ON SOCIALISM AND BANK NATIONALISATION

FORUM OF FREE ENTERPRISE
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"People must come to accept private enterprise not as a necessary evil, but as an affirmative good."

—Eugene Black

I

AN ECONOMIC ANALYSIS OF PRIME MINISTER'S NOTE

By

Dr. R. C. COOPER*

All political parties seek to further public welfare. In quest of that objective, they adopt policies which are considered to be effective. The ruling party is engaged in such an exercise. The note on a "New Economic Policy" submitted to it by the Prime Minister is of importance to all citizens.

Let us ignore the political and ideological aspects of this note and concern ourselves only with its economic implications.

1. *Suggestion*: Ceiling on unproductive expenditure and conspicuous consumption of corporate sector.

Analysis: Government's planning policies have taken the economy away from the hands of the public as consumers and created sheltered markets. Moreover, the present tax policy is indiscriminate. It penalises the efficient, instead of rewarding them, and treats them on par with the inefficient. Unproductive expenditure and conspicuous consumption arise from these factors.

The proper remedy is to allow open competition. This will result in application of economic discipline, and elimination of wastage of all sorts.

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A value added tax system, as in France, encourages efficiency.

In any event, it is not understood why this reference is confined to the corporate sector. The Public Sector is known for wastage and conspicuous consumption. Audit (Commercial) Reports and Reports of Parliamentary Committee on Public Undertakings prove this. Likewise the cooperative sector is also noted for its inefficiency and wastage.

Above all, the politicians are great wasters of public funds, and thus set what economists called the "Demonstration Effect" to the general public. For instance, why a new house for the Prime Minister at a reported cost of Rs. 23 lakhs? Why was the sumptuary allowance of Maharashtra Chief Minister increased recently from Rs. 15,000 to Rs. 1 lakh? Many more instances of the laxity with which public funds are used can be cited. It is surprising that the Prime Minister's note is silent on this score.

2. *Suggestion*: New entrepreneurs should be encouraged, and less developed regions should be developed.

Analysis: The licensing policy pursued by the Governments has barred entry of new entrepreneurs. Abolition of all controls is the best solution. New entrepreneurs get sick and tired of inordinate delays in governmental sanctions.

There are two major obstacles to entry of new entrepreneurs. One is the psychological climate of hatred and vilification against entrepreneurs. The other is the general economic climate wherein talented people find no rewards. This is characterised by brain drain. For every Dr. Khorana who is known there are hundred unknown ones.

Less developed areas remain so mainly because of government's negligence to provide the infrastructure of the economy. Economic activities can take place if there are basic facilities such as roads, water, communications etc.

3. *Suggestion*: Appointment of Monopolies Commission.

Analysis: This is a long overdue step. Not only private sector, but also the public and cooperative sectors should be covered by it. The Commission should be an independent body free from political influence. It is also worth investigating whether there are, in fact, extensive Monopolistic concerns in Private business in India which are exploiting the situation.

4. *Suggestion*: Autonomy for Public Sector and appointment of young persons committed to it. A special cadre should be built up.

Analysis: Public Sector autonomy is not possible so long as politicians and government officers are reluctant to give up their control of it. Even in a purely commercial matter like advertisements, the Directorate of Advertising and Visual Publicity of the Government interferes in their operations.

The idea of appointing young persons is also impractical. Most of these projects are big, complex ones, and require experienced administrators.

Efficient administrators will not be available for the special cadre because of relatively poor salaries, and bureaucratic environment.

Commitment to an ideology is not the main requirement, but technical efficiency of administration.

5. *Suggestion*: Consumer industries should be reserved for small-scale sector only.

Analysis: There is considerable lip sympathy for small sector, but people who run it are harassed at every stage. Growing markets for economic goods can be satisfied only by availing of economies of scale. Small industries should, of course, be encouraged. However, if this policy is pursued to the exclusion of bigger industries, there will be a famine of consumer goods. Smuggling, and consequently corruption, will increase manifold, and the price level will go up.

6. *Suggestion*: "Special effort should be made to encourage new talent to provide avenues of employment to the young and educated."

Analysis: This is the type of generality which is the bane of our public life. What are the *special efforts* itemwise? The Planning Commission's "special effort" in this direction in the Fourth Plan can be appreciated from the fact that this important problem of unemployment has been dismissed in a few paras!

