

APPENDIX D

The Bank and the Mundhra Affair

More than its actual dimensions, the fact that it was the first major financial scandal involving the government in post-independence India has helped secure a unique place for the Mundhra affair in the appendixes of the country's financial history. The scandal and Haridas Mundhra's indictment by the Chagla Commission set up to enquire into the affair also led to the exit from office of the Finance Minister, T.T. Krishnamachari, while the reputations and careers of H.M. Patel, the Finance Secretary, and G.R. Kamat and L.S. Vaidyanathan, Chairman and Managing Director respectively of the Life Insurance Corporation (hereafter LIC), too, came under a cloud. The Governor, H.V.R. Iengar, whose name figured prominently in the controversy and in the two inquiries which followed, was more fortunate. But the affair cast a shadow over his reputation, and to some extent over his effectiveness thereafter as Governor, and led to a re-evaluation by the Bank of some of its wider responsibilities. Some old-timers at the Bank, such as K.S. Krishnaswamy who retired as Deputy Governor in 1981, have even traced the diminution of the Bank's stature in subsequent years to this episode.

THE BACKGROUND

As we point out below, there are many dimensions to the Mundhra affair. The one which caught the political and public eye at the time and with which it continues to be identified today relates to the investment by the LIC, as later events showed at considerable loss to itself, of policyholders' funds to the tune of over Rs 1.25 crores in the shares of Mundhra's concerns through the purchase of these securities directly from the man himself. But to quote the Chagla Commission, Haridas Mundhra was a 'financial adventurer', and convincing the powers that be to use public funds to bail him out was only his most spectacular escapade. He had also in the meantime built through takeovers, a large industrial empire financed to a substantial extent by loans from Indian and exchange banks secured against his companies' overpriced stock, and

apparently against forged, duplicate, triplicate and in one alleged instance, quadruplicate shares.

The latter aspects of Mundhra's activities have largely been obscured in recent years. But they are important not only for their own sake. Rumours of a funds-starved Mundhra seeking to liquidate his stocks and of fake share certificates, and news of brokers and banks to whom Mundhra owed money wishing to sell shares of his companies were reported to be among the factors depressing Lyons Range during the early part of 1957. The taxation proposals passed in the May 1957 budget, including the short-lived expenditure tax, were also believed to have added to the depression the government purportedly wished to relieve by using LIC funds to steady Mundhra's shares.

Why the government should have been so disposed in the summer of 1957 is at first glance harder to understand, since inflation was already nudging upwards, external reserves were under strain, and public investment—to finance which it would soon come into the market with large loans—was rising sharply. Besides, the Calcutta stock exchange had been heading downwards since August 1956, there was no noticeable intensification of the crisis in the summer, and Mundhra's shares had been a drag on the market since some time in 1955. According to accounts of the period, the unexpectedly severe reaction of stock prices to the expenditure tax proposed in the 1957–58 budget motivated the Finance Minister to do something to revive the market. But as we note at the end of this appendix, it was also reported that Mundhra had donated Rs 2.5 lakhs to the Congress party and agreed to defer the closure of the Kanpur Cotton Mills to avoid throwing a large number of workers off work. According to rather more productive mills, the LIC bail-out was Mundhra's reward for these gestures. Rumours such as these are impossible to verify. Let us merely note here that Mundhra had a degree of access to officials holding high public office such as cannot be explained solely by the crisis in his finances or its effect on the market. Secondly, as M.C. Chagla argued convincingly in his report and the departmental disciplinary inquiry board which was set up in its wake agreed, the LIC's investment appears to have been intended less to influence prices in the Calcutta market and more to relieve Mundhra's difficulties. 'In other words, the object [of the transaction] was to finance Mundhra to the extent of a crore and a quarter [rupees] by the purchase of his shares.'

THE RISE OF HARIDAS MUNDHRA

Starting from scratch and with virtually no education, Mundhra built a formidable industrial empire within a matter of years in the 1950s. He began with the acquisition of F.&C. Osler (India) Ltd. which was the Indian subsidiary

of a well-known British lamp-manufacturing concern, and soon bought controlling stakes in Richardson and Cruddas Ltd. and Jessop and Co. Ltd., both of which were reputed engineering concerns under European management in Calcutta. After his attempts to take over some tea companies met with mixed results, Mundhra acquired a controlling interest in the British India Corporation, a well-known managing agency, in 1955. Soon thereafter he turned his attention to Turner Morrison and Co. Ltd., another large firm of managing agents owned by a Singapore-based investment company which in turn was owned by the Turner brothers in the UK. The British India Corporation acquired a 49 per cent interest in Turner Morrison and a reported assurance of a 51 per cent stake within five years.

