IMPLICATIONS OF BANK NATIONALISATION

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

—Eugene Black

INTRODUCTION

Nationalisation of different industries and trade is demanded from time to time. Currently, nationalisation of banks, foodgrains trade and rice mills is being demanded. The public is apt to be misled by slogans into thinking that nationalisation of these sectors of the economy will, like a magic formula, solvė all economic ills of the country. Since radical changes in the economy are bound to hurt the much-desired economic growth in the country, as also the interests of the public as consumers, apart from leading the country tpwards totalitarianism, the thinking public should study demands for nationalisation in a rational manner. This booklet gives three articles on the banking industry, reproduced, with grateful thanks to the Editor, from "Economic Times", Bombay; the rethinking of socialists in other countries on nationalisation as a means to socialism; and some letters from the public.

It is hoged that this booklet will help the intelligent public of this country to appreciate the issue in its proper perspective, divorced from ideological slogan-mongering.

NATIONALISATION OF BANKS: IS IT PRUDENT & FEASIBLE?

"OBSERVER"

Those who plead for the nationalisation of banks in the country fall into three broad categories.

One school of thought believes that nationalisation would replace the commercial motive by spirit of service, imbue the employees with a sense of devotion (resulting in a greater efficiency of banking operations), at one stroke accomplish the entire task of effecting an economic revolution, and would be the first step in the path of progress that will usher in an era of socialist prosperity. The vision of this great industry under public ownership raises high hopes.

There are again those who are convinced that the commercial banking system lacks drive and vigour. They quote the example of the State Bank of India and argue that the banking system under public ownership would do a much better job of mobilising and distributing resources in accordance with the needs of development and planning. The case for public ownership is based on what the banks have failed to do.

Lastly, there are those who insist that the commercial banking system is owned and managed by industrial and banking magnates, who have acquired immense powers over the allocation of the huge deposit resources of the banking system (and consequently considerable control over the financing of the entire industrial structure), and have abused those powers. Public ownership of the banking system is advocated for ending this vast and monopolistic concentration of economic power in the interests of the shareholders and depositors and of the nation.

These are tall claims and it is necessary to examine critically the strength and weight of the assertions embodying, great expectations from public ownership and to verify the veracity and validity of the chief accusations brought against the commercial banking system. In doing so, we shall also indicate the proper perspective from which to evaluate the performance and achievements of the commercial banks.

Before examining the merits of the case for nationalising banking, we must view it from a historical perspective. The story of nationalisation in the field of banking and insurance goes back to 1948, when the Reserve Bank of India was nationalised, though not as a part of the Industrial Policy Resolution.

The object of acquiring the Bank at that time was *to meet* the genera2 *desire* for securing a greater co-ordination of the fiscal, monetary and economic policies. There was not much serious opposition to the measure, for the Reserve Bank of India was always regarded as a Government's bank.

It is obvious from even a casual review of the working of the nationalised Reserve Bank during the fourteen years that the Government has succeeded in establishing complete control over the Bank's activities: the bank has been reduced almost to the status of a department of the Finance Ministry and its Governor has been compelled to act more. as an agent of the Government than of its Board.

The acquisition of effective control by the near total nationalisation of the Imperial Bank of India in **1955** and the complete takeover of the life insurance business in 1956 represent an ideological shift in the thinking of the ruling party. Here for the flrst time, the Government openly faced, the financial and industrial interests of the private sector in a determined manner.

The moves were all the more surprising because, not only had the Government resisted the demand for nationalisation for several years, but had actually taken the view that no case existed for it. The reason given for taking

over the IBI was that 'one strong integrated, State-partnered commercial banking institution' was necessary to tackle the problem of rural banking and credit. In the case of the life insurance companies, the reasons appeared more complex: partly the Government needed financial resources for the Second Plan: partly mismanagement and corruption were alleged. Partly again, the expansion of life insurance business was the aim. Even without going into the merits of these reasons we could safely assert that the real reason behind both these measures was that the Government in 1955-56 was ideologically prepared to take those measures which it was not immediately after Independence.

Talks of nationalisation of commercial banking have been there throughout the fifties; the advocates are more vociferous now, partly because the Third Plan, which has run into financial difficulties, needs more resources and partly because a number of interested parties would like to see it done. The Finance Minister has vehemently denied that there is any case for taking over banking.

In view of this uncertainty regarding the future of banking and the susceptibility of the Government to pressure, It is necessary that every thinking man who has a stake in the growth and progress of our economy should clearly understand the meaning and consequences of nationalisation of commercial banking. Let us therefore examine the case on its merits.

Ideologically, public'ownership of banking is regarded as a means to establish a new society, with plenty and lesser hardship for the toiling masses. It is hoped that the elimination of profits would lead to a greater contribution by the banking system to the country's development and bring the employees higher wages and better working conditions. These are the twin expectations—that economic progress would gather momentum and that industrial democracy would be appreciably nearer.

Our experience of the working of the public sector during the last decade and a half, however, shows that these hopes may prove to be largely illusory, for they are based on the idea that a mere transfer of ownership from one sector to another, could by itself, bring about a radical change. Nationalisation by itself does little more than eliminate the shareholder: it leaves nearly all the problems of management, organisation, priority, productivity, research and expansion still to be solved. The advocates of public ownership of banking speak and write as though the socialist movement would automatically bring about a brave new world. It is, therefore, necessary to remind them that nationalisation is only a point of departure, not the end of the journey. Problems would really arise after nationalisation.

