GOVERNMENT OF INDIA'S POLICY OF NATIONALISATION : CASE OF BANKS

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CHAPTER I

INTRODUCTION

pI

Post-independence India has witnessed a vast gap between Congress pronouncements of expanding public control of the economy to usher in "Socialism" and the actual implementation of policies. The gap between policy and pronouncement can be explained in terms of the close relationship of the Congress Party with business, and the class character of the Indian State itself. This has resulted on the one hand in the increasing concentration of wealth in a few hands and, on the other, the economic oppression of the majority. The class character of the Congress party and the government's inability to raise capital accumulation imposes constraints on government's attitude towards business. However, the government in situations of crisis and weakening legitimacy resorts to measures like nationalisation which appear to be aimed against private interests. But nationalization, as is evident from the experience of many countries, is not necessarily always against private interest; it has often been politically motivated.

State intervention, which often takes the form of nationalisation, is not a rare phenomenon in most underdeveloped countries. After their independence in the post-second world war period, the exigencies of development were so urgent that the government could not entrust the task to individual capitalists who were neither willing nor well-equipped for large investments. Besides, indigenous capitalists lacked the technology and experience to invest in heavy industry. Hence, it became important for government to bring under its purview all those segments of the economy which needed huge investments, sophisticated technology, and a long gestation period. In almost all under developed countries, the government participated in a significant measure in the functioning and control of the economy irrespective of the particular ideology it professed. India was no exception. Government's intervention, as was claimed, was aimed at rapid economic development. It, therefore, becomes relevant to locate and analyse the politic intentions of government's strategy of nationalisation. This study undertakes to do just this, with particular reference to the nationalisation of banks in 1969. It focusses on the parameters of Congress policy of nationalisation and seeks to analyse if it served a political purpose or was merely propelled by considerations of economy and efficiency.

The basic assumption of this study is that nationalisation in India has been invariably prompted by political calculations to serve the class interests of the government, dominated by the Congress party, or more specifically, the interests of those powerful groups who weilded considerable influence in the Congress. The central argument of this thesis, based on an examination of the implications of the nationalisation of banks, is that government's intervention in the economy, reflected either in some form of nationalisation or 'takeover', is prompted by certain specific objectives and is not part of a concerted or systematic anti-private sector strategy.

This study is conducted at three levels. The first level involves the description and investigation of government policy towards industrialisation and nationalisation. The second is an analysis of the strategy and political compulsions behind it. Finally, what is the response of business to government policy towards private sector, particularly on the question of nationalisation. This would help in understanding the interaction between government and business, and the influence, if any, of private interests on government policy.

This study is meaningful because a preliminary survey of the literature shows that nationalisation has not been studied adequately, and particularly, the political content of government policy has not been sufficiently examined. Most studies conducted on this subject have essentially dealt with the economic and legal dimensions of the case of bank nationalisation in

1969. This study becomes relevant as it focusses on the political forces and the nexus of interests operating within the Congress party and influenced and led to the decision on nationalisation of the fourteen major commercial Banks.

Any analysis of post-independence Indian politics must take into account the linkages between governmental policy and business interests. However, this study will not examine the economic aspects of nationalisation policy. Economic factors will be taken into account only insofar as they highlight the contradictions at the political level. Such an analysis will throw light on the continuities and discontinuities in government's nationalisation policy and to what extent such a policy in its articulation and implementation has been influenced by business interests.

This study raises certain questions relating to government's policy of nationalisation. Some of these questions which could be identified are as follows:

(1) What kind of a role did government envisage for the private and public sector in the Indian economy.

(2) What has been the nature of government policy of nationalisation, whether in policy formulation or in actual implementation?

(3) What is the political and economic basis of such a policy and what are the factors which prompted the government to adopt such a policy.

(4) Has the implementation of this policy brought about any significant changes in the social and economic relations of Indian society. If so, what is the nature of these changes, and whose interests have they served.

(5) Has the policy of nationalisation, as implemented by the government, been used as a legitimizing mechanism and how far does it help in revealing the ideology of the Congress government.

(6) Is there a relationship between nationalisation and a crisis within the Congress party - has it resorted to nationalization only when its hegemony has been challenged?

(7) And finally, has the policy of nationalisation been used by the Congress to mobilize political support.

This study is divided into three chapters. The first Chapter discusses the government of India's policy towards nationalization in the years after independence. Since the government did not articulate any theoretical framework or policy of nationalisation, an attempt has been made to derive certain broad trends and approaches to nationalisation policy through an investigation of the role of the private and public sector in the Indian economy and the choice of the development strategy. The chapter is further sub-divided into three sections. The first section discusses the nature of the Indian State and the strategy of development adopted by it. The second section is an examination and analysis of the government's Industrial Policy Resolutions of 1948 and 1956, which leads to certain important conclusions regarding its policy towards the private sector and nationalisation. The third section of the chapter seeks to establish the character of state intervention in the economy, through a study of specific cases of nationalisation implemented in the years from 1948 to 1956. The case of Reserve Bank in 1955 and Life Insurance in 1956 provide clues to the government's views on nationalisation and takeover. It analyses the larger political and economic considerations which lie behind state intervention and the response of the business community towards various attempts to nationalise private industry.

The second chapter is largely concerned with the nature of the Congress party in India particularly the developments that followed the 1967 general elections. The major purpose of this chapter is to highlight the tensions that developed within the party after it lost hegemony in 1967 culminating in the split of the party in 1969.

Any discussion on the nationalisation of banks would be incomplete without understanding the political appraisal of the pressures that prompted such a drastic step. While the preceeding chapter deals extensively with the nature of the Indian state, this chapter concentrates particularly on the major political forces that were at work in the Congress party in the years 1963-67. It is an attempt to identify the interests which influenced the decision to nationalise the fourteen commercial banks, arguing that nationalisation itself was a necessary political element of the strategy which was not dictated by the overall necessity to solve the economic crisis that had engulfed Mrs. Gandhi's government in 1966. In fact, by the next general elections of 1971, Mrs. Gandhi had successfully overcome both her economic crisis and political foes.

The study includes a detailed discussion on the relationship between the Working Committee of the Congress and the government which would highlight the interplay of the various conflicting interests within the party. It is argued that these interests represented by two distinct rival groups, one led by the Syndicate and the other by Mrs. Gandhi, tried to use economic policies to serve their political purposes.

The chapter analyses the continuing tensions within the party in the aftermath of the elections of 1967. The major events namely, the decision to nationalise the fourteen commercial banks in 1969 and subsequently the split in the party, are discussed to illustrate the specifically factional character of the crisis into which ideology was injected to muster support for ~~her~~ Mrs. Gandhi's faction in the party. However, Mrs. Gandhi contended that the nationalisation of banks was a part of a concerted effort to promote a 'socialist pattern of society'.

The third chapter examines the social and political compulsions that led the Congress government to nationalise the fourteen commercial banks in July 1969. It attempts to explore the links between the nationalisation of these banks and the crisis in the party. It seeks to investigate the way in which the decision to nationalise banks influenced the political developments in the Congress and to what extent this decision was governed by a combination of political exigencies and factional rivalries. Further it studies the moves and countermoves that were made by various leaders of the party in an effort to retain their hold on the party. Finally, the chapter seeks to analyse the political and social implications and nationalisation.

The study uses both descriptive and analytical methods. It relies essentially on secondary sources like books, journals and newspapers relevant to the subject matter, though primary sources have also been consulted such as: (1) Parliamentary Debates, (2) Reserve Bank of India Bulletins, (3) Congress Bulletins, (4) Annual Congress Party Resolutions, (5) Correspondence between Congress party leaders, (6) Government and FICCI correspondence.

CHAPTER II

NATURE OF STATE INTERVENTION AND POLICY OF NATIONALISATION

This chapter discusses the government of India's policy towards nationalisation in the post-independence period. The government did not articulate any definite theoretical framework or policy of nationalisation, nonetheless it is possible to derive certain broad trends and approaches in the nationalisation policy of the government through an investigation of the role of the private and public sectors in the Indian economy and the choice of the development strategy.

The chapter is broadly divided into three sections. The first section is essentially concerned with the nature of the Congress government and the strategy of development adopted by it. The second section examines and analyses the government's Industrial Policy Resolutions of 1948 and 1956. It further explores the process which led to the restatement of the Industrial Policy Resolution in 1956. This section analyses the changes between the two resolutions and the implications pertaining to the government's policy of nationalisation. The third section discusses the nature of State intervention, with specific reference to the nationalisation of certain sectors of the economy. The purpose is to examine the context and reasons which prompted the government to takeover these industries, hitherto in the private sector. For this it is important to analyse the larger political and economic considerations which lie behind State intervention and the response of the business community towards various attempts to nationalise private industry. Finally, an attempt will be made to construct the parameters of the nationalisation policy through an analysis of some nationalisations in the period before Bank nationalisation of 1969.

I

India was integral part of the British Empire for over a century; yet whatever industrialisation it witnessed was in the period of weak links with the British economy. India had never witnessed any consistent growth, not to speak of an Industrial Revolution. The two world wars and the Great Depression of the 1930's weakened the imperical links, making the domestic market available for the indigenous industry. Thus, the 'development of under-development' which was the general phenomenon in the colonial countries remained the key to India's economic backwardness.[1]

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1. Periods of crisis for British Imperialism like the two world wars were of benefit to both major challengers - Indian industrialists and the Americans. Fighting to keep its international rivals out, Britain made concessions to Indian capital. Prabhat Patnaik, "Imperialism and the Growth of Indian Capitalism" in Robin Blackburn (ed), Explosion in a Subcontinent (Pelican Books, 1975), p. 55.

The Indian National Congress became aware of the exploitative character of foreign capital in the late nineteenth century and attacked its economic and political consequences. The economic nationalists repeatedly stressed that foreign capital was not developing India, rather India was being impoverished. For instance, the Bengalee at the turn of the century wrote that the expansion of foreign investments hasten the country's ruin and "surely reduce the country to a state of eternal economic dependence on British capital."[2] This nationalist attitude towards foreign capital was summed up by Bipin Chandra Pal,

> The introduction of foreign and mostly British capital for working out the natural resources of the country instead of being a help is in fact the greatest of hindrances to all real improvements in the economic conditions of the people. This exploitation of the land by foreign capitalists threatens to involve both government and people in a common ruin..... It is as much as political as it is an economic danger. And the future of New India absolutely depends upon an early and radical remedy of this two edged devil.[3]

This period of economic nationalism was characterised by the fight against foreign capital and the growth of State capitalism.

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2. Bengalee, 1 June 1901, cited in: Bipin Chandra, Modern India and Imperialism. Paper read at the Seminar on "Spheres of Influence in the Age of Imperialism", Austria, Sept. 11-15, 1972.

3. New India, 12 August 1901, See Chandra, n. 2.

Political independence heralded the formal break with Imperial ties. However, the Indian economy which was well integrated with the world capitalist economy, retained its essential capitalist base. It is interesting to note that even though India was economically weak, it had developed a strong independent capitalist class, compared to many other Third World countries.[4] In almost all newly independent nations, emerging from the colonial yoke, the exigencies of development were so urgent that the government could not just leave the matter in the hands of individual capitalists because firstly, they were ill-equipped for heavy investments that were essential but were not immediately rewarding, particularly in the short run, and secondly they lacked adequate technology, funds, initiative and experience. Those segments of the economy that needed huge investments, modern and sophisticated technology and a long gestation period were brought under the direct purview of the State. Hence, in almost all underdeveloped countries, the government, irrespective of the particular ideology it professed, undertook a significant part in the functioning and controlling of the economy.[5] India was

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4. Patnaik, n. 1, p. 52.

5. Paresh Chattopadhaya, "State Capitalism in India", Monthly Review, no. 10, March 1970, p. 19.

no exception and

> it must be clearly understood that the Indian ruling class did not innovate State intervention in India. The State's active intervention in the economy manifested itself in India long before independence. Railways, forestry, the manufacture of arms and ammunition, the generation and distribution of energy were some of the outstanding examples.[6]

The Indian capitalist class was aware of the economic difficulties faced by India and it realized that private enterprise alone, without adequate financial and technical resources, could not develop. Hence it could either collaborate with foreign capital or depend on State intervention in the economy to accelerate industrial development. The Indian ruling class was, however, not prepared to allow a massive invasion of the economy by foreign capital, for that would have dwarfed Indian capital and defeated the very purpose for which they had fought, namely an independent capitalist path. Therefore, though they welcomed foreign capital for rapid industrialization, it was proposed to introduce legislation to regulate the conditions under which foreign capital might operate. In particular, government instituted an exceedingly slow, uncertain set of procedures for the case by case processing

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6. Ibid., p. 19.

of applications by foreign enterprises for business licences. Above all, it was proposed that the major interest in ownership and control should always be in Indian hands.[7] This was to be achieved through a powerful state (public sector)[8] which would keep out the foreign capitalists in two ways. Firstly, public sector would build industries which were too large for indian capitalists. Secondly, the state sector would act as an intermediary and a protective wall between foreign capital and Indian enterprise.

That the indian capitalists themselves opted for a large public sector in the country is evident from Nehru's own testimony. Writing about the National Planning Committee, Nehru pointed out that big business constituted its largest single group. Regarding the policies that he decided to pursue, he said,

> While free enterprise was not ruled out as such, its scope was severely restricted. In regard to defence industries, it was decided that they must be owned and controlled by the State. Regarding other key

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7. See, Government of India, Industrial Policy Resolution of 1948 (New Delhi), 6 April, 1948.

8. This accounts for the establishment of a public sector after independence. As early as 1944, the Bombay Pla was drafted by JRD Tata, GD Birla and six other big industrialists which laid down the concept of massive state intervention in the economy; the need for a mixed private and public sector enterprise; the emphasis on heavy industry; the need for foreign capital and the need for deficit financing. This was the first indication of the government thinking of th the Indian economy. Indeed there seemed little

difference between the approach of the Planning Commission of the Government of India and the Bombay Plan.

> industries, the majority were of the opinion that they should be state owned, but a substantial minority of the Committee considered state control would be sufficient. Such control however of these industries had to be rigid. Public utilities, it was also decided, should be owned by some organ of the State.[9]

The Indian capitalists, therefore, wanted the development of capitalism through the help of the public sector. This can be amply substantiated by the fact that the Bombay Plan drafted in 1944 by the leading industrialists, provided for not only a large extension of state control but also a considerable extension of state ownership and management of the economy. The form and strategy of this path, in the ultimate analysis, determined the socio-economic and political structure. The exigencies of a capitalist system required accommodation of various propertied classes. The abolition of the colonial structure did not mean in this case, a complete abolition of social and economic relations evolved under the colonial rule. Rather, they were shaped by the needs of the emerging capitalist order.

The last few years preceding independence saw the various elements of capitalist strategy in full play. Continuity was maintained even under changed conditions. However, the acquisition of power by the Congress provided

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9. Jawaharlal Nehru, Discovery of India (Asia Publishing House, 1964), p. 409.

the requisite strength and confidence to shed the radical elements of its ideology. The main objective of building a prosperous India was not lost, but when applied in practice, it failed to produce adequate results. The hopes generated by the nationalist movement remained unfulfilled to a significant extent. In the post-independence period, the ability of the Congress to absorb all kinds of people, created the possibility for it to maintain its consensual character. The official agencies and projects became substitutes for mass actions and movements. Since the government wanted to underplay the class contradictions, it promoted a corporate image of the society. Panchayati Raj, Community Development Programmes etc. were the official expressions of such a corporate society.

After independence, the aim was rapid economic development through centralized planning, within the framework of a secular democratic political system. The detailed implementation of these goals led to a series of policies, which reflect government's attitude towards takeover and nationalisation of foreign capital and private industry, and of course, areas and means of access available to various groups and lobbies in post independence India.

The basic framework was set out in the Industrial Policy Resolutions of 1948 and 1956. These resolutions acted as the basic guidelines in formulating the Five Year Plans. The strategy of development was worked out over a period of several years, and was a synthesis of three basic strands of thought, which had developed within the Congress movement. Firstly, there were those who supported the Gandhian philosophy of Sarvodaya which placed major emphasis on the development of a self reliant village economy, based on cottage and village industries. They were opposed to large scale industrialization. The second school of thought was represented by a highly influencial group of western educated Congressmen, claiming to be inspired by socialist ideas. Nehru was identified with this segment of the Congress. The third approach was supported by the conservative sections of the Congress, represented by Vallabhai Patel and Rajendra Prasad. They had extremely close ties with the Indian industrialists and were prepared to press for a major role for private sector investment aided by government.

The Congress government, in an effort to fulfil the aspirations of the people, envisaged a radical economic policy. In 1947, in their objectives and economic programme, the All India Congress Committee (AICC) recommended a radical revision of the government's economic policy, "calling for a ceiling on incomes, land ceiling, reservation of food production, cloth production, village and cottage industries, the abolition of the management agency system, a maximum profit on venture capital, and the nationalisation of public utilities, defence production and other key industries."[10]

Not surprisingly, such announcements caused anxiety among the business groups about government's intentions towards the private sector. Their uneasiness was aggravated by the uncertainties of government policy in the years immediately after independence. Business groups led by Birla demanded that (government)

> ought to declare their policy. If it is their desire that for the next few years they will rely on private enterprise they should say so. If on the other hand it is their desire to set industries of their own and manage them through their own agencies, they should declare it. All that I can say is that the spirit of suspense is hindering production and when I say this I am not expressing any vague fears but only telling you what is today in every businessman's mind.[11]

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10. Stanley Kochanek, Business and Politics in India (Berkeley: Univ. California Press, 1974), p. 78.

11. G.D. Birla in FICCI's Annual Meeting in March 1947 cited in Michael Kidron, Foreign Investments in India (London: Oxford Univ. Press, 1965), p. 84.

Government attempted to pacify business fears by declaring that it would not adopt any policy that would in any way impede production and stated "that it was far better to concentrate on certain specific and vital new industries rather than go about nationalising any of the old ones."[12] This point was reiterated by Nehru who regretted that "far too much attention is often paid to acquiring existing industries than to the building of new industries by the State or under state control."[13]

The government's Industrial Policy Resolutions of 1948 and 1956 also went a long way in alleviating business fears about the expansion of the public sector. They gave enough freedom of operation to the private sector.

II

An examination of the Industrial Policy Resolutions of 1948 and 1956 shows that the Government agreed to enter the field only where private enterprise, for various reasons, could not do it alone. The Resolution of 1948

12. Nehru's speech in the Constituent Assembly Legislative Debates, Feb. 17 1948, pp. 829-31.

13. Cited in Kidron, n. 11, p. 64.

was the first formal enunciation of the government's intentions regarding industrial policy and was an effort to halt the lag in industrial production which resulted from the loss of business confidence and to clarify the economic objectives of the government. It was argued that, for some time, the state could contribute more quickly to the increase of national wealth by expanding its present activities wherever it is already operating, and by concentrating on new units of production in other fields, rather than on acquiring and running existing units. Meanwhile, private enterprise was allowed a substantial role. It was laid down that besides arms and ammunitions, atomic energy and railway transport, which would be the monopoly of the central government, the state would be exclusively responsible for the establishment of new undertakings in six basic industries (coal, iron,and steel, aircraft manufacture, ship-building, telephone and telegraph materials and minerals), except where, in the national interest, the state itself found it necessary to secure the cooperation of private enterprise. This was evident in opening up all the other industries to the private sector, although it was made clear that the state would also progressively participate in this field.[14] As far as the

14. Government of India, Industrial Policy Resolution 1956 (New Delhi), April 30, 1956.

existing private sectors facilities were concerned, the government guaranteed that no redistribution through nationalisation would take place for at least ten years.[15]

The Resolution marked a retreat from the earlier position of the Economic Programme Committee which had envisaged a transfer of existing undertakings to the state within five years "(the first five years being treated as a period for preparation during which arrangements should be made to take over and run these undertakings efficiently)".[16] The 1948 resolution stated that, "Government have decided to let existing undertakings...develop over a period of ten years, during which they will be allowed all facilities for efficient working and reasonable expansion".[17]

Unlike the Interim government's Advisory Planning Board which had recommended the nationalisation of coal, petroleum, iron and steel, motor, air and river transport, amongst others, the resolution merely stated that the establishment of new undertakings in some of these fields would be the exclusive responsibility of the state

15. Kochanek, n.10, p.78.

16. Ibid.

17. Cited in Kidron, n.11, p.85.

except where, in the national interest, the state finds it necessary to secure the cooperation of private enterprise.

