THE POST-WAR YEARS: 1945-51

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Changes in the Bank's Organisation and Status

The five years or so from the end of the war in 1945 covered in this section constitute a distinct and eventful period in the Bank's history, as of the Indian economy in general. These were years of transition from a war to a peace economy, and the problems inherent in the process were aggravated by political uncertainties, culminating in partition of the Indian sub-continent. The country and the Bank went through much travail during the period. But it could be said broadly that by about 1950-51 the post-war transition was over and conditions were more or less propitious for embarking on developments effort on a planned basis; the Bank was also organisationally equipped to shoulder its responsibilities in the task of economic development.

The partition of the country altered the territorial jurisdiction of the Bank, which became the central banking authority for the Dominion of India (later Indian Union) only, after a brief interlude of serving both the new Dominions. The Bank endeavoured to handle the several administrative and organisational problems associated with this change, including the division of its assets and liabilities, firmly and fairly. Another important development concerned the change in the Bank's status from a shareholders' institution to a Government-owned one. The nationalisation of the Bank, effective January 1, 1949, was rendered smooth by, among other things, the continuance in office of Governor Deshmukh and Deputy Governor Trevor after the end of their normal term and the nomination of a majority of the members of the new Local Boards from the outgoing members and of the Presidents of the erstwhile Local Boards as Directors of the Central Board.

In the sphere of monetary policy, the period was characterized by a gradual retreat from cheap money; the Bank successfully resisted

Government's efforts early in the period to reduce the Bank rate, and later dexterously managed to bring about a modest but distinct reversal of cheap money, in accordance with the needs of the situation. There was, however, no change in the Bank rate; it was raised only in November 1951. The Bank's open market operations were designed to facilitate the restoration of the normal pattern of credit extension by banks, help finance the heavy balance of payments deficit on current and capital accounts and contribute to the maintenance of public confidence in the gilt-edged market during the years of political uncertainty and turmoil.

There were important developments in the fields of commercial and co-operative banking. Outstanding among these was the enactment, in May 1949, of comprehensive legislation to regulate the establishment and working of commercial banks, the major effort for this coming from the Bank. In the field of rural credit, the Bank made a distinct though modest progress in getting closer to the co-operative movement. The Bank's credit facilities to the co-operative institutions were liberalised. Steps were also initiated to enlarge substantially the Bank's role in the sphere of rural credit. The appointment (by Government, on the Bank's initiative) of the Rural Banking Enquiry Committee in 1949 and the setting up by the Bank, on the suggestion of Mr. Deshmukh who had become by then the Union Finance Minister, of the All-India Rural Credit Survey Committee in 1951, were important steps in this behalf, Besides strengthening the Agricultural Credit Department, a new Department of Banking Development was set up in 1950, mainly to implement the recommendations of the Rural Banking Enquiry Committee which submitted its report in May 1950,

The newly created Department of Research and Statistics got into stride early, and much progress was made in collecting data and organising research in a number of new directions. A new Balance of Payments Division was also created in the Department in 1949 to compile and analyse India's balance of payments, especially keeping in mind the obligation to supply information to the International Monetary Fund, the responsibility for which devolved largely on the Bank.

The period also saw change of stewardship of the Bank; Sir Benegal Rama Rau took over as Governor from July 1, 1949. There were also changes in the office of Deputy Governor, one of which came about as a result of the death of Mr. Wajahat Hussain.

In the sphere of external finance, the most important development was the satisfactory conclusion of a series of agreements on sterling balances, providing for orderly utilization of the balances for meeting India's needs of current consumption and capital development; the Bank played an active role in these matters, refuting vigorously all suggestions for a scaling down of the balances. The period also saw

India's joining the International Monetary Fund and the World Bank and the beginnings of utilisation of assistance provided by these institutions. The Governor of the Bank, in his capacity as Governor for India of the two institutions, took an active interest in their working and generally in guarding India's interests. Another important development in the sphere of external finance during the period was the devaluation of the Indian rupee in September 1949, simultaneously with the devaluation of the pound sterling and a number of other currencies.

The organisational developments, including in particular the nationalisation of the Bank, are covered in this chapter.

ORGANISATIONAL MATTERS

Changes in Governor and Deputy Governors

For the second time in its history, the Bank's top management suffered a tragic loss. Mr. Wajahat Hussain, who was on his way from Bombay to Calcutta to attend a Board meeting, passed away at Arrah, his home town, on December 4, 1945, after a very brief illness. During the short period of two years and four months for which Mr. Hussain had been Deputy Governor, he earned the love and respect of all those with whom he came in contact. In the Bank's annual report for 1945-46, an eloquent tribute was paid to his memory in the following terms:

> By his death, the Bank has lost an administrator of great experience and capacity, and the Board a valuable and genial colleague and a distinguished public servant endowed with character, competence and courtesy far above the average.

At its meeting on February 25, 1946, held at Lahore, the Central Board made a unanimous recommendation for the appointment of a successor. In conformity with the prevailing convention, the choice was restricted to a Muslim. The candidate recommended was Mr. M. G. Mehkri, then Development Minister in the Jammu and Kashmir Government. The Board recommended that Mr. Mehkri be offered the same salary as Mr. Wajahat Hussain. Government accorded approval to the Central Board's proposals; Mr. Mehkri's appointment was for a term of five years with effect from July 8, 1946.

Born in 1889 and educated in Mysore and Bombay, Mr. Mehkri had a varied career in the Mysore Civil Service; the posts held by him included those of Registrar of Co-operative Societies and Chief Secretary to the State Government. In 1944, he was appointed Revenue Minister of the Government of Kashmir; later, he became its Development Minister.

The tenures of Governor Deshmukh and Deputy Governor Trevor were due to expire on August 10 and 15, 1948, respectively. The Government of India were keen to offer Sir Chintaman another full term of five years but for private reasons it was not convenient for him to accept it. However, having committed themselves to nationalising the Bank at the earliest opportunity, they desired that Sir Chintaman should continue for at least three or four months after the expiry of his term to see the arrangements through. It was also their desire that Mr. Trevor should stay on for one more year. The Directors were only too happy to recommend to Government, at the Board meeting held on July 19, 1948 the extension of Sir C. D. Deshmukh's term till the end of December 1948 and Mr. Trevor's term by another year, that is, till August 15, 1949; the terms and conditions of service were to remain unchanged in both cases.

With the enactment of the Reserve Bank (Transfer to Public Ownership) Act, 1948, the appointment of the Governor and the Deputy Governors became entirely the Central Government's responsibility but the Central Board was to determine the salaries and allowances of the chief executives as before, with the approval of the Government, as provided in Section 8(a) of the Reserve Bank Act. At Government's request, Sir Chintaman agreed to continue as Governor for a further period of six months with effect from January 1, 1949. Mr. Trevor's term was also extended by Government by a few months, up to the end of December 1949. The Central Board recommended, and Government agreed, that there should be no change in their pay and allowances.

In a resolution passed at its meeting held on June 13, 1949, the Central Board extolled Sir Chintaman's sterling services to the country ' and his ' high standard of efficiency, integrity and impartiality ' ; the Board also hoped that after taking sufficient rest, Sir Chintaman would put his 'great ability, administrative capacity and high sense of duty' at the disposal of the country for any responsible work he might be invited to undertake in future, and prayed that 'he may live long to distinguish himself further in the service of the motherland as one of the most noble and gifted sons of India'

Sir Benegal Rama Rau was appointed to succeed Sir Chintaman Deshmukh on July 1, 1949, his term of office being fixed at five years. (His term was extended twice, by one year and two years, respectively, though he did not serve for the full period of the second extension; he resigned in the middle of January 1957). Sir Benegal, like his two predecessors, belonged to the Indian Civil Service from which he had retired a few months earlier. Born on January 10, 1889, Sir Benegal was educated at the Universities of Madras and Cambridge and entered the Indian Civil Service in 1913. Among the several important positions held by him, mention may be made of Secretary, Indian Taxation Committee; Financial Adviser, Simon Commission; Secretary of the Indian Delegation to the Round Table Conference and the Joint Parliamentary Committee (in this capacity he actively participated in the discussions on the question of establishing a Reserve Bank for India in the early 'thirties) ; Deputy High Commissioner for India in London; Chairman, Bombay Port Trust; and Ambassador for India in the U.S.A. To get acquainted with his new duties, Sir Benegal worked as Sir Chintaman's understudy for a few months. Early in May 1949, Government also nominated him as a Director of the Central Board of the Bank.

The new Governor's salary was fixed at Rs. 6,000 per mensem, or lower than that of the three former Governors. In advance of the meeting on June 13, 1949, the Central Board had been informed unofficially by Government that they wished that a lower salary should be fixed for the post in accordance with their general policy of scaling down the very high emoluments attached to some of the Government posts, and that the Governor-designate, who was sounded, had also expressed his willingness to accept a reduced salary. The Central Board was not inclined to agree with Government over the need to reduce the Governor's salary. Therefore, while recommending the lower salary of Rs. 6,000 p. m. for the new Governor, the Board recorded that 'in view of the importance and the status of the post of the Governor of the Reserve Bank of India, the Board do not consider that there is any justification for a change in the existing salary and other terms of service attached to the post'.

In this context, it would be appropriate to mention that some time later, that is in October 1949 when the question of amending the Reserve Bank Act comprehensively was under consideration, Government came to hold the view that the position regarding the determination of the salaries and allowances of the Governor and the Deputy Governors by the Central Board was somewhat anomalous and that it might be better to give the Government absolute power to fix these also in the same way as they were empowered to make these appointments. The matter was considered by the Central Board, which did not however agree with this view. In recommending the continuance of the status quo, the Board was guided by the analogy of other nationalised central banks, such as the Bank of England and the Bank of Canada, where the salaries of the chief executive officers were fixed by the Board. The Board further felt that:

> The pay and allowances of these officers, who are non-officials, should be comparable with the scales of remuneration in the principal commercial banks. The Central Board is in a far better position than any department of the Government to suggest a scale that would attract

a man with the requisite experience and qualification. The statutory requirement in regard to the approval of the Government is an adequate safeguard against any extravagant recommendations.

In succession to Mr. C. R. Trevor, the Government of India appointed Mr. Nivarti Sundaresan as Deputy Governor for a term of five years. Mr. Sundaresan, who was born in June 1895, belonged to the Indian Audit and Accounts Service. He had a long and varied career in the Finance Department of the Government of India. He was for many years, especially during the war period, very closely associated with matters relating to currency, coinage, taxation and Government borrowing and had close contact with the Bank. He had also worked for some time in the Office of the Controller of the Currency. For about four years prior to his appointment as Deputy Governor, Mr. Sundaresan was Executive Director for India at the International Bank for Reconstruction and Development. Mr. Sundaresan was offered the same salary and leave benefits as were granted to his predecessor.