The economy is not generating sufficient jobs because of heavy taxation which reduces savings and investment, controls on production, delays in government procedures, and the general economic climate which is hostile to enterprise and profits.

7. *Suggestion*: Foreign capital should not be allowed in fields where local know-how is available.

Analysis: This principle can be applied if we are prepared to face other nations applying similar conditions to our entrepreneurs who are establishing industries abroad. Why are we so keen about export promotion and Indian collaboration in foreign countries?

8. *Suggestion*: Heavy penalities should be imposed for restrictive trade practices.

Analysis: This job should be entrusted to the Monopolies Commission. A concrete instance is the recent decision of Maharashtra Cooperative Sugar factories not to sell sugar in free market for less than Rs. 230|- per quintal.

9. *Suggestion*: Service Cooperatives should be set up in rural areas.

Analysis: Cooperatives are successful only if they are voluntary, mainly self-financed, untouched by bureaucratic controls and political infestation. The co-operative movement at present suffers from several ills, and is really a state-sponsored movement. The recent example of the Maharashtra Government sub-scribing the full share capital to some cooperatives which have less than the requisite number of persons as its members is but one example of the grave dis-tortions which have affected this movement.

10. *Suggestion*: Minor irrigation projects should be developed.

Analysis: This should have been done long ago. Today the Government is losing annually Rs. 81 crores on major irrigation projects.

11. *Suggestion*: Ceiling on incomes and the hold-ing of urban property should be imposed.

Analysis: This can be done if the present consti-tution is replaced by a communist set-up. If sought to be implemented, consequences will be increasing brain drain, economy will grind down to a halt, and the number of malpractices will increase manifold. Even communist countries have given up this experi-ment.

There is a further complicating factor in India. The public has realised by now that politicians draw nominal salaries, but enjoy large number of perqui-sites without tax-payers' knowledge. For instance, a

Union Cabinet Miinister draws barely Rs. 2,500 a month, but enjoys perquisites worth Rs. 17,000 a month! The portfolio of perquisites of M.P.s will also be enlarged as per a recent Government decision. The public is disillusioned now with the gap between words and action—ceiling on income for public, but all monetary benefit for politicians in an indirect manner.

12. *Suggestion*: Import of raw materials should be nationalised.

Analysis: This will bring the industrial economy to a halt, and encourage smuggling on a large scale. The State Trading Corporation has not been noted for its business-like and efficient manner of operation. The parties to suffer most will be small industries. To give one illustration, a small industrialist put up a plant in Mysore State recently to manufacture a product which was hitherto imported. He found that it would take 1½ years to get the raw material through STC! Meantime, he has to either close down the factory or buy smuggled goods!

13. *Suggestion*: There should be profit-sharing in industries.

Analysis: The Bonus Act was meant for this purpose. But so long as Government's attitude towards industries is hostile and complex laws and controls hamper their production, there is little chance of greater production and productivity which are basis of greater wealth. Wealth should be created first before it is shared.

Summing up: The note ends with the sentence, "These are just some stray thoughts rather hurriedly dictated." These proposals, as analysed above, are economically unsound and against public welfare. It is surprising that economic policies of a great country are formulated in such a casual manner. Public welfare cannot be furthered by such an approach.

II

IS SOCIALIST PLANNING SUITED TO INDIAN DEMOCRACY ?

By

Prof. K. A. JOSEPH*

Socialist planning in Britain after the Second World War has not produced many happy results. The socialists (Labour Party members) are in a grim and disagreeable position, of having *promised prosperity and given misery, of having promised to abolish poverty and abolished wealth and welfare.* In the words of Mr. Seaman, Socialism as practised in Britain is "competition without prizes, statistics without end, war without victory and boredom without relief." The walls of the prison close in day by day, the ceiling of opportunity is lowered. The prisoners are charged for the expense of the multiplying jailors.

A Society will have to pay high price for centralised planning. As Prof. Whitehead points out, *"controls and plans are a major threat to our liberties* because a major part of the content of liberty happen to be the economic and social liberties. The consumers' freedom to choose, and workers' freedom to work in any field he likes, are all seriously impaired under planning. A universal pay-master in a planned welfare State may have to be a universal dictator. Concentration of power whether in the hands of the Prime Minister, or the police man is a threat to freedom and democracy. This type of new despotism is a *triple*

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tyranny of ideological fanaticism, technological infallibility and bureaucratic red-tapism and the common man is left helpless."

