NATIONALIZATION OF BANKS AND SOCIAL CONTROL

Saranya Adhikari, Kumaun University Nainital

ABSTRACT

A bank is a financial institution and organization that accepts and deposit money from the public and simultaneously create loan demands. The bank is basically the financial service provider that provide people safe and profitable platform to store their values. The public sector banking in the country has been increased due to the progressive nationalisation of banks. We cannot have a healthy economy without a sound an effective banking system. The banking system of India should not only meet the new problems of the people but also it should be hassle free.

The paper mainly analyzes the nationalization effect and the social control over the banking sector. The paper therefore focused at elucidating the various achievements merits of nationalization and its effect on the various sectors of the economy.

Keywords: Banks, deposits, financial institution, loans, Social control.

Introduction

The banking system plays an essential role in economic development of our country as banks are often regarded the lifeline of country economy. Banks mobilize savings from the public and access them into productive investments such as industrialization, productive investment and economic growth. After independence of India the banks were controlled and owned by private individuals or group of people to earn profit. Public interest was completely ignored as the credit was in few hands small farmer, artisan and small scale industries received very little and no financial support. The people saving were used to be employed for their own business. It was extremely important for the Nationalisation of banks in order to protect the customers from the unfair games played by the bankers. The nationalisation of banks was not an easy step to take just like any other movement it was appraise and criticized. The Government of India introduced the concept of social control over banks and later nationalization of banks to bring the operations of banks in line with the priorities of national planning without changing its structure. Under this policy creation measures were takes such as National Credit Council in 1968 to prioritize and ensure coordination between economic planning and banking activities. To improve the transparency and efficiency government also decided to include Professional experts and public representatives on the boards. However despite these reforms social control could not achieved the desired level of change. Since ownership remained in private hands and the profit dominated the flow of credit remained limited. The Government soon realized that the advisory control and regulation were insufficient to align bank with national objective. So consequently In India the Nationalization of bank commenced with the nationalisation of 14 largest commercial banks bringing them under public ownership to serve the social and developments needs of people. The 80% of the banks held the entire banks deposit in the country. The 6 private banks in 1980 were nationalized. Until 1969 the State Bank of India was only the private bank which was not owned. Currently India has 19 nationalized banks.

The major reason for the nationalisation of banks is to energize priority sectors. The commercial bank disregarded the agriculture sector for a very long time. The banks were only seen serving the larger industries and the business. The government through nationalization wanted to mobilize savings and utilize them from better and more productive purposes leading to efficiency.

Meaning of Nationalisation

Nationalisation means transferring of ownership and control of the private banks into the hand of the government. This means that the government becomes the actual shareholder for the private bank and thus operates as a public service entity. The concept of nationalisation is not just limited to banks but also to others sectors of the business organisation which exist in the country. Especially those which are privately owned by other entities or other owned organisation. As per the International Monetary fund nationalisation is the process in which government take over the private assets and bring them for the public ownership.

History of Banking in India

The banking in India has a long history going back to the 18th and 19th century beginning with a small private banks and the establishment of First joint stock banks. The bank primarily served during British rule with urban elites and trade interest with little attention to rural areas or on the majority of population. But after the independence 1947 a fragmented banking sector of India dominated by private ownership. A few wealthy industrial houses controlled major banks urban areas while neglecting agriculture rural development and small industries.

After independence a socialistic pattern was adopted which ensure social development of the country but there were complaints and it was found that all the commercial banks are under private management are they were advancing to the larger and medium scale industries and were neglecting the small scale industries. The people were untouched with the marginal points.

Therefore the demand of commercial banks and nationalisation has been increased in the past. A sector emerged as a staunch supporter of socialism with the demand of nationalisation of banks. They felt the nationalisation as the panacea for all the ills of the banking system in the private sector. At the Bhubaneswar session a twelve point program of achievement was placed by the congress party at 1964 which covered economic and social evils and to achieve all the aspiration. The government kept the decision at abeyance and did not oppose to move for nationalisation of banks partly because of the consequential effect on the economy of the country. The term Social control was first adopted by the congress party in its election manifesto in 1967 to bring the private banking institution under the social control more effectively. On 1st February 1969 a social control was imposed through act no 58 of 1968 which was amending act to the banking Regulation Act 1949.

By the 1960s it was clearly evident that the private banks were not supporting the government plan for equitable economic development. The Social control over banks were introduced regulating lending priorities and including government representative on banks boards to guide credit towards policy and urban while neglecting agriculture. The two significant events which occurred in the year 1969 they are:

1. Social control on banking companies and
2. Nationalization of 14 major Indian banks and followed by further 6 private banks in the year 1980.

(1) Social Control

The Banking regulation of the amending provision deals with the aspect of the social control. The preamble of the Amending Act 58 of 1968 reads as:-

"An act further to amend the banking regulation act 1949 so as to provide the extension of social control over banks and for matters connected therewith or incidental thereto and also further to amend the Reserve Bank of India Act 1934 and the state bank of Indian act 1955."

There were complains that the sector demanding priority such as agriculture such as small industries were not receiving due share. The government however thought that it would be advisable commercial bank to functions private sector and to impose further control and restriction it would demand priorities for lending and investment and leave no opportunity in the hands of bank management and directors to mismanage as alleged. On 14.2.1967 the Deputy Prime Minister and minister of finance made a statement declaring the views of the government in the Lok Sabha and how it imposed to proposed social control. The two main steps which were taken were:

i. Setting up national credit council
ii. Introducing legislative control by amending banking Regulation Act.

