and I am not going into arguments about compensation for taking over ownership. I am here discussing the question of taking over the management. One view is that we will have to pay compensation. I am glad he is supporting this Bill. For that matter I am grateful to him.

Sir, as I said, this is one of the tasks to which the nation was

committed. The process was started a long time ago. There were hesitations. But now that period of hesitation is over and this, is a very important thing that we are doing. The commanding height that we were thinking of was the taking over of the insurance business. We are reaching those commanding heights by taking over all the public financed institutions thus utilising the savings of the people for proper national purposes. That is the commanding height, and I think we have now reached it. I hope this entire House will now support this Bill.





## GENERAL INSURANCE BUSINESS (NATIONALISATION) BILL

*Lok Sabha, 28 August 1972*

As the House is aware, the General Insurance Business (Nationalisation) Bill, 1972 was introduced in the House on 29th May 1972 and was subsequently referred to a Joint Committee of both Houses of Parliament on 30th May, 1972. The Report of the Committee was presented to the House on the 21st August 1972.

The Committee received representations from a number of bodies and also heard evidence from several witnesses. The Committee have recommended certain changes in the Bill which are explained in detail in their Report. I need not go over the ground again but I shall confine myself to a brief Explanation of the more important provisions of the bill as amended by the Joint Committee.

This Bill was introduced in pursuance of the declared decision of Government to nationalise general insurance business. It will be recalled that life Insurance business was nationalised in 1956 and the present Bill by nationalising general insurance business completes the process of nationalisation of all classes of insurance business.

I would like to say a few words about the broad structure of the Bill. The Bill visualises the setting up of a Government

company called the General Insurance Corporation of India and four companies subsidiary to it. The functions of the Corporation broadly include, apart from carrying on general insurance business on its own, aiding, assisting and advising its subsidiary companies and also exercising supervision and control over their functioning by issuing directions to them wherever necessary. In issuing directions, the Corporation is expected to keep in mind the desirability of encouraging competition amongst the companies as far as possible in order to render their services more efficient. It will thus be seen that the bill envisages a healthy competition throughout the country amongst the four subsidiary companies. The bill provides that each subsidiary company shall act as far as possible on business principles.

The four subsidiary companies will be formed by integration of the existing insurers in India carrying on general insurance business. Hon'ble members will recall that under the General Insurance (Emergency Provisions) Act, 1971, the management of the undertakings of all insurers carrying on general insurance business in India (with the exception of the Life Insurance Corporation of India), was taken over by Government. This takeover was made in order to enable Government, pending nationalisation, to carry out the necessary spade work for the ultimate takeover as visualised in the present Bill. In taking over the ownership under this Bill, two different procedures have been adopted in the case of various categories of insurers. In the case of each Indian Insurance company (which is defined as an insurer having a share capital and is a Company within the meaning of the Companies Act), the shares are proposed to be acquired. In the case of other insurers which include, apart from foreign insurers, cooperative societies, mutual insurers and LIC; what is proposed to be acquired is the undertaking of the insurer relating to general insurance business: The reason for this difference is that the latter insurers either have no shares in India which can be acquired or in the case of cooperative societies it is not desirable for Government

to acquire the shares. On the, "appointed day" the undertakings of all the latter group of insurers will be transferred to the Central Government and immediately thereafter to one or the other of the Indian, insurance companies. Thereafter, the Central Government can frame one or more schemes providing for the merger of the Indian insurance companies between themselves so that ultimately there are only four companies (in addition to the General Insurance Corporation) in existence and that they are so situate as to render their combined services effective in all parts of India.

I would like to draw the specific attention of Members to the following provisions in the Bill:

(1) The General Insurance Corporation starts with a subscribed capital of Rs.5 crores which is required for it to function smoothly until it begins to receive dividends from its subsidiary companies.

(2) The amounts paid under section 11 for acquiring shares or Undertakings, as the case may be, will be treated as additional contribution to the subscribed capital of the Corporation.'

(3) Although under the General Insurance (Emergency Provisions) Act, 1971, the management of the general insurance business of LIC was not taken over, the present Bill provides for acquiring that undertaking (in so far as it relates to general insurance business) also.

(4) Some State Governments are at present carrying on general insurance business. They will be allowed to continue the business to a restricted extent, namely, in respect of properties mainly owned by them or in which they have a substantial financial interest; but otherwise they will be allowed to run their business.

All the employees of the existing insurers whose shares are undertakings are taken over, will be transferred to the companies under the new set-up and they will continue on the same terms and conditions with regard to pay scales, service conditions etc. until and unless these are changed. In this connection, Members

will recall that Government has already set up a Committee under the Chairmanship of Shri Mathrani to examine the existing organisational and administrative set-up in all the insurers and to make suitable recommendations for an integrated and rationalised set-up in the future. When the recommendations of that Committee are received, naturally Government will consider the question of having uniform service conditions for the employees.

The Joint Committee has inserted two new clauses, namely Clause 22 and 23. The former empowers the Central Government to transfer employees from the Corporation to the acquiring companies or vice versa or, from one acquiring company to another, if such transfer is desirable in the best interests of the nationalised set-up. Some fear has been expressed that this power might be used by the central Government to victimise the employees, but I can say that any such fear is absolutely unfounded.

Clause 27 contained in the original Bill empowering repatriation of assets of foreign insurers has been omitted. Since the Committee felt that the matter can be regulated by administrative orders.

The Schedule to the Bill sets out the amounts payable by Government for acquiring the shares or the undertakings, as the case may be, of the existing insurers. In the bill as introduced in this, House, the total amount involved was Rs.33.03 crores of which Rs.25.68 crores was for the Indian insurers (including the LIC) and Rs.7.35 crores was for the foreign insurers.

When the joint Committee took evidence, almost all the witnesses had something to say about the amounts, proposed to be paid. On the one extreme, there were some witnesses who contended that no amount should at all be paid for taking over the argument being that in the past, the shareholders or the proprietors had already enjoyed considerable benefit from the profits of the business. There was another opinion - you will see this one of the minutes of dissent also that the shareholders may be paid the amount of their paid-up capital only. The argument apparently is that what the

shareholders have contributed should be returned to them and any appreciation in value of shares, for which the society at large has been responsible, should be returned to the public exchequer. The third category of opinion, which is at the other extreme, contended that full legal proprietary rights of the shareholders should be respected and that "apart from the reserves for unexpired risks on minimum basis and provision for outstanding claims, the balance of all the assets should be returned to the shareholders. The first two views mentioned above raise ideological considerations which are also very important, however, for the same reason it is not possible for me to discuss them from the technical angle. As regards the third, I must say that it is an extreme view which cannot stand deep scrutiny. Every insurer carrying on general insurance business must create additional reserves and these reserves serve not only as security for policy-holders but also enable the insurer to write more business and cover more risks in the country itself. These reserves are built out of the premiums paid in the past by the policy-holders and needless to say these have come out from the margin in the premium which is always provided directly or indirectly, to take care of possible fluctuations in risks. Hon'ble Members will appreciate that if all the reserves are paid to the erstwhile proprietors what is left namely the bare minimum policy liabilities will not enable the undertaking to continue functioning on a sound, not to speak of a strong, basis. To my mind, the point seems so obvious that I may be pardoned for placing emphasis on this aspect. Nevertheless, I think it is necessary to draw specific attention to this matter because a number of witnesses argued as if Government is expropriating what in law belongs to them, ignoring at the same time the necessity, for continuing reserves in a running institution. We have to remember that we are nationalising general insurance to enable it to continue running in future and that we are not attempting to wind up the business and give away whatever belongs to the erstwhile proprietors.

With regard to the amounts specified in the Bill, it was argued

in the Select Committee that there was discrimination inter-se between Indian insurers as well as discrimination between Indian and foreign insurers. It was contended that those Indian insurance companies which followed a conservative dividend policy in order to build up a sound reserve position got a raw deal in comparison with other companies which distributed higher dividends. As regards foreign insurers, it was argued that the amounts specified in the Schedule discriminated in their favour and that the Indian insurers should get at least the same treatment, if not better, as all their assets are retained in the country. To meet these points, the amounts mentioned in the Schedule were reviewed and the amounts were increased for 31 Indian insurers. The total amount payable to Indian insurers has gone up from Rs.25-68 crores to Rs.30-70 crores. After the above changes, the amounts in the Schedule can, of course, still be assailed on the ground that they are generous or inadequate depending on the political philosophy of the person criticising them. But the amounts cannot be assailed on the basis that they are arbitrary or discriminatory as between the Indian and foreign insurers or as among the Indian insurers Inter-se. I should add that while arriving at these final figures given in Schedule A and B, we have taken into consideration arguments advanced in Select committee and also factors like dividend, assets minus liability, profitability etc. so as to ensure that there is no discrimination between insurers.

Certain other criticisms of the bill were made by witnesses and these have found place in some of the minutes of dissent. First, here is the suggestion that there should be a single autonomous corporation and not four or five units. This is a matter on which a member of representations were received by Government even earlier, mainly from employees unions. I may say that before drafting the bill, very careful consideration was given to the suggestions received, but Government came to the conclusion that four units competing N with each other throughout India would be the best in the circumstances. The evidence given before the Committee

has not brought out any fresh point for changing this view.

In one minute of dissent a suggestion has been made that the 'appointed day' should be advanced suitably to avoid continuing to pay management compensation, Government fully appreciates the need for fixing the 'appointed day' as early as possible for saving payment management compensation. Naturally, we have also to take into account the time required for the preliminary work which has to be completed before the appointed day. The appointed day will be fixed taking all the various aspects into consideration.

Shri Babubhai Chinai in his minute of dissent has suggested that the rate of interest on instalments should be raised from 4% to 12%. When Government is able to borrow at 5 1/2 % or 5 3/4 % even for long term loans I do not see how it will be correct to pay 12% on the instalments. It must be remembered that it is not as if the interest is being paid as a penal measure on account of delay on Payment; the law itself provides for three annual instalments and save for the inevitable procedural time for making payment interest is payable mainly for the period during which the instalments have been spread out. Shri Chinai has also suggested that a 51% majority of shareholders should be empowered to nominate a person or body to whom the amounts payable to them can be paid. I need only say in this connection that unless the amount involved is substantial, little purpose would be served by the provision and in many cases 51% of the total amount payable may not be a substantial sum.

There were suggestions from some witnesses that provision should be made in the bill for the absorption of the employees of the Calcutta Claims Bureau and similar organisations and some of the minutes of dissent also mention his point. I have given an assurance in the Committee that the employees of that Bureau and organisations of a similar nature will be absorbed in the new set up of the General Insurance Corporation.

With these words, I beg to move that the Report of the Joint

Committee be taken into consideration.





## SECTION-4

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### WORKING ON NATIONALISED BANKS

#### **EDITORIAL NOTE**

Y. B. Chavan was in the forefront of movement within the Congress Party to demand nationalisation of Banking. During his stewardship of the Ministry, he took several steps to place the working and management of the nationalised Banks, including union activity in the Banking sector on proper footing.

Two Speeches included in this Section serve as reference material.

## NATIONALISED BANKS (MANAGEMENT AND MISCELLANEOUS PROVISIONS) SCHEME, 1970

*Rajya Sabha, 10 December 1970*

Sir, I am very glad that we got this opportunity to discuss the scheme under the Banking companies Act and also at the same time the different aspects of the working of the nationalised banks themselves. To take first the criticism that was voiced by Shri Bhupesh Gupta, he asked whether there is any democratisation of the nationalised banks. This very scheme is evidence of what democratisation we want to achieve, in what direction we want to do it, the extent of democratisation that we have undertaken. The first feature to assess to democratisation of any authority is to look at the highest executive, the highest body in a bank, as a matter of fact the most powerful body which takes decisions on policy, namely the Board of Directors. This scheme concerns only with the composition, the constitution and other procedural matters about the Board and other bodies. It would not be correct to say that we are not taking any steps towards democratisation. The very birth of the idea of nationalisation was with a view to democratise the functioning of the banks in addition to having radical changes in the policies, social and other economic policies of our credit machinery.

The most discussed topic of today's debate was about the method of nominating the representatives of some of the categories which are mentioned in the Act itself, particularly about the representation

to the employees, workers, depositors, farmers, artisans, etc. The plea is made by some Members and there are some very important Members, I cannot underestimate their criticism in this matter that instead of giving this opportunity to merely some of the persons on the persons prepared by the recognised unions, right should be given for every member of a union to use the secret ballot to elect a representative. The idea seems very attractive in the beginning when one hears about it. But we must know exactly what we are talking about. The functioning of the nationalised banks is spread all over the country. If we undertake such an elections, it will be a national operation. Then again in order to carry out an election of this type there will have to be a completely independent, impartial election machinery to conduct the whole thing.

Then, once you allow election, certainly there will be objections about nominations and candidature and certainly some sort of objections after the elections. And I think there will be no opportunity for the functioning of any bank. We will be completely lost in these paraphernalia-and procedural matters. Here it is not a question of giving any representation to an individual worker. What we have accepted here for the purpose is representation of the workers, employees, as a class. Their point of view has to be represented. At the present moment therefore even the trade union movement is functioning through the idea of the representative of the union. Even for their own, trade union purposes they have not been able to find any other alternative. When this accepted formula has been made use of for giving them representation in the very important, delicate machinery of bank, I do not think any other course can be undertaken. If we resort to secret balloting, etc. unfortunately the whole issue will be politicalised. You know that once it is politicalised, then it will be factionalised and then it will be completely demoralised. So, it is much better that we accept this. medium of representative union through which alone we can achieve the objective.

Some Members, particularly Mr. Banka Behary Das, made

a point as to why we are prescribing a membership limit of 15 percent for a union to be representative? I tried to explain at that time that 15 percent is the minimum. He said, well, there may be industries where there is no 15 per cent even in the membership of the unions. I do not think any industry is in that poor condition. But at least we are here talking about the banking industry. That is the relevant industry- today And I am sure that everybody would admit that the industry of banking is very well represented in the trade union movement. There is no doubt of membership as far as that industry is concerned. The difficulty is, not only is there no dearth of trade union movement but there is no dearth of trade unions in that. There is such a multiplicity of unions and this was one of the very tough problems we had deal when we prepared the scheme. I discussed-the problem with some of the experienced labour workers and also with the Labour Ministry', with people who have some experience of these matters. My colleagues, and I went into this matter, and we found that this is the only way whereby we could secure the representation of the workers and the employees in the banks so that the functioning setup of the banks can go on very well.

**Shri Bhupesh Gupta:** Did you get suggestions from the Federation of Bank Employees?

**Shri. Y. B. Chavan:** Again in this matter, we have to learn from our experience. I have not taken the position that everything that we are doing is the last word in this matter. This is not the only scheme that can be brought before the House. There can be certain modifications to this scheme; there can be some other scheme also that can be considered as we grow with experience in this new direction. I think we will have to learn from our own experience also and see how it functions.

Now, Sir, there are different amendments moved by many Members. But I would certainly, like to answer some of the other points that were raised by some of the Members. One point that was raised by Shri Banka Behary Das was about the position of

the Reserve Bank in the banking system as such. He has raised a very important point. He made a suggestion on the pattern of the French banking system so that there shall be some sort of a technical surveillance board apart from the Reserve Bank. Well, Sir, I cannot say that know much about the working of the surveillance board there; possibly, the conditions in France can be quite different from India. But actually we also have to learn from our own experience in this matter. What is the role of the Reserve Bank? Whether it is undersized or over-sized is a matter of further administrative examination. But the function of the Reserve Bank is that of the Central banking authority in the country. It is a bank of the bankers, as a matter of fact. So, naturally, it does not advise only the nationalised banks, it also advises the other banks, including the foreign banks, about the general position of money supply; the credit facilities and other important economic factors which have to be taken into consideration when one runs the bank. In those matters, it certainly advises the Government also because it is the technical adviser of the Government in certain monetary and fiscal/ matters and policies. Therefore, I personally think that the role of the Reserve Bank continues to be the same as it was before. There is no question of weakening the Reserve Bank in this matter. At the same time there is no question of creating some rival authority against the Reserve Bank in the whole system.