Subsequent to his relinquishment of office as Deputy Governor, Mr. Trevor was placed on special duty for a period of three months from January 1, 1950, on the same terms and conditions of service as he enjoyed as Deputy Governor, for organising the Inspection branch of the Department of Banking Operations.

Mention may also be made of the officiating arrangements during the absence on leave of Deputy Governor Trevor on two occasions, for four months and three months in 1946 and 1948, respectively. On both the occasions Mr. W. T. McCallum, Manager of the Bombay Office of the Bank, was appointed to officiate as Deputy Governor. Under Section 12(1) of the Reserve Bank Act, it was permissible to appoint an Officer of the Bank as Governor or Deputy Governor in vacancies caused by the absence on leave of the regular incumbents. No officiating appointments had, however, been made on earlier occasions in similar circumstances either because they were not considered necessary or perhaps because there was no formal provision for leave in the terms of service of the Deputy Governors until 1945.

The widening range of the Bank's activities led to the creation of the post of an Executive Director in the Bank. In August 1950, the Central Board approved the creation of the post on a temporary basis to hold charge of the new Department of Banking Development to be set up to deal with the development of banking and credit facilities in the country in pursuance of the recommendations of the Rural Banking Enquiry Committee. The post was higher in status than the Chief Accountant's but below that of the Deputy Governor; the incumbent was not to be a member of the Central Board. Mr. Burra Venkatappiah, Finance Secretary of the Bombay Government, was appointed to the post and he assumed charge on October 4, 1950. Exactly 43 years of age on that date, Mr. Venkatappiah had had his education in the Madras and London Universities before he entered the Indian Civil Service in 1932. He was also a Member of the Rural Banking Enquiry Committee. Mr. Venkatappiah’s initial term was for two years but it was extended till the end of June 1955, when he became a Deputy Governor of the Bank. He remained in that post till the close of February 1962 before taking up the office of Chairman of the State Bank of India.

Opening and Closing of Offices

During the period under review, a full-fledged office of the Issue Department was established in Delhi and a sub-office of that Department at Gauhati. Opened on December 1, 1947, and January 14, 1949, respectively, these offices were intended mainly to solve the administrative problems arising out of the servicing of the currency chests in East Punjab and Assam following the partition of the country. In pursuance of a decision taken in May 1946 to open new offices of the Bank at Nagpur and Patna mainly to relieve the pressure on the Bombay, Kanpur and Calcutta Offices, land for construction of the office premises at these centres was acquired in 1948 and 1949, respectively. However, it was not until many years afterwards that these offices were actually established: the one at Nagpur came up in 1956 and the other at Patna even later, i.e., in 1968.

Another proposal, which was on the anvil for many years but did not eventually fructify, was that to shift the Bank’s office at Kanpur to Lucknow, the headquarters of the United Provinces (later Uttar Pradesh) Government. The decision to shift the Kanpur Office was taken in November 1947, mainly to meet the wishes of the Provincial Government. However, later it became clear that there were definite advantages in retaining the Bank’s office at Kanpur, which was the most important commercial and industrial centre of the Province. After prolonged correspondence the Provincial (State) Government were persuaded in 1958 to agree to leave the final decision in this regard entirely to the Bank, which favoured the continuance of the office at Kanpur.

Note Cancellation Sections, which attended to the examination and disposal of soiled notes accumulated at the neighbouring currency chests, were also set up at several places in the country, viz., Lucknow, Allahabad, Agra, Ludhiana, Bangalore, Meerut, Nagpur, Patna and Ahmedabad, with a view partly to easing the increasing pressure of work at the offices of the Issue Department in handling soiled notes and partly to absorbing the staff in the Bank’s offices at Karachi, Lahore and Dacca, who had opted for India. While many of these were subsequently closed with the opening of new branches of the Issue Department or the expansion of existing branches, a few have continued to the present day. A Section at Amritsar functioned for a few months, between October 1947 and February 1948, having been opened mainly to provide immediate employment to the refugee staff from Lahore, and was closed down with the opening of the Section at Ludhiana.

Department of Banking Development

A new Department of Banking Development was set up in October 1950, mainly with the object of making arrangements for the early implementation of those proposals of the Rural Banking Enquiry Committee (see Chapter 23) on which action on the Bank's part was called for, and in particular, to give concentrated attention to the extension of banking facilities to semi-urban areas and to the problems of rural finance. The Department was intended to deal also with certain other closely allied matters such as the financing of medium and small scale industries and the establishment of State Industrial Finance Corporations. New or special problems were also expected to arise in the context of the mobilisation of rural savings or the extension of rural credit, and these were to be handled by the new Department. It was envisaged that the Department would primarily be 'a planning, initiating and co-ordinating department and only secondarily, an administrative or executive department, differing in this respect, from the Research Department of the Bank on the one hand, and from its Administrative Departments on the other, while at the same time partaking, to some extent, of the characteristics of both'. Mr. N. D. Nangia, a Senior Officer of the Bank, who had served as Member-Secretary of the Rural Banking Enquiry Committee, was the first Chief Officer of the Department.

Legal Division

In 1950 the Bank took a decision to constitute a full-fledged Legal Division in the Central Office to enable it to cope with the increasingly complex legal problems encountered by it in the discharge of its statutory functions. The work had earlier been handled by a small Legal Section formed in 1946 and put in charge of a Legal Assistant, of the rank of a Junior Officer. The coming into force of the Banking Companies Act particularly entailed considerable legal work. Further, under the new Constitution, all the acceding Indian States became States of the Republic (Part B States) and their financial integration meant the extension of the Reserve Bank of India Act to all those territories; it was expected that the public debt of these States might also come to be managed by the Reserve Bank. All this involved a substantial increase in the volume of legal work.

In April 1950, the Committee of the Central Board approved the expansion of the Legal Section into a Legal Division with an Officer-in-Charge with sufficient experience recruited from outside. The Committee stressed at the same time that the creation of a legal department 'should not by any means result in the Bank not consulting its Solicitors or Counsel in all important cases where such opinion should be obtained'. The post of the Officer-in-Charge was filled in March 1951 by the appointment of Mr. B. N. Mehta, a Bombay Solicitor. As the Bank's activities became further diversified over the years, the Division played a useful role in tendering legal advice to the various departments and in assisting the Bank's Counsel in legal proceedings involving the Bank. Early in 1960, the Division was renamed as Legal Department and the Officer-in-Charge redesignated as Legal Adviser.

Research, Publications

With the establishment of a full-fledged Department of Research and Statistics at the close of the war, the comprehensive collection of a wide variety of data on a systematic basis and the organisation of financial and economic research gathered momentum. The Department kept itself up to date in methods of research work and statistical analysis by deputing some of its Officers to visit research organisations and departments abroad. Officers of the Department were also deputed to attend several national and international conferences on economic and financial subjects. Among the important items of work carried out by the Department may be mentioned the periodical surveys of the ownership of demand deposits of scheduled banks and of their investments in Government securities; studies on the working of stock exchanges abroad and in India, and matters relating to the statutory regulation of the stock exchanges; surveys of rural indebtedness and socio-economic conditions in selected villages or areas in association with other institutions engaged in similar research. The Department issued, starting with the first week of January 1950, weekly Index Numbers of Security Prices (General Purpose Series) with base 1938 =100 which replaced the index numbers issued by the Economic Adviser, Government of India, with base 1927-28 = 100.

In January 1947, the Department also embarked on the publication of a monthly economic and financial journal called the Reserve Bank of India Bulletin. In this, the Bank was very much ahead of some of the older central banks and followed the pattern of the newer banks like the Federal Reserve. The contents of the Bulletin generally included a monthly review of economic and financial conditions, articles based on the studies and surveys conducted by the Bank and a statistical section presenting monetary and economic data. Over the years, the range of the material published in the Bulletin has been enlarged and it has become an important source of reference on current monetary and economic problems.

In December 1948, a separate Balance of Payments Division was constituted for the purpose of compiling statistics of India's balance of payments along the lines adopted in advanced countries such as the U.S.A., the U.K. and Canada and the study of related problems. With a view to studying the latest techniques adopted in foreign countries in the compilation of the balance of payments statistics, two Officers of the Department, Mr. P. S. Narayan Prasad and Mr. V. G. Pendharkar, had earlier been deputed to the U.S.A. in the latter half of 1947. Mr. Prasad was appointed the first Director of the Balance of Payments Division.

An important function of the new Division was to furnish to the International Monetary Fund information relating to India's balance of payments, international investment position, etc., called for under Article VIII, Section 5, of its Articles of Agreement. To enable the Bank to comply with the requirements of the I.M.F., the Government of India had, by a notification dated October 23, 1947, conferred upon the Bank the powers to call for necessary information from all persons concerned. With the Government's concurrence, the new Division undertook a census of India's foreign assets and liabilities as of June 30, 1948, the findings of which were published in November 1950. The idea of conducting a census was actually sparked off by The Eastern Economist, which had suggested more than two years earlier (in its issue of January 11, 1946) that, since all the available estimates of the amount of foreign capital invested in India were at wide variance with one another, the Bank should embark immediately on a census of foreign investments in India in a scientific way. The Central Board of the Bank had also attached considerable importance to such a census being undertaken by the Bank, particularly in the context of the valuable material that it would make available for the sterling balances negotiations. The survey, which involved the analysis of 30,000 returns filed by individuals and institutions, yielded a large volume of useful information regarding the extent and form of foreign participation in Indian industry and trade. The study also enabled the Bank to furnish information to the I.M.F. on India's international investment position. The completion of the census was one of the early achievements of the Balance of Payments Division. It worked in close collaboration with the Customs Department of the Government of India and the Bank's Exchange Control Department, both having an important hand in the preliminary collection of data from the importers, exporters and the authorised dealers in foreign exchange.

The services of Officers of the Department were on various occasions lent to the Government of India and other organisations; a few Officers were also appointed to represent the Bank on various financial/commercial bodies. To mention a few instances, the services of the Director of Monetary Research were placed on deputation with the Government of India as Deputy Secretary to the Tariff Board for some time in 1945 and 1946. The Director of Rural Economics was appointed a member, to represent the Bank, on the Marketing Sub-Committee of the Policy Committee on Agriculture, Forestry and Fisheries appointed by the Government of India, while the Director of Monetary Research served on its Agricultural Prices Sub-Committee to which he was appointed in 1944. The Director of Statistics was nominated as a member of the Standing Committee of Departmental Statisticians set up by Government for interim economic and statistical co-ordination. There was also participation in the Government’s deliberations on the proposals for stock exchange legislation; an Officer of the Department (Mr. S. L. N. Simha) was appointed Member-Secretary of a Departmental Committee set up by the Government of India for the purpose, The same Officer was also appointed as one of the two Directors to represent the Bombay Government on the Board of the Bombay Bullion Association which had been formed in 1948. The Director of the Balance of Payments Division represented the Bank on the delegation of the Government of India which visited Karachi in 1949 for talks with representatives of the Government of Pakistan on the Trade and Payments Agreements between the two countries. He also acted as adviser to the Indian Delegation to the Commonwealth Conference held in Sydney in May 1950. In September 1950, he and another Officer of the Department (Mr. K. N. R. Ramanujam) were included in the Indian Delegation to the Meeting of Officials preparatory to the Commonwealth Finance Ministers’ Conference held in London. Officers of the Department were also appointed on the Board and the staff of the International Monetary Fund.

