

From Imperial Bank to State Bank

The creation of the State Bank of India in July 1955 followed the passage of the Imperial Bank of India into state ownership. The nationalization of the Imperial Bank represented the culmination of a protracted debate on its role in independent India. Although debate about this role often focused on the bias the bank was believed to have towards European businesses and against indigenous entrepreneurs, and the slow pace of 'Indianization' of its senior staff and management, the Rural Credit Survey Committee saw the proposed State Bank of India as a key part of its integrated system of rural credit. Consequently, the plan to nationalize the Imperial Bank became part of a wider effort to direct the funds of the banking system into certain neglected, but important, sectors of the economy such as agriculture, and spread banking facilities in rural areas.

The Imperial Bank was formed as a joint-stock bank in January 1921 by amalgamating the Presidency Banks of Bombay, Calcutta, and Madras. This amalgamation was a response both to the felt need for a bank which would hold government balances and use them to deepen the country's financial structure, and to the threat which the Presidency Banks felt was likely to emanate from the inroads the London clearing banks were planning to make in India. Almost from its inception, the Imperial Bank had the status of a quasi-central bank, undertaking until the formation of the Reserve Bank of India in 1935, banking functions for the Government of India and other banking institutions and managing the rupee debt of the government. Progressively, from the late 1920s, the Imperial Bank of India also took over some overseas roles hitherto played by the India Office and the Bank of England. Together, these functions marked the Imperial Bank out for a certain special status and some direct and indirect benefits and responsibilities. Several of these responsibilities were transferred to the Reserve Bank of India after its establishment in 1935, and the Imperial Bank of India functioned thereafter principally as a commercial bank. Consequently, the colonial government

relinquished most of the special powers granted to it under the Imperial Bank of India Act, in particular the power to appoint its chief executives (then called Managing Governor and Deputy Managing Governor) and issue directives to the bank on matters affecting national financial policy. But with 382 offices and a third of the country's banking business in 1950, the Imperial Bank remained pre-eminent in the commercial sphere. By this time, Indian nationals owned a majority of the bank's stock, while its management remained largely in European hands.

Although no longer a banker to the government, the Imperial Bank retained and profited from many aspects of its former special status and role. It continued to manage currency chests and treasuries at many centres. This privilege, as an internal Reserve Bank note stated, enabled the Imperial Bank to operate with 'very fine balances'. Under various government rules, quasi-public funds such as accounts of minors, liquidators, local authorities, and courts, were held with the Imperial Bank. No interest was paid on such accounts. The bank was also allowed to issue drafts and telegraphic transfers on treasury offices, for which it charged and retained a commission. The Imperial Bank's close links with the government acted besides, as a magnet for private contractors and other businessmen having dealings with the government. The latter's cheques were credited the same day, while the government accepted deposit receipts of the Imperial Bank in lieu of guarantees by contractors to whom it had issued contracts. Although the Imperial Bank had never been strictly a bankers' bank, it continued to manage clearing houses and accept banks' deposits at places where the Reserve Bank did not have a presence, and grant advances to them. Therefore, the Banking Companies Act recognized the balances scheduled banks maintained with the Imperial Bank as part of the former's cash balances. The Imperial Bank's role as the bankers' bank meant, to a certain extent, that its control over the country's domestic credit system remained, even after 1935, more effective than that of the Reserve Bank.

THE IMPERIAL BANK AFTER INDEPENDENCE

Given the Imperial Bank's special, in some respects even anomalous, position and the climate of opinion in the post-independence period, demands for its takeover by the State were perhaps inevitable, and the subject was raised in the Constituent Assembly within months of August 1947. Responding to a reference from the Finance Minister, Shanmukham Chetty, in January 1948, the then Governor, C.D. Deshmukh, cautioned the government against biting off 'more than we can chew'. There was, in his view, no pressing need to nationalize the banking system or any portion of it when business and

commerce were to be left in the private sector. Major decisions on the banking system were best postponed for a year or two, while a watch was kept in the meantime on its functioning in relation to the developing economic needs of the country. But thanks to political pressures from within the Congress party, the government decided in principle to take the Imperial Bank of India into public ownership, and the Finance Minister disclosed to the Constituent Assembly his intention to do so once technical questions such as the status of its branches outside India were settled.

The government attempted over the next two years to dampen the expectations raised by Chetty's announcement. K.G. Ambegaokar, Additional Secretary in the Finance Ministry, who studied the subject in the early months of 1948, agreed with the Reserve Bank that nationalizing the Imperial Bank was neither necessary nor advisable. He saw some merit in the Imperial Bank's arguments against nationalization, in particular that the latter would remove 'an important financial link between India and Pakistan, ... [and endanger] the bank's business in India'. The government could obtain control over the policies of the Imperial Bank 'without resort to nationalization by assumption of necessary powers under the existing Act'. This view gained ground within the government in the ensuing months, and John Matthai who meanwhile succeeded Chetty as Finance Minister, declared a few months later that the government did not judge it feasible to implement Chetty's intention because of unsettled economic conditions and the likely effects of the step on the investment market. At the same time, he announced his intention to examine the provisions of the Imperial Bank of India Act in order to remove some 'unsatisfactory' features of the bank's working.

The Imperial Bank's future was debated once again in Parliament in November 1950, when some members argued that nationalization would enable credit to be channelled into agriculture and cottage industry. However at this time, C.D. Deshmukh, Matthai's successor as Finance Minister, rejected the demand as not being 'in the best economic interests of the country'.

The Rural Banking Enquiry Committee and its Aftermath

The Imperial Bank of India never therefore receded for long from the political limelight in the early years after independence. Its future role and constitution returned to the fore following the report of the Rural Banking Enquiry Committee (1950). Ironically enough, these matters were entrusted to this committee almost as an afterthought. Matthai's statement about removing the 'unsatisfactory' aspects of the Imperial Bank of India's working evoked a spirited protest from that institution. It also led besides, to a series of consultations between the Reserve Bank, the government, and the Imperial

Bank about what could be done to allay public misgivings about India's principal commercial bank. These consultations culminated in the Finance Minister, John Matthai, and the Governor, B. Rama Rau, attending a meeting of the Central Board of the Imperial Bank in Bombay in October 1949. A proposal mooted earlier to make the appointment of the Imperial Bank's chief executive officers conditional on government or Reserve Bank approval, was canvassed at this meeting and vehemently opposed by the assembled members of the Board. With informal consultations making no headway, Matthai and Rama Rau resolved to ask the Rural Banking Enquiry Committee, which the government had in the meantime decided to set up, to examine the issue. Purshotamdas Thakurdas, who was persuaded with some difficulty to head the committee, attempted from the outset to produce by negotiation with the Imperial Bank, a scheme which might secure its cooperation in the promotion of rural banking. Both he and Rama Rau therefore promoted as part of this scheme the idea of the Imperial Bank having a non-executive chairman appointed with government approval. This proposal was supported by Roderick Chisholm, Managing Director, and a few other Directors of the Imperial Bank, and approved by both Matthai and his successor, C.D. Deshmukh.

The outcome of these consultations was embodied in the report of the Rural Banking Enquiry Committee. The latter was in favour of the Imperial Bank, which was for all practical purposes 'a State-sponsored institution', retaining, and in certain circumstances extending, its pre-eminent position in treasury arrangements. However, in the committee's view, the patronage it received from the State justified the popular expectation that the bank would develop as a national organization. But nationalization was not the best means of achieving this objective. It was necessary in the country's interests that the Imperial Bank retained its commercial character, and 'existing restrictions on its business were quite sufficient' for the proposed ends. The case for bringing the bank under more effective public regulation would be met by the government resuming some of the powers over the institution which it had allowed to lapse upon the formation of the Reserve Bank of India. Whatever the final means adopted, the committee felt, they should not be such as to promote official or political interference in the routine working of the institution.

It would not, in our opinion, be in the interests of the country to do anything which will weaken or impair the organizational and financial strength of the Imperial Bank, towards the building of which the nation's efforts and resources have been spent, and in which the country could take some just pride. This Bank has been

a stabilizing factor through the years of strain and stress and has on the whole provided a healthy tone to the banking structure of the country. There is, undoubtedly, considerable criticism against certain features of the working of this Bank but such shortcomings are, in our opinion, capable of being remedied by legislative and other measures. ... after the changes in the constitution and working of the Bank on the lines suggested by us have been carried out, the present controversies in regard to this Bank will cease

The measures which the committee proposed involved, chiefly, the reconstitution of the top management of the bank. Two alternative proposals were advanced in this connection. According to the first, the Managing Director and Deputy Managing Director of the bank would be appointed with the approval of the Government of India, which would also have the right to demand their removal from office if they ceased to enjoy its confidence. In addition the committee suggested restoring the pre-1935 authority of the government in the bank's affairs, whereby its nominee on the bank's Board had the power to seek postponement or review of decisions bearing on the national policy of the government. In order to make government representation on the Board more effective, its nominees were also to have seats on the Committee of the Central Board. Alternatively, as agreed informally earlier, the Rural Banking Enquiry Committee suggested that the Central Board of the Imperial Bank should be reconstituted on the pattern of other commercial banks, with overall policy and general superintendence being placed in the charge of a Chairman, whose appointment would be subject to government approval, and a Board of Directors, two of whose members would be nominated by the government on the recommendations of the Reserve Bank. The day-to-day functioning of the bank was to be entrusted to a General Manager who would not have a seat on the Board. Responding to other criticisms of the functioning of the Imperial Bank, the committee recommended abrogating the bank's power to execute proxies on behalf of shareholders under general powers of attorney, and granting fuller representation to various regional interests on its Local and Central Boards. The committee also suggested the opening of one or two more local head offices to redress regional imbalances in its operations.

