

Mr. Deputy-Speaker: The question is:

"That this House agrees with the Fifty-first Report of the Committee on Private Members' Bills and Resolutions presented to the House on the 25th April, 1956."

The motion was adopted.

RESOLUTION RE. NATIONALISATION OF BANKS

Mr. Deputy-Speaker: The House will now resume discussion on the Resolution moved by Shri Gurupadaswamy on 14-4-56 regarding the nationalisation of banks. Out of 2½ hours allotted for the discussion of the Resolution, 2 hours and 29 minutes are left for discussion today.

Shri M. S. Gurupadaswamy (Mysore): India is considered to be an undeveloped country in the comity of nations. Many well-advanced countries of the west have entered into an amusing and interesting competition to assist us in our economic development. This is neither strange nor unnatural in the present context of the world where external assistance has become a potent weapon of enlightened, national self-interest. Assistance always carries with it alien ideas and ideologies or at least motives of powers which export such assistance. If an under-developed country is not strong or well-guarded, or if its own social and economic philosophy is not so rich, fruitful and adequate as to combat dangerous exotic influences, then, that society would be needlessly exposed to spasmodic changes and erratic developments.

An economy which is undeveloped and which lacks coherent social philosophy is not only exposed to subversion from outside but also to internal stresses and strains contradictory trends in the economy would produce an atmosphere of social suffocation. Such contradictions which produce friction and tension in society cannot be resolved by pursuit of what is called pragmatism. Pragmatism is no ideology; it is no philosophy and an economic policy merely based on infructuous expediency or *ad hoc* approach would produce social hybridism in the country.

My party is happy that since some time past there has been a salutary change in the outlook of the hon. Finance Minister. He no longer talks of mixed economy. He no longer refers to pragmatism. The other day, while

speaking on the Insurance Corporation Bill, he made bold to say that "nationalisation was justified on grounds of ideology, philosophy and on the objectives of a welfare State." But what a long time he took to say this! At last he has realised that ideology matters much in the pursuit of economic policy.

At the present moment in our country's history socialistic thought must play a more positive role in shaping the pattern of our society. This does not mean that the whole network of production, distribution and exchange should be socially owned and controlled. This is neither possible nor desirable in our country. If we try to do that, we may achieve socialism in full, but we will be annihilating democracy in part. So, to achieve socialist objective, it would be enough to control the peaks or the commanding heights of our economic pyramid. The middle and the bottom layers of our economy could be well and easily adjusted and rationalised if the economic summit is placed under vigorous national control.

It is in this context that I wish to discuss the problem of nationalisation of banks in the country. Banking system by the nature of its operation occupies a strategic place in the industrial and financial life of our nation. They control the strings and channels of credit in the country. None denies that instruments of credit are a great power in society. May I, in this connection, remind the House of a stanza in *Panchatantra*? It runs as follows:

"The wealthy men are men of force;

And they are scholars all, of course,
It goes on—

"Men who have no cash,

Owing names but lacking substance,
are accounted trash.

Beggars have, no doubt, their virtues,—

Yet they do not flash:

As the world has need of sunlight,

Virtues ask for cash."

The creation and distribution of credit is clearly a public service, rather than an enterprise for private profit. The banks which deal with such a vital function should not be entrusted to the control of profit-ridden private enterprise. A proper and fair distribution of credit among people is difficult to attain if banking operations are subject to private-direction and control. Public ownership

of banks is the only way to achieve soundness and rationality in the national economy. An under-developed country is in need of this more than the advanced countries of the world, because accelerated economic development depends upon the availability and proper distribution of money and credit.

In this context, I have to say that the establishment of the Reserve Bank of India under the direct authority of the Government of India is a landmark in the history of our country. The nationalisation of the Imperial Bank recently was also a step in the right direction. But, unfortunately, it was not accompanied or followed by the nationalisation of State-associated banks and other joint stock banks.

The history of private banking in India is a history of disappointment. It is a history of mismanagement, mis-handling, misfeasance and mispursuit.

So we find great many banking failures in the past. According to the report of the Banks Liquidation Proceedings Committee, the number of banks which suspended payment during the years 1926 to 1952 is 351. The failures which are most significant from the point of view of derangement of economic life, particularly of middle class depositors, have occurred in Calcutta, Madras and Punjab. According to the report, 91 banks failed with total liabilities of about Rs. 25·57 crores. The total number of failures in Madras is 83 with outside liabilities of about Rs. 1·53 crores. In Punjab the failure of 24 banks involved outside liabilities of Rs. 61·82 crores.

Some may say that the failures occurred only after the war. This is not true. More failures might have occurred after the war. Between 1947 and 1951 there was certainly a steady procession of bank failures which totalled about 180 banks, but it must be noted that even in the period between 1926 and 1937 the banks had suspended payments. In the years 1938 and 1939 there was a failure of 46 banks. Even prior to 1926 there had been failures in the working of commercial banks, but owing to the paucity of statistics the exact figures cannot be given now. However, according to my calculations the banks have been failing at the average rate of 42 per year for the last seven years. Between the years 1939 and 1947, they were failing at the average rate of 61 a year.

As a result of such failures, the depositors had to suffer a heavy loss. A rough estimate of this loss would be about Rs. 200 crores.

Even at present many banks are either running at a loss or are not in a position to declare any dividend to the share-holders. According to the statistical tables relating to banks in India for the year 1954, published by the Reserve Bank of India—these are the latest statistics available—out of 72 scheduled banks, 14 are running at a loss and 12 others have not declared any dividend. Out of the 17 foreign banks the Indian business of ten is running at a loss. Out of 65 non-scheduled joint stock banks with capital and reserves of Rs. 5 lakhs or over, 23 banks are running at a loss and eight others have not declared any dividend. Out of 191 joint stock banks with capital and reserves between Rs. 1 to 5 lakhs, 36 banks are running at a loss and 40 others have declared no dividend. Out of 116 joint stock banks with capital and reserves up to one lakh, 33 are running at a loss and 18 others have declared no dividend. To sum up, out of 461 joint stock banks of all descriptions, 116 have been running at a loss and 68 others have declared no dividend.

These failures which are unprecedented in the history of any part of the world are brought about by various causes. The Reserve Bank in its report of '*Banking Trends*' for the year 1954 has dealt with the nature of the defects disclosed on inspection of joint stock banks. According to this report 188 banks are not maintaining adequate reserves, 16 banks are not maintaining sufficient reserves against bad and doubtful debts. In 240 banks there was over-extension of advances. In 183 banks the proportion of unsecured advances to the total advances is disproportionately high. In 202 banks there are a large number of irregular and dormant advances, including advances having undesirable features. In 108 banks large advances are made against immoveable properties. In 93 banks there is concentration of advances in the hands of a few borrowers. In 70 banks large advances have been made to directors, their relatives and associates and concerns in which any of them is interested. In 160 banks there is a large proportion of decrees and doubtful debts. In 49 banks there is paucity of liquid assets. In 75 banks investment in Government securities is inadequate.

[Shri M. S. Gurupadaswamy]

Prior to 1949, inspection of banks by the Reserve Bank was limited to determining their eligibility for inclusion or retention in the second schedule to the Reserve Bank of India Act and to safeguarding the interests of the depositors. With the enactment of the Banking Companies Act and the amendment of section 42, sub-section 6 of the Reserve Bank of India Act in 1949, the powers of the Reserve Bank relating to the inspection of both the scheduled and the non-scheduled banks were considerably enlarged; the bank was thereafter empowered to conduct inspections for a variety of purposes and on its own initiative. Further, the Banking Companies Act made it necessary for banks to obtain a licence from the Reserve Bank to commence or carry on banking business and to open new branches in the country. The Act also required schemes of arrangement and amalgamation to be examined and sanctioned by the Reserve Bank.

In spite of these powers given to the Reserve Bank, the affairs of the commercial banks have not been very satisfactory. If the present experience is any guide, mere clothing the Reserve Bank with more powers will not cure some of the grave defects of the private banks as they are too deep-rooted and inherent in the system.

Besides, there is another angle from which we have to look at the problem of nationalisation of banking in India. Unlike in other joint stock companies, the major part of the funds of the commercial banks, by the employment of which profits are made, belongs to the depositors and not to the share-holders. According to the statistical tables of 1954 of the Reserve Bank of India (Pages 8 and 9), the total paid-up capital of Indian joint stock banks is Rs. 40.58 crores and reserves Rs. 30.53 crores. As against this, the total deposits of all joint stock banks amount to Rs. 1066.35 crores, which is several times more than the paid-up capital and reserves. But, in spite of this, these banks are managed for the benefit of share-holders and specially to the advantage of a few families who hold the controlling interest. So nationalisation of commercial banks would in effect mean the utilisation of the savings of the community not for the private profit of a few, but for the social benefit of the whole country. People's money would be used for people's benefit.

There is one more important point which we should consider in this context. The private control of banking in India as elsewhere is in conflict with the public policy. The banking habit in the country is at a very low ebb. The joint stock banks have failed to provide credit facilities to undeveloped areas. In consequence banks are heavily concentrated in a few towns and in a few States. For instance, there are only six banks in Andhra as against 45 in Bombay, 140 in Madras and 142 in Travancore-Cochin. In Orissa and Assam there are only two and five banks respectively. At three places having a population of 10 lakhs and over, there are 438 offices of banks whereas for 349 places with a population between 5,000 and 10,000 there are only 479 offices of banks which is a little more than one office per place. Therefore, with a view to develop undeveloped areas and backward sectors of our economy, public control and ownership of banking is very necessary.

Some doubtful Cassandras may say that if the whole of banking is brought under social control and ownership, the depositors would lose confidence in the nationalised set-up and business would fall. For such critics I have only to say that the credit of the banks itself depends mainly upon national credit which in turn depends upon the Government and its policy. As a matter of fact, the joint stock banks with a view to inspire confidence of the public in them, often take pains to publicise the fact that most of the depositors' money is safely invested in Government securities.

Mr. Deputy-Speaker: The hon. Member has been consulting his notes too often.

Shri M. S. Gurupadaswamy: Because of the statistics, Sir, I have to refer *in extenso*.

Mr. Deputy-Speaker: I did not interfere then.

Shri A. M. Thomas (Ernakulam): It is rather unusual with him.

Shri M. S. Gurupadaswamy: Apart from this, where the Government itself is doing business in post office savings banks, its performance has yielded better results than the joint stock banks. For instance, between 31st March, 1948 and 31st March, 1954, deposits of the post office savings banks rose by Rs. 103.84 crores, *i.e.*, from Rs. 128.11 crores it rose to Rs. 231.95 crores. The number of depositors rose from 31.53

lakhs to 50·70 lakhs. As against this, the deposits of all the joint stock banks in the country fell from Rs. 1118·23 crores on 31st December, 1948 to Rs. 1062·53 crores on 31st December, 1954 which means a decline of Rs. 55·70 crores.

