ROLE OF CENTRAL BANKING AUTHORITY & COMMERCIAL BANKS IN A PLANNED ECONOMY

H. V. R. Iengar I.C.S. (Retd.)

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THE A. D. SHROFF MEMORIAL TRUST

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(i) Publication of one or more books in English, Hindi, and regional languages annually on some of the great builders of Indian economy, aimed primarily at educating the younger generation in high standards of building the national economy as practised by those great entrepreneurs and placing the example of their lives for emulation by India's youth.

(ii) Organising one or more memorial lectures annually on subjects which were of interest to the late Mr. A. D. Shroff, namely, banking, insurance, and industrial finance, the subjects to the chosen in rotation, and the lectures to be delivered by persons eminent in these fields.

(iii) Awarding annual scholarship or scholarships to outstanding student or students in the field of management.

(iv) Instituting a prize to be known as The A. D. Shroff Memorial Prize for the student standing first in Banking at the Sydenham College of Commerce, Bombay.

(v) Doing all such acts, matters and things as are incidental or conducive to the attainment of the above aims or objects or any one or more of them; and

(vi) Without prejudice to the above charitable objects or any of them, the TRUSTEES shall have the power to spend, utilise and apply the net income and profits of the TRUST FUND for the TRUST FUND for the charitable object of education or such other objects of general public utility not involving the carrying on of any activity for profit as the Trustees may think proper, it being the intention of the SETTLOR that the income and/or corpus of the Trust Fund shall be utilised for all or any of the aforesaid charitable objects without any distinction as to caste, creed, or religion.

FOREWORD

It is appropriate that the memory of the late Mr. A. D. Shroff should be perpetuated through such constructive activities as were near to his heart. Thanks to the initiative and generous support from the House of Tatas, the A. D. Shroff Memorial Trust was set up in 1966. The Trust, among its other activities, will hold an annual public lecture on Banking, Insurance and Industrial Finance by turn. These were subjects in which the late Mr. Shroff took keen interest as an economist and accomplished much as an industrialist.

The first lecture was delivered on "The Role of the Central Banking Authority and Commercial Banks in a Planned Economy" by Mr. H.V.R. Iengar, I.C.S. (Retd.) on 6th of December 1967. The Trust has pleasure in presenting in book form the text of this well-informed and stimulating talk by a former Governor of the Reserve Bank of India and a very distinguished public servant.

N. A. PALKHIVALA

Chairman,
Board of Trustees
The A. D. Shroff Memorial Trust.

235, Dr. D. N. Road,
Bombay-1.
April 15, 1968

A. D. SHROFF

A. D. Shroff's achievements in the field of business industry and finance were many and varied. A large number of enterprises owe their origin and development to him. As an economist, his predictions have proved right over the years. Through the Forum of Free Enterprise, which he founded in 1956, as a non-political, educative organisation, he sought to educate the public on econonmic affairs. It was his firm conviction that a well-informed citizenry is the foundation of an enduring democracy.

George Woods, President of the World Bank, paid the following tributes to A. D. Shroff:

> "In every age and in every society men must express anew their faith in the infinite possibilities of the human individual when he has freedom to develop his creative talents. For this is in large part how the message of freedom is passed from generation to generation. A. D. Shroff spoke eloquently in a great tradition, and thanks to him we can be sure that other great men of India will continue to speak this message in the unknown context of our future problems."

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THE ROLE OF THE CENTRAL BANKING AUTHORITY AND COMMERCIAL BANKS IN A PLANNED ECONOMY

By

H. V. R. Iengar, I.C.S. (Retd.)

I feel deeply honoured by this invitation that has been extended to me by the Trustees of the A.D. Shroff Memorial Trust for delivering the first of their proposed series of annual lectures. By a curious chance it was only less than six weeks ago that I delivered the A. D. Shroff Memorial Lecture under the auspices of the Forum of Free Enterprise. The scope of today's lecture is somewhat different because lectures under the Trust are to be confined to banking, insurance and industrial finance, subjects which were of special interest to A. D. Shroff and in which he made an outstanding mark. The subject allotted to me today is "The Role of the Central Banking Authority and Commercial Banks in a Planned Economy"—a subject on which I cannot disclaim all knowledge although I have been out of direct touch for more than five years. But perhaps this is just as well, for I hope I can speak now with somewhat greater detachment than was possible immediately after I retired from the Governorship of the Reserve Bank.