NATIONALISATION OF THE BANK

On January 1, 1949, that is to say, 13 years and 9 months after its establishment, the Bank was transformed into a State-owned institution, in terms of the Reserve Bank (Transfer to Public Ownership) Act, 1948 -a landmark in the Bank’s history.

The nationalisation of the Bank was in line with the general trend towards nationalisation of central banks abroad, which had set in three to four years before the outbreak of the Second World War, and which gathered momentum after the war ended. In Denmark and New Zealand, the central banks were converted into wholly State-owned institutions in 1936; the same development occurred in Canada in 1938. After the end of the war, among the older central banks to be nationalised were the Bank of France (January 1946), the Bank of England (March 1946) and the Bank of the Netherlands (August 1948).Outside Europe, mention may be made of the nationalisation, in March 1946, of the central bank of the Argentine Republic set up in 1935.

In India, as already mentioned in Chapter 1, even as early as 1927 when the first Reserve Bank Bill was introduced in the Legislative Assembly, there was a strong demand for a wholly State-owned bank, and it was in fact the acute controversy over the matter of State versus private ownership which was mainly responsible for the long delay in the setting up of a central banking institution in the country. However, after the Bank had been set up in April 1935, the issue does not appear to have been widely debated in public till the announcement in 1945 of the proposal for the nationalisation of the Bank of England. The demand for nationalisation became stronger after the installation of the Interim Government at the Centre in September 1946; a nonofficial resolution urging the nationalisation of the Bank was moved in the Legislative Assembly in February 1947. Anticipating such a move, Government sought the Bank's views and advice in advance. The Governor's view was that it was premature even to refer the question to the full Board, and that Government should adopt a generally noncommittal attitude and undertake to have the matter carefully examined. However, Mr. Liaquat Ali Khan, the Finance Member of the Interim Government, announced Government's decision to nationalise the Bank in the course of his budget speech, on February 28, 1947. In January 1948, that is, after Independence, the Governor was again requested by the Finance Minister to set down his views on the proposed nationalisation of the Bank. Though the Governor made out a strong case against nationalisation at that stage, Government considered the assurance given in February 1947 binding upon themselves, and proceeded to nationalise the Bank. The Central Board of the Bank opposed nationalisation initially, but once it found that the Government's decision was irrevocable, it extended full co-operation in implementing it. These developments are narrated in detail in the following pages.

Demand for Nationalisation

The revival of the demand for a State-owned central bank followed the British Government's decision in August 1945 to nationalise the

Bank of England. In the course of the debate on the Indian Finance Bill on March 26, 1946 in the Legislative Assembly, Mr. Sarat Chandra Bose, Leader of the Opposition, asserted that nationalisation should be the keynote of all economic development in India. Mr. Bose commented that the Bank of England, 'a bank with a hoary past and great traditions,' might be nationalised, but so long as 'British imperialist domination' continued in India, the Reserve Bank of India could not possibly be nationalised.

The reply of the Finance Member, Sir Archibald Rowlands, was that he had no doubt that the Reserve Bank would be nationalised in the near future. He thought:

> the real reason why it was not nationalised in the first instance was that the Legislature was not prepared to commit to the sole charge of an irresponsible Executive an institution which plays such an important part in the economic life of India.

Some months later, after the installation of the Interim Government at the Centre in September 1946, there was a strong demand from some Members of the Legislature and also a section of the press that Government should nationalise industries, public utilities, banks, civil aviation, etc.

The Finance Department, anticipating that during the consideration of the Banking Companies Bill Members would harp on the same theme, considered it was high time that Government decided upon their attitude to the question of nationalisation. The Bank was therefore requested towards the close of 1946 to convey its opinion regarding 'the possible advantages or disadvantages of nationalisation '.

Views of the Bank's Executives

Pending examination of the matter by the Bank's Research Department and before obtaining the informal views of the Committee of the Central Board on the subject, Deputy Governor Trevor (to whom the Finance Department's letter was addressed in the absence of the Governor from headquarters), discussed the issue with the Governor on his return and sent an interim reply to Government, which he observed, 'sets forth our own personal views'.

The Deputy Governor was of the view that the possible reasons for the agitation for nationalisation could be: (i) that the Bank had failed to fulfil the expectations to which its establishment had given rise, or (ii) that it was feared that in future the Bank would not prove 'sufficiently pliable and responsive to the wishes of the Government in power'. In respect of (i), he mentioned that there had not been any 'well-founded criticism' of the manner in which the Bank had carried out its responsibilities; in fact, successive Finance Members had expressed satisfaction about the help the Bank had rendered to Government and had greatly appreciated the advice tendered by the elected Directors on the Board. As regards (ii) there was no reason to fear that the Bank would not endeavour to continue to carry out its duties and responsibilities 'as carefully and efficiently' as it had done in the past. The letter observed:

> We feel that nationalisation would not lead to any increased efficiency in the running of the Bank, but rather that its processes would be slowed down and its efficiency impaired owing to the intrusion of extraneous factors.

The Deputy Governor suggested that if any 'oblique' reference to the nationalisation of the Bank was made by the Select Committee on the Banking Companies Bill *, Government's answer should be that it was premature to consider the matter until a permanent constitution for the country had been framed.

The note of the Research Department, prepared by Messrs Prasad and Simha, drew attention to the fact that the nationalisations of the Bank of England, which had prompted the call for a similar step in India, was mainly a 'de jure recognition of a de facto state of affairs'. There was practically no change otherwise in the working of the Bank. The main reason for nationalisation was the desire of the Government to ensure absolute loyalty of the Bank to the Government. In India, on the other hand, the Government already possessed adequate powers to ensure that their wishes would be carried out by the Reserve Bank. Also, the Bank had paid only conservative dividends, the surplus profits accruing to Government. An appraisal of the Bank's working during the short period of its existence, the note remarked, was rendered difficult because the floatation of numerous loans, the repatriation of sterling debt and the administration of exchange control engaged so much of the Bank's attention that it could not have given due consideration to other important problems. Also, the Bank had to function within the framework of its constitution, and it could not always pursue policies according to its own wishes. The note, however, listed a few important achievements of the Bank.

Referring to the criticism regarding the Bank's 'acquiescence' in the enormous currency expansion during the war years against sterling assets, and the resultant inflationary conditions in the country, the note remarked that the critics had not given due weight to the provision in the Act which imposed an obligation on the Bank to exchange rupees

* In a minute of dissent signed by five members appended to the Report of the Committee, it was stated:

> Lastly, we wish to add that all banks should be nationalised at an early date and that as a first step, the Reserve Bank and the Imperial Bank may be made State Banks.

for sterling. 'It was open to the Legislature', the note argued, 'to have pressed for an amendment of the concerned clause'.

Summing up, the note observed that though there was a growing trend abroad towards nationalisation of central banks, and that in the long run it might be desirable to nationalise the Reserve Bank, the real question was 'whether the present is the time to do so' The nationalisation of the Bank of England had been carried out because the British Government were ready with definite economic plans which they were keen to put into operation immediately. In India, any full-fledged large-scale economic planning was a remote possibility, and such planning as could be undertaken then was not likely to be hampered by the Bank's set-up. The note concluded that 'the case for nationalisation at the moment seems to be weak and inconclusive'. The note was discussed informally by the Committee of the Central Board on January 29, 1947.

Meanwhile, Government received notice of a resolution from a Member of the Legislature, Mr. Mohan La1 Saksena, recommending to the Governor General in Council 'to take necessary steps to nationalise the Reserve Bank of India and the Imperial Bank of India as a prelude to nationalisation of Banking and Insurance in India'. The Finance Department again wrote to the Bank on January 25, 1947, asking for (i) the Research Department's note mentioned above and (ii) the Bank's views on nationalisation of the Imperial Bank.

Forwarding a copy of the Research Department's note on nationalisation to Government, on January 31, the Governor mentioned that it had been discussed informally by the Committee of the Central Board. The Governor considered it premature to request the Committee to express any considered opinion on the question, or even to refer the matter to the full Central Board at its meeting on February 11. He feared that the Board would not be prepared to make any recommendations at that meeting in view of the short time and also in the absence of any indication regarding Government's policy with regard to the whole question of nationalisation; he added that, if Government insisted, he would put the question to the Board, and he expected the Government Director attending the meeting to be in a position to explain Government's ideas regarding nationalisation. Similar considerations applied in the case of the Imperial Bank. In conclusion, the Governor stated:

> as I am not in a position to let Government have the Bank's views on the question of nationalisation of the Reserve and Imperial Banks, I am still less able to make recommendations regarding the general question of the nationalisation of all banks in India. The question is of such importance that it is not possible in the short time which has been allowed to formulate definite recommendations and I therefore suggest that Government adopt a generally non-committal attitude in response

> to the issue and undertake to have it carefully examined; at the same time I venture to suggest that they should use their influence and advise the mover not to press the resolution to a vote in the Assembly.

It is not known whether the mover was advised not to press the resolution; anyway, the resolution did not come up before the Legislature for consideration.

Resolution on Nationalisation in the Legislature

The demand for nationalisation of the Reserve Bank, however, did not recede into the background; on February 18, 1947, Mr. Tamizuddin Khan moved a resolution in the Legislative Assembly recommending to the Governor General in Council that:

> the Reserve Bank of India be taken over by Government, converted into a State Bank and run as such.

Nationalisation of the Bank was proposed by Mr. Tamizuddin Khan not because he was dissatisfied with its working, but because he considered that the monetary organisation of the country should be a national concern and should not be confined to a limited number of shareholders ' who are none but capitalists'.

It appears that the resolution had the strong support of both the major political parties in the Legislature, viz., the Congress and the Muslim League. Not many Members, however, participated in the debate-only six spoke, of whom four strongly supported the resolution and two opposed it. The most severe criticism of the working of the Bank came from Mr. Manu Subedar, who accused the Bank of having failed to carry out 'functions of a constructive character' which were entrusted to it. The Bank had failed, Mr. Subedar remarked, (i) to create a discount market and a bill market in the country [Section 17(2)], (ii) to abolish remittance charges and (iii) to make recommendations to Government for a permanent basis for the Indian monetary system and permanent measures for monetary standard [Section 55 (2)]. Mr. Subedar also referred to the 'lukewarm' efforts made by the Bank but given up later for linking up indigenous bankers and country banks with the central banking institution [Section 55(1)(a)] and the Bank's failure 'to improve all machinery for dealing with agricultural finance and closer connection between agricultural operations and the bank' [Section 55(1)(b)]. Referring to the principal argument of Sir George Schuster in justification of a shareholders' bank, viz., that Government, as the chief user of money, should not themselves be the authority controlling the creation of money, but that when they needed money, they should have to go to an independent authority and make out their case just as any private individual had to do, Mr. Subedar remarked that that undertaking had not been kept. He censured the Directors of the Bank for not sending in their resignations, and for not protesting against Government's 'misusing' the provision of the Bank's Act 'in order to replenish themselves'.