The hon. Finance Minister, while speaking on the question of nationalisation of life insurance on the 29th February, 1956, said :

"The industry was not playing the role expected of insurance in modern States and efforts at improving the standards by further legislation, we felt, were unlikely to be any more successful than in the past. The concept of trusteeship which should be the corner-stone of life insurance seemed entirely lacking."

I would just ask the Finance Minister whether the same thing could not also be said about the private commercial banks.

In the course of the speech the Finance Minister also said :

"All control or regulation is negative in character. It can prevent what is demonstrably bad, but it cannot raise standards."

So, may I also ask the Finance Minister whether his words will not apply with equal force to the case of banks?

Before I close, I want to mention one thing and it is this. The Second Five Year Plan and the subsequent five year plans require enormous liquid resources for fulfilment. Further, the accelerated economic development would depend upon the availability and rational distribution of credit. These objectives can however be realised to the optimum point only when the whole of banking is transferred from private to public sector. And let not fears daunt the Finance Minister while taking such a decision. By such an act he might be displeasing his present company of a few financial oligarchs but he would be thereby regaining the love of millions of people in the country.

With these words, I commend my resolution to the acceptance of the House.

Mr. Deputy-Speaker : Resolution moved :

"This House is of opinion that Government should take steps to nationalise the banks in the country."

There are one or two amendments. I will have to enquire from those hon. Members whether they intend to move them.

Shri D. C. Sharma (Hoshiarpur) : I beg to move :

That for the original Resolution, the following be substituted :

"This House is of opinion that a Committee consisting of five persons be appointed by Government to devise the best way of nationalising the banks in the country with instructions to report by the end of August, 1956."

Mr. Deputy-Speaker : Amendment moved :

That for the original Resolution, the following be substituted :

"This House is of opinion that a Committee consisting of five persons be appointed by Government to devise the best way of nationalising the banks in the country with instructions to report by the end of August, 1956."

I hope hon. Members are aware that there is a limitation of time—15 minutes for each Member. That will be strictly observed. Shri Kottukappally may speak now.

Shri Kottukappally (Meenachil) : Mr. Deputy-Speaker, I rise to oppose the resolution moved by my friend Shri M. S. Gurupadaswamy. I was listening very carefully to all the arguments that he advanced for the nationalisation of banks in India, when I listened to him, I thought I was reading some text-book in the silences of a library. I did not find him quoting any country or quoting the instance of any one nation which has nationalised its banks. He said that for the development of an undeveloped country the first thing to be done is the nationalisation of the private joint stock banks. I wish to ask him in all seriousness and in all sincerity whether the development of Great Britain, whether the industrial growth of Great Britain, whether the agricultural prosperity of Great Britain were based on a previous nationalisation of the joint stock banks. It is, I think, about 125 years since joint stock banks, to begin with were started as small banks there. First there were banks in country centre and then there came into being a number of banks in District centres. Large numbers of them were distributed in all parts of Great Britain when they started functioning. If you follow closely the economic history of Great Britain and

[Shri Kottukappally] the way in which Great Britain founded one of the greatest financial empires in the world, you will understand that the growth, the prosperity and the development of Great Britain were all co-eval with the development of joint stock banks in England.

Then, look at the United States from the time of the colonisation of the United States by the peoples from Europe. Was the development of the United States due to any previous or on account of any nationalisation of joint stock banks? No, Sir. If the truth were to be told, if you analyse the facts of economic history you will find that it was the other way round.

Shri M. S. Gurupadaswamy mentioned bank failures in India. Really I was wonder-struck at it. I am a man who lives like him in this land, who reads the daily newspapers, in this land. In all these years has there been any major bank failure in India? Our Finance Minister, Shri C. D. Deshmukh, has often been telling this House, time and again, that of all the banking industries in the world the banking industry in India is the most perfectly controlled. If he takes up the arguments of bank failures, let me take the case of other industries or businesses. Take the shipping industry. You can say that during the last 100 years so many ships have sunk in the Pacific Ocean, in the Indian Ocean and in the Atlantic Ocean, and so shipping is no means of right transport. I can cull out instances of hundreds of thousands of train disasters in India and elsewhere and tell the hon. Member that no more railways should be utilised as a means of transport, because it is not safe! In the same way, I can quote hundreds of air-crashes and say that on account of these air-crashes aeroplanes should be damned and condemned as a means of safe, secure and comfortable means of transport for the people. His quoting of the figures in regard to bank failures reminded me of that rotten book which we read years back, written by Miss Mayo, about India. Go to any Government department; go to any mercantile firm in any country. You can, of course, see instances after instances where they have failed, this institution has failed or that department has failed. But that does not take away the usefulness, the good, the contribution that these people, these institutions and all these departments have made, as a whole, to the development of the country at large.

What is the ratio of the assets and liabilities of the banks which have failed during the last 15 years, compared to the total consolidated assets and liabilities of the joint stock banks? That is a question I have to ask.

Let me compare the figures from other countries with regard to the development of joint stock banking in India. I have some figures with me here. What is the number of banking offices per million of population in the United Kingdom? It is 229. In the United States it is 129. In Canada it is 256. In Australia it is 450. In Shri Gurupadaswamy's India—he must realise, before condemning all these institutions—

Shri Feroze Gandhi (Pratapgarh Distt. West *cum* Rae Bareilly Distt.—East): Is the country his?

Shri Kottukappally: Of course, it is my country, and it is yours also.

Shri Nambiar (Mayuram): You must not condemn; you must embrace and take it.

Shri Kottukappally: It is just the other extreme.

Mr. Deputy-Speaker: Let not India be divided between yourselves; we are also here.

Shri Kottukappally: Mr. Gurupadaswamy has seen a part of India which I have not seen.

Shri V. P. Nayar (Chirayinkil): I will show you.

Shri Kottukappally: Perhaps into the forests.

In India, for every one million people, the number of banking offices is only 16 against 450 in Australia where the population is only just as much as that of my small State, Travancore-Cochin, *i.e.*, about a crore. If in Canada there are 256 banking offices for a population of one million, that has not been brought about by the Government of Canada. If the number of banking offices in the U.K. is 229 for a population of one million that development has been brought about not by the nationalisation of banks by the Government. It has been done by private interests.

In a way, the principal banking institution in India, the Imperial Bank of India, was from the very beginning a semi-nationalised institution. Now it is completely nationalised and it has become the State Bank of India. If you look into the history of the Imperial Bank, you will find that it came out of

the amalgamation of the three banks—the Bank of Bengal, the Bank of Madras and the Bank of Bombay. What is the help that this Imperial Bank has given to the people of India? I am speaking with some intimate knowledge of the conditions in my State.

[PANDIT THAKUR DAS BHARGAVA in the Chair]

There are just one or two branches of this bank in my State and they have been serving the foreigners. If they lent money, if they discounted bills, they discounted the bills not of Indians, not of the people of Travancore-Cochin, but of European companies like Volkart Brothers, the Peirce, Leslie and Company and made those people richer and richer. Some 30 or 40 years back, the people of my State had to depend entirely on indigenous money-lenders, but the rate of interest that they were charging was 12 to 24 per cent. Under those conditions, a large number of joint-stock banks were formed in my State. If you look at the history of the economic development of my State, whether it be in the matter of expansion of plantations like rubber, tea, cardamom, lemon grass or cashew or whether it be in the expansion of industries like, coir, oil and others or whether it be in the expansion of transport, you will find that all this economic prosperity of Travancore-Cochin is due to the large number of small joint-stock banks in the State. We have earned much dollar exchange for the country. All this economic prosperity of Travancore-Cochin is due to the joint-stock banks founded by the Travancore-Cochin people, run for the benefit of the Travancore-Cochin people by the Travancore-Cochin people. I do not know what would have happened to that congested poverty-stricken State if these joint-stock banks were not there. It is well-known that my State is a shallow water-logged land, a land of backwaters. Nowhere else in the world, except perhaps in Holland, has reclamation of backwaters into smiling *punja* paddy fields been achieved, as has been done in Travancore-Cochin. I would just request my hon. friend to go and enquire as to who helped in the reclamation of the water-logged land. It was not the Imperial Bank. But for our joint-stock banks and the help they gave the cultivators, the people of Travancore-Cochin, deficit as the State is even now in paddy would have starved during

the ration period. It was the banks that were established by our own people in our own territory that helped us.

I am now looking at a map given in the statistical tables relating to banks in India and showing the distribution of the branches of the State Bank of India in India. What do we find here? The branches are huddled together in a certain part of the country. A large part of Central India is left out; Orissa is left out; Travancore-Cochin is left out. I will challenge anybody to examine what the Imperial Bank has done to the people of India during the 70 years of its existence. Who developed the textile industry in India? Who developed the cement industry in India? Who developed the sugar industry in India? Who financed these industries? The Imperial Bank was financing European companies.

We have already nationalised the Reserve Bank; we have already nationalised the Imperial Bank and we have recently nationalised the insurance companies. In a leading article in the *Hindustan Times*, commenting on the speech of Dr. John Matthai on the working of the State Bank of India during the last year, it has been said that the deposits of the State Bank of India have gone down since its nationalisation while the total deposits of all the joint-stock banks in India have considerably gone up. Of course, it may be said that it is a temporary feature; that the State Bank of India will be run in the safest and in the most beneficial way, have no doubt thanks to Dr. John Matthai being at its head!

Mr. Chairman: The hon. Member's time is up.

Shri Kottukappally: With our short and limited experience, we will have to be very careful. We should be cautious and we should go slowly. We have always to be circumspect.

Shri Matthen (Thiruvallah): Mr. Chairman, . . .

Shri Nambiar: (Mayuram): An ex-banker.

Shri Matthen: Yes; an ex-banker. I have nothing to do with banking today. I am as poor as Shri Nambiar over there. No capitalist; nothing of the sort.

An Hon. Member: Free of all encumbrances.

Shri Matthen: I speak with some background in banking. I have been following Shri M. S. Gurupadaswamy's advocacy of nationalisation. But, I am sorry to say that I cannot support him wholeheartedly.

