III CHAPTER

DEVELOPMENT OF STATE MONOPOLY CAPITALISM IN INDIA

INTRODUCTION

In the recent years, some of the Marxist Scholars\(^1\) started describing the present stage of economic development in India as 'State Monopoly Capitalism'. A close examination of their interpretations would, however, show that except for the usage of the term, "state monopoly capitalism", they have very little in common. Since there is no unanimity among the Marxist scholars themselves as to what the term should mean, we would be compelled to state the problematic within which the concept has become a logical necessity. Here it may be mentioned that the Comintern theoreticians saw "state monopoly capitalism" as a stage when capitalist state becomes subordinated to the monopolist factions of the bourgeoisie.\(^2\) Mao-Tse-tung used it in a very literal sense to denote state control and state ownership of industrial ventures in semi-feudal and semi-colonial China where the ruling comprador bourgeoisie basically confined itself to trade and usury. In the post-war world, by 'State Monopoly Capitalism', Herbert Marcus referred to the state in the advanced capitalist countries which have become powerful enough to control all aspects of bourgeois society.\(^3\) Let it be made clear at the beginning that since India is neither a semi-colony nor even an advanced capitalist state, our use of the term 'State monopoly capitalism' radically differs from the above-mentioned interpretations.

Our theoretical understanding starts from Lenin\(^4\) who saw 'state-monopoly capitalism' as a reactionary form of capitalist system that emerged in the era of imperialism. To Lenin, it was
basically a condition where finance capital had already emerged and a nexus had started developing between the state monopoly and the private monopolies. Though in this era of monopoly capitalism, capitalist state tries to accommodate interests of other factions of the bourgeoisie, in times of crises the state sides with the monopolies. Such a special relationship is necessitated by the fact that the survival of capitalism cannot depend on the pure sector any more. As contradictions within the capitalism intensifies, the system itself goes for higher and higher forms of concentration. When monopolies become the rock bottom foundation for capitalism, in the interests of the capitalist system as a whole the state will be compelled to show special favour to protect and promote the interests of the monopolies. Such a necessity leads to coalescence of state monopoly and private monopoly. Sum total of all these phenomena signify the state of state monopoly capitalism (Now onwards only SMC).

Such a view of SMC is not a new addition to Marxism. All Marxist-Leninists have a fair understanding of such developments taking place in the Western capitalist societies. But what we would be arguing in this chapter is that this SMC is not peculiar to advanced capitalist countries alone. Contradicting the general assumptions, an attempt is made in this chapter to prove that notwithstanding its status as an underdeveloped country, SMC is developing even in countries like India where the bourgeoisie had come to power after independence. It argues that capitalist development in India had already reached
the stage of monopoly capitalism: that the merging and
coalscence of industrial and bank monopolies had given birth
to finance capital and that a strong nexus had already
developed between the state and monopolies, thus consolidating
the SMC in India.

DEVELOPMENT OF INDIAN INDUSTRY AND BANKING DURING COLONIAL ERA

To facilitate its imperialist exploitation, the British
government introduced many fundamental changes in Indian
economy. Though the colonisers had no intention to industrialise
and develop India, in their own interests, they had to build up
railways, establish a few industries here and there and initiate
commercialisation of certain agricultural products. Inability
of the Britishers to look after all activities pertaining to
trade and other business compelled them to create a comprador
native class which would act as their agents. Some of the... Indians utilised the business opportunities thrown open to
them and began their careers as traders. For a long time,
they remained as appendages to the British interests. However,
it would be wrong to conclude that they were totally ignorant
of their Indian identity. It can be understood from the fact
that along side the British trade associations, many Indian trade
associations were formed in the 19th century itself. Bengal
Bonded Warehouse (1838), Delhi Hindustani Merchant Association
(1893), The Grain Merchants Association, Bombay (1840) and
Bombay Sugar Merchants Association were some of the early
Indian Trade associations. Indian businessmen did not confine themselves to mere trade and commerce. In the last quarter of 19th century, Indians gradually started entering the industrial field. To promote their interests they even organised themselves into associations such as Bombay Mill Owners Association (1875) and Ahmedabad Mill Owners Association (1891). Economic Nationalism that shook the country during the Swadeshi movement gave impetus to many nationalist-minded Indians to start their own industries. Unlike the previous associations formed on sectoral bases, beginning of 20th century saw the birth of many Indian business associations. Significant among them were Indian Merchants Chamber and Bureau, Bombay (1907); Southern Indian Chamber of Commerce, Madras (1909); Gwalior Indian Chamber of Commerce (1906); and Indian Chambers of Commerce, Lahore (1907).

In the absence of any encouragement from the state, Indian industrialists had to face many difficulties in the initial years. The British government which used to entertain belief in laissez faire economy, paid little attention to the demands of the Indian businessmen to protect the native industry. However, after the World War I, the Britishers were forced to revise their economic policy. Their fear of foreign domination of Indian market compelled them to give certain concessions to native industrialists. The tariff protection imposed thereafter, could play an important role in promoting the process of industrialisation in India. Despite several setbacks especially during the period of the great depression.
Indian entrepreneurs made considerable progress. Many factories were started by the Indians in different parts of the country. The progress can be seen from the fact that whereas number of the British group companies increased from 787 in 1921 to 798 in 1937, the number of Indian group companies during the same period increased from 172 to 366. To quote the figures, Indian cotton textile companies increased from 64 to 80; sugar factories from 1 to 20; iron, steel and engineering units from 2 to 7; electrical generation companies from 6 to 22 and Investment and finance companies from 15 to 51.

