

BANK AND SECURITY SCAM

By :-

Prof. Madhu Dandvate

(Former Finance Minister Govt. of India)

Lala Lajpat Rai Memorial Lecture

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LALA LAJPAT RAI COLLEGE OF COMMERCE & ECONOMICS
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(Ex-Finance Minister and Member of the Parliament)

College Chairman of this function and student friends, At the very outset let me convey to you my feeling that though I have been in the parliament for five consecutive terms and though I have been a Cabinet Minister in two Governments, I have been more than that. A teacher for more than 25 years and I value these years of my teaching more than my association with politics and therefore, today when I came to address a fraternity of students and teachers, I felt that I am back home and with that feeling and with that emotion, I rise before you.

Friends, for a person who has been a part of the freedom fight there is no better privilege and joy than to participate in the function which happens to be the Birth Anniversary of LALA LAJPAT RAI. You probably do not know, you may take the name lightly, but my generation which participated in the freedom struggle will always recall with great pride, that it is the name like Raja Ram Mohan Roy, social reformer, political fighters like Lala Lajpat Rai and great freedom fighters like Gandiji and Subhashchandra Bose who inspired the generations to fight, and when people went to gallows, they praised the martyrdom of Lala Lajpat Rai, and therefore it is a matter of pride to me to participate in a memorial series of lectures which named after a great patriot.

I was requested by the Principal of the College to submit before hand a text of my speech but Mr. Principal I would like to submit to you very humbly that even right from the days of ministership, I always avoided reading out the speeches for a very simple reason. I am reminded of a very interesting cartoon in the Times of India, by the famous cartoonist Mr. Laxman. He had shown a minister addressing the gathering and reading out the speech and when he starts reading out the speech his secretary pulls his coat from behind and reminds him "Sir, you have started reading out the speech which is to be delivered at the next function" and as result of that he has to mend his ways. In order that I should not face such a tragedy, I have always been avoiding reading out the speeches but speak only extempore, jotting down a few points so that I might not meet the tragedy of that minister who was depicted by the Cartoonist Laxman.

I have myself chosen the subject which is of great importance to the economy of our Country today and the subject is ' Banks and Security Scam'. I am sure many of you are concerned with the subject of Economics and Finance and as a result of that I think it should be of interest to you to note some of the important aspects and dimensions of problem which affects our economy to very great extent i.e. we had the problem of Banks and the Security Scam.

Recently to be exact, on the 16th of December the Joint Parliamentary Committee Report on the subject was placed on the table of both houses of the parliament. After that there was a brief debate but I think the strategy of the political parties in the parliament was wrong. The discussion was undertaken at a very inappropriate moment. They ought to have allowed the Prime Minister to make a statement regarding the policy failures adumbrated in the Joint Parliament Report and also placed before the parliament what concrete steps they propose to take in order to eliminate the aberrations that have taken place. But before the Prime Minister did that, the parliament discussed the propositions and as a result of that all that the Government had to say was that we have not studied the report as yet in detail and therefore at a latter stage will come before the parliament and as result of that the entire debate in the parliament was sterile, it was quite barren and it proved to be fruitless.

The Joint Parliamentary Committee (JPC) has not been able to find out more than 5000 crores of rupees involved in the corrupt practices in that entire scam. Where had they been diverted? But though that is one failure I must concede that they have been able to identify the instruments and the areas in which the irregularities took place and as a result of that the fiscal discipline of our economy was totally in shambles. If you ask me which are the levels at which all these malpractices can be traced, I would say that there are five levels at which we will have to trace all the irregularities involved in the Banks and the Security Scam. These five levels are as follow:

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| No. | One | - | Reserve Bank of India |
| No. | Two | - | The Financial Institutions including Banks. |
| No. | Three | - | The Brokers Involved in the various transactions. |
| No. | Four | - | The Finance Ministry |
| No. | Five | - | The political lobby that gave protection and cover to all those who were guilty of gross failures in maintaining the fiscal discipline and create malpractices in this country. |

These are the five levels, I propose to analyse and examine very briefly for your consideration. I would like to tell you that, after all these malpractices have come to light recently, in a very small and a miniature way, years back in 1957 a similar malpractice was detected and raised on the floor of the parliament by Feroz Gandhi. One of the businessmen Haridas Mundhra of Calcutta requested the Life Insurance Corporation of India (LIC) to purchase the shares at a very heavy cost, and as a result of that when the LIC purchase the shares through Mr. Haridas Mundhra and after making the payment of the order of 1,26,857.50 rupees. But when the LIC received those shares to it was found that the LIC shares were 32,000 shares of Richardson and Crudas Company, which were already sold to the LIC, when they were scrutinised and examined, it was found that almost all of them were bogus and as a result of that a great fraud was detected.