**Shri A.P. Chatterjee:** You mean giving them...

**Shri Y. B. Chavan:** If it means giving them more powers if they want, naturally they will also have to think in terms of being effective. Certainly, this is a matter to be considered. I quite agree that at the present moment the hands of the Reserve Bank are full because of many other activities. But I do not think we have reached a stage in this country where we have to have some other parallel body to look after this economic and technical aspect of the nationalised banks.

**Shri A.P. Chatterjee:** Mr. Finance Minister, is it not going to

be old wine in a new bottle in every respect?

**Shri Y. B. Chavan:** It will not be wine at all. That is one thing that you should know. We are Ganges water. We are certainly the same people, the same country. But certainly we are fired by new ideas, new ideologies, and we are trying to go in a direction, trying to see new horizons which I am afraid, you have lost because of your clinging to old horizons, what you see in certain text-books. I am certainly trying to see new horizons, as stated in the preamble of the Nationalised Banks Act itself says...

About the Reserve Bank I said that it is not necessary at the present moment to do anything about it.

Coming back to the scheme itself, some hon'ble Members made a suggestion that nobody should be allowed to continue as a member after two terms. I do not think we should immediately rush to this conclusion at this stage because we are allowing for the first time new categories to become participants in the management of the banks. We must also allow some sort of expertise to develop in these sectors also. There may be good trade union workers. There may be good employers also. But when they sit on the Board of Directors my conception of the representation is that they not merely look to the interest of the employees but sit as the directors of the nationalised banks, and take a little wider view of the whole matter. They will have to take overall view. They cannot merely say that after the nationalisation of banks the only interest to be protected is that of the employees and nothing else- I think in that case the whole question will be misunderstood. And, therefore, as he very rightly made an appeal to be which I am certainly prepared to respond to that we must have a new vision. I might say that Parliament is taking this important step today giving the right to the representatives of employees to be on the Board of Directors so that they also get that new vision. Ultimately we have to make a success of this new system that we have accepted because there are critics of the nationalised banks who have already started making complaints that the banks are in

a loss and that the economy is in danger, only because banks have been nationalised. Even if it is a sort of bureaucratisation they also will have a new responsibility; I am sure my hon'ble friend, Shri Bhupesh Gupta, will give me co-operation in working out this new orientation in the thinking of the employees.

**Shri Bhupesh Gupta:** You are being very unfair. You say this for all the co-operation they have given to you.

**Shri Y. B. Chavan:** Whatever you have given, thanks for it.

**Shri Bhupesh Gupta:** How about the saboteurs in the Board coming from hose quarters?

**Shri Y. B. Chavan:** We will take full care that there will be no saboteurs there is nothing worry about that matter. The general criticism of Mr. Dayabhai V. Patel, I took it for granted, was that there is corruption, that there is bureaucratisation. Sir, everything that comes as new, they always think it to be wrong. I can assure you that there is no question of any bureaucratisation as such. Naturally there will be more officers, there will be more employees because at the present moment we are extending the infrastructure to meet the new responsibility that we have undertaken because of nationalisation. What were the twin purposes of nationalisation, to begin with? To change our policy of credit and reach the neglected sectors of the economy. In order to do that, we will have to reach new areas, "unbanked" areas, as they call it. Therefore, we are trying to reach them. Naturally we will have to expand. So, this is a new infrastructure that we are creating by having a new credit policy. But it takes time, considering the size of country and the problems that we are facing. Even then I must say that in the course of the last 15 or 16 months since the nationalisation of banks, there is a sizable change in their working in the sense that a large number of branches have been opened in new areas. That was the very point of criticism by Mr. Dayabhai Patel. He said, "You have opened new branches. But where are the people?" But that is precisely why we have expanded. But if we open a new

branch and immediately the next day ask, "What is the number of applications, how much deposits?" You not know our own country. We are making a beginning. So it is very reasonable to give some time before we make an evaluation of the working and of what has to be done. In the course of replies to many questions raised in the House, we have certainly indicated new changes that we have introduced in the field of Credit, the new accounts that have been opened, the deposits mobilised and so on. The deposit mobilisation was rather tardy in the beginning but I can assure Hon. Members that the deposit mobilisation movement is now gathering momentum. So, these are the new directions in which we are trying to move. Merely saying that there is bureaucratisation will not be right.

The Hon. Members, Shri Bhupesh Gupta, mentioned certain names. At the top level, we have to find some experienced people. In these nationalised banks, we cannot take an eminent person merely because he is an eminent person. That really speaking, would be failing the country.

**Shri Bhupesh Gupta:** I have not suggested, Mr. Chavan, that Shrimati Tarkeshwari Sinha should be made Chairman of a bank.

**Shri Y. B. Chavan:** I believe, you are also good, but I cannot appoint you as a Custodian. That is my difficulty. I cannot afford to take that risk. We have to select experienced people. Then, he mentioned the case of the present Custodian of the Bank of India, Mr. Saxena. He mentioned other names also.

**Shri Bhupesh Gupta:** I specifically mentioned Mr. Krishna Iyer, the villain of the piece.

**Shri Y. B. Chavan:** He also mentioned Sami Patel. Mr. Krishna Iyer went to the Central Bank as a special officer to look into the question of misappropriations, etc. in the London Branch. He as a senior man went there... He has been specially sent there, because at the time this matter was raised, the House desired that we should appoint somebody from outside the bank to go into the



matter. Mr. Krishna Iyer was sent initially as a representative of the Reserve Bank and he is continuing to function there: What his status is in the bank is an internal matter, that I will have to look into.

**Shri Bhupesh Gupta:** I have told you.

**Shri Y. B. Chavan:** I will certainly look into it, but ultimately it is a matter for the board of directors of that bank. I cannot dictate decisions from here. But I quite agree with the point he has made that the employees and officers of that bank must be treated well and they must have a feeling of participation. If this is the point that he is making, then I am one with him. So, there is no question of victimising anybody, etc. At present, the people who have got some experience of a large-scale with a national outlook are the State Bank people. Therefore we thought it was necessary to find people from amongst them. But it is not the policy to continue to do the same thing. Ultimately what matters is not from where the man comes, but what his capacity is to give, leadership to the bank and to achieve the objectives which we give to him. This is my only point about it.

Now, if we go to the individual suggestions made by Hon. Members, I should first of all say that there are some good suggestions. But I would plead with the Hon. Members not to insist on my accepting any amendment at this stage. This is one complete scheme and let us see how it functions. I would plead with them not to press for any change in the scheme as it exists now. I can certainly give my comments on every amendment, but I do not think it is necessary to do it.

**Shri Bhupesh Gupta:** We suggested many times that you should give loans at a lower rate of interest to the small men. There should be some preferential system.

**Shri Y. B. Chavan:** Immediately after I took over, I had a very detailed discussion with the Custodians of the banks. I raised the question myself that at least as far as the small people are

concerned, there is necessity of a preferential rate of interest. But naturally there is another view point also. As far as borrowers are concerned, it is not a matter of interest alone. It is the availability of credit that matters. That is another point. That also has to be taken into account. That is also very important. Even then I do not want to give up the idea of preferential rate of interest. I would say, let us see whether we can make the credit available and at the same time whether we can have some consideration for the smaller people in this direction. Therefore, a study group has been appointed by the Reserve Bank and I am expecting its report. Do not presume that we have lost sight of this aspect of the problem. Now I do not want to go into the details of the question. I would only plead that the House should be glad enough to accept the scheme as it is so that we can take the next step of installing these boards, these democratically-oriented boards. These new boards will function there and then the House will have a greater right to expect more arduous duties from them.

I missed one point and I must make a reference to it. The honourable Member made a reference about representation to Harijans and Scheduled Castes' and Scheduled Tribes. I think it is a good sentiment. That I can understand. But in the Act that we have, in the nature of things, it is very difficult to provide for any reservation. And once we start providing reservations, it will be very difficult to work it out. However, I have taken note of what he said. I quite see that in these things naturally able, experienced, people from those classes also should have their place.

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## NATIONALISED BANKS

*Reply to Discussion, Lok Sabha, 11 August 1971*

I thought the discussion was going to be in a rather constructive way because the first three or four speakers made quite constructive suggestions. Shri Mishra made certain comments and gave certain suggestions which certainly are worth considering, but it appeared a little later that the main thrust of his speech was somewhere else, not on the constructive part.

Many Members have also conceded that there is a diversification of credit because so far neglected sectors have been taken into account and we are trying to reach them. There is expansion of branches also so that we are trying to cover unbanked or underbanked areas and that process of expansion is being continued. Of course, another point has been made by many hon. Members, namely, whether we have done as well we could have done. Particularly the point was whether we have tried to do enough for the so-called priority sectors the small agriculturists, the small traders, the small businessmen, the self-employment seeker, young men, the intelligent young men who have nothing else to give as security. These are the priority sectors for which nationalisation of banks was contemplated. I would like to say that it continues to be the objective and the policy of the nationalised banks. There is no doubt about it. I would like to assure the hon. House that the criterion of credit-worthiness is being changed,

and as Mr. Dandavate has said, certainly some policy changes are taking place. No doubt there were some practical difficulties in the way.

**Prof S.L. Saksena:** Only 18 per cent has been advanced to them.

**Shri Y. B. Chavan:** The real problem and the real difficulty is that the demand for credit from this neglected sector, which has been neglected for centuries together, is so vast that immediately we have not been able to meet it in a satisfactory manner. That is the problem. Of course there are the problems of attitude in this matter which are coming in the way. At least there is a feeling that it is so. Also there are allegations of corruption, as hon. Members said. I cannot say that there are no cases of corruption, because, that is really speaking a general problem in Indian life. It is not merely confined to nationalised banks, but the programme and working of these nationalised banks has been completely exposed to public criticism. It is a good thing that some of these things are openly talked out, discussed and criticised. Much is being said about it, but it is not as if corruption started only with nationalisation. One cannot say like that. Naturally, it can be rightly expected that after nationalisation there should be some check on that.

**Prof. Madhu Dandavate:** Nationalisation of corruption.

**Shri Y. B. Chavan:** I would certainly make a request to Mr. Dandavate - he has given some specific cases - it is much more desirable that we try to follow such individual cases to see that ultimately there is a feeling of deference in this matter. I have myself taken up this question with the custodians of banks. At the very first, meeting, when I met them, I told them that it is not good for the new programme of nationalised banks that there should be a feeling of corruption being prevalent, and we have decided to take preventive measures and certainly started vigilance centres in several banks.

As far as reaching the neglected sectors is concerned I have, in

many replies to the questions, given certain statistics about it. If I had enough time, I could give the details. I have got a wealth of information with me which I can give again to the Hon. Members, about the increase in the number of offices of commercial banks after nationalisation. I can give the figures. In the State Bank, the increase is 993 offices, and in the case of the 14 nationalised banks, it is nearly 2,113. I can give according to the States also; I have got the information. For example, Shri Bhogendra Jha mentioned Bihar. In Bihar, the number of offices, as on 30th June, 1969, was 273. At the end of July, 1971, the number of offices increased by 127. He wanted to know the percentage to the population. There is also improvement. I know that it is not satisfactory; but you cannot say that there is no improvement. In Bihar the population coverage has come down from 2.07 lakhs in June, 1969 to 1.2 lakhs in May, 1971 and will be around 1 lakh at the end of December, 1971.

..My only plea to the Hon. Members is that we are making a very sincere effort in this matter.

As far as the performance of the Banks in the priority sector is concerned, you can employ two tests. One is whether we are trying to reach the areas where so far they had not ventured, or secondly whether the Bank has become at least approachable to the smaller man. I can say that more than 60 per cent of the additional deposits is made use for the neglected sector.

The other thing also will have to be seen, whether the bigger accounts are still being allowed to benefit in the old manner. I would like to assure the hon. House that we have taken enough care in this matter to see that the bigger accounts of Rs.25 lakhs and above are very carefully scrutinised by the Banks, by the Reserve Bank itself. As I have many times explained in the house, they have laid down a pro-forma on the basis of which they very carefully scrutinise the purpose for which the loans are required and whether they are made use for the purposes for which they are taken; to see ultimately that they are not manipulated for

purposes for which they are not meant and that at least they are not utilised for speculative purposes. But one cannot say that we should completely starve the bigger accounts, because ultimately we will have to see that the genuine economic productive activity must go on. For example, the textile industry will have to be given proper credit facilities because it certainly provides employment. The only question is whether additional amount, that becomes available by way of deposit mobilisation is made available to the smaller sector, to the priority sector, in an increasing manner. I can assure the hon. House that this is exactly what we propose to do. It will take some more time.

The most important point that was made by Shri Shyamnandan Mishra was whether the nationalised Banks are having certain plans or programmes linked with the planning of country. I entirely agree that the nationalized Banks will have to play a very important part in the economic planning of the country, and it is from this point of view that we have started this 'Lead Bank Scheme.' The idea is that the lead Bank should have a co-ordinating role in having a development programme in the district and take a lead in this matter of co-ordinating the activities of other Banks. The country is divided into different areas and different Banks are given responsibility for the areas. An Hon. Member from West Bengal said that a certain Bank did not fulfill its functions in its district.

Some banks have done better in some areas and some banks have not. One fact however stands out, and that it is really a challenging problem. There is a large disparity in the functioning of the banks. I must concede that eastern India particularly is much more neglected in banking activity. It must be conceded. In order to find out facts, I myself went to Eastern Uttar Pradesh and my fears were confirmed. I made certain statements about it there also. In doing so my idea was not to condemn anybody but to have self-criticism. I do concede that we have not risen to the expectation of the people in this matter, because I was myself not

satisfied with the progress.

..Here I must say one thing. We must show patience. I do not think we can work our miracles and get things done overnight. The first task is to see that the areas are properly covered. Then good surveys and development plans for every district will have to be prepared. Then we have to campaign continuously for mobilisation of resources. If we merely say that let the lead banks go on distributing money it cannot be done.

...Naturally, it will have to be a banking operation and banking operation depends upon certain financial proprieties. If not security, at least certain creditworthiness will have to be there. I quite agree with Shri Jagannath Rao Joshi when he says that when an intelligent person says that he has got an economically viable operation for which he wants money, naturally it should be given. But it is the responsibility of the person concerned to prove that he has got an economically viable proposition to work. If a person merely comes and says that he has got a diploma and on the basis of the diploma he should be advanced some money it will not be possible to do so, because it will be tempting them in a wrong way.

The point which the hon. Member made about specialisation is very very important. Today we have not got that. Now the people who are sent to the rural areas and who are expected to grant loans to the agriculturists, are the people, who have been functioning in the urban areas and dealing with only commerce and trade. They do not know how to assess agriculture as a proposition. So, it is a question of re-orientation of the person who goes there.

So, after nationalisation we have to undertake a task which is qualitatively different. Quantitatively also it is terribly different and it is a vast operation. Therefore, I would plead with hon. Members for patience and understanding. But I would not plead with them for protecting me for faults. I will never ask them to do that, but I would certainly plead with them for patience because the

leadership of nationalised banks is certainly making progress.

Here I must say a few words of appreciation to the leadership of the nationalised banks for their present attitude because earlier they had to function in a different atmosphere. Now they are showing a sense of dedication for the objectives of the nationalised banks and I think they are ready to go ahead. But they also need instruments.

Ultimately only the custodian by himself or a couple of people round about him cannot deliver the goods. This is the basic approach. As far as the point of the hon. Member is concerned that there is no participation of the employees in the banks, this Parliament in its wisdom has decided,.... (Interruption) I am really keen to have regularly constituted new boards, but my difficulty or stumbling block is the representation of the employees.