I understand that the audience before whom I am speaking is a very mixed one - it consists of under-graduates who are still in the process of learning the elements of economics; of post-graduate students whose knowledge of theoretical

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A lecture delivered under the auspices of The A. D. Shroff Memorial Trust in Bombay on 6th December, 1967.

economics is quite impressive; of some officials of the Reserve Bank of India who are doubtless here to see how much of the theory and practice of central banking they taught me some years ago has been forgotten by me; of commercial bankers who are at the moment reeling under a concerted attack by left-wing politicians that they have somehow or other failed in their duty and are wondering whether I will bring them support or add to their misery; and a variety of other people who are interested in the subject matter of banking. The nature of the audience imposes some limits to my choice of material. I have come to the conclusion that it will not be appropriate for me to deal with the purely technical aspects of the subject, although these aspects are interesting in themselves and never lose their topical importance. It is tempting to go grazing again on pastures which were once familiar to me, such as the concept of money supply, the velocity of circulation, what my friends in the Reserve Bank call transactions velocity, the concept of bank money, the mechanics of interrelationship between money supply, production and the price level, the applicability in Indian conditions of the theory of interest rates prevalent in western economies, and the like. I have decided to resist the temptation and propose to confine myself to certain general problems in the belief that these would be of interest to all sections of the audience who are here.

II

The preamble to the Reserve Bank of India Act, which was first enacted in the year 1934, says that the object of the setting up of the Bank is: "To regulate the issue of Bank Notes and the keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage."

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II

The preamble to the Reserve Bank of India Act, which was first enacted in the year 1934, says that the object of the setting up of the Bank is: "To regulate the issue of Bank Notes and the keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage."

The main emphasis, you will notice, is on the maintenance of the stability of the rupee. This emphasis was entirely in accordance with the theories current before World War II about the proper functions of the central bank of a country. The principal pre-occupation of central banks in all developed economies was to preserve monetary stability, both internally and externally. Ideas such as that there should be full employment and that there should be a continuous growth in national income, although discussed by economists, are in reality a post-war development in so far as their impact on the policy making of Governments in concerned. Moreover, the subject of monetary stability was a matter of the liveliest interest to everybody because, in fact, there had been a great deal of monetary instability between World War I and World War II. There had been raging inflation in Germany and wide degrees of monetary instability in a number of other countries. Some carried the doctrine of monetary stability to such an extent that they reverted to what they thought was a fool-proof method of doing so, viz., the gold standard, as the U.K. did in 1925. I was in England at the time as a student, and well recall the discussions that took place. The fact that widespread unemployment and distress arose out of the attempt to make the stability of the currency the main objective of State policy was regarded as being of relatively secondary importance; it was just one of those incidents, like poverty, which could not be helped even in a well-regulated society. Even where the gold standard was abandoned, it was regarded as a matter of fundamental importance that currency stability should be preserved, and the operations of central banks were directed towards this end.

The Reserve Bank started operating in conditions in which the application of the techniques used by central banks in advanced countries was liable to be largely ineffective. Thus there was no bill market. The money market was highly restricted. A considerable volume of internal trade was financed by the so—called unorganised market; certain calculations shown to me in the Reserve Bank suggested that the volume might have been as much as 90 per cent of the trade. There was a substantial number of transactions carried out on a simple barter basis without the use of money. Before the Reserve Bank could settle down to the job of considering how, in these conditions, it could operate so as to preserve the stability of the rupee, the war intervened and created a variety of problems including a rapid rise in prices internally and the gathering of substantial sterling reserves in London. For a couple of years after the war there was widespread civil disorder leading eventually to partition. As a matter of historical retrospect although, during the war, the Reserve Bank had a number of highly complicated technical operations to carry out, it was not till after independence that it really got down to commencing its main job of work as a major partner in the carrying out of Government's economic policy. And in 1951 the era of planned economy was started.