It is not always clear what is meant by replacing the commercial motive by a spirit of service. If it means that considerations of profit will not affect the policy of the nationalised banks, it is certainly wrong.

All the public sector financial institutions like LIC. SBI, ICICI, IFC are today making adequate profits; the State Financial Corporations have been criticised, precisely for their failure to earn sufficient profits and their dependence upon Government subsidies. Parliament has been concerned at the miserably low return on the huge investments in the public sector industrial undertakings.

Moreover, if the nationalised banking system does not operate on commercial principles as a strictly business proposition, how is the board of management, Parliament and the nation going to determine whether the nationalised banking is a paying proposition or a losing concern?

From another point of view, it is doubtful whether the Government could gain substantial advantages by departing from the age-old principles of banking and business and giving new weight to social as against financial factors.

There are many schemes in our public policy which bring social benefit, but no direct monetary return. The return that they bring is in the shape of a general increase of productivity or commercial activity. In every way, socially, economically, politically their object is very desirable and useful. But the point is how they should be financed.

Since they serve a public purpose, as a matter of policy,

they should be financed or *subsidised* out of public funds, and not out of banking funds. The distinction between a Government subsidy for social benefit and a bank loan for economic development is very important, much more so for a socialist Government. If it is desired to utilise depositors' money for the subsidy, it is not at all necessary to maintain a facade of (nationalised) banking. All receipt could in that case be credited to Government revenues and spent out of the Consolidated Fund of India!

If the depositors learn that their savings are used to subsidise social upliftment in complete disregard of safety or profitability, there would be a widespread loss of confidence. It is more important to a socialist Government than to any other, that the depositors' money should remain with the banks, where it is at least potentially useful and subject to the control of the Reserve Bank of India. The depositors are important, for without them there is no bank.

The fact that the deposits of the nationalised banking system would be fully guaranteed by the Government does not touch the point at all, for subsidising and lending are entirely different processes, totally inconsistent with each other. In that way, even the deposit insurance cover at present fully protects 80 per cent. of the depositors: can the banks afford to be reckless with the depositors' money?

This is not an argument against the use of banking funds for national economic development. It only shows that it is not necessary to abandon business principles or profit considerations in order to utilise bank money for national development. A Government that enjoys the confidence of people could always obtain money for any scheme today at 4.5 per cent. Banks have already lent Rs. 700 crores to the Government and their investments in Government securities are bound to go up in future. Moreover Rs. 1,600 crores utilised for providing working capital to industry and commerce are also financing national economic growth authorised by the Planning Commission, and the Goverment.

Materially, labour unions and their members note that nationalisation of banking would bring them higher wages and better working conditions.

Yet the dream of plenty and prosperity has not been realised in the case of a large number of nationalised corporations or industries. Their attitude has generally been firm and even reckless, and the Labour Ministry has not interfered with them.

Those who emphasise the need to imbue the employees of nationalised banks with a spirit of public service are right from every point of view. Without it nationalisation cannot succeed. We must not however expect that nationalisation by itself could transform the outlook or influence the motives or change the morale of the employees.

This only means that a mere change in ownership cannot by itself bring about a fundamental change in labour relations in the banking industry. That will require a prolonged effort, much creative thought and a transformation in the values which now prevail among labour leaders. What we must seek in these circumstances is not a mere change of ownership, but the means to awaken in the people a strong desire to serve the public together with the desire to improve their own standard of living.

Financial resources needed for the Second Plan was the motive force behind the nationalisation of life insurance; the financial difficulties found in implementing the Third Plan are being used as the ground for taking over the banking business.

Fantastic ideas are prevalent regarding the amount which the nationalised banking system can contribute to the exchequer. Amounts ranging from Rs. 35 crores to Rs. 75 crore as the additional contribution are being mentioned even on the floor of Parliament! The computations are hopelessly wrong.

At present with the corporation tax at 50 per cent and with the super profits tax, anything between 60 per cent and 70 per cent of banks' profits is already being paid to the national revenues by the banking system. During the two years 1961 and 1962 the commercial banks have paid

about Rs. 29 crores to the Government by way of taxation. Only the balance is available for building up reserves, paying bonus to employees and dividends to shareholders.

It may perhaps be argued that since the nationalised banking system would rest upon the vastly superior credit and resources of the Government, they need not build up reserves for inspiring the confidence of the depositors or for meeting unforeseen losses.

Such a view is not only mistaken but dangerous for the nationalised undertakings themselves, because it is universally accepted that they should be run on business lines and proper accounting procedures should be employed.

Similarly the nationalised banking system will have to continue to pay bonus to employees, unless of course, the employees voluntarily agree to forgo bonus in national interests.

Since nationalisation by itself does little more than eliminate the shareholder, the only additional amount that will accrue to the national exchequer is the amount of dividends. During the last two years, 1961 and 1962, banks paid hardly Rs. 9½ crores to their shareholders. A fat benefit to the Government indeed—Rs. 4¾ crores per annum—not to speak of the additional liability which the Government would acquire, to pay interest on the 'pager bonds' by the issue of which, it is claimed, the problem of compensation 'can be solved easily'!

