ADMINISTRATIVE REFORMS - NATIONALIZATION OF BANKS AND LAND REFORMS
On 20 July 1969, the Indian government nationalized fourteen private sector banks. By any measure, this was the defining economic event of not just the 1960s but the next three decades. Its reverberations have still not died down. It remains, without doubt, the single most important economic decision taken by any government since 1947. Not even the reforms of 1991 are comparable in their consequences—political, social and, of course, economic.

From 1951 to 1966, in an effort to consolidate commercial banking, which was very fragile, the number of commercial banks was brought down sharply. In 1951, there were 566 banks; by 1967, just 91 were left. It was, on the whole, a successful endeavour. By the mid-1960s, Indian banking had become far more viable than it had ever been before. This did not, however, mean that the spread of banking also got reduced. On the contrary, there was an increase in the number of branches—from 4,151 to 7,025 during 1951–67. There was thus a significant and palpable increase in the availability of banking facilities, with the population per branch office declining from 1,36,000 in 1951 to about 75,000 in 1967. But there was one important snag: the expansion of branches was mostly in urban areas, and rural and semi-urban areas continued to go unattended. As a result, a number of economic activities, in sectors ranging from agriculture to small-scale industrial units and the self-employed, did not have proper access to banking facilities.

This led to the widespread political perception that, left to itself, the private sector was not sufficiently aware of its larger responsibilities towards society. The political class became convinced that privately owned banks needed to be informed of the societal requirements of credit. Private Banks were seen as being excessively concerned with profit alone, which made them unwilling to diversify their loan portfolios across different scales of operation of economic units, as this would raise transaction costs and reduce profits.

The Road to Social Control

Here it is imperative to know the social and economic setting that prevailed before 1970s to appreciate better the need for nationalization and the social control of banks. The idea of ‘social control’ of banks, as it first emerged in 1967, was the result of a compromise between two extreme viewpoints on banking held by the political class, then mainly represented by the Congress party. The Economic Programme Committee of the All-India Congress Committee (AICC), in its report submitted in 1948, had strongly recommended that banking and insurance should be nationalized as part of a total package for establishing ‘a just social order’. This
recommendation was endorsed by the AICC at its meeting held in Bombay in April 1948 and also at the annual session held in Jaipur in December 1948. But there matters rested for a decade and a half.

In March 1963, just after the war with China, which India lost and as a result of which a huge budgetary cost was imposed, the government suddenly found itself short of resources to fund the Third Five year Plan. In the ensuing debates, Subhadra Joshi, a senior member of the ruling party, brought a non-official resolution asking for nationalization of private banks as she believed that this would mobilize resources for development. T.T. Krishnamachari who was Finance Minister then responded that nationalization by itself was not likely to provide much additional income to the government.

The events of the next four years are critical to an understanding of the political events that led to the nationalization of banks, and it is worth summarizing them here. As stated above, India was recovering from the disastrous defeat at the hands of the Chinese in October 1962. Its treasury was almost empty, and public and political morale were low. Prices were once again starting to rise, forex reserves were dwindling and there was a mood of general dissatisfaction within the government. Then, on 27 May 1964, Jawaharlal Nehru died. Lal Bahadur Shastri became the Prime Minister even as, internally, the Congress leadership began to conduct an intense succession battle. In June 1965, Pakistan attacked in the Rann of Kutch and was repulsed. Worse still, the monsoon failed. Even before the full enormity of this second disaster had sunk in, Pakistan attacked yet again in September that year, this time in Kashmir. The resulting war was a stalemate but the toll it took of public finances sealed the Third Plan’s fate. Then, two and a half months before the fiscal year ended, on 11 January 1966, Prime Minister Lal Bahadur Shastri died of a massive heart attack in Tashkent where he had gone for peace talks with Pakistan. He was succeeded by Indira Gandhi. She owed her position to a ‘Syndicate’ of senior Congress leaders. Groomed for the job by her father from about 1955 onwards, Indira Gandhi had refused the offer in 1964. It would not look nice; she had told some of her advisors.

Her first year in office was perhaps the worst since Nehru’s in 1947, although for very different reasons. In a space of twenty months, India had lost two Prime Ministers, fought two wars that came on top of an earlier one in 1962 and was grappling with a major drought. For the next two years, drought persisted. Then a balance of payments crisis broke. By 1966, budgeting became notional. Planning was put on hold for three years. In the 1967 general election, the
Congress lost a large number of seats in Parliament. War, famine, political uncertainty, economic distress—the cup of misery was brimming over. Indira Gandhi resented the control of the Syndicate and wanted to assert her leadership, restore the authority of the government, and rebuild the Congress party and for all these she needed a dramatic gesture that would revitalize the hopes of the nation and put her firmly in control.