The second and third categories of industries, on the other hand, were saddled with reservations and exceptions and these exceptions subsequently often became operationally more significant than the formal rules laid down by the resolution. For instance, under 'mineral oils', in the second category, government allowed three private foreign firms, Standard Vacuum, Burmah Shell and Caltex, to establish petroleum refineries in 1952. Then again, as regards Iron and Steel, late in 1953, when the government of India decided to establish a steel plant in collaboration with Knupp Demag, the latter was to have a share of one third of its total investment and a corresponding share in the Board of the company.[18]

The 1948 Industrial Policy Resolution marked an important shift in government policy. It reduced nationalisation to an expedient measure for increasing production, and not as a means of social justice. K.T. Shah, former Secretary of the Congress National Planning Committee,

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18. Chattopadhaya, n. 5, p. 22.

expressed "utter disappointment with everything contained the resolution."[19] However, business greeted it with approval. John Mathai, Minister of Finance, told the Associated Chamber of Commerce and Industry in December 1948 that "for so long as a period as we can foresee, there will be not only a large but an increasing field for private enterprise in India." One year later he once again reassured his business audience "that government's aim is not to recast society, but to help move the wheels of production and to achieve economic stability."[20] Sardar Patel echoed the same views in asserting that "this government has not got the capacity and means to undertake the nationalisation of any industry at present."[21] Repeated assurances were carried into all business circles. Nehru himself assured the Federation of Indian Chambers of Commerce and Industry (FICCI), that "...we said even in regard to certain basic and key industries that we would not touch them for at least ten years, may be more. It did not mean that we would touch them immediately after the ten years period."[22] More significant was Patel's remark that

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19. Constituent Assembly Legislative Debates, April 7, 1948, col. 3404, Vol. V, no. 1.

20. Cited in Kidron, n. 11, p. 85-86.

21. Quoted in Daniel L. Spencer, India Mixed Enterprise and Western Business (Hague, Martinus Nijhoff 1959), p.49

22. Quoted in L. Natarajan, American Shadow Over India (New Delhi: Peoples Publishing House, 1956), edn.2, pp. 60-61.

"if any one talks of nationalisation it is only for the sake of leadership."[23] This was as if in anticipation of subsequent Congress approach to the political exigencies of nationalisation.

Paradoxically enough, the final and perhaps the most convincing acceptance of the private sector came in 1954 at the Avadi session of the Congress from Nehru himself, declaring in his report that

> "In our present state to limit, resources to the public sector means restriction of our opportunities of production and growth. The main purpose of a socialized pattern of society is to remove the fetters to production and distribution....... It becomes necessary, therefore, to give it full place."[24]

Hence, it is evident from the government's Industrial Policy Resolution of 1948, and the subsequent statements of leading Congressmen, including Nehru, that the private sector was assigned an important role in the industrialization of India. This resolution of 1948 went a long way towards alleviating business fears and uncertainty

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23. Capital (Calcutta), Annual no. 22 December 1949, p.11.

24. Capital, 20 January 1955, p. 69.

by toning down the more radical proposals advocated by the party. This was done in effort to expand industrial production and to clearly enunciate the economic objectives of the government.

The advent of planning in March 1950, and the decision half way through the First Five Year Plan to accelerate the growth of the economy through more rapid industrialization, led to a restatement of the Industrial Policy Resolution of 1948. In late 1954, therefore, the Cabinet declared that the Resolution had to be interpreted in terms of a socialist objective.

The Second Industrial Policy Resolution of 1956 specified agains three categories of industries. The first category listed seventeen industries, the future development of which was to be the exclusive responsibility of the State.[25] As in the 1948 Resolution, the same qualifying statement is found, that "the state may secure the cooperation of private enterprise in the establishment of new units when the national interests so require."[26] The second category lists twelve industries which "will be progressively state owned, but in which

25. Industrial Policy Resolution 1956, n. 14.

26. Ibid.

private enterprise will also have the opportunity to develop, either on its own, or with state participation."[27] It further stated that, "All the remaining industries will fall in the third category and ... their development will be undertaken ordinarily through the initiative and enterprise of the private sector, though it will be open to the state to start any industry even in this category."[28] Despite the expanded scope of the public sector provided for in the 1956 Resolution, the Resolution was welcomed by the business community. The new policy clarified precisely which spheres would be open to the private sector. It removed the immediate threat of nationalisation and it convinced business that there would be more than ample scope for the private sector.

When one compares the two Resolutions, it becomes clear that, apart from the formally more pronounced emphasis on the responsibilities of the state in the second resolution, there is really no substantial difference between them. While both envisaged increasing state participation in industry, both recognized its

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27. Ibid.

28. Ibid.

limits as well. The industries included in the enlarged public sector, where the state had assumed exclusive responsibility for development, are considered by the government to be 'basic' and 'strategic' and essential for rapid industrialization. One of the main reasons for expanding the public sector was that during the preceding eight years, when they were in the private sector, these industries either failed to develop or the pace was too slow to meet the desired objectives.

While it was said that the state had assumed exclusive responsibility, it had assumed monopoly rights only with respect to arms and ammunitions, atomic energy and railways and air transportation. Private enterprise was authorized to operate in all other fields in the public sector, if it was considered advantageous to the national interest.

The three foreign controlled oil refineries that were authorized after the state had assumed responsibility for the mineral oil department, are examples, where in the national interest, it was found desirable to secure the cooperation of private enterprise.

An important change in the 1956 Resolution which helps to substantiate the fact that India had abandoned the over all programme to nationalise private industry, is the commission of privileges given to the government in 1948 resolution, to review the status of these industries, to determine whether they should be acquired by the state. The 1948 resolution provided that private undertakings falling within the field reserved for exclusive development by the state, would be permitted to operate for a period of ten years. At the end of the ten year period or in 1958, the government was to review "the whole matter and a decision taken in the light of the circumstances obtaining at the time," to see whether the industries should be acquired by the state. By ommitting this intention of review, however, the 1956 resolution discards the advantage of the review theory. Instead, it states in effect, that "existing privately owned units can expand and in those cases where approval has already been given to establish a private industry, in a field where the state has the exclusive responsibility for development, the approval will not be affected by the resolution."[29] Finally, the government categorically assures that, "when there exist in the same industry both privately and publicly

29. Ibid.

owned units, it would continue to be the policy of the state to give fair and non-discriminatory treatment to both of them."[30]

The first reading of the statement that industries in the second category will be "progressively state owned" raises the formidable threat of nationalisation. Yet, when analyzed in the light of supplementary evidence, as well as from the standpoint of the shift in theory from the 1948 resolution, the statement assumes a different connotation.

The implementation of the Industrial Policy Resolution of 1956 indicates that the government adopted a favourable attitude towards private sector. There was nothing in the resolution which really offended private capital. In fact, the provisions contained in the resolutions were in line with business thinking on economic policy. This is evident from Karamchand Thapar's remark at the time of the publication of the Third Five Year Plan document in 1961, that, "the Plan's allocation of resources between the public and private sector was broadly similar to that proposed by the Federation itself."[31]

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30. Ibid.

31. Cited in Chattopadhaya, n. 5, p. 24.

The government's policy of 'takeover' of industries in the private sector was a result of the inability of the private capitalists to run these, and was undertaken with their consent. This is evident from the fact that JRD Tata, justifying his support for the projected Bokaro steel plant, said,

> "India's economy and the standard of living of our people cannot grow without additional steel, and it is clear that the private sector, even if permitted to do so, would not be able to undertake on its own, a programme of expansion at an average rate exceeding a million tonnes of new capacity per year."[32]

Hence the inability of the private sector to cope with certain industries made state intervention necessary. The government's policy of industrialization meant no threat to private enterprise. In fact, more often than not, the government's intervention in the economy was to help the private sector.

III

In India, the intervention ~~from~~ of the state in the economy became important for two reasons. Firstly to create conditions for the rapid development of the economy along

32. Statement to the Annual General Meeting of FICCI, 23 August 1963.

the capitalist path, and secondly, to prevent excessive concentration and monopoly of economic power. The second purpose was dictated on the one hand by the exigencies of parliamentary democracy, and on the other, by the desire to accommodate the small and middle bourgeoisie. Thus, this step was meant to serve the interests of the capitalist class as a whole, even though it might go against the interests of particular capitalists.[33] Two important facts namely, the phenomenal growth of the private sector during the planning period and the capitalist character of state intervention in the economy are indications that the development in India was followed along the capitalist path.

As stated earlier, the Industrial Policy Resolutions of 1948 and 1956 contained nothing that threatened the interests of the private sector, on the contrary, the implementation of industrial policy shows that in almost every sphere the private sector was free to operate. The government stepped in to undertake the job only when the private capitalists were incapable of undertaking the task alone. Nationalisation featured as a practical issue from time to time, or as a propagandist device, but never

33. See Chattopadhaya, n. 5, p. 15.

as a fundamental difference in principle between the government and private industry. The government's repeated assurances to the private sector removed business fears about the expansion of the public sector, and made it confident on matters of economic policy. Even the government's adoption of a socialist pattern of society in 1955, did not alarm business. Whatever uncertainties remained were brushed aside by the Commerce as 'baseless' because

> "there are sufficient grounds to feel that the government of India is not likely to make any fresh move in regard to nationalisation of any sector of private enterprise. The government is keen on securing the cooperation of private enterprise for the implementation of the Five Year Plan."[34]

Apart from policy assurances, it is significant to note that government has helped the private sector through the setting up of a series of financial institutions for extending long term credit to big industries. Towards this end, the Industrial Finance Corporation was set up in 1948, with an authorised capital of Rs. 10 crores to subscribe directly to the shares of an industrial concern. The State financial corporations were established by the government in 1951 to supplement the Industrial Finance Corporation.

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34. Commerce (Bombay), 21 March, 1955, p. 479.

The National Industrial Development Corporation was established to develop industries and to act as an agent of the government for the granting of loans, to an industry that the government desired to assist.[35] Thus it seems that the following characterization by an officially appointed committee seems perfectly justified:

> It is evident that the working of the planned economy has contributed to (this) growth of big companies in Indian industry. The growth of the private sector in industry and specifically the big companies, has been facilitated by the financial assistance rendered by public institutions like Industrial Finance Corporation; National Industrial Development Corporation etc... Government policy during the Plan period has been responsible in other ways as well for the growth ofthe private sector, and in the process specially of big companies. In addition to affording a protected market and the necessary overhead facilities, and maintaining a budgetary policy with a wildly inflationary situation favourable to industry, the government has been promoting the growth of private industry by extensive tax incentives.[36]

Thus the Government of India encouraged the private sector to operate freely, despite all statements to the contrary.[37]

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35. See Chattopadhaya, n.5, p.29.

36. Government of India, Planning Commission, Report of the Committee on Distribution of Income and Levels of Living, 1964, pp 30-31.

37. "Cumulation of gains and the rapid increase of economic resources and power in particular hands can be described as a deliberate objective of official policy." Planning and Economic Policy of India (Poona: Gokhale Institute of Politics and Economics 1962), p. 241.

It is evident, therefore, that the Indian government's economic policy after independence provided increased incentives to private enterprise. It did not curb the private sector, but saw to it that the public sector itself was organised in a fashion that helped the private sector to expand. Government's intervention in the economy in the form of occasional nationalisation seldom hurt the interests of private capital. In fact, government generally took over these industries which were either "sick" or required state help for further expansion. Of course, in the early years, public sector entered the vital areas of basic industries because private capital was unwilling or did not possess the capacity for investment on a large scale. This can be discerned from the choice and manner in which certain sectors were nationalised. The case of the Reserve Bank of India in 1948, Air transport in 1953, the Imperial Bank in 1955, and Life Insurance Corporation in 1956 clearly indicates that "the temptation to make political capital out of them was not always resisted";[38] in each case, nationalisation was undertaken for certain specific and defined objectives and none formed part of any concerted anti-private enterprise strategy.

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38. See; for example, C.D. Deshmukh's broadcast over All India Radio, the day the ordinance relating to Life Insurance was published. "The nationalisation of Life Insurance will be another milestone in the road this country has chosen in order to reach its goal of a socialist pattern of society." <u>Hindu</u> (Madras), 21 January 1956.

The first nationalisation undertaken by the government was the nationalisation of the Reserve Bank in 1948, after it ceased to be the common banker for India and Pakistan. The demand for nationalisation of the Bank was originally made in 1927. Consequently the government placed a bill in the Legislative Assembly in January 1927. However, the Reserve Bank of India Bill was dropped because the Assembly was divided on the composition of the board. The demand was revived in 1947. It was embodied in a resolution moved in the Legislative Assembly asking for the nationalisation of the Reserve Bank. K.C. Neogy, The Finance Minister, while moving the Reserve Bank Bill, noted that,

> "The first piece of legislation to bring about ideas of nationalisation should relate to an institution which is really the pivot of the financial system of the country, and on which to very large extent depends the well being of the country."[39]

The Bill was approved by the members of the Assembly. The Board of the Reserve Bank felt that the nationalisation of the Bank was premature. C.D. Deshmukh, the governor of the bank observed:

> "although the Board of the Bank sincerely believe that this decision is premature and not logically

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39. Cited in Vasant Desai, Indian Banking: Nature and Problems (Bombay: Himalaya Publishing House, 1979), p. 24.

> necessary, in view of the economic development reached by the country, they will in the event of the decision proving to be irrevocable, cooperate with government in evolving a scheme of nationalisation that is calculated to ensure with a reasonable prospect of success, the same degree of advice and assistance to government the present type of constitution offers."[40]

The contention of the Board was that mere transfer from the private to the public sector would not alter the relationship between the bank and the government, because in the words of Deshmukh, "After all it is not the theoretical constitution of the institution that matters but the spirit in which the partnership between the Ministry of Finance and the Bank is worked."[41]

The nationalisation of the Reserve Bank was in line with the general trend toward nationalisation of central banks abroad,[42] and was a response to the demand for a state-owned central bank in India. It would be important to note that the nationalisation of the Reserve Bank took

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40. Ibid.

41. Ibid.

42. In Denmark and New Zealand, the Central banks were converted into wholly state owned institutions in 1936. The same development occured in Canada in 1938. After the end of the war among the older central banks to be nationalised were the Bank of Finance (1946), Bank of England (1946) and the Bank of Netherlands (1948). History of the Reserve Bank of India, 1935-59, Reserve Bank of India (Bombay, 1970), p. 506.

place around the same time when the government opposed a resolution calling for the adoption of a socialist society.[43]

The nationalisation of Air transport in 1953 by the government, is another instance which could be taken to show that there was no consistent, planned out strategy of nationalisation on the part of the government to evolve a socalled 'socialist pattern of society'. It became necessary because the resources at its disposal were insufficient, for extending its services in India and abroad. When the companies themselves requested such aid, long term loans at nominal interest, the government took them over appointing significantly as its chairman, no less

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43. The resolution proposed (and withdrawn) by Kazi Syed Karimuddin read: "This Assembly is of the opinion that the economic pattern of this country shall be socialist economy based on the principle of nationalisation of key industries and cooperative and collective farming and socialisation of the material resources of the country and that the Government of India shall adopt the said principle immediately." Central Assembly Legislative Debates, 17 October 1948, p. 825. Replying to the debate Nehru told the Constituent Assembly, "...production comes first...everything that we do should be judged from the point of view of production first.... When you come down to giving effect to (nationalisation) you have to think as to which to choose first and how to do it without upsetting the present structure and without actually interfering with production.... it is far better for the state to concentrate on certain specific vital industries rather than go about nationalising many of the old ones (and) interfering with the existing apparatus except where it is absolutely necessary. Constituent Assembly (Legislative) Debates, p. 829-31.

a person than JRD Tata, one of the top capitalists of the land.[44] It is important to note that nationalisation of air transport did not involve confiscation. Compensation was generous. The valuation of the assets under the Air Corporation Act was such to create a boom in air shares when the terms became known in 1953.[45] In other words, this instance of nationalisation of air transport further substantiates the argument that state intervention in India met the same objectives as that of private capitalists.

Another important case of nationalisation was that of the Imperial Bank of India. There was a strong plea for its nationalisation, may be due to its peculiar position in the banking sector. Firstly, it was a bank managed by the British[46] and secondly, it was highly bureaucratic. The

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44. Chattopadhaya, n.5, p.25, and Kidron, n.11, p.134.

45. Kidron, n.11, p.135.

46. The Rural Banking Enquiry Committee recorded, "A strong exception was also taken to the fact that a majority of the bank officials were non-Indians." The Committee further noted that the executive was in a position to control effectively the election of the directors and the local board members. Moreover, national leaders of leading political parties were in favour of nationalisation because they wanted to do away with foreign elements in banking. Narendra Kumar (ed.), Bank Nationalisation in India: A Symposium (Bombay: Lalwani Publishing House 1969).

rural banking Enquiry Committee suggested that the Imperial Bank should be nationalised. The recommendation of the Rural Banking Enquiry Committee was supplemented by the recommendation of the All India Rural Credit Survey. "The object of this recommendation" observedthe report, "is the creation of one strong integrated state sponsored, state partnered commercial banking institution."[47]

The government of India accepted the recommendation of the Committee to set up a State Bank of India and the Finance Minister, C.D. Deshmukh, announced the decision in the Lok Sabha on 20 December 1954. The government took the decision independently without consulting the central board of the Reserve Bank.[48] The Reserve Bank was thus in a dilemma because it was not consulted. The government's haste caused widespread unhappiness. Perhaps political exigency lay behind it. There was a strong demand from a section of the Congress party, for the nationalisation of the Imperial Bank. Moreover, other leading political parties had also demanded the nationalisation of this bank. Taking

47. Ibid.

48. "It (government) should have at least consulted the Board (RBI) before rushing to the public with its decision. Not only is this not done, but the Board according to our information, did not get a copy of the Committee's Report." Quoted in Commerce. Cited from Kumar ed., n.46, p.18.

all this into account the government had accepted the formula of nationalisation and the Union Minister of Finance, Shanmukham Chetty, had announced the government's intention to nationalise the Imperial Bank in 1948. However, for seven years no action was taken by the government. The first General Elections were ahead and it seemed that the government announced its hurried decision to lessen the internal pressure and satisfy the legislators and public at large, particularly the Congress workers.

The nationalisation of the Imperial Bank just after the Avadi Session of the Congress, wherein the Congress laid down the principles of the socialistic pattern of society, reassured the dynamic nature of the party. To synchronise with this and to stabilise the organisation, the government accepted the recommendation of the Rural Credit Survey Committee and announced its decision.

Government's decision to attain control over banks was motivated by the need for a strong institution through which it could inject credit into the vast rural areas for the benefit of the economy. This point was made clear by C.D. Deshmukh in his address to the Lok Sabha in 1955:

> The policy which I have just mentioned is a further illustration of our practical approach to the economic problems to which I referred. It is not a doctrinaire plunge into nationalisation. It merely seeks to give control of a sector of commercial banking and the extension of credit facilities to important sectors of the economy at present not adequately served.[49]

Hence, the Imperial Bank was nationalised in response to a long standing demand to create a small town credit structure in addition to that provided by the money lenders. This was, in fact, conceded by A.D. Shroff implacable critic of state intervention who complained of the unresponsible attitude of bankers to the national requirements of a network of small town branches. But this was not intended as a prelude to nationalisation of commercial banks with "should be the last thing in nationalisation",[50] stated T.T. Krishnamachari.

As regards compensation, the shareholders of the Imperial Bank were given a preferential position in the allotment of shares open to public subscription after nationalisation. The rate at which they were compensated was the average market value of the shares prevailing over the course of the year 1954.[51]

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49. Quoted in Kumar, ed., no. 46, p. 19.