Parallel to the development of Indian industry, there was simultaneous growth of Indian banking and insurance industry. The growing need for industrial finance and indifferent attitude of the British government necessitated the birth of Indian banks. Encouraged by the nationalist spirit created during the Swadeshi movement, many Indians started their own banks. In some of the British banks, Indians joined as share holders and gradually increased their influence within the banks. By 1913, number of Indian joint stock banks rose to 44. Notable among the oldest Indian banks are Punjab National Bank (1894) Bank of India (1896); Canara Bank (1906); Indian Bank (1907) Bank of Baroda (1908); & Central Bank of India (1911). Despite several crises, even the inter-war period also showed considerable progress in the development of Indian banking. Some of the important banks established during this period were Tata Industrial Bank; the Alliance Bank of Simla and the
Travancore National and Quilan Bank. At the end of 1939, total number of all banks — Indian and Foreign — stood around 680.7

BEGINNINGS OF MONOPOLY TENDENCIES:

At this level, it should be noted that the nature of capitalist development in India radically differed from that of the advanced capitalist countries. Since capitalism started developing in India at a stage when capitalism as a world system had already reached the stage of imperialism, the laissez-faire model of development became obsolete in India. So within a short period, indigenous capitalism had to exhibit monopolist tendencies. The necessity of Indian businessmen to compete with the British and other foreign firms forced them to form cartels and trusts. Periodic failure of the banks and industrial crises made them understand the necessity of pooling their resources. Indirectly the British government also encouraged the development of monopolies for their own administrative convenience. Managing Agency system also considerably contributed to the concentration of capital.8 Many of the leading companies took advantage of their superior strength and coerced the smaller ones to submission or eliminate them from competition. In some cases, by possessing the minimum holding shares, certain industrial houses controlled many companies. For example, Tata were controlling TISCO, JBT, Tata Hydropower Central Ltd.
Some of the early business organisations which could be called trusts or cartels are Indian Jute Mills Association, Sugar Syndicate, Cement Marketing Company of India and Associated Cement companies (ACC). As a result of such process of development some of the leading Indian businessmen emerged as monopolists. Notable among them were Tatas, Birlas, Shriram, S. India, Mafatlal, Walchand and Mangal. Number of companies they had their paidup capital and total assets are shown in Table I.

As a result of mergers and amalgamations, monopolies emerged even in banking and insurance sectors. A large number of amalgamations took place after the banking crisis of 1913. In 1921, three Presidency banks were amalgamated to form Imperial Bank of India. In 1923, Tata Industrial Bank merged with Central Bank of India. To protect their interests, insurance companies also formed their own associations. Notable among them were Indian Insurance Companies Association, Calcutta and Indian Life Insurance Office Association, Bombay. After the passing of insurance Act of 1938, merging process gained momentum in the field of insurance.

All these monopolist tendencies were further encouraged by the opportunities thrown open by the Second World War. War preparations of the Britishers, cessation of foreign competition and dependence of British government on native
### TABLE - I

COMPANIES OF DIFFERENT INDIAN GROUPS (1939)

<table>
<thead>
<tr>
<th>Group</th>
<th>Number of Companies</th>
<th>Paid up Capital (In thousands)</th>
<th>Total Assets (in thousands of Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Tata</td>
<td>19</td>
<td>249,100</td>
<td>624,200</td>
</tr>
<tr>
<td>2. ACC</td>
<td>3</td>
<td>70,600</td>
<td>86,800</td>
</tr>
<tr>
<td>3. Birla</td>
<td>60</td>
<td>43,000</td>
<td>48,500</td>
</tr>
<tr>
<td>4. Dalmia</td>
<td>15</td>
<td>24,000</td>
<td>55,100</td>
</tr>
<tr>
<td>5. Shri Ram</td>
<td>4</td>
<td>28,800</td>
<td>21,600</td>
</tr>
<tr>
<td>6. Scindia</td>
<td>10</td>
<td>18,500</td>
<td>36,600</td>
</tr>
<tr>
<td>7. Mafatlal</td>
<td>12</td>
<td>15,400</td>
<td>24,500</td>
</tr>
<tr>
<td>8. Walchand</td>
<td>11</td>
<td>12,700</td>
<td>24,100</td>
</tr>
<tr>
<td>9. Mangaldas</td>
<td>13</td>
<td>10,100</td>
<td>18,000</td>
</tr>
</tbody>
</table>

industrialists led to horizontal as well as vertical expansion of Indian industry. For effective interaction with government, Indian capitalists formed organisations such as Indian Paper Makers Association (1939), Indian Engineering Association (1939), Re-rolling Mills Association (1941) and Federation of Woollen Manufacturers (1942). During this period, the big business floated a number of companies to meet various civil and military needs of the government. Inflation, speculation and black marketing led to further concentration in industry. With super profits that they could secure, certain leading Indian capitalists competed to take possession of many foreign companies by offering fabulous prices. Similar developments took place in the financial sector also. Responding to the recommendations of the Control Banking Enquiry Committee, an All Bankers Association was formed to face competition from foreign exchange banks. In the middle of 1940's many industrialists took possession of insurance companies so that they could easily divert funds for their industrial expansion. The big industrialists like Birlas floated their own banks and investment companies. Thus before the dawn of independence itself there began the era of fusion of banking and industrial capitalism in India.

