The role of monetary policy in the context of planning for economic development in India during the Fourth Five Year Plan has been dealt with in the present study. The Fourth Plan was formulated with two objectives, viz., growth with stability and progressive achievement of self-reliance. To attain these broad social objectives, the twin role of monetary policy has been more clearly during the period of our investigation. But the objectives of economic growth and price stability were not realised due to factors beyond the control and purview of monetary policy.

In order to facilitate bank credit to the priority sectors which has hitherto been relatively neglected by the banking system and also to enable the banking system to render maximum service to the recipient of bank credit, social control was introduced in the banking system about four months before the starting of the Fourth Plan. Social control means state management without state ownership.

The aim of the social control was to divert the resources to the priority sectors in conformity with the plan targets. Without giving reasonable time for its proper functioning and trial in the economy, 14 major commercial scheduled banks, which commanded a deposit of nearly 72 per cent of the total deposits, and an advance of about 65 per cent of the total advances of all the scheduled banks, were nationalised with effect from July, 19, 1969, just about three and half months after the starting of the Fourth Plan. The objects of nationalisation were manifold. Firstly, these big banks were controlled by a few persons who dominated on the economic scene of the country according to their profitability motive. Secondly, the poor performance of financing agriculture and the priority sectors in the past by these banks became glaring. Thirdly, a necessity was felt to create a new confidence in the mind of the common people as to the stability of the existing banking system and this would pave the way smooth to
mobilise the idle resources and lastly, the resources so mobilised would cater to the needs of the neglected and weaker sector of the economy. The growth of the unemployed has gradually been mounting. The credit planning was another factor which engaged the attention of the planners. It was believed that the nationalisation would help absorb the surplus labour in the unemployment market by utilising the mobilised resources and by credit planning in the cottage and small-scale industries as well as agriculture. It appears that the decision of both implementation of social control and its sudden removal by partial nationalisation of banks is somewhat hasty and motivated.

In a developing economy, the monetary authorities have to play a dual role—regulatory and promotional. The primary task of the Reserve Bank of India is to use timely restrictive measures in order to stabilise the exchange rates, stabilise the general price level and stabilise the business activity and employment. To regulate the flow of credit in productive channel forms a part of regulatory role. During the Fourth Plan, the money supply with the public continued to rise. The analysis of regulatory role has demonstrated that the Reserve Bank of India has implemented timely its credit control instruments to arrest inflation generated in the economy, though the same (inflation) could not be checked due to reasons beyond its control, such as, natural calamities leading to shortfall of agricultural production. The supply of raw materials, capital or capital equipments in certain cases, demand for the produce, supply of power and of labour forces are essential for rapid industrial growth. The lack of any one of these factors hampers production. During the Fourth Plan period, import constraint due to inadequacy of raw materials and inadequacy of capital or capital equipments in certain cases, demand constraint due to high prices, power bottleneck and labour unrest due to both political and economical reasons have much contributed to the set-back in industrial production. As a result the aggregate turnover in industrial sector has not been commensurate with actual expenditure. It is very difficult for authorities to
demarcate the point-of-the quantum of inflation since it is taken for granted that a small quantity of inflation is regarded as compatible with the development process and it might also be conducive to growth in an underdeveloped country like India.

The Indian economy has got an un-organised money market. Inspite of that, the monetary authority has used all the credit control instruments to restrict the flow of credit. The bank rate comes into view as the most important instrument of quantitative credit control during the planning period. It is clear from the fact that the bank has repeatedly been used during the same period. The aim of the policy was not merely to curtail the lendable resources of banks, but also to minimise their recourse to the Reserve Bank of India for financial accommodation. In short, it was used to restrict the supply of credit by making it somewhat costlier. But the desired result as to price-control and checking of inflation has not come true. Had this measure been applied earlier, even since the inception of the Third Five Year Plan, the result would have been much more better. Now this measure has not responded to the expected necessity due to excessive public expenditure which is the main cause of present inflation. This needs to be checked. The open market operations are undertaken by the central bank of the country for purchase and sale of not only government securities, but equities and foreign exchange. This instrument is adopted as an ancillary to government debt management. In underdeveloped country where the money market is somewhat narrow, the effectiveness of open market operations is very much limited. The variable reserve ratio method was first used in March, 1960. This instrument has been repeatedly used. The last use was made effective from June 29, 1973, and would remain in force till June 28, 1974. In this regard the Reserve Bank should, considering geographical regions, make groups of banks and determine separately the reserve ratio for each group. It is found that by applying the changes in the reserve requirements to groups of banks, the situation arising out of reserve stringency or redundancy can be met. This provision is felt necessary for India in the context of planned economy.
The developing economy brings about structural changes and in their wake new sensitive and pressure spots appear. The central bank has to find out the location of the pressure points connected with the rapid structural changes. To touch and control these pressure points, the selective credit control instruments have been brought to the forefront and used, as the traditional credit control instruments, such as, bank rate, open market operations are not sufficient for the central bank to tackle the rising problems of credit control in the changing economic structure. The keynote of this instrument is to help in stabilisation of prices through control over bank advances. In India, the selective credit control methods have been utilised in arresting an undue expansion of credit against specific commodities in busy seasons and accelerating its reduction in the slack season. But there are limitations in the use of this instrument. Firstly, the indigenous bankers and village moneylenders stand in the way of effectiveness of this instrument as these money lending agencies are not in complete control of the Reserve Bank of India. Secondly, the emergence of non-banking financial intermediaries also created barriers in effectiveness of this instrument. Thirdly, the administrative process with its niceties is not less responsible for ineffectiveness of this particular instrument. In this context, the simultaneous application of all the instruments would have been a better compliance to have the desired effect.