The essence of a planned economy, in so far as the Reserve Bank of India is concerned, has been that certain financial and physical targets are set up during successive periods of five years. In deciding on those targets, Government primarily have in mind a certain rate of growth in the national income. The question has never been, to start with, what are the resources available and what can be done with them, but rather what is it that we must do and how are we to find the resources for it? It will be recalled that the basic concept set out in the First five-year plan was that the per capita income should be doubled over a period of 20 to 25 years. Successive five-year plans broke this further down to periodical components, but the plank on which Government stood was a certain pre-determined rate of growth.

It would be foolish to imagine that while setting out its target the Planning Commission or the Government of India were merely indulging in wild day-dreams. It is theoretically conceivable, for instance, that they could have planned for a faster rate of progress, but everyone realised that such a rate could not, in practice, be either initiated or sustained, so that while the basic concept of a certain assumed rate of national growth was there, the mind of the planners was never too far from the question of resources. The first innovation that was introduced in India into the techniques of planned development was that of deficit financing. It was accepted that without the deliberate creation of money to assist in the process of planned development, the economy would continue to be stagnant. The Reserve Bank had thus to operate under conditions in which (a) the economy had to move at a certain predetermined rate and (b) to render this rate feasible a certain volume of deficit financing had to be incurred by the State.

These conditions were such as to make the task of the Reserve Bank exceptionally difficult or even impossible but, to the best of my knowledge, the Bank was not formally consulted on either of them. So far as I could discover, there was no formal consultation with the Bank by the Government of India on the figures contained in the Second five-year plan. But I imagine that if the Bank wanted to do so, it could always express its views and, indeed, it would have been its duty to express its views. But in the earlier years the question of inflation really did not arise as a matter for serious consideration. Indeed, during the First five-year plan, there was, at one stage, substantial drop in prices, so substantial that Government had to undertake price-support operations. There was, likewise, no question of substantial foreign aid because, in fact, the sterling balance went on accumulating in the earlier years of the First plan rather than being drawn down. I am not surprised that, in this situation, the Reserve Bank did not feel called upon to express its views to the Government on the implications to the economy of predetermined rates of growth and of the injection of created money for the purpose of development. It was when the sterling balances started going down and the price level started going up - these two, of course, are not necessarily interrelated phenomena - that the Reserve Bank started seriously to consider where its duty lay. I believe that before the Third five-year plan was formulated the Bank asked for an opportunity to express its views and one of the major exercises that were carried out in the Department of Economic Research when I was in the Bank was the assessment of the quantum of deficit financing which, on all assumptions that could be reasonably made at the time, could be regarded as non-inflationary. On the basis of the draft Third five-year plan this figure was assessed at Rs. 550 crores and was communicated to Government and accepted by them. It is a matter of history that this figure was largely exceeded.

I do not know whether the Bank ever formally accepted the proposition that in an era of planned economy, with development carried out with the assistance of created money, and in the context of an agricultural situation which is liable to be highly vunerable to climatic factors, the country should always be prepared to accept the possibility of a rise in prices. But it is not necessary for the Reserve Bank to take up formal positions in such matters. Communications between the Bank and Government take place both formally, and informally, and I myself introduced what was then regarded as an innovation of making public pronouncements. I repeatedly stated that I accepted the position that a certain degree of price increase was inevitable, but I suggested that such increase should not exceed some two to three per cent per year. I also suggested, following a thesis put forward by Professor Arthur Lewis, that in order to maintain confidence in the currency, Government should so organise affairs that the increase was occasionally interrupted by a fall. This was to give the impression, psychologically most important, that Government were always in control of the situation. It is a matter of history that till the time of the Chinese attack in 1962 and the very large scale escalation of defence expenditure that took place thereafter, the rise in the price level was confined to these dimensions and was thus within the limits of tolerance that the Reserve Bank accepted. In other words, the Bank did not claim that absolute monetary stability - if there is ever such a thing - was possible and agreed instead that a mild and almost continuous degree of price inflation had to be accepted as the necessary price that the country had to pay for economic progress. This was a vital change from the Charter contained in the Reserve Bank of India Act, a change that took place insensibly and virtually without discussion.