FOUNDATIONS OF MIXED ECONOMY; BIRTH OF STATE CAPITALISM

The course of capitalist development after independence needs an analysis of the class character of the nationalist movement in India. India's freedom struggle was initiated by
the nationalist intellelgentia which was basically liberal in its outlook. As a result even if the capitalists did not take the lead, the nationalist movement from the beginning remained predominantly bourgeois democratic in its content. Such bourgeois ideological hegemony was quite conducive to the development of Indian national bourgeoisie. Though the Indian capitalist class did not actively participate in any significant way in the nationalist movement in the first quarter of the 20th century, the moment it consolidated its position it began to play an active role in the freedom struggle and by mid-thirties it became the most influential class in the anti-imperialist front. After the second world war, Indian bourgeoisie played a key role in the transfer of power. Since the capitalist class was a well organised homogenous class, at the time of independence, it alone had the ability to attain state power. Though its relative supremacy gave an opportunity for the bourgeoisie to attain political power, its position vis-a-vis other classes was not very comfortable at that point of time. At the time of independence the rural society was still dominated by semi-feudal relations of production. Foreign capital still had greater hold on Indian industry. Despite the progress that it could make during the II world war, Indian industry as such was yet to gain ascendancy over the traditional sectors. In 1948, the share of Indian industry in the national income was 17% while that of agriculture was 40 percent. Even here, the share of the organised industry was only one-fifth of the
total. In 1951, only 13% of the working population was in industry whereas 73% of them remained in agriculture. Average income of the capitalists was not far above the average income of other powerful groups. The basic infrastructure necessary for development of capitalism was very much lacking. The private sector was too weak to undertake any large-scale industrialisation on its own, particularly in the key sector. The capitalists did not have enough finance, technology and entrepreneurial experience for establishing large scale industries which needed long gestation periods.

Indian bourgeoisie and their political representatives were not unaware of their weaknesses. Hence even before independence they sought to give general guidelines for planned economic development to be implemented in independent India. Both National Planning Committee and the Bombay Plan understood the necessity of active participation of the state in promoting economic development of the nation. State ownership and state management of the key sectors were accepted by both of them. To them, state intervention was welcome so long it did not aim at any radical changes in the relations of production and property ownership. Such a state sector or state regulation was seen only as an instrument for promoting capitalist development in India.

Accordingly when independence was achieved, the government initiated the policy of mixed economy. The Industrial Policy
Resolution of 1948 classified the industries into three categories:
1) the first group included strategic industries; for example, arms and ammunition, atomic energy, railways etc., 2) Second group included industries like coal, iron and steel, air and wireless apparatus etc., where the existing private concerns would be allowed to operate but the establishment of new undertakings would be the responsibility of the state and 3) remaining industries where the private entrepreneurs would be allowed to operate subjected to the governmental regulations and control.

In the wake of Second Five Year Plan which intended to industrialise the country by establishing heavy industries in the state sector, a modified industrial policy resolution was adopted in 1956. According to it, there would be three categories of industries:- 1) Industries the further development of which would be the exclusive concern of the state; eg: Defence, telephones; telegraphs wireless, heavy plant and machinery, generation and distribution of electricity etc., 2) Industries which would be progressively state owned but in which the private enterprises would continue to operate eg., Machine tools, fertilisers, synthetic rubber, road transport, sea transport, ferrous alloys and tools and 3) other remaining industries are left to the initiative of the private sector.

From second plan onwards, gradually allocations for the public sector increased. Number of industries in Defence (HAL, BEL, BEML), Public Utilities (P&T, Telephones, Electricity
and Railways), priority sectors (HMT, BHEL, National Coal Development Corporation, Steel Authority of India), Shipping (Hindustan Shipyard, Vizag Steel Navigation Corporation Ltd), Trade (State Trading Corporation, Central Warehousing Corporation) and hotel industry (Ashoka) came under the direct control of the public sector. Development of these public sector undertakings made the state an industrial monopoly.

Establishment of such state monopoly was never conceived to run counter to the interests of the private capitalists. In fact with independence, industrial monopoly which already had its roots in the colonial period could secure better conditions for growth and development, the government enacted many acts such as Industries (Development & Regulation) Act, 1951, Essential Commodities Act (1955), Companies Act (1956) and Monopolies and Restrictive Trade Practices Act (1970) in order to control and regulate the activities of the private capital. But the government simultaneously initiated many policies which encouraged the development of private monopoly capital. Tariff walls are built around the country to assure protective market to Indian Industry. Necessary infrastructure is created by establishing the basic industries and by widening transport and market facilities throughout the country. The result can be understood from the fact that whereas the capitalists grew numerically at the
rate of 1.5% per year between 1903-04 and 1946-47; between 1948-49 and 1966-67, the figure rose to 7.3% per year. Total number of the middle and bigger capitalist owners in 1967 was around 1.76 millions. Within the private sector, monopolies could take advantage of government's licencing and taxation policies and developed at a rapid pace. In 1967-68, 75 leading industrial groups controlled nearly 53.8% of the total assets of the private sector. The governmental sources show that in 1972, 853 companies registered under MRTP Act had net assets of Rs. 4347 crores and together they accounted for 80% of the aggregate value of the total companies in the private sector.

CHANGES IN THE BANKING STRUCTURE AFTER NATIONALIZATION

Generally whenever the question of monopoly was discussed, Indian Marxist scholars only took account of industrial monopoly. Concentration of capital that simultaneously took place in the banking and insurance sectors was generally ignored. Even those who talk of state capitalism in India, paid little attention to state control and state ownership of banking and insurance institutions. But our understanding of the present stage of development of economy remains incomplete, if we fail to analyse the significance of the changes that took place in the banking structure after the dawn of independence.

Amalgamations: In the early years of independence itself, the Indian government understood the necessity of amalgamating small and weak banking institutions and insurance companies
so as to make them economically viable. Hence the RBI encouraged voluntary amalgamations from the very beginning. The process gained momentum with the establishment of the State Bank of India (SBI) in 1955. A year after, Life Insurance Corporation (LIC) came into existence with the merger of 154 Indian Insurers, 16 non-Indian insurers and 75 provident societies. In 1957, Oriental Bank Ltd (Kottayam) amalgamated with Kottayam Bank Ltd; and Corporation Bank Ltd (Bijapur) merged with the Union Bank of Bijapur and Sholapur Ltd (Bijapur). In 1958 South Indian National Bank amalgamated with the Bank of New India (Trivandrum); Hind Bank with the Bank of Baroda and Reliance Bank of India with the Bank of Madurai. In 1960 the SBI took over the business of certain state associated banks like Bank of Baghelkhand and Mayurbhanj State Bank. In that year itself the Eastern branches of Lloyds Bank were merged with the National and Grindley Bank.