Mundhra's takeover technique involved the snowballing of controlling interests in cash-rich firms and managing agencies which at this time were particularly vulnerable to predatory raids. He also drew on bank finance for his operations, covering margin requirements largely through manipulating the share prices of his companies. Thus, according to a secret report written in February 1956 by the Deputy Governor, Ram Nath, and sent to the central government, Mundhra bought his controlling interest in the British India Corporation by paying its former owners Rs 10-12 per share. Subsequently he drove the price of these shares up to nearly Rs 14 per share. He then obtained accommodation from banks of up to Rs 11 per share, thereby managing to finance the takeover almost entirely with borrowed funds.

It was clear by the end of 1956 that Mundhra had overreached himself. Large borrowings from banks and falling share prices were together narrowing his room for manoeuvre. Mundhra began buying his own shares back from the market to steady them but with only limited success. Nor could he, for want of the necessary resources, take delivery of shares from brokers who largely financed their operations on Mundhra's behalf with loans from banks. As the prices of his shares continued to slide, brokers began demanding additional margins from their principal. It is not clear when Mundhra began raising bank finance against bogus shares, but by spring 1957 his affairs were in a state of crisis and were said to be a major cause of the gloom hanging over the Calcutta stock market.

Mundhra's financial adventures had done little to endear him to other business families in Calcutta. A large business house in that city was believed to be ill-disposed towards him and it was often alleged at the time—frequently by Mundhra himself—that this business house played a big role in bringing about his downfall.

Nor was his wealth of much assistance yet in improving his somewhat shadowy reputation. Company law administrators and the government had

been seized of Mundhra's operations since 1954. In the same year, Mundhra was also pulled up for offences and 'irregular' exchange transactions under the Foreign Exchange Regulation Act. Ironically, in the light of subsequent developments, T.T. Krishnamachari was among the first in government to take any notice of Mundhra. Writing to the Finance Minister in August 1955 from his perch in Commerce and Industry, TTK warned Deshmukh about Mundhra's doings 'right at our very nose', and wondered whether the Companies Act should not be strengthened to deal with them. The Finance Ministry suspected even in December 1955 that Mundhra had defrauded Osler's shareholders to the tune of about Rs 6 lakhs, while in dismissing a petition he had filed against one Chimanram Motilal, a judge of the Bombay High Court remarked on Mundhra's 'thoroughly dishonest attitude ... [and] conduct'. Ram Nath's assessment of Mundhra's methods too was far from positive: he did not, in the Deputy Governor's view, 'possess either the experience or the background' to run an industrial empire; while in a letter to H.M. Patel written a fortnight after Ram Nath's report, the Governor, B. Rama Rau, confessed to being 'disturbed' by Mundhra's activities. As Jawaharlal Nehru noted on a file in September 1957 well before the scandal broke, 'the reputation of this gentleman [was] not good'. It is instructive to note that rather than following it, Mundhra's poor reputation preceded the collapse of his industrial empire.

BANKING ON MUNDHRA

From the mid-1950s, the Bank began to receive disturbing reports of Mundhra's activities from a variety of sources, and decided in December 1955 to investigate the entrepreneur's use of banks' funds. Preliminary inquiries revealed that nine banks had made substantial loans to Mundhra or his companies. These included the State Bank of India, whose advances were however fully secured against raw materials and goods in process belonging to Jessops and British India. Four banks, of whom all but one were exchange banks, had lent Rs 3.3 crores to Mundhra, which were largely secured against the pledge of his companies' shares.