I remember, in 1957 Feroze Gandhi raised the question on the floor of the parliament and in support of his evidence, he demanded from the speaker, permission to lay on the table of Lok Sabha a secret document that he had got which was a correspondence between the Finance Secretary and the then Finance Minister Mr. T. T. K. Krishnamachari. Some ruling party members forgetting that Feroze himself was a member of the ruling party objected to those Confidential documents being laid on the table of the Parliament. They asked him; From where have you got these confidential documents and with the sense of honour, Mr. Feroze Gandhi said "If I give you the source from where, I have obtained, I will not be able to fight corruption at all but I want the permission to lay them on the table of the house", and you will be shocked and surprised and pleasantly so, that Mr. Ananthasayanam Iyyengar who was the speaker of the Lok Sabha then gave a historic ruling on that occasion, and he said I have quoted this ruling a number of times in the parliament in 25 years and if I remember verbatim, the wordings of the ruling of Ananthasayanam Iyyengar he said, so long as any honourable member of the parliament is prepared to take responsibility of the authenticity of the secret documents, he is seeking to lay on the table of the house, even if, they are brought by stealth, I will allow them to lay on the table", and he allowed Mr. Feroze Gandhi to lay the confidential documents on the table of the house. This ruling was extremely useful to many of us who raised on the floor of the Parliament the questions of corruption.

I remember because of this particular ruling in the 5th Lok Sabha, when Jyotirmoy Basu raised the question of submission of the interim report of direct taxes committee work, i.e. Wanchoo Committee and Govt. refused, they denied the knowledge that the report was submitted. Basu took out the report from his pocket, sought the permission of the speaker and quoted Ananthasayanam Iyyengars ruling and said "I am prepared to take the full responsibility, and the document was laid on the table of the house and the secrecy was broken. Again, in the Shirazuddin Affair Mr. H. V. Kamath demanded the CBI report on the case, the Govt. refused it and, he took it out from his pocket and he said, I have a copy of the CBI report. Again it was exposed and laid on the table of the house and again when Bofors issue was being discussed about the corruption involved in having the contracts for the Bofors Company for the Howitzer deal, I laid on the table of the house a number of documents, again quoting the same ruling and therefore there was one instance in 1957 when a similar episode as the one which had taken place recently in a small measure was brought out. What did the then Prime Minister do? He appointed an open judicial enquiry, one man judicial enquiry report came and when many persons were indicted, Pandit Nehru got up in the house and he said that he had directed the Finance Minister, T.T.K. Krishnamachary to resign from the cabinet. That is what happened in the case of judicial enquiry.

I referred to five levels at which we are required to deal with the problem. I will first take the Reserve Bank. As the student of finance and economics you know that Reserve Bank of India is the apex, highest bank in the country. It is supposed to regulate the functioning of all the banks in the country. Now, what did the Reserve Bank do, when it found that certain irregularities were there. I would like you to note a very significant date. On 26th July, 1991 the deputy governor of the Reserve Bank Mr. A. Ghosh sent the secret circular to various banks in the country and pointed out to them that, there were four important fields, in which they had the prima facie evidence of irregularity and corruption.

No. One (1) He pointed out that, there were ready forward deals, carried on at rates, which were irrelevant to the market rates, and deals were entered mainly to make the manipulations of the balance sheet.

No. Two (2) There were, double ready forward deals in which, it was found that, the oversold position of the securities were sought to be defended and manipulated.

No. Three (3) Certain Bank Receipts (BR) and Special Subsidiary General Ledger (HGL) forms they were actually issued and they were also found to be bogus without having the adequate security - and

No. Four (4) Through broker clients Bank receipts and SGLs were given and it was found out that, the interests of the banks were completely neglected.