So it is, that in every way, ideologically or materially, from the point of view of labour or of the exchequer, the extravagant hopes pinned on nationalisation of banking are illusory and the vision of it as a means of ushering in a new society is after all a fading vision. Next, we examine, the case for nationalisation based on the failings of the banking system.

During the last decade in the history of Indian banking, asset formation has proceeded at a brisk pace. The total assets (= total liabilities) rose from Rs. 1,200 crores in 1952 to about Rs. 3,000 crores in 1962. The aggregate deposits of the commercial banks showed a similar trend: there was a spectacular growth from about Rs. 950 crores at the end of 1952 to about Rs. 2,250 crores in 1963. The number of depositors' accounts have more than doubled over the years. In terms of the number of towns served by banking facilities the commercial banks were distributed in 1555 towns in 1952, but by 1961 the number had gone up to 2,373 and must have gone up since then. While there were 1,37,000 people per every branch of a bank in 1951 by 1962 there was a branch for every 99,000 people. The number of new branches opened has been about 2,300 and the total has gone well beyond 5,000: more than 1,750 of this total, are rural and semi-urban branches.

The case for nationalisation of banking may be argued on the grounds of broad public policy. But most certainly it cannot be advocated on the ground that banks have failed to mobilise resources. Bank deposits have grown faster than the money supply or national income—an indication of the growing banking habit.

The performance of the State Bank of India in increasing deposits and opening branches is often compared with that of the commercial banks. But the comparison is not fair. What should be compared is the SBI's ability to attract deposits from the *public,* and the growth of commercial bank deposits.

The State Bank's deposits include funds of the public corporations many of whom have been deprived of the freedom to choose their own bankers. But more than that, even after a transfer of Rs. 200 crores of PL-480 funds to the Reserve Bank of India, the SBI deposits even now include more than Rs. 100 crores of these special deposits, which have artificially inflated SBI's deposit figures since 1956. Exclusive of these special funds, the SBI's deposit mobilisation Programme is a miserable failure. That the SBI was compelled to raise its deposit rates early this year was a commentary on the fact that its public sector character and the Government's credit behind it had failed to appeal to the depositors.

The same is the case with the growth of branches.

Large interest-free Government balances available to the State Bank do not impose upon it the compulsion or the necessity to secure a large volume of deposits, which in the case of other commercial banks is a primary consideration. Not only are the Government balances available to the SBI free of cost, it earns a turnover commission on them from the Government, whereas the average cost of obtaining all their deposits for the other banks is 2.27 per cent today. Moreover, the losses incurred by the State Bank and Its subsidiaries on their new branches are shared by the Government out of its earnings from the ownership of the State Bank.

In spite of the special concessions however, the tempo of SBI branch expansion programme has been dwindling since 1958, whereas the other banks have displayed increasing vigour and drive during the last three or four years. The total number of branches opened by the SBI as a percentage of the total number of branches opened by the other scheduled banks declined from 57 per cent in 1959 to 33 per cent in 1962. Moreover, branches opened by SBI at centres with a population below 25,000 declined from 67 in 1958 to 36 in 1962. But for the other scheduled banks, they increased from 51 to 62.

In view of all this it would be wrong to attribute the 'progress and achievements' of the SBI merely to its public ownership: and the magnitude of effort of the other banks with their own resources and in the face of difficulties and handicaps that they face is indeed very creditable. There is no evidence to believe that the banks could have done better under public ownership.

It is sometimes argued that while the banks conduct their lending business with great knowledge and skill so far as the technique is concerned, they do not (and cannot) take into account the ultimate purpose or social implications of their actions. There are three main arguments in this regard.

(a) In a modern industrial economy, bank credit is much more important than currency in circulation; it is therefore anomalous that while the latter is the sole monopoly of the Reserve Bank of India, the banking system should have freedom to distribute credit.

(b) Banks look only to the safety, liquidity and profitability of their depositors' money and do not care about holding the price line or the speculative consequences of their financing.

(c) Since the banks are moved solely by financial considerations, it is cheaper and more convenient for them to deal in large quantities. They in fact favour large customers as against the small men, and discriminate against vulnerable sections of society such as the farmers and small traders and enterpreneurs.

These arguments do not, however, stand scrutiny. In our planned economy, with a wide variety and depth of economic controls, the entire process of growth and development is thoroughly regulated and priorities are carefully laid down and meticulously enforced. The banking system in reality posesses very little discretion or initiative in financing industrial development and operates within the framework of and in accordance with the pubic policies.

Moreover, the business of banking is itself extensively regulated. The Reserve Bank of India fully controls the direction, the amount and within limits the price of the credit which the banks are in a position to allow to the borrowers, in addition to its powers over the structure and organisation of banking. In other words, by virtue of its responsibilities and powers under the Banking Companies Act, RBI has an effective control over the provision of day-to-day working capital to industry and commerce. The policies of RBI profoundly affect the prosperity and prospects of trade, commerce and industry and it possesses wide powers of enforcing its wishes. In practice of course, it is not necessary to do so, for RBI is the acknowledged leader of the money market and the banking system does fulfil its express or implied wishes.

Banks are conscious of the vast responsibilities they carry and do display their preferences. Money for productive industry and commerce comes before money for

private persons; mbney to stock or share dealers is kept at an extremely low level, and banks, as a rule, refuse to lend even against a good security if money is required for speculative purposes.