The Reserve Bank's inspection of the accounts of the three exchange banks in March 1956 revealed many irregularities, some bordering on the farcical. The Calcutta managers of two of these banks, it transpired, had exceeded their powers to finance Mundhra's acquisition spree and managed successfully to conceal this from their head offices in London by having his loan account regularized for a day or two at the end of each month. When Mundhra failed to make the necessary credits to the account of one of these banks at the end of November 1955, the head office was told that the client

had been prevented from undertaking a balancing transaction by the traffic congestion arising from the visit to Calcutta of Nikolai Bulganin and Nikita Khrushchev, and that he had deposited cash and shares at the home of the manager. The Reserve Bank inspection revealed that all three banks had also committed a number of other irregularities, including overvaluing his shares, in lending money to Mundhra. The reports of the Bank's inspectors led to the resignation of the Calcutta managers of these banks. The prosecution which the Bank sought of one of them proved impossible as he had fled meanwhile to Pakistan en route to Britain.

From 1956, the Bank also began carrying out half-yearly reviews of bank lending to Mundhra and his concerns. These reviews showed that banks' loans to these borrowers had risen from Rs 3.3 crores at the beginning of 1956 to Rs 14.5 crores by the end of the year and further to Rs 15.6 crores in May 1957. Meanwhile, reacting to reports received from the government in December 1956 of Mundhra using finance from banks to corner shares of some Calcutta-based companies, the Bank initiated inquiries which showed that six banks, including one exchange bank, had sanctioned advances to share-brokers against the shares of these companies. Following this, the Bank issued instructions to all banks in April 1957 to desist from financing takeovers and speculation in shares.

By May 1957 there were serious fears that Mundhra's financial difficulties would prevent banks from realizing their debts without unloading his shares on the market. Apprehensive that unregulated selling would lead to a collapse of the stock market besides eroding the realizable value of the banks' securities, the Bank mooted the possibility of Mundhra's creditors forming a consortium to coordinate the recovery of their advances to him. The banks refused to heed the suggestion following legal advice that they would be liable to civil action by Mundhra should he suffer any loss or adversity as a consequence of their action. Some creditor banks suggested instead that the Bank should itself convene a meeting for the purpose. But this suggestion too, was not pursued since it was felt to do little to improve the legal position.

The Bank's and the government's knowledge about Mundhra's market activities originated to a great extent from the regular letters A. Raman, Research Officer at the Bank's office in Calcutta, wrote to his superiors in Bombay. Raman's reports, which the Bank shared with the Finance Ministry and which were later quoted extensively in the report of the Chagla Commission, spoke at length about Mundhra's methods of operation, his manipulation of stock prices, the use he made of bank funds, and the drag his shares exercised on stock prices in Calcutta. Raman also faithfully reported to his employers rumours, which in the event were not without basis, of imminent

LIC intervention to aid Mundhra, and the market's assessment of it. By September 1957 his letters were warning of the chronic nature of Mundhra's troubles, the transient impact of the LIC's support, and of the effects on the market of British India withholding dividend payments and of Jessop's inability to finalize its annual accounts. The very least the market felt the government should do, he reported early in September 1957, was to order an inquiry into the affairs of Mundhra's concerns. Raman's reports went up in the ordinary course to the Finance Minister, T.T. Krishnamachari, who noted gloomily on the last of his letters that it did not 'make good reading'.

By the autumn of 1957, other reports about Mundhra's activities painted a grim story of an adventurer who had descended to fraud to build an empire and extricate himself from financial difficulties. Rumours abounded of shares in circulation of Richardson and Cruddas being in excess of the company's share capital. These rumours were confirmed in November 1957 when two banks reported to the Bank that they were in possession of duplicate shares of this company and of British India. Mundhra, one of these banks also discovered to its discomfiture, had pledged two sets of shares bearing the same serial numbers, neither of which was authentic, with two of its branches! The study the Bank conducted thereafter of banks' holdings of Mundhra shares showed that he and three of his concerns had pledged as security to banks, shares amounting from 3.5 to 92 per cent of their paid-up capital. In five cases the shares pledged exceeded half of the respective firm's paid-up capital and in three cases, 75 per cent. The Bank's investigation also revealed the large-scale duplication, triplication, and in one case even quadruplication of his companies' shares.