The achievements of the Reserve Bank of India in its promotional role have clearly exposed that the Bank has played a dynamic role in the matter of developing credit-extending and term-lending institutions as well as has given reformative instructions to the nationalised banks for the effective monetary operations to accomplish the plan programmes and targets. The nationalised banks have multiplied the opening of new branches in rural sector, particularly in unbanked areas to mobilise idle resources and to cater to the needs of neglected and priority sectors. In this respect, it may be observed that more attention should be paid to the utilisation of advances allotted to the farmers and the entrepreneurs of small-scale industries.
and their credit-worthiness. To check the diversion of advances to unproductive channel by these borrowers, it is desirable that inputs, such as seeds, fertilisers, appliances etc should be supplied to the borrowers instead of liquid cash. For this purpose, the rural banks as recommended by the Banking Commission, 1972, should be set up and given the responsibility of implementing proposals for rapid economic developments of priority and neglected sectors. The scheme of restructuring of commercial banks and that of lead banks as recommended by the Banking Commission, 1972, should be implemented without further delay to meet the exigency of the day. In analysing the activities of the nationalised banks as to the policy prescriptions of resource mobilisation and investment was really an encouraging during the first three years after nationalisation, but afterwards the enthusiasm for these desired efforts became somewhat damped. What is more significant in the economy is that the mobilised resources have been diverted for additional investment in the existing industry of the urban area or its outskirts. As a result, the rural economy remains undeveloped as before.

The post-independence period has witnessed the setting up of a series of development banks one after another with designs to render suitable assistance for rapid industrialisation in the country. The Reserve Bank of India has been effecting the development measures through the development banks. The survey of the functions and workings of these development banks reveals that there has been a gradual substantial improvement in relation to the policies as envisaged in the planned programmes for economic development. Industrial Finance Corporation, Industrial Credit and Investment Corporation and Industrial Development Bank of India are concerned with large-scale industries whereas the State Finance Corporations and State Bank of India are concerned with small-scale and cottage industries. The creation of these institutions is sure to be of a great help in the industrial sector. The security market in India has been developed by the contribution of these institutions. The actual financial assistance by these financieries disbursed to backward areas has
doubly increased. The adequate availability of industrial finance has been possible by the setting up of development banks. These banks really open new facilities to the industry which is a right step. Generally, short-term credit is given to the industries by the commercial banks in India. The long-term and medium-term loan should jointly be given by the public sector banks and the development banks for a period ranging from 5 to 10 years on condition that the advances given by the public sector banks should be repaid first, then the loan of the development banks may be repaid.

The Export Credit Guarantee Corporation played a dominant role for export promotion and had been making rapid progress during the Fourth Plan. To boost up export, the Export-Import Banks type organisation as a subsidiary of the Reserve Bank of India should be set up to look after the proper formulation and implementation of the monetary policy.

Since the mid-fifties, the rise of non-bank financial intermediaries has been attracting the attention of monetary economists and these non-banks have been playing an important role in monetary spheres. The rapid growth of such non-bank financial intermediaries has posed a serious threat to monetary policy. The NFI should be regulated for the purpose of safeguarding the interest of depositors and ensuring effective implementation of monetary policy. In this regard, the recommendations of the Banking Commission, 1972, should be implemented as earlier as possible.

The role of deficit financing as an instrument of economic development in India has been reviewed with special stress on the use of surplus labour, creation of forced savings and creation of real savings out of increasing output, but it has not been able to serve the purpose fully. The supply of money with the public has increased, but with it the rise of real output or increase of national income
at current prices has not proportionately been compatible. It is often argued that deficit financing is the real cause of price rise. But on analysis, it comes to light that it is one of the most important factors contributing to price rise, not the sole factor. Though deficit financing as an instrument is necessary for economic development, still high dosage of deficit financing cannot be resorted to in the underdeveloped country. Experience of other underdeveloped countries for economic development without deficit financing may be followed. In the changed circumstances in India, the out-dated land revenue system is required to be remodelled and reformed. The progressive tax structure on agriculture, which has elaborately been discussed, if implemented, would fetch extra revenue. This extra revenue may be utilised for the purpose of economic development.

Debt management which helps planning for economic development is regarded as an important instrument of fiscal policy. But the mounting amount of public debt, which is almost inter-governmental, affects the monetary policy. The debt management policy of the Government has been no doubt formulated in collaboration with the prevailing monetary policy. But its success depends not on monetary policy alone but upon a proper co-ordination between monetary policy and fiscal policy.