These were the four prima facie cases of corruption and irregularities. What happened then? Five months passed. Most of the banks did not reply to the Circular. Some replied giving lame excuses. Some only acknowledged but they refused to give the steps that were taken to prevent such irregularities, and what happened with the Reserve Bank? After sending the Circular on 26th of July, 1991, the Reserve Bank did not take any action at all. In fact, I would like you to remember as a student of economics & Finance that, under the Banking Regulation Act of 1949, the Reserve Bank has got wide powers. It can send its own team of officials to any concerned bank, where corruption is suspected. They can catch hold of all the documents. They can set the things right. But inspite of such overriding power given to the Reserve Bank under the Banking Regulation Act of 1949, no steps were taken by the Reserve Bank and therefore, if I have to put anyone as the institution guilty number one, it would be the Reserve Bank of India. So it is the Reserve Bank of India that has taken the responsibility of controlling the situation but did nothing at all. This is the first level.

I would move on to the second one. The second one is the financial institutions and the banks, and I would like you to give a little hearing to this particular aspects because, while functioning in the Government and functioning outside, I have been able to detect certain important aspect of this aberration, which I would like to share with you.

Since I am no more a minister today, I am not at all under the jurisdiction of the official secret act and for revealing any inner details, I don't think that, I can be held responsible, and therefore, openly, I would like to share with you certain important malpractices. We found that, the share values suddenly went up. Many people purchased hundreds of shares and when actually the value of the shares came down, suddenly, they crashed with the bang and many people suffered huge losses. Now, what is the responsibility of the financial institutions in regard to investment in the shares. I would like to raise these important

theoretical points. There are financial institutions like Unit Trust of India (UTI), there are institutions like National Housing Bank (NHB). There are a number of public sector financial institutions. They have got lot of resources. Now, what is the basic responsibility of the financial institutions? They must see to it, that the resources available at their disposal are utilised for the development of the economy of the country, for building the employment potential of the country, for building the housing activities of the country, to see that the poverty alleviation programmes are helped. There are the responsibilities for which the resources can be utilised. When should they utilise the resources of the financial institutions like UTI, NHB or any other institutions like the banks, they cannot be indiscriminately used for putting the money in the share market for investment in the purchase of share. I remember, when I happened to be the finance minister I had announced one important norm and I would like to draw your attention. I noted, that very often financial institutions indiscriminately put money into the purchase of shares and artificially the values of the share go up and many vulnerable investors are tempted to purchase thousands of shares or five thousand share and share values further go up. Then they would sell out the shares, when the prices go up and thereby they will be able to earn large incomes, i.e. they will be able to make financial fortunes. This is an artificial booming of the shares. Now, what some of the financial institutions and some of the brokers did was they tried to put in large amount of the financial institutions, of the banks, of National Housing Bank to purchase the shares and as a result of that the entire share values went up. And what happened, when the share values went up? In old days, when I happened to be the finance minister, I suspected that this will create a trouble and therefore, I had prescribed a very important norm. Please take note of that particular norm. I had said that, if any financial institution or an individual wants to put money into the market for purchase of share and if the amount is more than one per cent of equity of that particular company, in that case within 24 hours, the institution or the individual concerned must announce in the press, that, I have invested money to such an extent, that it is more than one per cent of the equity of that particular company. What would happen? Suppose the students and the teachers here read in the paper that the particular company share value has gone up from Rs. 4/- to Rs. 50/- and at the same time in the second column you read the news that Harshad Mehta or Unit Trust of India has put 10 crores or 15 crores of money into the market to purchase the share, then even a man without

