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Nationalisation of Bank: A Historical Blooper or Commitment of the Hour?

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ABSTRACT

From times of yore, the banker has been an imperative pillar of Indian Society. India was not a stranger to the concept of banking. Even prior to the advent of occidental ideas, loans and usury were well prevalent in those days. Provision of banking are amply found in Kautilya's Arthshastra, Gautama, Brihaspati and Budhayana. Before the social control of the commercial banks, the nationalisation of these banks had taken roots in India. Social control could not yield desired aim. The crucial decision to nationalise the major Indian Banks under the Indra Gandhi Government was premeditated as need of hour. When 14 banks were nationalised, it was observed as an bid to deviate power from private industries against the central government who could intensify better on developing the lives of the poor, illiterates and the unemployed multitude of those days.

Keywords : *Nationalisation, bank, finance, government, cooperation*

"Nationalisation does not mean that existing industrial enterprises will be deprived of their credit needs for genuine productive purposes".

- Indira Gandhi

INTRODUCTION

Nationalisation of bank was momentous move initiated by the government for the advancement of the country. According to IMF, "Nationalisation means the taking of control by the government over assets and over a cooperation, basically by acquiring the whole stake in the corporation." In 1949 the RBI, India's Central Bank became the first bank to be nationalised, RBI soon become the regulatory authority for banking in India. Most Indian banks at that time were privately owned. Thus the Indian government then recognized the need to bring them under some form of government control to be able to finance India's growing financial needs.

Recently, as per the present Chief Economic Advisor Arvind Subramanian bank nationalisation was a gigantic historical mistake, it was the biggest economic blooper ever made by Indira Gandhi. Is it a right accusation to the historical decision ?

FIRST PHASE OF 14 BANKS

In July 1969, all Indian congress committee session held at Banglore. The note on economic policy referred to the 'great feeling' in the country regarding nationalisation of private commercial banks. The A.I.C.C. resolution endorsing the Prime Minister's note strengthened her conviction and paved the way for the implementation for the her revised thoughts. It was, therefore within six months of the imposition of social control on banks, ordinance to nationalise the fourteen major banks having deposits of Rs. 50 crores or more was issued on 19th july,1969 "to serve the better needs of development of the economy in conformity with national priorities and objectives.

These banks were mostly owned by businessmen and even managed by them were :-

- The Central Bank of India ltd.
- The Bank of Maharsthra Ltd.
- The Dena Bank Ltd.
- The Punjab National Bank Ltd.
- The Syndicate Bank Ltd.
- The Canara Bank Ltd
- The Indian Bank Ltd.
- The Indiana overseas bank Ltd.
- The Bank of Baraoda Ltd.
- The Union Bank Ltd
- The Allahabad bank Ltd.
- The United Bank of India Ltd.
- The UCO bank ltd.(united commercial bank)
- The Bank of India ltd.

Before the step of nationalisation of Indian banks, only state bank of india(SBI) was nationalised. It took place in July, 1955 under the SBI Act of 1955. Nationalisation of seven state banks of India(formed subsidiary) took place on 19th july, 1959

The State Bank of India is India's largest commercial bank and is ranked one of the top five banks worldwide. It serves 90millions customers through a network of 9,000 branches and its offers

- Either directly or through subsidiaries.
- A wide range of banking services.

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SECOND PHASE OF SIX BANKS

On 15th April, 1980 six more banks having deposits of over 200 crores, were nationalised. Till this year approximately 80% of the banking segment in India were under government ownership but after this there was a rise of approximately 80% in deposits and advances took a jump by 11,000%

These banks were

1. The Andhra Pradesh Bank Ltd.
2. The Corporation Bank Ltd.
3. The New Bank of India Ltd.
4. The Oriental Bank of Commerce Ltd.
5. The Punjab and Sindh Bank Ltd.
6. The Vijaya Bank Ltd.

Later, the new bank of India was merged in Punjab National Bank which had already nationalised on 19th July, 1969.

Historical blooper

1) Through Nationalisation, public control leaves the doors of banks open for corruption and favourism. Their performances are not always commendable. Their losses are heavy. The common man experienced that public sector undertakings do not respect an individual and delays and lethargy in work and services are a bane of such undertakings.
2) Nationalisation is not the remedy for curbing the growth of monopoly and the concentration of wealth and power as the root cause for them lies in the existing economic system.
3) Extending loans to agriculture and small scale industries is risky and less remunerative. Such loans are against the sound banking system and may weaken t he economic viability of these institutions.
4) The experience of other nationalised institutions indicate that the nationalisation of the commercial banks will reduce the efficiency of these banks as political interference will impair the smooth working of these institutions.
5) The rapid expansion of branches, establishment costs have risen as the structure of salaries and wages do not make any real distinction between urban and rural branches. The rapid growth in the numbers of staff and accelerated promotions have also diluted the quality of manpower. There has consequently been a perceptible decline in the quality of supervisory and managerial staff in banks.