Failure of two scheduled banks in 1960 further speeded up the process of amalgamations. Banking Companies Act was amended to confer more powers to the RBI to reconstruct and if necessary, to impose compulsory amalgamations of weaker units. Care was taken to see that weak institutions were merged with financially sound and well organised units. As a result of such banking policy more than 200 banks were amalgamated between 1960 and 1967. On the whole, between
1953 and 1967, 86 banks went into voluntary liquidation, 56 banks were compulsorily liquidated and 102 banks ceased to function.\textsuperscript{14}

Concentration Capital: As a result of amalgamations, mergers, transfer of assets and liquidations, a few strong commercial banks could develop at the cost of other weaker units. Total number of banks got reduced from 423 in 1956 to 109 in 1969. Branches of non-scheduled banks declined from 1,100 in 1956 to 200 in 1969. During this period, branches of the scheduled banks were almost doubled.\textsuperscript{15} Aggregate deposits of scheduled banks before nationalisation stood at Rs.3,400 crores, while those of non-scheduled banks were around Rs.20 crores. Even within the scheduled banks, some of the big banks had a clear edge over others. It is said that five major banks together accounted for 60% of deposits and 80% of advances inspite of the fact that they accounted for only 14% of the total paid up capital.\textsuperscript{16}

Branch Expansion: In addition to the increase of bank deposits, the independence period saw considerable expansion of banking facilities in India. Failures of the private banks to expand their branches in the unbanked areas compelled the independent Indian state to nationalise the Imperial Bank. The State Bank of India(SBI) that appeared in its place, duly followed the recommendations of the Rural Credit Survey Committee. Between 1955 and 1967, the SBI and its subsidiaries established nearly 1500 banks. Number of branches of the private commercial
banks also increased from 4,151 in 1957 to 6,133 in 1965. At the end of December, 1968 i.e., just before nationalisation, fourteen big banks together had 3,697 branches in different parts of the country. However, before nationalisation, branch expansion was very uneven. Most of the branches were opened in metropolitan cities or urban centres and many of the rural and semi-urban areas were not properly covered by the commercial banks.

**NEXUS BETWEEN INDUSTRY AND BANKS**

With the growth of bank capital, the nexus between banks and industry got further strengthened. As it was already pointed out some of the leading industrialists started their own banks with intention to use the bank resources for their industrial expansion. On the other side accumulation of huge capital led some of the eminent bankers to secure huge shares of the corporate industrial bodies either directly or through clients. The nexus was further strengthened by the interlocking of directorships. Just as some of the industrialists were represented in decision making bodies of the banking institutions including the RBI, many directors of the banks also acted as the directors of many industries. Raj K. Nigam's study in the early 60's brought out many facts on this aspect. He showed that 188 directors of 20 top banks held 1,940 directorships in 1,309 companies and controlled more than 50% of the paid up capital of the entire private corporate sector. The study
**TABLE - II**

**DISTRIBUTION PATTERN OF DIRECTORSHIPS HELD IN OTHER COMPANIES**

BY BANK DIRECTORS

<table>
<thead>
<tr>
<th>Name of the Bank</th>
<th>Number of Directors</th>
<th>Number of Directors in other Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Bank of India</td>
<td>4</td>
<td>174</td>
</tr>
<tr>
<td>2. Central Bank of India</td>
<td>10</td>
<td>108</td>
</tr>
<tr>
<td>3. Bank of Baroda</td>
<td>12</td>
<td>198</td>
</tr>
<tr>
<td>4. United Commercial Bank</td>
<td>13</td>
<td>144</td>
</tr>
<tr>
<td>5. Punjab National Bank</td>
<td>9</td>
<td>65</td>
</tr>
<tr>
<td>6. United Bank of India</td>
<td>13</td>
<td>150</td>
</tr>
<tr>
<td>7. Andhra Bank</td>
<td>12</td>
<td>35</td>
</tr>
<tr>
<td>8. Union Bank of India</td>
<td>10</td>
<td>110</td>
</tr>
<tr>
<td>9. Oriental Bank of Commerce</td>
<td>12</td>
<td>95</td>
</tr>
<tr>
<td>10. Bank of Maharashtra</td>
<td>9</td>
<td>79</td>
</tr>
<tr>
<td>11. Indian Overseas Bank</td>
<td>7</td>
<td>67</td>
</tr>
<tr>
<td>12. Indian Bank</td>
<td>11</td>
<td>44</td>
</tr>
<tr>
<td>13. Devakaram Nanjee Bkg. Co.</td>
<td>9</td>
<td>44</td>
</tr>
<tr>
<td>14. Bank of Bihar</td>
<td>7</td>
<td>35</td>
</tr>
<tr>
<td>15. Canara Banking Syndicate</td>
<td>11</td>
<td>31</td>
</tr>
<tr>
<td>16. Canara Bank</td>
<td>9</td>
<td>28</td>
</tr>
<tr>
<td>17. Hindustan Commercial Bank</td>
<td>5</td>
<td>20</td>
</tr>
<tr>
<td>18. Canara Banking Corporation</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>20. Bank of Rajasthan</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>188</strong></td>
<td><strong>1,452</strong></td>
</tr>
</tbody>
</table>

**Source:** Raj K. Nigan Interlocking of Directorship between Banking and other Companies 1962–68

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disclosed that one of the directors of the Bank of India was the director of 151 companies. Another director of the Bank of Baroda worked as the director of 172 companies. Directors of 5 top banks numbering 55 held as many as 689 directorships in various private limited companies. 17

Alongside such direct interlocking of banks and industries, there developed invisible nexus between the monopoly houses and the public financial institutions. Reports of many committees in the sixties - Estimate Committee, Industrial Licensing Policy Inquiry Committee, Monopoly Inquiry Commission - proved that considerable share of credit from IDBI, IFCI, ICICI, and other banks were availed by a few big industrial houses. 17A

The very criteria that these banks adopted in credit allocations favoured the growth of industrial monopolies.