From autumn 1957, Governor Iengar began with increasing frequency to alert the government to what was soon to become a major public scandal. The 'business of Haridas Mundhra is getting worse and worse', he warned the Finance Minister in November. While advising the government to take a comprehensive view of the group's activities, the Bank itself began taking steps to initiate legal proceedings against Mundhra. One of the banks in possession of bogus shares was advised to lodge them with the State Bank of India, while following meetings with the chairmen of the latter institution and the Life Insurance Corporation, and Secretaries in the Finance Ministry, it was decided that the State Bank and the LIC should move the courts under the Companies Act to appoint suitable persons to manage Richardson & Cruddas and British India. At Iengar's instance, it was also decided to order, in the public interest, an investigation into the affairs of Mundhra's companies. Finally upon the Bank's insistence, one of the banks in possession of bogus shares pledged by Mundhra agreed, though somewhat reluctantly, to lodge a complaint to that effect with the police in Delhi. Not long afterwards, the

‘denouement’ Iengar had been warning about for some weeks came about in circumstances which not only exploded Mundhra’s flimsy industrial and financial empire, but also damaged the reputations and careers of a number of officials and public servants.

THE LIC STEPS IN

It is in the event something of an irony that Iengar too should have been singed by the flames of the Mundhra affair. The collapse of his industrial empire and the many civil and criminal cases lodged against him arose because of the dubious methods Mundhra adopted to raise money for his activities. But public and parliamentary concern, if not necessarily interest since the judicial fate of this unsuccessful adventurer continued to feature regularly in the newspapers for the next few years, was mainly evoked by the efforts of the government and the life insurance monopoly owned by it to rescue Mundhra, and the financial losses that the LIC sustained as a result. H.M. Patel, the Finance Secretary, whom the Chagla Commission held was principally responsible for the LIC’s decision, insisted that TTK, Iengar, and P.C. Bhattacharyya who at this time was Chairman of the State Bank of India, shared equal responsibility. While TTK’s strenuous denials failed to convince Chagla, Patel failed in his efforts to implicate the other two men. But Iengar’s reputation never completely recovered from the fact that Mundhra’s movements during those crucial days in June 1957 shadowed his, that Mundhra called on him in Bombay to discuss his proposals, and that he sent the Governor a copy of the proposal upon which the LIC decision was based. The Governor made some remarks on the letter which some felt were incriminating, and which Patel claimed supported his contention that Iengar was, along with TTK, a party to the decision to invest LIC funds in Mundhra’s shares.

It is necessary at this stage to quickly summarize the chain of events and decisions leading to the fateful decision of 22–25 June 1957 to deploy LIC funds to rescue Mundhra. On 18 June, T.T. Krishnamachari, accompanied by Iengar, Patel, and Bhattacharyya addressed a meeting of businessmen and financiers in Calcutta. The prolonged slump in Lyons Range and the Mundhra effect on it also figured in these and subsequent discussions. Mundhra does not appear to have met any of these persons in Calcutta. But Iengar and Patel interviewed B.N. Chaturvedi, the president of the local stock exchange and a member of the investment committee of the LIC, who accompanied Mundhra when he followed Patel to Bombay on 21 June and played a notable role in the discussions which followed.

Mundhra met Patel on 21 June at the Bank. The same day he wrote to Patel at his invitation about his problems and conveying a ‘few suggestions

which would go a long way' in solving them. Mundhra proposed to Patel that the LIC should buy shares worth Rs 80 lakhs from him and pick up another Rs 30–40 lakhs from the market to stabilize it. In addition he sought a loan of Rs one crore from the LIC and undertook to give it business to the same extent. The corporation, he also suggested, should buy fresh issues of preference shares of British India and Jessops to the extent of Rs 1.25 crores, and offered as a sweetener, fire insurance business worth Rs 15 lakhs. Attached to this letter was a list of his total liabilities amounting to about Rs 5.25 crores of which Rs 3.93 crores were owed to banks, and unencumbered assets of Rs 1.55 crores. The following day, Mundhra sent a copy of these proposals to Iengar who remarked three days later that the LIC was 'looking into this in consultation with the Principal Secretary'.