much knowledge of economics and finance will realise that if the values of the shares have gone up they have not gone up because country's economy has improved, not because there is fiscal stability, not because there is economic prosperity but because somebody has brought money from somewhere, and dumped into the share market to purchase the shares. Artificially the shares prices have gone up and one day the share prices are bound to come down. They would have done it if there was transparency and openness. An announcement was made in the press by those who had purchased shares more than one per cent equity of the company. Unfortunately, all the succeeding government neglected this norm. As a result of that what happened? Worse was some of the economic journals, I respect their competence, I respect their intelligence, but quite a good number of them announced that if the value of the shares are going up, it is an index of the prosperity of the economy of the country, and the success of the new economic policy and then the vulnerable innocent share investors felt that, when even the journals are saying that if the values of the shares have gone up and they will continue to go up, because of the progress of the economy. They felt it is time to invest more money in the shares. Middle class men and women like you utilised their Provident Fund to purchase the shares. They borrowed money from the money lenders to purchase the shares. They utilised loans, grants from various banks in order to see that more shares are purchased in the hope, that the shares will further rise and when they go to that apex, we will sell them and we will be able to make financial fortune. But because this was an artificial boom and not the natural process, they came down and as a result of that many people suffered, and therefore as far as the financial institutes are concerned, it is my contention, it is not that the primary duty of the financial institutions like the Unit Trust of India and the National Housing Bank is not to put money into the market for the investment into the purchase of the shares. They should not indulge in speculation into that. They should step into the market only, if there are terrible fluctuations in the market share, and or if there is extreme instability in the market, to give it the touch of stability. Only a selective investment into the purchase of shares by the financial institutions is justified. In all other cases it is not justified at all. When I happened to be the finance Minister I may mention the name, Mr. Pherwani happened to be the Chairman of the Unit Trust of India.

He started pouring money of UTI into the share market. As a result of that artificially shares prices went up. I warned Mr. Pherwani, it is not your basic responsibility to utilise the resources of Unit Trust of India for speculative purposes stop that, and when he did not stop doing, I had to remove him from that job of Unit Trust of India. You are

applauding me for having taken the correct step. But the succeeding government gave to Mr. Pherwani further promotion for his acts of omissions and commission. The Maharashtra Government made him the Chairman of the State Finance Corporation of the Maharashtra State and later the Government made him the Chairman of the National Housing Bank and you see what havoc he played. I am just indicating to you it is very necessary that only the selective role of the financial institutions is permissible only when there is crisis. Then we come to the third agency and that is the banks. You will be surprised that the banks have played havoc and I will try to explain it to you. Many students have been asking the question Sir, please try to explain the reason as to why bank officers acted in a particular way? There is one rational explanation and one explanation is based on norms and corruption. The rational explanation I can tell you as the former Finance Minister that in a number of Public Sector Financial banks, when the balance sheet shows certain amount of surplus or profit, these are not the genuine profits with a number of items of expenditure are placed below the carpet as a result of that false profits are shown marginal profits. But if we try to improve the balance sheet position and have a new formula, altogether a new format, more transparency and more openness, more driving any item of expenditure below the carpet in that case the real position would come up and when many Chairmen of the banks knew that the profits that they have shown in the balance sheet are not genuine. They tried to find out short cut to earn profits and money and they were in league with certain brokers. They told them that we will give from the bank certain advances, you put them into the share market. Earn the profits and give us a substantial part of the profit you earn, you will be prepared to put them as deposit in our Bank, so that the profitability of our bank will increase and actually the financial picture will improve. That is the reason that they colluded with the brokers and what happened in the Banks, I would like to tell the students if you tomorrow after your graduation try to have a small scale industry or a project and you go to the bank to get certain large loans. You will be always told by the Bank Managers that according to the rules and conventions and it required sanction of higher authorities like area Manager or Zonal Manager or Board of Director.

Therefore what did banks do if some professor of your college goes to the bank for certain loan hundred questions will be asked and then he will be told that the full fledged meeting of the board of directors will be held and then only your loan will be sanctioned. But in this case Harshad Mehta and Bhupendra Dalal it seems no rules existed at all.