SIGNIFICANCE OF NATIONALISATION OF BANKS:

The nexus that developed between the banks and industrial monopoly houses would not have created much resentment among the public if India had not witnessed the worst economic crises of the mid-sixties. Industrial stagnation, failure of agriculture, growing unemployment problem - all these had considerably influenced the social and political situation in the mid-sixties. The rural rich was dissatisfied with the bias the state elite was exhibiting in allocation of funds for the industry. Disatisfaction of the rural rich made them assert their strength in 1967 elections. This factor was very crucial in the defeat of Congress Party in some of the Northern states. Within the
industrial sector also, small traders and small industrialists were dissatisfied with favouritism shown to monopoly houses. They were very much insisting on state protection from the big business. Inflation, poverty and unemployment adversely affected the lives of common people. People's dissatisfaction with the government's policy forced them to come to streets and voice their resentment. Among them, workers, peasants and youth were increasingly becoming radical in their outlook and actions. Naxalite upsurge that began in the late 60's brought to light the dissatisfaction of the agricultural labourers, small peasants and tribals with the existing pattern of land ownership. As such, there was overall crisis within the system. The ruling classes had to overcome these multi-dimensional contradictions in order to legitimise their power. To handle this critical situation, the state was forced to restructure the economy, of course, without radically affecting the existing property relationships. Meeting such a necessity itself needed many changes in the economy. One such significant change resorted to by the state was nationalisation of banks.

In fact, the Banking policy of Indian government had already assigned many powers to the RBI to control and regulate the activities of commercial banks. As such it was not at all difficult to move a step further to change the legal ownership of the banks. Even if the state was to give compensation, financial burden on the state exchequer was not so big. It can be understood from the fact that total paid-
up capital of 14 big banks was only Rs.28.5 crores - about 1% of the total deposits of the banks (i.e., Rs.2750 crores) in 1968. Thus objectively by the end of 60's the stage was already set for the nationalisation of banks.

Though economic situation was already ripe for nationalisation, the actual timing of nationalisation was decided by the political events. It was the period when Mrs. Indira Gandhi was desperately trying to assert her supremacy within the Congress Party. In order to fight the syndicate group within the Congress, it was necessary for her to win over the people to her side. She very clearly played her role in Bangalore session of All India Congress Committee by introducing the demand for nationalisation of banks. Her arguments that nationalisation would enable the state to divert its funds for the benefit of the poor and weaker sections in the society and bring about democratic socialism in the country could attract the imagination of the people. She projected the necessity of effective implementation of planning, reduction of regional disparities and the promise of adequate credit for agriculture as other objectives of nationalisation. By and large, people who were looking for a change endorsed her views. Though the leftist parties like Swatantra and Janasangh opposed, Mrs. Gandhi could secure the support of the CPI and Praja Socialist Party. Taking advantage of the progressive image that she could gain because of her insistence on nationalisation of banks she took away finance portfolio from Morarji Desai and initiated the necessary steps for the nationalisation of the top 14 scheduled commercial banks.
DEVELOPMENT OF BANKING STRUCTURE AFTER NATIONALISATION

Though nationalisation of banks could not change the capitalist content of the banks as such, it did introduce many significant changes in the banking structure. Professional touch was given to management and representatives of the workers, artisans, peasants and depositors were included among the directors of the banks. Public Sector banks became one of the biggest employers. Employment in banks increased from 2.3 millions to 12 millions in 1983-84. The SBI itself employs over 2,50,000 employees.

Branch Expansion: Enough attention was paid to expand the branches of commercial banks. As a result, the total number of branches of these banks increased from 12,620 in 1971 to 53,287 in June, 1986. Most of the banks were opened in rural and semi-urban areas (Table II). The SBI with its seven subsidiaries have more than 10,900 branches. Branches of the SBI and its subsidiaries alone constitute almost 30% of the Public Sector Banks. 19

Deposit and Credit Policies: Credit policy of the commercial banks was modified to divert more funds to the priority sectors. Keeping in view the anti-poverty programmes of the government, credit for agriculture increased from 4.8% in 1966 to 16.3% in 1985. During the same period the credit flow for the industry fell from 64% in 1966 to 47.5% in 1985. Aggregate deposit of the scheduled commercial banks increased from
<table>
<thead>
<tr>
<th>Group</th>
<th>1969 JUNE</th>
<th>Percentage to total</th>
<th>1966 JUNE</th>
<th>Percentage to total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>1832</td>
<td>22.4</td>
<td>29,703</td>
<td>56</td>
</tr>
<tr>
<td>Semiurban</td>
<td>3322</td>
<td>40.1</td>
<td>10,585</td>
<td>20</td>
</tr>
<tr>
<td>Urban</td>
<td>1441</td>
<td>17.5</td>
<td>7,209</td>
<td>1</td>
</tr>
<tr>
<td>Metropolis</td>
<td>1611</td>
<td>20.0</td>
<td>5,790</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8260</strong></td>
<td><strong>100</strong></td>
<td><strong>53,287</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Report on Trend and Progress of Banking in India RBI Bulletin*