... Now, the wranglings in the trade union movement, that is also a fact of life. What can we do about it? That wrangling is there. I am not blaming anybody. This also has to be faced. This particular phase of trade union movement in this country is also a fact of national life, a fact one has to find solution to, and I am trying to find a solution early. I will be the first man to feel happy when we will have the new boards. That will be again another test of our policy in regard to the nationalised banks. The new Board of Directors will guide the implementation of nationalised banks policy towards the new social objectives. When the representatives of the working classes, of the artisans, of agriculturists, of employees and of depositors will sit there I am sure there will be a new approach to the problem. If it is there, certainly things will improve.

..Let me state clearly that my idea is not to have a Parliamentary Committee for the control of banks. Parliament is there and the accountability of the nationalised banks is not questioned. We can discuss the matter in the Parliament. In the Consultative Committee you can put any number of questions. We can have



many discussions here, but I do not propose to have one more committee so that instead of being helpful to the functioning of the banks it might possibly be... (Interruption) I leave the word to you.

**Shri D. N. Tiwary:** This can be put under the Public Undertakings Committee.

**Shri Y. B. Chavan:** There are so many Undertakings under the Public Undertakings Committee that if banks are also there, the Committee may only get a chance once in 10 years to discuss this subject. You had been the Chairman of the Public Undertakings Committee. I am not taking any final view in the matter, but certainly this question can be considered a little later. At the present moment I am not for it, because for me it appears to be still premature to consider this matter. We have yet to see the working of the new type of boards, and unless we see the functioning of the banks for some more period I think it will be difficult to say: let it be handed over to the Public Undertakings Committee.

One Hon. Member asked about the differential rate of interest and what Government is doing about it. The report is there. As you know, there are two different views there and wanted that there should be a debate here because I would like to have some guidance from the Parliament also. There are two views. But there is one common point. Even the majority report has accepted the principle that there should be differential rate for certain sectors. Now the point is what that differential should be. That, really speaking, is the main question.

They have suggested something like 8.5 per cent. The minute of dissent has taken another extreme line. I am not criticising either the minute of dissent or the majority report but certainly we will have to go into this matter. Government proposes to discuss this matter further among ourselves and also, if necessary, with the Planning Commission and take a final view about this matter. This

report is under critical and active consideration of the Government of India.

As far as the principle of differential treatment is concerned, it is accepted. In nationalisation itself we have accepted that it is necessary to have differential treatment. When we say that there are certain priority sectors, that itself means that there is differential treatment.

... Hon. Members said that there can be specialisation in trade etc. At the present moment, I can say that by accepting the lead bank scheme, we have certainly accepted in principle the idea of a specialised area office. At least the area approach is emphasised so that some responsibility is fixed. Those banks which are in charge of the undeveloped areas can certainly be held responsible at least to prepare programmes.

This is about the general question. About other questions that Hon. Members have raised, you yourself have given a ruling.

□

## SECTION-5

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# COMPTROLLER AND AUDITOR GENERAL OF INDIA

### **EDITORIAL NOTE**

The office of the Comptroller and Auditor General had been created under the Constitution. It was during Y. B. Chavan's tenure that his conditions of service and duties and powers connected with his responsibilities were defined.

This section contains Chavan's Speech in Lok Sabha moving the Bill connected with the duties, powers and conditions of powers of Comptroller and Auditor General and reply to the Debate thereon.

Both Speeches have historical significance for the office of the Comptroller and Auditor General.

## COMPTROLLER AND AUDITOR-GENERAL'S (DUTIES, POWERS AND CONDITIONS OF SERVICE) BILL

*Lok Sabha, 15 November 1971*

Shri Yashwantrao Chavan: Sir, I beg to move:

"That the Bill to determine the conditions of service of the Comptroller and Auditor General of India and to prescribe his duties and powers and for matters connected therewith or incidental thereto, be taken into consideration."

Hon. Member are aware that the Constitution gives a very special position to the Comptroller and Auditor-General and one special chapter deals with the functions, duties and service conditions of the C & AG. At the present moment his duties and conditions are controlled and determined by three sets of provisions, which are: The comptroller and Auditor-General (Conditions of Service) Act, 1953; the provisions of paragraph 12 of the Second Schedule of the Constitution; and the Government of India (Audit and Accounts) Order, 1936.

If we look to article 149 of the Constitution, we find that the functions and duties of the C & AG are indicated there. Article 149 reads like this:

"The Comptroller and Auditor-General shall perform such duties and exercise such powers in relation to the accounts of the Union and of the States and of any other authority or body as may be prescribed by or under law made by Parliament and, until.

“Provision in that behalf is so made, shall perform such duties and exercise such powers in relation to the accounts of the Union and of the States as were conferred on or were exercisable by the Auditor-General of India immediately before the commencement of this Constitution ..... ”

It is in fulfillment of this that we have undertaken this legislation. As you are aware a similar Bill was introduced in the last Lok Sabha and a Joint committee went into the provisions of that Bill. A report was also submitted by the Joint Committee. But as the bill could not be proceeded with further, it lapsed. We have again come forward with a fresh Bill for the consideration and acceptance of the House.

While drafting the present bill, we have taken into account all the recommendations made by the Joint Committee except one. I will give the reasons, if at all it is necessary to give, when we come to the clause-by-clause consideration.

I do not want to take much time of the House by repeating many things which are mentioned in the Statement of Objects and Reasons and the Explanations given in various clauses. I would just mention some of the important features of this legislation which, really speaking, introduce for the first time some new aspects.

As far as the functions towards compilation of accounts and auditing of counts of the Union Government and the State Governments are concerned, we have retained the same powers and the same position. But we have made certain changes in the conditions of services in the sense the present Bill equates the position of the Comptroller and Auditor-General with that of the Supreme Court Judge. Even previously; the salary of the Comptroller and Auditors General was Rs. 4,000. We have said that it will be equal to that of the Supreme Court Judge. Formerly, the tenure of office was supposed to be for six years. We have maintained the six years period, but, at the same time, we have introduced an age-limit. If he attains the age of 65, even though

he may not have completed six years, he will retire. Certain changes in the pension so are made which, I think, are a sort of improvement on the previous situation. I do not want to go into details because it is all provided in the clause itself.

As far as the duties and powers are concerned, the most important thing that we have introduced is that the Bill provides for audit by the Comptroller and Auditor-General of accounts of bodies or authorities substantially financed by grants or loans from the Consolidated Fund of India or a State or of a union territory having a Legislative Assembly and, for this purpose, a grant or loan will be treated as substantial if it is not less than Rs. 5,00,000 and constitutes not less than 75 per cent of the total expenditure of the body or authority in a financial year.

This is an additional authority or responsibility that we have given to the (CAG)

At the same time, the Bill provides for scrutiny by the Comptroller and Auditor-General of the procedures by which an authority sanctioning a grant or a loan to anybody or authority satisfies itself as to the fulfillment of the conditions subject to which the grant or loan was given and for this purpose gives him the right of access to the books of the body or authority with certain exceptions.

There are two other special points which I would like to mention before I conclude. The Bill provides for the audit by the Comptroller and Auditor-General of all receipts which are payable into the Consolidated Fund of India or of a State or of a Union territory having a Legislative Assembly and to satisfy himself that the rules and procedures are designed to secure an effective check on assessment; collections, etc., and to report thereon.

The CAG can also undertake the audit of the accounts of any authority or body not otherwise entrusted to him by or under any law made by Parliament provided such request is made in public interest. And after consultation with the CAG and after giving a reasonable opportunity to the body or authority for

making representations with regard to the proposal for audit by Comptroller and Auditor-General, he can undertake the audit work there.

These are some of the new features of the present bill. I think, it covers a wide gap or rather defines more specifically the duties of the Comptroller and Auditor - General. I think, this Bill was overdue which would have been accepted by the House in the last Parliament. But, anyhow, we have taken now the first opportunity in this Parliament to bring the Bill for the acceptance of this honourable House and, I hope, this honourable House will accept it.



## COMPTROLLER AND AUDITOR-GENERAL'S DUTIES ETC. BILL

*Reply to Discussion, Lok Sabha, 15 November 1971*

I have heard with care the speeches of the Hon. Members who participated the debate. Most of them have made practically the same points.

First of all I would like to meet the point made by Mr. Vajpayee, whether I have an open mind or not. I would like to tell him that anybody who comes to this House comes with an open mind, but this question was considered in great detail in the Joint Committee where we went into it for hours and days together, listening to the expert witnesses, the representatives of the Government, the representatives of the different financial institutions, legal experts etc. Unfortunately for me, none of the Members who participated in the debate were Members of that Committee. That is my handicap.

**Shri Atal Bihari Vajpayee:** That is our misfortune.

**Shri Yashwantrao Chavan:** That is my misfortune because I have to repeat again all the things. Therefore, I would like to tell the hon. Member that on many points I had kept my mind open, and the original Bill has been considerably improved by the Joint Committee. So, the only point that I am trying to make is that I have an open mind if there are good reasons to accept some corrections, suggestions or amendments. But having gone



through this whole process, I must say that unfortunately for Mr. Vajpayee today I have come with a made-up mind.

**Shri Venkatasubbaiah:** Not a closed mind.

**Shri Yashwantrao Chavan:** Not a closed mind, but certainly I have made up my mind and I will give reasons for it. Sometimes hon. Members try to give the feeling of some sort of over-simplification to certain matters. There can be a sort of rigidity in logic also. There is a feeling that everything that is referred to the CAG alone can be correctly audited. I think this is misjudging the character and function of the office of CAG. The Constitution has certainly given some specific tasks to him. The Constitution also authorises Parliament to make laws in certain matters and it is our right to expand that scope. But the administration is responding to different types of economic activities, whose nature and character are getting more and more complex. Therefore, to say that every aspect of accounts and expenditure should be made subject to the scrutiny of the CAG is really speaking running away from the problem and trying to find one simple solution : You send it to CAG and you are free! That is not the way to look at it. We have considered carefully what could and what could not be done.

The question about the independence of the office of CAG was raised. His independence is guaranteed by the Constitution itself. In order to fortify it, we have accepted that the status of the CAG should be the same as the status of a Supreme Court Judge. That means, we are further specifically accepting the independence of the CAG. Mr. Vajpayee said, there is no mention about qualifications. Unfortunately the Constitution has not done so. What the Constitution could not do, I thought it was difficult for us to do. The Constitution which went into the qualifications of the Supreme Court Judge, who can president, who can be a member of a legislature etc., has wisely not gone into the necessity of mentioning the qualifications in the Constitution. Therefore, we could not do it. Then, independence is not decided merely by the right to frame their own budget. Even the budget of Lok Sabha,

which is really the supreme body, is not framed by Lok Sabha itself. Similarly, judiciary is independent, but its budget is also part of the Consolidated Fund of India. Therefore, giving the CAG the authority to frame his own budget is trying to put him above the Parliament and Supreme Court. Ultimately, whoever frames the budget, it comes to Parliament for approval. Then, some of the expenditure is charged. The independence of the budget of the CAG is to that extent guaranteed.

Some members referred to the independence of the staff of the CAG and said, we should have come forward with separate legislation. I know under article 148(3), there is a provision for such a law being made. But there is also article 309 under which legislation can be made for all sorts of people.

**Shri Jyotirmoy Bosu:** Are you bringing a bill or not?

**Shri Yashwantrao Chavan:** At the present moment, we do not propose to do it. Their independence does not depend on a separate legislation alone. Their master is independent. Unlike other Government servants, their conditions of service are decided in consultation with the CAG. To that extent they are free. Therefore, to say that an organisation, in order to be independent, must be governed by a separate legislation, is not a very valid argument.

**Shri P. Venkatasubbaiah:** What about their status?

**Shri Yashwantrao Chavan:** Ultimately their status depends on their functions. When an auditor goes to audit, even if he is not a Gazetted Officer, he functions with that status. It is not necessary that he should be a superior authority in order to audit accounts. It is his function that makes him independent. Therefore, to speak in terms of grade in this context is illogical. The independence of the organisation does not depend upon the type of legislation that the Hon. Members are mentioning.

Shri Venkatasubbaiah referred to the assistance to the

Parliamentary Committees by the C&AG. He himself knows that the reports of C & AG can be brought before Parliament whenever necessary. These reports are gone into by the Public Accounts Committee and the Committee on Public Undertakings. Further, this Bill is not intended to regulate or deal with the functioning of Parliamentary Committees; it is supposed to concern itself with the functioning of the C&AG. As far as parliamentary Committees are concerned, they can regulate their work as they like. Therefore, I do not know what exactly he had in mind when he made that suggestion.

**Shri. P. Venkatasubbaiah:** The functions of the C & AG, so far as assisting financial committees are concerned, are not specifically stated here.

When it is accepted by Parliament as a convention I do not see any necessity to legislate for it.

The only other question which some Hon. Members have raised is about his role so far as public financial institutions are concerned. We have discussed this question for hours together in the Joint Committee and this question has been gone into in great detail. At present the Reserve Bank of India, the I. D. B. I. and the State bank of India in their own legislation have provided that government can ask the C & AG to look into the problems of the workings of those institutions. If you see clauses 19 and 20, we have made a general provision on those lines that not only these institutions but any authority either the President or the Governor, can ask the C & AG or in the alternative the C & AG himself can ask for authority, to look into the working of some of the bodies. But to make them compulsorily subject to audit by C & AG is making the working of the C & AG impossible. In fact, that will not help the efficient functioning of the organisation of the C & AG. Where there is some reason to believe that there is something fishy, certainly the President or the Governor can ask the C & AG to look into the problem. But to make it statutorily obligatory for every institution to be subject to audit by C and AG is playing the

game of obstacles. At least that is how I look at it. The technique of audit by the C and AG is of a different type. For example, a suggestion was made that all the nationalised banks should also be subjected to this as if the accounts of nationalised banks are at present not audited. Under their own Acts there is a provision for audit. There is internal audit. There is a special provision for audit. There is something like commercial audit. The audit that is done by the C and AG is a different type of audit. It is not that when we are not making them subject to the audit of the C and AG, they are allowed to run free.

**Shri Jyotirmoy Bose (Diamond Harbour):** I do not know how you say that there are two different types of audit.

**Shri Yashwantrao Chavan:** There are.

**Shri Jyotirmoy Bose:** I beg to differ.

**Shri Yashwantrao Chavan:** Unfortunately, you always differ with me. What can I do?

**Shri Jyotirmoy Bose:** There is only one type of audit unless you see through a dark pair of glasses.

**Shri Yashwantrao Chavan:** I can see that you believe in what you say. But I do not want to enter into a debate on it.

It is rather over simplification of the problem if, merely because we have a Comptroller and Auditor-General, we make everything subject to his audit. This is not logical. It may look logical but it does not fit into the working of the administration and the complex functions that we are taking over. But we have made a general provision that whenever Government feels it necessary that a certain body should be subject on certain occasions to the scrutiny of the Comptroller and Auditor-General, it can always be done. That provision is there.

Another point that was made was about contracts. Shri C. C. Desai made that point. The question of negotiated contracts particularly was raised. Some of the people who came to give

evidence before the Committee had also raised this question. This was examined and the Attorney-General has given the opinion that in terms of article 149 parliament will not be competent to provide for audit by the C & AG in relation to the accounts of individual. This is our legal advice. This is our legal and constitutional point.

Secondly, it is also not practicable. Once this feeling is given that the C & AG is going to look into the whole contract, possibly it will be very difficult to get the contract. Sometimes, it is possible that they pay push up the prices also. It may possibly work against efficient functioning.

We went into all the aspects of the problem apart from the legal aspect and we ultimately came to the conclusion that this was neither a practical nor a legal proposition.

This provision was very thoroughly examined. Some of the Members of the Opposition, who were on the Committee, also saw the logic of it. Except one Member who had given his minute of dissent, all others saw the point that it was very difficult to make it workable and practicable. Therefore, this was not included in the Bill.

I, therefore, do not see any reason to accept any of the suggestions made.