It is true that I have been the first Member of Parliament here who has been advocating nationalisation of insurance companies. In a way, I am for nationalisation of banks. But the difference in my advocacy for nationalisation and the advocacy of my hon. friend Shri M. S. Gurupadaswamy or anybody is this. I want to retain the private sector. I want to retain an element of competition in business. Without an element of competition, no industry will grow properly. As I said on a former occasion, monopoly corrupts, whether the monopoly is handled by the Government or by the private sector. We have already done the nationalisation of the Imperial Bank, that is 50 per cent. of banking with prospect of controlling mofussil banking. It is not urban banking only. That is the great policy laid down in the nationalisation of the imperial Bank. It will in due course spread into the rural areas. If you obliterate the private sector, I am sorry to say, it is something which everybody will regret. The economy of India will regret. Today, if you go into the country—I know my State and I have gone to several States recently—one fear which the people share,—even those who had been advocating nationalisation of insurance—is the fear whether the standard of service will go down, when a man dies, whether his widow who needs the funds, will get them in time without the redtapism of government organisations. That is why, even though I have been advocating nationalisation, I rather insist upon retaining a small efficient private sector with sufficient control.

I am with Shri M. S. Gurupadaswamy and I believe that this is one department of industry where the public has the right to demand nationalisation. Just like the insurance premium that is collected, the deposits that are collected here from a public trust. It is not like investment in a steel factory or a textile factory where all the investment is made by the manager and proprietor and he gets the profit or suffers the loss. Here, it is a matter of credit. I agree. But, it is very equally important for the economy of India that the private sector should be maintained and efficient competition should be maintain-

ed. I invite the attention of my hon friend Shri M. S. Gurupadaswamy to the great industrial development of Germany under Kaiser William. At that time the world industry was controlled by the U.K.

Shri V. P. Nayar: (Chirayinkil): You want India to be made Kaiser's Germany?

Shri Matthen: Have some patience.

The industry and trade of the world was in the hands of the U.K. at that time. When the Kaiser realised the potentiality of foreign trade, what did he do? He did not insist on the old banking principles of the British to be copied in Germany, but he gave a free hand: not much of control. Because if the orthodox banking principles of the old British banks are copied in India or were copied in Germany, very few people could take advantage of the credit offered. I can give an example. I think Shri Kottukappally referred to the development of the plantation industry in Travancore-Cochin or the cashew industry. When I was a banker, I take credit to have taken banking to the middle classes and the lower middle classes, to have democratised banking. At that time, cashew was practically not a commodity which fetched any price. I am talking of the early twenties. I came across an American representative of the General Food Co. He said that the market in America for the cashew was very great. He saw the nuts available in Quilon and said these are the biggest and best that I have seen, will you help me? I went to the big merchants of the place and asked them to start a cashew industry: shelling and packing business. I knew the margin of profit was 400 per cent. They all refused. Then, I had to go in for the people who had no asset of their own. I gave them money for buying nuts, for buying cycles, for thatching their houses and persuaded them to do this cashew business. Today, that is the biggest industry in Travancore-Cochin. One person to whom nobody would have advanced Rs. 100 then, is today one of the richest men in Travancore-Cochin. If anybody had followed a conservative policy, even if the Government were in the field, Government would not have looked at these people for advancing moneys. I knew the margin of profit. I knew the letter of credit was with me. The only thing I had to make sure was that the nuts purchased are broken and packed. I knew that these common people are more honest than the rich people.

Some Hon. Members: Oh yes.

Shri Matthen : They maintain a higher standard of morality than the so-called big capitalists.

My main point is this. If a conservative policy had been followed, even if the Government were in the field of banking, Government would not have looked at these people. As I said, several of those people are rich today, because of the liberal policy pursued by the private sector. I had freedom to do that. When I was convinced I made the advance. My point is, in every industry, especially in banking and even in insurance, though it is too late today to speak about it—I think there should be independent corporations so that there may be competition—this spirit of competition is essential for development. As I said, the development of German industries was due to the banking policy of Germany.

Shri M. S. Gurupadaswamy was placing too much stress on bank failures. I think my hon. friend Shri Kottukapally has replied to it. After the Banking Companies Act, after the Reserve Bank has started pursuing a policy of control over private banking, the story is different. Hardly any bank has failed. I am sure bank failures will be fewer and far between, and will be nil, if the present policy adopted by the Reserve Bank is continued.

Shri Feroze Gandhi : Was not there the Reserve Bank when the Calcutta Banks failed?

Shri Matthen : The Reserve Bank was there. That was exactly the mistake. Our Finance Department was there. But, the Finance Ministry did not exercise the control which it should have exercised on companies. If it had been done, the corruption, etc., that my hon. friend was referring to in Dalmias, would not have taken place. They never exercised the rights that they had. There were scheduled banks and other banks. They never cared for the small banks. Even on scheduled banks the control was limited. Today, it is different. On scheduled banks, non-scheduled banks and small banks, the Reserve Bank is exercising control. I am for control. I am not at all against control. I am against laissez faire capitalism. My only difference is this. As far as banking is concerned, we have done nationalisation. If we do more, it will be something which

we will not be able to swallow, we have not got the personnel, we have not got the machinery. This is not the time for India to go into lines like this, when we can devote our attention and energy and finance for developing basic industries. Therefore, in the present context of our industries, especially the development of small industries, it is only the small banker or the private banker who will take the risk and go to their help. I think it will be absolutely unwise to resort to nationalisation of banks as we have done in the case of insurance.

Shri V. P. Nayar : I wholeheartedly support the resolution of Shri Gurupadaswamy. I would have very much wished....

Shri Feroze Gandhi : Wholeheartedly or headedly?

Shri Nambiar : Here is an alternative.

Shri Chattopadhyaya (Vijayavada) : Full-throatedly.

Shri V. P. Nayar : If after the words "should take steps" in his resolution, he had added "immediately" I would have welcomed it all the more.

The two bankers who spoke after him, a banker and an ex-banker, banked too much upon their banking experience to argue their case, in vain.

Shri Chattopadhyaya : Alas !

Dr. Lanka Sundaram (Visakhapatnam) : There is provision for overdraft!

Shri Chattopadhyaya : They might catch it.

Shri V. P. Nayar : I was very much interested to hear the present banker or the current banker, Shri Kottukapally. He certainly has some experience and his bank has done some good work in Travancore-Cochin at least. He says that the banks have been functioning very efficiently, that in Travancore-Cochin the banking facilities are very much more. Why is it I ask him then that, if the banks are functioning very much better in Travancore-Cochin than in other parts of India, his bank and the other banks in Travancore-Cochin do not so far pay the rate as suggested by the award?

There alone the banks do not function.

Shri Kottukappally: The bank with which I am connected is paying the rate according to the award, it was paying it even before the award.

Shri Bhagwat Jha Azad (Purnea *cum* Santal Parganas): One swallow does not make a summer.

Dr. Lanka Sundaram: The swallow will swallow.

Shri V. P. Nayar: We are here considering whether in the present context the banks have to be nationalised or not. I am not going into the details of the history of banking. We all know how the banking industry in this country has developed. Even as late as 1925 I find there were only 28 banks while today we have very many more, over 400 or so. That is not the point. But the banking industry has today developed in such a way that it has become an apparatus of exploitation in the hands of a few people, who suck the life-blood of the people in various ways. There is no denying that.

If you go through the analysis of the banking industry, you will find that it has done very little in the matter of developing India's agriculture. To some it may be an arguable question whether it is part of banking or not, but for us it is not an arguable proposition at all. From the data collected by the Reserve Bank we find that out of Rs. 557 crores that the banks have advanced, Rs. 120 crores or about 34.3 per cent. has gone for industry. For commerce they have advanced Rs. 278 crores, or about 50 per cent. And for agriculture it is Rs. 5 crores. Here my friend was saying: "We have given money to cashew, ginger, pepper, lemongrass oil etc." All that in Travancore-Cochin plus what you have given for agriculture and agricultural commodities in the entire country comes to only Rs. 5 crores, which is less than one per cent. of the total investments of the Banks. Is it fair that in a country where more than 80 per cent. of the population is depending upon agriculture, the banking industry develops to a great extent but gives less than one per cent. to agriculture?

Shri Matthea: May I interrupt and say one word?

The policy of the Reserve Bank was against agricultural finance, it was only for commercial banking. You cannot blame the banks for it.

Shri V. P. Nayar: I am coming to that. Indian banks have advanced Rs. 47 crores by way of personal loans on personal security, which comes to about nine per cent.

Shri Kottukappally: At least 45 per cent. of the entire private banks' deposits in India are invested in Government securities, including those of the banks in Travancore-Cochin State.

Shri V. P. Nayar: Whether you have invested 45 per cent. or 50 per cent. in Government securities is not the proposition before us. What I say is that the money which the banks have in India today is utilised to the extent of 34.3 per cent. for industries and 50 per cent. for commerce. What is commerce? We know that these various banks are not controlled by hon. friend like Shri Kottukappally. The banks are in the hands of tycoons and monopolists in Industry. Which big industrial house in India is not connected directly with a bank? I say the houses of Tatas, Birlas, Dalmias, Jaipurias, Kanorias, Singhanias and Bangurs have all their banks. Every big industrial house has its own banking enterprise.

Shri Feroze Gandhi: Except the House of the People?

Shri V. P. Nayar: Except the House of the People, everybody has a bank says Mr. Gandhi.

Shri Nambiar: We should also have a bank.

Shri V. P. Nayar: This is the position that we have.

My friend was asking a question: would Shri Gurupadaswamy point out any instance of either the United Kingdom or the United States of America having nationalised the banks. But can my friend Shri Kottukappally say whether either the United States of America or the United Kingdom have declared for themselves the goal of a socialist pattern of society as we have done for this country?

Shri Bhagwat Jha Azad: Clause 4 of the Bank of England Act gives power to control the banks.

Shri V. P. Nayar: Please allow me to proceed.

Nationalisation of banks, as far as I can see, especially in the context of the Second Plan frame which is before

me, is an imperative necessity as Government tells us that this Plan will take us to the fringes of a socialist pattern of society. What is a bank for? A bank is not for Shri Kottukappally to be a managing director or for me to be its manager; or for a monopolist to be financed. It has to cater to the financial needs of the people. I was surprised to find that even as late as in the wake of the Second Five Year Plan, Government do not commit themselves to a declaration of policy that here and now the major banks will be nationalised. I was going through the Second Five Year Plan report. I read every line of it. The importance of finding more finance has been stressed over and over again. The fact that the Imperial Bank has been nationalised has been mentioned as a credit in the First Five Year Plan. The fact also that the insurance companies are being nationalised is mentioned. But I do not find a word about nationalisation of banks which we have necessarily to have.

If you will permit me, Sir, I will read one or two sentences only to show how much important it will be for the Second Five Year Plan. I am reading from page 17 of the draft Second Five Year Plan.

"The recent decision to nationalise life insurance has added another potent instrument to the repertory of the public sector for raising savings and for regulating and directing the flow of funds in accordance with the requirements of the plan."