They were really having a free and unfettered economy and they were able to get large advances and loans and they were told that you can invest them into the shares, earn the profits and when you earn the profit put the deposits and also return the loan that you have taken. All of them were able to do it. You will be surprised to know Mr. Harshad Mehta had an account with the State Bank of India. He sent some large cheques from the other banks to the State Bank, telling them, that put my cheque of other banks into your account and when you have put big account cheque, in that case you can give to the third party to purchase shares. A large cheque would go. Even an ex-finance Minister like Madhu Dandavate actually gives large cheque of Rs. 10,000 to 20,000 to someone and say that you can cash it, in a particular bank, forgetting that Madhu Dandavate was the former Finance Minister knowing, that he was a Socialist and concerned more with the working class women they would ring up the bank and find out Prof. Dandavate has got a cheque of Rs. 20,000 to 30,000 please let us know, whether he has got any balance in that account, and then only the cheque would be cashed. But here large cheques were given by Mr. Harshad Mehta in the State Bank and on the basis of that fresh cheques were issued to the third party, in order to see that they are able to purchase certain shares in that particular market. All this was happening in total violation of rules and procedure. You know that as far as the transactions are concerned, if loan and advances are to be taken, you have to offer certain security so that I have a security and on the basis of that I am asking for loans from a certain bank, you can say that in the State Bank of India, I have certain security in my name and you should give from this bank a certain amount of advance to me. So that I can actually purchase certain shares. Actually security papers are very large bunch. Bank in which his security is there that manager does not send all the security papers. There are certain forms and certain bank receipts on which they write that he has got so many securities and again that you can give loan. It was found out during the inquiry by the parliamentary sub-committee it was found out that without possessing the adequate securities the bank receipts were given (B. R. Means bank receipts) But now in financial circles B.R. means bogus receipts. No security is present in the bank but the Manager gives them the forms and B.R. and S.G.L. etc. Public debt office does not function effectively or is hand in glove with the brokers and the forms are already produced on the basis that some other banks give me the loan and utilising that advance, I am able to purchase certain shares and artificially boost up the entire value of the shares sky high. That was what was happening. So Banks did every thing what the brokers do at the important level - you will be shocked and surprised to know. I have personally found out from the certain company that these big brokers, the giants, they have their

friendly companies. In those companies some of the old retired bank officials were employed as Officers for what purpose by the company not to assist them in giving them proper advice. They knew that some of the Seniors officials in the banks and financial institutions, not only knew the laws regarding banks but they also knew what are the loop-holes in the banking law. Through which hole you can escape. Just as an income tax expert, who is income tax advisor not who safeguard the interest of the government treasury but, who advises the rich man, which are the loop-holes in the Income-Tax Law. This is the loop-hole through which the elephant can pass and you can break the law without getting the notice that you have violated. And if you do that, you will not be required to pay the Income Tax. That is what is called as an income tax expert. Of course, if there are any income tax experts present here who are honest, they are excluded. I am not talking about them and this was what was happening you will be shocked and surprised to know from one bank officials ascertaining that in some of the places there have been companies which are in league with some of the brokers in those companies they have appointed retired officials of the important bank, and how much salary did they give them. Annual salary is either 50 lakhs or one crore, 50 lakhs or one crore you might be also tempted after graduation this is the best source of avenue that is available. But by that time probably the malpractice will be checked by the time you complete your graduation. But let me tell you 50 lakhs of rupees per year to one crore rupees per year, and what is the task of these retired officials appointed in those companies? They have only to point out to the company Manager's, what are the loop holes in the rules, procedures, conventions and the law, and how you can mint money. That is what is told to them. That was all happening in the case of banks, in laegue with the companies. The brokers were mainly responsible for them. Brokers had unfettered freedom.

Then we come to the next level that is the finance ministry. What was the finance Ministry doing? Let me tell you I had talked to number of men in the Finance Ministry. Finance circles, they said, that when actually all the share values were soaring high up to the sky and the common man like you was feeling that probably these shares will go up and up because there is a progress in the economy of the country. Let us purchase five thousand shares, when the values are doubled, let us sell them off so that we will be able to make money. At that time the Finance Minister kept quite. He is a competent man. Manmohan Singh knew it very well that the artificial booming of shares has nothing to do with his new economic policy. It has nothing to do with fiscal stability of