We are making the first attempt to have such a comprehensive legislation. Let us see how it functions. After the experience of the working of this Act, Parliament in its wisdom may again feel it necessary and Government may also feel it necessary to modify and make comprehensive amendments or to enlarge the scope of its working or perhaps Parliament in its wisdom might feel it necessary even to curtail the functioning of the C & AG; I do not know what experience will lead to. But at the present moment, I think, this legislation is comprehensive enough. It will give enough independence and power to the C & AG to work effectively and efficiently

**Mr. Chairman:** Now, I put the motion to the vote of the House.  
The question is:

“That the Bill to determine the conditions of service of the Comptroller and Auditor General of India and to prescribe his duties and powers and for matters connected therewith or incidental thereto, be taken into consideration.”

The motion was adopted.



## SECTION-6

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### MISCELLANEOUS

#### **EDITORIAL NOTE**

This Section contains seven Speeches.

The first speech delivered in the Lok Sabha on 13.12.1971 deals with additional measures for maximum mobilisation of resources for Defence efforts connected with the Indo-Pak War of 1971.

Two Speeches delivered on 15.11.1971 and 17.8.1972 deal with amendment to Taxation laws wherein Y. B. Chavan exhibits his depth of understanding of Finance and Taxation matters and his deftness in handling of the same at political level.

Another speech deals with the crisis arising out of the United States decision to delink US dollars from the gold standard and the manner in which Government had to handle the fall-out of the same.

Section also contains two Speeches delivered by him, the one on 22.11.1973 and second on 24.7.1974 while intervening in the Debate on No Confidence Motions moved by the Opposition against Smt. Indira Gandhi's Government. These speeches show Y. B. Chavan as politically at his best as a debater in defending the Government, especially in the area of his responsibility as the Finance Minister.

## STATEMENT RE-PROPOSED ADDITIONAL MEASURES FOR MAXIMUM MOBILISATION OF RESOURCES FOR DEFENCE EFFORT

*Lok Sabha, 13 December 1971*

Sir, I rise to take the Honourable. House into confidence regarding the additional measures we propose to adopt for ensuring the maximum mobilisation of resources for the defence effort. But before I do so, I would like to review briefly the development since the presentation of the Budget in May.

Honourable Members will remember that the regular Budget for the current year as it was finally passed had envisaged a substantial increase in the outlay on the Plan and on social welfare as also a modest provision of Rs. 60 crores for providing relief to refugees from Bangladesh. The last provision had to be increased by Rs. 200 crores in August and another demand for Rs. 100 crores is before the Parliament.

In addition to this staggering burden of refugee relief, which has been mitigated only in part by assistance from the international community, we have had to reckon with natural calamities in a number of States including the devastating cyclone that hit the coast of Orissa; these have necessitated much larger assistance from the Centre to the States concerned. Defence expenditure is also likely to exceed the provision envisaged in the Budget. We have not stinted and will not stint in ensuring that our armed forces are well equipped to carry out their heroic responsibility to



safeguard the integrity and honour of the motherland.

Against this background, it has been our endeavour for the past several months to keep the fiscal position under constant review. Our first endeavour has been to ensure the utmost economy in non-plan expenditure. Guidelines have been issued to the Central Ministries to curtail their non-contractual non-plan expenditure to the extent of at least 5 per cent and we expect this the result in a saving of Rs. 50 to 60 crores. We have also urged the State Governments and public sector enterprises to attempt similar economies. In the matter of Plan expenditure too, the Planning Commission, in consultation with the Ministers and the States, has been currently engaged in an exercise to explore the scope of effecting economies in plan projects without affecting the progress of continuing schemes. We have also held a series of meetings with the Chief Ministers with a view of bringing about an orderly reduction in the size of the States overdrafts with the Reserve Bank of India.

Alongside with these steps to restrain fiscal expenditure, the Government have been endeavoring to augment resources. The Board of Direct Taxes has been asked to expedite the collection of income and corporation tax arrears, and total collections under direct taxes this year may well exceed the Budget Estimates by Rs. 70 crores. Owing to the liberalisation of import licenses, I also expect the collection from Customs to be higher by about Rs. 80 crores than what was earlier thought of. An improvement in the realisation from small savings over what was indicated in the Budget is also expected; and the net yield from market loans has already been better than what I envisaged at the time the Budget. Apart from improved collections from existing taxes and other revenue heads, Honourable Members are aware that I have also initiated some steps in recent weeks to raise resources through fresh imposts. I am grateful for the most understanding cooperation extended by the States in this matter. These measures have had a salutary effect in curbing the overall deficit that was

threatening to emerge. But even so, during the first eight months of the current year, i.e. from end March to end November, the Centre had already incurred a deficit of Rs. 340 crores as against the provision in the Budget, as finally passed by the parliament of Rs. 233 crores for the year as a whole.

The desperate attack launched by Pakistan has now added a further dimension to our economic and fiscal tasks. As I have already said there is not question of our stinting on the defence effort. Honourable Members may rest assured that whatever extra outlay will be necessary to back up the heroic deeds of our forces will be provided for. In addition, the suspension of economic aid on the part of some foreign countries may call for a fresh look at our overall resource position; whatever has to be done on this score too will be done. Honourable Members are aware that in addition to the greatly increased capability of our industry and agriculture, we have improved our foreign exchange reserves considerably over recent years. As long as we remain united and determined in our purpose, there is no need for any apprehension whatsoever that we can be deflected from our just course by any threats or pressures, economic or otherwise.

All this calls for a careful husbanding of resources in the economy, and the adoption of fiscal and other measures appropriate for promoting economies, including economies in the use of foreign exchange. In this task, the entire people have to cooperate with the Government. For, what the nation abstains from utilising, is what is available for the defence effort. On the other hand, it is all the more incumbent upon us at the present juncture to ensure that prices are kept stable and essential supplies are made regularly available, particularly; to the weaker sections.

The Defence of India Rules now permit us to deal effectively with the pricing and distributing of essential goods. I would however hope that on their own the responsible sections of the community, including industrialist and traders, would take such measures as would make it unnecessary to have recourse to the Defence of

India Rules. While I am aware that trade union leaders and others are doing their utmost towards strengthening the defence effort, I hope they would also exert their influence towards restraining such demands as could lead to an added strain either on the exchequer or on prices. Similarly, companies too, I hope, would follow a policy of restraint regarding the distribution of dividends.

I have little doubt that; irrespective of creed or class, each member of the community will contribute his or her mite to the defence effort, Honourable Members are aware of the important role of the National Defence Fund. On two occasions during the past decade, when we were similarly attacked, namely, 1962 and 1965 we had a most encouraging response from the public to this Fund. The response on the present occasion, I am sure, would be no less. In contributing to the national effort, we should not also overlook the needs of other agencies such as the Red Cross or the Prime Minister's Relief Fund on which also much greater responsibility will devolve at the present juncture.

There are in addition several other special schemes in operation for the mobilisation of savings, including the large array of national savings certificates and I would urge that the people contribute generously to these schemes too. In this connection, I wish to express my appreciation to representatives of Central Government employees who have shown the utmost sense of responsibility and patriotism in offering, as I will have occasion to elaborate in another statement which I propose to make shortly, that a part of their emoluments may be credited to their provident fund accounts or to the National Defence Fund. I hope and trust their example will be followed by all sections of society who will save additionally at least one day's income in a month and contribute it to the National Defence or to the various saving schemes.

We are proposing to float soon a new series of National Defence Loans to which banks and other institutions should be in a position to contribute substantially. It is my hope that the response to these National Defence Loans will not be less than Rs. 100 crores.

Honourable Members will appreciate that we have to be prepared for all eventualities. We must take measures whereby a general restraint would be exercised on the demand for imports. We have also to take particular care to restrain the use of strategic commodities, such as steel and steel products, as well as of non-ferrous metals such as zinc, aluminium and copper. Whatever fiscal measures of imported goods and, in general, would lower consumption of scarce commodities have to be enforced in the present circumstances.

Powers are already available under section 4 of the Finance Act, 1971 to impose a levy by way of a regulatory duty on customs to exercise restraint on imports. I propose to avail of this power in the present context and impose a general levy of 2.5 per cent of the value of all imports with the exception of foodgrains, books, and a few other special categories. In addition, the same regulatory provision is also proposed to be invoked to impose on a few specified items a higher rate of duty of 10 per cent.

A corresponding provision exists in Section 7 of the Finance Act, 1971 giving the Central Government powers to impose regulatory duties of excise to achieve a similar purpose in relation to domestically produced goods. It is proposed to invoke this provision in relation to a few commodities, such as iron and steel products, copper; zinc, aluminium and unmanufactured tobacco. The additional duty on iron and other metals will apply only to domestic production without any corresponding countervailing duty on imports and will thus narrow the difference between domestic and import prices. The duties on the three non-ferrous metals are so graded as to promote general economy in their use as well as to encourage greater use of aluminium. The duty on unmanufactured tobacco, which was not touched in the last Budget, will yield a significant revenue of about Rs. 9 crores in a full year.

There is one further proposal in relation to the jute industry where profitability has increased greatly as a result of buoyancy in

the market for jute products both at home and abroad. I propose to take advantage of this situation and increase the export duty on carpet backing and hessian by Rs. 400 per tonne. I also propose to increase the excise duty on sacking by Rs. 175 per metric tonne.

Notification giving effect to all the above proposals are being issued and these will come into effect immediately. Copies of these Notifications are being laid on the table of the House. (Placed in Library, See No. LT - 1265/71).

It is also proposed to levy a surcharge of 2.5 per cent on income-tax payable by all companies, including foreign companies. The new surcharge will be applicable with reference to current incomes which will fall due for assessment in the assessment year 1972-73. It will not be possible to collect the new levy through the existing scheme of advance tax payments in the Income-tax Act. It will, therefore, be necessary to sponsor a Bill to achieve the object. The Bill will, inter alia, provide that an amount equal to 2.5 per cent of the advance tax otherwise payable for the financial year 1971-72 should be paid before 15.3.1972. Credit in respect of the surcharge thus collected will be allowed against the income-tax liability for the assessment year 1972-73. The yield from this measure in a full year will be of the order of Rs. 10 crores out of which Rs.

7.5 crores is expected to be realised this year. I am bringing forward a separate bill to give effect to these proposals.

The combined revenue effect of all the measures proposed will be Rs. 135 crores in a full year of which Rs. 60 crores will be under Customs and Rs. 65 crores under Central Excise. In the remainder of the current fiscal year, the yield will be roughly Rs. 40 crores.

Honourable Members, I am sure, would agree that the measures I have proposed will strengthen the economy in meeting the present challenge. The heroism and valour of our challenge. The heroism and valour of our men in the Army, Navy and the Air Force and in other Para-military forces demand a similar dedication on

the part of all of us to contribute our utmost to the defence effort. Sir, it is in that endeavour that I have claimed the indulgence of this Honourable House to make this statement.



## TAXATION LAWS (AMENDMENT) BILL

*Introduction in Lok Sabha, 15 November 1971*

I move: "That the bill further to amend the Income-tax Act, 1961, the Wealth-tax Act, 1957 and the Gift-tax Act, 1958, be taken into consideration."

The Taxation Laws (Amendment) Bill, 1971 was introduced in this House on 12th August 1971 and has thus been before the country for over 13 weeks. Hon. Members would no doubt have examined this bill in detail and I, therefore, consider my task as fairly simple. With the indulgence of the House, I will avail of this opportunity to explain the relational behind the proposals in the Bill and to touch upon some of its important features. Later, at the time of clause-by-clause consideration of the Bill. I propose to move certain amendments in order to bring out the intention underlying some of the provisions more clearly and to remove certain deficiencies that have since come to my notice.

The practice of under-stating values of immovable properties in sale deeds has assumed alarming proportions in recent years. This enables the vendor of the property to avoid his tax liability in respect of capital gains arising on sale and also to create a hoard of secret wealth for avoiding income-tax, wealth-tax, gift-tax and ultimately the estate duty liability as well. The unrecorded part of the price can be utilised for financing business or investments outside the

books of account or for incurring lavish personal expenditure. The vendee, apart from avoiding stamp duty and municipal taxes, is able to utilise his money on which taxes have been evaded. The understatement of values of immovable properties in sale deeds thus operates as a powerful device for tax evasion with all its attendant evils. One of the main objects of the present Bill is to counteract tax evasion through this device.

The Bill seeks to insert a new Chapter XXA in the Income tax Act with a view to empowering the Central Government to acquire any immovable property, including agricultural land, having a fair market value exceeding Rs. 25,000 where the sale price declared in sale deed is less than the fair market value of the property. It will be possible to invoke this power only in cases where there is reason to believe that the sale price as agreed to between the parties has not been truly stated in the sale deed with a view to facilitating the reduction or evasion of the taxability of the transferor in respect of any income arising from the sale, or the concealment by the transferee of any income or any moneys which have not been or which ought to be disclosed for the purposes of income-tax or wealth-tax. In the Bill, the term "immovable property" has been defined to mean any building or land or any rights in any building or land or any rights in any building or land, as such, the provision will also apply in a case where leasehold or other rights in land or building are sold. With a view to bringing composite sales of buildings, machinery, plant, furniture, fittings or other things within the purview of the new provisions, I propose to move an amendment so as to provide that in a case where any building is sold together with machinery, plant, furniture, fittings or other things, such machinery; plant etc. will also be regarded as immovable property. I further propose to clarify that the new provision will also cover the sale of a part of a building or a flat.

The power to initiate proceedings for acquisition of such property under the new provisions will be vested in the Assistant Commissioner of Income-tax who, for this purpose, will be



designated as the competent authority. The proceedings for such acquisition will be initiated by the competent authority within six months from the date on which he receives information about the registration of the sale deed from the Registrar of Assurances or the transferee, whichever is earlier. The transferor and the transferee of the property as also any person interested in it, will be entitled to file objections to the proposed acquisition. Under the Bill, such objections can be filed within a period of 30 days of the publication of the notice of such acquisition in the Official Gazette. I, however, propose to extend this period by another 15 days. Where any objections are filed, the competent authority will be required to consider such objections and also to give a hearing to the parties concerned before coming to a decision. If, after considering the objections and hearing the parties, the competent authority is satisfied that the immovable property in question is of a fair market value exceeding Rs. 2.5 lakh and that such property has been sold for an apparent consideration which is less than its fair market value and that the consideration for such sale, as agreed to between the parties, has not been fully stated in the sale deed with the object of facilitating tax evasion by the transferor or the transferee, the competent authority would have the power to order the acquisition of the property. Under a special rule of evidence it has been provided that where the property is sold for an apparent consideration which is less than its fair market value, it shall be presumed, unless the contrary is proved, that the consideration for such sale as agreed to between the parties has not been truly stated in the sale deed with the object of facilitating tax evasion by the transferor or the transferee. In order to make the provision more effective, I propose to move an amendment so as to provide that where the fair market value of a property exceeds the apparent consideration by more than 25 per cent of such apparent consideration, it shall, in all cases, be presumed that the sale price has not been truly stated in the sale deed. In other words, in such cases, the first part of the presumption relating to the intention to facilitate tax evasion will, however,

continue to be rebuttable in all cases.

No order of acquisition will be made except with the prior approval of the commissioner of Income-tax. An appeal from the order of acquisition will lie the Central Board of Direct Taxes, who will be required to decide the appeal after giving a hearing to the parties concerned. The order of acquisition will become final on the disposal of the appeal by the Board confirming the order of the competent authority. Thereupon, the competent authority will call upon the owner or the person who is in possession of the property to surrender or deliver possession thereof to the competent authority. When the possession of the property is delivered to the competent authority, the property shall vest in the Central Government free from all encumbrances.