I ask this simple question of the hon. Minister of Revenue and Defence Expenditure who is here; if nationalisation of insurance can be considered to be a useful repertory, can we not consider nationalisation of banks, as a repertory with a greater potentiality for the financing of the Second Five Year Plan? The banks between them have assets of about Rs. 1200 crores. No joke. Can we not, by exercising greater control through nationalisation and by bringing the banks into the public sector, prevent at least the tax evasion which is so rampant today? The Government of India does not have powers to ask the banks to disclose the accounts of private gentlemen. I do not think even the Reserve Bank has that power. The Reserve Bank does not have powers, for example, as those of even the Control Commissioner of France. When we ask questions, they say it is not in the

public interest to disclose certain figures relating to safe deposit vaults. I ask the Minister whether it will not be conducive to prevent tax evasion if the banks are nationalised because most of these professional tax-evaders have their accounts in banks under so many names and banks, if they were under Government management, could certainly find out. I do not want to argue on that point at any greater length.

Shri M. S. Gurupadaswamy : Safe vaults.

Shri V. P. Nayar : It is a question which has been asked several times and oftentimes the reply has come that it is not in the public interest to disclose. All this can be prevented if we nationalise the banks. There is no question about it. Thirty crores of rupees is estimated to be the annual loss on account of tax evasion in this country. I think it should be very much more, but even if we take that estimate, a very large percentage of that can be found out and money realised if only Government had greater control over the banks.

My friend was asking whether in the United Kingdom it has been nationalised. Why do we copy other things from the United Kingdom? For his information I can tell him that in Australia when the Labour Government was in power, banks were nationalised. All the banks were nationalised, but unfortunately after that there was an order from the competent court declaring that particular Act to be *ultra vires*.

But then the Labour Government fell. The Liberal Government which followed passed another Bill withdrawing the previous Act, and thus got Shri Kottukappally's friends in Australia another lease of life. That was what happened.

4 P.M.

Shri Kottukappally: But we can follow more ancient countries.

Shri V. P. Nayar: I am coming to ancient India also, and not even ancient countries. My hon. friend was saying that no other country has done it. I would commend to my hon. friend this report on banking, which I have in my hand namely the *Overseas Economic Surveys* of UK which gives an account of the banking industry in France. If my hon. friend will go through it, he will find that France has now nationalised five banks which are called Deposit Banks, and which between them,

[Shri V. P. Nayar]

have 60 per cent. of the banking industry of France. I do not say that every bank here should be nationalised tomorrow. That may not be possible. But certainly, all the scheduled banks, all the exchange banks, and all the first-grade banks, can be nationalised within a very short period. Even then, Shri Kottukappally's bank will not be left out, because his is a big bank too. That, however, is a different matter. I would ask my hon. friend whether in other countries—I do not say anything about the socialist countries—the banks have been nationalised, as for instance, in Czechoslovakia or in any other country. But my hon. friend does not know anything about that, because he only asks, 'Have we got an instance of the banks having been nationalised in the United Kingdom? Certainly not.'

Shri Kottukappally: In UK, they have nationalised the Bank of England.

Shri Bhagwat Jha Azad: They have wide powers to control the other banks.

Shri V. P. Nayar: But that is a Central Bank. Most of the capitalist countries have also nationalised the Central Banks. Even the capitalistic countries have had to nationalise their central banks. But in Australia, as I said earlier, all banks were being nationalised; in France also, some other banks besides Central Banks were being nationalised. That is the point which I want my hon. friend Shri Kottukappally to bear in mind before he comes forward to make a sweeping charge. Let my hon. friend come out with any other example.

Now, Sir, I would like to say something about the present plight of the banking industry. We know that banking is as old in India as the Vedas. There are references to loans in the Vedas. And as a student of Sanskrit, you know that Kautilya's *Artha Shastra* prescribes a limit for the interest which can be claimed on loans and on securities. What is the position of banks today? Apart from the banks which are either scheduled or non-scheduled, there is another apparatus spreading its vicious tentacles all over the country, namely the private moneylender's banks. What is its role? He also claims that he has given finance for the agriculturist, and that he has given finance for the artisans and the small men. But what is the interest that he charges? Here, Kautilya's *Artha Shastra* is torn to pieces. He charges one hundred per cent.

Shri Chattopadhyaya: So is the man who borrows.

Shri V. P. Nayar: What is the trick that these money-lenders play? You can have any number of loans from these usurious money-lenders, but if you take a loan of Rs. 100 from them, they will take a receipt from you for Rs. 500, and when you pay, you have to pay the interest on Rs. 500 at 9 or 12 per cent. and pay the principal at Rs. 500. Is this not being done by the private bankers? This is done even by the bigger banks privately. Whatever laws may be in force which may prevent usurious practices. We find that in this country, because there is no State-owned banking industry, and because there is some difficulty in finding adequate finance, a set of nefarious operators prowl for prey in this private banking line, and they are allowed to continue to do so. If we were to make it possible for the people to think that a State Bank will cater to the needs, I submit that that aspect also will be to the advantage of the people.

I want to draw the attention of the Minister to certain other aspects. I want to pose certain questions before him, which if he answers, I shall be very happy. Is it not a fact that the policy of the banks as we find today runs counter to the national needs? Is it not a fact that when there is a favourable price situation, the banks are very liberal, and when there is an unfavourable price situation, the banks tighten up, and control the advances more? I would also like to ask him whether, in India today, with what my hon. friend Shri Kottukappally calls a "well-developed banking industry", it is not a fact that the banking industry is controlled by a few people who have monopolistic control over other spheres of activity in the industrial and commercial sector. Is it not a fact that some of our biggest bankers happen to be owners of the biggest industries in India and the biggest business houses? I do not want to waste the time of the House, but the examples which I gave before will indicate the real position.

Shri Matthen: Control the bank.

Shri V. P. Nayar: They do. I do not want to name anybody, but even some of the biggest industrialists having their own banks see that their ventures get more money at the right time while the others do not get it. So many reports

on the banking industry have brought out these matters. I do not propose to argue those points now.

My regret is that when we say that we are marching forward, and that from here all roads lead to a socialist pattern not even the socialistic pattern and when we say that Government must find out all possible resources from the country, this vitally important source of getting adequate finance, namely banking, should have been left to the private sector. And I feel that Government not committing themselves to a statement of policy that at least the Scheduled Exchange Banks will be forthwith nationalised, should make the Minister blush with shame.

In conclusion, and after omitting most of the points which I wanted to put forward.....

Shri A. M. Thomas (Ernakulam): My hon. friend ought not to have faced Shri Kottukappally.

Shri V. P. Nayar:... I would say that in order to save the people from the predatory money-lenders, in order to save our country from the economic mal-adjustments which are deliberately created by banking institutions today, and in order to facilitate the Plan being worked out to a success, all the banks should be nationalised, the bigger ones being taken up in hand immediately for nationalisation. I hope Government will have no hesitation in doing so, if as they proclaim from the house-tops their objective is to usher in an egalitarian society.

Shri Bhagwat Jha Azad: Though the institution of banking has progressed very much since the first bank was established in the world, yet in India, the first bank that was established, namely the Commercial Bank of Oudh, was established in 1881, and after that, during the period that has intervened up till now, the progress of banking in India is very dimly disappointing. If we go through a close review of the banking industry in India, we find that the very objective for which we have had this institution has not been fulfilled or realised in our country.

According to the great authority on banking, Mr. Sayes, the main issues that arise in the case of the banking industry are the efficiency issue, the integration issue, the monetary issue, and the general and transitional issues. I need

not go into the details of all these theoretical propositions. But I shall straightway go on to deal with the first issue, namely the efficiency of the banking institution in India. The certificate of efficiency is very well reflected in the number of bank depositors in India, which is only 36 lakhs, that is one per cent. of the entire population, and almost half of those who are insured. It is very well reflected also in the offices which were only 4819 in 1947, but have since come down to only 4014 in 1954. The number of depositors and the number of offices reflect very well the certificate given by the people of this country to the banking institution and the bankers.

These 4014 offices are situated only in a thousand places. My hon. friend Shri Kottukappally had referred to the Imperial Bank's offices and stated that they have entered into unhealthy competition. But what about other banks? They have opened their branches, however, only in a very few places, mostly in big towns, and they have never reached the villages or the small towns. So, we find that 40 per cent. of their offices are concentrated in 64 places in this vast country. So, they have failed to reach, and tap the resources of, the people of this country, which they have got to, if only we want to implement our Second Five Year Plan successfully by reaching the common man in the villages and small towns.

As a result of the prosperity in the agricultural sector and as a result of the impact of the Second World War, we now find that money is flowing from the big towns to the villages, from the zamindars to the labourers. Therefore, it is high time that the banking institutions gave us a correct picture of how they would tap the money flowing from the big towns to the villages. But nothing like that has been given to us. No efforts have been made to understand and realise this vast change that is going on in the country, the vast change that is effected by hydro-electric schemes whereby vast tracts of land will be irrigated. How will they tap the resulting money that will come in the hands of the farmers of this country with the small number of 4000 banking offices in 60 places? These banking institutions cannot take credit for helping the economic prosperity, commerce, trade and industry of the country, as is the case in foreign countries. But what is their policy?

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Under a planned economy, we have got our Five Year Plans. We have to realise more and more money. We have to attract small depositors and small borrowers. We have to fill up the gap by attracting the small savings and other savings of the people. These banking institutions adopt a highly discriminatory policy with regard to giving loans. When they give loans to the common man, the ordinary borrower, they discriminate by charging him a high rate of interest. But between the directors, they mutually exchange loans. The Reserve Bank of India Act provides that the director of a bank cannot take a loan from the same bank. Therefore, these directors mutually exchange loans at a very low rate of interest. I will give you a concrete case without naming the individual. A big Kanpur industrialist took a loan of Rs. 50 lakhs from a bank, the head office of which is in Delhi. Then the man in Delhi, in return, got a loan of Rs. 50 lakhs from him. And what is the rate of interest charged? It is 4 per cent. or 4½ per cent. But if a small borrower or a small depositor wants a loan, he cannot get it at such a rate of interest.

What is the use to which these big sums of money are put by these people? Through brokers and *benamidars* they speculate, they invest in shares of companies which themselves crash at any time. This practice brings not prosperity to the country but just result in a crack in the economic structure of the country.