Rather to the surprise and disappointment of those who had laboured to achieve it, the Imperial Bank's management decided, largely it seems at Chisholm's urging, to repudiate the earlier informal understanding and reject the recommendations of the Thakurdas Committee. Worse, its official reaction to the committee's proposals was dismissive, even derisive. The bank's memorandum on the report protested that it could not be expected to expand

into areas where there was no demand for banking services. 'It was wrong in principle for banking facilities to precede the demand for them' The bank's policy was to 'give each place banking facilities commensurate with its importance'. The committee's proposals on banking expansion would involve the government in 'considerable expenditure at a time when the country can ill-afford it for an ultimate benefit which will be definitely long term and highly problematical'. Instead, the Imperial Bank memorandum advised the government to implement a 'scheme for productive works in rural areas' which would 'recompense (it) to a certain extent for the outlay by obtaining free labour or labour at reduced rates' (sic!). Labelling criticism of its functioning in the legislature and elsewhere as 'irresponsible and uninformed', the bank said the arrangements which it carried out on the government's account were 'unremunerative': 'we would willingly consent to our being deprived of Government business if we could do so without causing embarrassment to Government'. The bank also rejected the committee's proposal to reconstitute the Imperial Bank as likely to lead to political and governmental interference in its functioning. The liaison which the committee sought to establish between the bank and the government could be achieved through the latter's nominees on the Board of the bank. In conclusion, the memorandum extended some gratuitous advice to the government in a tone which was not calculated to allay public misgivings about the bank:

The present is no time for dangerous experiments with a perfectly sound Institution and we consider it imperative that the fullest possible consideration should be given to our representation and thereafter the Bank should be left free to carry out its part in promoting the welfare of the country.

The Imperial Bank's memorandum evoked a lengthy, 34-page response from B. Venkatappiah, who at this time was an Executive Director at the Reserve Bank. It is instructive to summarize Venkatappiah's note in some detail since it helped shape the Bank's own views on the issue. Besides, Venkatappiah was the moving spirit behind the report of the Rural Credit Survey and its proposal to nationalize the Imperial Bank, and his note offers interesting insights into the later development. Finally, as we will have occasion to observe later, there is some irony in the fact that some of the tensions between the roles of the Reserve Bank and the Imperial Bank in the Indian banking system, which Venkatappiah suggested were susceptible to resolution through greater official control over the latter institution, remained unresolved for several years after the country's pre-eminent commercial bank came under

the ownership of its central bank.

Venkatappiah was principally concerned to establish that the demand for greater State control over the Imperial Bank was both justified and necessary. In the first place, although privately owned the Imperial Bank was, as the Rural Banking Enquiry Committee implied, 'in large part the creation of the State'. The scheme by which the three Presidency Banks were amalgamated into the Imperial Bank and the new entity entrusted with the business of the government was not intended to benefit only the government. Rather, it was 'at that time a matter of vital importance to their very existence'. It consolidated these banks, stabilized their links with the government, and forestalled the possibility of the latter responding to the widespread fear of London clearing banks securing control of 'certain Indian banking interests' by establishing a State Bank to carry out government business. Finally, even at its founding, the Imperial Bank was expected to be the means of furthering the country's banking development. Its subsequent emergence as the premier banking institution in India was made possible by the 'effort and assistance' of the government both at the bank's inception, and in the course of its functioning.

But for the prestige which accompanied the entrustment to it of Government work and business, the Imperial Bank would certainly not have developed in the manner it has during the three decades of its existence.

The bank received, besides, substantial subsidies from the government to support branch expansion and derived many advantages from its association with the government. Hence there was no merit in the Imperial Bank's view that its relations with the government were 'of a purely current and contractual nature' and of limited purview, and that the services it currently provided to the government represented a 'full discharge' of its public obligations. 'The Bank cannot divest itself of [its] history'; neither could the government and the public be expected to ignore it. It was against this background, Venkatappiah explained, that the Rural Banking Enquiry Committee envisaged the development of the Imperial Bank as a truly national institution, which would deploy its enhanced prestige to extend its activities to new areas.

The note argued that debate about the necessity of bringing the Imperial Bank under greater public control tended to concentrate on matters of detail, while losing sight of 'some fundamental features of the situation'. Complaints about the slow Indianization of the bank's senior staff and management or of the bias in its activities could never be 'well-informed [or] dispassionate'. Nor could these be established without enquiry. Such criticisms, as the Rural Banking Enquiry Committee recognized, reflected a

political carry-over from the past, which will soon lose point as the changed political status of the country makes itself felt; meanwhile, what is called for is a spirit of wise patience rather than a desire to probe and recriminate. ... [besides] the real case for further control does not rest on an accumulation of detailed allegations such as these.

It stemmed instead from the 'actualities of the historical situation and from vital needs of the present ...' The central fact, which held the key to the whole problem, was that while the Reserve Bank was the

de jure Central Bank of the country, it is the *Imperial Bank* that, in certain respects and especially in the important sphere of credit, still remains the de facto Central Bank.

Between 1921, when the Imperial Bank was formed and 1935, when the Reserve Bank of India came into existence, the former was both the de facto central bank and a '*State-controlled Central Bank*'. The Reserve Bank of India Act explicitly envisaged the Imperial Bank of India as an 'auxiliary' in the discharge of its responsibilities. But at the same time as the principal was established, the government's powers

over the auxiliary were attenuated to a degree that might have been more appropriate had the auxiliary been no more than an ad hoc agent selected for the purpose of entrusting government balances.

In particular, the government allowed its powers to issue directives consonant with its financial policies to lapse after 1935. Instead, 'coordination' between the bank and the government was effected through the attendance at Central Board meetings of three nominees of the latter. Two of these nominees were non-officials, while the official nominee had no right to vote. Hence between 1935 and 1948, Venkatappiah argued, the country's central banking responsibilities, which had previously reposed in one unit, were effectively split between a '*State-controlled Reserve Bank and a virtually uncontrolled Imperial Bank*'. The anachronism inherent in this arrangement had only increased after the Reserve Bank's nationalization in 1949.

The demand for the nationalization of the Imperial Bank may be wider than the immediate needs of the situation warrant. But, in essence, it is a demand for the restoration, albeit in a modified form, of the entity which existed before 1935. Similarly, what the Rural Banking Enquiry Committee seeks to effect through its

recommendations is the restoration of the entity of Central Banking to the extent necessary for practical purposes, not indeed by the nationalization of the Imperial Bank, but by provision of such control as will ensure the requisite degree of correlation between Government, [the] Reserve Bank, and the Imperial Bank.

In Venkatappiah's view, greater control and coordination were necessary to achieve at least six objectives, some of which were essential even from the point of view of enabling the Reserve Bank to properly discharge its central banking responsibilities. In the first place, control was necessary to enable the Reserve Bank to regulate credit to the best advantage of the country. Although the Reserve Bank, as the central bank, controlled currency, 'credit is largely controlled by the Imperial Bank as the de facto bankers' bank'. With its limited presence, the Reserve Bank 'cannot properly regulate credit', and hence there was need for an 'auxiliary' like the Imperial Bank to assist it. Credit was, at present, largely

disbursed by the Imperial Bank to serve its commercial, and not necessarily the larger national, interests. This position is fundamentally unsound, and must be corrected if the Reserve Bank is to play properly its assigned role of the Central Bank of the country.

Secondly, the Imperial Bank, 'which must necessarily be motivated by the desire to earn maximum profits for its shareholders', was capable of neutralizing the central bank's open-market operations. While under the present set-up, the latter could enlist the former's cooperation in undertaking certain specific measures, this was 'basically and legally' an 'unsatisfactory position'. In this regard as well, the additional powers proposed by the committee would ensure that the Imperial Bank's commercial operations would be consistent with the policy objectives of the Reserve Bank. Thirdly, greater control should, as the Rural Banking Enquiry Committee envisaged, enable the expansion of the banking network to under-banked rural areas 'without undue expense to the country', even if it was at some sacrifice to the commercial interests of the Imperial Bank. The proposed arrangements would also ensure that in the event of a national crisis or emergency, the Imperial Bank cooperated positively and effectively with the government without taking shelter behind a 'legalistic attitude', rather than merely abstaining from doing something detrimental to the country's interests. They would further enable the Reserve Bank to mould the policy of the Imperial Bank more effectively in relation to the needs of the Indian banking system, unlike as at present, when

the Reserve Bank is not always able to enforce its views on the Imperial Bank even in such minor matters as the provision of adequate facilities for the exchange of notes and coins to other banks, and the opening of accounts of other banks at the Treasury Pay Offices of the Imperial Bank.

Finally, Venkatappiah argued, greater powers of control would be a 'guarantee against any discrimination by the Bank against Indian business vis-a-vis foreign business'.

The proposal to reconstitute the management of the Imperial Bank was the 'most important' recommendation of the Rural Banking Enquiry Committee, 'and its rejection would amount to the rejection of the whole scheme' put forward by it. In fact, Venkatappiah pointed out, what the committee proposed was for the government to resume its former powers over the Imperial Bank in an extremely attenuated form. Until 1935, the government was empowered to *nominate* two Managing Governors (corresponding to Managing Director and Deputy Managing Director), and issue directives to the bank. The committee did not propose to return the latter power to the government. Even in the former respect, the committee was quite explicit that the initiative to propose candidates for the top positions would vest with the Imperial Bank rather than with the government. The committee's alternative proposal, of a Chairman appointed with government approval, went even further and left the selection of the bank's top executives entirely to its Board.