6) Growing diversification of functions, especially in regard to extending the coverage of bank credit to agriculture and small industry where the unit cost of administering the loan tend to be high. The rapid expansion of banking into the rural and semi-urban areas has often been cites as a major factor affecting the earning capacity of the banks.
7) By virtue of the control exercised by the RBI since nationalisation and government authorities, the executives and other officials of the banks are afraid to take decisions which have naturally affected adversely and slowed down the services to the customers.
8) Banks were not at all responsible for the evasion of taxes or for genesis of black money. It was the fruit of an irrational tax structure, high deficit financing and a corrupt public administration in the country. It was totally wrong to say that bank nationalisation would in any way help in checking tax evasion or in curbing the evil of black money.
9) Under public sector banking, inter-state rivalries and policies would raise their ugly hands , damaging the present sound banking system under the private sector.
10) There is no need to take such a drastic step of bank nationalisation to curb malpractices of privately owned banks as they can be probed by embracing appropriate monetary and fiscal policies and through efficient supervision by the Reserve Bank Of India.

COMMITMENT OF THE HOUR

1) The Nationalisation would give an impetus to banks' lending to priority sectors such as agriculture, small scale industries, transport operators, retail trade, small business, professional and self-employment persons and education, which under the influence of tradition and vested interests were denied adequate access to the banking system.

   In short, Nationalisation of banks would enable the banking sector to diversify its resources for the benefit of the priority sector and as required under the schemes of planned economic development of the country.
2) Nationalisation of banks would check favourable attitude of the banks towards directors by providing credit at concessional rates for the promotion of the interest of the directors.
3) Nationalisation would bring down the excessive emoluments of the top executives of some private banks, who were receiving unduly high salaries. Furthermore, wide disparities in the salaries in different commercial banks would be removed when banks were under state control .
4) State ownership of the banking system could be regarded as an essential condition for successful planning and all-round progress of the national economy, community development and for the welfare of the people.
5) Distribution of credit by the Nationalised banks would be much more efficient as it would flow into productive and socially desirable channels, and its credit would be relatively less costly.

6) Nationalisation of bank is necessary for the furtherance of socialism and in the interest of the community
7) If all commercial banks are nationalised, the Reserve Bank Of India would be in a position to implement its monetary policy more effectively.
8) Nationalisation would bring a rapid increase in the number of banking offices in rural and semi-urban areas and helped considerably in deposit mobilisation to a greater extent.
9) Nationalisation eliminates the wasteful competition and raises the efficiency of the working of the banks.
10) Nationalisation of bank would replace the profit motive by service motive in the functioning of the banks, thereby helping greatly in the achievement of the goal of socialism.
11) Nationalisation of bank would check the incidence of tax evasion of black money.
12) As france , Italy, the UAR, Indonesia, Burma, Libya, the USSR, the GDR etc., have benefited by Nationalisation of their banks, India should also get profit by nationalising her banking industry.

CONCLUSION

Nationalisation has helped country mitigate the ill- effects of the global financial crisis. This, however, could at finest be an unplanned outcome as nationalisation was primarily aimed at reconfiguring the financial sector to meet an industrialising India's plan concerned, and to correct dragging unfairness in credit distribution. Nationalisation of banks was a dynamism for socialization higher than economic growth of the country. It has gained the nonpartisan of its creation. The primeval of Nationalisation mechanism did have loopholes from where corruption and malpractices entered but the Economic Reforms of 1991 brimming the loopholes for the fitter.

Nationalisation diffused public confidence in the banking system embolding the mobs to save and invest. It eliminated the regional biasness and promoted opening up branches in the lonesome areas of the country as well, hence enhancing the banking network. Aside elimination of monopoly, competition, nationalisation rationalised banking practices in the country.

The Pradhan Mantri Jan-Dhan-yojana would not have been viable with private banking sector.

Forthwith, we can insolently say that the objective behind nationalisation of banks was a commitment of the hour. Indian Banking Industry is way beforehand, all set with a cutthroat spirit, having a staff with decisive functioning and aimed towards more yielding. Banking has become more professional and ethical and nationalisation hints to have unfolded to a stage from where we can look forward.

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