The other Members who spoke in favour of the resolution criticised the Bank for not assisting small banks and for doing practically nothing in the field of agricultural credit. Reference was also made by Members to the tendency of the Bank's shares to concentrate in one part of the country and in the hands of 'a smaller and smaller public'.

Mr. K. G. Ambegaokar, Joint Secretary, Finance Department (a nominated Official), took part in the debate at the request of the Finance Member, Mr. Liaquat Ali Khan, who felt that when allegations were made against the Bank, it was only fair that somebody should place the Bank's point of view before the House.

Mr. Ambegaokar stated that a bill market had not developed in the country because that mode of accommodation had fallen into disuse everywhere, being costlier than the system of cash credits or overdrafts. He disputed the statement that the remittance charges had not come down, as expected. Referring to the criticism that the Bank had failed to report its views on a permanent basis for the Indian monetary system [Section 55(2)], he questioned when such a report could have been made, since conditions had not been stable at any time since the Bank's establishment. The Bank could not establish links with indigenous bankers, as was expected of it, because they were not prepared to shed their non-banking business. The Bank had given the greatest possible thought, Mr. Ambegaokar observed, to the question of improvement of the machinery for dealing with agricultural finance. He also defended the Bank for not assisting banks which did not listen to its advice and worked on unsound lines.

Mr. Ambegaokar also stressed the point that the Bank had been in existence for a very short time, and within five years of its establishment the war broke out; ' the surprise is not that it has done so little, but that it has done so much '.

Referring to the criticism that the Bank 'printed a lot of money' and helped inflation, Mr. Ambegaokar remarked that the Bank was not to be blamed, as its hands were tied under the Act. ' If it was the desire of this House that the Reserve Bank should not create more money against sterling credit, this House should have taken action to repeal those sections ', he added.

Winding up the debate, the Finance Member observed that it was evident that there was a general desire for the nationalization of the Bank, and while Government were in favour of nationalizing any institution if such a step was of benefit to the country, they would study carefully and sympathetically the proposition contained in Mr. Tamizuddin Khan's resolution. It is best to reproduce the text of the Finance Member's statement:

> I have listened to the debate with great attention and interest. My Honourable friend who has just sat down said that the Government should be very careful because if they accepted the principle of nationalisation there would be a great demand from interested people made on them to the disadvantage of the tax-payer. I believe that any Government worth name must resist any unreasonable demand that may be made from any quarter which would be against the interests of the country as a whole. I can assure Honourable Members of this House that as far as the present Government is concerned, it will resist any demand from any quarter which would be to the detriment of the country. The Joint Secretary of the Department spoke not so much to put a case either in favour or against nationalisation of the Reserve Bank, but he took part in the debate at my request, because I felt that when certain allegations were being made against the Reserve Bank, who did not have a representative in this House, it was only fair that their point of view should be placed on the floor of this Honourable House. It is quite evident from the speeches that there is a general desire in this House that this institution, the Reserve Bank, should be nationalised. I also notice that this desire is not so much on account of any deficiencies that have been discovered in the present set-up of the bank, but it is due on the general grounds that an institution playing such a vital part in the economic life of the country should be nationalised to secure proper co-ordination and integration of currency, credit and monetary policy with the Government's financial and economic policy. That, I understand, is the reason behind this Resolution which has been moved on the floor of this Honourable House. As the House is aware, the present Government has taken office or has been in the saddle for a very short time and I think the House would not expect me at this moment to make a definite declaration with regard to this particular matter of nationalisation of the Reserve Bank. But, generally speaking, I might say that the Government are all in favour of nationalising any institution if it is found that it will be to the benefit of the country at large. That I may lay down as a general policy, and I can assure my Honourable friends that we will give our most careful and sympathetic consideration to this proposition which has been placed before this House. If we are convinced that the nationalisation of the Reserve Bank will be in the interests of the country, we shall not hesitate to take steps in that direction. But I must give a warning to the Honourable Members of this House on this occasion. I hope that no Honourable Member desires that the Central Bank of the country should become a handmaid of the Government of the time. When we talk of nationalisation and if we decide to nationalise the Reserve Bank, we must see that whatever constitution is framed for that bank, although it will be public ownership, it will not play the part of a subservient agent of the Government, whatever it may be at the time. I would like to acknowledge the willing co-operation which the Reserve Bank has given to the Government in the past. And as I have stated

Sir Benegal Rama Rau
Governor, 1949-57

> just now, this is a matter which needs very careful consideration and I can assure Honourable Members of this House, because I notice that there is a general desire on all sides of the House that the Reserve Bank should be nationalised, that this desire which has been expressed will receive our very careful and sympathetic consideration and we will give our very careful thought to this problem. I hope that my Honourable friend the Mover of the Resolution will accept that assurance which I have given, because at this moment I cannot promise anything more than this that we will consider this proposition and will give it our most careful consideration and sympathetic thought. If we find that nationalisation of the Reserve Bank is in the larger interests of the country and if we find that a ripe opportunity has come for taking action in that direction, we shall not hesitate to do so.

In the light of the Finance Member's statement, Mr. Tamizuddin Khan withdrew his resolution.

Actually, within a few days thereafter, i.e., on February 28, 1947, in the course of his speech presenting the budget for the year 1947-48, the Finance Member announced that after careful consideration he had come to the conclusion that the advantages of nationalisation of the Reserve Bank outweighed any possible disadvantages, and that, therefore, the Bank should be nationalised, the time and the manner of nationalisation being considered separately.

The press comment on the Finance Member's announcement was mixed. Amongst financial weeklies, the Indian Finance was a staunch supporter of nationalisation. The Eastern Economist, on the other hand, strongly opposed the Bank's nationalisation. The journal argued (February 28, 1947 issue) that it did not matter much whether the central bank of a country was State-owned or privately owned. What was important was that it should work in harmony with Government, and that' profit-making private interests do not employ the central bank as the instrument of their ends '. Neither of these charges could be made against the Reserve Bank, the journal observed. On the contrary, the journal remarked:

> from the point of view of public interest, the complaint would be not that the Reserve Bank did not co-operate with Government, but that it co-operated so well and so completely with the bureaucratic administration until the recent past in its unsound monetary and economic policies, whereas it was an important part of the duty of an 'independent' central bank, in the prevailing dichotomy between the government and public opinion up to September 1946, to have emphasised its point of view in a more concrete manner than the Reserve Bank has perhaps done.

Referring to the various charges levelled against the Bank during the debate in the Legislature in February 1947, the journal remarked:

> For several omissions and commissions, the Reserve Bank was not to blame; only the government or the statutory limitations imposed upon the Bank. But it is up to the Bank, in the altered political conditions now, to take a more positive and dynamic view of its functions and responsibilities in fields hitherto relatively neglected and make its recommendations to the new government.

The Commerce also viewed with disfavour the proposed nationalisation of the Bank. In the journal's (February 22, 1947 issue) view:

> While, for all practical purposes, the Reserve Bank is as good as a nationalised institution, it has the added advantage of the benefit of private enterprise, the most important of which are the advice and guidance of seasoned business men of wide contacts, efficiency and freedom from departmental red-tapism. In its present form, the Bank will be able to keep cordial, informal and close contacts with joint-stock banks, the markets, and the public which are essential for the building up of an integrated banking structure.

Also, nationalising the Bank even before the country got a full-fledged national and independent Government, according to the journal, was like putting the cart before the horse.

Amongst the dailies, the Bombay Chronicle was a defender of Government's decision. According to the paper (March 19, 1948):

> To say that the record of the Reserve Bank has been excellent is only partially true. While, on the one hand, it has been singularly ineffective in shaping the policy of the Government in essential matters, in its day to day working it has passed under the control of a Board which is for the most part elected by an ever-narrowing circle of shareholders . . . . .The shareholders are the least important part of a Reserve Bank, and we do not feel that there is any justification for the view that the most vital part of the machinery of national economic policy should not be under the direct control of the State.

Governor on Proposed Nationalisation

The question of nationalisation did not appear to have been referred to the Bank by Government for some months, presumably owing to the sweeping political changes that took place, culminating in the partition of the country. In January 1948, however, when the Governor (Deshmukh) happened to visit Delhi, he was requested by Mr. R. K. Shanmukham Chetty, the first Finance Minister of independent India, to set down his personal views on the question of nationalisation of the Reserve Bank and the Imperial Bank; resolutions urging their nationalisation had obtained high priority in the agenda of the budget session of the Legislature. This the Governor did immediately, in a note he handed over to the Finance Minister before he left the capital.

Broadly, the Governor considered it very desirable that the Reserve Bank Board should be invited to express its opinion on the subject, before a final decision was taken by Government, adding, ‘although it is recognised that in expressing views on the nationalisation of the Reserve Bank they (the Board) will not be entirely free of the suspicion of being biased in their own interests’. In the Governor’s view:

> The Board are, however, a body of very responsible business or public men and may be trusted to take a dispassionate view of the matter from the point of view of the interests of the country’s economy.

As regards his own observations, the Governor stated that it was not possible to be dogmatic about the nationalisation issue one way or the other, and on a final analysis. it did not much matter whether the Bank was run as it was then constituted, or was nationalised. In the Governor’s opinion, it was ‘all a question of timing and fitting the character of the institution to the pattern of the country’s economy’.

Admitting that the majority of the world’s central banks were nationalised institutions, the Governor pointed out that in Great Britain, Australia and New Zealand, socialist Governments were in power, and in view of their declared intention to spread the field of socialism, it seemed only fitting that the central banks in those countries should be nationalised. In the U.K., nationalisation was undertaken only because it had for twenty years been on the political platform of the Labour Party and was the easiest to accomplish out of that programme.

In considering India’s own problem, the Governor remarked, two things should be taken into account, viz., (i) whether a nationalised central bank was called for, for the implementation of or fitting into any well-defined plan of action in the economic sphere; and (ii) whether the administrative machine could be expected to respond to all the calls that could be made on it for the purpose of fulfilling any governmental programme. Applying these two criteria to the position in India, the Governor felt that as things stood nationalisation of the Bank was neither called for nor was it likely to be beneficial.