Patel discussed these proposals with Kamat who was willing only to buy Mundhra's shares. On the same day according to Patel's account of these events, he and TTK discussed Mundhra's proposals at the Bank in Iengar's and Bhattacharyya's presence, and took the fateful decision. According to B.K. Nehru's recollection of the episode, TTK 'simply ordered' Kamat to buy certain shares which included those of the Mundhra concerns.¹ On 23 June, which happened to be a Sunday, Patel, Kamat, and Bhattacharyya met Mundhra. At this meeting Mundhra was invited to come up with definite proposals which were presented and discussed the following day in a meeting attended besides the others present at the Sunday meeting, by Vaidyanathan. On 25 June the Life Insurance Corporation wrote to Mundhra communicating its willingness to buy from him an agreed list of shares of his companies at prices prevailing at close of trading the previous day. Not only were the various participants at the meetings clear about the prices the LIC would pay for the Mundhra shares, the manner in which they were finalized allowed ample scope for the markets to be manipulated when they opened on Monday.

The deal finalized by the LIC on 25 June was not the first investment by the corporation in shares of Mundhra's companies. In March and April 1957, in the course of three transactions of which the last two were conducted directly with Mundhra himself, the LIC bought substantial lots of his companies' shares. Nor was it the last, the LIC entering into four more purchase transactions in September 1957 through a firm of brokers. But the deal of 25 June 1957 was the biggest by far of any single investment the LIC had undertaken until then. Significantly, this transaction was conducted without any reference to the investment committee of the corporation.

¹ *Nice Guys Finish Second: Memoirs* (New Delhi, 1997), p. 275.

THE CHAGLA COMMISSION AND AFTER

The LIC's attempt to rescue Mundhra first caught parliamentary attention in September 1957 and became a subject of intense scrutiny and debate later the same year. Bowing to pressures in Parliament and outside, the government appointed Justice M.C. Chagla as a one-man commission of inquiry into the affair. After a public inquiry which lasted some weeks and evoked great public interest, Chagla came to the conclusion that the object of the impugned deal was to relieve Mundhra rather than satisfy any public interest, and that it had been undertaken at Patel's instance. Kamat and Vaidyanathan were both 'overborne' by him and failed to 'exercise ... responsibility'. Chagla also held that the Finance Minister had, as Patel maintained, acquiesced in the transaction and even otherwise could not avoid responsibility for the decision.

The Governor, H.V.R. Iengar, appeared before the commission as a witness. More than his own involvement in the decision, his evidence was expected to resolve the differing accounts TTK and Patel gave of their conversation of 22 June. Mundhra's letter to Iengar and his unsuccessful attempt the next day to meet the Governor, who apparently 'threw him out' out of his house, also figured prominently in the questioning. Iengar disclaimed all knowledge of the conversation between Patel and TTK. Justice Chagla accepted Iengar's evidence but the Attorney-General, M.C. Setalvad, cast reflections on it and suggested that the Governor knew more than he was prepared to admit. It appears from B.K. Nehru's recollections of the event that Iengar's statement was not 'generally believed'. Nehru reports that TTK sent him to meet Iengar, Patel, and Bhattacharyya in Bombay to ensure that the three officials did not try to 'save their own skins' by telling 'stories which differed from each other' and from TTK's. There was, according to Nehru, no need to 'make up' any story since there were no disagreements about it between the three men, all of whom resolved to defend the transaction on its merits and expected the Finance Minister to do the same. But once in the witness box, TTK, acting reportedly on G.B. Pant's advice, went back on the agreement he had deputed Nehru to Bombay to secure, and disclaimed all knowledge of the LIC's decision. An angry Patel reacted by placing the blame on the Finance Minister. Nor was Patel amused, it seems, by Iengar's claim of not having heard his conversation with the Finance Minister. While Setalvad drew pointed attention to it, Iengar's 'temporary loss of hearing' was, according to Nehru, an act of dissimulation which contributed to diminishing the 'prestige of the office of the Governor of the Reserve Bank of India'.² The Bank's initiative to form a

² *Nice Guys Finish Second*, pp. 276–79.

consortium of bankers to promote an orderly recovery of Mundhra's dues, Setalvad also suggested, was another reflection of its solicitude for the adventurer's interests. The Bank sought leave at this point to intervene in the proceedings, only to be told by the commission that neither the Bank's conduct nor that of its Governor was under scrutiny.

TTK resigned as Finance Minister on 18 February 1958 following his indictment by the Chagla Commission. In the parliamentary debate on the report, some members pointed accusing fingers at Iengar (and Bhattacharyya), while one member even charged the Prime Minister with protecting the Governor because he had earlier been his principal private secretary. Rejecting the allegation and defending Iengar, Nehru pointed out that there was 'nothing involving him at all' in the commission's recommendations, and it was 'unfortunate ... [and] not quite fair' that his name should have been 'brought in simply without any reason'.