Since 1962 the position has deteriorated very rapidly. The wholesale price index which was 125 in 1962 is now in the neighbourhood of 220. There could be no pretence that the degree of price inflation that has taken place has not been such as to cause the most serious concern, and one of the questions we might well consider is whether the

Bank took all the steps that it could reasonably have taken to arrest the rapid deterioration of the price level or, to put it in language more appropriate to the Bank's Charter, to arrest the rapid erosion in the value of the currency.

It is necessary to make, straightaway, two propositions. The first is that I do not believe that Government have, at any time, been out of step with the Reserve Bank in thinking that the maintenance of a reasonable degree of price stability is an essential foundation for orderly economic progress. In other words, on the principle involved I do not believe that there has been any controversy between Government and the Reserve Bank. What has been at issue is the ability of Government to take steps — difficult and unpopular steps — in the budgetary field to give effect to this accepted policy. The second proposition is that in the ultimate resort, whatever might be the advice of the Reserve Bank, it is Government who have to make a choice as to the total limits of public expenditure, both planned and unplanned. What matters, of course, is not merely the total expenditure but also its distribution between sectors which are quickly productive, which are productive only after several years, and which are wholly non-productive such as defence expenditure and civil expenditure not connected with development. The Reserve Bank, for instance, could have no possible say in the matter of the quantum of defence expenditure that Government consider to be essential for maintaining the security of the country. In the matter of certain types of non-productive civil expenditure as well, such as the quantum of dearness allowance to be given to Government staff, the issue is not merely a financial one, but also one of security in so far as the Police forces are concerned and of the maintenance of reasonably stable working conditions in

Government offices so far as the other categories of servants are concerned. All that the Reserve Bank could legitimately do is to point out the inflationary effects of mounting Government expenditure and to advise slowing down. I have never had any doubt in my mind that while the Bank has a definite role to play and must play it in disdain of incurring displeasure, it cannot set itself up as a parallel Government. There could be only one Central Government in the country and that Government must accept the full responsibility for overall economic policy. If the Bank feels that its advice is being flouted in a cavalier fashion, the Governor has the remedy in his hands.

There is no doubt that during the last five years the situation has been threatening to get out of control, more particularly during the last two years when we had widespread failure of rains. Government have been in an exceptionally difficult position; and while it is clear in retrospect that they have committed a number of errors the fact is that the Reserve Bank found itself in a position in which the quantum of Government expenditure was exceeding all limits of safety from the point of view of the maintenance of the price level. The question that it had to consider was what it could do in this situation.

A very able exposition of the approach of the Reserve Bank is contained in a paper published by two former colleagues of mine in the Bank, viz. Mr. Pendharkar and Mr. Narasimhan. This is a paper entitled "Recent Evolution of Monetary Policy in India" and was published in the April issue of the Reserve Bank of India Bulletin in 1966. I would recommend that those of you who are not unaccustomed to some amount of technical phraseology go through this document. It is not necessary to agree with all that has been stated in this paper. For instance, on the question as to whether an increase in rates for deposits would, in Indian conditions, necessarily attract to the banking sector an appropriate increase in savings, it is possible to have views different from those of the authors. Likewise, whether an increase in advance rates has really dampened down the demand for money for inventories is a debatable proposition. But in my view the paper contains, in general, a cogent justification for the policies pursued by the Bank from time to time. It has been a difficult situation for the Bank and the situation has been changing all the time. Instead of sitting with folded hands and taking the line that any action that the Bank could take could only have a marginal effect, the Bank has adopted a policy of continuous improvisation, making use of a variety of techniques that were open to it. As a matter of purely technical competence, I feel that the Bank deserves to be complimented for the work that it has done. But it has to be frankly recognised that in so far as the effect of the Bank's monetary policy is concerned on the stability of prices, that has been purely marginal. All that one could say is that things might have been much worse but for the Bank.

May I make a general point at this stage? It is unfortunately not the practice in our country to offer words of praise to any body of public servants. Good work is taken for granted. On the other hand, bad work or what could even remotely be regarded as bad work is immediately pounced upon. The consequence is that all that the public hears is a series of complaints and allegations against public servants. I have come into contact with central banking institutions in many countries, and I can say with confidence that the staff of the Reserve Bank of India is, on any standard, a highly competent staff. Sometimes they slip up, but where they do so is in the administration of certain pettifogging controls, such as the control on foreign exchange permits for travel, and the like. And I am not sure that the blame should always be attached to them.