Venkatappiah felt the 'balance of advantage' lay with the committee's second proposal. The right which the committee proposed should vest with the government officer on the Board of the bank—to ask for a postponement of decisions having a bearing on the national policy of the government and for a review of such decisions already taken—was also 'in consonance with the broad objectives of control', and did not appear 'open to any valid objection'. Allowing its nominees on the Imperial Bank's Board the right to vote would merely amount to giving the government 'a voice, but not an overriding one, in the broad operation of the credit policies of the institution', and would not amount to any 'undue interference' in the bank's routine functioning. Venkatappiah also supported the committee's proposals for democratizing elections to the Imperial Bank's Local Boards to ensure that they were not the preserve of a 'few vested interests', and redressing regional imbalances in its operations. On the other hand, he argued, it was not necessary to insist on the government securing the right to remove from office a top executive of the Imperial Bank who did not command its confidence. The advantage yielded by such a power was debatable, and in any case it was not

'as fundamental as the power to approve of the original appointment'.

The memorandum prepared for the Central Board of the Bank largely followed, in major respects, the line taken in Venkatappiah's note summarized above. However, according to Rama Rau, the issue of whether government nominees on the board of the Imperial Bank should have the right to vote was not one of 'much practical importance'. It was also not necessary or practicable to give them the power to postpone or review decisions on some issues, since 'in cases of urgency they can always get in touch by telephone with the Reserve Bank, who can take appropriate action'. Nor was the Governor in favour of abrogating proxies executed on the strength of a general power of attorney. The change in the racial composition of the Imperial Bank's Board, which this proposal was meant to achieve, he felt, could be equally well achieved by drawing the attention of the Imperial Bank to that point. The recommendation to open more regional offices, Rama Rau concluded, should also be left to the decision of the Imperial Bank.

The Governor's memorandum for the Central Board is dated 18 December 1950. The meeting of the Central Board to discuss the Rural Banking Enquiry Committee's report and recommendations took place five days later. It is not clear what transpired during the interval or at the meeting itself, but there can be no doubt that item no. 6 on the day's agenda—'Government Control over the Imperial Bank of India'—evoked fierce debate. Unusually too, the decisions of the Board differed in important respects from the proposals contained in the Governor's memorandum. First, and most important, a 'majority' of the Board favoured the committee's first alternative (which, it will be recalled, involved appointing a Managing Director and Deputy Managing Director with government approval). The 'majority of the Board' also sided with the Rural Banking Enquiry Committee's view that the executive of the Imperial Bank should be barred from using general powers of attorney to vote on behalf of shareholders. However, the Governor's recommendation that the government's nominees on the board of the Imperial Bank need not have the power to seek postponement or review of important decisions was accepted by the Board.

With the Central Boards of the Reserve Bank of India and the Imperial Bank seemingly headed for a confrontation, Rama Rau decided to make one last effort to achieve a satisfactory resolution of the issue in concert with the latter institution. He initiated consultations with the Bombay-based Directors of the Imperial Bank, and with some Calcutta-based Directors including Paul Benthall, Badridas Goenka, and Chisholm himself. It is likely that the Governor's hand in these consultations was, perhaps unwittingly, reinforced by the rather 'hawkish' mood of the Bank's Central Board as reflected in its

resolution on the Imperial Bank. Whatever the reason and despite serious differences within the Imperial Bank, these talks appeared to yield, in the end, the fruit which had eluded Rama Rau earlier. Thus towards the end of January 1951 an informal meeting of the Directors of the Imperial Bank of India's Central Board decided, 'by a majority vote', that while a change in the bank's constitution was neither necessary nor desirable, the Imperial Bank would nevertheless offer the government and the Reserve Bank its 'fullest cooperation' in the working of the 'new arrangement on the lines suggested by the Governor of the Reserve Bank in his informal discussions' Rama Rau thereafter convened a meeting of the Bank's Central Board in February 1951 to reconsider the issue in the light of the changed situation and succeeded, with some help from Purshotamdas Thakurdas, to convert the Central Board to his viewpoint. The Board decided to endorse what had by now come to be called the 'second alternative' proposed by the Rural Banking Enquiry Committee. Justifying his stand, the Governor argued in his memorandum to the Central Board that assumption by the government of special powers of control over

a bank which is essentially a shareholders' bank, and has been divested of most of its central banking functions would partake of the nature of an attempt, as stated by the Imperial Bank in their memorandum, 'to nationalize the bank by the back-door' We require the continued cooperation of the Imperial Bank of India to the fullest extent in implementing the recommendations of the Rural Banking Enquiry Committee regarding the development of credit facilities in the country. I would not therefore recommend fundamental changes in the constitution of the bank, to which its Board are strongly opposed and which can hardly be justified under present circumstances

The Imperial Bank of India having been set up by an Act of the Indian legislature, the recommendations of the Rural Banking Enquiry Committee required to be enacted into law before they could take effect. Despite the flurry of activity which followed the committee's report and changes to the Imperial Bank's bye-laws to provide for an expanded government presence on its Boards, the legislative changes needed to change the constitution of the bank hung fire for several months. In the meanwhile, however, relations between the government and the Imperial Bank took a sharp turn for the worse. By January 1953, Roderick Chisholm's term as Managing Director of the Imperial Bank was approaching its end, and thoughts within the bank turned towards nominating a successor. Although no formal legislative changes had yet been made, the Reserve Bank and the government expected, against

the background of the earlier discussions about the bank's constitution and proposals for greater government involvement in the selection of its chief executives, to be consulted about Chisholm's successor. Indeed, according to the impression Rama Rau carried of his conversations with some Directors of the Imperial Bank, the latter had assured him of the bank's intention to keep the Finance Minister in the picture on the matter. But not only was this expectation not fulfilled, there appears to have been a clumsy attempt by the bank to keep the government's nominees on its Central Board in the dark, and to present them with a *fait accompli* when they arrived in Calcutta to attend the meeting of the Board. Their protests on this procedural issue and against the large salary proposed to be paid to the new Managing Director, were not even recorded in the Board's proceedings, much less heeded. The Imperial Bank also rejected as 'impracticable' the government's subsequent suggestion, conveyed to it by Rama Rau, that its decisions on Chisholm's successor and his salary should not be implemented until the Finance Minister had had an opportunity to meet with some members of the bank's Central Board in Bombay the following week. Chisholm's response to the Governor's letter conveying this suggestion ended on a somewhat defiant note.

... I would say that there has recently been a recrudescence of rumours regarding nationalization of Banks and Insurance Companies while in connection with the two appointments under reference there has been a good deal of propaganda and canvassing on behalf of outside aspirants. All this unwarranted and undeserved publicity is already having its effect on this Bank's credit and standing and it is now, in my opinion, abundantly clear that, if Government nationalizes us it will undoubtedly accomplish the Bank's almost immediate ruin. We have had threats held over us for over five years and the cumulative effect of this uncertainty is beginning to show in spite of our hitherto strong position. If Government wish to nationalize the Bank they should now proceed to do so as we cannot wage an incessant struggle to protect our name and credit but if not they should clearly say so and leave us free to restore our position. It cannot be gainsaid that the Bank holds the bulk of India's trade together at the present time and has a great part to play in the fulfilment of India's five year plan but, if Government's present policy is persisted in, it can only result in our deposits being withdrawn and our business ruined.

The Bank, and in particular Rama Rau, attempted as in the past to apply the emollient. These efforts included hosting a meeting between the government

and some Directors of the Imperial Bank attended by the Finance Minister, C.D. Deshmukh. At the same time, however, the Bank's attitude towards how best the Imperial Bank could be persuaded to undertake a more active role in promoting banking in rural areas began to undergo an important shift prompted at least in part by the bank's tardy expansion into rural areas and its often blunt refusal to cooperate with the Reserve Bank even on questions such as better facilities for the circulation of currency and coin in the more far-flung regions. Remarking on T.T. Krishnamachari's proposal that the government should legislate to implement the 'first alternative' proposed by the Thakurdas Committee rather than the second, Rama Rau told the Finance Minister in August 1952 (some months before the controversy over Chisholm's successor erupted) that the Imperial Bank's Indianization programme was proceeding on schedule. Neither was there any evidence that it favoured European firms in granting advances which, in any case, were being monitored by the government director on the bank's board. The unfair advantage of remittance and other facilities which the Imperial Bank was earlier said to enjoy was now a thing of the past, as following the recommendations of the Rural Banking Enquiry Committee, other scheduled banks too could avail of remittance facilities. However, the Governor emphasized, it was necessary to examine the role of the Imperial Bank in relation to the needs of the planned development of the country. The pace of its expansion in rural areas, for example, remained slow mainly because of 'considerations of possible losses'. The 'influence of the profit motive' was

inevitable so long as the Directors and Executive Officers are responsible to the shareholders for the management of the Bank. If a partial nationalization is to be undertaken for a rapid expansion of credit facilities, the proposal for the appointment of the Managing Director and the Deputy Managing Director by Government would not achieve the object, for these officers would still be responsible wholly or partly to the shareholders. Indeed, their position would become impossible if they have divided responsibilities to the Government and the shareholders. If control by Government is to be effective, the Government must hold, at any rate, a majority of the shares, if not all the shares.

The Governor told the Finance Minister that the time had therefore arrived to

consider the question of the nationalization or radical changes in

the constitution of the (Imperial) Bank from the point of view of planned development of the country

and promised him that he would

re-examine the whole issue afresh from the point of view of development of banking and credit facilities after I have had the Report of the Rural Credit Survey, which ... is considering the question of the lines on which credit facilities should be extended to rural areas.