50. Press Conference, Hindu, 1 January 1955.

51. Chattopadhaya, n.5, p.26.

It is interesting to note that immediately after the famous Avadi Resolution on the 'socialistic pattern of society' in January 1955, and the nationalisation of the Imperial Bank in the same year, the government's next move was to reassure the business community. The Associated Chamber of Commerce and Industry, the Indian merchants chamber, its central committee, the Indian Chamber of Commerce, all had at least one of the economic minister's assure them - all roughly in the same vein. To quote one, "The Government did not visualize any change during the next twenty five years in the private sector or private enterprise, so long as the latter acted within limits and did not harm the building up of an egalitarian society."[52]

The nationalisation of Life Insurance was undertaken by the government partly to clean up an unusually corrupt and inefficient industry and partly to mop up savings for large industrial investments.[53] This was conceded by C.D. Deshmukh in a radio message which said:

> With a second Plan in the offing, involving an accelerated rate of investment, the widening and deepening of all possible channels of public

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52. T.T. Krishnamachari, Minister of Commerce and Industry, to the Silver Jubilee meeting of the Indian Merchants Chamber, Coimbatore, Hindu, 31 December 1955.

53. M.N.V. Nair, "Nationalisation of Life Insurance in India" Indian Affairs Record, New Delhi, Vol.II, No.1, February 1956, pp. 1-4.

> savings have become more than ever necessary. Of this process nationalisation of Insurance is a vital part, private industry would not suffer and would continue to receive at least as much money as today made available to it.[54]

As the nationalisation affected only the Life Insurance business, some of the tycoons of the business world escaped practically unhurt. A.D. Shroff, the Chairman of New India, for example, said that the profits of their business being insignificant compared with those earned by their other business, nationalisation would not affect the profit earning capacity of the company.[55] Therefore, it is abundantly clear that the nationalisation of the Life Insurance Corporation was exactly along the lines of other nationalisations of the past. The policy assurances of the government to the private sector were kept.

IV

The tentative structure of government's nationalisation policy can be drawn from a comparison between the two Industrial Policy Resolutions of 1948 and 1956 and the

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54. C.D. Deshmukh quoted in Kidron, no. 11, p. 134.

55. Cited in Venkatasubbiah, Indian Economy Since Independence (Bombay: Asia Publishing House, 1961), ed. 2, p. 89.

cases of nationalisation discussed in the last section. An analysis of the two Resolutions leads to the following conclusions pertaining to the private and public sector:

(a) That greater emphasis is to be placed on the government's development of the public sector.

(b) That a steadily increasing proportion of the activities of the private sector will be developed along cooperative lines.

(c) That existing private industry will be permitted to develop along the state owned undertakings in all three industrial categories defined in the 1956 resolution, provide that private industry is properly regulated so that it does not seize advantages which react adversely to the welfare of the people.

(d) That the door is open for private enterprise to enter the industrial field reserved for state development, if it is found that exclusive jurisdiction would retard development or otherwise be adverse to the national interest.

(e) That with the possible exception of one or two industries dealing with public utilities and national resources, India has abandoned the overall programme to nationalise private industry falling within the public sector.

In spite of the fact that government's restatement of its Industrial Policy Resolution in 1956 was compelled by the Avadi declaration of building a socialist society, the actual implementation of the 1956 resolution shows that the private sector's scope was further increased.

After 1956, the government became more and more pragmatic in its attitude towards the private sector. Many of the controls over the private sector were relaxed. For example, liberalized imports and the exemption of some of the industries from the stipulated requirement of government license, is a case in point which confirms the move towards relaxation. Thus, 11 industries had been delicensed in May 1966 following the recommendation of the Swaminathan Committee. At the same time, many direct controls on prices, production and distribution had been relaxed or lifted.[56] Michael Kidron has shown how the government condoned the growing encroachment by private capital into spheres reserved for public sector. Of the seventeen industries listed in schedule 'A' of the Industrial Policy Resolution, 'industries, the further development of which

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56. Cited in Venkatasubbiah, Indian Economy Since Independence (Bombay: Asia Publishing House, 1961), ed. 2, p. 89.

will be the exclusive responsibility of the state.....' Seven at least have been opened to private interests since 1958.[57]

The greatest shift towards the private sector took place in schedule 'B' industries, which by the terms of the 1956 resolution were to be 'progressively state owned.....' Of the twelve industries listed, at least nine had been nearly invaded by the private sector.'[58] Nehru had said in the 1962 session of the FICCI that "private enterprise is a good thing, the suppression of private enterprise was bad." No wonder the spokesman of the Indian capitalists can say that "the final objectives of the government and the business community are the same. May be our approach for achieving these objectives are different. But even these differences are not basic. We shall fully cooperate with the government in the great endeavour of nation building."[59] This seems logical in

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57. Those are (1) arms, (2) heavy plants and machinery, (3) heavy electrical plant, (4) the processing of lead and zinc, (5) the production of telephone cables and telegraph equipment, (6) the generation and distribution of electricity, and (7) coals.

58. These are: (1) aluminium, (2) machine tools, (3) ferro alloys and tool steels, (4) basic chemicals and intermediates, (5) antibiotics and other essential drugs, (6) fertilizer production, (7) synthetic rubber, (8) road transport, and (9) sea transport, Kidron, n. 11, pp. 143-145.

59. G.M. Modi, President of FICCI at its 42 Annual Session, 1969.

view of the fact that the economic policy of the State was in harmony with the business interests.

The second purpose of state intervention, namely to prevent, in the interests of the capitalist class as a whole, excessive concentration and monopoly of economic power, does not necessarily mean socialism. Anti-monopolistic measures are found in almost all countries. As Nehru himself said: "Not to encourage monopoly is a common matter, common thing not confined to socialist thought. Even modern Capitalist thought is opposed to monopoly."[60]

Thus state intervention in India had very little negative effect on the growth of concentration and monopoly. As R.K. Hazari has shown, the four largest group of capitalists - Tata, Birla, Martin Burn and Dalmia Sahu Jain - who had nearly 18% of the share of the non-government public companies in 1951, had more than 22% in 1958. Their share in the gross capital stock expanded during the same period from 17 to 22%. In 1958, the public companies in Tata and Birla complexes had nearly 1/5 of the gross capital stock of all non-government public companies.[61]

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60. Nehru's address to the 23 Annual Session of FICCI in 1960

61. R.K. Hazari, The Structure of Corporate Private Sector (Bombay: Asia Publishing House, 1966), p. 305.

The very nature of state intervention in India had been one which encouraged the growth of private capital. The establishment of the public sector did not threaten the existence and expansion of the private sector. Government's assurances, in this regard, were articulated and embodied in the Industrial Policy Resolutions of 1948 and 1956. The evidence suggests that Indian capitalists appreciated the pragmatic considerations which forced the government to intervene in the economy. In fact, on many occasions, different segments of private capital demanded the 'takeover' of 'sick' mills or the nationalisation of certain industries. They did so for various reasons. Sometimes they were unwilling to invest in capital-intensive industries which had low rates of return, and at other times small and medium capital demanded the nationalisation of an industry to enhance their own prospects which were invariably threatened by the stranglehold of the monopolists. However, there were instances when nationalisation was not governed by economic considerations alone. Rather, the logic and propelling force has to be located in the realm of party politics and the political strategies and tactics adopted by the Congress, in particular to augment its strength. Bank nationalisation is a case in point. The subsequent chapter identifies the political developments and the nature of the crisis in the party which provides a backdrop for the nationalisation of commercial banks.

CHAPTER III

POLITICAL DEVELOPMENTS IN THE CONGRESS, 1967-69

The years 1967 to 1969 were an important landmark in the history of the Congress since independence. The events and developments during this period were in sharp contrast to politics of the preceding years when the Congress was seemingly a powerful monolithic party which exercised undisputed authority and, more importantly, succeeded in uniting the various factions under a common banner. This was a notable feature of Congress politics, a feature not easily discernible in the politics of many Asian and African countries which claimed to practice the democratic system.

In 1967, however, the apparent monolithic character of the Congress party appeared to be under severe strain. Not only was the hitherto powerful central leadership challenged but a number of factions also emerged which asserted their regional, caste and linguistic claims. One of the most serious manifestations of this trend, which had far reaching implications, was the emergence of what is popularly known as the Syndicate group in the Congress party. This was a serious challenge which had to be effectively countered by the more dominant group, led by Mrs. Gandhi. This was crucial in order to maintain the ascendency of the Prime Minister and the strong band of followers she had developed over the years.

This chapter seeks to examine the factional struggle between the two groups in the Congress which culminated in a formal split in the Congress party. It analyses the various forms of tensions, ideological and personal, which enveloped the Congress, and weakened its dominant position in Indian politics.

In order to provide a perspective to these developments and to understand the nature of the struggle, an attempt is also being made to highlight some of the trends in the Congress system before Mrs. Gandhi emerged triumphant, independent of the Syndicate support. At the outset, our narrative focuses on how Mrs. Gandhi wrested the initiative from the erstwhile Congress bosses, and succeeded, with remarkable skill and adroitness, in pursuing an independent course of action which marked a significant departure from the policies of her predecessors.

It is well known that Mrs. Gandhi's election to the Prime Ministership in 1956 was helped by the combined efforts of the party bosses popularly known as the Syndicate. The Syndicate had come together not on the basis of a common political programme but to prevent Morarji Desai from becoming powerful. The Syndicate supported Mrs. Gandhi's election to the Prime Ministership for a number of reasons. It was held that she would be useful to the conservative government, in deflecting criticism from the Left and would prove an asset in the forthcoming elections, being the only heir of Jawaharlal Nehru. Besides, she had a 'progressive' image in the party, having supported the younger activists in their effort to organise socialist forum groups since the late 1950's. However, Mrs. Gandhi soon proved her mettle by pursuing her own policies and relying on her own advisors (who were a group of policy oriented members of her Cabinet) for support, without taking into account any of the Syndicate's wishes. Her drastic decision to devalue the rupee[1] greatly weakened

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1. With severe famines in 1955/66 India had been compelled to import wheat from the United States. Spiralling inflation added to the deficit in balance of payments. Hence in 1966, under severe pressure from the U.S., I.M.F. and World Bank, Mrs. Gandhi devalued the rupee. Meghnad Desai, "India's Emerging Contradictions of slow capitalist development in Robin Blackburn" (ed.), Explosion in a Sub-continent, Pelican Books, London, 1975, p.11.

her legitimacy.[2] Moreover, Kamraj was outraged at not having been consulted. He argued that the devaluation proposal should have been put either before the Congress Working Committee or the Parliamentary Board for discussion before an official decision had been made. This led to a serious conflict between the Cabinet and non-Cabinet members of the Working Committee.

Mrs. Gandhi's insistence on taking independent decisions on vital matters earned her the displeasure of both the Congress President and the Working Committee.

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2. On the weekend before the formal announcement of devaluation, Mrs. Gandhi consulted the senior colleagues in the Cabinet and the President of the Congress Party, about the decision to devalue the rupee. Virtually all were opposed. They not only doubted any substantial benefit to India from the step but were also concerned about its effects on the prospects of the party in the national elections if government were attacked for yielding to foreign pressure. Kamraj, who was in addition outraged aat not having been consulted, argued that the questio had to be put before either the Working Committee or the Parliamentary Board for consultation before an official decision was made. Mrs. Gandhi apparently wavered. One day before devaluation was supposed to take place, her Chief Secretary L K Jha cabled B K Nehru in Washington advising him to withhold any announcement and citing a possible change in policy. Nehru responded with a brief reply pointing out the political realities that if India did not devalue, sh would not get any more aid. Despite the political opposition to devaluation, within the Congress and the last minute hesitation of the government on June 6, 1966, with the government and party bitterly divided Sachin Chaudhuri informed unprepared public by radio broadcast of India's decision to devalue the rupee by 46.5%. Within ten days of the finance Minister's announcement of devaluation and liberalization of foreign exchange controls, the US announced resumption of economic aid to India. See: Francine Frankel, India's Political Economy, 1947-77 Delhi: Oxford University Press, 1978. p.298.

It was suspected that the Congress President Kamraj was planning to remove Mrs. Gandhi from power, which he sought to do through the forthcoming General Elections of 1967. Thus, Mrs. Gandhi's government faced a political crisis on the eve of the 1967 elections. The crisis deepened due to the severe setbacks on the economic front. Signs of stagnation were apparent on all sides. During the Third Plan Period (1961-1966), per capita income did not increase at all as population growth rates neutralised the low over-all gains in the rate of growth of national income. Agricultural output, relatively stationary in the first three years of the Plan, spurted upward after a good monsoon in 1964, but then precipitously declined in the drought year that followed. Despite record imports of 25 million tonnes of food grains over the Plan period, prices of food articles increased by 32 percent, signalling the onset of a serious inflation.[3] No progress at all could be made in solving the problem of unemployment. On the contrary, the backlog of unemployed, estimated at 12 millions at the end of the Third Plan, was expected to increase to 15 million persons by 1971.[4] To this was added the discontent of the people

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3. Frankel, n.2, p.293.

4. As estimated in Planning Commission, Fourth Five Year Plan - A Draft Outline, pp.106-108.

against government's failure to control price rise. But these developments did not lead the government in the direction of structural changes necessary to improve the working of the economy. For instance, Congress government was not in favour of nationalisation. On the contrary, the government continued to give increased incentives to private enterprises. Consequently, the new policies failed to reduce the disparities between the rich and the poor.

It was against this backdrop that Congress party contested the 1967 general elections. The 1967 general elections marked a watershed in the history of independent India. The party suffered a major debacle. Twenty years of one-party dominance came to a dramatic end after the Congress lost its majority in 1967.

Congress returned to power at the centre, but with a greatly reduced margin. At the state level the Congress debacle was even greater. The party lost a total of 264 seats in the legislative assemblies to opposition candidates. In eight states, Bihar, Kerala, Madras, Orissa, Punjab, Rajasthan, Uttar Pradesh and West Bengal, they failed to win legislative majorities.[5] The victory of parties like the

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5. Frankel, n.2, pp 307-308.

Jana Sangha and the Swatantara was welcomed by the business community and this made the Congress position more precarious. On the other side of the spectrum, the Communist Party of India (CPI) lost the position of the largest opposition party in the Lok Sabha.

The 1967 election results proved disastrous to the Congress as a whole. But, paradoxically enough, this stunning defeat was an ill-disguised benefit for the leader of the Congress party in Parliament, Mrs. Gandhi. The Syndicate's plan of removing her was upset because the major stalwarts of the Syndicate namely Atulya Ghosh, S.K. Patil and Kamraj failed to get elected to Parliament. Morarji Desai was the only important Syndicate leader to win at the polls.

Hence all political opposition to Mrs. Gandhi was removed. Her victory at the polls helped her to retain the Prime Ministership. Her emergence as the leader clearly demonstrated that she had overcome the political crisis in the party. But she had yet to contend with the economic crisis which had greatly tarnished the Congress government's image.

The party's reverses evoked varying responses. Congressmen differed with each other about the causes of Congress reversal in the elections. Mrs. Gandhi contended in a press conference that the food situation and spiralling prices were the main causes of the Congress setback.[6] While the Congress President Kamraj averred that,

> "We have been talking of socialism without doing anything substantial. All this frightened the rich and they went against us. But in practice we failed to carry out any of these decisions. This created frustration among the masses. On paper we had a better programme than many other parties, but its improper implementation chilled the enthusiasm among the party workers."[7]

The organisational leaders blamed the shortcoming of government policy for the party losses, while the Prime Minister and the members of the new government placed major emphasis on the disintegration and ineffectivenesses of the party organisation.

Despite all these differences within the party, accommodation and conciliation became nonetheless important both for the government and the party organisation so as

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6. Times of India, March 16, 1967.

7. Ibid.

to preserve the credibility of the Congress image with the masses. The compromise formula by which Mrs. Gandhi was unanimously re-elected to the Prime Ministership and Morarji Desai appointed Deputy Prime Minister and Finance Minister was an attempt in this direction. It was indeed a closely bargained consensus,[8] among the fragmented Congress leadership who only under great political stress could be expected to give priority to the survival of the party rather than achievement of personal ends.[9]

The Congress debacle in the 1967 general elections provoked considerable debate and criticism within the Congress. The party was anxious to regain its mass appeal. Ideological postures of the leadership invariably helped in the process of building up mass support. For this, the Congress, as it had often done in the past to stave off a crisis, moved noticeably away from the Right. The process of redemption was begun with the Congress Working Committee resolution on General Insurance. The AICC went

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8. In order to avoid a break within the party, it was the Congress President Kamraj who once again emerged as the prominent figure in providing a machinery through which a settlement was made on the leadership issue. See Kochanek, S., Congress Party in India, 1968, p.412

9. See: Brechen, M., "Succession in India: The Routinization of Political Change", Asian Survey (July 1967), pp. 423-443.

a step further, announcing the abolition of Privy purses and other privileges of princes. In addition, the call for social control of banks included in the Congress election manifesto, suddenly emerged as a measure of prime importance in the economic programme of the new government.

Despite all the differences within the Working Committee on the exact causes and cures for the Congress decline, they felt the need for some symbolic action to dramatize the commitment of the party to implementation of Congress programme. Hence, the Ten Point Programme was introduced.[10] The proposal to remove the privileges enjoyed by ex-rulers was perhaps the only new measure adopted by the Congress, everything else contained in the Ten Point Programme merely reiterated the long standing policies of the Party.

The Ten Point Programme evoked an ideological debate in the AICC on the issue of social control of banks and the demand for abolition of privy purses and the privileges of the former princely rulers. The demand by

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10. The text of the Ten Point Programme is published in the <u>Congress Bulletin</u> (April-May 1967), Nos. 4-7, pp. 38-39.

some for the nationalisation of banks rather than social control was rejected. The party as a whole was rapidly growing more divided. The younger radicals insisted on immediate action to implement the Ten Point Programme. Their demand for the complete takeover of the banking system was put forward to the national leadership on the eve of the Jabalpore session of the AICC in October 1967. But the Deputy Prime Minister prevailed in extracting an understanding that bank nationalisation would be considered only after social control was given a fair trial for at least two years. The young Turks protested against this decision. Mrs. Gandhi urging that nothing should be done to jeopardise Congress unity, extended her support to Morarji Desai. Her lead was followed by Kamraj and by Chavan and Jagjivan Ram, the two Cabinet Ministers on whose support the Young Turks had counted.[11]

Therefore, it would perhaps be justifiable to say that despite repeated demands for a more radical economic policy which involved nationalisation of banks and General Insurance, the Congress government failed to put it into practice. Even Mrs. Gandhi, despite her assurances to

11. Congress Bulletin (October 1967), No. 10, pp.203-217.

bring about a more egalitarian society based on the socialist principle, finally supported the policy of Morarji Desai. Social control over commercial banks was passed by the Lok Sabha and General Insurance was submitted to similar regulation.

That there was tension building up within the party was reflected in the fact that it could not agree on any resolution on economic policy for two years, the period between the adoption of the Ten Point Programme in 1967 and the Bangalore session of the AICC in July 1969, which presaged the split in the party.

The conflict between the Syndicate and Mrs. Gandhi became apparent at the Faridabad session of the Congress in April 1969. The Congress President Nijalingappa apparently challenged the Prime Minister's authority in the key area of economic policy. The substance of the policy disagreement seemed to coincide with the ideological debate between the Syndicate and the younger radicals in the party. This paved the way for an alliance between Mrs. Gandhi and the radicals.

The Faridabad session of the Congress took place at a time of the publication of the Fourth Plan draft outline in March 1969. The government could no longer put off a decision of the government's economic policy. The Working Committee meeting on April 25, 1969 decided that the PM should present a broad outline of the Fourth Plan to the AICC followed by a general discussion of "considerations of social, political and economic programs with special reference to the implementation of the Ten Point programme adopted by the AICC and approach to the Fourth Plan."[12] The attempt to integrate the aims of the Ten Point Programme and the Fourth Plan Draft outline was, however, an impossible task. They were the very embodiment of the ideological contradictions immobilizing the party.