Why should the banks be blamed for failure in the spheres of wider policy and administration in holding the price line or increasing production? Even RBI has realised over the last year or two that in a situation characterised by physical shortages, a strict and restrictive monetary and credit policy has a relatively limited role to play. Nevertheless, the banking system has never failed to respond to the Reserve Bank of India's regulatory measures for holding the price line.

In the circumstances, if the banks are held responsible for failure to hold the price line, the failure would really be that of the Reserve Bank of India to live up to its responsibilities under the Banking Companies Act. But the failure of RBI or of the Banking Companies Act to deal with the banking system is yet to be demonstrated—this sort of argument lends no force to the demand for nationalisation of banking. On the contrary, the Government, through the Reserve Bank has at present all the powers which it could have over the nationalised banking system, without having to shoulder any of its obligations and a change of ownership would only increase the Government's responsibilities without increasing in any way, the real powers exercised by it.

The virtual lack of credit facilities from the banking system for farming and small traders or manufacturers is a great handicap in the development of the country. But the fundamental and real problem is not so much that of merely providing credit facilities to these vulnerable sections of our economy as of building up their strength so that they could rise up to the eligibility standards needed for borrowing in an organised money market. As the experience of the Reserve Bank in the field of co-operative credit shows, credit facilities at cheap rates without making any efforts to build up the strength and standards of borrowers is to put the cart .before the horse.

The Imperial Bank of India was nationalised in order to tackle this problem of rural banking on the necessary scale. There is no doubt that the State Bank of India has been conducting large-scale experiments in liberalising its standards regarding eligibility of borrowers, security etc. Year after year, its annual reports devote considerable space to describe its achievements in developmental and promotional activities. Yet what are the achievements?

The proportion of even the State Bank of India's advances to farmers, warehouses, and small traders and entrepreneurs remains extremely small, in spite of all the high hopes that were raised at the time of its take-over. The State Bank of India was intended to become an arch-stone in the edifice of rural credit: it has turned out to be a mere feather.

All this is not to belittle the many achievements and the good work of the State Bank: it is only intended to show that mere taking over of the commercial banking system by the Government can provide no solution to the problems of farmers and entrepreneurs who need to be rehabilitated by purposive programmes of reorganisation and development.

It is, therefore, wrong to base the case for nationalisation of banking on the failings of the commercial banking system. It cannot be said a *prior* that the State will do a far better job of it than the banks do at present. Such extravagant hopes which are pinned on the nationalisation of banking could bring only frustration and disillusionment in its train.

We now examine the last group of arguments which maintain that heavy concentration of power in the hands of a few bankers and industrialists has led to the abuse of those powers.

The shareholders of the banks are numerous and largely obscure. Most of them have an extremely modest holding. The real ownership of banks is not in the hands of a few and familiar men of immense wealth, but in the hands of the shareholders who are scattered throughout the country.

But obviously, the depositors of banks are far more important and have a far greater stake in the solvency of the banking business. We must, therefore, see how far the existing practice and law provide adequate safeguards both for the banks' depositors as well as the shareholders.

On their boards of directors banks have outstanding men whose primary duty it is to promote the interests of depositors and shareholders. The directors are few but well known. Since the banks provide working capital to trade, commerce, and industry, people who have a first-hand knowledge and practical experience of the business world would be the most useful at the helm of banks' affairs. These directors are men of proved ability and are highly capable of guiding and directing the policies of the banking system.

A careful look at the composition of the boards of nationalised undertakings like the State Bank of India, Life Insurance Corporation, Reserve Bank of India will convince us that their directors too represent a cross-section of business men and industrialists. A mere change of ownership cannot make fresh talent available overnight. It is wrong to blame the directors of the commercial banking system for they are the very people who will be required to man the board of management of the nationalised banking system.

The mere size of the figures of total assets, total bank credit, aggregate deposits and investments of the commercial banks is quite impressive and might at first sight be indicative of a tremendous power exercised by bank managements over the dsposal of vast resources for the working and development of industries. But these totals are the result of a number of individual decisions made every moment of every day by a number of boards of directors, and managers.

Though there is much in the banking business and procedures that could lend itself to standardisation and uniformity, the function of bank financing is largely personal in its character. No two situations are the same, no two decisions could be the same. There are precedents which may be referred to, but they are never alike. There: are over 5,000 bank branch managers scattered throughout the country who are every day taking several important decisions. Millions of separate decisions taken by them within the authorisation of their head offices contribute to the total effect. Far from there being a concentration of economic power, here in this system of private banking, there is a decentralisation of decision-making power.

On the other hand, an excellent illustration of the degree of centralisation and concentration of power that will prevail under the system of nationalised banking is provided by the working of the State Bank of India and its. subsidiaries.

With more than 1,500 branches and almost a third share in the nation's banking, the entire operations of the vast organisation and the decision-making power are centralised and integrated in three or four local head offices. It is humanly impossible for one chairman and two managing directors to maintain a personal touch with more than 1,500 branch agents, 40,000 staff and a much larger number of customers.