economy in the country. It is purely a speculative activity. He knew it well that they will rise to heaven but they may fall to hell. He anticipated that but he remained quiet. Why did he remain quiet? because the journalists were already saying that the booming of the value of the Finance Minister. Which Finance Minister will not relish the compliment given either by front door or back door? and therefore relishing this compliment Dr. Man Mohan Singh kept quiet. It is the greatest blunder of the Finance Minister, that knowing fully well the mechanism of the Finance of the Economy, knowing fully well the mechanism of the stock market, he ought to have come out with a small statement. "No doubt the prices of the shares are going up but I want to make it clear that artificially booming of the shares to higher value has nothing to do with our economic Policy, has nothing to do with the economic stability, or the fiscal stability in the country." You should take note of that one single statement by the Finance Minister would have warned innocent investors in this country, who innocently felt that the economy is progressing. The shares are going up. They will go still further and we will be able to mint money by selling them at a higher rate, when the rates are high and that was really the failure of the Finance Minister. It is the Finance Minister who must monitor sections of the economy of the country. What happens in the banks? What is happening in the Reserve Bank? What is happening in the Public debt office? What is happening by manipulation and misuse of Public Undertakings funds? What is happening about portfolio management scheme? What is happening about the misuse of the mutual Funds? All these things ought to have been monitored but the Finance Minister did nothing of that type and as a result of that you found that this type of chaos was created. I will just give you 3 figures from which you will realise how the values of the shares went up after Harshad Mehta put large amounts to purchase the shares. Take for instance A.C.C. company. After Harshad Mehta put large investment into the shares, prices was Rs. 11,000/- per share. A.C.C. Rs. eleven thousand per share, it was only an artificial rise. After some time when Harshad went away from the scene we find that they fell to Rs. 5,100/- per share, almost 50%. Then Mazda, another company. After Harshad Mehta and another brokers invested in the shares, the value of the share went up to Rs. 1,650/- per share and afterwards when the artificial boom was over, they fell down to Rs. 850/-. Most interesting case is of Apollo. The price went up after heavy investment to Rs. 500/- per share and they crashed with a bang coming down to Rs. 150/- per share. I will give you very interesting example. You must have heard the name of Scindia Steam Navigation, its share price was Rs. 4/- per share at one stage, 4 rupees almost a dwindling

company. Almost a company that is getting liquidated but somebody put large funds into that and again the shares started going up Rs. 40/-, Rs. 50/-, Rs. 60/- and Rs. 100/-. One person working in the Scindia Steam Navigation knowing the inner position of the Scindia Steam Navigation and its economy and its bankruptcy warned his young friend "do not invest money in the purchase of Scindia shares", and that young man said "you are actually jealous of me, because, I am going to mint money, he said Rs. 4/- have gone to Rs. 50/- and fifty have gone to 60. I am sure that one day they will go to five hundred and I will purchase them at fifty and Rs. 60/- and when they become Rs. 500/- per share I will sell them off and then he admitted after some time that they collapsed with a bang and he lost very heavily. So this is what was happening and the Finance Minister was keeping. Banks were violating the laws, brokers were in collusion with the officers. I must say just as when the army marches, artillery marches on the road that artillery has to be projected by air cover. Similarly, in Bombay, Baroda and Ahmedabad, when the army of investors and the brokers are marching on the streets of Dr. Ambedkar Road or Queens Road or Karve Road or probably Haji Ali when they are walking on the road unless they are given the air cover from Delhi, it will not be possible to protect them at all and that is exactly what has happened. That is what is called the political cover offered by the big gangs at the central places and because this was happening we find that a tremendous problem was created. That is also to be taken into note of. I will come to one more aspect. I do not want to go into the technical details. But I will throw hint we have got the money market and we have got the capital market, if the country is to be developed properly the capital formation is to be brought about. The capital in the country is to be accumulated. But in this country there is a great inequality. There is a disincentive. You will find that comparatively capital rates are such that there is no incentive to put more money into the capital market. Therefore more emphasis is given to the money market and as the result of this dichotomy in this country further chaos is created. There is one more controversy. When for the first time the present finance minister opened up his lips, he said "I am of the opinion that the entire crisis is created because there is a system failure". If the system was such that there was no built in protection of various casualties that were taking place, I would have said that the system has failed. Has the system failed? Law has given to the Reserve Bank through 1949 Bank Regulation Act tremendous wide powers to correct all aberrations, when the system provides all the powers and the latitude inspite of this you don't do any thing it means you are in collusion with the corrupt. Therefore it is not the system that has failed.