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Rs.5,906 crores in 1971 to Rs.1,00,964 crores in 1986. Their bank credit during this period rose from Rs.4,684 crores to Rs.60,551 crores. Total deposits of the SBI alone increased from Rs.226 crores in 1955 to 29,729 crores in 1987. During that period, its advances raised from Rs.106 crores to Rs.20,677 crores.21

PROGRESS OF INSURANCE SECTOR: Alongside banking sector, insurance institutions of Central Government also showed significant development. Total business of LIC increased from Rs.1,475 crores in 1957 to Rs.60,795.17 crores in 1987. During the period total number of policies rose from 56.86 lakhs to Rs.290.80 lakhs and their investible funds showed a sharp increase from Rs.381.90 crores to Rs.12,812.32 crores. Total income from investments in 1986-87 was Rs.1,334.17 crores. Similarly aggregate unit capital of the Unit Trust of India (UTI) rose to Rs.3,708 crores by the end of June, 1987. Total investible funds of the trust increased from Rs.24.7 crores in 1965 to Rs.3118 crores in 1987.23

DIVERSIFICATIONS OF THE FUNCTIONS OF THE BANKS:

With the expansion of banking facilities and with the accumulation of bank capital, there arose the necessity of diversifying the functions of the banks. Accordingly, division of work took place within the Indian banking and many specialised banks were established to cater to the needs of the industry and trade.24 Whereas the SBI and other
scheduled banks were basically involved in mobilisation of savings, development banks like Industrial Finance Corporation of India (IFCI), Industrial Credit and Investment Corporation of India (ICICI), State Finance Corporation, Industrial Development Bank of India (IDBI), Export Credit Guarantee Corporation (ECGC) and Export-Import Bank (EXIM BANK) started dealing with industrial financing and export promotion activities.

Industrial Finance Corporation of India was established as early as in 1943 itself to provide medium and long term loans to industry. Some of the major functions of the banks include: 1) guaranteeing loans raised by the industrial concerns; 2) subscribing shares and debentures of industrial concerns; 3) underwriting the issue of stocks, shares bonds or debentures by industrial concerns and 4) extending guarantees in respect of deferred payments. In addition to IFCI, State Financial Corporations were started in every state to meet the needs of small and medium sectors of industry. Apart from them, the ICICI was set up in 1955 with the help of the World Bank in order to encourage and assist industrial investment in the private sector. The ICICI lends long term and medium term loans in rupee and foreign currencies to private industrial concerns which normally involve foreign collaborations.
Industrial crisis of the mid-sixties however necessitated a bigger organisation to undertake industrial financing, and export promotion. Responding to these necessities, Industrial Development Bank of India was setup in July 1964 as a subsidiary of the RBI. The IDBI coordinates the activities of other financial institutions including the commercial banks; supplements their resources; plans and promotes industries of key significance and develops and enforces a system of priorities in promoting further industrial growth.

Apart from these institutions specialised in industrial finance, some other financial institutions such as BOGC and EXIM Bank came into being to finance export related activities. The BOGC issues insurance policies to Indian exporters and furnishes guarantees to banks providing pre-shipment and post-shipment credit facilities. The EXIM bank was established in 1982 to ensure integrated and coordinated approach to the problems. EXIM Bank promotes export of capital and technology from India. It extends credit facilities to different kinds of exporters to enable them to compete in international markets.

In addition to these banks the Life Insurance Corporation of India (LIC) and Unit Trust of India (UTI) also play key roles in developmental activities. They mobilise savings by floating different schemes and invest in private sector undertakings by purchasing shares and debentures.
SUPREMACY OF FINANCIAL INSTITUTIONS

In the era of monopoly capitalism it becomes extremely difficult for any individual industrialist to float or expand any major industrial ventures without the assistance of financial institutions. Inadequacy of their own resources and periodic crises in capital market compel even the monopoly houses to depend on banks. In India nearly 1/5th of the industrial financial needs are now met by the Public sector banks. More than commercial banks, specialised financial institutions like IDBI, IFCI, UTI, ICICI emerged as potential financiers to Indian industrial sector. Loans disbursed by all financial institutions combined in 1986-87 totalled Rs.4,517.9 crores and their indirect and direct subscription to shares and debentures amounted Rs.754 crores. (See Table IV)

Aggregate financial assistance sanctioned by the IDBI rose from Rs.3,673 crores in 1985-86 to Rs.4,481 crores in 1986-87. The cumulative assistance sanctioned and disbursed by the IDBI since its inception to the end of March 1987 aggregated Rs.16,680 crores and Rs.16,454 crores respectively. As on March 1989, IFCI has sanctioned Rs.6,546.79 crores to finance 3,159 projects. In the cumulative picture, textiles, cement, fertilisers, iron and steel and ferrous alloys, synthetic and man-made fibre and sugar emerged as the largest beneficiaries of the IFCI's assistance having claimed together 48% of the total assistance. In 1988-89
### TABLE IV

**ASSISTANCE DISBURSED BY TERM LENDING INSTITUTIONS**

1986-87

<table>
<thead>
<tr>
<th>Institution</th>
<th>Loan disbursed (In Crores of Rupees)</th>
<th>Underwriting &amp; direct subscription to Shares</th>
<th>TOTAL (In Crores of Rupees)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDBI</td>
<td>3,054.0</td>
<td>29.4</td>
<td>3,083.4</td>
</tr>
<tr>
<td>IFCI</td>
<td>448.4</td>
<td>16.9</td>
<td>459.3</td>
</tr>
<tr>
<td>ICICI</td>
<td>671.0</td>
<td>24.5</td>
<td>695.5</td>
</tr>
<tr>
<td>IRBI</td>
<td>94.6</td>
<td>-</td>
<td>94.6</td>
</tr>
<tr>
<td>LIC (Excluding Short Term Loans)</td>
<td>109.8</td>
<td>280.0</td>
<td>389.8</td>
</tr>
<tr>
<td>UTI</td>
<td>110.7</td>
<td>306.9</td>
<td>417.6</td>
</tr>
<tr>
<td>GIC and its Subsidiaries</td>
<td>29.4</td>
<td>102.2</td>
<td>131.6</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>4,517.9</strong></td>
<td><strong>753.9</strong></td>
<td><strong>5271.8</strong></td>
</tr>
</tbody>
</table>