III

The general impression that you may get from the above very broad exposition may be that the role of the Reserve Bank is largely regulatory. And, indeed, many of the propositions discussed in the note that I have referred to by Mr. Pendharkar and Mr. Narasimhan refer to regulatory aspects of the Bank's operations. This, however, would be a major misconception of the role that the Bank is playing in a planned economy. The principal concern of the State, apart from formulating the plans and carrying them out, must be to ensure that the necessary volume of resources is collected. These resources accrue partly from taxation and loans and partly from deposits by the public in banking institutions. It is in this matter of the gathering of the savings of the community in an organised manner that the Bank has played a vital role.

The first pre-occupation of the Bank was to see that the public have confidence in the banking system. It is not to be supposed by any means that this confidence has always existed. Indeed, in the course of World War II, a large number of mushroom institutions was floated in our country under grandiloquent names, and quite a few of these were run in a wholly unbusinesslike and some in an actually dishonest manner. One of the major jobs that the Reserve Bank had to do, in order to establish public confidence in the banking system and thereby to encourage people to deposit their money with them, was to get rid of these dubious institutions and to see that the banks that remained after this operation were sound and run in such a manner that the public felt secure about their deposits.

This has been a major task and has taken several years. I do not know that it has yet been fully done, but I believe that the bulk of the job has been carried out. Initially the process consisted of inspections and of constant advice but, after the crash of the Palai Central Bank, the pace was accelerated by compulsory amalgamations. As a consequence, we have now a system of commercial banks of which it can be said that they are operated in such a way that the public have confidence in the security of their deposits. This confidence has grown all the more with the introduction of the Deposit Insurance Scheme whereby an Insurance Fund guarantees the safety of deposits up to a certain sum. Considering that the number of banks concerned has been very large, with wide geographical coverage, and that the staff required for the purpose of inspection has never been too large, this is a job that in my judgment has been well done.

IV

A constant criticism of the commercial banks has been that, by and large, they operate only in the urban centres and that the enormous rural hinterland, including the smaller towns, has been left completely uncovered. This criticism was very largely true and was sought to be met in two ways - firstly, by the virtual nationalisation of the old Imperial Bank of India and a statutory requirement that the State Bank should open a large number of branches, and secondly, by an encouragement to other commercial banks for large scale bank expansion. The total number of institutions and to see that the banks that remained after this operation were sound and run in such a manner that the public felt secure about their deposits.

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Another criticism of the banking structure in the past was that, by and large, it catered only to the comparatively well-to-do sections of the community and that the poorer sections were completely ignored. In the field of industry, for instance, only the large-scale industry was catered for and the small-scale industrialist necessarily had recourse only to the unorganised market where rates of interest were very high. The Reserve Bank took up this matter and has systematically tried its best to see that the commercial banks also cater to the needs of the small-scale industrialists. It is true that the banks are making use of depositors' money; and it has always to be kept in mind that to make large advances which may be irrecoverable or frozen is to do great damage to the entire economy. But a balance has to be struck between the requirements of safety and the need for a progressive outlook in the coverage of customers for bank loans. I regret to say that I do not think that the Reserve Bank has had very much success except with the State Bank of India. By and large, the other commercial banks have been extremely conservative in this matter. I recall some years ago sending for representatives of the major banks and telling them that not merely on the merits of the case but also as a matter of public relations it was essential for them to set apart a portion, even a small portion, of their deposits, for being advanced to small-scale industrialists. In order to give them an incentive for this purpose, the Reserve Bank introduced a scheme whereby losses on such advances would be shared by the Reserve Bank. I consider it a pity that not much advantage of this incentive scheme has been taken by the commercial banks. I rather think that one of the grounds for recent criticisms against major commercial banks is precisely this - that in their lending policies they are overweighted in favour of the bigger industrial interests.

V

It is, however, in the field of co-operative credit that the Reserve Bank has followed a most dynamic and imaginative policy. Before I go into this, let me say a few words about what I regard as two wholly misconceived criticisms of the commercial banks since the era of planned development was started.