It is the corrupt operators in the banks, the Reserve Bank and elsewhere in the ministry they have failed. As a result of that the crisis has taken place. So some operators are manipulating. Don't try to rationalise their corruption by saying your corruption is not responsible for all this crisis. But it is really the system that has failed and therefore, we must try to amend the system, we must try to make the changes in the system so as a result of that we will be able to see that such aberrations and distortions are completely eliminated. That is not so. System has not failed. At the same time it is not merely the operators that have failed. Certain procedures have to be set-up. Certain machinery has to be set up. Take for instance the public debt office which works under the Reserve Bank of India. Now they are the people who keep the record of all the subsidiary general ledger forms. They are incharge of that. If the large manipulation has taken place, a fraud has taken place, false and fabricated SGL forms are gone Who is responsible? It is the public debt office and if public debt office functions directly under the Reserve Bank of India. You must try to find out who were the people operating that particular office who were responsible for some sort of corrupt and irregular practices. That must be done. So partly there are some aspects of the system that are to be monitored. I am told that Dr. Bramhananda had come here. He is known as a man and an economist with a great sobriety and integrity. He does not take the extreme positions. In the spectrum, neither he is ultra red, ultra violate nor infra red. He always remains in a visible specturm and therefore I am among one of them who feels that rather than taking the extreme positions and try to protect one or the other, it is better that we take a balanced position. We take the right view about the capital market and also the money market. You take the right attitude about the system. Whether whatever is available under the system has been implemented and at the same time at the other end you will see those who are functioning under institution have worked properly. I will give you another instance, take for instance, National Housing Bank, where the name suggests that the Primary objective of the National Housing Bank is to see that to the middle class and the working class and the poor people the country necessary financial assistance is provided, so that they will be rehabilitated, house in the places where they are working. Do we find that the resources have been actually passed on to them? On the contrary, under the leadership of Mr. Pherwani, the resources of National Housing Bank were indiscriminately used in order to have the purchase of shares and investment. For that I will give you another illustratio. There are a number of activities in which assistance is required for small scale industry. I must tell you with all the euphoria

of foreign assistance and the large number of multinationals coming in the country. Many youngsters feel if the multinationals come in the country in a very big way we will be able to get better quality goods. We will be able to lead a better luxurious life. But remember you can live luxurious life, if you are not unemployed and you will find that the job opportunities are available to you. But let me warn you, when we are trying to take the multinationals in a very big way and saying that we are opening up our economy. They are opening our economy with a vengeance and if they are opening up economy they go on quoting all sorts of precedents. They say China has actually invited more multinationals than India. That is a fact. I happened to meet one Chinese expert and economist. He said that one difference between China and India is that we have invited more multinationals from foreign countries. We have invited foreign capital but we have warned the foreigners that those sectors of our economy where consumer's goods are manufactured for common and poorer people in the country and those sectors in which the chinese people get more and more jobs we will not allow you to touch those sectors even with a pair of tongs if you don't want to come, to hell with you. But we won't allow you to come into the consumer goods industry and those sectors where the chinese people get the employment. On the contrary, our attitude is let the multinationals come and let them accept any area. Thank Dunkel and the GATT treaty. The Dunkel treaty and the Dunkel text has put the condition that when they come to this country for production through foreign collaboration and foreign company all the foreign companies will have the unfettered freedom to enter any area of production. They will have no obligations to have least imports, they will have no obligations to generate more exports for social purposes and they will have no restrictions at all that when they must utilise the local raw material, no restriction at all, unfettered entry to foreign collaborations, the multinationals. They can come over here to the extent that I can understand some luxurious people welcoming Pepsicola and cocacola but when I travelled by the train, I am shocked and surprised to find that very often we require pure and simple tap water which is distilled and when I saw one of the bottles I thought that probably the railways are providing that and when I learned the name of that it was a multinational company which was giving us pure water in the bottle. What is the cost of production? Three paise for purifying the tap water and one rupee only for the bottle and only one rupee three paise is the cost of production. At ten rupee they are selling and what technology? Just the tap water to be boiled and purified and pressed into the bottle for that also, we need the Multinational technology from outside. What a