The Rural Credit Survey Report and the Imperial Bank

The Report of the Rural Credit Survey proposing among other things the nationalization of the Imperial Bank, was drafted in the early months of 1953 largely by B. Venkatappiah and A. D. Gorwala. Venkatappiah's note on the Imperial Bank of India, which was summarized at some length above, was clearly a major influence helping to form Rama Rau's latest views on the appropriate context within which to re-examine the future of India's largest banking institution. Although he made a formidable case for bringing the Imperial Bank under public ownership, Venkatappiah was clearly constrained at this stage by the recommendations of the Rural Banking Enquiry Committee and the prior agreement regarding the bank's future constitution which Rama Rau, Thakurdas, and Matthai had worked out in consultation with Chisholm. With the Rural Credit Survey examining the issue afresh, Venkatappiah may have felt more free to develop the arguments in the note to their logical conclusion. Thus as early as February 1954, he had made up his mind that the objective of expanding rural credit and banking could not be met without nationalizing the Imperial Bank.

Yet in doing so, Venkatappiah was moving ahead of opinion within the Bank and the government. Visiting Delhi in March that year, Rama Rau was told by S.G. Barve, Joint Secretary in the Ministry of Finance, about 'certain rumours' he had heard of 'drastic proposals' the committee reportedly had in mind for the Imperial Bank of India, and that the Finance Minister was 'rather disturbed' by them. Writing to Venkatappiah on the basis of this conversation, the Governor reminded him of the advice he had given earlier, that the committee should

as far as possible ... indicate what additional functions or responsibilities the Imperial Bank should undertake in connection with the financing of rural areas, and ... leave it to the Government and the Reserve Bank to decide what changes in the constitution

of the Imperial Bank should be made with a view to the implementation of your proposals.

Rama Rau added that he would appreciate an opportunity to discuss the issue with Venkatappiah and 'perhaps' the other members of the committee 'before you finalize your recommendations in regard to the Imperial Bank'.

It is not clear whether such a meeting took place and whether Venkatappiah and other members of the committee persuaded the Governor, and he the Finance Minister, that it was necessary to bring the Imperial Bank under public ownership before it could be expected to play its due role in the economic development of the country. But what is clear is that the Governor did not have the opportunity he had earlier anticipated of being able to determine the future constitution of the Imperial Bank, and that he quickly fell in line with the Rural Credit Survey Committee's State Bank plan. By July 1954 Rama Rau had received a draft report of the committee, which included the State Bank plan. Not long thereafter, he forwarded the draft report to the Finance Minister chiefly in order to ascertain whether its proposals

particularly those relating to the State-domination and partnership of an important sector of commercial banking would embarrass [the] Government if they were to be made in the final report of the committee.

The government decided, after a brief consideration of the various issues involved, that it could not take an immediate view on the merits of the proposal, and to confine its preliminary response to seeking formal consultations with the Bank in advance of the formal publication of the report.

In the event, the Report of the Rural Credit Survey Committee proposed bringing the Imperial Bank of India into public ownership and entrusting it with the responsibility for spreading banking facilities to the remoter regions of the country. To this end, the committee recommended the formation of a new bank, to be called the State Bank of India, by amalgamating the Imperial Bank of India with the ten major banks associated with the former princely states. (The ten major state-associated banks were the State Bank of Saurashtra, Bank of Patiala, Bank of Bikaner, Bank of Jaipur, Bank of Rajasthan, Bank of Indore, Bank of Baroda, Bank of Mysore, Hyderabad State Bank, and Travancore Bank.) The State Bank of India was to be the principal instrument for extending modern banking to the rural areas, and of linking it with the needs of cooperative credit and marketing institutions. Hence one of the first tasks of the new bank would be to draw up a programme for expanding its

presence in rural areas.

The response of the financial press to the State Bank proposal was far from warm, and contrasted quite markedly with the reception accorded to the other recommendations of the Credit Survey Committee. To *The Hindu*, the State Bank proposal was another proof of the 'Statist' approach to cooperation which the report in its view embodied, while *Capital* criticized the committee for overreaching itself and providing 'uncertain crutches' to an 'ancient and unwarranted proposal':

That the largest joint-stock bank in the country should fall under State-control, that the whole structure of commercial banking should thereby be disrupted and that a formidable blow should be struck at the confidence of private industry, all in order that remittance facilities be improved in the backwoods is an astonishing suggestion to issue even from so academic and unpractical a quarter.

The government's prompt acceptance of this recommendation, which, as discussed below, was announced in the Parliament at the same time as the Report of the Rural Credit Survey Committee was made public, also came in for comment. *Eastern Economist* believed the former had thereby 'dramatized its interest' in the proposal, while *Capital* saw the move as part of the government's 'lurch to the Left' which had left businessmen 'confused and uncertain'.

CREATING THE STATE BANK OF INDIA

Whatever his earlier reservations, Rama Rau appears to have been converted to the arguments of the Rural Credit Survey Committee regarding the necessity for bringing the Imperial Bank under public ownership. In the course of a seventeen-page letter written on 10 December 1954, the Governor informed the Finance Minister, C.D. Deshmukh, of his support for the recommendation and advised him to make an early announcement of the government's intention to implement the State Bank proposal. It was 'imperative' for the success of the Credit Survey's wider proposals that there was 'effective control over the ... Imperial Bank' so as to ensure that its policies were 'in consonance with ... national policies' The Imperial Bank's refusal in the past to cooperate with the government and the Bank in spreading banking facilities suggested, in the Governor's view, that it would otherwise be impossible to implement the Rural Credit Survey's comprehensive scheme for rural credit. According to the Survey, a major obstacle to the establishment of cooperative banks in

rural areas was the absence of facilities for the cheap and ready remittance of cash. 'Only the Imperial Bank (through the currency chests it gets from the Reserve Bank) can offer such facilities'.

In Part A and Part C states alone, according to the Rural Credit Survey, the Imperial Bank had no presence in more than ninety district towns where treasury work continued to be managed by state governments. In addition, there were 210 subdivisional treasuries at centres where the Imperial Bank had no branches, which were managed by state governments. It was vital to convert these non-banking treasuries into banking treasuries as soon as practicable, both to facilitate the expansion of commercial and cooperative banking into rural areas, and to enhance the 'efficacy of ... management of the Reserve Bank's currency chests'. Only the Imperial Bank was equipped to carry out this task. But since it would not voluntarily open branches in undeveloped areas, it had to be 'made' to undertake the responsibility. This would, however, be possible only if the State assumed 'major ownership, and along with it effective control ...' over the Imperial Bank. More generally, Rama Rau argued, it was essential for India's planned agricultural and industrial development that the Reserve Bank should be supplemented by a powerful commercial banking structure, which was under the effective control of the State, and positively aligned with its aims and objectives.

The Governor observed that 'effective State control' could not be secured unless the government held at least a majority of the shares, and appointed the majority of the Directors and the top executives, of the proposed bank. The Survey report proposed vesting majority ownership in the government by issuing additional capital, and without disturbing the ownership of the existing share capital. In this way, what would come into existence was not a 'fully "nationalized"', but a "State-partnered" banking institution in which there will be a mixed pattern of shareholding ... with the State as the major partner'. Rama Rau however differed from the Rural Credit Survey Committee in his belief that it might not be practical to integrate, in one quick and comprehensive operation, the Imperial Bank with the other state-associated banks. Hence he proposed that the former should first be taken up for reconstitution, while similar arrangements could be worked out in relation to the other banks which also differed significantly among themselves, once the creation of the State Bank was out of the way.

In accepting the Credit Survey proposal, the Governor added, the government would merely be reaffirming 'the essence of previous decisions on this subject'. He also proposed that the government's announcement of its decision to nationalize the Imperial Bank should coincide with the publication of the Report of the Rural Credit Survey Committee. Such a course would

help eliminate any uncertainty in the minds of its shareholders, constituents, and others regarding the bank's future, and enable the detailed issues to be settled speedily and with minimal dislocation. Possibly expecting some opposition to the move from members of the Reserve Bank's Central Board, Rama Rau also suggested that an early decision by the government would 'assist' the Board in its deliberations on the issue. He cautioned the Finance Minister, however, that in announcing its decision to acquire control of the Imperial Bank, the government should also make clear its intention to leave the 'private shareholder ... in undisturbed possession of his existing shares or their equivalent'

There were a number of reasons why the Bank thought that the prudent course lay in the government signalling its intention to protect shareholders' interests in the Imperial Bank. The latter had a total paid-up capital of Rs 5.625 crores, made up of 75,000 fully paid shares of Rs 500 each, and 1,50,000 partly paid shares of Rs 125 each. According to the committee's proposals, existing Imperial Bank shares would be replaced by State Bank shares of the same face value. These were to be designated as 'A' shares. A further series of shares, designated 'B' shares, would be issued at par to the government and the Reserve Bank. These were to be non-transferable and carry a maximum dividend of 5 per cent, but would give the government a disproportionately large voting power in relation to its stake, since the 'A' shares were trading in the market for Rs 1,700.

There was some apprehension that these terms might, on becoming more widely known, cause an adverse movement in the market for Imperial Bank shares. All but a very small fraction of the shares of the Imperial Bank had been bought by their present holders in the secondary market. About two-thirds of the bank's shareholders held less than ten shares each and another quarter held fewer than a hundred shares. Hence, apart from suffering capital losses, there was a risk that the smaller shareholders might make distress sales of their holdings in a falling market. There was consequently some nervousness that a fall in the prices of its shares might erode confidence in the bank and lead to a run on its deposits. Although a run might be checked easily enough through central bank intervention and assumption by the government of responsibility for the bank's deposits, it would still mean a poor advertisement for the new institution and the government.