I will give you another example of how they operate. From a Calcutta branch of a scheduled bank, a sum of Rs. 2,43,00,000 was 'clean lifted'—that means, by giving a personal security—by a certain industrialist for the purpose of speculation in jute. The Reserve Bank of India came to know of this. It immediately demanded that the money be returned with all grace. Humiliating himself, the fellow had to return the money. This is how they operate. Recently, ten months ago, the same bank advanced a loan of Rs. 43 lakhs to a prominent industrialist. For what purpose? For speculation. Again the Reserve Bank came to know of it and has asked for the refund of the money. I do not know whether he has given it back.

Therefore, my point is that these banks discriminate in giving loans to small borrowers and small depositors,

but they themselves mutually exchange big loans at a nominal rate of interest. They go in for shares, they go in for speculation and thereby bring ruin on the economy of the country. Shri Kottukappally may deny this. But this is a fact. Therefore, it is high time that we hurried up with legislation for nationalising the banks.

I will bring before you a very interesting device of how these friends try to deprive the poor depositors of their money and dividend. You know that these very industrialists, who control the banks, are responsible for creating scarcity in the country. Advances and loans made under the cash and credit system are being misused for cornering commodities. They deposit a sum of Rs. 2 lakhs and take Rs. 10 lakhs with which they speculate. Therefore, this cash and credit system is being misused for cornering commodities, thereby creating scarcity in the country, which is an artificial scarcity. Thereby they deprive the consumers of the natural benefits of prosperity in the country. No use is made for productive purposes.

After the last war, Japan faced the same situation. How did Japan tackle it? There also the industrialists made use of the cash and credit system to corner commodities and thereby create artificial scarcities in commodities. Japan had to create a central authority to check advances and loans under the cash and credit system. Before any loan is given, the authority must satisfy itself that it is going to be used for productive purposes. But in this country, there is no such restriction operative. They can deposit Rs. 2 lakhs and take Rs. 10 lakhs and speculate or do what they like with that money. I feel it is high time that we should not allow these gentlemen to play ducks and drakes with the money of the public. Their inefficiency and their personal motive of profit have shaken the faith of the depositors in this country.

Now I will give some statistics about the notes in circulation, deposit liabilities and the percentages. In India, the notes in circulation in December 1955 were to the extent of Rs. 1374 crores, the deposit liabilities were to the extent of Rs. 1052 crores. That represents a percentage of 75. In Canada, in the same period, notes in circulation were to the extent of £ 1739 million (sterling), deposit liabilities £ 1194 million (sterling) and the percentage 684.

Similarly, in South Africa, the corresponding figures are £ 111 million (sterling), £ 465 million (sterling) and 418.99 per cent. In the USA, the respective figures are \$ 26,921 million, \$ 10,117 million and 390.47 per cent. Compared to India which has got only 75 per cent. in deposit, Canada has got 684 per cent. South Africa has got 418 per cent. and the United States has got 390 per cent. This shows how the country's faith in banking institutions has been shaken by the inefficiency and personal profit motive of these bankers. Therefore, it is high time that we nationalise these banking institutions so that all the surplus money available with the public is saved for the implementation of the Second Five Year Plan, and not for the personal profit motive of these bankers and industrialists in the country.

Shri Kottukappally quoted the case of a bank which is already doing good work. Very good. We compliment him on that, although I do not know how far it is true; but I take it as true, coming as it does from my hon. friend. But one swallow does not make a summer, and this does not wipe off the actions of other bankers who are behaving mysteriously in this country.

Referring to Shri M. S. Gurupadaswamy's speech, in connection with failures of banks, he asked: are there not failure of aeroplanes, trains and ships? I would respectfully ask him: are these failures the same thing as the bank failures? This is a fallacy and a bad argument. Is there any personal motive in these failures?

The pilot does his work in all honesty and sincerity. Yet, unfortunately, he fails. But is the failure due to the dishonesty of the pilot? On the other hand the bank failures are due to unhealthy competition in small towns and the personal profit motive of the bankers and their speculative activities in the share market and misuse of the cash and credit system. Therefore, all I can say is that this argument of Shri Kottukappally's looks very nice. It is wrong to use this analogy and fallacious argument.

We find that from 1948 to 1954, there have been as many 294 bank failures. This is the number regarding Calcutta alone. The amount involved is Rs. 30 crores. The poor depositors were robbed to the extent of Rs. 30 crores....

An Hon. Member: Looted.

Shri Chagvat Jia Azad: Therefore, this wonderful certificate of the relationship between the notes in circulation and deposit liabilities shows how badly, how shabbily, how poorly they have treated the people of this country whose faith in these banking institutions has been shaken.

Then, I come to the other common corrupt practice of taking a small percentage from the loans that they give on behalf of the bank to the loanee. They charge a small percentage on the loan which they give to the loanee. Therefore, it is essential that for integration and monetization in this country we should have control over the commercial banks also because, like the Reserve Bank they also create facility for money.

In England, the Bank of England Act gives wide powers. The Bank of England has been invested with wide powers under clause (4) of the Bank of England Act, to request information from and make recommendations to bankers as well as issue directions, if authorised by the Government, provided that no such request or recommendation shall be made with respect to the affairs of any customer. Thus, it is expected that the Treasury, the Central Bank and the clearing banks would have to pull well together. The Bank of England Act serves as a safeguard.

As Shri V. P. Nayar said, in France they have nationalised banks. They have four deposit banks.

In Australia, in 1947, they introduced a Bill for nationalisation. See what they have done for protecting poor depositors like ourselves. I am quoting from what Mr. Chieffy, the Prime Minister of that country at that time, said about the nationalisation of banks. He gave the reasons for the nationalisation.

"(1) Policies of private banks have run counter to national needs. The purpose of nationalisation is to take away powers from the hands of a few directors and to devote banking to the national service.

(2) Private banks increased their lending in good times and contract it in bad times, and lend always where the profits seemed largest and most assured. Private banks fed booms.

(3) Through the process of amalgamation, power of private banking has become concentrated in the hands of

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Boards of Directors comprising a relatively few men."

This is what the Prime Minister of Australia, Mr. Chieffy said in moving the Bill in the Federal House of Representatives of Australia.

The same circumstances also exist in this country and it is high time that we go through this nationalisation of banks so that we can tap all the available resources of money that goes from the big towns to villages and be able to bridge the gap in finance which we have got for financing the Plan, so that we can make people more interested in spending large sums of money as is being done in the U.S.A. Unless the banks are nationalised there is no hope for getting the resources of these poor men. By that alone, we can go to the schools, we can go to the colleges, we can go to the temple, we can go to the mosque, we can go to the church and we can go to the field and ask from the people a good amount of money. In this way Government will guarantee the poor man against failure of the bank. In U.S.A. the Government guarantee against failure of banks. Therefore, I do hope that Government will take action soon.

Shri Gurupadaswamy has quoted the Finance Minister as to what he said about how these banks behave and all that. Therefore, with all the emphasis at my command, I support the resolution moved by Shri Gurupadaswamy and I am glad that at least once in his life he has given me an opportunity of supporting him.

Dr. Lanka Sundaram: It may be a harbinger of others.

Shri A. M. Thomas: Mr. Chairman, Sir, it has so happened that on this resolution on the nationalisation of banks, I am the fourth Member to speak from Travancore-Cochin. I think it is not strange that many Members from that State have thought it fit to participate in the discussion on this resolution. If you go through the statistics concerned, you will be able to find that it is, perhaps, Travancore-Cochin that has got the largest number of banks as compared with other States.

Two of the speakers from Travancore-Cochin have emphasised the great service that has been done by the joint stock banks of Travancore-Cochin. Had it not been for the great number of banks in that State it would not have been

possible to finance the small agriculturists, the small industrialists and the petty traders and the persons who are trading in commodities like pepper, lemon grass oil, ginger and so many others. I do not want to enter into a discussion on the services that have been rendered by the joint stock banks in this country.

Shri Gurupadaswamy, by his resolution, wants this House to commit itself to the nationalisation of the entire banking business of this country. Shri V. P. Nayar my friend from Travancore-Cochin, who is now sailing with the communist party, is not....

Shri V. P. Nayar: Why?

Shri A. M. Thomas: Even now you are only a fellow traveller and not a full-fledged communist.

Shri V. P. Nayar: You are mistaken.

Shri A. M. Thomas: Shri Nayar has not chosen to go as far as Shri Gurupadaswamy has gone. Shri Nayar has stated that he does not want the entire banking structure to be nationalised. He does not want to see the small joint stock banks....

Shri V. P. Nayar: If the hon. Member were to yield....

Shri A. M. Thomas: I do not want to yield.

Shri V. P. Nayar: You are misinterpreting what I said. I certainly said that you should nationalise all the banks, tomorrow or the day after.

Shri A. M. Thomas: Shri Nayar wanted to nationalise the big joint stock banks, the foreign exchange banks and big banks only. I do not think there is any necessity for this House to pass this resolution. The Government itself is committed to the spirit of the resolution. We passed the State Bank of India Act and, under section 35 of that Act, you will find that the State Bank, may with the sanction of the Central Government and shall if so directed by the Central Government in consultation with the Reserve Bank, enter into negotiations for acquiring the business, including the assets and liabilities of any banking institution. (*Interruption.*)

So, that is the provision of the Act that we have passed and it is open to the State Bank of India to take the banking business of any institution in this country by negotiations.

You will also find that the Committee of Direction, appointed by the Reserve Bank of India, has gone into this question of the credit structure of the country especially in relation to rural credit. It recommended for the nationalisation of the Imperial Bank. It has further recommended that the major State-associated banks like the State Bank of Saurashtra, the Bank of Patiala, the Bank of Bikaner, the Bank of Jaipur, the Bank of Rajasthan, the Bank of Indore, the Bank of Baroda, the Bank of Mysore and the Hyderabad State Bank and the Travancore Bank, should also come within the ambit of the State Bank.

The Committee has also said that the Reserve Bank and the Government of India should examine, in this context, the suitability of also amalgamating certain small State-associated banks. For future application, as and when necessary and appropriate, and subject to notification by Government, the same statute should contain provision for similar compulsory amalgamation with the State Bank of India of suitable, relatively small commercial banks whose branches are so situated as to be complementary in point of area of operation to that of the State Bank.

I think this recommendation of the Committee of Direction has been accepted by the Government.

Shri Gurupadaswamy cautioned that, as is usual, the Finance Minister should not follow a pragmatic approach in this matter. But I would say it is a pragmatic approach that is necessary. What is the object we have in view? It is the expansion of credit facilities. How best it can be served, is the matter which we have to determine. Having adopted the socialist pattern of society, we are committed to avoid concentration of economic power. For that purpose, we have taken up the nationalisation of insurance. As time passes, we may, perhaps, nationalise banking also. But, all of a sudden it is inadvisable to nationalise the entire banking structure of this country. The Government might, from its experience of the nationalisation of the Imperial Bank, proceed cautiously in nationalising other banks. Since the State has entered the field, it can open banks anywhere in the country and in any number.