shame? Where is the economic sovereignty of the country? Where is the economy of self-sufficiency? I can understand infrastructural activity, power generation, huge projects for that bringing the foreign technology. I can understand. But even to collect the water from a municipal tap and distilling it and pressing cap into that for that also we require technology and we require privatisation in the hands of the foreign companies. As I once told the Prime Minister in one of the Seminars in which both of us were present, I said your craze of privatization is increasing to such an extent you are discarding the social obligation to such an extent that one day you may announce that we would like to privatize the Government. We would see tenders of the people to run the Government and the best tender will be given the responsibility of running the government. Hell with the sovereignty of the country. Hell with the economic sovereignty of the country, and when I say that remember I am not one amongst those dogmatic thinkers who feel that the entire economy has to be socialised and nationalised. No, ultimately our resources, how much expertise we have got? How much man power we have got? What type of resources we have got? What type of technology we have got? That will decide whether you can nationalise a particular sector and therefore our economy will always remain a mixed baggage in which there will be a socialised sector in which certain Social obligations will be accepted by that social sector. There will be a co-operative sector. In a capitalist system like USA the gap between the minimum of Soviet Russia minimum and maximum gap was 1 to 50 and scandinavian countries where co-operative economy was successful the minimum and maximum gap was 1 to 4 and 1 to 5, so there will have to be a co-operative economy. There will have to be a co-existence of sectors but we decided that actually the openness of the economy and the free market economy will be actually the panacea for all the economic ills. I would say that in all the service sectors like banks and insurance my attitude will be you do not open up in a big way. Have you read the report of the Parliamentary Committee? The Parliamentary Committee has put the maximum responsibility of corruption and irregularities on three foreign banks. Far from taking away their licences we are having a theory that we must have more privatization of the insurance sector, more privatization of the banking sector, and the corrupts are very happy that the price that has been paid for our irregularity and all sorts of corruption is that the Government is taking a new posture that more privatization, more opening of insurance and banks and it is better that we continue our practices of our corruption because the reward for corruption is greater latitude that is given to us and not a greater control. All these aspects are to be taken note of and I will end by referring to only one aspect. I will take only a few minutes and that is about the nature of the inquiry. When the whole controversy began I was one of the few people who

questioned that what type of inquiry should be instituted. I said if you have only Reserve Bank Inquiry they will only enquire whether the norms of the Reserve Bank are properly implemented. If you have got the CBI enquiry they will only enquire into the criminal aspect. If you have a joint parliamentary inquiry committee they will only see what are the failures of the policy decisions and parameters. But if you got an open judicial inquiry as in 1957 I think maximum justifiable, maximum just enquiry can be conducted by an open enquiry and after what has happened about the joint parliamentary enquiry and the response which is given by the Govt. I have not seen any insensitive government in the world which is so insensitive to the joint unanimous report of the joint enquiry committee set up by the parliament itself. Nothing is happening in the matter and therefore I come back to the conclusion that, it is better that open judicial enquiry is probably is the best thing and that would solve the problem better than any other way. I am concluding the remarks with humorous instance. When I was in the parliament as far as the time of speech is concerned I have a very interesting example. I will just quote that and I would sit down. Once when I was speaking in the parliament few years back Mrs. Kaur was in the Chair of Mrs. Indira Gandhi. I started speaking, she started ringing the bell that your time is over. When I found, that, she is ringing the bell, I said madam Chairperson in conclusion I may say and I spoke for five minutes more. She had already taken her hand back. Again when she started pressing the bell, I said the sum and substance that I had to say Madam is I will sum it up, she again took her hand off the bell. Again I took ten minutes more. Again she tried to do the same thing. I said and therefore the entire conclusion of my speech for last one hour is again, she took the hand back and again when she found out I was continuing my talk she said "Prof. Dandavate every time T tried to ting the bell to tell you that your time is over you say "in conclusion," "my inference is," "sum and substance is" therefore, I took my finger off the bell and you take advantage of my particular leniency", I said Madam I have been teaching for 25 years as professor of Science, Physics and Mathematics and our Science discipline tells us that, when you make any statement, after every point which is completed, you have to draw the conclusion before you move to the next point and in that case she started laughing heartily. With a lady member sitting in the Chair, I said Madam Chairperson under the umbrella of your carming smiles, I will take 10 minutes more and you will be surprised to know that I was given 20 minutes more because even in the Chair if the lady sweetness is praised, she will be always lenient and I got 20 minutes more. But no lady is sitting in the Chair. I do not want to play that trick here. I am thankful to you that you have given me a patient hearing and occasionally if you have intercepted your silence, it is only to applaud in approval. I approve of your approval and conclude my talk, thank you friends.