Hence the Bank proposed that the government should affirm its decision to compensate the shareholders of the Imperial Bank on the basis of the market value of their shares. There was little debate on this issue either within the government or between the government and the Bank. Shanmukham Chetty's announcement in 1948 had already promised compensation to shareholders

based on the market value of their holdings in the event of the government taking over the Imperial Bank. The Law Ministry confirmed that any other method of calculating compensation ran the risk of being bad in law. The Finance Ministry too took the view that compensation at prices below those prevailing in the market would be unjust to the bank's shareholders, who by and large were not speculators, and shake popular confidence in the capital market which was already very narrow in India. Finally, in the Ministry's opinion, it was essential to accomplish the 'boldest act of economic statesmanship ... in our planning effort ... with the minimum gratuitous disturbance', and any controversy over compensation would cast doubt over the whole scheme, and the government's motives for undertaking it.

In addition to reassuring shareholders, the Bank was also keen to calm fears that the State Bank would not make adequate credit available to the established constituents of the Imperial Bank, or that government ownership might impair the confidential relationship between banker and client. Hence it wanted the government's announcement of the State Bank scheme to be accompanied by an assurance that it would allow unimpaired credit and banking facilities generally enjoyed by commercial and other institutions, and that it would not attempt to undermine the usual confidence between the bank and its clients.

Although the notice given to it for such a major decision was rather short, the government accepted the principal recommendations of the Credit Survey Committee about the Imperial Bank of India in time for the report's scheduled release. Announcing its decision shortly before the report's release during a debate on economic policy in the Lok Sabha on 20 December 1954, the Finance Minister said this was the first step towards establishing an integrated commercial banking institution catering to the entire country. He also affirmed the government's intention not to disturb other parts of the banking system which would continue to remain in private hands. Clarifying that the decision to take over the Imperial Bank was based on economic, rather than doctrinaire, considerations, he announced that shareholders of the Imperial Bank would be compensated at market value, with the first Rs 10,000 being paid in money and the remainder in the form of redeemable government securities. He also held out the assurance that commercial and other interests would continue to receive the highest consideration at the new bank which would preserve the usual confidential relations with its clients. It is interesting to note that despite these assurances, the deposits of the Imperial Bank of India fell from Rs 203 crores in January 1955 to Rs 184 crores in June 1955, before recovering to Rs 202 crores in December.

While accepting the Rural Credit Survey Committee's recommendations in principle, the government had a number of misgivings about the shareholding pattern it proposed for the State Bank of India. It sought the Bank's opinion on whether, in the case of mixed shareholding, the State's shares would be held by the Bank or by the government. There were also questions as to whether private shareholders would be individuals, or banks and financial institutions. Besides, doubts were raised about the manner in which the government might acquire its majority stake in the new bank. The suggestion to acquire all partly paid shares, and thereby secure two-thirds voting power, was believed by officials in the government to be tantamount to acquiring majority control with minority investment. This might be regarded as 'depriving' other shareholders in the bank of their property rights. The Law Ministry also opined that the committee's proposal, for the new bank to issue fresh capital at par to the Bank and the government to give them a majority stake and controlling interest, might violate Art. 31(2) of the Constitution. As mentioned above, the Bank was in favour of leaving private shareholders in undisturbed possession of their shares, and of allotting additional shares so that not less than half the expanded share capital vested in the central government or with itself.

In the end, however, the ownership pattern of the new bank's shareholding and the manner of its functioning were left to the Reserve Bank to determine. The only condition imposed by the government on the Bank was that the State should, at all times, hold at least 55 per cent of the shares of the State Bank. The relatively free hand it was given in the matter originated in the government's belief that thorny questions of the relations between the State and the private sectors in the banking industry were best left to the Bank to resolve. Besides, the latter would also be able to safeguard the new institution from political and administrative pressures and ensure its adherence to sound banking principles and high standards of business even while orienting its policies broadly towards the desired ends.

The management of the Imperial Bank was, naturally enough, unhappy with these unfolding developments. Its Central Board met early in January 1955 to 'respectfully' protest against a decision which had been reached without giving the bank a chance to be heard on the matter. The Board regretted that the Imperial Bank was not given an opportunity to place its views before the Rural Credit Survey Committee, and that the latter did not adequately explore the possibility of establishing a suitable machinery for meeting rural banking needs without the State assuming control over the Imperial Bank. But bowing to the inevitable, the chief executives and the Bombay- and Madras-based Directors of the Imperial Bank called on Rama

Rau to discuss the modalities of the proposed takeover. They represented that shareholders of the Imperial Bank should be compensated on the basis of share prices ruling at the time when Shanmukham Chetty first announced the government's intention to nationalize the Imperial Bank. They also proposed that the State should avoid doing anything to dilute the dividend on Imperial or State Bank stock. Should voluntary sales by existing shareholders prove insufficient to give the State major ownership, the latter should take recourse to compulsory acquisition of existing shares, rather than issuing new capital. The risks to private shareholding, in general, of such a precedent, they felt, were worth taking in order to prevent any dilution in the dividend of the Imperial Bank. The Directors of the Imperial Bank were also of the view that the State should sell its stock in excess of what was required to give it control, to private investors without laying down any precise rule for their distribution to banks and other financial institutions.

The Central Board of the Bank met on 24 and 25 January 1955 to consider the State Bank proposal. In his memorandum to the Board, the Governor suggested that the State should acquire all the shares of the Imperial Bank, with compensation being paid in the form of money, redeemable bonds, and to a limited extent, shares of the new State Bank. Though the Rural Credit Survey Committee envisaged shareholding in the State Bank to vest partly with the government and partly with the Reserve Bank, the Governor proposed that it should vest in the latter alone. He cited precedents of central banks in other countries having a majority stake in major commercial banks in their country. As the Bank's Department of Banking Development which now held operational responsibility for effecting the transition of the Imperial Bank to public ownership saw it, there were several advantages to such a course. Ownership by the Bank would prevent the State Bank degenerating, despite any separate corporate existence it might have, 'into a Department of Government subject to its traditional and rigid restrictions'. It would enhance public confidence, prevent governmental interference in the bank's daily business, and enable it to 'retain ... operational and financial initiative'. Moreover, it was logical for the State to become a 'partner' of the new bank through the Reserve Bank, since under the arrangements proposed by the Rural Credit Survey and following which the State Bank scheme was being implemented, the latter would serve 'more or less as the agent' of the central bank in several spheres of activity.

The Governor accordingly proposed that on 1 July 1955, the Reserve Bank of India would acquire full ownership of the State Bank, and that at no time thereafter would it hold less than 55 per cent of the share capital of the bank. It was proposed that the new bank should have a minimum paid-up capital of

Rs 5.625 crores and a maximum of Rs 12.5 crores so that, should all existing shareholders of the old bank opt for taking their entire compensation in the form of shares in the new and the government accede to their demand, additional shares could be issued. The authorized capital of the new bank was to be Rs 20 crores. There were differences within the Bank on the principle, as the Department of Banking Development called it, of 'compartmentalization of the share capital reserved for private investors' since it would affect the popularity of these shares and, by leading to a certain degree of concentration, militate against the idea of spreading the State Bank's ownership widely across the country. But the Governor appears to have been persuaded of the advantages of encouraging important clients of the Imperial Bank to acquire a voice in the running of the State Bank, while at the same time preventing any single voice from drowning those of other private shareholders. Consequently, he proposed that the bulk of the 45 per cent of the share capital which might not be held by the Bank, would be held by scheduled banks, insurance companies, financial institutions, etc., subject to prescribed limits for each category. In order to encourage institutional investment in the shares of the new bank, he proposed a minimum dividend of 4 per cent. In addition to the Bank's regulatory and supervisory powers, the government, in consultation with the Governor and the Chairman of the State Bank, was to have powers to issue directives to the latter on specific matters of policy. The public objectives for which the new bank was being set up required a programme of rapid branch expansion, particularly in the rural areas, which might conflict with sound commercial banking practices. Hence it was decided to establish an Integration and Development Fund out of the Reserve Bank's share of the dividends declared by the State Bank to meet annual losses in excess of Rs 15 lakhs on the proposed branch expansion programme.

There was some criticism in the Central Board of the move to nationalize the Imperial Bank. Lala Shri Ram, for example, thought the step was 'unwarranted by the grounds adduced' and 'definitely prejudicial to the private sector of industry, trade, and commerce' whose confidence in the government's policies was thereby 'badly shaken'. However, perhaps because the government's decision in regard to it was already an established fact when the Board convened, there was, other than this, little discussion of the merits or otherwise of the State acquiring control over the Imperial Bank. Discussion centred instead around the pattern of shareholding in the State Bank, the compensation package, and the composition of its Board of Directors.

The Board welcomed the Governor's proposal to vest the major ownership of the share capital of the State Bank wholly, rather than partly, in the Reserve Bank. The proposal to prescribe category-wise limits for the ownership of the

minority stake in the new bank evoked some criticism, with members such as B.M. Birla arguing that these limits would affect the marketability of the bank's stock. Birla also did not favour stipulating a guaranteed minimum dividend on these shares, since in practice, the ceiling on the dividend would be set at this 'minimum' level. Besides, the stipulation could enhance the risk of political intervention in the bank's affairs since, in some years, a government subsidy may be needed to give effect to the guarantee. Birla also suggested that compensation should be based on the average market value of the Imperial Bank's shares over two years rather than one year as proposed, and that the bonds proposed to be given in compensation should be of relatively shorter maturity. Purshotamdas Thakurdas suggested that stamp duty, transfer fees, or other charges should be waived in cases where compensation partly took the form of shares in the new bank. Following these interventions, the Board elected to recommend payment of 'fair compensation' to shareholders of the Imperial Bank.

There was also some discussion of the composition of the Board of Directors of the new bank. The Central Board noted that the State Bank's board would eventually comprise fourteen nominated and six elected directors. Six of the former would be officials and executives of the bank, so that eight of the fourteen non-official directors would be nominated, and only six elected. Birla thought it was unnecessary to load the State Bank board with so large a nominated element, since the State would always own 55 per cent of the new bank. Both Rama Rau and D.R. Gadgil pointed out that nominated non-official directors would be experienced men connected with commerce, industry, banking or finance, with at least two of the six members being experts on cooperation and the rural economy. These members would have no mandate from the government to vote in a particular way and could be trusted to exercise their votes in the best interests of the institution they led.

