The Economic Weekly

A Journal of Current Economic and Political Affairs

(Established January 1949)

July 21, 1956 **Volume VIII—No. 29** **Eight annas**

The Economic Weekly

15 Tamarind Lane, Fort, Bombay

Telephone ; 23406

Annua! subscription : Rs 24

Dead-wood and Danger

THE Bill for amending the Reserve Bank Act which passed its first reading in the Lok Sabha and was referred to a Select Committee falls broadly into three parts. The first relates to foreign currency reserves as a backing against note issue, re-valuation of the gold held by the Bank at the current official rate being a part of it. The second relates to the reserves maintained by the scheduled banks in cash or in interest free balances with the Reserve Bank against their deposit liabilities. The third is concerned with the abolition of Local Boards which have for so long functioned in an advisory capacity. Of minor importance, and largely technical, is the amendment relating to Reserve Bank advances from the National Agricultural Credit Fund to enable co-operative banks to lend to cultivators for acquiring shares in co-operatives;

The first two are major changes which should normally deserve the moat careful consideration. The Issues, however, are not being threshed out de novo on the floor of Parliament. In fact, so far as the backing against the note issue is concerned, the Government and the Parliament had taken a firm decision long ago. This they did when they approved of the basic principles of the Plan which included not only deficit financing but also the broad pattern of the balance of payments of the country for the next five years. The Bill largely makes de jure what is de facto; it implements the decisions on policy which have already been taken.

As instruments for carrying out these broad policy decisions, however, the amendments invite certain criticisms. To take the foreign exchange and gold reserves first. It has been decided that resources for development to the extent of Rs 1200 crores in the next five years will have to be found from budgetary deficits. This will mean currency expansion of a certain magnitude against which it is neither possible nor desirable to maintain proportionate reserves as laid down under the present Act. Far from expanding such reserves against the currency expansion that is contemplated, it has further been decided to draw down the sterling balances and utilise the surplus above a minimum that may still be maintained for meeting the foreign exchange requirements of the Plan.

The question that arises is, therefore, the narrower one of the amount of the minimum reserve and the manner in which it should be held. The Bill provides that the minimum should be Rs 400 crores in foreign securities and Rs 115 crores in gold (which would be the value of the present holding of gold after re-valuation), This minimum, however, can be reduced by a hundred crores with the previous sanction of the Central Government for a period not exceeding six months in the first instance, and subsequently for periods not exceeding three months at a time, with similar sanction*. This concession to convention is unmeaning. After all, what are reserves for, if they cannot be touched when they are needed most ? By making it obligatory *ton* the Reserve Bank to obtain previous permission from the Central Government, when the reserves have to be touched, the Bill implicitly assumes a separation between the Finance Ministry and the Reserve Bank and the independence of the one from the other which is just not there. Again, by making the reserves of Rs 300 crores of foreign security 'untouchable' except with the legislative sanction of Parliament, the Bill assumes that the relationship between legislature and executive Is quite different from what it is today or what it Is likely