So far as the overall monetary and credit policy was concerned, the Governor remarked that whatever be its composition, the Reserve Bank was ‘bound to be pliant to the will of the Government, as for purposes of war, so for any short-term purpose of peace’, and therefore, it could not be said that the attainment of any important objective would be interfered with if the Bank was not nationalised. The Governor concluded as under:

> The Reserve Bank, as it is constituted, secures the golden mean in that while it is generally responsive to broad government control, the Board, which is mainly elective, is free to take an independent view

> of affairs and to tender advice to Government. In the complexities of present day economics this is of very great value, as no one can afford to be dogmatic about the correctness of his views, and two heads are better than one. The most striking result of nationalisation would be a change in the character of the Board, and there is bound to be nomination influenced, to a small or large extent, by political considerations. Even if by nomination the composition of the Board were to be comparable to its present composition and there were to be no change in the incumbency of the chief executive offices, even then, the psychological effect of being nominated is bound to make itself felt in the advice that is tendered. I have observed something of the working of the Bank of England after its nationalisation, and I feel convinced that they have lost a great deal of their independence. . . . . In that country, there is a strong and well-experienced Treasury assisting a mature democracy. In our own case, we are yet feeling our way and the Treasury requires strengthening even for its day to day existing business. In such circumstances, there is a danger of the wrong lead being given to a nationalised Reserve Bank by an inexperienced Treasury or by an inexperienced Ministry, although capable and experienced individuals in the Ministry or in the Treasury when they come will prevent such a state of affairs from arising. There is no reason, however, why such a risk should be run and why Government should be deprived of the fruits of the seasoned and matured experience of well-tried business men. In a year or two we shall see much more clearly what the pattern of our economy is going to be, how much stronger our administrative machinery is getting and where exactly the lack of nationalisation is impeding progress. In such a setting, one could proceed easily to nationalisation with greater confidence and greater clarity about the anticipated results.

As regards the proposal to nationalise the Imperial Bank, the Governor was of the view that it was not a necessity on purely logical grounds. Referring to the two charges levelled against that bank, viz., (i) that it was over-conservative and almost wooden in its banking service, and (ii) that it had not treated its Indian staff fairly and was generally backward in Indianisation, the Governor remarked that conservatism was only prudent banking, and that in that respect he did not think the Imperial Bank was 'much worse' than some of the other major scheduled banks. As regards the second charge, the Governor stated that the bank had stopped European recruitment some years ago, and that by 1954 only nine or ten European officers were expected to be left in the bank, which, he remarked, could not be regarded as excessive. The Governor's view was that Government should hasten slowly and 'not bite more than we can chew'. Nationalisation, the Governor observed, should be followed by the urge to extend business, where the institution was alleged to be not enterprising enough, and this would greatly increase the work of the Treasury. The Governor considered that instead of nationalization it should be ascertained 'more painstakingly and accurately where exactly the present institution is going wrong and calling it to account'. Also, when business and commerce, to a large extent, were to remain within the private sector, it was not at all necessary, he remarked, that the main part of the banking system should be run as a nationalised institution. In the Governor's view:

> If there is to be nationalisation of the banking system, it ought to apply to the system as a whole and not only to one unit, however, important that unit may be. I think, even a casual acquaintance with the Indian scene, would compel an observer to agree that the conditions in India did not call for such a kind of nationalisation at the present stage. There is no reason why we should at the beginning of our democratic existence, undertake an experiment which has not been undertaken else where, except in the U.S.S.R., where the entire economy is run on a communist basis. Even in Australia, where the nationalisation of commercial banks is being attempted, there has been a long history of experimentation and of socialist endeavours by the Government in power. My advice, in brief, is, therefore, that we should wait for a year or two before rushing into nationalisation of the banking institutions, and that, in the meanwhile, we should carefully observe how the present banking system is meeting the changing and developing economic needs of the country. A period of close observation will enable us to avoid the effects of any hasty action.

Nationalisation Issue again in the Legislature

The Governor did not, however, succeed in bringing Government round to his views. Despite his objections to nationalisation, Government decided to adhere to the view adumbrated by the Interim Government in February 1947 to nationalise the Reserve Bank. In reply to a question by Mr. Mohan La1 Saksena in the Legislative Assembly, on February 4, 1948, the Finance Minister stated that Government proposed to take steps to see that the nationalisation of the Reserve Bank was effected as soon as possible after September 30, 1948, when the Bank was to cease to be the common banker to India and Pakistan. Government's intention was to acquire the shares 'at the average of the monthly market value of the shares during the period March 1947 to February 1948 taking the opening quotations for each month '; 3 per cent long-dated stock of equivalent value of appropriate maturity was to be issued in exchange.

In respect of the Imperial Bank also, the Minister mentioned that the Government accepted the policy of nationalisation, but as that bank had branches outside India, Government first proposed to examine carefully the various technical questions involved before implementing nationalisation. For acquisition of the Imperial Bank share capital, a basis similar to the one in respect of the Reserve Bank shares was to be adopted. The Finance. Minister further announced that Government did not have any intention to nationalise other commercial banks; the Imperial Bank, incorporated by a special Act, stood on a separate footing. These replies had been framed after consultation with the Governor, when he visited Delhi.

Two days later, i.e., on February 6, 1948, the Finance Minister forwarded to the Governor a copy of the above replies with a letter stating:

> Normally, Government would have consulted the Central Board before initiating the policy of nationalisation of the Reserve Bank. As you are aware, the decision to nationalise the Reserve Bank was taken last year and it was left to the present Government only to implement it. I hope that the Central Board of the Reserve Bank will appreciate the circumstances in which they could not be consulted beforehand. I am, however, keen that I should have the advice and co-operation of the Central Board in implementing the policy of the Government in nationalising the Reserve Bank and I have no doubt that it will be forthcoming.

Accordingly, the Governor was requested to place the matter before the Central Board and obtain its suggestions as early as possible. He was also desired to offer suggestions on the various details connected with the proposed nationalisation of the Imperial Bank.

Board's Views

The matter was considered by the Central Board at its meeting on February 23, 1948, and a resolution was unanimously passed to the effect that:

> at the present stage of the country's political and economic development it will not be in the interests of the country to nationalise the Reserve Bank of India and such a step may be fraught with very great danger which cannot be fully foreseen at present,. . . . .

The resolution was forwarded to the Finance Ministry; the Joint Secretary to the Ministry replied on April 13 that:

> the Government of India, having given careful consideration to the views of the Central Board, do not see sufficient justification for revising their decision to nationalise the Bank.

The Bank's views on the proposed nationalisation of the Imperial Bank and subsequent developments in this matter are dealt with in a later section of the chapter. The story of the nationalisation of the Reserve Bank may first be completed.

Draft Bill for Nationalisation

Even before the Government's reply of April 13 was received, a memorandum was prepared in the Bank indicating the lines along which nationalisation of the Bank should proceed; this was circulated to the Board for its consideration.

The major point of the memorandum was that the Bank, as it was organised then, was sufficiently responsive to broad Government control and had not hampered the pursuit of State policies. Hence, the measure nationalising the Bank 'need not have a wide scope, at least for the present ', and should be confined to making the minimum amendments necessary for symbolising the change of ownership, leaving the rest of the organisation undisturbed. In addition to indicating the changes necessary if the limited objective of change of ownership was accepted, the memorandum separately listed for the Board's consideration amendments which would be necessary if a comprehensive revision was undertaken. The memorandum was considered by the Board at its meeting on April 5 and it was resolved that only the minimum modifications necessary to give effect to the change of ownership should be embodied in the legislation to be drawn up, leaving the operational and other features of the existing organisation undisturbed. The resolution was communicated to Government.

A draft Bill embodying the necessary amendments to the Reserve Bank Act and a copy of the Bank's memorandum on the subject were considered by the Committee of the Central Board at its meeting on May 26. The more important provisions of the draft Bill submitted to the Committee were the following:

(i) The capital of the Bank was to be acquired by the Central Government, paying compensation and also accrued dividends to the shareholders; the Bank was to continue thereafter as an autonomous corporation.

ii) The management of the Bank was to be entrusted to a Central Board of Directors comprising

(a) a Governor and two Deputy Governors to be appointed by the Central Government,

(b) Chairmen of the four Local Boards,

(c) six Directors to be nominated by the Central Government from among non-officials, of whom one was to be a member of the Central Legislature, and

(d) one Government official to be nominated by the Central Government.

The term of office of the six Directors to be nominated by the Central Government from among non-officials was fixed at four years, as against five years under the existing Act; two of the six Directors on the first Board were to retire at the end of two years, two at the end of three years and the last two at the end of four years; the Directors so to retire were to be determined by lots.

> A retiring Director was to be eligible for renomination for not more than two full c onsecutive terms, after the retirement of Directors of the first Board had begun.

(iii) The Central Government were to constitute four Local Boards, each consisting of five members representing territorial and economic interests and interests of co-operative and indigenous banks (as against a maximum of eight members under the existing Act); the Local Board members were to elect, from amongst themselves, one person to be the Chairman of the Board for a period of one year, and the Chairman was to be the ex-officio member of the Central Board. (iv) The Governor, or in his absence a Deputy Governor duly nominated by him, was to be empowered to carry on all the usual business of the Bank pending the constitution of the Central Board and also subsequently, subject to the provisions of the Act and the regulations of the Bank, and also subject to such restrictions and conditions as may be imposed by the Central Board. The existing Act did not have a substantive provision for delegation of the Board's powers to the Governor although under Section 58 the Central Board was empowered to make regulations for all or any of the matters specified therein, which included 'the delegation of powers and functions of the Central Board to the Governor, or to Deputy Governors, Directors or officers of the Bank'.
(v) An important new section was proposed, laying down the relationship between the Bank and the Government. Provision was made for the issue by the Central Government, from time to time, of such directions to the Bank as, after consultation with the Governor of the Bank, they thought necessary in the public interest. It was, moreover, provided that:

> in the event of a difference of opinion between the Central Government and the Governor of the Bank as to whether any course of action is or is not in public interest, the Bank may be required to give effect to the direction only on the Central Government informing the Bank that they accept responsibility for the adoption by the Bank of a policy in accordance with the opinion of the Government and will take such action (if any) within its powers as the Government considers to be necessary by reason of the adoption of that policy.

(vi) Opportunity was also taken to propose amendments to Sections 17 and 33, enabling the Bank to hold, besides sterling securities, other foreign securities, as part of the Issue Department reserve and also in the Banking Department. This was a corollary to India's membership of the International Monetary Fund and the consequent replacement in 1947 of Sections 40 and 41 by a new section (Section 40) requiring the Bank to sell or buy foreign exchange (and not merely sterling).