The compensation for property acquired under the Bill will be a sum equal to the consideration stated in the sale deed plus 15 per cent of such sum. Where any improvements are made to the property between the date of transfer of the property to the transferee and the date of publication of the notice of acquisition in the Official Gazette, the amount of the compensation will be increased by an appropriate sum to cover such improvements. Conversely, if, after the transfer of the property to the transferee and before the vesting of the property in the Central Government, the property is damaged otherwise than as a result of normal wear and tear, the compensation payable will be reduced by an appropriate amount. In case of dispute regarding the cost of improvements or the cost of restoring the damaged property to its original condition, the competent authority will be required to refer the matter for determination by a civil court. It is also being provided that in a case where the amount of compensation is not paid within 30 days of the vesting of the property in the Central Government, Government will pay simple interest at the rate of 9 per cent per annum for the period of delay. As the amount of compensation payable under the Bill would be less than the compensation which would have been payable if the property had

been acquired under the Land Acquisition Act, 1894, it is being specifically provided that the short-fall would be deemed to have been realized by the Central Government as penalty from the transferee for being a party to the transfer which has, as its object, the facilitation of tax evasion by the transferor or the transferee. Further, no penalty will be levied under the Income-tax Act on the transferee for concealing his income which is utilised by him for paying any amount in excess of the apparent consideration, even though such amount maybe assessed to tax as his income. Similarly, no penalty will be levied on the transferee under the Wealth tax Act for concealing any assets which are utilised by him for paying such excess consideration, even though such assets may be assessed to wealth-tax in his hands.

As the new provisions are relatable to Entry 42 of the Concurrent List in the Seventh Schedule to the Constitution, namely, "Acquisition and requisitioning of property" and as the said Entry does not apply to the State of Jammu and Kashmir, it is being provided that the provisions of the new Chapter XXA shall not apply in respect of immovable property situated in that State.

The Bill also contains certain provisions to improve the present arrangements for valuation of buildings, lands and other assets for purposes of income-tax, wealth-tax and gift-tax. It is proposed to augment the administrative set up of the official valuation machinery and to confer adequate powers on it, as also to bring about better regulation and discipline over nonofficial valuers.

For this purpose, the valuation Department at present functioning on a limited scale under the Central Board of Direct Taxes will be augmented by appointment of Regional Valuation Officers, corresponding in status and emoluments to Commissioners of Income-tax, District Valuation Officers corresponding in status and emoluments to Assistant Commissioners of Income-tax; Valuation Officers in the grade of Executive Engineers and Assistant Valuation Officers in the grade of Assistant Executive Engineers, Class I. The Valuation Officer, which term will include Regional Valuation

Officer, District Valuation Officer and Assistant Valuation Officer, will be associated with the valuation of assets at the stage of assessment to wealth-tax. For this purpose, the Wealth-tax Officer will be able to refer the matter of valuation of any asset to the Valuation Officer. The latter will thereupon proceed to deal with the matter and for this purpose, he will give an opportunity to the taxpayer to, represent his case. The valuation will thereafter be finalised by the Valuation Officer after considering the taxpayers objections and other evidence. The valuation as made by the Valuation Officer will be binding on Wealth-tax Officer who will make the assessment in conformity with such valuation. At the stage of appeal before the Appellate Assistant Commissioner, the question of valuation, if disputed, will be decided by him after giving a hearing to the Valuation Officer who made the valuation. A similar procedure will also be followed at the stage of appeal to the Appellate Tribunal if the valuation of any asset is disputed in appeal either by the taxpayer or by the Wealth-tax Officer. In other words, the Appellate Tribunal will be required to hear the parties and give its decision on the question of valuation instead of being bound by the opinion of arbitrators as under the existing law. The existing procedure for the arbitration of the valuation of any asset by two non-official valuers or by a third valuer nominated by the Tribunal at the stage of appeal to the Tribunal is being discontinued.

In proceedings before the Wealth-tax authorities and the Appellate Tribunal, where the valuation of any asset is in dispute, the taxpayer will have the right to be assisted by a registered valuer i.e. a non-official value who is registered with the Central Board of Direct Taxes. The qualifications and experience required for such registration will be laid down in the Wealth-tax Rules. Any person who desires to be registered as a valuer under these provisions will have to make an application to the Board and also undertake to make an impartial and true valuation of any asset which he may be required to value; to furnish a report of such valuation in a

form to be prescribed for the purpose, to charge fees at rates not exceeding the rates to be prescribed and, lastly not to undertake valuation of any asset in which he has a direct or indirect interest. A similar declaration will be required to be furnished with every report of valuation. Any false declaration in this behalf will entail prosecution of the valuer leading to award of imprisonment up to six months or fine, The Board will have the power to remove any person from the register of a valuers if such person is convicted of any offence or sentenced to a term of imprisonment or has been guilty of misconduct in his professional capacity.

The relevant provision in the Income-tax Act and the Gift-tax Act are also being amended so as to make the new procedure of valuation of assets by the Valuation Officer at the stage of assessment applicable for purposes of these Acts as well. Similarly, the present procedure of arbitration of the valuation of any asset by two non-official valuers or a third valuer at the stage of appeal to the Appellate Tribunal for purposes of income-tax and gift-tax is also being discontinued.

With a view to discouraging benami holdings of property the Bill proposes to introduce a new provision in the Income-tax Act so as to debar a person from enforcing his claim to any property held for him benami by another person, unless the claimant has disclosed the income from the property in a return of income or the property itself in a return of net wealth furnished by him. If he has done neither of these, he may give notice to the Income-tax Officer of his claim to the property and thereupon the bar will cease to operate. The bar of enforce claims to property held benami will not, however, apply to any suit of a value not exceeding Rs. 2,000 which is tried by a Court of Small Causes or other similar court.

As hon. Members would have seen, the main purpose of the Bill is to curb evasion of income-tax and other Central direct taxes. The evil of tax evasion has assumed menacing proportions and I feel that radical measures are needed for its eradication. The present Bill represents an important step in combating tax evasion

and I hope it will receive the unanimous approval of the House.

Sir, I move that the Bill be taken into consideration.



## TAXATION LAWS (AMENDMENT) BILL

*Introduction in Lok Sabha, 17 August 1972*

**Shri Yashwantrao Chavan:** Mr. Chairman Sir, I beg to move:

“That the bill further to amend the Income-tax Act, 1961, the Wealth-tax Act, 1957 and the Gift-tax Act, 1958, as reported by the Select Committee, be taken into consideration.”

Sir, the Taxation Laws (Amendment) Bill, 1971 was introduced in this House on the 12th August 1971 and was referred to the Select Committee on the 17th November, 1971. The Report of the Committee was presented to this House by its chairman on the 10th May, 1972. The Committee held 13 sittings, scrutinised a number of memoranda and representations received from various individuals, professional associations, trade organisations, etc. and also heard evidence of various individuals, associations, etc. I would like to heartily congratulate the Select Committee on the thoroughness with which it has dealt with this important Bill.

The Bill, as it has emerged from the Select Committee, has undergone improvements in several directions. The Select Committee has spelt out the reasons for the changes made by it. I do not, therefore, propose to take the time of the House by going over the entire ground again. I would, however, like to explain the objects of the Bill and the main changes recommended by the

## Select Committee.

As Hon'ble Members are aware, the device of understating the sale price of immovable properties in sale deeds is being widely used for evading taxes. The consideration paid in 'white money' is recorded in the transfer deed and 'black money' is passed in cash under the counter. This enables the purchaser to utilise his untaxed income and reduce his liability in respect of stamp duty. The seller is able to avoid his liability for capital gains tax and obtain funds for investment outside the books of account or for the purposes of lavish personal expenditure. One of the principal objects of the Bill is to counteract tax evasion through this device by empowering the Central Government to acquire immovable properties, including agricultural lands, at prices which correspond to those in sale deeds. The Bill also contains provisions for improving the administrative set up and arrangements for valuation of buildings, lands and other assets for purposes of the direct tax laws and for bringing about better regulation and discipline over non-official valuers. Finally, in order to discourage benami holdings of property with a view to tax evasion, the Bill seeks to make provision in the Income-tax Act debarring persons from enforcing their claim in a court of law to any property held in a benami name, unless they have disclosed the same before tax authorities.

I would now deal with some of the important changes made by the Select Committee in the provisions relating to acquisition of immovable properties. Under the provisions in the Bill as introduced, immovable property could be acquired only in cases where the property was transferred by way of sale. It would, therefore, have been possible to circumvent the provisions for acquisition of property by effecting the transfer in the form of exchange, that is, by paying the consideration for the transfer, partly in cash and partly in kind, or wholly in kind. The Select Committee has, therefore, recommended that transfer of immovable property by way of exchange should also be brought within the ambit of the provisions in the Bill. The change suggested by the Committee is,



indeed, very desirable and I would commend its acceptance by the House.

Under the Bill as introduced, the expression 'immovable property.' was defined to cover only buildings or lands or any rights therein. The Committee is of the view that this definition is somewhat narrow in its scope and may not cover transfer of a part of a building or composite transfers of land, building, machinery, plant, etc. In order to ensure that the provisions relating to acquisition of immovable property are not defeated by transferring only a part of a building or by making composite transfers of land, building, plant, machinery etc., the Committee has proposed an enlargement of this definition so as to cover such cases also. Here again, the change suggested by the Committee plugs a lacuna in the Bill and is to be welcomed.

Under a special rule of evidence contained in the Bill, it had been specifically provided that where the property has been transferred for an apparent consideration which is less than its fair market value, it shall be presumed, unless the contrary is proved, that the consideration for such transfer as agreed to between the parties has not been truly stated within the object of tax evasion by the transferor or the transferee. The Committee is of the view that in order to ensure effective operation of the provision in the bill, it would be necessary to modify and strengthen this special rule of evidence. The Committee has accordingly, recommended that where the fair market value of any property exceeds the consideration for its transfer as declared in the deed by more than 25% of such consideration, this should be deemed to be conclusive proof of the fact that the consideration for the property has not been truly stated in the instrument of transfer. The other presumption, namely, that the understatement in the value of the property was made with the object of facilitating tax evasion will, however, remain rebuttable. I am in respectful agreement with the views of the Committee. I believe that unless the rule of evidence is modified and strengthened in the manner recommended by the

Committee, the provisions in the Bill may fail to secure the desired objective. I, therefore, whole-heartedly commend the acceptance of the changes proposed by the Committee in this behalf.

While the Committee has suggested various measures for ensuring the effective operation of the provisions in the Bill, it has also recommended certain safeguards to protect the legitimate interests of the citizens against possible misuse of powers of acquisition. The Committee has accordingly proposed that the competent authority should record his reasons in writing before initiating acquisition proceedings and that these proceedings should not be initiated unless he has reason to believe that the fair market value of the property exceeds its apparent consideration by more than 15% of such consideration. Further, with a view to enabling the parties to determine the period of limitation for initiating proceedings for acquisition of property with greater certainty the Committee has proposed that the period of limitation should be reckoned from the end of the month in which the instrument of transfer is registered and not with reference to the date of receipt of requisite information from the registering officer or the transferee. The Committee also felt that the period of limitation for filing objections against initiation of acquisition proceedings was not adequate and has accordingly suggested an extension of this period. Another very important change made by the Committee is in regard to appeal against orders of acquisition made by the competent authority. Under the provisions in the bill as introduced, an appeal against such orders could be preferred to the Central Board of Direct Taxes. The Committee is of the view that such appeals should not lie to an administrative body, but to a Judicial and independent forum. The Committee has, therefore, recommended that appeals against the orders of the competent authority should lie to the Income-tax Appellate Tribunal. While the decision of the Income-tax Appellate Tribunal would be final in regard to questions of fact, the parties concerned would have the right to file an appeal to the High Court on any time-limit for the initiation of acquisition

proceedings. The acquisition of immovable property is a drastic step and it is only fair that the buyer of the property should know within a reasonable time whether Government propose to take over his property under the provisions in the Bill. I will, however, like to allay the apprehensions of the Hon'ble Member by assuring him that Government will take suitable administrative steps to ensure that proceedings for acquisition of immovable property are initiated, whenever necessary, within the period of limitation and do not get barred due to negligence or collusion. The Hon'ble Members has also suggested the deletion of the provision for the payment of a solatium of 15% over and above the consideration stated in the transfer deed. He has observed that this provision has been retained on the "flimsy argument" of abundant caution to meet possible risk of challenge to the constitutionality of the proposed legislation. I really fail to understand how the Hon'ble Member can regard a matter affecting the constitutional validity of the whole legislation as a flimsy ground.

Hon. Member Shri Piloo Mody has made two points. He has observed that the expression "fair market value" should be clearly defined and the criteria and guidelines for its determination laid down in unambiguous terms. Under the provision in the Bill, the expression "fair market value" in relation to immovable property transferred has been defined as the price that the property would ordinarily fetch on sale in the open market on the date of execution of the instrument of transfer. This definition is broadly on the line of the definition of this term contained in the other direct tax laws and has come to have a definite and well-understood connotation. It is also not possible to lay down in the law any rigid set of criteria for ascertaining the fair market value which will necessarily have to be determined on the facts and circumstances of each case by applying well-established principles of valuation. The other point made by the Hon'ble Member is that a provision should be made in the Bill to enable a seller to get an advance ruling from the Income-tax Department as to the fair market value of the property

proposed to be transferred. The suggestion is not practicable as it would require the setting up of a vast administrative machinery at enormous cost to deal with numerous requests for the prior clearance of agreements for transfers of immovable properties. The honest citizen has, however, nothing to fear because if properties are transferred at the correct fair market value. I am sure, there will be no occasion for the competent authority to initiate acquisition proceedings under the proposed provisions. To sum up, therefore, I am unable to commend for acceptance the suggestions made by the two Hon'ble Members in their minute of Dissent.

The Bill also seeks to make provisions for the reference of the valuation of any capital asset or property by the assessing authority to a valuation Officer. With a view to avoiding any arbitrariness on the part of the tax authorities in making such references, the Committee has recommended the spelling out of certain guidelines on the basis of which such references may be made. The guidelines suggested by the Committee would provide a salutary check on the exercise of the discretion by the tax authorities and I would, therefore, commend their acceptance.

The Select Committee has recommended several other changes which constitute a distinct improvement over the provisions in the Bill as originally introduced. I would however not tire the Hon'ble Members by going into the details of these changes. The objects behind the proposals in the Bill are laudable. The Bill constitutes a significant step forward in our fight against tax evasion and I earnestly hope that it will receive full support from all sections of the House. With these observations, Sir, I move.

**Mr. Chairman:** Motion moved:

“That the Bill further to amend the Income-tax Act, 1961, the Wealth, tax Act, 1957 and the Gift-tax Act, 1958, as reported by the Select Committee, be taken into consideration.”

□

## FOREIGN EXCHANGE PARTY

*Reply to Discussion, Rajya Sabha, 22 December 1971*

Mr. Deputy Chairman, Sir, I am grateful to you for allowing this debate, which I would rather call, a very constructive discussion of this very complex and delicate matter. But I must say that while I do not propose to go into every point that was made by the Members, I certainly would like to deal with the major points that were made by them.

I think there are three categories of speeches, if I, may say so. The first category is the category of Shri Bhupesh Gupta and the last speech. Their approach was completely doctrinaire approach and for my purposes, though I may share some of their sentiments in this particular matter, it was a rather very negative approach and a non-pragmatic approach and for my purposes, though I may share some of their sentiments in this particular matter, it was a rather very negative approach and a non-pragmatic approach. The other category is the speech of Mr. Mohta. He only looked at it from the Point of view of only the industrialists in this country what effect it will have on them. In the other category fall all other speeches which have made constructive suggestions like the speech of Mr. Ajit Prasad Jain. Some of the points made there in were constructive they raise some important issues and I think they need some reply.