The Prime Minister's stout defence of Iengar did little to sway the Justice Vivian Bose board of inquiry set up to initiate follow-up proceedings against Patel and Kamat, both of whom belonged to the ICS and were employees of the Government of India, and because the charges against him related to the same transaction, also against Vaidyanathan. While the Chagla Commission's conclusions and its fallout are public knowledge, little is known yet publicly about the Bose inquiry and the government's response to its recommendations.

The inquiry, which was set up under the All-India Services (Discipline and Appeal) Rules, 1955, recommended Patel's removal from service and compulsorily retiring Kamat. Both recommendations were overturned by the Union Public Service Commission (UPSC) which considered the report of the Bose inquiry. The UPSC concluded (with one member, J. Sivashanmugham Pillai, dissenting) that no blame attached to Patel and decided to exonerate him. It held Kamat responsible for not exercising 'due care and caution' in fixing the prices of Mundhra's shares and for entering into an 'unbusiness-like' transaction, and recommended his censure. The government accepted the UPSC's recommendations.

Not being accused persons, neither Iengar nor Bhattacharyya appeared before the board. But the latter thought it fit, nevertheless, to make 'adverse observations' against the two bankers without giving them an opportunity to be heard. This, the government concluded, was 'unfortunate'.

The Vivian Bose inquiry endorsed the Chagla Commission's view that the object of the impugned transaction was to benefit Mundhra rather than the public interest. But it also went much beyond the Chagla Commission in suggesting that the only possible motive for the transaction was 'a quid pro quo for the donations given by Mr Mundhra to the Congress Funds and an

attempt to fulfil promises made to him about the Kanpur Mills'. The UPSC rejected this charge which it felt had been made without proper inquiry. Neither had Patel cited it in his defence nor had the inquiry board put the proposition to the witnesses appearing before it. 'In the circumstances', the UPSC concluded, there was

no ground for the inferences that either Shri Mundhra's donations amounting to Rs 2½ lakhs, or his agreement to defer the closure of the Kanpur Cotton Mills placed the Government under any obligation—express or implied—to enter into a transaction with him of the order of over a crore of rupees.

The government too, endorsed this view and felt that there was no evidence in support of the motive put forward by the board. There the matter has rested ever since.

THE RESERVE BANK'S ROLE

Arguably, as Setalvad implied, the Bank may have followed the LIC transaction closely. There was no lack of reason for such interest. Banks had lent large sums to Mundhra, and a collapse of his business empire would have affected these institutions and possibly their depositors and other borrowers adversely. The Reserve Bank also kept a close watch over stock market trends. But it was powerless to persuade the LIC or the government to step in to save the situation, and appears to have made no attempt to do so. Nor, once the latter agencies decided to act, was the Bank qualified to comment on matters of propriety involving an autonomous corporation. Proposals were on the anvil at that stage for the Governor of the Bank to be made the chairman of the proposed investment board of the LIC, but there was no reason until such proposals materialized for the Bank to evince any interest in the investment policy of the corporation.

Whether or not the Mundhra affair dimmed the lustre of the Bank is a matter of opinion. It did bring the Bank and its chief executive some harsh and unwelcome publicity. The decision to undertake the transaction in question was made on the Bank's premises, while Mundhra visited the Bank more than once to call on Patel who, like other Finance Secretaries before and since, was provided an office at Mint Road whenever in Bombay. Iengar was aware of the crisis in Mundhra's finances and the banks' exposure to him and his concerns. But few would deny that lack of knowledge in this important regard would have been the greater failure. It will always remain moot when and how much Iengar knew about the LIC decision. On the other hand, it is also difficult in matters such as these to judge where the limits of subjective

knowledge yielded to those of liability. But it must be added in all fairness to those involved, that Iengar's reputation came under a cloud not so much because he was believed to have been responsible for the LIC decision, but because he did not divulge to the Chagla Commission the truth of which he was believed to be in possession.