(vii) The draft Bill also provided for the omission of a few sections, which were pertinent when the Reserve Bank legislation was enacted, but which had lost their significance with the lapse of time, or, which became unnecessary consequent on nationalisation. The more important omissions proposed related to powers of Central Government to supersede the Central Board (Section 30), provision for Reserve Fund (Section 46), allocation of profits (Section 47), and reporting on certain matters, like extension of the Act to persons and firms other than scheduled banks, improvement of the machinery of agricultural finance and methods for effecting a closer connection between agricultural enterprise and the operations of the Bank and a permanent basis for the Indian monetary system (Section 55).

The Committee of the Central Board approved, at its May 26, 1948 meeting, the draft Bill drawn up by the management for amending the Reserve Bank of India Act, with only one important modification concerning the clause relating to representation of Local Board members on the Central Board. The Bank's management had proposed that the Chairmen of the Local Boards should be ex-officio members of the Central Board; the object was to retain, to the extent possible, the elective principle in the constitution of the Central Board. The Committee's resolution stated:

> That the draft Bill amending the Reserve Bank of India Act be approved as representing the recommendations of the Reserve Bank, with the modification that the representatives of the Local Boards be nominated by Government, like the rest of the Board (although it is hoped that ordinarily Government will nominate the elected Chairman); and that the Bill be now sent to the Government of India for their consideration.

The draft Bill as amended by the Committee was forwarded to the Finance Ministry on June 2, 1948. Government did not concur with the Bank on certain provisions; the more important related to the following matters.

(i) **DIRECTIONS TO THE BANK**

The clause relating to the giving of directions by the Central Government to the Bank was drafted by the Bank by combining the provisions of Section 4(1) of the Bank of England Act, 1946 and Section g of the Commonwealth Bank of Australia Act, 1945. The Governor considered it desirable to make it clear in the Act itself that when Government decided to act against the advice of the Governor, they took the responsibility for the action they wished to force on the Bank, although it was hoped that 'occasions for the exercise of such powers will be few'.

The Finance Minister considered that the proviso as drafted by the Bank was not necessary and that it would suffice if a provision was made on the lines of Section 4 of the Bank of England Act; the relevant sub-section read as:

> 4(1) The Treasury may from time to time give such directions to the Bank as, after consultation with the Governor of the Bank, they think necessary in the public interest.

The clause thus provided for prior consultation with the Governor before issue of directives by the Treasury, but was silent as to the devolvement of responsibility, in the case of difference of opinion between the Treasury and the Bank. The prior consultation with the Governor would ensure that Government got the benefit of the Governor's views on matters of importance to the country. The clause was redrafted accordingly.

(ii) LOCAL BOARDS

The Finance Minister did not think it necessary to have Local Boards, but in the Governor's opinion they served a useful purpose in advising the Bank on matters relating to banking, in view of their local knowledge; their services were also useful in matters like acquisition of land and property by the Bank, building of bank premises, etc. Also, the Governor felt that there were very few people in the country who understood the Bank's operations and it would be useful to associate a few of the Local Board members with the work of the Bank. The draft Bill, as it finally' emerged from the Ministry of Law and the Ministry of Finance, provided for Local Boards, each comprising three members; the Bill drafted by the Bank had provided for Local Boards of five members.

(iii) DISQUALIFICATION CONCERNING MEMBERS OF LEGISLATURE

In view of the demands made in the Legislature at the time the Reserve Bank Bill was discussed in 1927 and 1933, to the effect that a Member of the Legislature should not be debarred from being a Central Board Director or a member of the Local Board, the Bank had specifically provided in the draft Bill that one of the Central Board Directors to be nominated by the Central Government from among non-officials should be a Member of the Central Legislature; the clause [Section 11(5)] under which Members of the Legislature were disqualified from serving on the Central or Local Boards was to be deleted. The Bank had, however, indicated that it had no strong conviction in the matter. Government favoured the retention of the disqualification incorporated in the original Act. A similar disqualification existed in the Bank of England Act.

(iv) OTHER CHANGES MADE BY GOVERNMENT

(a) Government retained some sections, the deletion of which the Bank had suggested, the more important being (i) Section 30 providing for super session of the Central Board and (ii) Section 46 providing for constitution of the Reserve Fund. In the Bank’s view, since Government were empowered to give directions to the Board under the nationalisation Bill, the possibility of the Bank failing to carry out the obligations imposed on it was very much narrowed down. As for the Reserve Fund, which was intended to safeguard the shareholders’ interests, it was no longer necessary once the Bank became fully State-owned. Government, however, did not agree with the Bank’s views. They considered that they should be able to take action if the Board failed to carry out the directions. Also, as a bank, the Reserve Bank should continue to have a Reserve Fund against losses. On reconsideration, the Governor concurred with Government and both the sections were retained.

(b) The clause relating to exercise by the Bank’s executives of full powers vested in the Board was modified. While the Bill drafted by the Bank had sought to give full powers to the Governor, or in his absence a Deputy Governor duly nominated by him, to carry on all the usual business of the Bank pending the constitution of the Central Board and also subsequently, subject to such restrictions as might be imposed by the Central Board, the draft Bill gave such powers to both the Governor or in his absence the Deputy Governor duly nominated by him, for the interim period only, pending the constitution of the Central Board. Thereafter, however, the Governor &one was to have full powers to transact all the business of the Bank which might be transacted by the Central Board, subject to regulations made by the Board which were required to be approved by the Central Government. It was only in 1951that the subsection was amended, the Deputy Governor nominated by the Governor in this behalf also being empowered to exercise, in the absence of the Governor, all powers vested in the Bank.

(c) The retirement of Directors on the first Board was to take place at the end of the first, second and third years, two at each time, as against at the end of the second, third and fourth years, provided in the Bill drafted by the Bank.

(d) Some drafting changes were also made. The substantive portion of the Bill dealt only with the acquisition of shares, payment of compensation and accrued dividends, vacation of office by existing office bearers and empowering the Governor or in his absence a Deputy Governor to exercise all powers pending the constitution of the Central Board. All other amendments, which were in the nature of amendments to the Reserve Bank of India Act, 1934, and which related to the constitution of Central and Local Boards, delegation of powers to the

Governor, allocation of surplus profits, etc., were included in the Schedule to the Act. The Act was to be called the Reserve Bank (Transfer to Public Ownership) Act, 1948; in the draft submitted by the Bank the title was the Reserve Bank of India (Amendment) Act, 1948.

(e) The draft Bill indicated the amount of compensation, viz., Rs.118-10 per share, which was left blank in the Bill drafted by the Bank; it also provided for the payment of dividend at the rate of Rs. 4 per annum per share for the period July 1, 1948 to the 'appointed day'.

The Bill in the Legislature

The Bill was moved for consideration in the Legislative Assembly on September 2, 1948 by Mr. K. C. Neogy (Minister for Finance and Commerce) and was passed the next day. The debate which followed the introduction of the Bill was rather brief. The Bank was accused of having been throughout 'the slave, -the maid of the old Lady of Thread needle Street -the Bank of England'. Another charge was that it had hardly done anything to help agricultural interests. One Member wanted some sort of assurance that the administration of the Bank would not deteriorate as a result of nationalisation, and that with every change in Government, the policy of the Bank would not change. Another Member suggested that Government should follow the practice that was followed in the case of the Bank of England though new Directors were appointed, those anxious to co-operate with Government were retained. There was also a suggestion that a comprehensive Bill on the nationalised Reserve Bank should be drawn up, circulated, and then referred to a Select Committee.

Winding up the debate, the Finance Minister assured the House thus:

> although the framework of the administrative authority is being changed, we would to it that the Reserve Bank of India continues to function as a fully autonomous body and that the counsels of the different interests which find representation at the present moment through election on the management, would still be available to it, although the institution is being nationalised.

He also assured the House that Government would take up a complete revision of the Act at an early date.

The more important amendments to the Bill/existing Act proposed in the course of discussion and adopted were as follows:

(i) REMOVAL OF THE LIMITATION ON TENURE OF OFFICE OF DIRECTOR

The Bill had provided that a retiring Director should be eligible for renomination for not more than two full consecutive terms. Mr. T. T.

Krishnamachari moved an amendment for deletion of this clause, as in his view, considering the number of restrictions which had been already imposed on the type of people who could serve as Directors, there was no room for further restrictions. The motion for deletion met with the Finance Minister's approval, who remarked, 'it only enlarges the scope of Government's discretion'.

(ii) RAISING OF NUMBER OF MEMBERS ON THE LOCAL BOARD FROM THREE TO FIVE

The Bill had provided for Local Boards consisting of three members, as against a maximum of eight prior to nationalisation, and five recommended in the Bill drafted by the Bank Two amendments were moved, one raising the number to seven and the other to five ; the former was later withdrawn, while the latter was put to vote and adopted.

(iii) REMOVAL OF DIRECTORS FROM OFFICE

Under Section 11(1) of the Act, the Central Government could remove from office the Governor, or a Deputy Governor or any Director, provided that in the case of a Director, the power was to be exercised only on a resolution passed to that effect by the Central Board, by a majority consisting of not less than nine Directors. The Finance Minister moved an amendment empowering Government to remove from office any Director at their discretion without any resolution by the Central Board to that effect; this was adopted.

(iv) OTHER AMENDMENTS

Two amendments which were proposed by Members, but either rejected by the House or withdrawn, related to (i) amount of compensation, and (ii) composition of the Central Board.

In respect of compensation, an amendment was moved by Professor K. T. Shah, reducing the amount payable to shareholders from Rs. 118-10 as provided in the draft Bill to Rs.114 per share; the figure of Rs. 114 was worked out by him by applying Section 57 of the Act relating to liquidation of the Bank, under which the total amount payable to any shareholder was not to exceed the paid-up value of the shares held by him by more than one per cent for each year after the commencement of the Act. The amendment did not find support and was negatived.

The other amendment, which was later withdrawn by the mover, was to the effect that the six Directors of the Central Board to be nominated by the Central Government, other than from the Local Boards, should represent, as far as possible, territorial and economic interests and the interests of co-operative and indigenous banks. The Finance Minister explained that in respect of the composition of the Local Boards there was adequate provision for the representation of the various interests the Member had in mind.

Compensation to Shareholders

Before the draft Bill on nationalisation was taken up for consideration in the Legislative Assembly, the Bank made an effort to persuade Government to reconsider and alter the basis on which compensation to the shareholders was to be calculated, but it proved fruitless. The shareholders of the Bank, at an informal meeting held on July 28, 1948 under the auspices of the Bombay Shareholders' Association, passed a resolution urging Government to adopt for calculation of compensation 'the well recognised principle of maintaining the shareholders' revenue in respect of their investments in the Bank's shares'; it was pointed out that that principle had been adopted in respect of compensation for Bank of England shares. The resolution further stated that the period chosen by Government for calculating the average market value (March 1947 to February 1948) was 'most unfair and inequitable', as that period witnessed a heavy and continuous slump in share prices 'by reason of the new taxation proposals contained in the Budget for 1947-48'; a fair basis, according to the resolution, would be March 1946 to February 1947.