(2) Nationalisation of Banking Companies

1. First Phrase of 14 Banks

There was social control of the commercial bank before the nationalisation of banks has taken roots in India. The desired control was not done by the social control as no significant achievement was made in channelizing adequate credit to weaker sections. The government direction was ignored by many banks so the government believed that the social control was not sufficient thus bank nationalisation was considered as the alternative solution. At the Bangalore session of all India congress committee in 1969 took decision to nationalize 14 banks. It was therefore within 6 months the imposition of social control ordinance to nationalize 14 banks with a deposit of 50 crores and more were issued to serve better needs of the development of the economy. The banks which were mainly owned by businessman and even directed by them were:-

- The Central Bank of India ltd.
- The Bank of Maharashtra ltd.
- The Dena Bank ltd.
- The Punjab National Bank ltd.
- The Syndicate Bank ltd.
- The Canara Bank ltd.
- The Indian Bank ltd.
- The Indian Overseas Bank ltd.
- The Bank of Baroda ltd.
- The Union Bank ltd.
- The Allahabad Bank ltd.
- The United Bank of India ltd.
- The UCO Bank ltd (United Commercial Bank ltd).
- The Bank of India ltd.

Before these steps of nationalisation of Bank only State Bank of India was nationalized. It took place under SBI Act under 1955.The State bank of India is ranked one and it is the largest commercial bank among the top 5 banks worldwide. It either directly or through subsidiaries serves 90 million customers through a network of 9000 branches and its offices.

2.Second Phrase of 6 banks

On April 15th 1980 six more banks having deposit of 200 crores were nationalized. These Banks were:

- The Andra Pradesh bank ltd.
- The Corporation bank ltd.
- The New Bank of India ltd.

- The oriental bank of Commerce ltd.
- The Punjab and Sindh Bank ltd.
- The Vijaya bank ltd.

Economic Rationale behind Nationalisation

The Economic rationales behind Nationalisation of bank are:

- A lot of issues related to reach and flow of important sectors were there as the banks were only available to certain geographical and social sector. As banks provide loans to the farmers to carry out profitable way it couldn't be possible as banks were not available to all the sectors.
- The people who invested their money were distress due to the collapse of bank before nationalisation which caused regional imbalance in the banking sector of the economy.
- The agriculture and the industrial sector were not provided enough credit from the bank so the nationalisation played an important role in solving the issue. The nationalisation was important as 75% of the people were from the agriculture sector.
- In earlier time people preferred either to keep their money with themselves or give it to the money lenders who charged exorbitant rates.

Impact of Nationalisation of banks

The nationalisation of banks was a turning point before nationalisation of banks the banks were controlled and owned by private individuals and they usually used to serve urban areas and big companies. The government under the prime minister Indra Gandhi nationalised 14 banks to align banking with the goals of social and economic development. They aim was to reduce the poverty, promoting equality and supporting national planning. The nationalisation impact was far reaching there were massive expansion of banking network in the country. In rural and semi urban areas thousands of banks were opened increasing access to financial services. Public confidence has increased in the banking sector and there is a sharp rise in saving and deposit. The credit flow to the private sectors such as small scale industries, agriculture grew significantly. Nationalisation also served as a financial inclusion as the bank served as a tool to provide public welfare rather than profit.

Socially it helped to reduce the regional and social inequalities by extending credit and by helping the weaker sections of the society. In the long run nationalisation created a strong foundation and boosted public interest in the banks.

Nationalisation of Bank case

R.C Cooper v Union of India

This case is popularly known as bank nationalisation case 1970 which was a major landmark judgment as it deals with the constitutional jurisprudence of the nation and guided the parliament. This case is also important as it overruled and rejected the mutual exclusive theory the case of ***A.K Gopalan v State of Madras***. This case was filed during the duration of congress party under the leadership of Indra Gandhi as a result of nationalisation of 14 banks. In this case soon after the nationalisation of bank parliament passed the Banking Companies Act in which R.C Cooper who was major shareholder of the Bank of Baroda and Central Bank of India challenged the ordinance based on which nationalisation was happening .Through his petition he claimed that his fundamental right under Article 13, Article 14, Article 19 and Article 31 were violated. The court in this case held that violation of fundamental right cannot be overlooked just because of some technicality. The ordinance has now been converted into the act. The court further said that the shareholder and the director cannot file a petition on the ground that company fundamental right was violated. However he can file a petition in his own fundamental rights are violated.

Conclusion

The Nationalisation of Bank has been intended a major step has been a major step of our nation in creating the welfare state. It marked a significant towards achieve greater financial inclusion and directing credit policy sector. As both sector agriculture and manufacturing sector needed external support to grow as nation was facing food shortage and droughts. Any business needs security that the people whom they were lending money will be able to return it. Hence the government had to take over banking sector to lend and support industries. By the nationalisation the government wanted high degree of control in the market. Although there were many challenges such as political interference, rising nonprofit organisation but successfully nationalisation expanded banking services in the country for its inclusive growth. Over all nationalisation played a pivotal role in transforming banking system from elite oriented to social economical development.