The picture we get about the "workers' paradise", as the communist society of U.S.S.R. is often described, is more revealing. In the words of Mr. Friedman, in modern Russia there is no freedom of thought and of expression, no tolerance of minority views, no opportunity or individual self-development. Inequality between citizens has increased, respect for law is diminishing as the fear of government increases, principles of conduct have not improved, justice has been hindered, and a rational persuasion could not be substituted for force and purges. *The aim of economic planning in Russia was to exploit labour for the profit of the State and the Communist party;* the social aim was the establishment of an industrial democracy, but the result has been tyranny and terrorism; the spiritual aim was lofty idealism, but the result has been a debasing cruelty. The totalitarian communist centrally planned state of Russia has become the owner, the sole monopolist, the exploiter and the profiteer. It was a promise to some, or challenge to many and a warning symbol to all.

India is well set on the road towards the building of free democracy based on equality, social justice and freedom. As partners in this mighty endeavour, it is good for every Indian to understand the perils of centralised planning, and affirm his faith in freedom and liberal individualism. If the people are swept off their feet by the sugar-coated pill of paper socialism preached by party politicians the country may be misled to a new serfdom. The planned society still has to prove that such a system can achieve its economic goals without the loss of fundamental liberties, without the Police state, and by the use of incentives (the Carrot) rather than compulsion (the stick). Rapid economic development of underdeveloped regions is not practicable without painful adjustments of old institutions, bursting of bonds of caste, creed and race. India must be prepared to pay the price for progress.

Economic revolution cannot be produced merely by grand plans and paper programmes. A dynamic impulse has to be created among the masses of people. Incentives have to be created by instituting in the minds of men and women an urge for the better living and higher standard of comforts. We demand the abolition of poverty, illiteracy and disease; but we cling desperately to the beliefs, habits and social arrangements which we like and we are unwilling to work hard and act more responsibly. Economic development can be produced only by men and women and not by a lifeless machine we call state. The people of India under the ablest leaders must act as the mainspring of development. People have been patiently living on wild promises; but the time has come when promises have to be turned into realities, and the gulf between promises and performances is narrowed down.

Unfortunately in India today, avarice and greed, pursuit of power without principles have corrupted our leaders in every walk of life; and jealousy, inefficiency, nepotism and corruption have all corroded public life. We could find a parallel in our country's history—a government by corrupt politicians, inefficient administrators, and exploiting black marketeers—only during the age of Clive and Warren Hastings when the main work of Englishmen and Indians was the "Shaking of the Pagoda tree". In an age when making of law, breaking of law, evasion of law and destroying of law and order are the main business of both rulers and the ruled no wonder that our progress is negative. Power always corrupts, money always blinds and influence always attracts, even the noblest. The springs which make freedom and progress work efficiently are the individual springs arising from a noble sense of patriotism, civic responsibility, conscious knowledge of what is right, courage of conviction and honour in fighting for good and noble causes. It is such a moral fervour that brought India to political enlightenment under a band of selfless patriots; and it is only along the same path the country can advance economically.

No government so vast and so inadequately organised as the Government of India today can arrogate to itself the duties of citizens any more that it can arrogate to itself the rights of the people. Fruits of freedom cannot be distributed by slogan shouting, continuous indiscipline in all ranks and official *bundhs* and non-cooperation, wasting the hard earned money of the tax-payers. Hard work and disciplined behaviour based on the rule of law and faith in individualism are the road towards stable progress.

Economic and social freedom are essential pre-requisities of a democratic society. *A free democracy can thrive only in a land fertilised by the refreshing sap of free enterprise, and on a soil hardened by competitive efficiency.* The people of India with all their patient industry, with all their noble literature, with all their cultivated arts, have yet to learn, that, they can gain the arts which adorn life, luxuries which sweeten it, the amenities which embellish it, only when the country, secures by efforts and sacrifices the weightier matters of mental emancipation, civil rights, personal liberty, pride and prestige in work, and goodness of material prosperity. If in the pursuit of our cherished goal, we adopt policies and programmes, not consistent with democracy, and abandon all safeguards of liberty and individual dignity—free enterprise, competition and personal initiative—that would place the country in a dilemma.