Shri George Thomas has quoted certain figures to show the inadequacy of banking facilities in this country.

He has quoted that for one million of people, we have got only 16 banking offices. When I studied Economics in my B.A. class, I remember that the whole of India had not even the number of banks that the city of Paris had at that time. It shows how inadequate banking facilities in this country are.

So, I think, this is a field in which there is scope both for the private sector as well as the public sector. We have nationalised the State Bank of India. The State has stepped into this field, and whenever possible, for expansion of trade facilities, we can take up this business to any extent.

There is another factor that we have to bear in mind in this connection. Even now we leave a sector of our industry and commerce to the private sector. The complaint is raised from the private sector that now that the State has come in and has launched enormous development plans, it is impossible for the private sector to get the necessary finance for its own purposes, that is, for the development of those industries and for the development of commerce which has been left to the private sector. I think it is not possible to nationalise the entire banking structure now. I should think that the State Bank may first of all take over the business of the State Bank in the other States and even nationalise some other big banks. But to nationalise the entire banking structure....

Shri V. P. Nayar: What do you think of the exchange banks?

Shri A. M. Thomas: Shri Gurupadaswamy referred to the failure of so many banks. These failures have occurred; and they have only involved a small capital, as pointed out by Shri George Thomas. Failures had happened before the necessary amendments of the Reserve Bank of India Act, the Banking Companies Act were carried out and before the Reserve Bank started to exercise the control that it is exercising now. Under the powers of control and supervision that the Reserve Bank has got, bank failures would be few and far between; and we may take that fact also into consideration.

I may also say that there is another danger if we now all of a sudden nationalise the entire banking structure. It is to eliminate the usurious money-lender, the village *sowkar*, that we have urged the necessity of nationalising the

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State Bank and starting as many branches as possible in the villages so that the rural folk may be benefited. The main object, as I said, was to eliminate the village *sowkar*. If you now resort to nationalise the entire banking structure, then there is this danger, that is, the old village *sowkar* will again raise his head. That is what will happen. So, we have to be very careful before we take any step in this direction.

Shri V. P. Nayar: I think he has studied only economics and not logic.

Shri A. M. Thomas: I may submit that before we nationalise the entire banking structure, we must find the necessary personnel for the purpose. There is a recommendation of the Rural Banking Enquiry Committee—and also of the Central Banking Enquiry Committee which enquired into the matter in 1931, and again of the Committee of Direction—to the effect that we must have the necessary personnel who are trained in this business of banking, so that the banking institutions in this country may be properly staffed. I do not think that the Government has even now started any banking institution which will give the necessary personnel for manning the institutions if we nationalise them. As a first step, I would suggest that we must give the necessary training to the present staff working in the various institutions, and as a pre-requisite to employment in banks, we may also open the necessary institutions for imparting special education for that purpose. In the absence of proper facilities in India, most of the top managers have gone to countries like the U.K. and got their training in institutions like the London Chamber of Commerce, the Institute of Secretaries, and the Bankers' Institute, London.

Therefore, before launching on the wholesale nationalisation of the entire banking structure, we must find the necessary personnel for the purpose. I think there is no necessity to pass this resolution. The House is committed to the principle of the resolution; in fact, the Government itself is committed to it and it has taken one step. Even under the present statute, it can take further steps and so, I think, there is no necessity to pass this resolution. I hope Shri Gurupadaswamy will find his way not to press his resolution at this juncture.

Shri D. C. Sharma (Hoshiarpur): Mr. Chairman, I think the approach to this problem determines our conclusion. Do we look upon banks as social institutions, or do we look upon them really as institutions for commercial transactions? Gone is the day when banks were thought to be a kind of money-lending institution. Now the social objectives of the country and of the nation are superior to other considerations and, therefore, I think that the nationalisation of banks is a very important issue.

What are our social objectives now? Firstly, we are embarking on economic planning; secondly, we are thinking of full employment; and thirdly, we want the resources of our country to be augmented and to be in the nation's hand. I do not think of the nation *versus* the Government or the Government *versus* the nation. I think the nation and the Government are one. Therefore, these social objectives are our primary consideration.

If you look at the history of other countries, you will find that those persons who have placed the interests of the nation above every other interest have gone in for nationalisation. When a progressive government or a government whose policy was re-orientated towards the welfare State was in England, it wanted to nationalise not only the Central Bank but also all the commercial banks. But when another type of leaders came into power, of course, they put this aside.

Take the case of Australia. When the Labour Government came into power there, it thought of nationalising the entire banking structure of the country. But when it went out of power, some other persons stepped in and they tried to do away with it. Let me tell you something about France, which is a home of democracy. In France, the Government has nationalised banks and has said that the shareholders will not be paid all at once but over a period of 50 years.

Shri Feroze Gandhi: Like the zamindari.

Shri D. C. Sharma: It said that the shareholders would no longer have a say in the management of the banks, which will henceforth be managed by a board of directors to be nominated by the Government. This is what has been done in France, and I think the banks in France have not been the worse for that. About

55 per cent. of the deposits are in the hands of these banks and they have been nationalised. And other banks are following in their footsteps. In Czechoslovakia, the same thing has happened. I am saying all this in order to show that the U.K. and the U.S.A. are not the only two countries whose model we have to follow; there are other democracies also in the world which have embarked upon this kind of experiment.

As I have said, we should look upon these banks primarily as social institutions which are meant to serve a welfare State. If we did that, then there would be no controversy about the nationalisation of banks.

What account have these banks given of themselves during the last so many years. My friend, Shri Feroze Gandhi, is not here. He was good enough to tell me that the first bank in India was started in 1885. I know there was a time when the banks were mostly in the hands of foreign persons. A swadeshi movement was started so far as banks were concerned. All through these years, banks have not been able to give a very good account of themselves.

[MR. DEPUTY-SPEAKER *in the Chair*]

Look at the number of depositors. Look at the transactions. The banks in this country have not even touched the fringe of our population. At the most they have touched only one per cent. of our population. And that one per cent. comes from big towns. So far as our rural population is concerned, it is still far away. We want the banking habit to spread to all levels of our population. It should spread into a wider field. Now, it is some sort of an urban monopoly. It is restricted to the upper levels of income. We have not been able to go down to the other people. We have opened savings banks and all that. Even then, they have not been able to do much. If we want a welfare State, banking should be a part of our rural life, part of the life of every citizen of India and so, it has got to be nationalised. Otherwise, the motive will be profit motive and not service to the people. I do not want to point to the malpractices that they have been guilty of during these years. That kind of an argument is not very helpful. My friend said that the banks failed at a time when there was no good banking legislation. I concede that point. Rs. 30 crores, belonging to the depositors, have gone with the wind when the banks

failed in Bengal. Assam is a very small State—in size alone not in any other sense. I do not think that Assam is a very prosperous and wealthy State. In Assam also, some banks failed and Rs. 10 crores of the poor depositors were lost. Can our country afford to lose Rs. 30 crores here and Rs. 10 crores there? It is because these banks have not been run efficiently. They become more or less a family affair. They are not responsive to the needs and wishes and aspirations of the shareholders. I think there is good reason to nationalise them.

After all the banks are there to finance production—productive enterprises. Here, a bank will start an industrial company and then that industrial company will start a bank. It is a kind of a circle which goes on. A person may go to a bank with a very good proposition which would be of some help to the nation. But he will not get any money. He knows that. So, the small-scale industrialists and traders cannot have any access to these banks. As an economist has said, they follow in these matters a policy called: "Touch-me-not policy." How are we going to prosper if the small traders in our country do not have a fair deal at the hands of these banks?

The number of depositors is low because the facilities are not attractive. You should comply with a series of formalities if you want to deposit some money. They are such that a vast majority of our population cannot comply with. There has also been unhealthy competition between one bank and another. So far as the acquisition of deposits is concerned, I need not elaborate that point because any gentleman who has some money to deposit will know. One banker will come and say that he will give so much interest and then the other will come and say that he will give so much interest. Such unhealthy practices have crept into these banks.

We have nationalised life insurance. If we are to embark upon the experiment of nationalisation, we cannot stop at a half-way house. Nationalisation of life insurance is a half-way house and the goal is the nationalisation of banks. We nationalised life insurance because we thought that the funds of persons who insured with these insurers were not safe in the hands of private insurers. We did that when we knew that fifty per cent. of their money was invested in Government securities. Even

[Shri D. C. Sharma]

then, we did not think that they were safe in the hands of private insurers. I am now coming to these banks. Under the law, they are required to keep two per cent. of time and five per cent. of demand liabilities with the Reserve Bank. The Reserve Bank is in a position to exercise some control over them. But, as I said that control is not so strict as it should be. Deposits are a kind of safe custody. From the history of banking in India, we have come to a feeling that this policy of safe custody does not work. It is because the directors do not have the right kind of social consciousness. I do not say that all are like that. What do they do? I know that the Reserve Bank has said that no director will be allowed to borrow money from his bank. There is some direction to that effect. So, the director of X bank will go to Y bank and borrow money from Y bank. The director of Y bank will come to X bank and borrow money. It is a kind of one hand watching the other. While this goes on, the poor depositors, fate hangs in the balance and the shareholders have an uneasy time. This system is working to a very dangerous extent. Therefore, I think it is necessary that we should think of nationalisation.

Again, take the credit creation facilities of these banks. Of course, banks have those facilities. Most of this credit creating facility is used for cornering commodities.

They will be used for having unproductive enterprises and for doing things which, I would say, are not in the interests of the nation. I do not call them 'unsocial', that would be a dangerous word.

An Hon. Member: It is not dangerous.

Shri D. C. Sharma: I agree with you, but I want to deal with the thing as softly as possible.

Mr. Deputy-Speaker: The hon. Member should conclude now.

Shri D. C. Sharma: What I wanted to say was, with deficit financing, a lot of money will flow in this country. Of course, the banks will also have a lot of it. What the banks will do is this. They will create more facilities for credit and their credit will go into speculation and other things with the result that the poor tax-payer, the poor consumer and the man in the street will suffer. Therefore, what I say is, in the interests of the Second Five Year Plan, where we

need all the resources of the country, where we need all the deposits from our nation and where we want to promote small deposits, the only course open to us is to nationalise these banks, because that will pave the way for the success of the Five Year Plan. If that is not done, I think the dream of a welfare State will not be ripe. Of course it will be ripe—as soon as it happens; otherwise it would not be.

Shri Nambiar: Here after it is "Socialist State".

Mr. Deputy-Speaker: Now the hon. Minister.