*Source: Report of Trend and Progress of Banking in India, 1986-87*
private sector which has always been a prime-beneficiary of the financial assistance from IFCI right from its inception claimed Rs.1053.40 crores (79% of the total) for assisting 501 projects. Assistance to the joint sector in that same year was Rs.135.41 crores.26

The LIC and UTI emerged as the biggest buyers of shares and debentures in industry. In 1971 itself LIC was ranked among the top 10 equity holders in 40% of the 332 industrial companies surveyed.27 LIC has invested in 328 large group companies registered under section of 26 of MRTP Act, 1969. In 1987, the total investment which amounted to Rs.739.75 crores accounts for 60% of its total investments in the private sector.28 Out of the total investible funds of Rs.4,494 crores in 1987, the UTI invested Rs.623 crores (13.9%) in equity shares, Rs.10 crores (0.2%) in preference shares, Rs.1761 crores (39.3%) in debentures and balance of Rs.2086 crores (45.6%) on advance deposits against investment commitments, unsecured short term deposits etc., and other investments with banks and governments.29

In the initial years, the financial institutions were satisfied with the returns that they used to get in the form of interest and profits. But as their investments increased they began to take increasing interests in the management of the concerned industries. Inability of the financial institutions to dispose off all their shares in times of crises is used as a plea to demand an effective role for them in the decision making process of the concerned companies.
In the recent years wherever necessary the banks are imposing rigorous rules, supervising the accounts and bringing pressure upon the industrialists to comply with their goals. With the introduction of convertibility clauses, the powers of the financial institutions are further enhanced. Following Dutt Committee's recommendation that the financial institutions can appropriate a share in the benefits accruing from the projects financed, the government gave options to the banks to convert their loans into equity. As on June 1987, the clause was stipulated in 930 cases involving loan amount of Rs. 2075 crores. Loan amount subjected to actual conversion was Rs. 399 crores.30

Financial institutions which can send their own representatives have accumulated considerable powers to influence the board. To alleviate the fears of the capitalists who considered this clause as a backdoor step towards nationalisation, normally, the directors of the financial institutions remain as sleeping members of the board. However, the recent incidents showed that they have the ability to play havoc with the private corporate sector. Takeover bids in 1982–83 in fact established the supremacy of financial institutions over the industrial monopolies. It may be remembered that in Swaraj Paul case, the LIC attempted to remove the Directors of Escorts. To bring about changes in the organisations of the companies financed by them, sometimes they sell their shares to certain parties close to them.
Infact it is alleged that in the cases of Indian Cements, Kamini Engineering and Premier Automobiles, financial institutions favoured persons who are close to the ruling party at Centre. Since the financial institutions now control as much as 51% of the equity in the corporate sector, they can dictate terms to the companies and decide the fate of the industrialists.

That banks are not all that altruist in their practice could be understood from the fact that since the introduction of convertibility clause, rate of interest was raised from 8% to the present level of 14 percent. As such the industrial finance from the developmental banks are becoming costlier - both economically and organisationally - even to the private monopoly houses.

CONCLUSION

So far, we have reflected on different aspects which are very crucial for understanding present stage of development of capitalism in India. In a sum up, it may be again stated that this stage is 'State Monopoly Capitalism' (SMC), because it has all the features common to such system. About 30 years of planned development in India gave birth to a powerful State monopoly - both in industry and banking - and this public sector in addition to creating necessary conditions for the growth of private capitalists, established a strong nexus with private monopolies, thus strengthening the SMC in India. This hypothesis can be further strengthened by the following facts:
One can see phenomenal growth of public sector enterprises during the plan period. From only 5 enterprises as 1st April, 1951, their number increased to 223 in March 1987. Now they employ more than 23 lakhs of people, including casual workers. At the end of 1986-87, capital employed in operating central public sector alone stood at Rs.51,931 crores. In that year the total turnover was Rs.61 thousands crores and its profits around Rs.1,770 crores. About 55% of the total investment in central public sector undertakings is in basic industries like steel, coal, minerals petroleum and power. Public sector today accounts for 100% in petroleum, lignite, copper, lead, telephones and teleprinters. About 89% in coal production, 77% of steel production, 38% of aluminium and about 87% of zinc comes from the public sector enterprises. Public sector undertakings like Hindustan Petroleum, Bharat Petroleum, Indian Oil, Coal India Ltd., Steel Authority of India Ltd., oil and Natural Gas Ltd., and BHEL found place in "Fortune International 500" list of the largest non-US industrial corporations for 1987.

Just as in the field of industry, Indian State made efforts to bring concentration in the field of banking also. At the time of independence itself, the RBI realised the necessity of amalgamating small and weak banking institutions in the country. After the banking crisis of 1960, wherever necessary
the RBI started resorting to compulsory mergers and compulsory liquidations. As a result of the banking policy, a few big scheduled banks could develop into monopolies by squeezing many non-scheduled and also small scheduled banks. Nationalisation of banks further activated this process. Infact number of non-scheduled banks drastically came down from 335 in 1960 to mere 4 in 1987. Though number of banks came down, concentration reached its highest peak after nationalisation. In 1995 total global deposits of all scheduled banks stood at Rs.1,26,761 crores and their credit at Rs.76,563 crores. They employ more than 8 lakhs of workers. As the need for diversification of functions of the banks arose, many specialised financial institutions came into existence to finance industry and trade.