With the Central Board approving the State Bank plan, work began in earnest on the modalities of implementing it. The Bank sought legal advice on whether its acquisition of the shares of the Imperial Bank could be challenged in court on the ground that it would not be for 'public purposes' and that it would benefit an individual corporation rather than the State. The opinion it received was that the extension of banking facilities in rural areas could be justified as directly fulfilling a public purpose. The Bank was also advised that the acquisition of the shares of the Imperial Bank would be on the basis of a 'valid classification' and not violative of Art. 14 of the Constitution. Of the two possible courses, namely continuing the corporate character of the Imperial Bank while changing its name to State Bank of India, and that of creating a new corporation in which would vest the assets

and liabilities of the older bank upon its ceasing to exist as a legal entity, the Bank's legal advisers preferred the latter. The same statute in their view, should authorize the Bank to acquire by purchase all the shares of the Imperial Bank. The counsels also agreed with the Bank that market value represented 'fair compensation' which could be paid in cash and bonds, and at the option of the individual seller, partly in the form of shares in the new bank.

The draft State Bank legislation was framed on the basis of these opinions. Following discussions between the Bank and the government, it was decided to compensate shareholders of the Imperial Bank at the average of monthly opening quotations for a period of twelve months preceding Deshmukh's announcement in Parliament of the government's intention to acquire control of the Imperial Bank. Accordingly, shareholders were to receive about Rs 1,765 for every fully paid-up share of Rs 500, and about Rs 431 for every partly paid-up share of Rs 125. Shareholders whose names stood registered in the books of the Imperial Bank through the period from 19 December 1954 to 30 June 1955 would be entitled to receive up to Rs 10,000 of their compensation in cash. The remainder of the compensation was to take the form of 3.5 per cent National Plan Bonds 1965, and at the option of the shareholder, up to 200 State Bank shares at Rs 350 per share.

The State Bank bill, drafted with some despatch, was considered by the Bank's Board in February 1955. The Board suggested that of the state-associated banks, only the State Bank of Saurashtra, the Bank of Patiala, and possibly the Hyderabad State Bank should be considered for amalgamation with the new bank at the present stage, and that it was not necessary for the central government to guarantee the new bank's deposits. It also recommended the setting up of an Executive Committee to deal with policy matters, which would have a wide membership covering all regions. Besides, as part of the effort to secure a balanced regional dispersal of the activities of the country's pre-eminent commercial bank, the Board proposed the formation of a Loans Committee, with local directors as members, which would meet frequently in the area served by the branch register. Among other things, this arrangement was expected to afford the Directors of the State Bank opportunities to participate in meetings at places where the full board of the bank was unlikely to meet.

For a number of reasons discussed elsewhere, the Bank and the government decided to proceed, in the first instance, with the takeover of the Imperial Bank, and defer for the time being the takeover of banks associated with the princely states. The bill to constitute the State Bank of India and to transfer to it the undertaking of the Imperial Bank of India was introduced in the Lok Sabha on 22 April 1955. Introducing the bill, the Minister of State for Revenue

and Defence Expenditure, A.C. Guha, stressed that the purpose of the bill was not merely to take over the Imperial Bank, but to 're-create our rural life, to vitalize and strengthen our peasantry, and to rejuvenate ... rural areas'. Referring to the funereal remarks which the head of the Imperial Bank addressed to his Board at its last meeting, Guha said no swan song or funeral oration was warranted. Though the Imperial Bank had served the interests of the country, it had outlived its utility in its present form.

The bill was generally welcomed by the House, though some members such as Asoka Mehta took the opportunity to demand the nationalization of all banks and insurance companies. Some members also thought the compensation terms far too generous. Intervening in the debate, the Finance Minister, C.D. Deshmukh, defended the government's decision to honour the assurance given in 1948 that compensation to shareholders of the Imperial Bank would be based on the market value of its shares. While observing that the government would not always be bound by this precedent, he pointed out that the formula was justified in the case of the Imperial Bank as the majority of its shares were in the possession of small holders. Besides, the bank's intrinsic worth was greater than the proposed compensation. Striking a more modest note than the one struck by his colleague earlier, Deshmukh cautioned members against harbouring exaggerated hopes for the new bank. Rural credit would not be its only function, neither was it a proper agency for long-term credit to agriculture. If the bank expanded into the rural sector, 'we shall have various advantages like marketing and when warehouses come up we shall be able to take even crops against pledge loans'. At the same time, it was important that members did not 'overestimate our intentions in starting this particular bank'.

The bill was passed by Parliament on 30 April 1955, and received the President's assent on 8 May. The location of the headquarters of the bank aroused some discussion. In one of its last meetings, the Board of the Imperial Bank, while decrying the takeover move and resolving to represent against it to the government, also took the time to pass a resolution asking the Finance Minister, oddly enough, to persist with the practice of rotating the Central Office of the bank between Calcutta, Bombay, and Madras. It is not clear whether this resolution was an effort to draw attention to the parochial origins of the Imperial Bank, or whether some members of its Board hoped thereby to provoke a controversy that might dissipate the takeover exercise. The subject was also raised in the meeting of the Reserve Bank's Central Board by Dharendra Nath Mitra. The Chief Minister of West Bengal, B.C. Roy, too, objected to the bank's head office being shifted to Bombay since the Calcutta circle dominated the other circles (viz. Bombay and Madras) in deposits,

advances, and branches.

In the end the issue was resolved smoothly enough. The balance of advantage was judged to lie in favour of a settled rather than a migratory head office for the new bank. Defending the idea against Roy's criticism, Rama Rau argued that a mobile central office would weaken coordination between the Reserve Bank and the State Bank which was needed to implement the recommendations of the Rural Credit Survey Committee. The Bengal circle's domination owed to the larger area it covered and the proposed creation of a local head office in Delhi covering the northern parts of the country, he explained, would present Calcutta's former pre-eminence in a proper light. Moreover, apart from being the country's principal financial and investment centre, Bombay was host to nearly three-quarters of the Imperial Bank's shareholders. A similar pattern would also obtain in respect of shareholding in the State Bank. All these factors, in the Bank's view, made Bombay the logical place at which to locate the head office of the country's largest financial institution. The Governor also stressed that local head offices, local share registers, and a large measure of delegation of power to local boards would ensure that the interests of the other regions were not ignored. Finally, he pointed out, Directors on the Central Board of the State Bank would be nominated after taking into account regional and territorial considerations, and that meetings of the Board would frequently take place outside Bombay. The Bank's intervention proved decisive, and the State Bank of India's headquarters came to be located in Bombay where Deshmukh inaugurated it on 1 July 1955. John Matthai, who as Finance Minister (1949-51) had attempted to harness the Imperial Bank in ways which stopped short of nationalization, was appointed its first Chairman.

Only a small proportion of the Imperial Bank's shareholders opted to receive shares of the State Bank. As a result, at its inauguration, 92 per cent of the shares of the State Bank of India were held by the Reserve Bank. The State Bank's statute contemplated and provided for private shareholding, and the remaining shares were distributed amongst private shareholders in Bombay, Calcutta, Madras, and New Delhi, with the Bombay register accounting for 4.8 per cent of them, and the Calcutta register for 1.8 per cent. Private shareholders were entitled, so long as their combined holdings did not exceed 10 per cent, to elect two representatives on the bank's Central Board. (The statute provided for three elected Directors if private shareholding was above 10 per cent but below 25 per cent, and for a maximum of four elected Directors in the event of the proportion of privately-held shares exceeding 25 per cent.)

State Bank shares were soon listed on the stock exchanges. Although

trading remained thin, thanks to the steady progress in the bank's business and regular dividends of 16 per cent, evidence emerged of a growing demand for its shares. The Bank briefly considered diluting its stake in the State Bank to take advantage of a rising market. According to one account, some shares were sold and the Bank's stake brought down to 85 per cent in January 1956, but according to another, more contemporary account, the Bank decided against diluting its holdings, and continued to own 92 per cent of the State Bank stock even in December that year. However, it persisted with the practice of selling fifty 'qualification shares' to elected members of the Central Board and ten to members of Local Boards, usually at Rs 100 per share (against a presumed market value of Rs 350 per share) with the dividend being shared between the Bank and the elected member in the ratio of 5:2 (or in some cases for Rs 350 per share with the buyer retaining the entire dividend) and on the condition that these shares were resold to the Bank at the end of the term.

Some thought was also given in December 1956 to the idea of the Bank buying small lots of State Bank shares 'unobtrusively' and 'without any special effort'. Since it held more than half of all privately-held shares, Bombay had an overwhelming voice in the election of Directors of the Central Board of the bank, and in the opinion of K.G. Ambegaokar, Deputy Governor, if the Bank bought some Bombay shares, it might help 'avoid [an] election' at that centre and 'the unnecessary trouble and expenses' that went with it. But he was overruled by Rama Rau, who argued that while it would be acceptable for the Bank to buy State Bank shares with a view to preventing its price from falling below Rs 350, it should not carry out these purchases 'with the object of influencing the voting strength'. The price of State Bank shares often went below Rs 350 during subsequent years, in fact remaining below that figure throughout 1967. But the Bank did not intervene as a buyer, even though relatively small purchases would have sufficed to drive up the stock.