Shri Feroze Gandhi (Pratapgarh Distt.—West cum Rae Bareli Distt.—East): Sir, may I ask the hon. Minister a question before he starts his speech? I would like to know if the Reserve Bank of India has conducted any enquiry into the statement which Shri D. C. Sharma just now made that the directors of different banks, although they are prevented, on account of the law prevailing, from taking loans themselves as long as they are directors, are taking loans from each other? I want to know whether any such enquiry has been conducted to find out how they arrange to take loans from each other and, if so, what conclusions the Reserve Bank of India has come to?

श्री विभूति मिश्र (सारन व चम्पारन) : नामी और बेनामी ।

Shri Feroze Gandhi: Both.

The Minister of Revenue and Defence Expenditure (Shri A. C. Guha): Sir, I think I should first reply to Shri Feroze Gandhi because he has simply put a question.

Mr. Deputy-Speaker: The hon. Minister is to reply to the whole debate and this may also be considered as part of a point raised by an hon. Member.

Shri A. C. Guha: Mr. Deputy-Speaker, Sir, I should say that I am rather disappointed at the speech of the Mover of the Resolution. I expected a much more vigorous and enthusiastic speech from the Mover.

Shri M. S. Gurupadaswamy: I did not like it.

Shri A. C. Guha: And I think he could not muster much argument in favour of his own resolution. He took shelter under some facts and figures; of course facts which may appear to him as facts, and some figures most of which are not

quite relevant for the purpose of this resolution.

He started with a general thesis against pragmatism. He has rightly taken it for granted that the Government generally proceed on a pragmatic basis; and he has said that pragmatism is no ideology, it is no philosophy. I recollect, in my student days more than four decades ago—I was a student of philosophy also—to have read pragmatism as a school of philosophy. I think it may be defined 'a doctrine or a philosophy which evaluates a theory solely by its practical bearing upon human interests'.

Sir, a government can proceed only on the pragmatic sanction before it can take a new step. The only sanction for a government would be to judge whether the next step will conduce to the welfare of the people whose interests have been put in the hands of that Government. I make no apology, therefore, when I defend the Government policy mainly on pragmatic grounds. Even though we may proceed on pragmatic grounds we must have some philosophy and ideology also, which Shri Gurupadaswamy denies for pragmatism.

It has been admitted, and it has been the accepted policy of this House and of the Government, that a socialistic pattern of society is to be established. But it has also been the accepted policy of this Government that it proceeds on the basis of mixed economy. The Government or this House has not yet decided to wipe out the private sector. I think my friend Shri Matthen, who himself was a banker and had some bitter experience in his life as a banker.....

Shri V. P. Nayyar: Very bitter too.

Shri A. C. Guha: He has also recorded it in a book. He has said that it would be a regrettable thing if this Government decides to obliterate the private sector altogether. So, when we proceed on any social or economic idea, we must also keep in view that there is a private sector working in the country and that is on the accepted policy of the Government and of this House.

Sir, 90 per cent or more of the production of our national wealth even now comes from the private sector. We cannot just for some ideological grounds take up the policy of nationalising banks. It must be done only on the basis or on the standard of how far it

would, conduce to the good of the people.

A number of Members have referred to the previous bank failures. They have also referred to the report of the Bank Liquidation Proceedings Committee. Sir, you may recollect that in the Constituent Assembly and in the Provisional Parliament, as a private Member, and also in the first year on this Parliament, I had something to do with the setting up of this Committee and I think, in helping this Committee to come to its decision and make its recommendations. I know the enormity of the problem no less than any other hon. Members who have referred to this. But at the same time, I would ask them, to take a realistic view of things. Shri M. S. Gurupadaswamy has said that it is not only the post-war unsettled economic conditions that have led to the failure of so many banks, but that even before the war there were bank failures. Surely, there were bank failures before the war, but compared to the bank failures during the war and the post-war years, the bank failures in the pre-war period would appear to be negligible. The total amount involved, i.e., the outside liabilities of the banks, that failed from 1926 or even earlier, up to 1939 would be only a little over Rs. 3 crores. This problem assumed alarming size and proportion only after the war and it was my province which was worst affected.

5 P.M.

Shri V. P. Nayyar: The first.

Shri A. C. Guha: Yes. It was worst affected by the bank failures. I think Shri D. C. Sharma has referred to the amount involved. He said it was about Rs. 30 crores in one place and Rs. 10 crores in Assam or something like that. The total amount involved is about Rs. 30 crores, including Assam and every other place, from the very beginning, that is, from 1926. Out of this amount, West Bengal would account for Rs. 20 crores.

I would not plead about the efficiency or good behaviour of the managers and managing directors of those banks. Rather, I have my own ideas about those men and I do not think it would be proper for me, as a Minister, to express them on the floor of this House. But still, we should also consider some other factors which led to the failures of those banks in Bengal. We should not ignore what the partition of Bengal meant for those banks. Most of those

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banks had their origin in East Bengal and most of them started with very small capital—Rs. 2,000, Rs. 3,000 or Rs. 5,000—and they grew up into somewhat respectable banks, particularly due to the conditions prevailing during the war.

Shri V. P. Nayyar: Thanks to black-market.

Shri A. C. Guha: Suddenly, with the partition of Bengal, these banks found most of their fixed assets in East Bengal on which they could not get any credit or any liquid cash. Apart from the dishonesty and business inefficiency of the managers or the managing directors, I think the partition of Bengal was mostly responsible for the failures of those banks. But for partition, I expect at least some of the banks would have survived.

I should like the hon. Members also to recollect that now, one of the biggest banks in India is the United Bank of India which is a combine of four small banks, and except one, all of them had their origin in East Bengal and all started with very small capital.

Shri Feroze Gandhi: Are the dishonest directors and managers still there?

Shri A. C. Guha: I cannot say anything like that. I do not think so. I expect there are no dishonest directors and managers there, because the Reserve Bank is now having strict control and supervision. They have put, I think one adviser also there and the Chairman of the Board is also there with the sanction and approval of the Central Government. I think the hon. Members of the House may recollect that Shri K. C. Neogy was the first Chairman of the Board and he was appointed with the approval of the Central Government. The next man also has been there with the approval of the Central Government.

I think except Shri D. C. Sharma and Shri Bhagwat Jha Azad, all the Members who participated in the debate on this resolution are from Travancore-Cochin. Some of them have advocated nationalisation.

Shri V. P. Nayyar: If you come from a State where there has been the maximum number of bank failures, we are from the State with the maximum number of banks. That is the difference.

Shri A. C. Guha: I would tell you what nationalisation would mean for your banks.

Shri V. P. Nayyar: I do not support it.

Shri A. C. Guha: So, when we come to the pragmatic aspect, my hon. friend recedes and says that he does not press that idea. If these small banks in Travancore-Cochin numbering about 160 were not allowed to function, I think the whole economy of Travancore-Cochin would be dislocated considerably. We have been hearing examples, cited from the United Kingdom, United States, Australia, Canada and so many other countries. I do not like to take the standard of those countries. But even if we take the standard of our country, these 160 banks would evaporate almost in a month. The Reserve Bank and the Central Government have to make special accommodation for them so that these banks may function. The Reserve Bank has inspected them and it is the considered opinion of the Government and of the Reserve Bank that these banks have been doing useful work and that they should be given special provisions and accommodation to function in Travancore-Cochin. I think the hon. Members would recollect that the last Bank Award Tribunal suggested a special enquiry about the Travancore-Cochin banks and the Central Government has set up a commission to enquire into the working conditions of the Travancore-Cochin banks and to see what particular arrangements are to be made for those banks. I think the nationalisation of banks should be the last thing for Travancore-Cochin more than for any other place, it would be harmful for Travancore-Cochin.

Some Members have mentioned about the amounts in deposit and the number of banking offices, etc. There also they have made some comparison with the western countries, with Australia and Canada. When we make any comparison with Canada or Australia, we should also bear in mind the *per capita* income in India and in those countries as well. Only then we can make a correct estimate of the position. It is no use comparing certain things in India with certain things in Canada and Australia, ignoring the difference between the *per capita* income prevailing in India and in those countries.

I think the mover of the resolution or somebody else has mentioned that only in 60 places we have got banking offices and their branches. I do not know wherefrom he has got those figures. I can give the figures from the statistical table relating to the banks in India.

There are 1,613 places where we have got branches of the banks and the total number of offices doing banking business in India is 4,938.

Shri Feroze Gandhi : To which year do those figures relate?

Shri A. C. Guha : 1954.

Shri V. P. Nayar : Out of that number, only 150 banks are in places with less than 5,000 people. That was what they pointed out.

Shri A. C. Guha : It was one of the things advocated by this House that banks should be started in semi-urban and rural areas. I do not claim that banking in India has developed as it should have. Ours is admittedly an under-developed or even undeveloped economy and banking also is underdeveloped or yet undeveloped.

It has been argued that the Indian banks have not been working efficiently and that for efficient working we should nationalise the banks. Without nationalisation also, efficiency may be effected. I am not one of those who claim that the private sector is by itself a paragon of efficiency or that the public sector is to be automatically accepted as an example of efficiency. There may be efficiency in both the sectors; otherwise, the Government would not have allowed both the sectors to continue in the country. We think that the private sector also can work as efficiently as the public sector. In the public sector also, there may be examples of inefficiency. As hon. Members will recollect, the housing factory of the Government cannot be claimed to have been efficiently run.

Under the Banking Companies Act, the Reserve Bank has been given some authority to ensure the efficient and good management of these banks. I can say that since May, 1951, there has not been any failure of a scheduled bank. When Shri Matthen was speaking, Shri Feroze Gandhi intervened to ask if the Reserve Bank was not in existence then. The Reserve Bank was there; but, the Reserve Bank was not given the necessary authority, for ensuring efficient control on the banking operations.

Shri N. B. Chowdhury (Ghatal) : Regarding the public sector, the hon. Finance Minister said the opposite thing the other day.

Shri A. C. Guha : The Banking Companies Act was amended in 1950 and 1953 and the Reserve Bank was given certain powers to ensure that the banks are run properly and honestly. There are many sections in the Banking Companies Act—sections 35, 21, 20 and so on—which give sufficient authority to the Reserve Bank to exercise control and supervision over all the banks. I do not like to read out a long list, but I can say that since this power has been given to the Reserve Bank, the Reserve Bank has been able to have effective control over the working of the banks and since then conditions in most of these banks have considerably improved.

Shri V. P. Nayar : Does the Reserve Bank have power to call for a detailed statement of accounts in respect of a particular gentleman from a particular bank?

Shri Feroze Gandhi : No.

Mr. Deputy-Speaker : The hon. Minister has to conclude by 5-20. In the beginning, the hon. Minister wanted 40 minutes; then he reduced it to 30 minutes. He started at 4-50.

