Democratic planning in India began in 1951. With the acceleration of planning efforts, exceptional stresses and strains developed in the economy which challenged the Reserve Bank to reformulate its monetary policy in a way which would curtail the flow of credit into undesirable channels without bringing about a contraction in the total quantum of credit. How well the monetary authorities have met this challenge has been a major area of discussion? In the final analysis, it has been established that the ultimate success of monetary policy in all developing economies will depend in a large measure upon the skill and open-mindedness of the monetary authorities to adopt constantly the technique of Central banking to the ever changing national economic situation.

Traditionally the major responsibility of a Central bank of a developing nation is considered to be the use of general and selective instruments of credit control with the prime objective of maintaining monetary stability in the country. The role of a Central Bank is, therefore, characterised primarily as regulatory. In India, in particular, the Central bank has to operate in an institutional set up of a mixed economy, heavy public expenditure under a planned development programme, the existence of a large and important private sector, an indigenous juxtaposition of a highly organised and unorganised money and
banking sector, and above all, the existence of a primitive barter economy.

More specifically it is certain that when the Government decides to pursue the inflationary method of financing development, the monetary authorities charged with the responsibility of controlling the inflation generated in the economy must not only use the quantitative instrument of credit control more vigorously, but must also be versatile in developing qualitative methods of controls best suited to the needs of the particular stage of development.

Since bank credit forms an important part of the money supply, the Central banks have always sought to operate upon this strategic and sensitive element in the monetary mechanism. In the matter of control over the rate of creation of the credit, Central banking technique has in course of time proceeded from the general to the particular.

The Reserve Bank’s experiment also with selective credit-cum-portfolio-ceiling control was carried out during a period of more or less continuous inflationary pressure generated by large-scale Government expenditure. It is well known that the continuous inflation is corrosive of confidence in money and ultimately of investment. So, the containment of inflation should be one of the major objectives of economic policy in a developing economy like ours. To control the inflationary
strains, the Reserve Bank applied, in varying degrees and frequency, all the monetary brakes in its possession.

Methods of selective credit control are now regarded to be of special significance to the under-developed countries. As the money markets of these countries are generally under-developed, quantitative control operations, like changes in the Bank Rate, etc., are considered to be ineffective. Even if these be made effective, their use may not be practicable, specially in those countries where Governments have embarked upon plans for rapid economic development involving large-scale borrowing from the market.

In recent years, Central banks have advanced for these indirect to more direct methods and have in various ways sought to limit the availability of bank credit directly either by fixing ceilings or by trying it down to particular ratios, sometimes, both these measures have been combined in an attempt to sharpen the impact of these control measures.

The monetary authorities believed that the selective credit control measures may enable them both to check the abnormal flow in certain lines and to divert it into more desired channels.

With what dexterity and acumen that brakes of selective credit controls have been applied by the RBI during the long period of twenty three years and to what extent these measures have proven
effective in controlling prices and regulating bank advances against the commodities selected forms the subject matter of this study. Of course, as a background study, the role of money and credit supply during the two wars and upto the First Plan period has been analysed in a separate Chapter on "A Retrospect". Quantitative methods of credit control viz., Bank Rate, Open Market Operations, Variable Reserve Ratio, etc., have also been reviewed, in brief in Chapter II prior to the development of the theory of Qualitative or selective methods of control as applicable to the present study.

Although sufficient material is available on monetary management techniques in India but very few researchers have worked on selective credit control measures on a micro basis i.e., commodity-wise and/or according to different measures of selective credit control upto the Fifth Plan period. Five commodities viz., foodgrains, sugar, Gur and Khandsari, oilseeds and oils, cotton-kapas and raw-jute have been picked up for the study. The Reserve Bank of India Reports on Currency and Finance have been the main basis from which the research material has been collected. Besides this, authors who have worked on Central Banking in under-developed money market/in a planned economy have been consulted.

The study, however, suffers from certain limitations. Study of selective credit control measures applicable to shares, cotton Textiles (including cotton yarn and man-made fabrics) and
Jute goods have been left out of study. Moreover, the study has been concentrated on the regulatory/negative role of the RBI through qualitative methods of control. The positive/promotional role of the Central Bank has again, been left out of the study.

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-SIMHESHWAR UPADHYAY, M.A., Ph.D.