The minority private stake in the State Bank of India came up for discussion once again in April 1969, when the Deputy Prime Minister, Morarji Desai, responded to pressures from private shareholders for a higher dividend by suggesting that 'it might be best for the Reserve Bank of India to acquire all the shares'. But the Bank considered the suggestion and concluded that it would not be possible to adopt this course without changes to the State Bank Act. In the meantime, intervention by the Reserve Bank to pick up shares was, given the poor availability of scrips and thin trading, likely to increase the quotation, depress the yield at the present dividend, and stimulate fresh demands for a higher dividend.

Although the State Bank of India came into existence as envisaged in July 1955, the life of the Imperial Bank was prolonged by legal hurdles in the way

of transferring the assets and liabilities of its overseas branches to its successor. With barely six weeks to go for the State Bank's opening, the Colombo branch of the Imperial Bank informed its head office that a foreign act providing for the transfer of its assets and liabilities to the new bank would have no force in Ceylon. The Imperial Bank would have ceased to exist on 30 June, after which there would be no authority competent to perform any act on its behalf. But the Imperial Bank's assets could not be transferred to the State Bank of India before 1 July 1955, when it would come into existence as a corporate body. Following this information, inquiries were also made in other countries. In England too, a similar problem was anticipated, since the provisions of the State Bank of India Act relating to the dissolution of the Imperial Bank of India would be effective under English law, but not those relating to the automatic transfer of its assets to the new bank. As a result, the assets of the older institution would come to vest in the Crown as *bona vacantia*.

A simple solution to this problem was to allow the Imperial Bank to exist as a corporate entity until the new bank came into existence and the assets of its foreign branches were effectively transferred to it. Accordingly, the dissolution of the Imperial Bank was postponed through an ordinance promulgated on 23 June 1955. Once the shares of the Imperial Bank of India were transferred to the Reserve Bank and replaced by shares of the State Bank of India, the former's body corporate was to consist of the Chairman, Vice-chairman, and Managing Directors of the new bank. To satisfy statutory minimum capital requirements for the conduct of banking business prevailing in countries where the Imperial Bank had its branches, the latter was to have a capital of Rs 10 lakhs advanced to it by the Reserve Bank.

The new bank was affected by problems of a different sort in Pakistan. Although, following a request from the Governor to his counterpart Abdul Qadir, the State Bank of India was quickly issued the authorization necessary to conduct banking business in Pakistan, it was given permanent licences only for three branches, viz. Karachi, Chittagong, and Naraingunge. Since Pakistan followed a policy of confining foreign banks to port towns, the Lahore, Lyallpur, Hyderabad (Sind), Mirpurkhas, and Dacca branches of the State Bank were issued temporary licences for one year. The Dacca and Lahore branches of the bank were, however, subsequently licensed for three years, and allowed thereafter to continue indefinitely. With the outbreak of hostilities between the two countries in 1965, the assets of the State Bank of India in Pakistan were taken over by the Custodian of Enemy Property, thereby bringing to a premature end the bank's association with the country's principal, South Asian neighbour.

In the meantime, a wrong mutation of a plot of land belonging to the Imperial Bank in Lahore had led, by the 1960s, to a civil litigation in that country, which thereafter acquired a life all its own. In addition, hurdles persisted in the way of the legal conveyance to the State Bank of India of premises registered in the name of the Imperial Bank at Rangoon and Colombo. These were further complicated in the former case by the nationalization of the bank's assets in Burma. Thanks to such difficulties, the Imperial Bank, threatened with dissolution since 1955, continued to lead a charmed life and survived as a corporate entity until the 1970s. As an internal note of the Reserve Bank certified as late as November 1971, '... the continued existence of the Imperial Bank of India is ... necessary ... for completing the transfer, to the State Bank of India, of the property of the Imperial Bank of India ...' Few amongst those who helped draft and promulgate the *temporizing ordinance* of June 1955 could have wished for so striking a consummation of their efforts to prolong the life of the Imperial Bank of India.

STATE BANK OF INDIA: THE EARLY YEARS

It was not altogether easy to realign the former Imperial Bank with its new role and responsibilities. The controversy which erupted over the salaries paid to its top managers is symptomatic of the difficulties the Bank and the government faced in reforming the institution. These salaries, which Prime Minister Jawaharlal Nehru described on one occasion as 'fantastic', aroused considerable public and Parliamentary criticism. But the government's hopes of bringing them down to more realistic levels in the State Bank were not easily realized. More so as even nominated directors of the new bank (such as Sachindra Chaudhuri who was himself later to become Finance Minister) began apparently, according to Venkatappiah's account to Rama Rau of a meeting of its Central Board, to make common cause with directors and officials opposed to the proposed reform. Matthai and the central government also did not see eye to eye on bonus and allowances to officials. Though the issue of pay and allowances was important for its own sake in the austere climate of the times, differences here also reflected wider divisions over the freedom allowed to the State Bank to balance business and public policy considerations, and led to Matthai's resignation as Chairman within months of the new institution coming into existence.

Early troubles notwithstanding, the State Bank of India expanded swiftly during the next few years. The bank fulfilled the target set for it of opening 400 branches within five years from July 1955, as well as other branch expansion targets it set itself in subsequent years. The number of branches of

the State Bank rose from fewer than 500 in 1955, to 1468 in 1967. Its deposits rose steadily from Rs 226 crores in 1955 to nearly Rs 960 crores in 1967, and its advances from Rs 106 crores to nearly Rs 600 crores. Its credit–deposit ratio fell sharply from 55 per cent in the last year of the Imperial Bank to 29 per cent in 1959, but rose thereafter to well over 60 per cent by 1967.

The rapid expansion of the State Bank was partly financed out of its Integration and Development Fund to which accrued the dividends paid to the Reserve Bank on its shares up to a maximum of 55 per cent of the total issued capital of the bank. The fund remained the property of the Reserve Bank, which endeavoured to ensure that it promoted the expansion of the State Bank into rural areas without diminishing the incentive to make the new branches profitable within a reasonable period. The formula agreed on between the Reserve Bank and the State Bank was that the fund would meet, for a five-year period beginning 1 July 1955, four-fifths of the net losses of the new branches opened after that date in excess of Rs 15 lakhs. A total of 429 branches were opened during the period (of about 63 months) covered by this agreement, at a total cost to the fund of over Rs 75 lakhs. Of these, 337 branches were making losses in 1960. From 1 July 1960 the losses of these branches were entirely borne by the State Bank of India. Besides, the latter and its subsidiary banks, which (as discussed separately) had meanwhile been set up by transferring banks associated with the princely states to public ownership, proposed to open 300 new branches in the five years ending 30 June 1965. However, at the Reserve Bank's instance, the State Bank group agreed in July 1962 to open an additional 319 branches at the relatively more important treasury centres in India. The Bank agreed to debit to the Integration and Development Fund the entire loss incurred by these new branches in the first five years of their existence. Thereafter, the subsidy was to be tapered evenly to cease at the end of the tenth year of a new branch's existence.

This new formula was, in essence, similar to the one adopted to support the branch expansion plans of the subsidiary banks of the State Bank of India. At the latter's request, the Bank also agreed in July 1963 to dip into the fund to finance half the training and control and supervision costs arising from the new branches for twelve years. The State Bank opened 304 new branches until 31 December 1966, as part of its second expansion programme. Of these, 278 branches continued to make losses at the end of 1966. An internal study by the bank of 130 of these new branches revealed that their performance in deposit mobilization compared favourably with that of branches opened outside the subsidy programme. The new rural branches were relatively slow to consolidate their business mainly because of rising interest rates on deposits

and establishment costs.

Relations between the Reserve Bank of India and the State Bank remained close during these years. There was some movement of top *functionaries* between the two organizations in the first decade of the State Bank's existence. For both H.V.R. Iengar and P.C. Bhattacharyya, the chairmanship of the State Bank was a stepping stone to Governorship. Venkatappiah, who became the Deputy Governor of the Reserve Bank in 1955 with responsibility for overseeing its expanding involvement in the sphere of cooperative credit, became in his turn, the Chairman of the State Bank of India in March 1962.

Although the Bank owned the majority of the State Bank, the latter retained its functional autonomy. In fact so great was this autonomy that on more than one occasion, the Bank and its auxiliary failed to see eye to eye on important policy issues, and even on the role of the two institutions in the sphere of rural credit. Thus, closely as the two institutions worked, relations between them also betrayed the strains and tensions of proximity. To some extent these strains arose because of the sheer weight of the State Bank of India in the country's banking system and the Reserve Bank's reluctance to treat it, in matters of banking operations, differently from other banking institutions over which it exercised supervisory and regulatory authority as a central bank. But the dividing line between different forms of control being thin in practice, the Bank's reluctance to intervene, in its capacity as majority owner, in the operations of the country's principal commercial bank may have enabled the latter, paradoxically enough, to test the central bank's regulatory and supervisory regime rather more successfully than other commercial banks. Thus the possibility of conflict between the Reserve Bank and the Imperial Bank over credit policy, which Venkatappiah had cited in 1952 as an argument justifying greater State control over the latter institution, did not entirely cease when it came under the ownership of the country's central bank. In fact, the State Bank's potential to threaten the efficacy of the Bank's credit policy grew more formidable as its operations and resources expanded rapidly following nationalization.

From being a possibility, conflict became a reality in 1964 when the Bank began to use access to its accommodation as a device of monetary policy. The State Bank and its subsidiaries had at this time considerably lower credit-deposit ratios than other commercial banks. Their 'net liquidity ratios' (which, as defined and elaborated earlier in chapter 4, were adopted as the benchmark for regulating access) were also higher. Consequently, banks in the State Bank group remained eligible for additional accommodation from the Reserve Bank when other banks had ceased to be so eligible except at penal rates of

interest. At this stage, individual members of the group began using their resources, augmented by liberal access to Bank accommodation, to on-lend funds to other commercial banks, re-emerging in the process as an informal lender of the last resort to the country's commercial banking system. The Bank's efforts to persuade the State Bank to retire its outstanding advances promptly in the 1965 slack season were also not conspicuously successful. With a breach appearing imminent in the ceiling on the Reserve Bank's net domestic assets set as part of a standby agreement between the Government of India and the International Monetary Fund, the Ministry of Finance had to step in, in April 1965, and ask the State Bank of India to reduce its level of advances outstanding from the Reserve Bank.