The Ten Point Programme was on the face of it designed to accelerate the implementation of policies aimed at establishing a socialist pattern of society. The measures envisaged for accomplishing this goal involved greater state regulation and control over key sectors of the economy, as well as measures to curb economic concentration. But the draft outline of the Fourth Plan prepared by the Planning Commission in consultation with

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12. Congress Bulletin, Nos. 4-5, April-May 1969, p. 20.

the Finance Ministry, endorsed an enterpreneureal approach that required increased incentives to private investment for those classes of people who already had the capacity of responding to "growth opportunities". The strategy explicitly proposed a relaxation of government regulation over the economy, extending for recommendations for almost complete removal of industrial licensing and other controls over the private sector. It also directly recognised that such policies must inevitably increase disparities.[13]

On the other hand, the demand for outright nationalisation of banks and legislative measures to curb the growth of monopolies was supported by several members of the senior leadership including Atulya Ghosh, Y.B. Chavan, Sanjeeva Reddy and Subramaniam. But once again this was defeated for Desai as Chairman of the panel refused to draft an economic resolution accepting the proposal on the ground that social control had not been given a fair trial.

It was at the Faridabad session that Mrs. Gandhi and the Congress President expressed contradictory views

13. Frankel, n. 2, p. 402.

on the role and working of the public sector. While Mrs. Gandhi held that there should be more and more investment in the public sector,[14] Nijalingappa in his presidential address attacked the public sector for its inefficiency."[15]

The radicals in the party bitterly protested against Nijalingappa's remarks. Even Mrs. Gandhi for the first time took a clear public position that appeared to support the forum group against the senior leadership of the party. Perhaps Mrs. Gandhi had already considered to align with the radicals in the party. Her open support of the public sector and attack on Nijalingappa was done with the intention of mobilizing support through an alliance with the left. Thus, by 1969, the two distinct rival groups within the party, one represented by the Syndicate and the other by Mrs. Gandhi and her supporters, perceived each other as a threat to their position in the party.

The first round of the battle took place at the AICC meeting at Bangalore in July 1969. To gain initiative

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14. Congress Bulletin, nos. 4-5, April-May 1969, p. 64.

15. Nijalingappa's speech is published in Congress Bulletin, nos. 4-5, April-May 1969, pp. 70-86. Also see Hindustan Times, April 28, 1969.

at the Bangalore session, Mrs. Gandhi sent a note of "stray thoughts" to the Working Committee urging a more aggressive stance in economic policy. Among other proposals her note included nationalisation of major commercial banks, effective implementation of land reforms, ceilings on urban income and property and curbs on industrial monopolies.[16] The Syndicate was divided in its response to Mrs. Gandhi's socio-economic strategy. To avoid a split on the eve of the Presidential nomination following the death of Zakir Husain, the Syndicate closed ranks and approved Mrs. Gandhi's economic proposals including bank nationalisation. However, their fortunes depended greatly on the outcome of the Presidential contest. They confidentially hoped to secure the nomination of their candidate Sanjiva Reddy in opposition to Mrs. Gandhi's preference for V.V. Giri. Their calculations proved correct and with the nomination of Sanjiva Reddy Mrs. Gandhi stood defeated.

Mrs. Gandhi's next move in her battle with the Syndicate was to relieve Morarji Desai of the Finance portfolio on July 16, 1969.* This further deepened the wedge

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16. The text of the Prime Minister's note is published in Zaidi, A. Moin, <u>Great Upheaval</u>, 1969-1972; The Case of the Indian National Congress in Ferment, based on Documents emanating from official sources, New Delhi: Orientalia 1972, p. 81.

* See: Appendix II p.167.

between the two rival groups. Mrs. Gandhi claimed to have taken the action because of Desai's opposition to her radical economic measures, though Desai had grudgingly accepted the AICC resolution on economic policy. Clearly, the Syndicate viewed the dismissal as vindictive. As a result Desai gathered considerable sympathy. In view of these uncertainties, Mrs. Gandhi decided to clinch the issue by announcing the nationalization of the fourteen commercial banks. On July 21, less than forty eight hours before the Lok Sabha was scheduled to meet, the Government announced that fourteen of the largest commercial banks of India had been nationalised by Presidential ordinance.[17] Mrs. Gandhi did this to justify her earlier action and push the Desai controversy in the background. The nationalisation of banks involved the expenditure of little political capital and gained widespread support for the Prime Minister, which led to an immediate tactical victory for her in her struggle with the Syndicate. Y.B. Chavan decided to quit the Syndicate and joined Mrs. Gandhi. The Syndicate, denied of Chavan's support, became more and more vulnerable to charges of reaction and collusion with vested interests. This was in fact the tactic

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17. The Statesman, July 22, 1969.

ultimately used by Mrs. Gandhi to repudiate Sanjeeva Reddy, the presidential candidate endorsed by her own party, and to discredit counter charges that she was working to defeat the Congress nominee from considerations of personal advantage in power struggle.

In the meanwhile, V.V. Giri entered the Presidential contest as an independent candidate. He resigned from the post of acting President and in a vigorous campaign drew the support of the Samyukta Socialist Party, the DMK, the Muslim League, the two wings of the Communist Party and almost all elements of the United Front Governments of Kerala and West Bengal.

At first, Reddy's election seemed assured with the Congress holding fifty two per cent of the votes but increasing rumours of defections to Giri caused considerable unease among Syndicate members. Within one week of the election, party president Nijalingappa issued a whip instructing all Congress members of Parliament and State Legislative Assemblies to vote for Reddy. He also asked Mrs. Gandhi to make a statement of support immediately for the Congress nominee. The Prime Minister refused the issue of the party whip and called for "free vote" of conscience in the election. Giri was elected President and the Syndicate was in disarray. It had been embarassed and determined to bring disciplinary action against the Prime Minister. However, with pressure from those States with narrow Congress majorities, where a split might have put them out of office and with the mediation of Chavan, the Working Committee closed with a plea for unity.

Although, Giri's election was hailed by Mrs. Gandhi's supporters as the "peoples triumph" the battle for primacy between the Syndicate and Mrs. Gandid did not end. The election results showed that the large majority of the Congress MPs and MLAs (estimated at 62 to 65 per cent of MPS and MLAs 66 to 75 per cent) had supported Reddy.[18] It was obvious that Giri's election had been made possible by a minority of Congress votes along with those of other opposition parties.

The struggle subsequently shifted to maneuvres for control of the party machinery. The immediate events which led to the final split were triggered by the resignation on September 27 of C. Subramaniam as President of Tamil Nadu Congress Committee. This provided the Syndicate the opportunity to upset the delicate balance

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18. Zaidi, n. 20, p. 491.

of forces inside the Working Committee by challenging Subramaniam's right to continue as a member. Mrs. Gandhi outraged at this, and along with five of her supporters, sent a letter to Nijalingappa charging the Congress president with issuing arbitrary orders removing Subramaniam and asked for an early meeting of the Working Committee by October 15, and of the AICC by November 17 to consider the entire political situation.[19] Nijalingappa, who had not yet mailed a dismissal letter to Subramaniam, informed the P.M. that there was no need to call a meeting of the Working Committee before the scheduled date of November 1.

Mrs. Gandhi, however, reacted by getting a signature campaign to have a special meeting of the AICC with the purpose of electing a new Congress president, on the grounds that Nijalingappa had violated the spirit of the unity resolution in moving against Subramaniam. Nijalingappa, by removing both Subramaniam and Fakharuddin Ali Ahmed from the membership of the Working Committee hardened factional cleavages into a party break. He further requested the resignation of Shanker Dayal Sharma as

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19. Ibid, p. 161.

General Secretary of the AICC and removed him from the membership of the Working Committee.

The response of Mrs. Gandhi and her other supporters was not only to boycott the scheduled meeting of the Working Committee but to set up a parallel Working Committee by calling for a meeting at the same hour in the Prime Minister's residence. Hence, on November 1 the two factions, one headed by Nijalingappa and the other by Mrs. Gandhi clearly revealed that the Working Committee was evenly divided between the two groups.

Mrs. Gandhi in an effort to portray a more progressive image than that of the Syndicate circulated a letter to the members of the AICC stating that the crisis in the party was not the result of a "clash of personalities" but the conflict according to her was between "those who are for socialism, for change and for fullest internal democracy and debate in the organisation on the one hand, and those who are for the status quo, for conformism and less than full discussion inside the Congress."[20]

Nijalingappa, however, offered an entirely different interpretation of the political crisis. He

20. Frankel, no. 2, p. 427.

insisted that the party split had been created solely by the Prime Minister's "basic and overriding desire to concentrate all power in her own hands."[21] On November 12 he expelled Mrs. Gandhi from the Congress and instructed the Congress Parliament Party to elect a new leader. Hence the Congress split was institutionalized in December 1969 with two separate Congress sessions, one led by the Syndicate and the other by Mrs. Gandhi.

A brief look at the history of the Congress and its various strategies to manage conflicts shows that the Congress had always tried to project the image of a consensus party, mobilizing contending interests and accommodating them under a single banner. This had made many observers content that it was an umbrella party.[22] Such a view was based on the fact that both the propertied and landless elements were present in the Congress heirarchy. But the gap between the policy statements of the Congress and implementation of them makes the conclusion of the consensual modelistes (that Congress is an organisation with no sectional or class interests) seem contradictory

21. Ibid, p. 428.

22. See Morris Jones, "Dominance and Dissent: their Inter-Relations in the Indian Party System", in his book Politics Mainly Indian (Orient Longman, 1978), p. 222.

to facts. From the Nehru era, Congress policy pronouncements on various radical measures like land reforms, planning, the growth of the economy through a large public sector, encouraging a socialist pattern of society etc. had always come under the attack of the conservative element in the party. But the leadership of the party was shrewd enough to adopt a dual strategy. On public platforms, the Congress was cast in the mould of a populist party committed to social change and rapid economic development, while on the other hand it sought to reassure the propertied classes. The example of state planning has often been cited as evidence for Congress socialist impulse. However, though planning had been adopted and a large public sector had been envisaged, there was no systematic reduction of private capital. On the contrary big business continued to expand under the Congress brand of socialism.[23] Despite occasional discord, the interests of business and government or the Congress party were on the whole harmonius, and "the private business community, whatever the rhetoric of the moment has always been substantially represented in the Nehru Government and Congress party."[24] Thus it is clear that the Congress

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23. Michael Kidron, Foreign Investments in India (London: Oxford University Press 1965), p. 220.

24. Ibid, p. 240.

party represented dominant classes namely the landlords as well as the urban big industrialists and continually played the game of politics in the context of these interests. All this did not mean that there were no factional rivalries within the Congress, but these factional battles were not on ideological grounds. There was no polarization of the radical elements versus the rightists in the party. As many observers have concluded, the coalition of interests operating within the party had to be within a well defined framework of collective strength and never overstep thereby disturbing the balance.[25]

Keeping this historical perspective in mind, the management of Congress crisis in 1967-69 appears to follow the same pattern.

In her endeavours to meet the Syndicate challenge, Mrs. Gandhi, on the one hand, mustered support from the Congress rank and file and, on the other, rallied popular support. The latter objective was achieved through a

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25. See Prabhat Patnaik, Imperialism and the Growth of Indian Capitalism in Robin Blackburn (ed.) <u>Explosion in a Subcontinent</u> (London, Pelican books, 1975), pp. 51-78 and Meghrad Desai, "India Emerging Contradictions of Slow Capitalist Development", ibid p. 11-50.

systematic ideological campaign geared to exposing the hollowness of the Syndicate's claim to represent the interests of the common people. But such a strategy could alienate many influential groups in the Congress, such as big business, which was unlikely to endorse the radical orientation of Mrs. Gandhi and her faction. So, the easy option was to raise populist slogans and promises to undertake popular measures and appear as the defender and custodian of the interests of the underprivileged. For example, abolition of privy purposes and more importantly, the nationalisation of banks, highlighted the popular tones of the Congress strategy. These moves generated political support for Mrs. Gandhi's faction within and outside the Congress party. The split in the party was the last act in the drama which confirmed her complete dominance of the party.

CHAPTER IV

THE POLITICAL COMPULSIONS OF BANK NATIONALISATION

This chapter discusses the political and social compulsions which governed the nationalisation of fourteen commercial banks in 1969. Mrs. Gandhi and her supporters claimed the decision was part of the drive to implement structural reforms to rejuvenate the economy which had witnessed a severe crisis since the mid-sixties. In addition, the decision was projected as an attempt to extend credit facilities to classes, groups and sectors who had been squeezed by the domination of monopoly capital on the banking system. This chapter argues that economic considerations played a part, however, it was the political crisis in the Congress party which paved the route to nationalisation. This chapter examines the political interests which impinged on the decision of Bank nationalisation and the manner in which the power struggle in the party was converted into an ideological battle to neutralize the rivals in the party. Finally, it seeks to explain the political advantages gained by Mrs. Gandhi as a result of Bank nationalisation.

The debacle suffered by the Congress in 1967 general elections shook the ideological foundations of the party. The economic crisis confronting the country as a result of the Indo-Pak conflict and the continuing industrial recession made people opt for right wing coalitions in several state legislatures. The Jan Sangh and Swatantra party were projecting themselves as viable alternatives to what they called the socialist programme of the Congress party.

The Congress party itself was divided on many issues. Apart from the vague consensus on political issues - largely a legacy of the independence struggle - the overall economic strategy of the party did not have any coherence. One of the most divisive issues was control of the "commanding heights of the economy", which in this period, specifically referred to the banking system in the country.

A report published by four eminent economists on the eve of the Jabalpur session of the AICC was given wide publicity by Chandra Shekhar, Secretary of the Congress Parliamentary party. Entitled "Banking Institutions and the Indian Economy",[1] the Report made an outright appeal for bank nationalisation. The report argued that "their

1. Times of India, 25 October, 1969. The four economists were H.K. Manmohan Singh, Dr. V.B. Singh, Dr. S.C. Gupta and Dr. S.K. Goyal.

demand for takeover of banks is purely based on economic and social considerations. More significantly, the report observed, "that bank credit in India has not been utilised for financing projects according to plan priorities but invested in low priority schemes even those outside the plan."[2] As a result credit was diverted from agriculture, whose share of total credit had declined between 1953 and 1965 from 3.8% to 0.2% to low priority schemes in the identical sector. Often loans had been given to bank directors, who were usually big industrialists at rates of interest much lower than those prevalent in the market. The borrowings of both bank directors and their companies had risen from Rs. 560 million in 1954 to Rs. 2910 million in 1965. Another disturbing feature was the transfer of credit from poorer states to more developed states amounting to almost Rs. 3500 million. Finally, the report recalled the observation of the Government of the Reserve Bank that "one of the structural features of the Indian economy is the concentration of power which in some cases is enormous."[3]

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2. See <u>National Herald</u>, 28 July, 1967.

3. <u>Times of India</u>, 25 October, 1967.

The timing and topic of the Report was significant. Congress was divided on the issue despite the strong recommendations of the Report. Mrs. Gandhi favoured a "frank debate" on the subject of bank nationalisation, at the Jabalpore session of the AICC. She backed her arguments for debate by citing the ten point programme drafted by the Congress Working Committee (CWC) after the 1967 general elections.[4] One of the important features of the programme was the demand for the "social control of the banking institutions". Though the phase "social control" did not satisfy the rank and file of the party led by the "young Turks", Mrs. Gandhi did not push for outright nationalisation. Finally, in the Jabalpore session, the CWC decided against any immediate nationalisation and instead approved a scheme of "effective social control" presented by the Deputy Prime Minister and Minister for Finance, Morarji Desai. Mrs. Gandhi thus turned the tables on the votaries of bank nationalisation, at least overtly. But that it was only a manoevre, a point to gain time, was clear.

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4. The text of the Ten Point Programme is published in the Congress Bulletin, Nos. 4-5 (April-May 1967), pp. 38-39.

Organisationally weak within the party, Mrs. Gandhi was then primarily concerned with the forthcoming election of the Congress president. Her plan was to either place one of her own proteges in the presidential chair or to bid for the place herself.[5]

However, the Syndicate was still soundly entrenched in the party organisation and, since its creation, had been in control of that crucially important office. Therefore, to overcome the Syndicate's opposition, Mrs. Gandhi needed at least Desai to be neutral, for which aim she traded her neutrality on the problem of banking system. However, in doing this, Mrs. Gandhi was cautious enough not to damage beyond repair her chances in a possible new swing towards the left in the future. Hence, in her speech at the AICC, she stated quite clearly that if the scheme of social control over banks was "bypassed" or "avoided", the government would not hesitate to take over that sector completely.

In spite of these adroit moves, Mrs. Gandhi's position in the party was insecure. She failed to get

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5. Durga Das, India from Curzon to Nehru and After (London, 1969), p. 406.

her candidate elected to the post of Congress President. While she could prevent S.K. Patil's election, she had to accept as a compromise candidate Nijalingappa, who soon sided unconditionally with Patil and against her. In addition, at the Hyderabad session of the Congress in January 1968, only one of the seven elected seats in the Congress Working Committee went to Mrs. Gandhi's supporter C. Subramaniam.[6] Y.B. Chavan, hitherto aligned with Mrs. Gandhi's faction decided to support the Syndicate, thereby contributing to the diminishing strength of her group in the Congress. In view of these developments, Mrs. Gandhi was indeed faced with a difficult situation.

Despite these adverse developments, Mrs. Gandhi with her customary strategic skill, managed to retain her hold in the party. This was largely because, the leaders of the Syndicate were divided amongst themselves by personal rancours, and furthermore they lacked ideological homogeneity. Thus, the Syndicate did not press for a showdown on the bank issue, because they were aware of

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6. Durga Das, op. cit., p. 407.

Mrs. Gandhi's populist image. With her demands for a more radical Congress platform since the election debacle and the noisy backing of the "young Turks" group within the party, Mrs. Gandhi could count on a majority of party workers in the eventuality of a split. Even without it, the Prime Minister had the option of calling for fresh elections to Parliament. Nevertheless, Mrs. Gandhi continued to play a cautious game for her influence in the party and government was not yet dominant. By February 1969, Mr. Morarji Desai had successfully piloted a bill which purported to impose social control over the banking system. It consisted of two main provisions: the Banking Laws (Amendment) Bill and the creation of a National Credit Council.

The Banking Laws Amendment Bill contained three main provisions. Firstly, fifty one per cent of the directors of the banks should be technocrats, agriculturalists, small-scale industrialists, accountants, lawyers and people not directly connected with monopolies and big business. Second, it was recommended that industrialist chairmen be replaced by professional bankers. Finally, loans would not be given to companies whose directors served in that capacity in banks as well.[7] The banks had complied with the first two points and to a large extent even with the third, well before the Bill became an Act.[8] But these provisions were fairly easy to circumvent. The former industrialist Chairmen stepped down in favour of executives who had been in the service of the bank for years and maintained a place on the Board of Directors. Such executives could be easily influenced by the former Chairmen. Moreover, the inclusion of fifty-one percent share of non-business interests on the Board of Directors did not necessarily reduce the pressures and domination of monopoly houses. Even the principle prohibiting loans to directors could be neutralised by "gentlemen agreements" between directors of different banks.[9]

While the new (Bank Laws Amendment Act) sought to remove the stranglehold of the monopoly capitalists over the Banking system, the establishment of the National Credit Council was to provide much needed credit to

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7. Government of India, Ministry of Finance, New Delhi Report. 1967-68, pp. 57-58 and Report 1968-69, p.65.