The first criticism is that banks have not followed any system of priorities in the allocation of advances; and, in fact, this seems to be one of the reasons advanced for nationalisation. Now in the ordinary course, the role of a commercial bank is to gather deposits and to advance loans, subject to suitable safeguards regarding liquidity, so as to obtain a reasonable profit. Where there is planned development and certain priorities have been conceived by Government, one would imagine that the commercial banks would be advised to spread their advances in accordance with such priorities. The situation has developed in such a way that the banks have been told from time to time what *not* to do and very rarely, if at all, what to do.

For instance, they have been asked not to give advances beyond certain limits against rice or wheat during periods of scarcity; they have been asked not to give advances against shares and securities beyond certain limits; but they have not been told that they must, as a matter of priority, lend to certain sectors to the exclusion, partial or total, of other sectors. It seems to me an unfair argument against the commercial banks of the country that they have not followed a system of priorities. The failure is not of the banks but lies in the absence of any central authority to which has been allotted the task of securing that bank advances followed a system of predetermined priorities.

The second criticism is an extension of the first and is to the effect that commercial banks have given hardly any advances to the farmer. I am surprised that the real answer to this criticism has not been more effectively made, although I know that it has been made. The real answer is that it was never the intention of anybody that commercial banks should engage themselves in direct loans to the farmers and, indeed, if anything, the idea has always been that it is the job that is best left to Co-operative Societies, District Co-operative Banks and specialised Co-operative Institutions such as Land Mortgage Banks. This was agreed on all hands during the earlier years of planned effort and reiterated as recently as in the year 1964 by a committee set up by the Reserve Bank consisting of the Governor himself as Chairman, some of his official colleagues and some most distinguished co-operators in the country, viz. Shri G. L. Mehta, Professor D. R. Gadgil, Professor D. G. Karve and Shri R. G. Saraiya. The considered conclusion of this committee was that "for the proper dispensation of agriculture credit in the conditions of the Indian rural economy, there is no alternative to the Co-operative Agency and that for the successful working of the Co-operative Agency it should take the form of a three tier federal organisation." The charge against the commercial banks in this context is due either to colossal ignorance of the decisions taken from time to time or is a deliberate *alibi* on the part of politicians for their failure in a field where non-official effort and inspiration have been supposed to be supreme.

VI

One of the earliest tasks that the Reserve Bank took upon itself was the problem of organising rural credit. For this purpose it was first necessary to gather facts. A great handicap in our country in the past has been the absence of adequate statistical information on which to base policies. Such information was particularly lacking in the matter of agricultural credit. How much did the farmer borrow? From whom did he borrow? What rate of interest did he pay? How did he use the money which he borrowed? In order to get comprehensive information on this subject, the Reserve Bank set up a statistical investigation on massive lines. Apart from the decennial census, I believe this has been one of the most monumental, certainly one of the most important, tasks undertaken by a statistical department in India. It was on the basis of the information collected during this survey that the Reserve Bank recommended policy changes. These have all been set out in the Rural Credit Survey Committee Report.

The Reserve Bank discovered that not more than 3% of the credit taken by the farmer came to him from Co-operative Societies. It was clearly necessary that the farmer should be weaned away from the clutches of the usurious money lender and encouraged to turn increasingly to Co-operative Societies for his credit requirements. The Committee made various policy recommendations in this matter, one of the most fundamental being that in view of the vast disparity of strength between the farmer in the village and the organised money market represented by the urban financial institutions, co-operative societies should be strengthened by the partnership with Government. It is not necessary for the purpose of this lecture to go into all the recommendations made by the Committee but it is enough to say that these did involve very substantial credits from the Reserve Bank to co-operative institutions *based on their functioning as viable units.*

I regret to say that there has been great failure in this field but not on the part of the Reserve Bank. As a result of strenuous efforts made by the Bank, the percentage of loans taken by the farmers from co-operative institutions has gone up from 3% as reported by the Rural Credit Survey Report to approximately 25% and a good portion of this is money lent by the Bank itself. This is a considerable improvement but it indicates, I fear, more an anxiety on the part of the Reserve Bank to pump in credit for agriculture to the limit than an improvement in the absorbing capacity of co-operative institutions. The truth of the matter is that overdues are heavy and mounting up, too many societies are very badly managed, and quite a number of them are dormant. The situation is actually worse than appears from published statistics because a certain amount of window dressing goes on, on the last day of the year, which obscures the real situation.