Mr. Bhupesh Gupta started saying how this whole trouble has started and he gave the history as to how the dollar came into difficulties because of their political policies and he described the whole thing as some sort of an economic crisis in the so-called capitalist world. Possibly he may be right. If one has to take a view, it looks like that from what has been happening during the last six months in the Western countries. It is like a sort of trade war amongst the leading industrialised countries. Practically they seem to be on the brink of a trade war, and the differences that they had, took nearly five long months to be smoothed out. That shows the depth of the crisis. So, that may be true, whatever the reasons for that. As a matter of fact we were all very much pained at this sight and I also share his sentiments, that these ten big countries have practically taken the monopoly of the entire problem and bargained among themselves to decide what should be the solution. This is not healthy sign if you take the entire world picture. Practically, they had taken on themselves to decide upon this solution. The main reason for that was the International Monetary Organisation, think the International Monetary Fund itself was organised at a time before most of the developing countries, which are sovereign countries now but were not sovereign countries then, came into existence and I would like to invite the attention of the Hon. Members to the point that I made in the International Monetary Fund meeting. I said that, the time had come to reconstruct this Organisation so that the interests of the developing countries can be very well reflected in the proceedings, decisions and policies of these international bodies. That basic factor does remain there. But what we are really concerned is naturally we should certainly try to make reforms more effective and try to work for it consistently. We are doing so and we will continue to do so. That is a different matter. But here we are dealing with a situation which is a practical situation, that one has to deal with and look into from the point of view of day-to-day economic activities.

Some Members like to describe this whole situation as something like devaluation of an Indian rupee. Sir, when can you call it devaluation of an Indian rupee? It is only when other countries are stable and when only one currency is depreciated, then only, you can say that this currency is devalued. What is happening is not a devaluation. The present phase, the present phenomenon, really speaking, is the realignment of parties of all the members, who are the members of the international community, i.e. nearly 120 countries. America took a mighty position on the 15th August because they said that they will not change their gold parity and they imposed the 10 per cent duty etc. But ultimately, we find that they had to give up both the points. They had to give up 10 per cent input charged as well as they had to agree to devalue their dollar. Now when everybody else is realigning and recharging and appreciating or depreciating, you cannot remain static because you are a part of it, whether you like to or not. We are a part of that world. I would like to say that on 15th August when the U.S.A. took a certain decision, the Eastern world and other Western countries had to adjust their parities. Even the East European countries which have to have trade with, these countries had to appreciate or make some changes in their own exchange rates. Even Soviet Russia had to do it. Of course, their base is not comparable with those of ours but what I am trying to say is that every country; East European countries, capitalist and non-capitalist countries, have to take note of this changing pattern, because they have to be part of it. No country can afford to isolate itself as far as the trade is concerned. Politically you can be in one group or the other but even China has had trade with all the countries even though they were not Members of the U.N. They were trying to have trade with all the countries. Mr. Niren Ghosh knows about it. But this is a separate matter. What is happening is not merely devaluation or revaluation of Indian rupee, it is devaluation or revaluation or realignment of parities across the board. Every country has to do this thing. This is the position.

**Shri Mahavir Tyagi:** This is a game of carrom.

**Shri Y. B. Chavan:** It is in this situation that we have to take a certain view. Let us try to see in what position we were. On 15th August when certain decisions were taken, we had to take a certain view. Some Members said that we were linked with the dollar. Well, it is not right to say that we were linked with the dollar. You may say that we want to be linked with the sterling for the purpose of the rules of the IMF. It is quite all right. But as a matter of fact in this process, when the realignment is completed, every currency is linked with every other currency. Once we accept the link with one member of the IMF, in a sense you get connected with every currency as such. So it is not true to say that we were linked with the dollar. What we did on 15th August was this. Though the US had refused the convertibility of the dollar into gold, they had not changed the rate of the gold price at that time. So we remained stable with the dollar. That is all that we did at that time. We remain stable with the dollar because at that time all other Western currencies floated freely. At the present moment the decision is that they can change the parity value within the wider margin of 2.25%. Formerly only 1% margin was allowed. It was very difficult for us to link ourselves with those Western currencies at that time. Therefore we had to link ourselves not link ourselves in a technical sense, - but remain stable with the dollar at that time. Now when the countries have taken a decision to realign their parities and also having this wide margin, we thought it much better to fix our official rate in terms of sterling and I think the point Mr. Jain made is very relevant. Certainly we will be in an advantageous position. Some Members said we have devalued in terms of sterling and detach mark particularly. This devaluation or revaluation depends upon with whom we compare. If we say that the rupee is devalued in terms of Mark, then one can say that Mark is devalued in terms of Yen. It is very difficult to make such comparisons. Ultimately what is the criteria on which we must try to take a decision in this matter? Ultimately let us come to



the interest of our country. Ultimately in this present competitive world where really speaking, it is going to be a very difficult thing to compete in foreign trade without having a very solid industrial base in our own country what should we consider as the ultimate test as to whether our decision is wise or not, whether it is strong or weak, will not use that word because strength and weakness ultimately depends upon whether your decision is right or wrong. What is the right criteria for it. The right criteria for such a decision is whether it is going to help you to increase your exports and reduce your dependence on the imports. This, really speaking, is the final test on which you will have to examine whether what you have decided is right or wrong. We feel, it is our own feeling, that what we have decided is certainly going to help us. I have no doubt in my mind. Of course, this will have to be coupled with the policy of readjustment of our export and import duties. With that I agree. Naturally we will have to see what is the best mix of the various relevant policies. But that is an internal matter. That we can consider later on but the present position is this. For example in terms of trade opportunities appreciation of the exchange rates of many countries, say, for example Japan or Germany or France or even England, is good for us. Where really speaking we have to compete is' not in the traditional items.

Mr Jain made one point. He asked why I did not mention about depreciation of the Rupee as against the Sterling. I mentioned it in a different way I said the Sterling has appreciated.

**Shri A. P. Jain:** You had put it the other way.

**Shri Y. B. Chavan:** It is again a question of presentation but I did not hide that fact. I did say that the sterling has appreciated. But that did not appreciate because of our decision, I would like to make that point-clear. The appreciation has, taken place from the 15th August up to the day previous to the devaluation of the Dollar. That had actually happened and we took that reality into consideration and froze our position at that point, because we thought that this is going to help us and because this will cause the

least disturbance. Really speaking we were practical. Otherwise if we take a decision, which makes a very wide departure, then there will be upsetting results which neither help the Government economically not politically.

**Shri Akbar Ali Khan:** May I ask whether it will help if the developing countries and primary producing countries met and discussed for future purposes?

**Shri Y. B. Chavan:** I would say with all respect to Nawabsahib that it is very difficult to bring about unity amongst these countries. Even so we do have consultations. As far as membership of the International Monetary Fund is concerned the representative Directors of all non-developed countries had their group, meeting at the time the Group of Ten was meeting.. Not only for this alignment purposes. We are trying to have constant consultations and I must say that most of the developing countries have practically taken the same line at the International Monetary Fund meetings. As a matter of fact this is a question which must be decided within the framework of the International Monetary Fund and that was the line that we had taken in the matter.

Now there was a point raised as to whether there was any political pressure on us to do anything. I would say that there was no political pressure, I would like to assure the Hon. House on this. On the contrary I would like to say that we have made our position very clear. Some Members made a mention about the attitude of some of the countries about foreign aid. We have made it absolutely clear that we are not going to allow this Question of foreign aid to interfere with our own independent right to take our own decisions either in the economic field or in the political field. Whatever happens that is a different matter. We may be in difficulty, but certainly this country has got the strength of face difficulties, on its own. We are not going to run after any country begging for aid merely for aid's sake. At the same time we do not want to be hasty, we do not want to offend anybody unnecessarily. That is our approach and that is the practical way of doing things.

The Hon. Mr. Kulkarni said why we took the decision so early. He said we could have waited for the decision of other countries. The hon. Mr. Gurupadaswamy on the other hand asked what we were doing for 18 hours. Really speaking we had to watch, what were the decisions of other countries and we did wait for 48 hours,. Twenty four hours out of it was Sunday and therefore there was not much of a difficulty. Really speaking we had only one working day to think about the whole matter. And even there we had already issued a notification on Sunday that provisionally we were working on the previous rate. So, it is not that we were not aware of what was coming. We were continuously keeping a watch on what was happening, what developments were taking place and what action we should take. We weighed all the pros and cons in this matter and the effect it will have on international trade because there is no doubt that in formulating foreign policies, particularly trade policies, the mechanism of money, the foreign exchange mechanism is a very important mechanism, and we have to think of it very carefully, cautiously and wisely. Sir, I can only say it may be a rather tall claim to make that we have taken all these aspects into consideration. We may not look brave, but I must say that ultimately you will find that the decision that we have taken atleast, does not lack wisdom.



## FOREIGN EXCHANGE REGULATION BILL

*Lok Sabha, 24 August 1973*

**Shri Yashwantrao Chavan:** Sir, I beg to move.

“That the Bill to consolidate and amend the law regulating certain payments, dealings in foreign exchange and securities, transaction indirectly affecting foreign exchange and the import and export of currency and bullion, for the conservation of the foreign exchange resources of the country and the proper utilisation hereof in the interests of the economic development of the country, as reported by the Joint Committee, be taken into consideration.”

As hon. Members are aware, the Foreign Exchange Regulation Act which regulates the receipt and outgo of foreign exchange, securities and the import and export of currency and bullion was enacted in 1947. The measure was then adopted as it was felt expedient in the economic and financial interest of India to provide for the regulation of these activities. Mainly the existing Act provides, inter alia, for restrictions on dealing in foreign exchange, on import and export of certain currency and bullion, regulation of payment for goods exported etc. The Act also provides for the various authorities who are to enforce its provisions and for penalties both by way of adjudication and on prosecution before a court of law.

Experience gained in the working of the Act for a quarter of

a century has shown that while, by and large, it has served the objective for which it was enacted, there are certain inadequacies and lacunae which should be cured. These may broadly be classified in the following categories:

(a) Entry of foreign capital in the form of branches and activities of resident foreigners and concerns with substantial non-resident interest in them;

(b) Due and prompt realisation of export proceeds and eliminating possibility of larger outgo of foreign exchange against imports than required; and

(c) Enforcement of the Act.

On the basis of a recommendation made by the Public Accounts Committee in its 56th Report of 1968-69, a study team had been appointed by the Government to examine the question of leakage of foreign exchange through invoice manipulation.

This team had made a comprehensive study of the problem and made several recommendations to the Government. In its 47th Report on the control & Punishment of Social and Economic Offences the Law Commission has made various recommendations for the effective implementation of the material provisions of certain enactments, including this Act. The Law Commission has expressed the view that in the case of social and economic offences under this and certain other major Acts, a special approach is called for, particularly when the country is in the grip of and economic crisis and the fruits of hard-won freedom may be lost if the foundation is not laid for economic stability. The Commission has also emphasized that the nature of these offences is peculiar in so far as they are planned and executed in secrecy by shrewd and dexterous persons with sophisticated means. In the case of these offences public welfare is gravely affected but detection is unusually difficult.

With a view to correcting the inadequacies and lacunae referred

to above, and incorporating those recommendations of the Study Team and the Law Commission which had been accepted by the Government, I had introduced a Bill in this house on the 29th of August last year. With the concurrence of the Rajya Sabha the Bill was referred to a Joint Committee of the Houses. At its sittings at Delhi, Calcutta and Bombay the Committee heard the evidence of persons from various walks of life. In the light of the evidence tendered before it, and the subsequent discussions, the Joint Committee made several useful recommendations which are also reflected in the Bill as presented by the Committee to this House. I do not propose to take up the time of this house by discussing the various provisions of the Bill at length but would only refer briefly to the more important clauses.

The entry of foreign capital into India, where it takes the form of acquisition of share of companies is already regulated by the present Act but foreign investment in the form of opening of branches in India by companies, firms, individuals and associations of persons, resident abroad, has remained outside the purview of control. There has also been an increasing awareness during the last several years of the wide gulf between our selective policy towards new foreign investment and the ease with which the existing foreign enterprises primarily engaged in non-manufacturing activities have been able to carry on in fields and on terms that might not be approved today. Section 18A of the Foreign Exchange Regulation Act was introduced with effect from 1st April 1965, and has already brought within the purview of control acceptance by foreign controlled concerns, of appointments as agents in trading and commercial fields or as technical or management advisers. Even in this limited sphere, the provision is ineffective in dealing with appointments which existed before 1st April 1965 as well as agency agreements which were made to appear like principal-to-principal transactions. The resident foreigners had also remained outside the purview of that Section. Clause 28 of the Bill as presently drafted cures these lacunae. Clause 29 of the Bill provides that

Reserve Banks permission should be obtained for the carrying on in India of any activity of trading, commercial or industrial nature or the establishment of a branch office or other place of business for carrying on such activities or for the acquisition of the whole or any part of any undertaking in India by a non-resident foreigner (even if he is resident in India); non-resident company and a company in which the non-resident interest is more than 40 per cent. Sub-clauses (2) and (4) of the clause ensure that in the case of categories of persons referred to in sub-clause (1) even the continuation of existing trading commercial or industrial activities carried on or set up by them in India or existing share holding in India in companies carrying on such activities in India would require the permission of the Reserve Bank.

During the deliberations of the Joint Committee, it was felt that while cases-of foreign investment in India which are presently functioning without any prior permission or in non-priority sectors will have to be reviewed on a case by-case basis, it would not be necessary or desirable to review cases of recent approvals, especially in high priority sectors, involving highly sophisticated technology or export-oriented industries. An amendment was, therefore, accepted by the Joint Committee; empowering the Reserve Bank to exempt certain companies and persons from the provisions of this clause, based on the nature of the activities carried on by them and the fact that such activity was being carried on with prior permission of the Government. It has, however, been made clear that the Reserve Bank cannot exercise this power of exemption where the activity is solely of a trading nature.

As a matter of general policy it has been felt that we should not allow foreign investment in landed property/buildings constructed by foreigners and foreign controlled companies as such investments offer scope for considerable amount of capital appreciation and consequently will increase our contingent liability by way of capital repatriation. While we may still require foreign investments in certain sophisticated branches of industry, there is no reason why

we should allow foreigners and foreign companies to enter real estate business. Clause 31 of the Bill has been introduced with this purpose in view.

There was considerable discussion both in the Joint Committee and elsewhere about the policy in relation to the administration of clauses 28 and 29 of the Bill. Government is considering the details of administrative guidelines to be issued. I thought I should, however, briefly indicate to the House the broad policy consideration which would be taken into consideration while formulating the detailed guidelines. Needless to say the policy presently followed by Government in regard to the admission of foreign investment is highly selective and such new investment is not permitted in the fields of banking, commerce, finance; plantation and trading. As far as branches of foreign companies presently engaged in purely trading activities are concerned, they would have to convert into Indian companies. In the case of companies engaged in manufacturing operations also, the policy would be to ensure that foreign capital participation except in case of those engaged in priority sectors of export-oriented industries is reduced to 40 per cent over a period of time and also by following in appropriate cases the formula of dilution of foreign equity when they come for expansion.

There have been repeated complaints and allegations of malpractices by imports/exports with the aim of secreting foreign exchange abroad and building reserves in foreign currency. There has also been a general feeling that our imports/exports often evade foreign exchange regulations. There is strong suspicion that in the case of exports, the goods are under-invoiced and that in the case of imports, they are over-invoiced. The problem arising out of invoice manipulations, as already mentioned earlier, was examined by a Study Team and based on their recommendations, several new provisions have been introduced. Thus, for example, in a case where a person makes a remittance for importing any goods into India but does not import the goods or does not import



goods of a value representing the foreign exchange remitted for such goods within a reasonable time, or imports goods of a kind, quality or quantity different from that specified by him he will be deemed, unless the contrary is proved, to have used the foreign, exchange released to him for the purpose other than that for which it was released.

As far as exports are concerned, there are two main aspects:

- (1) realisation of full export proceeds; and
- (2) prompt realisation of such exports.

Section 12 of the Foreign Exchange Regulation Act which dealt with this aspect till now will be replaced by clause 18 of the Bill with a view to achieving the twin objectives referred to above. This clause has been explained at considerable length in the notes on Clauses appended to the Bill and I would, therefore, refer only to certain features.