If banking is nationalised, the central organisation will be responsible for more than 5,000 branches, and would be dealing with over a lakh employees, and thirteen lakh customers. In place of the millions of individual decisions determining the ultimate disposal of resources, decisions of *a* single board with heavily concentrated powers, would allocate resources. The concentration of power of employing resources in the hands of a single board would be tremendous. The far heavier concentration of economic power here that will prevail under the system could only lead to greater delay, intense irritation, official interference and lost opportunities, if not to increased corruption and unhealthy practices.

No trace of doubt should, therefore, remain in our minds that the nationalisation of banking would, far from accelerating national economic development, only retard the growth of national economy. It would delay instead of helping the business of socialising the country.

Moreover, the Government and the Reserve Bank already possess wide powers of directing and guiding the progress of economy as a whole as well as the working of the banking system. The failure of these powers has yet to be demonstrated. The two together have enough powers of pursuasion or of enforcement, to fear the industrial or banking magnates: on the other hand, the real economic power is progressively being concentrated at a single point in the economy, namely in the hands of the Government, and only the other day, one of the Cabinet Ministers had sounded a note of caution.

As already pointed out, the skilled direction of the banking system is in the hands not of dozens or hundreds, but thousands of people. Their numbers alone make them irreplaceable. Tremendous amount of work is involved in nationalising the banks; it would take time to consider the circumstances of each unit, it would take talents to decide future plans, it would absorb a great deal of energy to pursuade the men who conduct banking today-to carry on under altered conditions or to train new men to take their places. To reorganise the banking industry, without causing a break down either in the factories or in the offices that it finances, or in its complicated relations with other trades, is a far longer and intricate business than is suspected by those who advocate it because it looks so fine on paper.

If banks were nationalised, it would be putting the clock back, disadvantageous to all alike—to the economy, to the Government and to the business, for it would almost inevitably disturb the smooth running of the wheels of the economy.

The whole notion that nationalisation of banks would be the first step as a means of progress is based on errors and omissions. The omission lies in the failure to distinguish between money and wealth. Money has no value in itself and the real wealth produced in a country is not limited to the particular supply of money existing. Banks can and certainly do create money but they cannot create wealth. The notion that capital wealth of a country is found in the banks and that no real progress is possible unless the Government owns the banks is based on an error. The Erst doctrine of a socialist state is that wealth consists of goods and services and that money consists only of purchasing power to be produced like any other commodity, as and when, and in such quantities, as are required. Once this distinction between money and wealth is clearly realised, the nationalisation of banking will not retain that attraction as a goal of socialist policy, which it seems to possess today.

Moreover, it must also be realised that nationalisation of banking is much more than a mere change of ownership of capital employed. As already explained, it must by itself absorb a great deal of time, talent and energy. Techniques of banking evolved after centuries of experience do not or cannot change with changes in ownership. Actual work would really begin only after nationalisation, and the whole task of effecting an economic revolution cannot be accomplished at one stroke.

Moreover, the banks are working under the very eyes of the Government and the Reserve Bank of India, which under the Banking Companies Act has in fact acquired almost everything short of nationalisation: nothing more could possibly be achieved by acquiring the banks themselves. Nationalisation of banks, to say the least, is unnecessary.—["Economic Times", September 4 and 5, 19631.

BANK DIRECTORSHIPS— INTERLOCKING?

"UDAY"

A recent, but untimely, study of interlocking of directorships between banks and the rest of the corporate sector, made by Mr. Raj K. Nigam, of the Company Law Administration's Research Department, in his personal

capacity, points out that an elaborate net-work of interlocking directorships has grown in this country and that corporate power has been consolidated against the State and society.

The timing of the publication of the study is totally unfortunate. Its sweeping conclusions are inadequately supported by the elaborate statistical frame-work, and they draw a misleading and distorted picture.

The study appeared at a time when the demand for nationalisation of banking had touched off a countrywide controversy. The Finance Minister then dispelled the erroneous but popular impression that banks as a whole were mismanaged. Although Government spokesmen have repeatedly denied that any case existed for taking over the banks, doubts still persist. The study on interlocking has, in the circumstances, only added to popular misconceptions.

Basically, the study is a statistical analysis of the frequency distribution of directorships held by bank directors. The results are compared with two other frequency distributions, namely, the frequency distribution of directors of big sized companies and of directors of marketing companies.

The comparisons reveal that the phenomenon of multiple directorships is more marked among bank directors.

From this mere fact of multiple directorships, the study comes to the conclusion that this phenomenon of interlocking directorships which consolidates corporate power has to be kept under control in a country wedded to the achievement of social justice and equality.

But nowhere is there any logical analysis or step-by-step argument to show how the mere fact of multiple directorships leads to the consolidation of corporate power. As an arithmetical exercise in the statistics of directorships. the study has made a valuable contribution to our knowledge of the corporate phenomenon. But the conclusions which should have been based upon an analysis of the role and functions of corporate directors, upon powers actually exercised by them, upon a factual analysis of the impact of a directorship on corporate policy or administration—that is, in short, conclusions which should have been based upon an empirical observation of the working of the corporate sector—cannot logically follow from the mere fact of the number of directorships held.

Moreover, how do we know that corporate power exercised by a director is in relation to the number of directorships held by him? It is quite possible that a bank director holding a single directorship outside the bank may be in a position to wield greater influence and power than one holding 20 other directorships. It is a questionable assumption that the quality of directorship is related to its number.