8. Reserve Bank of India Bulletin, May 1970, pp. 786 ff.

9. Michelguglielmo Torri, Factional Politics and Economic Policy: Case of India's Bank Nationalisation, Asian Survey, v.15, no.12 1975, p. 1082.

agriculture and small scale industry hitherto neglected.[10] This was due to the private banks' policy of favouring the urban sector particularly big industries, as they involved fewer risks and offered higher returns. Until 1966, agriculture was a primary sector only on paper. The situation changed radically and agriculture became a primary sector when Mrs. Gandhi's first government launched the 'Green Revolution' strategy. However, the situation changed in 1966 with the launching of the Green Revolution strategy of Mrs. Gandhi's first government. Agriculture became the primary sector, and the use of new hybrid seeds, fertilizers and the development of irrigation works produced a steep rise in the demand for credit in the rural areas.

On the other hand the extension of credit to the small scale industries became important because though economically less efficient, they had the advantage of bring labour intensive. Further, from March 1, 1967, small

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10. According to the Reserve Bank, agriculture which accounted for more than 50% of the Gross Domestic product and 40% of the exports, a renewed share of total credit which ranged between 2 and 3%. Cited in Torri, Asian Survey, n. 9, p. 1083. Records and Statistics XXIII (May 1972) and Reserve Bank of India Bulletin, May 1970, p. 833.

scale industries were defined as those units where the investment in plant and machinery alone did not go beyond the ceiling of Rs. 750,000 compared with 500,000 before that date.[11]

Thus the task of the National Credit Council (NCC) was the reorganisation of credit allocations. This new All-India organisation under the Chairmanship of Morarji Desai was composed of large, medium and small scale industries, agriculture, cooperatives, trade, banking etc. However, the government did not propose to curtail the share of credit to the large scale industries.[12]

However, banking interests realized that such a policy would be ruinous in the long run as it would render

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11. The Economic Times, April 27, 1969.

12. An anonymous witness to the first NCC meeting quoted Morarji Desai, "We have to bear in mind that as every year goes by, our existing customers need more money for the same stocks, because the prices have gone up by 10 to 15%. If these additional deposits are largely used up by the existing sectors, where will there be the money for agriculture, small scale industries and exports which are how the three priority sectors", quoted in Michelguglielno n.9 p. 1084.

them more vulnerable in the campaign for bank nationalisation. As a result, at the second National Credit Council meeting in July 1968, a minimum target for commercial banks leading to agriculture and small scale industry was fixed at Rs. 340-400 million and Rs. 600-700 million respectively. This meant a substantial rise of credit facilities for these two sectors (but not so much as to change their relative position, compared to a total amount of credit by the scheduled commercial banks in March 1968 of some Rs. 20,675 million).[13]

Since the banks had already decided to earmark 15% and 31% of the accretion of their net deposits (from July 1968 - June 1969) for the financing of agriculture and small scale industries respectively,[14] the fixing of the minimum target did not really mean any substantial change in the bank credit policy. Even though the R.B.I. claimed that the credit targets for these two sectors had been widely over achieved by the end of 1969, the reality was that the gap between credit requirements of these

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13. Ibid., p. 1084.

14. RBI Bulletin, May 1970, p. 728 and Ministry of Finance Report, 1968-69, p. 67.

sectors and the actual credit made available to them was as much as 35%. Moreover, the lion share of this credit came from the State Bank of India. The private commercial banks had reached their targets by reclassifying as agricultural credit, what had not been so classified earlier. Besides, most of this credit was either given as fertilizer credit to the State governments and other institutions or ended up in the hands of larger farmers, the only ones under the existing banking rules considered to be credit worthy.[15]

One aspect of the National Credit Council sponsored policy of extending banking facilities to areas that had previously lacked banks was highly successful. However, in this case the main goal of expanding mobilization of new deposits was not attained in any significant way. This was largely a consequence of the failure of the credit policy. To quote the Reserve Bank of India Report,

> "in agricultural lending... the availability of funds at the right time and in adequate quantity are of vital significance. When

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15. See RBI Bulletins of November 1969, p. 1784; May 1970, p. 789; and August 1973, p. 1320.

> the requisite finance is not forthcoming from banks, the cultivator has to borrow from elsewhere and it is the provider of this crucial instalment of credit who comes to be considered a benefactor. The basis of a proper enduring relationship between the bank and the borrow is hence affected."[16]

But the problem was that, although Morarji Desai had indicated that the criteria of credit-worthiness would be the integrity and performance of an individual and not his property, no concrete steps in this direction were taken. During their negotiations with the Deputy Prime Minister in 1968, the bankers strongly insisted on subjecting the disposal of credit concessions to rigid standards of credit-worthiness and safety.[17] Morarji Desai accepted the bankers' proposal with the result that the credit policy benefitted only relatively better off farmers. By mid 1969 the policy of social control of credit had outlived its utility. Morarji Desai conceded the point, stating at the Bangalore AICC "that it would not be possible to assure any significant increase in the flow of commercial bank funds to the agriculture and small scale sector."[18]

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16. RBI Bulletin, November, 1969, p. 1784. Ibid., December 1970, pp. 2059-2060.

17. Torri, op. cit., p. 1085.

18. The Economic Times, July 12, 1969.

The ineffectiveness of the policy of social control pushed the issue of bank nationalisation once again to the forefront within the Congress party. But nationalisation of banks was delayed due to political developments in the party. From the Karachi Congress onwards, the party regularly promised the takeover of banks. The economic programme committee of the AICC headed by Nehru stated that "all resources available for investment should be subject to the control and direction of the state. The state should set up Finance Corporations for financing industries.... Banking and Insurance should be nationalised."[19] But the Congress government had not taken any steps in this direction. There were repeated demands for nationalisation of banks both inside the party and parliament. Yet, the government failed to do anything except renew old promises. When in 1963 Smt. Subhadara Joshi moved a Bill in the Rajya Sabha asking for the nationalisation of banks, it was rejected on the plea that government would take over banks only at an 'opportune moment'.[20]

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19. Cited in Mishra, Girsh, "Bank Nationalisation", Mainstream, Vol.7, 1969 (May-August), July 26, 1969, p. 10.

20. Ibid., p. 10.

But the 'opportune moment' did not come till July 1969. The vested interests skillfully manoeuvered to block any such measure.

In January 1969, Kamraj was re-elected to Parliament after contesting a by-election at Nagercoil. In fact, Mrs. Gandhi herself had encouraged Kamraj to enter the contest with a view to inviting him to join the Union Cabinet.[21] However, Kamraj turned down Mrs. Gandhi's offer. Moreover, at the same time S.K. Patil also contested elections in Gujarat. He was inspired to do so by Morarji Desai who was building his support base to challenge the Prime Minister.

Not surprisingly, these moves were apprehended by Mrs. Gandhi. She took up the challenge from the conservative quarters. In the ensuing battle she highlighted her progressive credentials. To this end she asked Subramaniam to submit a document entitled "A Program for Socialist Action" where he asked for nationalisation of the six major banks.[22] This was a

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21. The Statesman Weekly, September 28, 1968, January 11 and January 25, 1968.

22. See: The Economic Times, April 9, 1969 - for the complete text of this document.

deft, calculated move to appease the leftist elements within the party. Mrs. Gandhi assumed that such a strategy would enable her to win over the majority of Congressmen. Furthermore, it would broaden the popular base of the party by rallying the younger elements in the party. These developments would weaken the opponents by cutting into the ranks of the Syndicate.[23]

The Faridabad session of the AICC in April 1969 discussed the Subramaniam document. Most of the speakers who participated in the discussions supported the call for socialist action. Interestingly enough, Mrs. Gandhi did not withdraw her support for the scheme of social control on grounds that the scheme had not failed. She stated that it was premature to pass judgement before giving the scheme a fair trial. At the same time she made it clear that she was not opposed to bank nationalisation.[24] The dual position taken by Mrs. Gandhi indicated that

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23. Bank nationalisation was favoured by Chavan and Kamraj but sternly opposed by Patil and Desai. Kamraj had insisted that nationalisation of banks be included in the Congress Party election manifesto, but he said "Many were afraid of including it for fear that money for party electioneering would not come". The Hindu, Madras, September 9, 1969.

24. The Hindu (Madras), April 27, 1969.

she was neither confident nor was fully prepared to force a showdown with the Syndicate. Perhaps this only underlined the need to consolidate her support without antagonising potential supporters from the Syndicate group. In view of these uncertainties, the Faridabad session dropped Subramaniam's note on a "Programme for Socialist Action". The government paid no heed to the strong demand for bank nationalisation. Instead it opted for the relatively mild policy of social control in February 1969.

However, other significant events in the later part of the year forced the pace of events culminating in bank nationalisation. The sudden death of President Zakir Hussain on May 3, 1969 provided the opportunity to both camps within the Congress Party to test their strength by nominating a presidential candidate of their choice. A friendly President would have been an asset to the Prime Minister in case it became necessary to dissolve the Parliament and hold fresh elections. More important, it was expected the President would play a decisive role in case no single party obtained a clear majority in the new Parliament. For similar reasons, the Syndicate was determined to nominate a candidate who would keep a strong check on the Prime Minister.

> In the midst of all this, the AICC met in Bangalore in July 1969 where Mrs. Gandhi suggested a list of economic proposals. The most significant was the proposal to nationalise banks in the Working Committee. Her note stated that "there is a great feeling in the country regarding the nationalisation of private commercial banks. We had taken a decision at the earlier AICC, but perhaps we may review it. Either we can consider the nationalisation of the top five or six banks or issue directions that the resources of banks should be reserved to a larger extent for public purposes".[25]

The dramatic change in her position caused considerable surprise bordering on alarm for some members of the Working Committee. The noticeable feature of Mrs. Gandhi's note lay in the dilution of the radical intentions of Subramaniam's draft presented at the Faridabad AICC where he had pleaded for the immediate nationalisation of at least six of the major banks. Nonetheless, the note succeeded in warning the opponents that the factional struggle could be converted into an ideological confrontation on terms which might prove unfavourable to the Syndicate. However, the note was flexible in tone, leaving open the possibility for compromise.

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25. Shri N. Dandekar: Lok Sabha Debates, Vol. 30, no. 3, July 23, 1969, col. 316.

The Working Committee was considerably divided on Mrs. Gandhi's proposals for bank nationalisation. S.K. Patil and Morarji Desai strongly opposed nationalisation, while Chavan and Kamraj supported the proposal. The ambiguity of the proposals on bank nationalisation and the recommendations on industrial policy warned the Syndicate to be wary of ideological traps set to expose their reactionary position. The Working Committee which met in July 1969 recommended the programme suggested by the Prime Minister and approved the resolution incorporating the note. The High Command called upon the central and State governments "to take necessary steps to expeditiously implement the various points mentioned in the note".[26] The next day, on July 12, Morarji Desai introduced the "Resolution on Economic Policy and Program" in the AICC session, thereby affirming his support for the "Prime Minister's note without any reservation".[27]

The Syndicate's attention was, however, set on the meeting of the Congress Parliamentary Board which happened after the AICC session. They hoped to garner support for their presidential candidate, which would

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26. Congress Bulletin, nos. 6-7 (June-July 1969), p. 20.

27. Ibid, p. 74. Also see Appendix II.

help them in containing Mrs. Gandhi, and eventually in removing her from power. In pursuance of these plans, the Syndicate fielded Sanjiva Reddy in opposition to Jagjivan Ram who was favoured by Mrs. Gandhi's faction. The choice of Sanjiva Reddy was a direct challenge to Mrs. Gandhi's supremacy. It "reopened the whole question of the Prime Minister's position inside the party".[28] Mrs. Gandhi was, thus, convinced that the move was designed to challenge her authority. She warned her detractors that the party would "have to face the consequences".[29] She construed the Congress Working Committee's decision in forcing a candidate on her as an assault "related to my views and attitudes and my social and foreign policies".[30] Consequently, she mounted a full fledged ideological attack on the rightist elements in the party. In concrete terms, Mrs. Gandhi stripped Morarji Desai of the Finance portfolio, thereby forcing him to resign from the Cabinet.[31] Meanwhile,

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28. The Statesman, July 13, 1969.

29. Frankel, Francine, India's political Economy: 1947-77, Delhi: Oxford University Press, 1978, p. 419.

30. Ibid.

31. Indian Express, July 17, 1969. See also Appendix II.

Mrs. Gandhi summoned a Cabinet meeting which unanimously approved the proposal for the nationalisation of banks. In spite of Nijalingappa's declaration that the party was not in a hurry to nationalise banks, On July 21, less than forty-eight hours before the Lok Sabha was scheduled to meet, the Government announced the nationalisation of fourteen major commercial banks through a presidential Ordinance.[32] The sudden decision to nationalise the banks was justified by Mrs. Gandhi, who claimed that, "

> "As early as December 1954, Parliament took the decision to frame our plans and policies within a socialist pattern of society. Control over the commanding height of the economy is necessary... to reduce the inequalities between different groups and regions. Ours is an ancient country, but a young democracy which has to remain ever vigilant to prevent the domination of the few over the social, economic and political systems."[33]

This was amplified in the Lok Sabha debate where Mrs. Gandhi remarked, "The House will appreciate that in view of the nature of the measure and also to forestall any

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32. The Statesman, July 22, 1969.

33. Prime Minister on Bank Nationalisation, Publications Division, Ministry of Information and Broadcasting, Government of India, December, 1969.

possibility of manipulations, which may not be in the public interest, it was essential to make a swift and sudden move which could only be achieved through an ordinance."[34] The decision was cast in an ideological mould from the outset. It was designed to corner the Syndicate in an ideological trap.

The Prime Minister asserted that her differences with the Syndicate centered around issues of social change. The argument bolstered her popular image. The decision to carry out bank nationalisation by Presidential Ordinance had an additional political advantage. It identified the strikingly "progressive" measures, exclusively with the Prime Minister,[35] although many other leaders favoured it. The image of Mrs. Gandhi as personal embodiment of radical economic policy intended to benefit the poor, was promoted assiduously through large rallies and demonstrations in New Delhi. The demonstrations were largely organized by the CPI, but

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34. Lok Sabha Debates, July 21, 1969, col. 264.

35. Frankel, Francine, op. cit., p. 420.

the enthusiasm was shared by a wide section of the people who were convinced that nationalisation of banks would destroy the stranglehold of monopolies and would lead to a genuine popular control over money and credit available in the banks.

The rationalisation of banks was supported by almost all political parties, except the Jan Sangh and Swatantra. Yet it seemed Congress was more "committed" than other parties. But this was not the case. That is why the tactics employed by the Congress were "resented not only by the Syndicate but by other political parties, who felt robbed of the credit they would have shared if the normal legislature process had been followed."[36] The suspicion about government's intention was confirmed by the alacrity in replacing the ordinance with legislation, in spite of a stay order challenging the constitutionality of bank nationalisation. This evoked widespread condemnation and protest at the unnecessary haste shown in the promulgation of the

36. Hindustan Times, July 26, 1969.

ordinance and the introduction of the bill.[37] Finally, the bill was passed by a voice vote in the Lok Sabha on August 4, 1969, exactly six days before the Supreme Court hearing on the subject.

The manner in which nationalisation was accomplished gained considerable support for Mrs. Gandhi. She out-manuevered her opponents and thereby asserted her supremacy in the party. On the debit side her strategy provided criticism from various conservative political groups who labelled her "a Communist fellow traveller who in the company of Communists has set her foot on the slippery path to dictatorship."[38] Many Congressmen found her tactics unsavoury, accusing her of "brinksmanship

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37. Ibid. The bank nationalisation Bill was introduced within three days of the beginning of the new session of the Lok Sabha. Rules of procedure requiring a notice period of seven days before a bill could be introduced, and another two days of study prior to its consideration, were suspended by the House. The speed of the legislative process was accelerated further by eliminating the normal one day pause between the amendment and the final reading.

38. The Statesman, August 7, 1969.

in economic policies as a means of winning the power struggle with the Syndicate."[39] But Mrs. Gandhi preferred to explain her position to the masses rather than the party. She attempted to communicate with the people over the heads of the party bosses. While addressing the rallies gathered before her house, she blamed the Congressmen for going against the socialist promises of the past. She berated the press and its owners, the monopolists, who succeeded in "raising their voice against the common man, against me and against the women of this country through their newspapers."[40] The popularity of such arguments was evident from the massive support for Mrs. Gandhi's policies and programmes. The public response fortified her position in the Congress.

Mrs. Gandhi's sudden and hasty decision to nationalise the fourteen commercial banks through a Presidential Ordinance, just forty-eight hours before the Lok Sabha was to meet can be interpreted as a political move with a view to strengthen her position in the party.

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39. The Statesman, August 13, 1969. The criticism was levied by Asoka Mehta and Mrs. Sucheta Kriplani, among others.

40. The Statesman, August 5, 1969.

Industrialists, bankers and businessmen received the decision with dismay. They felt that the move was unjustified because there was no evidence to suggest the failure of the scheme of social control. "It is a political decision that is all there is to it"[41] declared a prominent industrialist.

It can perhaps be argued that the policy of social control would have continued if the Congress Party was not confronted with a crisis of the kind it faced in the year before the party split in 1969. Therefore, the decision on nationalisation, as we have seen, was a tactical move aimed against the right wing in the party. In consonance with this, Mrs. Gandhi pursued a double edged strategy of announcing the removal of Morarji Desai and nationalisation of banks simultaneously. Thus she isolated Desai and his supporters. This was accomplished with remarkable dexterity which stunned the Syndicate. From this it appears as though Morarji Desai was removed from Finance because he obstructed the expeditions implementation of the Bangalore resolution on economic policy and the nationalisation of banks. For

41. Times of India, July 20, 1969.

this reason the sequence and timing of these two decisions was extremely significant. Without it the ideological point could not have been effectively made. It is evident that the exigencies of the inner party struggle were a major factor in the timing of the decision to nationalise banks. Therefore, the decision assumed political importance. All this has lent weight to the observation that "it was power politics and not ideology that was the root of the crisis in the Congress party."[42] Thus, to a great extent, Mrs. Gandhi's intervention in the field of banking policy was viewed by many as 'bizarre', prompted by her "personal quarrel with Morarji Desai who had been a strong advocate of the social control experiment."[43]

Further, this so called radical measure was felt to have been prompted by the electoral reverses faced by the Congress in the 1967 General Elections, which had warned the Government that it would lose the faith of the people in case the long standing Congress policies were not implemented. For instance, the Green Revolution policy

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42. Hindustan Times, July 16, 1969.

43. Ibid.

which was intended to promote agriculture and improve the lot of rural people had failed to yield satisfactory results. It was successful only in a few pockets like Punjab and Tanjore district in Tamil Nadu. The gap between the rural rich and the rural poor had increased.[44] More strikingly, rich farmers had further made fresh demands on bank credit and loans to achieve the goals of the Green Revolution which were not adequately met by the scheme of social control, resulting in widespread discontent in the rural sector. Since the government's electoral success depends to a large extent on rural votes, Mrs. Gandhi could not afford to antagonise this section of the population. At this juncture it was imperative for her to devise a strategy to win the support of the rural masses. Nationalisation of banks could achieve this by transferring much needed credit to the rural areas. At the same time it would help the middle sized capitalists whose access to credit was blocked by the domination of monopoly capital on banking institutions. At a more general level, nationalisation enjoyed the support of the majority of the people and the Left parties

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44. For a detailed discussion on this see: Meghnad Desai, "India: Emerging Contradictions of Slow Capitalist Development" in Robin Blackburn (ed.), Explosion in a Sub-continent (London: Penguin Books, 1975), pp. 24-28.

who welcomed it as a positive measure. The above factors provided legitimacy to nationalisation. Thus, it could be skillfully used as an ideological weapon to discredit those who were opposed to nationalisation and other radical moves. Mrs. Gandhi used it to settle scores with the Syndicate. In addition, it generated political goodwill which was adeptly channelled into the 1971 General Elections.

The post-nationalisation banking policy proved an important asset to Mrs. Gandhi who was able to win a landslide victory in the 1971 General Elections. Further it provided the Congress (R) with a distinct advantage over the Congress (O) and other opposition parties. Moreover, her populist slogans made a considerable impact on public opinion. According to Frank Moraes, Delhi after bank nationalisation was resounding "with stories of small shopkeepers and taxi drivers informing their more affluent patrons that with easy credit available from banks their indigence would be a thing of yesterday."[45]

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45. Frank Moraes, Witness to An Era: London 1973, p. 259.