This clause provides for powers enabling the Central Government to issue directives to the exporters not to sell goods exported on a consignment basis without obtaining prior permission of the Reserve Bank at a price which is lower than the value declared in the prescribed form in respect of the commodities etc. notified in this behalf by the Central Government. In this clause, as originally drafted, there was a provision that where an exporter makes an application to the Reserve Bank for permission, to sell the goods exported at a price which is lower than the value declared at the time of export, he can presume the Reserve Bank's permission, where the Bank fails to communicate its refusal within a period of 60 days from the date of receipt of the application. It was felt by several members of the Joint Committee that the period of 60 days is too long and would adversely affect our exports. It was, therefore, decided to reduce this period from 60 days to 20 days. I would also like to take this opportunity to assure this House that the Reserve Bank will deal with all such applications with utmost expedition and that it would only be a rare case in which

even the maximum period of 20 days allowed will be availed of. I cannot however accept the suggestion made by certain Members of the Joint Committee that it would be enough to provide that there should be a provision that the Reserve Bank should accord sanction to such short realisation on being satisfied that sufficient grounds existed. Such a provision goes against the very grain of this clause and will render it totally ineffective.

Further, the clause confers powers on the Reserve bank to issue directive to exporters on matters such as those relating to advance registration of contracts, certification of the value of the goods to be exported by a specified authority or organization, submission of the prescribed declaration to the Reserve Bank for its prior approval, and for securing payments for exports by irrevocable Letters of Credit. These powers will be exercised by the Reserve Bank in appropriate cases to ensure that the full export value of the goods or the value which the exporter has declared is received without delay. It also empowers the Central Government to prohibit the export on consignment basis, of any goods or class of goods, or by class of exporters, or to any particular destination if the Government is of the opinion that the full export value will not be brought to India in the prescribed manner and within the prescribed period. There is also a provision for drawing a rebuttable presumption regarding contravention of the provisions of the Act in cases of delay in repatriation of sale proceeds.

The Enforcement authorities had felt the need for more stringent punishment to act as a sufficient deterrent against violations of foreign exchange regulations. The Law Commission, as already indicated by me, had made various recommendations for the effective implementation of the material provisions of certain enactments, including this Act. Keeping in view the recommendations of the Law Commission, as well as the suggestions of the Enforcement Directorate, several measures have been introduced in the Bill.

(i) In clause 50, which provided for adjudication for contravention of the provisions of the Act, it has now been it has

now been provided that a penalty of Rs. 5,000/- or an amount not exceeding five times the value involved in the contravention, which ever is more, can be levied instead of Rs. 5,000 or three times the value of the contravention as could be levied under the existing Act.

(ii) cases of prosecution, the maximum sentence that can be awarded under the present Act is imprisonment upto a period of two years or fine or both. Clause 56 of the Bill provides for enhancement of punishment to a period of three years or fine or both. In addition, it provides that for certain more serious offences where foreign exchange involved is rupees one lakh or more or in the case of second or subsequent conviction for an offence under the Act, imprisonment may be for a period which may extend to seven years. The clause also provides that the minimum sentence in such cases should be for a period of six months and provides further that a lesser sentence can be awarded by the Court only for special and adequate reasons to be recorded in the judgement. In the case of second and subsequent conviction, the clause empowers the Court convicting the person to direct that he shall not carry on for a period not exceeding three years such business as is likely to facilitate the Commission of the offence.

(iii) Clause 59 has been introduced with a view to raise a presumption of mensrea on the part of persons prosecuted for offences requiring a culpable mental state. The presumption, however, is rebuttable. The clause would shift the burden of proof as to mensrea but would at the same time provide an opportunity to the accused to prove the absence of such mensrea.

(iv) Clause 64 of the Bill further makes even preparation to contravene the provisions of the law and abetment of any such contravention an offence with a view to ensure prevention well before the commission of the offence.

(v) Clause 69 of the Bill empowers the Court to publish the name, place of business, etc. of companies convicted for offences

under the Act. The object of providing for such publicity is that the social stigma attached to it will act as a deterrent.

The need for definition of the term "person resident in India." and "person resident outside India" was also felt as the applicability of several provisions of the Bill depends upon the "resident" status of the person concerned. This has assumed even greater importance because of several stringent provisions which are now being introduced. An attempt has, therefore, been made to define these expression in subclauses (p) and (q) clause 2 of the bill.

With a view to avoid vexatious searches by officers of Enforcement, Clause 58 provides for the punishment of officers responsible for such vexatious searches.

Although the existing Act regulates the acquisition, holding and disposal of foreign currency and securities by residents, there is no provision for the regulation of such acquisition, holding and disposal of immovable property held abroad by them. This lacuna has come to the notice of the Government especially in the case of certain former rulers. Clause 25 of the Bill has been introduced with a view to cure this defect. The intention, at present, is only to get information regarding the immovable property held abroad with a view to ensuring repatriation of current income there from.

With the increasing trend of Indian companies setting up enterprises abroad in collaborating with the Business houses in those countries the need for exercising a certain amount of control over the formation and operation of such ventures, especially with a view to obtaining full information regarding their working and ensuring repatriation of dividends of the Indian participants has been felt for some time. Clause 26 of the Bill seeks to achieve this.

Apart from these major changes, several other amendments of miscellaneous or clarificatory nature have also been introduced in the bill taking advantage of the opportunity to amend and consolidate the Act.

Sir, I move,

“That the Bill to consolidate and amend the law regulating certain payments, dealings in foreign exchange and securities, transactions indirectly affecting foreign exchange and the import and export of currency and bullion, for the conservation of the foreign exchange resources of the country and the proper utilisation hereof in the interests of the economic development of the country, as reported by the Joint Committee, be taken into consideration.”

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## NO-CONFIDENCE MOTION

*Intervention, Lok Sabha, 22 November 1973*

**Shri Yashwantrao Chavan:** Mr. Deputy-Speaker, Sir, I am rising for a very brief intervention in the debate on this no-confidence motion. Of course, in the body of the motion itself, they have made mention of some of the economic factors or economic reasons for moving this motion. But the major part of the speech of the Mover - I had heard him with care - was motivated more for political purposes and intended merely to use the occasion for character assassination and making wild allegations against the leader of the party. Of course, they have a right to move a motion like this under the Rules of Procedure and even according to the right of making use of the Parliamentary method to voice their views, there is nothing wrong about it. But I hope that those who are moving the no-confidence motion are really aware of fact that a no-confidence motion is a very serious business. It is not merely a question of making certain worn-out arguments or throwing at the Party in power certain worn-out allegations and repeating them umpteen times. That is not enough because moving a non-confidence motion means taking the responsibility of providing alternative policies and programmes. Can this group of people who have moved this motion claim to have alternative policies even in the economic field? Have they got any alternative programme?

Shri Jyotirmoy Bosu, while moving the motion, said that he was speaking on behalf of the Indian people. I have never heard a more interesting joke than this. I do not know what they have to do with the people. These are the very people whose policies and programmes and whose leadership were rejected unequivocally by the people of India for the last 25 years and as recently as 1971. If they want, certainly they have another opportunity in the coming few months, when they can try their luck.

They can certainly try that. But, at least they cannot say that they are speaking in the name of the people. I think, our party and the leadership of our Party know the people more than what these people can ever dream of because they have nothing to do with the people.

Mr. Deputy-Speaker, Sir, they have made a mention of a certain economic situation developing in the country for the last 1-1/2 or two years. And that situation is the situation of inflation. We have debated this question; we have tried to meet some of the arguments advanced by the Opposition. Even some members of our own Party criticised the Government and perhaps rightly. But the point is this. When we are looking at the problem in a deeper manner, asking the Government to resign and accepting the responsibility by giving alternative policies, one must try to know what exactly is the present economic situation, why it has been brought about like this, and what are the solutions for it. Everybody was asking what was the strategy of the Government to meet the situation. We have, many times, tried to explain the strategy. We have, many times, tried to say how we want to deal with the problem. We are certainly looking at the problems, not with complacency but with a little sense of confidence, because we have to lead the people we have to look after the people. We cannot just give a cry of frustration.

But may I say one thing? As the Hon. Member, Shri Sezhiyan, was just now speaking, he spoke very well, I must say, but I thought that he was not speaking on the no-confidence motion of

this House but as if he was trying to reply to the no-confidence motion against his party. Well, if he cannot get that opportunity there, possibly we have provided him that opportunity here.

The point that he tried to define was inflation which is something unanticipated and unprovided for...(Interruptions). Price rise, yes, that is exactly what we are discussing. The point you have raised in the no-confidence motion is the same issue. The price rise is reflected in the inflation or inflation, as it is, reflected in the price rise (Interruptions). Inflation is a common factor for all the economic situations in the world today, for many years it has been there and it is going to remain there to quite some time. If it is unanticipated and it is unprovided for, that I am prepared to accept this description, that itself gives the answer to the situation, because this was not something which was anticipated and this was something which was not provided for because this has come suddenly and unexpectedly. Therefore, when we say that it is a passing phase-things which have come unexpectedly and unprovided for are always a passing phase, it is in that sense that, we should try to understand the situation.

Upto the end of 1971 there were many shortcomings in the economy and there were many distortions in the economy but the seriousness of the problem which we are facing today was not of the same proportion at that time. Suddenly from the beginning of 1972, the situation certainly became a little difficult and certainly it is very difficult even now. I do not deny it. It is no use. running away from the responsibility. May be that whatever we have done so far to meet the situation is not enough. I am prepared to accept it and I concede it. Certainly we have to make more efforts about it. Whatever may be the deficiencies in the policy we have to correct them and for that matter whatever blame we have to accept, I will accept it on behalf of the Government. I have no reservations on it. But what is the answer to the situation? What is your explanation? How do you analyse the present situation? The present situation, if it is analysed properly has arisen out of two



very difficult situations. If I try to again mention those things, they will say that I am repeating the same things. What can we do? We are dealing with history and history does not produce fictions and you cannot meet the situation with the help of fiction.

The economic situation arose because of a certain difficult situation on the front of supplies. When we are dealing with the problems of prices particularly, naturally we have to deal with the problems on the front of demands and on the front of the supplies. There were certain factors on the side of demand which are responsible for it and there are certain factors on the side of supply which are responsible for it and you have to deal with both these factors. But, particularly, in a country like ours, in a developing economy like ours where a large population has to be looked after and particularly where the large population is below the poverty line and where supplying them with the material of food articles itself becomes an important matter of the family budget, in a country like this, the factors which are responsible for the supply; the shortages, the wages and the shortages of mass consumption goods become very important factors. And it is this shortage which, really speaking, is reflected in the food production. That was mainly for it.

In order to deal with this problem, we took certainly some very courageous steps. The important step was the wheat take-over. What was the attitude of many political parties on that side at that time? Even when we decided to take over the wheat trade, we had certainly anticipated that some of these forces which were then dealing with the wheat trade, possibly might divert the resources and bring about certain pressures in other fields and in other areas. But we thought that possibly we will meet the situation by importing wheat and other things. But, unfortunately, in the world market at that time, not only the prices were rising but there was the question of availability of these important items of food. This was also unanticipated and unprovided for.

So, some of these problems arose because of certain situation

and we have to fight the situation today. Our strategy to meet the situation is this, that we will have to make a frontal attack on the shortages and this can be done mainly by concentrating our efforts on the production side. Three areas of production are important. One is Agriculture. Second is the production of certain mass-consumption articles and goods, wage goods, as they are called. And, thirdly, it is the production of Some of the scarce materials like steel, like fertilisers, etc. (An Hon. Member: Cement) Cement comes under the category of mass-consumption articles. But some of these things are more important. We will have to concentrate our efforts on these areas. This is our strategy to deal with the situation. Of course, on the demand side, we will have to see that money supply is restricted.

Therefore, I am not taking that particular point. I am taking this particular matter because here lies the strategy in which this country, all the political parties, the entire leadership of the nation has to involve itself. As you know we had to import some of the commodities which had been in short supply. We are doing it. In case of edible oil we had to import. In case of foodstuffs as you know we have imported substantially. We have obtained as a loan substantial quantities of wheat also from Soviet Russia. So, these steps we are taking but in the case of production it is not going to be merely wishful thinking. It requires certain planning. It requires certain organisation. It requires certain preparation of the people for that matter. May I ask: What is the programme of the opposition in this matter? In a condition like this, what is required is to mobilise the nation. What is required is to get a sense of discipline in the people. What is required to have a sense of unity.

**Shri Jyotirmoy Bosu:** Participation more...

**Shri Yashwantrao Chavan:** Your participation is seen here, a participation in no-confidence motion. Instead of doing that, what they are doing is, to create a sense of frustration among the people. Is it the answer to the situation? Forget about power. We

are in power because people want us to be in power. But if you want to do any service to the nation what is your responsibility? People are angry, I know, because they don't get enough food. They are angry with us, but as I said on a former occasion in this House, the people get angry with those people whom they respect. They are angry with us because ultimately We are the people who are responsible for them and ultimately it is we who can possibly sometimes stand by them and do something about it. Therefore, they are angry with us. But what are you doing? And, in the way in which you talk about the Prime Minister in this House any Indian will feel ashamed of what you said that day in the House. For a couple of years before, every Indian outside this country felt proud because he was an Indian and that was because history was brought about by the Prime Minister of this country and today you are speaking like this. You are taking some sort of wornout allegations, meaningless allegations which have no substance and try to play them about. I was rather surprised that even some of the senior Members of this House who are not with this no-confidence motion also said that some answers should be given to these. Do they seriously think that some of those allegations are worth even mentioning in this House?

What is required and what is necessary in this country is to stand unitedly to see the problems of the people and to solve them. For that matter Mr. Priya Ranjan Das Munsii did make an appeal to you for cooperation. But, they don't know even the word 'cooperation.' How can they give cooperation? If they do it, well and good, I will certainly welcome it. I will be glad and I certainly would love to have their cooperation. But how can they give it, because they are never trained to give cooperation? I would say that he is a fountain-head of frustration. The only thing that you can get from him is the sense of frustration, sense of frustration and nothing but frustration.

And, therefore, Sir, the strategy for meeting the present situation in the country is to create a sense of discipline in the country.

Somebody said that there is a slide back from the progressive policies in this country. I would like to say that this Government has never stood for the status quo. We have always stood for structural change, more change, progressive change, social change, change in the economic structure; and we have acted on that basis.

Even after 1971 elections you can see the series of steps that the Government have taken. They show that this Government stands for social transformation; this Government stands for structural changes in the economic and social fields. And when we try to make the social structural changes, some vested interests get affected by them and they get dissatisfied with them. Certainly in a situation like this they try to exploit that situation.

What exactly is being done today? We took steps, for instance, to nationalise general insurance; we took also steps to take over the coal-mines. We took over wheat trade. We have taken many steps. I would like to ask the Hon. Members to think for a minute what we have done in the last three or four years. Many progressive steps have been taken by us. For the sake of the labour movement in this country we tried to take over a large number of textile mills.

We have done this with a view to seeing that the unemployment that was likely to be caused to some as a result of shutting down of the textile mills is avoided. For this taking-over of textile mills should be done very effectively.

As regards bonus, we have been trying to find out the problems of the employees and to meet their demands. This is for government as well as for non-government employees. We have taken many more steps to meet their demands as far as possible. Of course, the report of the Bonus Committee is yet to come. As far as bonus is concerned, in the last four or five years, we have certainly taken more progressive steps. In this matter, ultimately the whole thing has to be fitted into the national economy we are going to consider this from the point of view. But are you going

to consider this problem from the sectarian point of view or from the point of view of the political party or from the regional point of view? Or are you going to look at this from the national point of view? In this matter, we have to look at this from the national point of view. Unfortunately, that has not happened in your case. Therefore, the strategy that is required is that we will have to concentrate on our production efforts and we will have to create a sense of national discipline and certainly we will also have to look to the progressive measures too in the interests of the labourers. I quite agree. When we concentrate our attention on production efforts, certainly, we can bring about a certain flexibility. There was talk about the sliding back in the policy of the Government about the monopoly houses. If at all you have to concentrate on the production of mass consumption goods and on the scarce materials, I say you will also have to concentrate your efforts to produce more in the shortest possible time. Instead of doing that you immediately try to create a confusion in the minds of the people. This is our strategy which will certainly bale us out of the present difficulty.