Further, why should control of corporate power be necessary only because a country is wedded to the achievement of social justice and equality? Even apart from these wider goals of socio-economic policy, control of corporate power is desirable from administrative and financial points of view. It is for this reason that the Government as well as the Reserve Bank possess extensive powers under the Companies Act and the Banking Companies Act.

A study of the directorships held by the directors of five leading banks reveals that through common directors, these five banks are connected *with* 33 insurance companies, six financial companies, 25 investment trusts, 584 manufacturing and other companies, 26 trading companies and 15 associations not for profit. The study points out that some of the leading business groups have their own banks, insurance companies or investment trusts ostensibly formed to make use of the pool of funds collected by them from various sections of society.

This, to say the least, is a sweeping generalisation made on the basis of very meagre data. Merely because a corporate enterprise and a bank have one, two or three (we do not know how many) common directors, it is wrong to suggest that they are in some way "connected" with each other. Moreover, what is wrong in this connection? The Banking Companies Act has considered it desirable to place only two restrictions on bank directors—that the director of a bank should not be the director of another bank and

that his total directorships should not exceed 20. The phenomenon described by the study is neither prohibited nor considered undesirable by the Companies or the Banking Companies Acts. More than that, no abuses of authority or trust have taken place as a result of common directorships. The study itself was keen to point out that it does not "suggest that any misuse of funds necessarily follows such arrangements".

Not only is there no abuse of powers or misuse of funds, but, on the contrary, such an arrangement of having common directors is advantageous in many ways. If banks are prohibited from having as their directors experienced entrepreneurs and industrialists who have a knowledge of and an insight into the working of trade and industry, then, what sort of directors could they have? And what will be the quality of leadership and management that these others will provide? It is to the mutual benefit of banking and industry to have at least some common directors. In the stage of development at which our capital market is today, common directors are a useful source of liaison between banks and industry. Moreover, the diversification of lines of business helps the banks as well as the industry in spreading the risks. There need be no fear of abuses as a result of interlocking, for all the financial transactions with the directors must be disclosed both by the banks and other enterprises in their balance sheets. And even beyond the balance sheets. full details of all the transactions are invariably available to the Company Law Administration as well as the Reserve Bank.

One final point deserves consideration. Can a country which is short of managerial, administrative and entrepreneurial talent afford the luxury of insisting that there should be no common directorships between its finance and industrial houses? A director is capable of serving a number of enterprises by the very nature of his duties. Should we compel him to relinquish all his interests except one? Under-utilisation of resources is a common malady of our economy. Should we add to it another kind of under-utilisation—namely, that of managerial and entrepreneurial resources?—["Economic Times". Nov. 5, 1963.1

OWNERSHIP OF BANK SHARES

"UDAY"

The Reserve Bank of India's move requesting for information from the banks on the ownership of bank shares is very welcome. It now turns out that on such a very vital subject, there is no reliable and authentic information even with the monetary authority of the country; all the recent public discussion on this subject—'who owns the banks'—was also, it seems, carried on. on the basis of belief and guess work.

The All-India Bank Employees' Association, in the absence of data on ownership of bank shares, evaded the issue and referred to the interim report of the Mahalanobis Committee on the distribution of national income and pointed out, on the basis of a study of income-tax returns made by the Committee, that one per cent of the country's households owned as much as 75 per cent of privately-held corporate stocks and further that, more than half the privately-owned share capital in the country was owned by only 14,000 households. The Association, further said that it is only 1 per cent of India's privileged class—which in turn is 1 per cent of the total population—that really owned and controlled the bulk of the nation's corporate wealth. The Mahalanobis Committee's interim study constitutes another controversy by itself, and it is doubtful, if conclusions which should be based upon a proper study of share ownership can appropriately follow from a committee's report which has a limited purpose. In any case, the Shareholders' Association of India or the Company Law Department of the Government of India can make a valuable contribution to our knowledge of corporation affairs by systematically undertaking general and regular studies of distribution of corporate share-ownership and publishing their results.

One aspect of the distribution of corporate share ownership, which has received very scant attention in our country, is that in a developing country, with already large disparities in income and wealth distribution, we can hardly expect a wider share ownership. Indeed, one of the Important purposes of development is to ensure an equitable distribution of wealth and income, and hence of share-ownership. Development and growth must precede wider share ownership: a large increase in the public knowledge or the corporate Processes, investment opportunities and facilities at stock exchanges is necessary. Only then, will it be possible to achieve a really wider share ownership.

The Indian Banks' Association, in its pamphlet on 'Should Banking be a State Monopoly in India', had joined issue and expressed the opinion that shareholders of banks number several tens of thousands and each of them has a small holding. The ownership of banks, therefore, is spread among a large number of people belonging to many walks of life. But even the Indian Banks' Association could not present any statistics which would have placed the matter beyond all doubt.

The data that the Reserve Bank will collect will therefore fill a real need and provide facts which will end the debate "who owns banks"—or rather which will raise the debate from the level of dogma and belief to that of facts and arguments.

The fact that the Reserve Bank has demanded the information so abruptly and in so short a period, that the demand has come so soon after the debate on nationalisation of banking in Parliament, as also the Nigam study on interlocking of bank directorships, and that the demand has coincided with the Government's decision to allow LIC to compete with private sector general insurers, has created some apprehensions in the minds of the bankers, who are naturally prone to put two and two together. But the bankers should have no fears, if their claim that the ownership of bank-shares is spread among a large number of people, belonging to many walks of life is correct and justified.