An extremely important gain of the new banking policy was that the mobilization of new deposits made it possible for the government to gather additional resources without taxing the agricultural sector. At the time of the 1969 budget both Mrs. Gandhi and Mr. Desai had favoured some measure of taxation on the agricultural sector in the 1969 budget. But the powerful farmer lobby reacted so violently that this move had been scotched. After bank nationalisation, Mrs. Gandhi pointed out that the new banking policy could be a better drain of money from the farmers without provoking adverse reactions and this was what actually happened.[46] This in turn means that the wealthy farmers already so favoured by the Government's Green Revolution strategy, had the threat of the rapidly increasing taxation on agricultural wealth removed.[47]

The nationalisation of banks in 1969 became important because of the increasing radicalization of the Indian people and the utter discredit the Congress party

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46. See: Supplement to Reserve Bank of India Bulletin, April 1973, pp. 1-31.

47. The agricultural wealth tax originally devised for the 1969 budget was to be followed the next year by an agricultural income tax on non-farm assets which gradually be expanded to include farm incomes as well during the third year. See The Economic Times, March 20, 1969.

had earned after the 1967 General Elections made it necessary for the ruling party to create new illusions of "progressiveness". As the Prime Minister, Mrs. Gandhi herself emphasized in her broadcast on the occasion, what the Government was doing was nothing new, not only because it was a "continuation of a process which has long been under way" but also because bank nationalisation has been undertaken by what she called "non socialist countries".[48] The Prime Minister added that, the measure was necessary to "mobilize adequate resources" for development of agriculture, export and small scale production.[49] In addition the new policy tried to redress the earlier tilt in favour of urban industry making credits and concessions available to an influential section of the rural rich who were investing in high yielding varieties encouraged by the Green Revolution. Thus, the Congress Government by creating an illusion of hostility towards big business succeeded in projecting radical image to the petty bourgeosie and the poor. In the final analysis, bank nationalisation served a double purpose. On the

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48. PM's Broadcast from All India Radio, July 19, 1969 in Prime Minister on Bank Nationalisation, Publications Division, Ministry of Information and Broadcasting, Government of India, 1969.

49. See Lok Sabha Debates, July 21, 1969, Vol. 30, No. 1, Col. 264.

one hand, it widened the capitalist base, by extending protection to small and medium scale industrialists and rich farmers, on the other, it fitted in with the Congress strategy of mobilisation which enabled the party to regain popular support.

CHAPTER V

CONCLUSION

In India the nature of state intervention and government'an policy of takeover and nationalisation of certain sectors of the economy ha s been influenced by the class interests of the Indian state. State power ultimately lies in the hands of the capitalist class. Given the relative weakness of this class, it cannot pursue independent capitalist development however much it might want to. In such circumstances, the development of a state capitalist sector becomes an instrument in serving the interests of this class as a whole. This trend towards state capitalism is a common feature among most newly emergent nations in the post world war period.

Following the process of decolonisation, India's development model was concentrated on the maximum economic growth strategy through state planning. This growth strategy laid major emphasis on rapid industrialisation which was to be achieved through a mixed economy. This meant the establishment of a large public sector aided by a private sector. Given the context of India's independence and the promises of the Congress party to usher in socialism, the state was to play a paternal role in the growth of the economy. Thus the state provided the infrastructure and ensured the development of basic industries.

This step by the government was claimed to be directed towards the establishment of a socialist pattern of society. But such a delegation of exceptional rights to the government, in the development of economy and the direct control of productive forces, actually meant the birth of state capitalism in India. The need for state capitalism was even recognised by the business class, but its precise form was a result of the class character of the Indian state. State power in India is not vested in one particular class but is based on a coalition of landlords and the industrial bourgeoisie. State capitalism, however, had a fundamental weakness. On the one hand, the ruling party had to maintain the balance of class coalition (by effectively curbing any constituent group that became too strong), and to make periodic concessions to the expl&ited. On the other hand, it could not challenge the position of any constituent group too strongly for that would affect the collective strength of the coalition.[1]

Thus, although the state seemed to transcend all classes and appear independent, in reality state action

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1. See: Ranjit Sau, "Non-Capitalist Path and All That", Economic and Political Weekly, 13 April 1974; H.K. Paranjpe, "Socialism or State Capitalism", Economic and Political Weekly, Annual no., February 1973; Paresh Chattopadhaya, State Capitalism in India, Modern Review, March 1970.

was sharply limited and any radical structural reform was ruled out.

Government's policy towards industrialization and nationalization, reflected in the Industrial Policy Resolutions of 1948 and 1956 clearly shows that it lacked a substantial radical content. This means that Government's policy of building a State sector was not prompted by socialistic inclination, but was shaped by pragmatic considerations and pressures from the business community. It follows logically, that government envisaged the growth of the state sector as complimentary to private interests. In no sense did it threaten the interests of private capital.

Nationalisation was often resorted to, for pragmatic considerations as in the case of the Life Insurance Corporation and Air Transport. These two sectors were taken over because they were either inefficient or incapable of functioning in a private capacity.

The Congress party, attempting to project a progressive image, claimed that nationalisation was done in order to lay the foundation of a socialist pattern of society. This, however, proved to be mere rhetoric because government has not followed any consistent or concerted policy of nationalisation.

Yet another dimension of this argument is that these 'takeovers' should be viewed not only as pragmatic considerations or due to pressure tactics of the business class, but as part of the overall strategy of the Congress. Thus it can be argued that the nature of the Indian state, particularly the ruling party, encouraged the growth of capitalism. Further the adoption of state intervention was to develop state capitalism and not to establish any socialist pattern of society. Hence it is important to note certain features of the Congress strategy so as to be able to identify the political influence that lay behind the nationalisation of banks in 1969. In an effort to do this, the study has identified the developments between 1966 and 1969 which contributed to the erosion of consensus and subsequent crumbling of Congress party structure.

Firstly, the economic crisis which threatened the government in 1966 due to inflation, unemployment, spiralling prices etc. had made people lose faith in the in the party. This led to the election debacle in 1967 where the Congress lost its majority for the first time. It was in reality, a loss of legitimacy for the Congress. It meant that the Indian people had been radicalised at least to the extent of understanding the gap between policy pronouncements and implementations by the government.

Secondly, on the political front, impressive opposition victories and the continuing power struggle within the party between the Syndicate and the so-called 'radical' group, threatened the party structure still further. These conflicts in the party were highlighted by the ensuing debates about why the Congress had declined as is evident from the 1967 elections. Differing explanations of the election reverses were given by the party bosses and Mrs. Gandhi. The senior party leaders from the Syndicate blamed the government for not implementing the policies outlined. It was here that Mrs. Gandhi's strategy differed. Rather than overtly accuse the Syndicate as the cause for the decline, she converted the political battle into an ideological clash in order to isolate and condemn them as conservative or reactionary elements standing in the way of social progress. She dramatised the failure of the Congress to deliver the goods and argued for an overhaul of the party program and strategy.

This was to be done by rejuvenating it with a new program. The programme was a restatement of what the party was anyhow committed to, however Mrs. Gandhi tried to operationalize the newness of the Congress programme by emphasizing nationalisation of banks.

This was indeed a clever move because of the known opposition of conservatives led by Desai to the nationalisation proposed. At the same time, it highlighted the government's radical intentions of implementing long standing socialist promises. Nationalisation issue was a well chosen one to make the point as it would appear to axe the business and assuage the middle and small while at the same time attracting the popular attention towards such a measure.

Further, the swift and dratic manner in which nationalisation was done (through a Presidential Ordinance) identified Mrs. Gandhi with this radical decision and robbed others of taking any credit for a proposal which they had supported. Nationalisation was in effect a populist strategy of mobilization well articulated and was used to gather mass support. As a matter of fact it vindicated Mrs. Gandhi's understanding that nationalisation issue would generate good will and ehthusiasm and led to the great success of the Congress in the 1971 General Elections.

Thus, nationalisation of the fourteen commercial banks was a major decision which was used to justify both the split and to reassert the dominance of the party. The decision to nationalise banks was taken by Mrs. Gandhi, provoking the Congress Working Committee (or the Syndicate), in order to regain her legitimacy and remain the supreme leader of the party and, at the same time, to mobilise popular support. An ideological orientation was given to this decision in order to widen the Party's mass base. An understanding of the need for a popular ideology gave Mrs. Gandhi's group an undisguised advantage over other political parties, as the 1971 General Elections proved.

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APPENDICES

APPENDIX I

THE BANKING COMPANIES (ACQUISITION AND TRANSFER OF UNDERTAKINGS) ACT, 1969

(No. 22 of 1969)

9th August, 1969

An Act to provide for the acquisition and transfer of the undertakings of certain banking companies in order to serve better the needs of development of the economy in conformity with national policy and objectives and for matters connected therewith or incidental thereto.

Be it enacted by Parliament in the Twentieth Year of the Republic of India as follows:

CHAPTER I

Preliminary

1. Short title and commencement: (1) This Act may be called the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1969.

(2) It shall be deemed to have come into force on the 19th day of July, 1969.

2. Definitions - In this Act, unless the context otherwise requires:

(a) "banking company" does not include a foreign company within the meaning of Section 591 of the Companies Act, 1956, (1 of 1956);

(b) "corresponding new bank", in relation to an existing bank, means the body corporate specified against such bank in column 2 of the First Schedule;

(c) "custodian" means the person who becomes, or is appointed, a Custodian under Section 10;

(d) "existing bank" means a banking company specified in column 1 of the First Schedule, being a Company the deposits of which, as shown in the return as on the last Friday of June, 1969, furnished to the Reserve Bank under Section 27 of the Banking Regulation Act, 1949, (10 of 1949), were not less than rupees fifty crores;

(e) "prescribed" means prescribed by rules made under this Act;

(f) "tribunal" means a Tribunal constituted under Section 7;

(g) words and expressions used herein and not defined but defined in the Banking Regulation Act, 1949 (10 of 1949), have the meanings respectively assigned to them in that Act.

CHAPTER II

Transfer of the Undertakings of Existing Banks

3. Establishment of corresponding new banks and business thereof : (1) On the commencement of this Act, there shall be constituted such corresponding new banks as are specified in the First Schedule.

(2) The paid-up capital of every corresponding new bank constituted under sub-section (1) shall, until any provision is made in this behalf in any scheme made under Section 13, be equal to the paid-up capital of the existing bank in relation to which it is the corresponding new bank.

9 (3) The entire capital of each corresponding new bank shall stand vested in and allotted to the Central Government.

(4) Every corresponding new bank shall be a body corporate with perpetual succession and a common seal and shall sue and be sued in its name.

(5) Every corresponding new bank shall carry on and transact the business of banking as defined in clause (b) of Section 5 of the Banking Regulation Act, 1949, (10 of 1949), and may engage in one or more forms of business specified in sub-section (1) of Section 6 of that Act, and shall have power to acquire and hold property, whether movable or immovable, for the purposes of its business and to dispose of the same.

(6) Every corresponding new bank shall establish a reserve fund to which shall be transferred the share premiums and the balance, if any, standing to the credit of the existing bank in relation to which it is the corresponding

new bank, and such further sums, if any, as may be transferred in accordance with the provisions of Section 17 of the Banking Regulation Act, 1949, (10 of 1949).

4. Undertaking of existing banks to vest in corresponding new banks: On the commencement of this Act, the undertaking of every existing bank shall be transferred to, and shall vest in, the corresponding new bank.

5. General effects of vesting : (1) The undertaking of each existing bank shall be deemed to include all assets, rights, powers, authorities and privileges and all property, movable and immovable, cash balances, reserve funds, investments and all other rights and interests arising out of such property as were immediately before the commencement of this Act in the ownership, possession, power or control of the existing bank in relation to the undertaking, whether within or without India, and all books of accounts, registers, records and all other documents of whatever nature relating thereto and shall also be deemed to include all borrowings, liabilities (including contingent liabilities) and obligations of whatever kind then subsisting of the existing bank in relation to the undertaking.

(2) If, according to the laws of any country outside

India, the provisions of this Act by themselves are not effective to transfer or vest any asset or liability situated in that country which forms part of the undertaking of an existing bank, to, or in, the corresponding new bank, the affairs of the existing bank in relation to such asset or liability shall, on and from the commencement of this Act, stand entrusted to the Chief Executive Officer for the time being of the corresponding new bank, and the Chief Executive Officer may exercise all powers and do all such acts and things as may be exercised or done by the existing bank for the purpose of effectively transferring such assets and discharging such liabilities.

(3) The Chief Executive Officer of the corresponding new bank shall, in exercise of the powers conferred on him by sub-section (2), take all such steps as may be required by the laws of any such country outside India for the purpose of effecting such transfer or vesting, and may either himself or through any person authorized by him in this behalf realise any asset and discharge any liability of the existing bank.

(4) Notwithstanding anything contained in sub-section (2), on the commencement of this Act, no person shall make

any claim or demand or take any proceeding in India against any existing bank or any person acting in its name or on its behalf except in so far as may be necessary for enforcing the provisions of this section or except in so far as it relates to any offence committed by such person.

(5) Unless otherwise expressly provided by this Act, all contracts, deeds, bonds, agreements, powers of attorney, grants of legal representation and other instruments of whatever nature subsisting or having effect immediately before the commencement of this Act and to which the existing bank is a party or which are in favour of the existing bank shall be of as full force and effect against or in favour of the corresponding new bank, and may be enforced or acted upon as fully and effectually as if in the place of the existing bank the corresponding new bank had been a party thereto or as if they had been issued in favour of the corresponding new bank.

(6) If, on the date of commencement of this Act, any unit, appeal or other proceeding of whatever nature is pending by or against the existing bank, the same shall not abate, be discontinued or be, in any way, prejudicially affected by reason of the transfer of the undertaking of

the existing bank or of anything contained in this Act, but the suit, appeal or other proceeding may be continued, prosecuted and enforced by or against the corresponding new bank.

(7) Nothing in this Act shall be construed as applying to the assets, rights, powers, authorities and privileges and property, movable and immovable, cash balances and investments in any country outside India (and other rights and interests arising out of such property) of any existing bank operating in that country if, under the laws in force in that country, it is not permissible for a banking company, owned or controlled by Government, to carry on the business of banking there.

CHAPTER III

Payment and Determination of Compensation

6. Payment of Compensation: (1) The Central Government shall give compensation to each existing bank for the acquisition of its undertaking and such compensation shall be determined in accordance with the principles specified in the Second Schedule and in the manner hereinafter set out, that is to say:

(a) Where the amount of compensation can be fixed by agreement, it shall be determined in accordance with such agreement;

(b) Where no such agreement can be reached, the Central Government shall refer the matter to the Tribunal within a period of three months from the date on which the Central Government and the existing bank fail to reach an agreement regarding the amount of compensation.

(2) Notwithstanding that separate valuations are calculated under the principles specified in the Second Schedule in respect of the several matters referred to therein, the amount of compensation to be given shall be deemed to be a single compensation to be given for the undertaking as a whole.

(3) The amount of compensation determined in accordance with the foregoing provisions shall be paid to each existing bank, as its option:

(a) In saleable or otherwise transferable promissory notes or stock certificates of the Central Government, issued and repayable at par, and maturing at the end of ten years from the date of commencement of this Act and carrying interest at the rate of four and a half per cent, per annum; or

(b) in saleable or otherwise transferable promissory notes or stock certificates of the Central Government, issued and repayable at par, and maturing at the end of thirty years from the date of commencement of this Act and carrying interest at the rate of five and a half per cent, per annum; or

(c) partly in such number of securities specified in clause (a) and partly in such number of securities specified in clause (b), as may be required by the existing bank.

(4) The option referred to in sub-section (3) shall be exercised by every existing bank within three months from the commencement of this Act (or within such further time, not exceeding three months, as the Central Government may, by notification in the Official Gazette, specify) and the option so exercised shall be final and shall not be altered or rescinded after it has been exercised.

(5) An existing bank which omits or fails to exercise the option referred to in sub-section (3), within the time specified in sub-section (4) shall be deemed to have exercised its option in favour of the securities specified in clause (a) of sub-section (3).

(6) Notwithstanding anything contained in this section any existing bank may, before the expiry of three months from the commencement of this Act (or within such further time, not exceeding three months, as the Central Government may, by notification in the Official Gazette, spe8ify) apply to the Central Government for an interim payment of one-half of the amount of its paid-up share capital and thereupon the Central Government shall, if

the existing bank agrees in writing to distribute the amount so paid to its share-holders in accordance with their rights and interests, pay the same to the existing bank in securities specified in sub-section (3) in accordance with the option exercised, or deemed to have been exercised, under sub-section (4) or sub-section (5), as the case may be:

Provided that where the Central Government makes an interim payment under this section, it shall pay to the existing bank by a cheque drawn on the Reserve Bank such sum as would enable the existing bank to distribute:

(a) in cash one-half of the amount paid-up on the shares, held by a person if one-half of the amount paid-up on the shares held by such a person does not exceed five thousand rupees; &

(b) where one half of the amount paid-up on the shares held by a person exceeds five thousand rupees, such sum as would enable the existing bank to pay to the holder of such shares a sum of five thousand rupees in cash and the balance of one-half of the amount paid-up on the shares held by such person in securities specified in sub-section (3).

(7) The interim payment made to an existing bank shall be set off against the total amount of the compensation payable to it under this Act and the balance of the compensation remaining outstanding after such payment shall be given to the existing bank in securities specified in sub-section (3) in accordance with the option

exercised, or deemed to have been exercised under sub-section (4) or sub-section (5), as the case may be.

(8) Where the amount of compensation, payable in the form of securities under this section is not a multiple of one hundred rupees, any excess over the highest such multiple shall be paid by a cheque drawn on the Reserve Bank.

(9) Nothing contained in sub-section (3) shall affect the rights *inter se* between an existing bank and any other person who may have an interest in such bank and such other person shall be entitled to enforce his interest against the compensation awarded to the existing bank but not against the Central Government or the corresponding new bank.

7. Constitution of the Tribunal: (1) The Central Government may, for the purposes of this Act, constitute one or more Tribunals each of which shall consist of a Chairman and two other members.

(2) The Chairman of a Tribunal shall be a person who is, or has been, a Judge of a High Court or of the Supreme Court, and, of the two other members of aTribunal, one shall be a person who, in the opinion of the Central

Government, has had experience of banking and the other shall be a person who is a Chartered Accountant within the meaning of the Chartered Accountants' Act, 1949 (38 of 1949).

(3) If, for any reason, a vacancy occurs in the office of the Chairman, or any other member of a Tribunal, the Central Government may fill the vacancy by appointing another person thereto in accordance with the provisions of sub-section (2) and any proceeding may be continued before such Tribunal so constituted from the stage at which the vacancy had occurred.

(4) A Tribunal may for the purpose of determining any compensation payable under this Act, choose one or more persons having special knowledge or experience of any relevant matter to assist it in the determination of such compensation.

8. Tribunal to have powers of a Civil Court; Every Tribunal shall have the powers of a Civil Court while trying a suit under the Code of Civil Procedure, 1908, (5 of 1908), in respect of the following matters, namely:

(a) summoning and enforcing the attendance of any person and examining him on oath;

(b) requiring the discovery and production of documents;

(c) receiving evidence on affidavits;

(d) issuing commissions for the examination of witnesses or documents.

9. Procedure of the Tribunal: (1) Every Tribunal shall have power to regulate its own procedure.

(2) Every Tribunal may hold the whole or any part of its inquiry in camera.

(3) Any amendmental or clerical error in any order of a Tribunal or any error arising therein from an accidental slip or omission may, at any, be corrected by such Tribunal either of its own motion or on the application of any of the parties.

CHAPTER IV

Management of Corresponding New Banks

10. Head Office and Branches: (1) The head office of each corresponding new bank shall be at such place as the Central Government may, by notification in the Official Gazette, specify in this behalf, and, until any such place is so specified, shall be at the place at which the head office of the existing bank, in relation to which it is

the corresponding new bank, is on the date of the commencement of this Act, located.