III

NOT NATIONALISATION OF BANKS, BUT BASIC POLICY CHANGES ARE REQUIRED

By

Prof. B. R. SHENOY*

I propose leaving alone the political aspects of bank nationalisation and limit myself to some of its economic consequences. Though hailed by leftist forces as a major forward step, bank nationalisation is really a major leap backward. Its possible economic impact must be viewed in the context of capital consumption and capital misdirection, from which we have been suffering since 1955-56. Bank nationalisation may make the situation worse, as it may add to capital wastages in two ways: first, through diverting more of national savings into extravagant and almost "no return" Public Sector projects and, secondly, through piling up bad and doubtful debts.

This is a matter of grave concern to the common man and, therefore, to political and social stability. Since 1960-61, as a result of capital consumption, the equipment of capital *per worker*, viewing the economy as a whole, has not improved: in the agricultural sector it has definitely declined. This is evidenced by the semi-stagnation of *per capita* output and of agricultural production since that year.

Semi-stagnation of *per capita* income is the crux of the multiple crises, which have been harassing us. The growing social and political tensions, which have

* The author is an eminent economist and Director of Economic Research Centre. This text is based on presidential remarks at a symposium organised by Delhi Centre of Forum of Free Enterprise on July 21, 1969.

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assumed menacing dimensions, are traceable to it. In a developing economy, all or most families must experience an increase in their incomes every year. In a background of mass poverty, this alone can ensure social peace and progress. In recent years, the vast majority of the families have the opposite experience —stagnation or decline in real incomes.

Hitherto, the ill effects of capital consumption have been covered up by foreign aid, which, currently, is of the order of 65 per cent of Indian national savings, and by periodical divine aid in the form of good monsoons and good harvests. With measures such as the nationalisation of banks, neither foreign aid nor divine aid can save us from the disaster we are heading for—communism. It is also not inconceivable that bank nationalisation might cause the aid giving countries in the free part of the world to review their aid policies, with adverse effects on the flow of aid.

The impact of bank nationalisation on the capital market and on the industrial sector may be harsh. Though share prices have been on the uptrend during the past year and more, the market for new issues of capital has been in a bad state for the past several years. Since 1964-65, new issues of capital have been on the decline from the peak of Rs. 258 crores reached during the year to Rs. 175 crores in 1967-68. Bank nationalisation may interfere with an early reversal of this trend.

Commercial banks provide working capital funds to trade and industry. With the possible diversion of bank deposits elsewhere, there is a danger of an increasing shortage of working capital funds for trade and industry; and of a stiffening of the already high interest rates in the market for loans outside commercial banks. This may stand in the way of a revival of industrial production.

What we need today are not retrograde and perverse measures such as bank nationalisation. The economy has been suffering from three major functional ailments, of which we have mentioned two—capital consumption and misdirection. The third is social injustice. The remedy to these ailments lies in eradicating their root causes. The way the banks are run has nothing to do with these ailments or their causes.

A pursuit of the causes of these maladies will take us to our economic policies of past about 1½ decades—our monetary and fiscal policies, arbitrary determination of investment priorities for the deployment of national savings, our wage policies, policies relating to the allocation, supply and movement of goods and so on. These policies have demonstrably failed to yield their promised results; and have produced, instead, chaos, unemployment, near stagnation of production, employment and income, and social injustice on an extensive scale.

The social and political tensions and instabilities, the end outcome of these policy measures, have assumed dimensions, which are a matetr of grave concern. If we must preserve the democratic way of life, or what now remains of it, we must resort to basic policy changes.

IV

NO ECONOMIC JUSTIFICATION FOR BANK NATIONALISATION

By

C. C. DESAI, I.C.S. (Retd.), M.P.*

Bank Nationalisation is a slogan, and has been treated as a pawn in the political game. It is unfortunate that socio-economic questions should be mixed up and twisted for the purpose of political manoeuvrings. This is not going to do any good to the economy of the country or to our stability or to our international reputation. Bank nationalisation is not only one more step towards communism but is communism itself. It means nationalisation of all production, distribution and consumption. No industry or trade is possible without advances from banks and if these banks are controlled by the Government, which means control by the majority party in the Government, then it means that banks are controlled by the ruling party.