The bankers' fears, however, go deeper: in spite of repeated official denials, information continues to leak out that the Government is secretly preparing for bank nationalisation. Moreover, having already armed itself with data on interlocking of bank directorships, the Government and the Reserve Bank now want this additional information on share holding, so that they could prepare themselves fully to face Parliament with the long promised Banking Companies Amendment Act.

It is not known whether the data collected by the Reserve Bank will be published or not. But there are strong reasons why it should be. First, the public is entitled to know the facts on such a vital matter. Secondly, whatever may be the results of the survey—whether there is a concentration of bank share-holding or not—this issue, by itself is not decisive in the wider and more relevant considerations which govern the ultimate pattern of banking ownership and management that our country proposes to evolve. Thirdly, the Government will be in a better position to justify the amendments that it may propose to the Banking Companies Act, if the data on bank share-ownership are published.

Of all the banks, it is only the Central Bank of India which gives some information on the classification of its shareholders in its balance sheet: and the information revealed makes an interesting reading. A total of more than 24,800 shareholders hold about 12,61,450 shares; 92 per cent of the shareholders hold less than 100 shares and 97 per cent of the shareholders hold less than 200 shares; 2 per cent of the shareholders hold shares between 201 to 500 and only 1 per cent of shareholders have more than 500 shares.

From another point of view, 51 per cent of the shares are held by such shareholders whose total holding is less than 200 shares. Thirteen per cent are held by those whose total shareholding is between 201-500, and 36 per cent. are held by shareholders whose total holding is above 500 shares.

By relating the two sets of data, we find that 97 per

cent of the shareholders hold 51 per cent of the shares on the one hand, whereas 1 per cent of the shareholders hold 36 per cent shares on the other. Obviously, this last category shows the directors' holdings, but one should not conclude from this that there is a heavy concentration in Central Bank's shareholding. Against 91 persons holding 3,62,400 shares, there are, on the other end of the scale more than 24,000 people who hold 6,41,500 shares—more than 51 per cent of the total.

It will provide very interesting results if more and more banks could be persuaded, like the Central Bank of India, to provide similar information on their share-ownership in their balance sheets. Meanwhile, we look forward to the results of the Reserve Bank of India study on this subject. If the Reserve Bank decides to release the results of its survey, they are bound to prove interesting and useful: it is only to be hoped that the Reserve Bank will not disappoint many who are eagerly looking forward to its survey. —["Economic Times" of Nov. 14, 1963.]

Appendix A

RETHINKING ON NATIONALISATION

By Socialists

At one time, socialists in the West thought that nationalisation was an essential part of socialism. Today, after experimenting with it, many socialists no longer believe in nationalisation. They prefer state *regulation* of private enterprise to state ownership.

The following quotations are from leading socialists.

The late Mr. Hugh *Gaitskell* (Leader of Labour *Party in* the *U.K.*)

"There have been genuine drawbacks and difficulties in nationalisation which must be recognised...... The real *weakness arises, not so much from a change of ownership as from a change in structure. They are almost all associated with large-scale management ...... We must remember that the British electorate will not be impressed with proposals to extend nationalisation into new and unknown fields unless there is a simple and clear-cut case for them."*

* * *

The late Mr. Aneurin Bevan

"The trouble with Boards of the nationalised industries is that they are constitutional outrage ...... This was a mistake for which I must accept my share of responsibility."

* * *

Earl Attlee (a former British Prime Minister)

"We talked a great deal of theory but we did not know very much about practice ...... None of us is certain whether we have the right set-up in the nationalised industries ...... Even if you nationalise everything you haven't a Socialist society."

*

Mr. Douglas Jay

(The following is an extract from an article by Mr. Douglas Jay, a former Financial Secretary to the Treasury of the Labour Government in U.K., commenting on his party's defeat at the 1959 General Elections.)

"The word 'nationalisation' has become damaging to the Labour Party. This is a fact; and it is no use denying it, even if you deplore it. We have allowed the word which properly applies only to public monopoly, to be associated with social ownership as a whole.

"The myth that we intended to 'nationalise' anything and everything was very powerful in this Election — any canvasser will agree. We must destroy this myth decisively; otherwise we may never win again."

* *

Mr. R. H. S. Crossman, (an eminent thinker of the British Labour Party)

"More and more serious minded people are having second thoughts about what once seemed to them the obvious advantage of central planning and the extension of State ownership. Among the factors which have antagonised them I would list ...... the discovery that the Labour Government's 'Socialism' meant the establishment of a number of vast bureaucratic public corporations, which failed to fulfil the two essential requirements of Socialism, namely, that a State owned industry should be fully responsible to Parliament and give a share of management to its workers. Nationalisation has not changed the lives of the workers in the industries affected in the way they expected. It has been a disappointment to the Trade Union Movement"

* *

Mr. Norman Dodds (British Labour M.P.)

"Some of those who holler most for more nationalisation do not know even the fundmentals of running a fried fish and chip shop or a cockle stall." (1953)

* *

Mr. Roy Jenkins (British Labour M.P.)