Despite many changes in structure and functions of the banks, nationalisation has not altered the commercial nature of Indian banking. No compromise was made on the question of earning maximum profits. Actually nationalisation was only intended to make them more professional. Hence, though the banks were nationalised, in many of them old directors were retained and wherever necessary experts in the banking business were taken in. Representatives of the private monopolies continue to sit in the Board of Directors as the representatives of the Indian Industry. Their pressure groups like FICCI and ASSOCHAM exert considerable influence on bank policy. Credit policy of the banks in fact created a strong nexus between the banks and industrial monopolies. Joint sector initiated by the government after 1970 resulted in coalescence of
state monopoly and the private monopolies. Since some of the public sector undertakings are accumulating considerable profits in the recent years, many of the private monopolies have started investing in the UTI units and governmental securities. Thus, interests of the state and monopolies began to converge to strengthen the state monopoly capitalist base in India.

When the SMC becomes the rock bottom foundation of Indian economy, Indian state cannot but play a conscious role to promote the growth of private monopolies. Though the state succumbed to the pressures from the public and enacted acts such as FERA and MRTP Act, other than taking steps to regulate the activities of individual monopoly houses, it never took up any measures to weaken the monopolies. By creating necessary conditions in one sense, the state itself became instrumental in promoting the growth of private monopolies. As Monopoly Enquiry Commission put it, "the planned economy which government decided to accept for the country as the quickest way to achieve industrialisation on the right lines has proved to be a potential factor for further concentration". Development of public sector, nature of industrial licencing policy system and credit policy of the Indian banks - all these actually promoted concentration in the private sector. Even those who are very closely associated with the enactment of MRTP Act now accept that the Commission could not do anything to curb the monopolies. In the recent years, the
Industrial policies are being gradually liberalised to enable the monopoly houses to enter even those sectors which were higher to kept under the exclusive domain of the public sector. Arguments such as the necessity of restricting foreign multinationals, development of backward areas, export promotion or technological development were floated to liberalise the economy. Rajiv Gandhi's "New Economic Policy" took the liberalisation process to logical culmination. In 1985, 25 broad categories of industries were delicensed and 22 out of 27 MRTP industries were exempted from Section 21 and 22 of the MRTP Act. Corporate taxes were considerably reduced and licencing policy was further simplified. All these steps further promoted concentration of capital. How quickly some of the private monopoly houses could reach the present stage could be understood from the figures cited in Table V. Indeed between 1957 and 1987, the paidup capital of non-governmental companies increased from Rs. 1,005 crores to Rs. 9,383.2 crores in 1987. During the same period number of non-governmental companies increased from 29,283 to 1,37,133. All these facts and figures are sufficient to prove that the Indian state played a key role in establishing and in strengthening the state monopoly capitalism (SMC) in India.
### TABLE V

**GROWTH OF THE ASSETS OF SOME OF THE BIG BUSINESS HOUSES**

<table>
<thead>
<tr>
<th>Name of the House</th>
<th>Assets (In Crores of Rupees)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1965</td>
</tr>
<tr>
<td>TATAS</td>
<td>468.06</td>
</tr>
<tr>
<td>BIRLAS</td>
<td>304.03</td>
</tr>
<tr>
<td>Mafatlai</td>
<td>45.91</td>
</tr>
<tr>
<td>J.K. Singhania</td>
<td>59.20</td>
</tr>
<tr>
<td>ICI</td>
<td>36.89</td>
</tr>
<tr>
<td>Sarabhai</td>
<td>43.16</td>
</tr>
<tr>
<td>Bangurii</td>
<td>77.91</td>
</tr>
<tr>
<td>Kirloskar</td>
<td>19.12</td>
</tr>
<tr>
<td>T.V. Iyengar</td>
<td>21.67</td>
</tr>
<tr>
<td>Mahindra &amp; Mahindra</td>
<td>20.12</td>
</tr>
<tr>
<td>Bajaj</td>
<td>21.14</td>
</tr>
<tr>
<td>Shriram</td>
<td>54.68</td>
</tr>
</tbody>
</table>

**Source:** Monopolies Enquiry Commission 1959: Manorama Year Book 1988-89
NOTES


10. Ibid., p.33


13. RBI, *Trend and Progress of Banking in India*, Bombay, 1958 p.15


16. Ibid., p.8

17. Ibid., p.16-17

17a. Mahalanobis Committee appointed to review the trends in economy confirmed that, "in part at least the working of our planned economic growth has encouraged this process of concentration by facilitating and aiding the growth of big business in India". R.K. Hazari's study also stated that a few industrial houses like Birlas could obtain a large number of industrial licences. ILBI confirmed that Indian government never had any clear-cut aim of restricting the growth of big business. Dutt Commission revealed that 73 business houses accounting for only 7.5% of the total number of companies in the corporate sector could obtain 32.06% of all the licences issued to the entire private corporate sector. The government in fact encouraged the industrial houses under the belief that "really speaking they alone can deliver the goods".


22. LIC, Twentieth Report, 1987, p. 3

23. RBI, Report on Trend and Progress of Banking in India 1986-88, Bombay, pp. 190-191

24. For a fair understanding of the role of financial institutions see, Dagli, Vadilal, Financial Institutions of India, Vora & Co, Bombay, 1976

25. RBI, Report on Trend and Progress of Banking in India 1986-87 Bombay, p. 183


29. RBI, Report on Trend and Progress of Banking in India 1986-88, p. 190


36. Ibid., p. 489

37. RBI, Report on Trend and Progress of Banking in India 1979-80, Bombay

38. See "Company investments in Stocks" in Economic Times, October 6, 1988


40. RBI, Economic Survey 1986-87, pp. 36-37


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