Even social control was partial bank nationalisation. When chairmen were appointed with the prior permission of the Government and when Government's approval was required for the appointment of every director, it followed that control of banks had virtually passed into the hands of the Government. This is how, in most of the major banks, politicians had found their entry as Directors and in that capacity they would be sitting tight over distribution of loans and advances. Instead of bank business being done purely on commercial and financial considerations, *in future* it would be done on *political consider-*

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ations and in the end our banks will share the same fate which cooperative banks did in the early days of the Cooperative movement. I recall the days when I was Registrar of Cooperative Societies in the old Central Provinces and Berar when there was hardly any cooperative bank which was solvent or which had justified its existence. History will repeat itself in the matter of banks and what had happened to the Cooperative Banks will now happen to the Commercial Banks.

Free Economy, free enterprise and free competition are the only ways of achieving production, ensuring growth and raising the prosperity of people. Socialists believe in controls and nationalisation which are the very anti-thesis of competition and therefore of growth and production. They look on the question of economy from the narrow selfish point of view of corruption, but little do they realise that while they will make money, their children will not occupy the positions and will suffer from the ills of economy which are bound to emerge from any scheme of control or nationalisation. It is hoped that the peasantry which believes in free competition, will rise against any such actions.

Banking is based on confidence:

Banks are being criticised adversely on the following points:—

i) Banks have helped the concentration of economic power and creation of industrial or business monopolies.

ii) The resources of banks are being misused for the benefit of directors and their concerns.

iii) Bank credit is not being distributed in the national interest or in accordance with development priorities and is not available for financing farmers, small borrowers or new entrepreneurs.

iv) Bank finance is used to support anti-social or undesirable activities like hoarding or speculation.

The share of assistance to small-scale industries in total bank credit improved from 3.9 per cent in March 1966 to 6.6 per cent in March 1967 and is much higher since the operation of social controls.

At the end of January 1968, total bank advances for agricultural production and marketing, outstanding against food articles, plantation products and agricultural raw materials totalled Rs. 430 crores. In addition, it is estimated that at least Rs. 50 crores of clean advances were granted for agricultural or rural purposes. Banks are, however, aware that their resources for allocation to the agricultural sector are limited. It would actually retard agricultural development of the country if for the purpose of helping one sector banks were to deny or curtail credit to industry, trade or to any other sector. The immediate objective of the banks is to mobilise additional savings so that they have further resources for stimulating agricultural production and development.

Already the banks were facing very difficult times. Sharply increasing costs of maintaining establishment and conducting the banking operations were looming large. They were also facing the problem of maintaining discipline and checking the decline in efficiency and productivity. Their revenues had failed to keep pace with their rising costs with the result that the strength and capacity of banks were being undermined.

It is sometimes said that the cost of bank credit is unduly high in India. The matter was examined scientifically in an article by the well known banker, Mr. C. H. Bhabha, entitled "IS BANK CREDIT IN INDIA EXPENSIVE?" and he came to the conclusion that it is futile to say that the cost of bank credit is unnecessarily high. The savings and bank deposits have not been able to keep pace with the programmes of industrial development in India with the result that a good deal of credit money has had to be resorted to and made available to entrepreneurs without pausing to consider the long-term unhealthy effects of such measures.

Amidst all the plethora of the speeches, pronouncements and writings by politicians on this subject, one looks in vain for any cogent, convincing and logical economic reasons to justify nationalisation of banks. The entire issue has assumed political overtones and is coloured by ideological prejudices and predilections.

What is the basic objective of nationalisation? If the objective is efficient public service and channelising of credit for productive purposes, such an objective can be achieved even under the system of social control. How can a change of ownership bring about this result to a large extent and in a better manner?

Under the social control scheme in force, the organisational structure of banking had already been radically transformed. The so-called dominance by industrialists had been substantially reduced. Professional bankers had become the chairmen. Constant and continuous vigilance was being exercised by the Reserve Bank over the directions in which bank credit was allowed to flow. Specific targets had been prescribed, by an almost independent outside agency, charged with the duty of taking an overall view of the economy, namely, the National Credit Council, for allocation of bank credit amongst the priority sectors of agriculture and small-scale industries. The progress made by the banks towards reaching these goals was being constantly watched by the Reserve Bank authorities.