The Mundhra affair certainly dimmed Iengar's lustre which was not enhanced by the remarks Setalvad and the Vivian Bose board of inquiry passed about his reliability as a witness. As we have also pointed out elsewhere, Iengar went into a state of isolation after these events. Writing in August 1958 to TTK who had meanwhile taken up residence in the southern resort of Kodaikanal, Iengar remarked:

You have asked about the boycott in Bombay. Quite frankly, I have ceased to be interested in it and I have ordered my life in such a way that I could not possibly care less. I do not think I have accepted a single invitation from any business magnate since January and it seems to be generally known that I am averse to accepting such invitations. I feel much happier because I am getting a great deal more time which I devote partly to reading economic literature and partly with my family; the latter is a pleasure which I have unfortunately denied myself for many many years.

Although the Bank did not follow Iengar into a shell, the outcome of the Mundhra affair did motivate it to consider shedding responsibilities that were liable to be misunderstood in a manner as to undermine 'the highest public confidence in the monetary management of the country'. The initiative to 'disengage' himself and the Bank from activities which did not 'directly and statutorily' form a part of the latter's responsibilities came from Iengar himself. Expressing his 'dismay' early in February 1958 at the manner in which the Attorney-General 'twisted' his evidence and the Bank's interest in Mundhra's financial affairs, Iengar drew TTK's attention to the presence of D.D. Pai, the Calcutta manager of the Bank on a committee set up to consider a case involving the Jessops. Alarmed by the possibility that 'at some future date the Attorney-General or other lawyers may draw wholly false conclusions about the attitude of the Reserve Bank in regard to the Mundhra concerns', Iengar asked Pai 'not to attend meetings of the Calcutta Stock Exchange' until he was instructed otherwise. TTK believed stock exchanges could not 'normally [be] dissociated from the activities of the Reserve Bank'. In any case, he added in a letter to Iengar early in February 1958, the 'abnormal incident which happened

in connection with the LIC enquiry' would not be repeated 'in the case of any decision by a Stock Exchange Board'. Besides, it was 'unwise' to dissociate the Bank's officers from such activities.

The position of the Reserve Bank is such that it is impossible for it to dissociate itself from the economic activities of the country; and this will be on the increase in the future rather than on the decrease. The objectivity of the actions of the Reserve Bank should not be questioned and I think it will not be in the future. We should not be unduly obsessed with what happened recently.

Iengar followed TTK's advice to 'take his time' and consult the Central Board before coming to any decision. Proposals to the Board were formulated by the Deputy Governors who recommended that while the Bank should not abandon institutions on which its representation was statutory, arose from contractual obligations, or fulfilled a vital national interest without great cost to the institution or its effectiveness, the disadvantages of associating its officers with the working of stock, bullion, and commodity exchanges 'outweigh[ed] the advantages'. Although associations such as these were not without benefit to the Bank, they were not free of friction. There could also be instances in which the 'Bank's name would be drawn into controversy' or the stance its officer took as a nominee of the government (for example on the boards of stock exchanges) conflicted with the Bank's own policies. Therefore, the Bank took the view, which the government in the event accepted, that the latter should nominate its own officers to the stock, bullion, and commodity exchanges rather than those of the Bank.

As pointed out above, an amendment bill was on the anvil at this time to constitute an investment board of the Life Insurance Corporation with the Governor of the Reserve Bank as its chairman. This proposal, the Bank now felt in the changed circumstances, would 'divest the Life Insurance Corporation of responsibility for investment of its funds'. Associating the Governor as chairman was also felt to present other difficulties.

The Board would presumably be responsible for investment of the funds of the Corporation primarily in the interest of policyholders The Bank and its Governor, on the other hand, are charged 'generally to operate the currency and credit system of the country to its advantage', viz. to the advantage of the whole economy and 'to secure stability'.

This arrangement, the Bank argued, would create a 'dichotomy of responsibility' of the Governor in his two capacities and lead to complications. Nominating a Deputy Governor to the investment board was also open to the same objection. Reluctantly, after some delay, and also rather mysteriously and impenetrably, the government accepted the Bank's suggestion 'without prejudice to the general question of the relations of the Reserve Bank with the Government of India and the State Governments and their executive organizations' However, proposals to associate the Reserve Bank with the investment board of the LIC or officers of the Bank as directors of stock and bullion exchanges did not entirely fade away, and were revived from the 1960s.

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