Shri A. C. Guha : Then, I should come to the main point. It has been said that for the second Five Year Plan, we should nationalise the banks and utilise the funds available in the banks. The example of the nationalisation of the insurance companies has been cited. There is a wide difference in this respect between insurance companies and banks. The funds of the insurance companies are all long-term investments and in recent times, there have been several cases where the funds have not been properly utilised. But, the funds available with the banking companies are all short-term investments which are not available for long-term investment and for the development works of the Government. Then there is the question of profit. The total amount distributed as dividends by all the banking companies in 1954 is only about Rs. 2,82,00,000, out of which the then Imperial Bank of India distributed about Rs. 1 crore. So, only about Rs. 1,82,00,000 would remain for the shareholders of all the banks. I do not think that it is a very big amount. Moreover, I think it is not quite proper or decent to do certain things simply because the Government will get a lump sum of money by just taking them over. That will not be to the credit or the good reputation of

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any Government. So, the contention that by nationalising banking companies we can get big amounts for financing the second Five Year Plan has no logical foundation.

Shri V. P. Nayar: We want only regulation.

Shri A. C. Guha: We have already got that, but it is not nationalisation. We should also remember that about 41 per cent of the deposits of the banks are invested in Government securities. Moreover, all these banks have to invest certain amounts with the Reserve Bank. I think about Rs. 53 crores or Rs. 55 crores have been invested with the Reserve Bank.

Shri D. C. Sharma: What about insurance companies?

Mr. Deputy-Speaker: Our friends want regulation; that regulation should also be there in respect of the discussions in the House.

Shri A. C. Guha: Another point is about the creation, control and distribution of credit. For the creation and control of credit, I think the Reserve Bank has got enough power under the open market operations and advances to scheduled banks against Government securities as well as against trade and commercial bills under the Bill Market Scheme. Thus the Reserve Bank has enough control for the creation of credit. Regarding distribution of credit, by nationalising the Imperial Bank with the extension of branches of the State Bank and also by the proposed expansion of the co-operative organisations we are setting up a machinery which would be able to distribute credit to a considerable amount. Moreover, the Government has nationalised the Reserve Bank some years back; last year, the Government has nationalised the Imperial Bank. By simply nationalising the Imperial Bank, the Government has taken over 22 or 23 per cent of the total banking operations of all the commercial banks.

We have taken certain steps and under the present circumstances, there is hardly any justification for proceeding any further. Some Members have referred to the recommendations of the committee set up by Reserve Bank for conducting a rural credit survey. The Government have accepted the recommendations in principle. As regards the taking over of the States associated banks recommended by that committee,

the matter is under consideration and the Government may soon come before this House for getting the necessary authority.

Before concluding, I should reply to Shri Feroze Gandhi who intervened and asked me whether the Reserve Bank has got enough power even now. I cannot give him a categorical affirmative reply. But, if we find that we have not got enough power, surely, we shall come to this House with amending Bills and I expect that the Government will place before the House a Bill to amend the Banking Companies Act which will give further authority and power to the Reserve Bank for controlling the operations and working of commercial banks. With these words, I would like to request the hon. Mover of this Resolution to withdraw his Resolution. The Government is proceeding with the idea of a socialist pattern of society. They have taken over the Imperial Bank of India. For the present, there is no necessity for interfering in the working of commercial banks. We are satisfied that the Reserve Bank would be able to have effective control over the working of commercial banks, and any irregularities that might have occurred in the past will be things of the past. We expect that the private sector in the banking operations will behave properly. If they do not behave the Reserve Bank is there to look after these things and take affective action.

Mr. Deputy-Speaker: I think the hon. Member can take hardly five minutes.

Shri M. S. Gurupadaswamy: I shall finish in six or seven minutes.

Shri V. P. Nayar: I had put a specific question for which he had no answer.

Mr. Deputy-Speaker: He had no answer. Can you force him to give one?

Shri V. P. Nayar: He was charitable to Shri Feroze Gandhi. I want the same charity to be shown to me.

Mr. Deputy-Speaker: That should be left to his discretion.

Shri M. S. Gurupadaswamy: The hon. Finance Minister has taken a very conservative and unsocialist view of the problem. He said that for a socialist pattern of society, it would be enough to have more regulatory and controlling powers for the Reserve Bank. It is like talking of Hamlet without the Prince

of Denmark. A socialist pattern of society without adequate socialism in it is, I think, no socialist pattern of society at all.

The most important point that should have been borne in mind by the hon. Minister is whether we should have credit completely under national control for the purpose of development of a planned economy or leave the instrument of credit to private control. It was not necessary for me to make out a case of failure of banks in India for the purpose of nationalisation of banking. Still I did it with a view to impress upon the Minister that in their working private commercial banks have completely failed. But, as I said, it was not at all necessary to prove failure of banks for the purpose of making out a case for nationalisation of banks. On the basis of philosophy, on the basis of ideology, we want certain strategic points of our economy to be controlled and owned by the Government or by public bodies. If we do not control the strategic points of our economy, it would be very difficult for us to control the economy itself in the long run. From that point of view, I say, banking plays a very vital part. Banking deals with not only creation of credit, but also with distribution of credit. So far as creation of credit is concerned, we have nationalised the Reserve Bank and partly the Imperial Bank. But, distribution of credit is left in the hands of private banks. Distribution of credit, in a developed economy is more important than creation of credit. In the next Five Year Plan period, we would be creating new money to the extent of Rs. 1200 crores which means that we would be creating a potential credit of Rs. 1800 crores. Should you allow or is it desirable to allow, this enormous credit potential to be controlled, managed and distributed by the whimsical policies of various commercial banks? If you do it, the dangers of inflation with its consequences will follow. You can't help it. The hon. Minister said that the banking law might be amended to increase the powers. The other day, at the time of the nationalisation of insurance, the Finance Minister had observed pertinently that the powers given under the Insurance Act are only regulatory powers, or negative powers and through these negative powers, it was very difficult to control insurance companies. I think the same analogy applies to banks also. The powers given to the Government under the banking law are only regulatory powers, which

means that they are negative powers. It is very difficult to control credit with these powers. I feel that nationalisation of banking would lead to consolidation of our economy. It also would lead to rationalisation of our credit system. So, I feel that from the point of view of ideology, from the point of view of policy, nationalisation of banking is imperative. Some hon. Members from Travancore-Cochin raised one point. They said that in the past, private banking had helped the development of industry and commerce. I would say that if there had been the public sector operating in the banking field the same results would have been produced in a much better way. I feel that the Finance Minister should have taken a more positive view of things and should have accepted my resolution. With the support given by some hon. Members, I am encouraged to say that nationalisation of banking is imperative. It must be done. If you postpone it, I think it will be a bad thing for Indian economy.

Mr. Deputy-Speaker: There is this Resolution. There is one amendment too, that of Shri D. C. Sharma. Would the hon. Member like me to put it to the House?

Shri D. C. Sharma: No.

Mr. Deputy-Speaker: The amendment is withdrawn by the leave of the House, I suppose.

Shri Nambiar: Before giving permission, I would request the hon. Member to reconsider because he spoke in support of nationalisation.

Mr. Deputy-Speaker: I assure the hon. Member that he has reconsidered it very carefully.

The amendment was, by leave, withdrawn.

Mr. Deputy-Speaker: I think the reaction of the Mover was that he is not prepared to withdraw the Resolution.

Shri M. S. Gurupadaswamy: No, no.

Mr. Deputy-Speaker: The question is:

"This House is of opinion that Government should take steps to nationalise the banks in the country."

Those in favour will please say "Aye".

Some Hon. Members: Aye.

Mr. Deputy-Speaker: Now those against will say "No".

Several Hon. Members: No.

Mr. Deputy-Speaker: The 'Noes' have it.

Some Hon. Members: The 'Ayes' have it.

Mr. Deputy-Speaker: We have no time.

Some Hon. Members: We will stand up.

Mr. Deputy-Speaker: Those who support may kindly stand in their seats. Eleven.

Now, those against will please stand in their seats. I see a large number.

It is negated by a large majority.

The motion was negated.

Shri Chattopadhyaya: We have the disadvantage of being a human minority as against a brute majority.

Mr. Deputy-Speaker: Then, should the human beings come to the hon. Members' help or some brutes?

There is the next resolution of Shri Bibhuti Mishra, to which the House will now proceed.

RESOLUTION RE: CEILING ON INCOME OF AN INDIVIDUAL

श्री बिभूति मिश्र (सारन व चम्पारन) :
उपाध्यक्ष महोदय, मैं निम्नलिखित संकल्प पेश करता हूँ।

“इस सभा की यह राय है कि सरकार को एक व्यक्ति की आमदनी की अधिकतम सीमा निश्चित करने के लिये शीघ्र ही उपयुक्त कार्यवाही करनी चाहिये।”

उपाध्यक्ष महोदय इस बात की आवश्यकता है कि इस देश में.....

Mr. Deputy-Speaker: The hon. Member may continue next time.

MESSAGE FROM RAJYA SABHA

Secretary: Sir, I have to report the following message received from the Secretary of Rajya Sabha:

“In accordance with the provisions of sub-rule (6) of rule 162 of the Rules of Procedure and Conduct of Business in the Rajya Sabha, I am directed to return herewith the Finance Bill, 1956, which was passed by the Lok Sabha at its sitting held on the 21st April, 1956, and transmitted to the Rajya Sabha for its recommendations and to state that this House has no recommendations to make to the Lok Sabha in regard to the said Bill.”

WORKING JOURNALISTS

Mr. Deputy-Speaker: Next item is the half-an-hour discussion. Dr. Lanka Sundaram to raise a half-an-hour discussion on points arising out of answers given on the 11th April, 1956 to Starred Question No. 1368 regarding Working Journalists.

For the benefit of the hon. Members I may read rule 74—only a portion:

“There shall be no formal motion before the House nor voting. The member who has given notice may make a short statement and the Minister concerned shall reply shortly. Any member who has previously intimated to the Speaker may be permitted to put a question for the purpose of further elucidating any matter of fact.”

There are thirty minutes only. The hon. Mover may take about 10 minutes as also the hon. Minister. We have notice of two or three others, they will require at least two or three minutes for questions.

Dr. Lanka Sundaram (Visakhapatnam): May I make a submission. Along with me, two others have signed, and I hope they will get an opportunity.

Mr. Deputy-Speaker: I am apportioning the time. If the hon. Mover wants that his supporters also should get a chance, he should try to condense.

Shri V. P. Nayyar (Chirayinkil): In view of the importance of the subject, can we not sit for some time more?