Differences also arose regarding the roles of the Reserve Bank and the State Bank in the sphere of rural credit. These began, innocuously enough, with a note by R.G. Saraiya suggesting that the State Bank of India should expand its activities by advancing funds, if necessary, directly to central and urban cooperative banks. Opinion within the Bank, particularly in its Agricultural Credit Department, was that the proposal would, if accepted, damage the 'integral character of the cooperative banking system' and inhibit the capacity of apex banks to act as a 'balancing centre' for the funds of the cooperative movement within states and coordinate the activities of central cooperative banks. Proposals such as those mooted by Saraiya had previously been aired in informal meetings between executives of the two banks, where the State Bank was, in general, keener to take on a wider financing role for cooperatives than what the Bank considered justified from the point of view of the movement's integrity and the relative advantages of the two institutions. Largely at the initiative of H.V.R. Iengar, then Chairman of the State Bank of India, the matter soon came to be raised at the highest level within the Bank and at the Finance Ministry. The Finance Minister, T.T. Krishnamachari, was also in favour of the Bank devoting all its attention to 'high finance' and playing an advisory role in relation to the cooperative movement while leaving its financing in the hands of the State Bank, on the ground that the responsibility for providing credit to agricultural cooperatives conflicted with the Bank's wider constitutional role for regulating credit. Largely at the Finance Ministry's instance, an informal ad hoc committee of the Reserve Bank (comprising the Governor and both Deputy Governors, the Chairman of the State Bank, and D.R. Gadgil, who was a Director of both institutions, and some officials) was formed in March 1957 to define the future priorities of the State Bank of India, including in relation to 'agricultural finance'. Ironically, by the time this committee met for the first time on 20 March 1957, Iengar had moved from the State Bank to the Reserve Bank. Even as this committee's

deliberations were at an advanced stage, Krishnamachari announced in Parliament, towards the end of May 1957, his decision to transfer to the State Bank 'functions ... of a commercial nature, like affording agricultural cooperative credit' His intention, the Finance Minister said, was to free the Reserve Bank from responsibilities of a 'commercial' nature while ensuring that it remained the 'top-most financial institution in the country controlling every movement in finance'. The Minister's views on the matter were well known in the Bank and outside. Yet the announcement, made as it was without prior consultation, came as a surprise to the Bank, Governor Iengar learning of it only from the newspapers the following morning.

Clarifying his position to Iengar who chided the Finance Minister for having made a precipitate announcement on a subject which the ad hoc committee was still engaged in considering, TTK observed that he was 'increasingly of the view that the hasty implementation of the perfunctorily conceived recommendations ... [of] the Rural Credit Survey Report has done us a lot of harm'. The Minister's precipitate announcement certainly lent greater edge and urgency to the deliberations of the ad hoc committee. But it failed to influence the final shape of its report. Apart from considering the technical and institutional issues involved, the committee met a large number of cooperators who were nearly all opposed to any diminution of the Bank's role. In addition, it also appears as if P.C. Bhattacharyya, Iengar's successor at the State Bank, was generally lukewarm towards the idea of his institution playing a more active role in financing agriculture. Consequently, the ad hoc committee had little difficulty in presenting a unanimous report rejecting the proposal to divest the Reserve Bank of its responsibility for financing agricultural credit cooperatives.

The Bank's lending to the cooperative sector was really analogous to the refinancing of commercial banks under the bill market scheme. In both cases, the Bank's role as the principal refinancing agency complemented, rather than conflicted with, its role as the controller of credit. The State Bank of India, the committee felt, had as yet little expertise to undertake the expanded responsibility for providing direct finance to agriculture, nor could it in the midst of a hectic expansion programme spare and train specialized staff for the purpose. On the other hand, the State Bank might be encouraged to play a more active and direct role in lending to cooperative institutions in areas where central cooperative banks were non-existent or sick. However, in order to protect the integrity of the cooperative movement and prevent wasteful competition, it was agreed that the State Bank would step into the shoes of central cooperative banks only as long as necessary and in consultation with the apex cooperative bank in the state and the Reserve Bank. The committee

was also of the view that the State Bank's expertise in financing the movement of goods could be put to good use in the financing and development of agricultural marketing and processing cooperatives. Enclosing this report to the Finance Minister, the Governor assured him that the ad hoc committee did not take a *non possumus* approach towards the issue, but one based on the relative abilities of the Reserve Bank and the State Bank to effectively address the problem of rural credit.

Following TTK's announcement, Iengar took steps to tone down the ad hoc committee's draft report. In particular, the passages dealing with the relative advantages of the Reserve Bank and the State Bank in dispensing credit to the cooperative sector were edited to present the case for the State Bank's role 'in greater detail and more sympathetically'. The 'case against the proposed transfer', the Governor insisted, was also to be argued with 'greater moderation in language than in the present draft'. But these stylistic changes did little to placate the Finance Minister who found the final report of the ad hoc committee not to his liking. He also felt the report's recommendations 'put (him) in difficulty vis-a-vis Parliament and the general public'. Advising the Finance Minister that he had no reason to be defensive about the committee's conclusions, the Governor emphasized that the demarcation of responsibilities the committee proposed gave the State Bank, which could never match the rediscount subsidy of 2 per cent that the Reserve Bank allowed on agricultural bills, a wide field for 'developmental' activities.

The ad hoc committee's recommendations did not put an end to the debate over the roles of the Reserve Bank and other institutions in the sphere of rural credit which, like the committee itself, endured for several more years. Indeed, in discussing its report with the Finance Minister, the Governor conceded that the issue of whether 'promotional and developmental activities ... in respect of agricultural credit societies or marketing or processing societies should be handled by one organization' could not be satisfactorily resolved except in the light of new experience.

Taking a view of the future, there are grounds for thinking that such an organization might appropriately be a subsidiary of the Reserve Bank; in that case that would constitute one wing dealing with agricultural credit operations and the State Bank would constitute another wing dealing with ... private (as opposed to cooperative) commercial operations. I do not think however that the time for considering ... a new organization is yet ripe. Whatever view one may take about ... decisions taken in the recent past, frequent chopping and changing about would be unwise.

As envisaged by the Rural Credit Survey and the ad hoc committee, the State Bank extended a number of facilities to cooperative institutions over the next few years. These included advances against government securities and repledge of goods, remittance facilities, and purchase and collection of bills. A substantial proportion of its advances were made at a concessional rate. Moreover, the bank also provided long-term credit for agriculture by subscribing to debentures of land mortgage banks. Branches of the bank were given discretion to grant advances to cooperatives against the security of debentures of land mortgage banks, which were declared trustee securities. In order to assist coordination, the bank's principal 'Agent' (as branch managers were then called) in a district was allowed to be an ex-officio director of the central cooperative bank of that district. The bank provided finance directly to societies in states where cooperative central financing agencies were not well developed, and liberalized its operations to a few selected institutions in areas or states where these agencies were sufficiently developed. Within a couple of years of its founding, the State Bank also began to grant advances to cooperative marketing and processing societies, and by 1958 endeavoured to establish branches at centres where warehouses of the central or state warehousing corporations were located, and to take the lead by granting advances against warehouse receipts. In order to achieve better coordination, senior executives of the bank were nominated as directors of central and state warehousing corporations. By 1960, the State Bank had also begun to lend to industrial and consumer cooperatives.

For all this, however, and even after having allowed for the relatively limited field of operations available to it, the State Bank's achievements in the sphere of cooperative credit were quite modest. The bank's outstanding advances to all cooperative institutions rose to Rs 4.7 crores, or 2 per cent of all advances, in 1960. Advances continued to rise steadily in absolute terms until the mid-1960s, peaking at Rs 22.3 crores in 1966 before dropping off sharply to Rs 13.4 crores the following year. Advances to cooperatives as a proportion of all advances peaked in 1964 at 5.4 per cent, falling to just over 2 per cent in 1966. In pointed contrast, the State Bank's advances to the small-scale industrial sector rose more steadily from less than one crore rupees in 1958 to Rs 43.4 crores in 1967, advances to this sector as a proportion of total advances rising from about 0.5 per cent in the former year to a rather respectable 7.3 per cent in the latter. Coming at the instance of the Reserve Bank, this expansion was one of the more positive aspects of the cooperation between the two institutions to channel credit into hitherto neglected sectors of the economy. The relative lack of success attending the efforts of the Bank and the State Bank to increase lending to the rural cooperative sector during

these years have to be sought principally on the demand side, i.e. the deteriorating overall health and effectiveness of the cooperative sector, and its failure to grow and diversify as anticipated.

Unpublished Sources

- G.8 Governor's Correspondence with Government of India, Ministry of Finance
- S.74 Nationalization of Imperial Bank of India
- C.668 Government Control over Imperial Bank of India
- PR(R)2 Formation of the State Bank of India
- SB14 Transfer to the State Bank of India of the Assets and Liabilities of the Imperial Bank in Foreign Countries
- PR(R)-18 Future Role of the State Bank of India
- SB 35 Coordination of Policies of SBI and Cooperative Banking and Credit Structure
- SB 28 Sale of State Bank of India Shares to Public
- SB 13 Payment of Compensation on Imperial Bank Shares—Procedure
- PR(P)-51 Integration and Development Fund—Drawing upon the Fund in connection with Branch Expansion of SBI

Memoranda to the Central Board and Committee of Central Board