(2) The general superintendence and direction of the affairs and business of a corresponding new bank shall until any provision to the contrary is made under any scheme made under Section 13, vest in a Custodian, who shall be the Chief Executive Officer of that bank and may exercise all powers and do all acts and things as may be exercised or done by that bank.

(3) The Chairman of the existing bank holding office as such immediately before the commencement of this Act, shall be the custodian of the corresponding new bank and shall receive the same emoluments as he was receiving immediately before such commencement:

> Provided that the Central Government may, if the Chairman of an existing bank declines to become, or to continue to function as, a custodian of the corresponding new bank, or, if it is of opinion that it is necessary so to do, appoint any other person as the custodian of a corresponding new bank and the custodian so appointed shall receive such emoluments, as the Central Government may specify in this behalf.

(4) The Custodian shall hold office during the pleasure of the Central Government.

11. Corresponding new bank to be guided by the directions of the Central Government: (1) Every corresponding new bank shall, in the discharge of its functions, be guided by such directions in regard to matters of policy involving public interest as the Central Government may, after consultation with the Governor of the Reserve Bank, give.

(2) If any question arises whether a direction relates to a matter of policy involving public interest, it shall be referred to the Central Government and the decision of the Central Government thereon shall be final.

12. Advisory Board to aid and advise the Custodian: (1) There shall be an Advisory Board to aid and advise the Custodian in the discharge of his duties:

> Provided that the Advisory Board shall be dissolved on the constitution of a Board of Directors in pursuance of a scheme made under clause (b) of sub-section (2) of Section 13:
>
> Provided further that the Central Government may, if it is of opinion that it is necessary so to do, dissolve that Advisory Board at any other time.

(2) The Advisory Board shall consist of representative of the following, namely, the depositors of the corresponding new bank, employees of such bank, farmers, workers and artisans, to be elected in such manner and by such

authority as may be prescribed, and shall also consist of such other persons as the Central Government may, by notification in the Official Gazette, appoint.

Power of Central Government to make scheme: (1) The Central Government may, after consultation with the Reserve Bank, make a scheme for carrying out the provisions of this Act.

(2) In particular, and without prejudice to the generality of the foregoing power, the said scheme may provide for all or any of the following matters, namely:

(a) the capital structure of the corresponding new bank, so however that the paid-up capital of any such bank shall not be in excess of rupees fifteen crores;

(b) the constitution of the Board of Directors, by whatever name called, of the corresponding new bank and all such matters in connection therewith or incidental thereto as the Central Government may consider to be necessary or expedient;

(c) the reconstitution of any corresponding new bank into two or more corporations, the amalgamation of any corresponding new bank with any other corresponding new bank or with another banking institution, the transfer of the whole or any part of the undertaking of a corresponding new bank to any other banking institution or the transfer of the whole or any part of the undertaking of any other banking institution to a corresponding new bank.

(d) such incidental, consequential and supplemental matters as may be necessary to carry out the provisions of this Act.

(3) Every Board of Directors of a corresponding new bank shall include representatives of the following, namely the depositors of such bank, employees thereof, farmers, workers and artisans, to be elected or nominated in such manner as may be specified in the scheme made under sub-section (1).

(4) The Central Government may, after consultation with the Reserve Bank, make a scheme to amend or vary any scheme made under sub-section (1).

CHAPTER V

Miscellaneous

14. Closure of accounts and disposal of profits: (1) Every corresponding new bank shall cause its books to be closed and balanced on the 31st day of December of each year and shall appoint with the previous approval of the Reserve Bank, auditors for the audit of its accounts.

(2) Every auditor of a corresponding new bank shall be a person who is qualified to act as an auditor of a company under Section 226 of the Companies Act, 1956, (1 of 1956), and shall receive such remuneration as the Reserve Bank may fix in consultation with the Central Government.

(3) Every auditor shall be supplied with a copy of the annual balance-sheet and profit and loss account and list of all books kept by the corresponding new bank, and it shall be the duty of the auditor to examine the balance-sheet and profit and loss account with the accounts and vouchers relating thereto, and in the performance of his duties, the auditor:

(a) shall have, at all reasonable times, access to the books, accounts and other documents of the corresponding new bank;

(b) may, at the expense of the corresponding new bank, employ accountants or other persons to assist him in investigating such accounts; and

(c) may, in relation to such accounts, examine the custodian or any member of the Advisory Board or any officer or employee of the corresponding new bank.

(4) Every auditor of a corresponding new bank shall make a report to the Central Government upon the annual balance-sheet and accounts and in every such report shall state:

(a) whether, in his opinion, the balance-sheet is a full and fair balance-sheet containing all the necessary particulars and is properly drawn up so as to exhibit a true and fair view of the affairs of the corresponding new bank, and in case he had called for any explanation or information, whether it has been given and whether it is satisfactory;

(b) whether or not the transactions of the corresponding new bank, which have come to his notice, have been within the powers of that bank;

(c) whether or not the returns received from the offices and branches of the corresponding new bank have been found adequate for the purpose of his audit;

(d) whether the profit and loss account shows a true balance of profit or loss for the period covered by such account; and

(e) any other matter which he considers should be brought to the notice of the Central Government.

(5) The report of the auditor shall be verified, signed and transmitted to the Central Government in such manner as may be prescribed.

(6) The auditor shall so forward a copy of the audit report to the corresponding new bank and to the Reserve Bank.

(7) After making provision for bad and doubtful debts, depreciation in assets, contributions to staff and superannuation funds and all other matters for which provision is necessary under any law, or which are usually provided for by banking companies, a corresponding new bank shall transfer the balance of profits to the Central Government.

15. Removal from office of Directors, etc: Every person holding office as Chairman, managing or whole-time director of an existing bank shall, on the commencement of this Act, be deemed to have vacated office and every other director of such bank (hereinafter referred to as the

continuing directors) shall, until directors are duly elected by such existing bank, be deemed to continue to hold such office.

(2) Until the Board of Directors of an existing bank is duly constituted by it, the continuing directors shall be deemed to constitute its Board of Directors (hereinafter referred to as the 'continuing board') and the Board of Directors or the continuing board, as the case may, may ~~take~~ transact all or any of the following business, namely:

(a) registration of the transfer or transmission of shares;

(b) arriving at an agreement about the amount of compensation payable under this Act or appearing before the Tribunal for obtaining a determination as to the amount of compensation;

(c) distribution to each shareholder of the amount of compensation received by it under this Act for the acquisition of its undertaking;

(d) carrying on the business of banking in any country outside India if under the law in force in that country any bank, owned or controlled by Government, iskprohibited from carrying on the business of banking there;

(e) carrying on any business other than the business of banking.

(3) The Board of Directors of an existing bank, or its continuing Board, as the case may be, may authorise all such expenditure as it may think fit for discharging any of

the function referred to in sub-section (2) and the Central Government may authorize the corresponding new bank to make an advance of the amount required by the existing bank in connections therewith and any amount so advanced shall be recouped from out of the compensation payable to the existing bank under this Act.

(4) Save as otherwise provided in sub-section (1) all officers and other employees of an existing bank shall become on the commencement of this Act, officers and employees of the corresponding new bank and shall hold their offices or services in that bank on the same terms and conditions and with the same rights to pension, gratuity and other matters as would have been admissible to them if the undertaking of the existing bank had not been transferred to and vested in the corresponding new bank and continue to do so unless and until their employment in the corresponding new bank is terminated or until their remuneration, terms of conditions are duly altered by the corresponding new bakk.

(5) For the persons who immediately before the commencement of this Act were the trustees for any pension, provident, gratuity or other like fund constituted for the officers or other employees of an existing bank, there shall

be substituted as trustees such persons as the Central Government may, by general or special order, specify.

(6) Notwithstanding anything contained in the Industrial Disputes Act, 1947 (14 of 1947), or in any other law for the time being in force, the transfer of the services of any officer or other employee from an existing bank to a corresponding new bank shall not entitle such officer or any other employee to any compensation under this Act or any other law for the time being in force and no such claim shall be entertained by any court, tribunal or other authority.

16. Obligations as to fidelity and secrecy: Every corresponding new bank shall observe, except as otherwise required by law, the practices and usages customary among bankers, and, in particular, it shall not divulge any information relating to or to the affairs of its constituents except in circumstances in which it is, in accordance with law or practice and usage customary among bankers, necessary or appropriate for the corresponding new bank to divulge such information.

(2) Every director, member of a local board of a committee, or auditor, adviser, officer or other employee of a corresponding new bank shall, before entering upon

his duties make a declaration of fidelity and secrecy in the form set out in the Third Schedule.

(3) Every custodian of a corresponding new bank shall, as soon as possible, make a declaration of fidelity and secrecy in the form set out in the Third Schedule.

(17. 17. Custodian to be a public servant: Every custodian of a corresponding new bank shall be deemed to be a public servant for the purposes of Chapter IX of the Indian Penal Code (45 of 1860).

18. Certain defects not to invalidate acts or proceedings: (1) All acts done by the custodian, acting in good faith, shall, notwithstanding any defect in his appointment or in the procedure, be valid.

(2) No act or proceeding of any Board of Directors or a local board or committee of a corresponding new bank shall be invalid merely on the ground of the existence of any vacancy, or defect in the constitution of, such board or committee, as the case may be.

(3) All acts done by a person acting in good faith as a director or member of a local board or committee of a corresponding new bank shall be valid notwithstanding that

it may afterwards be discovered that his appointment was invalid by reason of any defect or disqualification or had terminated by virtue of any provision contained in any law for the time being in force:

> Provided that nothing in this section shall be deemed to give validity to any act done by a director or member of a local board or committee of a correspon- ding new bank after his appointment has been shown to the corresponding new bank to be invalid or to have terminated.

19. Indemnity: (1) Every Custodian of a correspon- ding new bank and every officer of the Central Government and of the Reserve Bank and every officer or other employee of a corresponding new bank, shall be indemnified by such bank against all losses and expenses incurred by him in or in relation to the discharge of his duties except such ashave been caused by his own willful act or default.

(2) A director or member of a local board or committee of a corresponding new bank shall not be responsible for any loss or expense caused to such bank by the insufficiency or deficiency of the value of, or title to, any property or security acquired or taken on behalf of the correspon- ding new bank, or by the insolvency or wrongful act of any customer or debtor or by anything done in or in

relation to the execution of the duties of his office, unless such loss, expense, insufficiency or deficiency was due to any wilful act or default on the part of such director or member.

20. References to existing banks on and from the commencement of this Act: Any reference to any existing bank in any law, other than this Act, or in any contract or other instrument shall be consttued as a rēference to the corresponding new bank in relation to it:

> Provided that nothing in this section shall apply to an existing bank in relation to any business which it may, notwithstanding the provisions of Section 4, carry on.

21. Dissolution: No provision of law relating to winding up of corporations shall apply to a corresponding new bank and no corresponding new bank shall be placed in liquidation save by order of the Central Government and in such manner as it may direct.

22. Power to make rules: (1) The Central Government may, by notification in the Official Gazette, make such rules as it may think fit to carry out the provisions of this Act.

(2) In particular, and without prejudice to the generality of the foregoing powers, such rules may provide for all or any of the following matters, namely:

(a) the manner in which the business of the Advisory Board shall be transacted and the procedure to be followed at the meetings thereof;

(b) fees and allowances which may be paid to members of the Advisory Board for attending any meetings of the Board or of any committee that may be constituted by the Board;

(c) the formation of any committee whether of the Advisory Board or of the corresponding new bank and the delegation of powers and functions to such committees;

(d) any other matter which is required to be, or may be, prescribed.

23. Rules and schemes to be laid before Parliament: Every rule and every scheme made by the Central Government under this Act shall be laid, as soon as may be, after it is made before each House of Parliament while it is in session for a total period of thirty days which may be comprised in one session or in two successive sessions, and if, before the expirty of the session in which it is so laid or the session immediately following, both Houses agree in making any modification in the rule or scheme or both Houses agree that the rule or scheme should not be made, the rule or scheme shall thereafter have effect only in such modified form or be of no effect, as the casè may be; so, however,

that any such modification or annulment shall be without prejudice to the validity of anything previously done under that rule or scheme, as the case may be.

24. Power to make regulations: (1) The Board of Directors of a corresponding new bank may, after consultation with the Reserve Bank and with the previous sanction of the Central Government, make regulations, not inconsistent with the provisions of this Act and any rule or scheme made thereunder, to provide for all matters for which provision is expedient for the purpose of giving effect to the provision of this Act.

(2) In particular and without prejudice to the generality of the foregoing power, the regulations may provide for all or any of the following matters, namely:

(a) the powers, functions and duties of local boards and restrictions, conditions or limitations, if any, subject to which they may be exercised or performed, the formation and constitution of local committees and committees of local board (including the number of members of any such committee), the powers, functions and duties of such committees, the holding of meetings of local committees and committees of local boards and the conduct of business thereat;

(b) the manner in which the business of the local board shall be transacted and the procedure in connection therewith;

(c) the delegation of powers and functions of the Board of Directors of a corresponding new bank to the general manager, director, officer or other employee of that bank;

(d) the conditions or limitations subject to which the corresponding new bank may appoint officers, advisers and other employees and fix their remuneration and other terms and conditions of service;

(e) the duties and conduct of officers, advisers and other employees of the corresponding new bank;

(f) the establishment and maintenance of superannuation, pension, provident or other funds for the benefit of officers or employees of the corresponding new bank or of the dependents of such officers or employees and the granting of superannuation allowances, annuities and pensions payable out of such funds;

(g) the conduct and defence of legal proceedings by or against the corresponding new bank and the manner of signing pleadings;

(h) the provision of a seal for the corresponding new bank and the manner and effect of its use;

(i) the form and manner in which contracts binding on the corresponding new bank may be executed;

(j) the conditions and the requirements subject to which loans or advances may be made or bills may be discounted or purchased by the corresponding new bank;

(k) the persons or authorities who shall administer any pension, provident or other fund constituted for the benefit of officers or employees of the corresponding new bank or their depenent;

(l) the preparation and submission of statement of programmes of activities and financial statements of the corresponding new bank and the period for which and the time within which such statements and estimates are to be prepared and submitted; and

(m) generally for the efficient conduct of the affairs of the corresponding new bank.

(3) Until any regulation is made under sub-section(1), the articles of association of the existing bank and every regulation, rule, bye-law or order made by the existing bank shall, if in force at the commencement of this Act, be deemed to be the regulations made under sub-section (1) and shall have effect accordingly and any reference therein to any authority of the existing bank shall be deemed to be a reference to the corresponding authority of the corresponding new bank and until any such corresponding authority is constituted under this Act, shall be deemed to refer to the Custodian.

(25) Amendment of certain enactments : (1) In the Banking Regulation Act, 1949, (10 of 1949):

(a) in Section 34-A, in sub-section (3), for the words "and any subsidiary bank", the words, figures and brackets "a corresponding new bank constituted under Section 3 of the Banking Companies (Aquisition and Transfer of Undertakings) Act, 1969, and any subsidiary bank" shall be substituted;

(b) in Section 36-AD, in sub-section (3) for the words "and any subsidiary bank", the words, figures and brackets "a corresponding new bank constituted under Section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1969, and any subsidiary bank" shall be substituted;

(c) in Section 51, for the words "or any other banking institution notified by the Central Government in this behalf" the words, figures and brackets "or any corresponding new bank constituted under Section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1969, or any other banking institution notified by the Central Government in this behalf" shall be substituted;

(d) in the Fifth Schedule, in part I of paragraph 1 after clause (e), the following Explanations shall be inserted namely:

Explanation 1: For the purposes of this clause, "value" shall be deemed to be the market value of the land or buildings, but where such market value exceeds the ascertained value, determined in the manner specified in Explanation 2, shall be deemed to mean such ascertained value.

Explanation 2: Ascertained value shall be equal to:

(A) in the case of any building (including the land on which it is erected or which is appurtenant thereto) which is wholly occupied on the appointed day, twelve times the amount of the annual rent or the rent for which the building may reasonably be expected to be let out from year to year, after deducting from such rent:

(i) one-sixth of the amount thereof on account of maintenance and repairs,

(ii) the amount of any annual premium paid to insure the building against any risk of damage or destruction,

(iii) where the building is subject to any annual charge, not being a capital charge, the amount of such charge,

(iv) where the building is subject to a ground rent, the amount of such ground rent,

(v) where the building is subject to a mortgage or other capital charge, the amount of interest on such mortgage or charge,

(vi) where the building has been acquired, constructed, repaired, renewed or re-constructed with borrowed capital, the amount of any interest payable on such capital, and

(viii) any sums paid on account of land revenue or other taxes in respect of such building;

(B) in the case of any building (including the land on which it is erected or which is appurtenant thereto) which is partially occupied on the appointed day, the value of the portion which is occupied, ascertained in accordance with the provisions of sub-clause (A) (the deductions under sub-clause (ii) to (vii) being made on a proportionate basis) and multiplied thereafter by the ratio which the entire plinth area of the building bears to the plinth area of the portion of the building which has been occupied or let out;

(C) in the case of any land which has no building erected thereon or which is not appurtenant to any building the value, determined with reference to the prices at which sales or purchases of similar or comparable properties have been made during the period of three years immediately preceding the appointed day, by instruments registered under the Indian Registration Act, 1908, (16 of 1908) in the city, town or village where such land is situated.

(2) In the Industrial Disputes Act, 1947, (14 of 1947), in Section 2, in clause (bb), for the words "and any subsidiary bank", the words, figures and brackets "a corresponding new bank constituted under Section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1969, and any subsidiary bank" shall be substituted.

(3) In the Banking Companies (Legal Practitioners' Clients' Accounts) Act, 1949. (46 of 1949), in Section 2, in clause (a), for the words "and any subsidary bank", the words, figures and brackets "a corresponding new bank

constituted under Section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1969, and any subsidiary bank" shall be substituted.

(4) In the Deposit Insurance Corporation Act, 1961, (47 of 1961):

(a) in Section 2:

(i) after clause (e), the following clause shall be inserted, namely:

'(ee) "corresponding new bank" means a corresponding new bank constituted under Section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1969";

(ii) Section 13 shall be re-numbered as sub-section (1) thereof and after sub-section (1) as so re-numbered, the following sub-section shall be inserted, namely:

"(2) The provisions of clauses (a), (b), (c), (d) and (h) of sub-section (1) shall apply to a corresponding new bank as they apply to a building company."

(5) In the State Agricultural Credit Corporations Act, 1968 (60 of 1968):

(a) in Section 2, after clause (i), the following clause shall be inserted, namely:

'(ii) "corresponding new bank" means a corresponding new bank constituted under Section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1969;

(b) after the words "subsidiary banks" or "subsidiary bank", as the case may be, occurring in clause (d) of sub-section (3) of Section 5, in clause (b) of Section 9 and in the proviso to Section 18, the words "corresponding new banks" or "corresponding new bank", as the case may be, shall be inserted.

26. Removal of difficulties: If any difficulty arises in giving effect to the provisions of this Act, the Central Government may make such order, not inconsistent with the provisions of this Act, as may appear to it to be necessary for the purpose of removing the difficulty:

Provided that no such power shall be exercised after the expiry of a period of two years from the commencement of this Act.

27. Repeal and saving: (1) The Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969 (8 of 1969), is hereby repealed.

(2) Notwithstanding such repeal, anything done or any action taken, including any order made, notification issued or direction given, under the said Ordinance shall be deemed to have been done, taken, made, issued or given, as the case may be, under the corresponding provision of this Act.

(3) No action taken or thing done under the said Ordinance shall, ifit is inconsistent with the provisions of this Act, be of any force or effect.

(4) Notwithstanding anything contained in the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969, no right, privilege, obligation or liability shall be deemed to have been acquired, accrued or incurred thereunder.