"A policy of wholesale and indiscriminate nationalisation is clearly unwanted ...... There are few Socialists in England who believe that it would be in the interest of the community for small shops, most restaurants, little repair business of one sort or another, or even a whole range of industrial undertakings, small and medium sized, which have been founded and run by their proprietors to be operated on other than private profit-making basis."

* *

Mr. T. Balogh (Socialist Economist)

"No Socialist should be surprised by the hostility of the workers in certain private industries against nationalisation ...... The basic objection to private industry is its almost complete irresponsibility towards its own workers. What we have created [in the nationalised industries] is, if anything, worse."

Mr. *R.* Kelf-Cohen

(The *following* excerpts are from a book titled "*Nationalisation—End of a Dogma*" by R. Kelf-Cohen, who was an ardent advocate of nationalisation since 1911, and had experience of running from 1945 to 1955 some nationalised *undertakings* in Great Britain):

"Looking back and rereading some of our best efforts, I am astonished at the slight intellectual efforts we put into the work. We were content to prove that everything was wrong with the existing set-up. Faults were many and easy to And. But when we turned to alternatives, we talked airily of compensating existing shareholders and setting up a Public Board to run the industry. That was about the sum-total of our constructive thinking. We did not trouble to work out a detailed scheme of compensation, or future organisation, for one selected industry.

"There was magic in the words 'Public Board' or 'Public Corporation'. They were to be staffed by selfless men of outstanding ability. devoted to the national interest. We assumed that the workers in the industries would be transformed by the Act of Nationalisation and devote themselves to the national interest. Thus the combination of selfless management and selfless workers would bring about the brave new world of Socialism—so utterly different from Capitalism."

"The Webbs (Sidney and Beatrice) distrusted the Increasing powers of ministers; so they naturally objected rather strongly to ministerial responsibility, 'What has happened in fact, during the past half century with the continuous increase in the functions of Government has been the gradual establishment of a largely unselfconscious bureaucratic conspiracy against Parliamentary interference or control'. They came to the conclusion that ministers, assisted by their able civil servants, were successful in indulging in evasion and denial of information; and they end up with the startling conclusion that 'Parliamentary control, even policy, has become an illusion and a sham'."

U Nu

(The following is an excerpt from a speech by the-then Burmese Socialist Premier *U.* Nu, in *June,* 1957, after *he* had experimented with State *ownership:)*

"From practical experience, I no longer like to see Government's finger in all sorts of economic pies. If it is allowed to go on unchecked, then due to lack of proper supervision and efficient management, the State enterprises will sooner or later only line the pockets of thieves and pilferers."

Appendix B

NATIONALISATION—DOES IT HELP THE PUBLIC?

Socialists in Europe are disillusioned with nationalisation and state ownership. They found that, in practice, these things led to bureaucracy and monopolies. The public, first, as consumers, and, again, as tax-payers, arr required to subsidise inefficient state enterprises.

The following are but two letters from the Indian Press which provide food for thought in the context of demands for bank nationalisation. Since consumers should have a very important voice in the economy, it is important to heed their voice.

"Sir,—About a year ago I deposited a cheque drawn on the State Bank of India, Kanpur, into my account in the State Bank of India, Roorkee. When after several months the cheque remained uncredited and oral representations had no effect, I wrote to the agent at Roorkee requesting his intervention. This did not earn even an acknowledgment.

"After two reminders and a threat to take the matter to a higher level, he replied to say that amount had already been credited which, unfortunately, happens to be false to this day. I have even written to the Head Office at Delhi without result. Here, at Roorkee,' the official concerned has washed his hands of the affair, sayi'ng that the cheque must have been lost and there is nothing he can do about it.

"In these days we hear a lot about nationalisation of banks; it looks as though the State Bank of India. Roorkee, is giving us a glimpse of what perhaps will be the ultimate move—nationalisation of bank accounts."

P. V. INDIRESAN. Roorkee, Jan. 18, 1964.

* * *

"Sir,—Nationalisation of banks and other industries has become the slogan of a certain group of Congressmen. In so doing they overlook the interests of the general public who stand to lose civil and prompt service. LIC can be cited as an example. Admittedly its business has more than doubled and its benefits have been extended to remote corners of our country, but the clients are not satisfied.

"During a call at the LIC office on Asaf Ali Road, New Delhi, I was informed, without any effort being made, that the records of my policy were not available. After about two hours, these were located under the very table where the earlier information was conveyed. To top it all, the records showed non-receipt of premiums since 1949 although I had receipts up to 1963."—

V. K. Mohindra. Gauhati, Jan. 17, 1964.

(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

HAVE YOU JOINED THE FORUM?

The Forum of Free Enterprise is a non-political organisation, started in 1956, to educate public opinion in India on free enterprise and its close relationship with the democratic way of life. The Forum seeks to stimulate public thinking on vital economic problems of the day through booklets and leaflets, meetings, essays competitions, and other means as befit a democratic society.

Membership is open to all who agree with the Manifesto of the Forum. Annual membership fee is Rs. 10/- and Associate Membership fee is Rs. 5/- only. Bona fide students can get our booklets and leaflets by becoming Student Associates on payment of Rs. 2/- only.

Write for further particulars (state whether Membership or Student Associateship) to the Secretary, Forum of Free Enterprise, 235 Dr. Dadabhai Naoroji Road, Post Box No. 48-A, Bombay-1. (BR).

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182