The shareholders' resolution and the Governor's own views on the subject of compensation were placed before the Committee of the Central Board at its meeting of August 4, 1948. The Committee resolved that the matter should be placed before the Central Board at its meeting on August 9.

Referring to the two methods for arriving at a fair compensation, viz., (i) ensuring shareholders a continuation of the average income enjoyed by them over a period of years and (ii) taking the average price of the shares of a concern over a given period, the Governor suggested that the Directors might like to decide and recommend to Government 'what they would consider a fair and equitable mode of compensation in this instance'. The Governor was of the view that the compensation, according to either the Government's formula (Rs.118-10) or the shareholders' resolution (Rs.159-11), might not be considered reasonable. Working on the basis of ensuring a 4 per cent taxable yield, the compensation would amount to Rs. 133-5-4 a for a coupon rate of 3 per cent, but if compensation was to be on the basis of the average price over a given period, the Governor considered it more reasonable to take the average quotation over a period during which the Bank paid a 4 per cent dividend, viz, July 1, 1943 to February 1948; this worked out to Rs.137-8, giving a yield of 4.13 per cent taxable.

The matter was considered by the Board at its meeting on August 9 and a resolution was passed stating that in the Board's opinion, the proposed compensation was 'both inadequate and inequitable'. The Board recommended that the compensation be fixed at the mean of a

4 per cent gross income (i.e., Rs.133) and the average quotation of the Bank’s share between July 1943 and February 1947 when nationalisation was announced (Rs. 142); the average of the two bases was Rs. 137-8. The Government, however, adhered to the formula announced by them in February 1948 for acquisition of the shares.

The table below gives the annual average price of the Bank’s shares for the years 1935 to 1948, based on the opening quotations for each month.

Year	Average Price Rs.	Year	Average Price Rs.
1935	128-12-0*	1942	101-10-0
1936	138-12-0	1943	115-12-0
1937	130- 1-8	1944	135 - 1-0
1938	117- 4-8	1945	139 - 8-8
1939	108-14-4	1946	162 - 0-0
1940	103 - 7-0	1947(Jan-Feb) †	144 - 4-0
1941	106-11-4	1947(Mar-Dec)	119 - 0-0
		1948(Jan-Aug)	112-14-0

* Relates to November-December 1935 only.

† Period to the Finance Minister’s announcement regarding Government’s decision to nationalise the Bank.

Notifications were issued by Government on October 19, 1948, fixing January 1, 1949, as the date on which the shares of the Bank would be deemed to have been transferred to the Central Government and listing rules framed under Section 6 of the Reserve Bank (Transfer to Public Ownership) Act, 1948, regarding the procedure for the payment of compensation.

Government first decided, in consultation with the Governor, to pay the compensation in the 3 per cent Loan 1986 or Later. If, on January 1, 1949, the loan was not quoted at par, the difference was to be deducted from or added to the cash payment, depending upon whether the loan was quoting at premium or discount. On reconsideration, the Governor felt that ‘the nationalisation scheme would be better received by the public if a dated loan of a slightly shorter maturity were issued in exchange for the shares’; in his view, the 3 per cent Loan 1970-75, which was also quoting at par, was appropriate. This was accepted by the Government. The Bank was also informed that in the opinion of the Law Ministry no adjustment was necessary with reference to the market quotation of the loan; however, Government would have to see that the loan to be issued as compensation stood ‘approximately at par’.

Out of a total of 5 lakh shares, compensation at the rate of Rs.118-10 was payable in respect of 4.98 lakh shares, i.e., excluding the 2,200 shares initially allotted to Government for disposal to Directors at par and which were to be acquired at par. Up to the end of March 1951, compensation was paid in respect of 4.67 lakh shares, the amount involved being Rs. 5.54 crores.

Valedictory Observations

At the last meeting of the Central Board prior to the coming into force of the Reserve Bank (Transfer to Public Ownership) Act, 1948, held on December 20, 1948, the Board passed a resolution recording its appreciation of the valuable services rendered by the members of the Local Boards and 'the loyalty, competence and conscientiousness' with which the staff discharged their duties.

The Governor then made a few valedictory observations. He said:

> As Governor of the Bank and your Chairman I have always been proud of the high-mindedness and realism with which you have deliberated upon the many important and complex issues that have been your concern in the Board during all these years of stress and strain. In our own sphere we have practised democracy with a sense of responsibility and a single minded devotion to the country's interests which, I trust, will receive due recognition at the hands of India's economic historians.

The Governor thanked the Directors for the splendid co-operation he obtained from them in the matter of frank expression of their views based on their wide business experience.

Mr. K. G. Ambegaokar, the Government Director, conveyed the Government of India's 'deep appreciation' of the services rendered by the Governor, Deputy Governors, and the Directors, and observed that Government always looked to Sir Chintaman 'for his opinion and valuable advice'.

The Finance Minister, Dr. John Matthai, also wrote to the Governor, on December 27, 1948, eulogising the services rendered by the Governor, the Deputy Governors, and the Central and Local Boards. The Finance Minister observed:

> The majority of the Directors and members of the Local Boards have been with the Bank from the beginning, and they have not only helped in laying the foundations of the Bank and building up its organization on sound lines but also assisted in the stupendous tasks with which the Bank was faced during the difficult war years and the period succeeding it. Having to deal with these problems within a few years of coming into existence, the efficient manner in which the Bank has handled them is all the more creditable, and there can be no doubt that the achievement of the Bank in such fields as the establishment and working of foreign exchange control, the administration of the Public Debt and the management of the currency of the country, will compare favourably with those of Central Banks in countries like U.K. and U.S.A. with their vast resources, better organised banking structure, long established traditions and greater experience of Central Banking. The Reserve Bank has been of great assistance to Government throughout in shaping

> the financial and monetary policy of the country. I shall be glad if you will convey to all the Directors and members of the Local Boards the Government's grateful appreciation of their services.
>
> I should also like to express the thanks of the Government to the executive of the Bank to whom credit is due for the successful working of the Bank in difficult circumstances. The Government appreciate the assistance they have received from the two Deputy Governors, Messrs Trevor and Mehkri, in connection with the complicated arrangements arising out of the partition of the country and the banking situation. From your predecessor, Sir James Taylor, and yourself, the Government have received wise counsel and guidance. You have personally borne a heavy burden in guiding the deliberations of the Board and presiding over the administration of the Bank during this most difficult time, and in building up its organisation so as to enable it to cope with its very heavy responsibilities. I am most grateful to you for the readiness with which you have assisted the Government in all matters of financial and economic importance and for your advice, which always has been invaluable to us. It is a matter of great satisfaction to the Government that you have agreed to continue in your present position for some time longer. As you are aware, it was the hope and desire of the Government that you should continue to be at the head of the Bank for as long as possible, and we are indeed sorry you have not found it possible to accede to our request. We hope, however, that under your stewardship the change-over to the new set-up will be effected without any dislocation, and that it will have started to function smoothly before you lay down the reins of your office.

Nationalisation of Contro1 over Imperial Bank

From the outset the demand for the nationalisation of the Reserve Bank in the press and the Legislature was associated with a similar demand in respect of the Imperial Bank of India also. Although the nationalisation of the Imperial Bank did not materialise during the period covered by this volume, the question engaged all along the attention of the Government and the Bank. It would therefore be appropriate to deal with these developments before concluding this chapter.

As already mentioned, in January 1948 when the Governor was asked by the Finance Minister, Mr. Shanmukham Chetty, for his personal views on the question of nationalising the Imperial Bank, he had expressed himself against it. However, the Finance Minister announced in February 1948 Government's decision to implement nationalisation of the Imperial Bank after a careful examination of the various technical questions involved and following this again he wrote to the Governor for his recommendations in the matter. Meanwhile, the Central Board of the Imperial Bank of India gave urgent consideration to Government's announcement and passed a resolution opposing nationalisation. A copy of the resolution together with a memorandum on the subject was forwarded to the Reserve Bank for transmission to

Government. The Governor considered that while forwarding these papers it was desirable to convey the Bank's views also in the matter. Accordingly he drew up a short memorandum which set out his reasons against nationalisation at that stage. The memorandum was considered by the Committee of the Central Board, at its meeting of April 14; the Committee concurred with the Governor's views and agreed to his conveying them to the Government.

In his memorandum, the Governor stated that after studying the matter in detail, he was 'more than ever convinced' that nationalisation of the Imperial Bank would be a serious mistake. He was impressed by the various arguments put forth in the memorandum drawn up by the Imperial Bank and considered by its Central Board, and he felt that if Government gave those arguments 'the most careful consideration', they would come to the conclusion that 'nothing is to be gained, and much is likely to be lost, by nationalising the Imperial Bank, at any rate, at this stage'. The Governor mentioned two arguments which, in his view, deserved special attention, viz, (i) the State would be acquiring an asset, the value of which was bound to diminish following the closure of the Imperial Bank's offices in Pakistan, Ceylon and Burma, and (ii) as a result of nationalisation, the ' cream ' of the business was expected to be transferred from the Imperial Bank to the other banks in the country. The Governor also remarked that Government had not indicated on what consideration their decision to nationalise the Imperial Bank was based. 'Public interest demands,' he observed, 'that when decisions of such magnitude are taken, they should be supported by a full statement of the considerations which influenced the decisions'.

The Governor drew attention also to another important point made in the Imperial Bank's memorandum. If Government used the method of issuing bonds for acquiring proprietorship in other schemes of nationalisation, ' the market would be flooded with Government bonds which the holders would be anxious to pass on to others even at a sacrifice,' and there was a real danger of such a policy adversely affecting the credit of Government.

Government also examined the matter, and in early February 1949, in reply to a question in Parliament as to what steps Government were taking to nationalise the Imperial Bank, Dr. John Matthai, the then Finance Minister, declared that Government did not consider it feasible to proceed with the nationalisation of the Imperial Bank in the light of the examination of the various issues involved and in view of possible repercussions on the investment market and the unsettled economic conditions in the country.

The question of ensuring greater Government control over the Imperial Bank, whose functioning was subject to considerable criticism, was also examined by the Rural Banking Enquiry Committee which submitted its report in May 1950. The Committee did not suggest nationalisation of the Imperial Bank, but favoured greater Government supervision and control over it and for that purpose suggested certain changes in the constitution and the working of that bank, the more important of which are mentioned here. The Committee recommended that (a) the appointment of the Managing Director and the Deputy Managing Director of the Bank should be subject to approval of the Central Government, who should also have the right to demand their removal from office if necessary; (b) the Government Director on the Board of the Bank should have power, as was the case prior to 1935, to ask for the postponement of decisions on questions having a bearing on the national policy of the Government and for the review of those already taken; and (c) Government representation on the Central Board should be made more effective and that Directors nominated by Government should have seats on the Committee of the Central Board and be entitled to participate and vote at all Committee meetings. The Committee was not in favour of any interference from Government in the day-to-day working of the Imperial Bank.