Branch expansion had taken place on an unprecedented scale, particularly in rural unbanked and undeveloped areas, in conformity with the basic objectives of social control, namely, to extend banking facilities as speedily as possible throughout the country. Banks were also investing much larger amounts than ever before in State Electricity Bonds, Land Mortgage Bank Debentures and various other Government and quasi-Government issues, thus making available to the Government a large sum of money for the execution of their socio-economic plans and programmes. The cost of bank credit had been considerably reduced over a wide front. Banks had been exhorted to go out in search of and were actually wooing borrowers belonging to the agricultural and small-scale industrial sector.

There is enough evidence to prove that in the past commercial banks were actually discouraged—even positively warned—from entering the field of agricultural credit which was considered to be the sole domain of the cooperative sector. As regards advances to small-scale industrial sector, even though this nomenclature was not deliberate or consciously applied to many of the units financed, banks were actually providing funds to a large number of agro-industrial and processing units which were basically in the small-scale sector.

No doubt, a large portion of total bank credit went to the bigger and medium scale industries, but this was only a reflection of and a corollary to the prevailing structural pattern of industry. Within the framework of the industrial policy, large scale industries were duly and properly licensed. Once they were licensed and set up, it would have been a criminal neglect if they were starved of necessary bank credit and prevented from attaining their full rated capacity. In financing these industries on a large scale, the banks performed a useful and necessary function for which they deserve praise and not criticism. But whatever may have been the situation till a year ago, ever since the emphasis was shifted by the Government in favour of priority sectors, the banks have lost no time in reorienting their credit policies. Their performance in this regard during the past one year is indeed creditable. The National Credit Council meeting in July 1968 set a target of Rs. 35-40 crores as additional credit for agriculture for the period July 1968 to June 1969. Similarly they set a target of additional credit of Rs. 60-70 crores for small-scale industry. As against these national goals, 20 leading commercial banks sanctioned during the 8 months from July 1968 to February 1969 additional credit limits of Rs. 130 crores for agriculture and Rs. 84 crores for small-scale industry. The sanction of these large limits is an unmistakable index of the keenness of banks to achieve the objectives of social control. It is only the sanction of limits which falls within the volition of banks; the extent of actual availment of limits is left entirely to the borrowers. Obviously banks cannot thrust limits down the throats of reluctant borrowers and force them to avail of such limits just to enable the banks to fulfil the targets set for them. Availment is dependent upon various factors over which the lending banks by themselves have no control, such as the credit absorptive capacity of agriculture and small-scale industry.

There was absolutely no justification for nationalisation of banks.

V

GROWTH OBJECTIVE LOST IN IDEOLOGICAL DECISION

By

A. K. CHANDA*

Nationalisation must have a conscious purpose. One might ask what was the purpose behind virtual nationalisation of banking? Was it political convenience or economic necessity? We are told, however, that the purpose is threefold: (i) mobilisation of small savings, (ii) enlargement of credits to the priority sectors—agricultural and small-scale industries in particular, and (iii) professional management of the banking system. But could one say that these purposes could not be realised or were not being realised progressively without nationalisation?

In countries where means of production and channels of distribution have been nationalised, it is axiomatic that financing institutions which sustain these activities should also be nationalised. But we have adopted the philosophy of mixed economy as being suited to our needs and the democratic way of life of our people. Both public and private sectors are destined to co-exist, expand and diversify to accelerate our economic growth. This predicates that they should have access to resources needed without frustrating procedural delays and difficulties. This equally presupposes that there should be banking institutions outside state ownership and bureaucratic control to assist the growth of the Private Sector.

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The first step towards bank nationalisation was taken in 1955 when the Imperial Bank was taken over and renamed as the State Bank of India. This bank, along with its subsidiaries, now controls total deposits of about Rs. 1,364 crores at the end of 1968 being 30% of the deposits of all the scheduled commercial banks. The other banks hold the balance of 70% of the deposits.

If the country's economy called for a measure of control over the Credit operations of these banks, no one would cavil at it, so long as the control remains purposeful and does not endanger the viability and stability of the institutions and their obligations as trustees of the depositors.