THE FIRST SCHEDULE

(See Sections 2,3 and 4)

COLUMN 1	COLUMN 2
Existing bank	Corresponding new bank
The Central Bank of India Limited	Central Bank of India
The Bank of India Limited	Bank of India
The Punjab National Bank Limited	Punjab National Bank
The Bank of Baroda Limited	Bank of Baroda
The United Commercial Bank Limited	United Commercial Bank
Canara Bank Limited	Canara Bank
UnitedBank of India Limited	United Bank of India
Dena Bank Limited	Dena Bank
Syndicate Bank Limited	Syndicate Bank
The Union Bank of India Limited	Union Bank of India
Allahabad Bank Limited	Allahabad Bank
The Indian Bank Limited	Indian Bank
The Bank of Maharashtra Limited	Bank of Maharashtra
The Indian Overseas Bank Limited	Indian Overseas Bank

THE SECOND SCHEDULE

(See Section 6)

Principles of Compensation

1. The compensation to be paid by the Central Government to each existing bank in respect of the acquisition of the undertaking thereof shall be an amount equal to the sum total of the value of the assets of the existing bank ason the commencement of this Act, calculated in accordance with the provisions of Part I, less the sum-total of the liabilities computed and obligations of the existing bank calculated in accordance with the provisions of Part II.

Part I Assets

For the purposes of this Part, "assets" means the total of the following:

(a) the amount of cash in hand and with the Reserve Bank and the State Bank of India (including foreign currency notes which shall be converted at the market rate of exchange).

(b) the amount of balances with any bank, whether on deposit or current account, and money at call and short notice, balances held outside India being converted at the market rate of exchange:

Provided that any balances which are not reliable in full shall be deemed to be debts and value accordingly.

(c) the market-value, as on the day immediately before the commencement of this Act, of any securities, shares, debentures, bonds and other investments, held by the bank concerned.

Explanation: For the purposes of this clause:

(i) Securities of the Central and State Governments (other than the securities specified in clauses (ii) and (iii) of this Explanation) maturing for redemption within five years from the commencement of this Act shall be valued at the face value or the market value, whichever is higher.

(ii) Securities of Central Government, such as Post Office Certificates and Treasury Savings Deposit Certificates and any other securities or certificates issued or to be issued under the Small Savings Schemes of the Central Government, shall be valued at their face value or the encashable value as on the day immediately before the commencement of this Act, whichever is higher;

(iii) where the market-value of any Government security, such as the zamindari abolition bond or other similar securities in respect of which the principal is payable in instalments, is not ascertainable or is, for any reason, not considered as reflecting the fair value thereof or as otherwise appropriate, the securities shall be valued at such an amount as is considered reasonable having regard to the instalments of principal and interests remaining to be paid, the period during which such instalments are payable, the yield of any security, issued by the Government to which the security pertains and having the same or approximately the same maturity, and other relevant factors;

(iv) where the market-value of any security, share, debenture, bond or other investment is not considered reasonable by reason of its having been affected by abnormal factors, the investment may be valued on the basis of its average market-value over any reasonable period;

(v) where the market-value of any security, share, debenture, bond or other investment is not ascertainable, only such value, if any, shall be taken into account as is considered reasonable having regard to the financial position of the issuing concern, the divident paid by it during the preceding five years and other relevant factors;

(d) The amount of advances (including loans, cash credits, overdrafts, bills purchased and discounted) and other debts, whether secured or unsecured, to the extent to which they are reasonably considered recoverable, having regard to the value of the security, if any, the operation on the account, the reported worth and respectability of the borrower, the prospects of realization and other relevant considerations;

(e) the value of any land or buildings.

Explanation 1: For the purpose of this clause, "value" shall be deemed to be the market-value of the land or buildings, but where such market-value exceeds the ascertained value, determined in the manner specified in Explanation 2, shall be deemed to mean such ascertained value.

Explanation 2: Ascertained value shall be equal to:

(i) ine the case of any building (including the land on which it is erected or which is appurtenant thereto) which is wholly occupied on the date of the commencement of this Act, twelve times the amount of the annual rent or the rent for which the building may reasonably be expected to be let out from year to year, after deducting from such rent:

(i) one-sixth of the amount thereof on account of maintenance and repairs;

(ii) The amount of any annual premium paid to insure the building against any risk of damage or destruction;

(iii) where the building is subject to any annual charge, not being a capital charge, the amount of such charge;

(iv) where the building is subject to a ground rent, the amount of such ground rent;

(v) where the building is subject to mortgage or other capital charge, the amount of interest on such mortgage or charge;

(vi) where the building has been acquired constructed, repaired, renewed or re-constructed with borrowed capital, the amount of any interest payable on such capital; and

(vii) any sums paid on account of land revenue or other taxes in respect of such building:

(2) in the case of any building (including the land on which it is erected or which is appurtenant thereto) which is partially occupied on the date of the commencement of this Act, the value of the portion which is occupied, ascertained in accordance with the provisions of sub-clause (1) (the deductions under sub-clause (ii) to (vii) being made on a proportionate basis) and multiplied thereafter by the ratio which the entire plinth area of the building bears to the plinth area of the portion of the building which has been occupied or let out;

(3) in the case of any land which has no building erected thereon or which is not appurtenant to

any building, the value, determined with reference to the prices at which sales or purchases of similar or comparable lands have been made during the period of three years immediately preceding the date of the commencement of this Act, by instruments registered under the Indian Registration Act, 1908 (16 of 1908), in the city, town or village where such land is situated;

(f) the total amount of the premia paid, in respect of all lease-hold properties, reduced in the case of each such premium by an amount which bears to such premium the same proportion as the expired term of the lease in respect of which such premium shall have been paid bears to the total term of the lease;

(g) the written down value, as per books, or the realizable value, as may be considered reasonable of all furniture, fixtures and fittings;

(h) the market or realizable value, as may be appropriate, of other assets appearing on the books of the bank, no value being allowed for capitalized expenses, such as share selling commission, organizational expenses and brokerage, losses incurred and similar other items.

Part II Liabilities

For the purposes of this Part, "liabilities" means the total amount of all outside liabilities existing at the commencement of this Act, and all contingent liabilities which the corresponding new bank may reasonably be expected to be required to meet out of its own resources on or after the date of commencement of this Act.

Certain dividents not to be taken into account.

2. No separate compensation shall be payable for any divident in respect of any period immediately preceding the commencement of this Act:

Provided that nothing in this paragraph shall preclude the payment of any divident which was declared before such commencement.

THE THIRD SCHEDULE

(See sub-section (2) and (3) of section 16)

Declaration of didelity and secrecy

I........ do hereby declare that I will faithfully, truly and to the best of my skill and ability execute and perform the duties required of me as Custodian, Director, Member of local board, member of local committee, auditor, adviser, officer or other employee (as the case may be) of the .... and which properly relate to the offic or position in the said .... held by me.

I further declare that I will not communicate or allow to be communicated to any person not legally entitled thereto any information relating to the affairs of the .... or to the affairs of any person having any dealing with the ....; nor will I allow any such person to inspect or have access to any books or documents belonging to or in the possession of the .... and relating to the business of the .... or to the business of any person having any dealing with the...........

APPENDIX II

LETTER FROM PM MRS. INDIRA GANDHI
TO MR. MORARJI DESAI

NEW DELHI, July 16, 1969

Dear Morarji Bhai,

For long we have been debating the question of Government's basic economic policies and the broad direction which it is necessary to give to the process of socio-economic changes, so that even the poorest sections of our people have a real feeling of hope that they can fulfil some of their aspirations, at least for their children, within the framework of our democracy.

The matter came up prominently for consideration at the last meeting of the AICC in Bangalore. It was heartening to see that our great Party approved and adopted a note in which I had set down my own thinking on this subject.

The party has now squarely put the responsibility on the Government for the early and effective implementation of the policy decision taken in Bangalore. As a disciplined solidier of the party you lent support to the resolution which was adopted, even though I know that, in regard to some of the basic issues that arise, you entertain strong reservations and have your own views about the direction as well as the pace of change. You have expressed your views clearly in the Working Committee and previously on other occasions. I have given deep thought to this matter and feel that, in all fairness, I should not burden you with this responsibility in your capacity as Finance Minister, but should take it directly upon myself.

May I say that your continued assistance and association with Government as Deputy Prime Minister will be needed and greatly valued. Detailed arrangements could be discussed later.

I am advising the President accordingly.

With kind regards,

Yours sincerely,

INDIRA GANDHI

Hindustan Times, New Delhi, July 22, 1969

LETTER FROM MR. MORARJI DESAI TO
P.M. MRS. INDIRA GANDHI

NEW DELHI, July 16, 1969

My dear Indiraben,

I received your letter dated today at 12.45 p.m. If I understand it rightly, you seem to have come to the conclusion that although the resolution on economy policy was adopted unanimously at Bangalore and was indeed moved by me, you cannot count on my support in Government on "some of the basic issues that arise" or on the direction as well as the pace of some of the changes involved. I should have thought that "in all fairness"- to use your own expression - you should have given your colleagues in the Cabinet an opportunity to know what concretely you wish to be done and to invite their reactions before deciding on whether you should change the sphere of responsibility of any of them. At any rate, as far as I am concerned, considering my record of service and loyalty to the Congress Party and the Government, I regard it as a matter of ordinary courtesy that you should have discussed your precise misgivings with me before taking the decision that you say you have taken. You know me enough to know that my sense of loyalty to the party does not permit me to put my views above the views of the majority where Government decisions are involved and that if I cannot endorse a certain course of action I would not myself want to remain responsible for its implementation. But as it is, there is bound to be speculation whether your decision stems from misgivings about the implementation of the Bangalore resolution on economic policy or something else.

Nor is it clear to me what my responsibilities as Deputy Prime Minister or as a member of the Cabinet are supposed to be if I am to be relieved of responsibility of implementing the resolution on economic policy "in my capacity as Finance Minister." You have said you are advisin the President accordingly, but I am left in the dark about what precisely you have advised the President.

Under the circumstances, you will appreciate that without some further clarification from you, I cannot react firmly to your letter. In the meanwhile I am naturally considering all possible eventualities.

Yours sincerely,

MORARJI DESAI

P.S. After writing the above, I find from PTI news at 2.44 p.m. that you have already taken the formal step to relieve me of the Finance portfolio. In view of this, I cannot see any point in my continuing as a member of your Cabinet.

MORARJI DESAI

Hindustan Times, New Delhi, July 22 1969.

LETTER FROM PM MRS. INDIRA GANDHI TO
MR. MORARJI DESAI

NEW DELHI, July 16, 1969

Dear Morarjibhai,

Thank you for your letter of today's date.

I am afraid you have completely misunderstood me. I did not suggest anywhere in my letter that I made the change of portfolio because of any "misgivings" concerning your "loyalty" either to me or to the party. In fact, as I myself stated in my previous letter of today, I know that as a disciplined soldier of the party, and if I may add, as one of its leading members, you would lend your support to the resolution which was adopted. What I said was that having regard to the reservations which you had expressed from time to time in regard to certain aspects of the basic policy questions, I would be saddling you with an unfair burden by requiring you to take the primary and direct charge of their implementation; and further that, since it was my own note which came to be the basis of the AICC resolition, in all fairness, I should take direct and full responsibility in the matter upon myself.

I am distressed that you should think of resigning from the Council of Ministers. I sincerely feel that your valuable advice and help is needed not only in the party but in Government. I do hope, therefore, that you will seriously reconsider your decision and agree to continue in Government as Deputy Prime Minister. As I mentioned in my previous letter, we could discuss later the detailed arrangements to be made as a consequence of my taking over the Finance portfolio.

In the postscript to your letter, you express surprise at the announcement made by the President's Secretariat a couple of hours after I wrote to you. I had clearly stated in my previous letter that I was advising the President to give effect to the arrangements I had proposed.

With regards,

Yours sincerely,
INDIRA GANDHI

Hindustan Times, New Delhi, July 22, 1969.

LETTER FROM MR. MORARJI DESAI TO PM
MRS. INDIRA GANDHI

NEW DELHI, July 17, 1969

My dear Indiraben,

I thank you for your letter No.675-PMO/69 dated July 16, 1969, in which you have asked me to reconsider my decision. I gave several thoughtful hours to this and it has taken me some time to formulate my thoughts before I give you my considered reply. There has thus been some delay and I regret it very much.

While I am glad you do not doubt my loyalty to the party or to its leader, I am unable to understand the basis on which you have asked me to reconsider my decision to quit Government because your second letter under reply does not say more than what you have stated in your first. I am, however, pained to see that you doubt my enthusiasm with regard to the implementation of economic programme adopted by the party at Bangalore. I may have expressed different views on a given issue during discussions before a decision was taken on it, but once the party or the Cabinet took a decision, I have not only stood by it and defended it, I have done it without the slightest reservation. This is how I have always functioned in the party and the Government because I believe this is the essence of the functioning of party system in a parliamentary democracy in which every member need not hold the same view on details of a programme but it is open to every member to exercise his right to express his views within the party or within the Cabinet until a decision is taken.

It is obvious from your letter and from what I hear from certain quarters close to you that you feel that I have not implemented certain decisions with enthusiasm because of my reservations on those issues. I wish you were a little more explicit and spelt out what you have in mind.

In your note on economic programme read out at the meeting of the Working Committee in Bangalore and later on incorporated in the resolution on the economic policy of the party, you did not suggest outright nationalisation straight-away. These are your words "either we can consider the nationalisation of the top five or six banks or issue directions that the resources of banks should be reserved to a larger extent for public purposes". I accepted this under the circumstances as suggested by Shri Chavan in the Working Committee and moved the resolution without reservations. I made it clear in my reply that I have always accepted decisions of the Congress without any reservations. In these circumstances, you were less than fair to me in relieving me of the Finance portfolio with the argument that you did not want to cast on me an unfair burden of implementation of the economic programme of the party. I fail to understand the rationale behind your decision for it gives me an impression that there is something more to it than meets the eye. Guptaji met me this afternoon and told me about his talk with you with regard to me. I was amazed and shocked to hear from him that you told him that I was organising a party (obviously with a view to oust you from leadership). In one breath you have recognised my loyalty to the party and its leader, in another you gave Guptaji to understand that I was conspiring against you. You know it as well as anybody else that groupism and conspiracy are not in my grain. Guptaji told you this too.

May I ask whether it was fair that you should have taken a unilateral decision and issued a notification with President's consent without even the courtesy of having had a word with me? Since you recognise me as a disciplined soldier and one of the leaders of the Congress, could not have a better consideration been shown to me? Why was I not called for a discussion before the decision was taken? That would have given me an opportunity to understand what exactly you had in mind.

You have always attached highest importance to self-respect in life. I would, therefore, like to know from you as to what a self-respecting person should do in these circumstances or, if I may ask, what you would do in my place under similar circumstances. With regards,

Yours sincerely,
MORARJI DESAI

Hindustan Times, New Delhi. July 22, 1969.

LETTER FROM PM MRS. INDIRA GANDHI TO
MR. MORARJI DESAI

NEW DELHI, July 19, 1969

Dear Morarjibhai,

I received your letter of July 17 the same day. I was distressed that you should have decided to insist on resigning from Government in spite of my urging you to reconsider your decision. Although your letter came the day before yesterday, I could not reply earlier because the thought of accepting your resignation was distasteful to me and I had naturally, to give much anxious thoughto to the matter before I could reply to you.

Since you wrote to me, we have met and have had a detailed exchange of views in the course of which we talked about many of the points which you have raised. I need not, therefore, deal with all of them in this letter.

As I tried to explain to you personally as well as in my previous letters, and as I explained also to our other colleagues, there was no question of casting doubts upon your sense of loyalty or discipline. The question involved was not that at all. The question was two-fold. First, I felt that in view of your own reservations on certain aspects of the economic policies which we have discussed from time to time - (and if I may say so, it is characteristic of you to refer to them yourself) - I would be casting an unfair burden on you if I were to require you to take the primary charge of implementing the decisions that might be required. And, secondly, since the subject matter of the Bangalore resplution was the note which I had submitted to the party it was even otherwise only fair that I should take this responsibility upon myself.

It is in these circumstances that I decided to take over the Finance portfolio. Thus only a change of portfolio was involved. You have been one of the consistent and leading defenders of our parliamentary system and I know that you uphold all well-accepted conventions in these matters. When I came to decide upon the change of portfolio, I first wrote to you explaining the decision and I also informed you that I was advising the President accordingly. It was only thereafter, that I wrote to the President.

I had not thought at all in terms of your dissociation from Government. In fact, I said in the same letter that your presence in Government would be needed and valued, and suggested that we discuss detailed arrangements later. But before I could do so, I received your first letter.

However, I am genuinely sorry that I have failed to persuade you to stay on in Government. I have had the privilege of knowing you for many years. You have been in the forefront of our national political scene. Indeed, you are among the few stalwarts of the party belonging to the previous generation. I can assure you that it will be a wrench to part with you in the Cabinet. I have always valued your advice and shall continue to do so. Since you have reiterated your desire to be relieved of your charge in spite of all I have tried to explain, I am left with no option but to comply with your wishes. I am accordingly advising the President, with the utmost regret, to accept your resignation.

I need hardly express the sincere hope that although you will no longer be available to us in the Cabinet, I shall continue to have the benefit of your advice and wise counsel in the party.

With kind regards,

Yours sincerely,

INDIRA GANDHI

Hindustan Times, New Delhi. July 22, 1969.

LETTER FROM MR. MORARJI DESAI TO
PM MRS. INDIRA GANDHI

NEW DELHI, July 19, 1969

My dear Indiraben,

I thank you for your letter of July 19 which I received this afternoon.

When I met you yesterday we talked at length in an effort to understand the basis of your extraordinary decision to relieve me of the Finance portfolio. I asked you to cite one instance when I have not implemented decisions based on accepted policy of the party and Government. You did not cite even one such instance. How can you then say that my reservations have stood or are likely to stand in the way of implementation of such decisions. I do claim that I owe it to you and to Government that I should express my views on a given subject before any decision is taken affecting the vital interests of the country. If I have done so before decisions are taken I have never done that after. However, you have not chosen to substantiate your imputations.

You have stated that you would like to take the primary responsibility of implementation of the resolution on economic policy passed by the AICC at Bangalore, because it was based on your note. We have adopted many resolutions on the basis of many notes submitted by individual members of the Working Committee but no one has claimed that a particular resolution was his or her individual resolution. I, therefore, fail to understand when you talk in terms of your note and your resolution as if it disentitles everybody else from assisting in the implementation ofit.

You will recollect what you told Guptaji before he met me and conveyed it to me. I asked you about this new political dimension that you have introduced and you protested that what you told Guptaji was not with reference to me but that applied to others. May I say that I have asked Guptaji again and he emphatically maintains that your statement was with reference to me.

You have now tried to say that your decision amounts to a change of the portfolio. I don't see the change. For there was no offer of an alternative portfolio which I could consider. Was it really wrong for me to interpret from the manner and substance of your action that you wanted me to resign?

I thought there was little purpose in our meeting yesterday in view of your efforts to defend your extraordinary decision and also from what our colleagues conveyed to me. But I agreed to meet you because our colleagues desired that I should and also because I owed it to meet you as

P.M. when you asked me as I had not ceased to be Dy. P.M. at that time.

I must say that I felt so touched when you expressed some feelings for me and considered me to be one of the few stalwarts of the last generation and that you value my services to the party and the Government. I am grateful for your feelings. But don't you think this expression of feelings is inconsistent with the wrong that you have done to me in a summary manner? Therefore, I have had no choice but to ask you to relieve me. Need I however assure you that I shall continue in future as I have always done in the past, to serve the country through the Congress and be available to the leader for such advice or assistance as I may be called upon to render.

I have refrained from making any statement so far on this issue. I have been asked that I should release this correspondence so that people may know all that led to this extraordinary decision. I hope you have no objection to the release of this correspondence. Unless I hear from you to the contrary by tomorrow afternoon I shall release it to the Press. I propose to make a statement in the Lok Sabha and am writing separately to the Speaker to allow me to make this statement. With kind regards,

Yours sincerely,

MORARJI DESAI

Hindustan Times, New Delhi. July 22, 1969.