Mr. Deputy-Speaker, Sir, the major issue that was raised in this debate was about our economic situation as we see it today. According to me, what is important is how and in what manner we can tackle this economic situation. We have outlined in brief, as to how it can be done. At the present moment, we are considering, a no-confidence motion. I would like to request Shri. Bosu that in a quieter moment, he can ponder over this. If he has got the national conscience he would certainly regret whatever he has stated here and the manner in which he had said it. I can hope for this. But, I am not sure whether he will ever act on this. I can only hope that wisdom will prevail on the Hon. Members of the other parties - I quite agree that one party is not the same as the other party as Shri Sezhiyan was saying - I quite agree with that - but, at the same time, Shri. Sezhiyan spoke about other things. May I ask him: does he support what Shri. Bosu has said while moving

his resolution?

I had left out one point, which I would like to deal with now, and that was a rather very subtle argument that was made by some Member who spoke on this motion. He said that this Government had a very wholesome foreign policy but found out something unwholesome in the domestic policy and therefore, there was some sort of protest and possibly anger about it. Theoretically; one can perhaps make a distinction between foreign policy and internal policy. One can do that. But it is all theoretical. I would say, because a country which produces a wholesome foreign policy cannot do so unless it has got a fundamentally wholesome internal policy. A country which has certainly produced and followed a very effective and progressive foreign policy cannot do so if it has got a non-progressive policy or a reactionary policy at home. There may be certain temporary difficulties. Those who stand by the wholesome foreign policy of this Government must also stand in difficult time by them in the case of the internal policy. To say that there is something very good in the foreign policy but they cannot stand by the internal policy is not fundamentally correct. What is wrong with the internal policy except that we are passing through difficult times?

The point that I was making was that it is not very correct to make a fundamental distinction between the foreign and the internal policy. As I was saying the other day, the policy of a nation is an integrated whole. The foreign policy does not fall from the heaven. It grows out of certain attitudes that people have learnt or cultivated for so long a time. It does not come about just like an accident. The foreign policy of this country is not an accident. It has grown out of the aspirations of the people and certain attachments and certain loyalties to certain progressive principles in this country. Therefore, Hon. Members cannot make a convenient distinction between foreign policy and internal policy for the purpose of accepting one and rejecting the other. One has to stand by the policy as a whole. I am sure that this country and

the leadership of this party has given a very integrated wholesome national policy, whether it be internal or external, and it is this policy that will see this country through many difficult times, and I am sure a day will come when all those who are asking for and supporting the no-confidence motion will come forwards and say that they made the mistake of their lives in moving this no-confidence motion.



## NO-CONFIDENCE MOTION

*Intervention, Lok Sabha, 24 July 1974*

In this debate the way abusive epithets were flung and allegations were made did not become the party which moved the motion. I want to point out that if at all you have to make criticisms, certainly they are welcome and we are here to answer them; we are here to explain them. May be perhaps we may succeed in convincing you; may be we may not. That is different matter altogether. But I would make an appeal at least to the other political leaders, who are very distinguished politicians in this country and leading their own parties whether they are doing any service to democracy, particularly parliamentary democracy, in associating themselves with a no-confidence motion of this type of motivation. This is a serious question I want to pose before both Shri. Jyotirmoy Bosu and also the other political leaders before I come to actually what has been said in the debate on this no-confidence motion.

Two or three main grounds have been raised in this debate on the no confidence motion. One is about the railway strike, of which notice has been taken by the Railway Minister himself. He has participated in the debate and has replied to most of the points. The other was about the issue of Ordinance and then the question of prices and the present economic situation, particularly the inflationary situation. Naturally, I am speaking briefly to intervene to explain government policies about the latter parts, namely the



present economic situation, particularly the inflationary situation, and that in that context the Ordinance have become necessary.

The House will pardon me if I repeat some of the things I have already said either here or outside because when you are talking about the realities of the economic situation, you cannot invent arguments or situations. You have to deal with the realities as they are. It is a truism to say that the present economic situation is something very serious of which we have to take note. As a matter of fact, we are in a serious grip of inflation which is threatening to be a runaway inflation and therefore, we have to think very seriously about this matter. We are thinking seriously about this matter and, therefore, we are taking certainly some serious steps in this matter.

But it is not enough merely to describe a situation. Merely describing a situation does not lead to any solution. We will have to find out why it is so. We will have to diagonalise the situation. According to us, the inflationary situation has been gradually accentuating in the last couple of years. The basic reason for that of course - again to repeat the same theme- is that there is that the imbalance between the aggregate demand in this country and the availability of essential goods and services that are needed to meet that demand. This is, really speaking, the basic reason for the present inflation.

Now we have to deal with this problems. How do we deal with this problem? If we have to deal with this problem, then naturally people ask: how are you going to deal with this question of demand? May I say to that it has been said, not by Government only but it has been said for the last two years by a number of economists in this country, by a number of parliamentarians and politicians in this country, that this is because there is a rather unusually large money supply in the country? It has its many facets. There are many eminent economists here who possibly may speak about it more authoritatively. Of course, the reasons for that may be different. I admit Government's deficit financing was also one of

the very important contributory factors to this. I do not deny it is there. There was certainly despite our efforts at credit controls, selective credit controls, a certain money expansion which came from that side. There is certainly the usual rise in incomes; it is not merely wages but general rise in incomes unrelated to the availability of goods. That has certainly created an imbalance and we have to deal with this problem.

It is not enough merely to deal with the problem of money supply. We have also to deal with the other side. That is, the side of production in the industrial and agricultural fields. There we have to deal with many other facts of the problem. There is another field of money supply, coming from unaccountable, illegitimate, illegal sources, which is the result of evasion of taxes, both direct and indirect. If direct taxes are evaded, it becomes the nucleus of black money. In the case of indirect taxes, it is evaded by producing more and showing less in terms of commodities and those commodities become the mother of more black money. We have to deal with this entire problem.

Let me first explain what we are not doing? I heard Mr. Indrajit Gupta's speech very carefully. Possibly that was the one serious speech I heard in this entire debate. Mr. Indrajit Gupta made two points while criticising the ordinances. He said that we are saying something which exactly we are not doing. He made a reference to his famous professor in Cambridge, Prof. John Keynes. I quote him:

"The basic determinant of prices in our society is not be wages of the workers but capitalists' hold on the big sectors of the industry where they determine the prices for the sake of their profits and super profits by creating artificial scarcity, by restricting production. Inflation is the thing which helps the capitalists the most. This theory was inspired by John M. Keynes' the old professor of my old college in Cambridge. I thought we had given up this long age. John M. Keynes old theory is being resurrected again"- he means by this Government - "that the safety valve

against economic depression and against the danger of economic explosion is to create deficit financing and inflation so that by creating paper money which has no value you can boost up the demand for goods, inflate the prices and allow the capitalists to make higher profits. It is a bogus theory; it has never worked in any capitalist country and it is not going to work here also

He says, as if, we have issued these ordinances to create more money. Is that what he means? It is precisely the opposite of what we are trying to do. I would like to emphasise that we have never believed that the inflation in this country is basically the result of action on the part of the working classes. I do not want to dwell on the causes of inflation which are basically rooted in the slackness of agricultural and industrial production. We have issued these ordinances not because we believe that wages are going to increase the prices. We have done this to prevent possible inflationary pressures on the runaway prices. I really do not know what could have been the size of the inflationary pressure if we had allowed things to go as they are and not taken any steps to prevent them.

So, the steps that we have taken so far are in the nature of preventive action. We never claimed that by the issue of these Ordinances, immediately there is going to be some fall in prices. We never claimed that. Then, these are not the only steps which ultimately will give us that result. We will have to take a series of steps. This is the first package we have given in the form of three Ordinances. I will explain later why the three Ordinances were considered necessary. So, the main point is that Shri. Indrajit Gupta was trying to attribute things which we never said. Really speaking, this is a part of our policy that has been implemented and the policy that has been explained recently in the ten-point programme, by the Prime Minister, namely, to reduce deficit financing, trying to reduce Government expenditure on the non-plan items. And the steps that we propose to take this year also to economize shows our faith in the programme of minimising

unnecessary expenditure on non-plan items.

Some hon. Members very legitimately raised the question why the Ordinances were necessary. I certainly owe an explanation to this House, and possibly we will discuss this in more detail when we discuss the Bill to replace the Ordinance. Then I will be hearing more about this from the opposition side. But I would like to explain in the beginning why we thought the ordinances were necessary if we take the Ordinances individually, one by one, that is a different matter. Certainly it was a package. The Ordinance limiting the dividend, the Ordinance compelling the deposit of 50 per cent of the additional dearness allowance and the Ordinance compelling income-tax payers above a certain level to deposit a percentage of their income; it is really speaking a package in order to reduce the monetary supply and reduce the inflationary pressure on demand. It was thought that these are the important sections which can make this contribution. When I say Contribution it is not a gift; it is not in that sense that I am using the word Contribution. Then, we are not taking away the present wages of the employees. It is only 50 per cent of the additional wages and dearness allowance that is covered by this measure. This increment is meant for the purchase of consumer goods

The idea is not to deprive them of their necessities. I would like my friends to consider seriously this problem. We adopted the policy of dearness allowance with a view to solve the problem of wage earners but we found that it is not solving the problem of inflationary forces. I quite agree that it is a rather extraordinary step that we have taken. But when we face an unequal situation we have to take usual steps.

About dividend distribution, may I ask: Was not the Ordinance necessary? could we have brought this proposition or this proposal merely in the form of a normal law? It had to be done by an Ordinance, in a package, when one item has to be enacted through an Ordinance, the other become inevitably linked up with that. Mr Indrajit Gupta gave an argument that in the case of persons

who were supposed to deposit money sometime in the month of December, why was it necessary to issue an Ordinance? It is not in that mechanical sense that you could judge these issues. These are very important issues.

There is something like psychological aspect of inflation also. When an approach has been accepted, it is necessary to put the entire approach in a package before the country in comprehensive form. Therefore, when one ordinance becomes necessary, it is absolutely inevitable that all the other propositions organically linked with it be brought in the form of Ordinances. Nobody likes Ordinances. Don't we know that if we come with Ordinances, the House does not like it? We also know it. But we had to do it. We had no other option. We thought that there were compelling reasons for us to go in for Ordinance. Therefore, I would request this House to appreciate the compelling reasons, and the reasons, why we thought that this was going to help the economy of the country. As far as the Ordinances are concerned. I have tried to explain my own reasons for the issue of Ordinances. Ultimately, the Ordinances on their merits will be considered by the House.

The other issue of administrative problems, their implementation, is also an important one. I do not deny that administrative problems are very many; I do not minimise the difficulties in implementation. But some of the difficulties have to be accepted knowingly. You cannot merely push away a task only because it is difficult. It is difficult and it is necessary and, therefore, it has to be performed. We have undertaken this difficult task because we believe that it is ultimately going to help the economy of this country.

Now, the question comes up as to what are the other things that we want to do about black money. Everybody asks a question, a legitimate question, as to what we propose to do about it. I would like to say that for the last two years, we have been consistently taking steps to control the problem of black money. Some people just stick to one thing and try to find out what we are doing and what we are not doing. The Hon. Member, Mr. Indrajit

Gupta, made a reference to the memoranda submitted by the economists and asked as to what we are going to do about those memoranda. He, particularly, made a reference to this popular name "SEMI BOMBLA" and asked what we are going to do about it. Let me take this opportunity to express our deep appreciation of the cooperation that the economists of this country are giving to the Government. We are really grateful to them that in the present difficult economic conditions, they are applying their mind individually and collectively and giving us very important constructive suggestions which we are also considering from time to time.

They are also giving us suggestions in a package. It is not only one suggestion or two suggestions. The Memorandum which they have submitted to the Prime Minister is a very important document. There is no doubt about it. I would like to say that a number of their suggestions are very useful and constructive. We have already accepted some of them. I can mention some of the suggestions that we are implementing. A number of suggestions listed by economists in their Memorandum, such as rationalisation of Government expenditure, 'involvement in the working of public sector undertakings, reduction of governmental subsidies, increase in the rate of interest - only recently, the Reserve Bank of India increased the bank rate - the use of fiscal instruments to reduce consumption, improvement in foreign exchange reserves, building up of adequate buffer stocks of foodgrains, reduction in non-developmental expenditure and increase in production are already under implementation. Most of those suggestions we have certainly accepted. But at the same time I must humbly point out that their main suggestion is reducing, by 30 per cent, through stamping by designated authorities the face value of currency notes of the denomination of Rs. 100 and above held by the public and the issue of Special Government of India Certificates equal to the reduction i.e. of 30 per cent, in the face value of the currency notes; the Special Certificates will have a maximum

maturity period of ten years and they will bear an annual rate of interest of ten per cent etc. Also their idea is to reduce the value of deposits in banks. We in the Finance Ministry have examined very carefully this suggestion. The Reserve Bank of India has also applied its mind to it and I must frankly state that we have given all the weight to the suggestion but we do not favour this because it is not likely to help the economy as we understand it. If you reduce the value of the deposits in banks, you are really speaking, undermining the faith of the people in the banking system itself. Therefore, we do not favour this suggestion. I only want to tell the Hon. Member, Shri. Indrajit Gupta, that we have given a very serious thought to the suggestions made by the economists. As I said, we are very grateful to them for their suggestions. Some of the suggestions which are acceptable we are implementing, but some of the suggestions which are not acceptable we are not implementing.

I was coming to black money. As I said, some members really go by some slogan here and there. But I have repeatedly said that through legislative action we have taken a number of steps. Ultimately, as I said, black money is generated by evasion of taxes and also in certain monopoly in commodity distribution like steel...

Another outlet for black money was investment of money in urban properties or other properties in an undervalued manner. You know about that Act. That Act has already been implemented and more than 4,000 notices have been issued. I learn that, in respect of nearly 38 properties, final orders have already been issued. May be, they may go on appeal to tribunal, etc. But my main point is this. This number 38 or 4,000 is not important. What is important is that a new process has started about economic offences in 1973-74. Nearly a hundred prosecutions have been launched as I said it is not the number of prosecution that is important. The main point is that a new way of dealing with this problem has started. A large number of raids have been organised.

It is question of creating a fear in the minds of these people for using black money, for their anti-social activities, not to resort to these things. It is again this atmosphere, (Interruptions). Merely crying hoarse about black money does not help either you or me or anybody. We ought to change that atmosphere in the country. Let us do that. Merely trying to accuse one party or one individual or one section of people does not help us or the party. These are some of the steps we are taking in the case of black money as well.

I tried to point out the measures we have taken in the case of production also. I have taken a series of measures even last year in the case of agriculture as you very rightly know. As we said in our AICC meeting, we think that the production of the last year was certainly bad enough for us. Unfortunately, we have not been successful to effectively bring the necessary produce into the distribution system. (Interruptions) That is the effort we have to do this year also (Interruptions) why we are not successful, we are certainly thinking about it. You also give some co-operation in this matter. This is a national problem. Let us think about it. If you want to think about the economic problems in a co-operative manner, you are welcome. But when we are considering the national problem in its national perspective, what is your contribution? Strike, more strikes and more strikes. That is the way you are talking about. This is the way you are talking about a serious matter of a non-confidence motion in the country. The most important and serious problem before the country today is this economic problem. What is your offer of cooperation to solve this problem instead of merely criticizing us?

(Interruptions).

Therefore, I make an appeal to the hon. Members here, both on this side and on that side, that if at all we are serious about the problems of this country, let us not think in negative terms. Let us not think in terms of anti-this and anti- that. Fortunately we have got a very effective leadership of Madam Gandhi as the Prime



Minister of this country. I think it is our duty in this difficult time of the history of the nation that we give our best co-operation to her and through her, to the nation.