The Prime Minister has rightly said that nationalisation is not an end in itself but means to an end, obviously, a desired end. And she has reiterated that nationalisation without social control would be meaningless. Yet she has ignored to take note of what social control has achieved since it was introduced about a year back, and rejected the converse that social control by itself might make nationalisation unnecessary. Since the institution of social control, the credits to the priority sectors have shown impressive increases. Credits to agricultural sector, for example, which stood at Rs. 67 crores in June 1968 had spurted to Rs. 244 crores by March 1969, nearly a fourfold increase in nine months. Similarly, credits to small-scale industries rose from Rs. 322 crores to Rs. 430 crores over the same period. If greater effort was needed, it could have been achieved easily on current showing.

As an ingredient of social control, professional bankers have also been installed as Chairmen and Chief Executives and certain restrictions have been imposed on the composition of the Boards and their credit operations. The purpose was not only to give the banks a greater professional outlook, but also to eliminate their domination by industrialists and to reduce the opportunities of using the institutions for their own benefit, in preference to others, more deserving. It is difficult, however, to see how nationalisation would assist the mobilisation of small savings, any more, than is now possible. In other words, we have gone a long way towards realising objectives which nationalisation seeks to achieve.

The Prime Minister's first impulse, as her note to the Bangalore session indicates, was either to increase investment of banks in securities from 25% to 30% or to nationalise the first five or six leading banks. But encouraged by the unanimous support of the A.I.C.C. to the economic policy resolution to which her note was appended, she took the dramatic step of nationalising 14 important banks controlling 55% of bank deposits. This was done by an ordinance just two days before Parliament was to assemble. Was it politically inspired to blunt the edge of the Syndicate and avert the impending threat to her or did she realise that her earlier proposals would have proved damp squibs and a perpetuation of *status quo*? Did she know that about 29% of the deposits are invested in securities and increasing it to 30% was neither difficult nor would it bring anything more than a marginal addition of Rs. 40 crores? Did she also realise that nationalising 5 or 6 banks might be self-defeating and result in a flight of deposits from the nationalised banks to the others left out? No one knows the answer, but nonetheless would not making social control more effective and stringent have been an easier way than buying the headache of ownership, problems of management and relations with 1,84,000 new employees?

The Prime Minister has also made the point that the management and control of the nationalised units should vest in people who are not only dedicated but have abiding faith in nationalisation and such changes as might be considered necessary on this score would have to be made. Should ideological faith become a condition precedent to continued employment and a substitute for professionalism? The delicate and sophisticated mechanism of banking needs competent professionals and not adherents of the new ideology. The Civil Service carries out loyally, here as elsewhere, policies whether they believe in them or not and whatever be their political and economic belief and affiliations and the complexion of the government in power. So will the bank employees.

The main apprehension arising out of nationalisation is five-fold: First, credits from nationalised banks might be selectively given on political and personal considerations. Licences, foreign exchange, permits, capital goods imports, etc., are already time-consuming impediments to industrial activity. Now there is likely to be another impediment of obtaining resources needed. Secondly, the performance of the Public Sector hitherto has not been impressive and has failed to generate confidence. There has admittedly been a decline in efficiency of the State Bank; it suffers in comparison with its precursor and other scheduled banks. Neither in speed nor in personalised interest and courtesy is it on a par with other banks. Thirdly, the element of competition which is responsible for efficiency and courtesy and what is more of making people banking conscious would also disappear. Fourthly, the correct balance between assistance to industrial and other sectors might not be observed, hamstringing industrial growth. Fifthly, the deposits might be frittered away, in an ideological fervour, in unsound and uneconomic adventures.

It is against this background of managerial difficulties, declining efficiency and the impact on foreign collaboration that nationalisation has to be viewed. Was nationalisation inescapable when the objectives could be gained otherwise? Was it necessary to divert resources for payment of compensation instead of utilising these for new productive purposes? Should the primacy of growth be lost in a tangle of amorphous ideologies? These are questions which disturb all thinking people who are no less patriotic and no less interested in the economic and social progress of the country than those who have made the decision.

The views expressed in this booklet are not necessarily the views of the Forum of Free Enterprise.

"Free Enterprise was born with man and shall survive as long as man survives."

—**A. D. Shroff**
(1899–1965)
Founder-President,
Forum of Free Enterprise.

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