An alternative plan suggested by the Committee was to reconstruct the Central Board of the Imperial Bank on the model of other commercial banks. The overall policy and the general superintendence of the bank should be placed in the charge of a Chairman whose appointment would be subject to Government's approval, and a Board of Directors, two of whom would be nominated by Government on the Reserve Bank's recommendations; the day-to-day working would be entrusted to a General Manager, who would be an employee of the Bank and would not have a seat on the Board. Governor Rama Rau, in his memorandum dated December 18, 1950 to the Central Board, expressed himself in favour of the second alternative suggested by the Committee, subject to certain modifications.

At its meeting on December 23, 1950 the Central Board, however, favoured, by a majority, the first alternative; this involved the retention of the existing constitution of the Central Board of the Imperial Bank, but required Government's approval in respect of the appointments of the Managing Director and the Deputy Managing Director. The Board, however, did not agree with the Rural Banking Enquiry Committee that averment should have power to demand the removal of the Managing Director and the Deputy Managing Director from office. Likewise, the Board (by a majority) was not in favour of the Government officer on the Board of the Imperial Bank having the power to ask for the postponement of decisions on questions having a bearing on the national policy of Government, and for a review of decisions already taken.

The Central Board of the Imperial Bank which had opposed both the alternatives earlier, reconsidered the matter in January 1951, and revised its views. While the first alternative was totally unacceptable to the Board, it decided by a majority vote, to assure Government that if they decided to implement the second alternative, the Board would offer its fullest co-operation in the working of the new arrangement ‘on the lines suggested by the Governor of the Reserve Bank in his informal discussions with the Calcutta Members of the Central Board’. The Governor had suggested: (i) the creation of a new office of Chairman, who would be elected by the Board, subject to approval of Government or more appropriately of the Reserve Bank ; the existing Chairman or Presidents of the three Local Boards would continue to discharge their functions ;
(ii) three directors would be nominated by Government or more appropriately by the Reserve Bank, one for each of the three circles, who would attend the meetings of the Central Board Committee; (iii) the Chairman of the Central Board should not be removable by Government; (iv) the Chairman should not have power to issue orders to the General Manager or Managing Director, and (v) the main duties of the Chairman would be to keep himself fully acquainted with the working of the bank.

In view of the Imperial Bank Board’s modifying its views, and the fact that Sir Purshotamdas Thakurdas, who was the Chairman of the Rural Banking Enquiry Committee, could not attend the December 23, 1950 meeting, the subject was reconsidered at the February 8, 1951 meeting of the Reserve Bank’s Central Board. The Board broadly supported the second alternative recommended by the Rural Banking Enquiry Committee; the main feature of the arrangement would be the creation of a new office of part-time Chairman, who would be elected by the Imperial Bank Board, subject to Government’s approval. The Board’s views were conveyed to Government. Pending consideration of these proposals, Government, at the instance of the Reserve Bank, advised the Imperial Bank to authorise Government nominated directors to attend the meetings of the Committee of the Central Board. The bye-laws of the bank were accordingly amended in July 1952.

The demand for the nationalisation of the Imperial Bank, however continued, and following one of the major recommendations of the All-India Rural Credit Survey Committee in its report submitted towards the close of 1934, the bank was de facto nationalised, or the ‘undertaking’ of the Imperial Bank was transferred to the ‘State Bank of India, as the official reports describe it. The bulk of the share capital came to be held by the Reserve Bank of India. The new institution started functioning on July 1, 1955.

DIRECTORS AND ACCOUNTS

Central and Local Boards

The Central and Local Boards of the Reserve Bank had to be reconstituted on new lines on the transformation of the Bank into a Government-owned Bank, effective January 1, 1949. In conformity with the earlier practice, the Governor was consulted by Government informally in regard to the formation of the new Boards; to be able to make concrete recommendations to Government, he ascertained in advance, the willingness of the existing elected as well as nominated members of the Local Boards to serve on the new Boards. On January 15, 1949, the four Local Boards were freshly constituted by Government in the manner laid down in Section g of the Reserve Bank Act as amended. It would appear that the intention was to limit the changes to a minimum; thus, to each of the new Local Boards were nominated three out of the five elected members and one out of the three nominated members of the previous Local Boards for the respective areas, there being only one new nominee to fill the fifth place. The Central Board was then reconstituted by Government by the nomination of four Directors, one from each of the four Local Boards, under clause (b), six Directors under clause (c), and a Government official under clause (d) of the revised Section 8(1) of the Reserve Bank Act. Sir Purshotamdas Thakurdas, Mr. B. M. Birla, Sir Shri Ram and Mr. C. R. Srinivasan, who had been the Presidents of the old Local Boards and had been nominated members of the new Local Boards, were appointed Directors under Section 8(1) (b). In making these nominations, the wishes of the Committee of the Central Board (that the Government nominate the Chairmen of the Local Boards to the Central Directorate) were heeded. Incidentally, all of them were later elected Chairmen of the respective new Local Boards under Section 9(2) of the Act. The Directors nominated under Section 8(1) (c) were Sir Rustom P. Masani, Sir Manila1 B. Nanavati, Mr. Dhirendra Nath Sen, Mr. Shrinivas, Dewan Bahadur C. S. Ratnasabhapathi Mudaliar and Mr. Ramrao Madhaorao Deshmukh. Mr. K. G. Ambegaokar was nominated Government Director.

Directors Sir Manila1 B. Nanavati and Mr. R. M. Deshmukh were selected, by lots drawn by the Central Board in terms of the provisions of Section 8(6) of the Act, to retire on January 14, 1950, i.e., on the expiry of one year from the date of their nomination. They were renominated as Directors for a fresh term of four years. It fell to the lot of Messrs D. N. Sen and Shrinivas to retire at the end of the second year, on January 14, 1951. The former was renominated by

Government and the second vacancy was filled by the nomination of Sahu Jagdish Prasad.

The period before nationalisation also saw a few changes in the composition of the Bank's Central Directorate, covering both the elected and the nominated elements. Sir Purshotamdas Thakurdas and Mr. Kasturbhai Lalbhai, Directors from the Bombay Local Board, were re-elected on the expiry of their term in December 1945 after fresh elections to the Local Board had been held; Mr. B. M. Birla was likewise re-elected in December 1946 from the Calcutta Local Board. The second Director elected for the Calcutta area was Mr. K. P. Goenka, who took the place of Mr. A. K. Ghose, who had resigned his Directorship as well as his membership of the Local Board in April 1946 consequent on his election to the Bengal Legislative Assembly.

After the termination of the India and Burma (Burma Monetary Arrangements) Order, 1937, with effect from April 1, 1947, the Rangoon share register was wound up and the elective Directorship of the Rangoon register was abolished in terms of the Reserve Bank of India (Amendment) Act, 1947. A second elective Director's seat was simultaneously allotted to the Southern (Madras) area, on the initiative, mainly, of the Central Board. Hence, after the elections to the Madras Local Board in November 1947, two Directors had to be elected to represent the Madras area on the Central Board. Mr. C. R. Srinivasan was re-elected and the second post went to Mr. R. Ramanathan Chettiar. The elections to the Northern (Delhi) Area Local Board were not held in December 1948 in view of the impending nationalisation of the Bank.

As for the nominated Directors, there were two changes before the Bank was nationalised. The first of these occurred when Sir Arthur A. Bruce resigned on July 1, 1947; in the resulting vacancy, Mr. Nazir Ahmed Khan was nominated early in January 1948, but he remained for only a short while. Mr. Khan and Sir Syed Maratib Ali, an existing nominated Director, represented the Pakistan Government on the Board; more of this is said in the next chapter. The second change occurred due to the tragic death in an air crash of Sir Homi Mehta on April 15, 1948. Sir Rustom P. Masani was nominated in his place on May 22.

Sir Syed Maratib Ali ceased to be qualified to be a Director under Sections 10(1) (e) and 4(3)(a) of the Act, consequent on his appointment by the Government of Pakistan as one of the first Directors of the State Bank of Pakistan on May 27, 1948. Accordingly, the Government of India accepted his resignation from the Central Board. Neither this vacancy nor the one which arose earlier when Mr. Nazir Ahmed Khan resigned was filled before the Bank was nationalised on January 1, 1949

The post of Government Director on the Board was held by Mr. V. Narahari Rao for nearly two years from February 1946. Other incumbents of the Directorship were Mr. K. G. Ambegaokar, Mr. M. V. Rangachari, Mr. B. K. Nehru and Mr. P. C. Bhattacharyya. As mentioned elsewhere, Sir Benegal Rama Rau was also Government Director, from May 2, 1949 till June 30, 1949, before assuming the office of Governor.

Bank's Accounts

The abnormal circumstances responsible for the continuous and steep rise in the Bank's profits during the war time having disappeared, there was a declining trend in the immediate post-war years. The Bank's income, expenditure on establishment and agency charges (which constituted the major, items of expenses) and the net profits transferred to Government during the six years ended June 30, 1950, are given in the following table.

(Rs. croes)

July – June	1944-45	1945-46	1946-47	1947-48	1948-49	1949-50
1. Income . . .	16.68	15.59	10.12	12.73	11.70	12.90
2. Expenditure	1.79	1.96	2.10	2.35	2.64	2.99
Establishment	0.61	0.96	1.10	1.33	1.50	1.61
AgencyCharges	0.42	0.28	0.29	0.28	0.29	0.29
Other Expenditure	0.72	0.72	0.71	0.74	0.85	1.09
3. Gross profits (before pay ment of dividend) (l-2)	14.89	13.63	8.02	10.38	9.06	9.91
4. Dividend paid to shareholders (at 4 per cent)	0.20	0.20	0.20	0.20	0.10*	---
5. Surplus trans ferred to Govern ment (3-4).	14.69	13.43	7.82	10.18	8.96	9.91

- For six months ended December 31, 1943.

The sharp fall in income from Rs.15.59 crores in r 945-46 to Rs. 10.12 crores the next year was caused to a small extent by a reduction in the Bank's total sterling holdings but was mainly the result of the reduced yield for a full year, available on these assets. The Bank's establishment charges rose sharply in 1945-46 on account of the allocations made to cover the estimated cost of the major revision in the emoluments of the staff; these charges crossed the Rs.1 crore mark in 1946-47, and thereafter increased steadily-owing to the additions to the staff necessitated by the expansion in the Bank's activities, including the establishment of new offices and branches.

The Reserve Bank of India (Limitation of Dividend) Ordinance, 1943, continued to be in force even after the termination of the war, until the Bank was nationalised effective January 1, 1949; the rate of dividend thus remained unchanged at 4 per cent. The Central Board drew Government's attention in April 1947 to the changed circumstances which made the restriction imposed on the Bank's dividend no longer necessary; however, Government took no action in view of the decision already taken to nationalise the Bank.