It is not necessary in the context of the subject matter of today's talk to go into any great detail into the question of who is responsible for the failure of the co-operative movement, but I think it is necessary frankly to point out that the responsibility lies to a very large extent in the hands of non-officials, including politicians. For some extraordinary reason, although Government accepted the recommendations of the Rural Credit Committee and, in particular, the recommendation that to shore up the strength of co-operative societies they must have the full backing of Government, an amazing amount of prejudice arose against the association of officials with the movement. It was said that co-operation is and must be a purely non-official movement and must not be sullied by the association of officials. Every effort was therefore made to disassociate official from the organisation and functioning of societies. This went to such an extent that even in the matter of co-operative education, the Reserve Bank which was running a Training Institution for co-operative officials was told that this was none of their business and that the training must be handed over to purely non-official agencies. In strict theory this opposition to the association of officials was correct but in practice it proved disastrous for the people who were supposed to put selfless service behind the movement proved, except in certain isolated areas, either incompetent or selfish.

I have mentioned the above point because it has some relevance in the context of the ideas that have been made from time to time regarding the nationalisation of commercial banks. I had hoped that this idea was dead but apparently it is not. If I was a theoretical economist living inside the cloistered cell of an academic campus and divorced from the rough and tumble of practical administration, I imagine I could make out a case for nationalisation on the ground that that might be a tidier arrangement for ensuring credit arrangements on a priority basis. Without going into other arguments many of which are quite valid, such as the degree of control vested in the Reserve Bank, but sticking for the moment to the pure and simple matter of administrative competence, I regret to say that not only do I not see any possibility of improvement as a result of nationalisation, but I forsee the intrusion of politics into a field in which politics ought to have no place. Let me give you an illustration of what I really have in mind. After World War II the French Government nationalised the commercial banks of the country. This step was taken under somewhat exceptional circumstances and I am not at all certain whether, if the matter came up again, the French Government would want to nationalise banks. However that might be, these banks after nationalisation were put in the hands of some of the ablest men in the country, several of them civil servants, and they were asked to function exactly like other commercial banks, that is to say, in competition with each other. This went to such an extent that I was told by the Chairman of one of the nationalised French banks a few years ago that at one stage the French Government withdrew their deposits from the London branch of this bank and placed them with an English bank because the latter gave them somewhat better service and somewhat finer terms in the matter of foreign exchange. If one could be certain that the ablest people possible would be put in charge of nationalised banks and were left to carry out their operations without interference from politicians, perhaps no great disaster would happen. But the functioning of our public enterprises has shown repeatedly that they suffer from some peculiar misfortunes. It is notorious, for instance, that labour relations in many of the nationalised institutions are actually worse than in many private enterprises. The Heavy Electricals at Bhopal used to be a startling example at one time. The Durgapur

Steel works is another, at the moment. I regret to have to say this about an institution of which I was once the Chairman but although, in the State Bank of India, there are several dedicated officers, the discipline of the subordinate staff is getting such that the most simple services are not rendered without constant effort on the part of the customer. If only on the ground of efficiency, therefore, I would regard the nationalisation of banks as a misconceived move and likely to be contrary to national interests.

I see from the papers that, for the time being at any rate, the idea of nationalisation has been put on the side and has been replaced by a proposal to have a Credit Council. It is not possible to comment on this without having more details of what is actually proposed, such as who the Council would consist of, what its role would be, and what would be its relationship to the Governor and the Board of the Reserve Bank. But as far as I can see at the moment such a Council could render a useful service provided only that it confines itself to a discussion of broad issue of credit policy and indicates guidelines to the Reserve Bank for detailed implementation. But whatever policies are recommended or decided by the Council, it seems to me clear that in actual implementation the same problems which have bedevilled the co-operative movement will continue to arise in the matter of credit to the farmer. This will be so until we have a body, in sufficiently large numbers, of dedicated non-officials who will consider it a patriotic duty to devote themselves, heart and soul, to the welfare of the peasant class. In fact, the question of success in the co-operative movement raises much the same basic problem as questions in our political and social life, viz. have we a dedicated leadership at different levels?