The objective she chose was the vote and support of the poorest, and the instrument she chose to achieve this was bank nationalization. The election manifesto of the Congress party for the 1967 election declared that while those who held the levers of economic power would also ultimately run the political apparatus, it was necessary to bring most of the banking institutions under social control to serve the cause of economic growth more effectively and to make credit available to the producers in all fields, be it agriculture, small scale industry, medium scale industry, and large scale industry, where it is needed.

So, in 1968, Indira Gandhi orchestrated the demand for nationalization; by the start of 1969, it became clear to her that she and Morarji Desai, her Deputy Prime Minister and Finance Minister who was steadfastly opposed to nationalization, would have to part ways. Soon after presenting the budget for 1969, Morarji Desai resigned. Within a few months, the political crisis that had been brewing for about a year finally broke.

In July that year, the party split into two factions, one led by Indira Gandhi, projecting herself as a revolutionary saviour of the masses, and the other by the Syndicate, now portrayed as being anti-people and pro-rich. To drive home her point, Indira Gandhi assumed the Finance portfolio, rightly calculating that she could shoot at her targets far more effectively. Just how determined she was to win the political battle was brought home to the nation when she presented the budget for 1970–71 on 28 February 1970. It put India on a course from which it has still not been able to steer away completely.

The Run-Up to Nationalization

The results of the 1967 general election, in which the Congress lost many seats in Parliament and had to give up office in several key North Indian states, led to sharp introspection. At the Congress Working Committee’s meetings held in the second week of May 1967, economic issues came up for serious consideration. Many of the members, who held sharply divergent views, wanted to know exactly what the party’s goal of ‘democratic socialism’ meant and how it was to be achieved. Bank nationalization became a focal issue. Some thought
banks should be nationalized without much further ado because, otherwise, it would be impossible to ensure adequate credit facilities for deserving units, whether in the small-scale sector or the large sector. But their opponents said that the Reserve Bank already had enough control over banks and that nationalization would not in any way hasten the process of democratic socialism in the country. A third group played the middle-field, favouring social control of banks and nationalization of general insurance.

After detailed discussions, the Congress Working Committee (CWC), decided to go in for increased participation in banking, foreign trade, insurance and food grains distribution. As a first step, the Reserve Bank’s control over scheduled banks was proposed to be tightened, and the lending portfolios of banks were to be modified to provide liberal credit facilities to the middle and lower middle sectors of industry, trade and agriculture, and, in particular, to ensure that small farmers, small traders and small industrial units were not starved of credit. Many senior members pressed for urgent steps towards a take-over of private sector banks. Y.B. Chavan, Jagjivan Ram and K. Kamaraj were for immediate implementation of the promise made in the Congress manifesto regarding social control of banks. Morarji Desai, the Deputy Prime Minister and Finance Minister, conceded that the promise made to the electorate had to be fulfilled but pleaded for adopting a cautious approach. He argued that there was already criticism of the inefficient working of the public sector in general and of the State Bank of India in particular, and, therefore, it would be unwise to burden the administration with the control of 94 private banks in the country, as it would pose enormous problems of integration and payment of salaries, and efficient running of the banks. He explained that he was behind nobody in progressive thinking and action but proper and effective steps must be taken to achieve this end. Finally, he was able to persuade the members that the socialist goals identified by the CWC could be achieved by greater control of private banks without taking them over, and assured them that preparatory steps would be taken towards reaching the goal envisaged in the election manifesto in a gradual manner. Concurrently, the demand for nationalization was raised in Parliament as well. The government said that it was in agreement with the spirit of the idea but wanted to institute a study first into the nature and extent of power it had over the banking institutions. It also informed the House that the government was examining the resolution of the CWC on control over credit and insurance institutions, and the various methods through which this objective could be achieved. Thus the Finance Ministry bought time then.
V.A. Pai Panandikar, Advisor in the Finance Ministry, was asked to conduct the study required by the CWC’s resolution on social control over banks. He was not given any instructions regarding the scope of his work but was to examine all aspects, including nationalization. Indira Gandhi, though did not actively participate in the happenings, shaped the course of events by silent and skilful planning.

Morarji Desai favoured social control over banks but saw the writing on the wall. He convened a meeting of leading bankers on 18 June 1967, at New Delhi. This, Morarji hoped, would blunt the edge of the demand for nationalization. He asked the private banks to facilitate the flow of credit into socially desirable sectors and not to fritter away funds by financing speculation in seasonal commodities. He also asked them to take steps to ensure that they had sufficient funds with them at the beginning of the busy season by rationalizing their credit policies during the slack season, so that the return of funds during the busy season was adequate. He suggested that credit facilities for small-scale industries and for small agriculturists should be liberalized, and that banks should accept the technical skills of a promising entrepreneur as sufficient security for accommodation. He gave them six weeks to formulate their suggestions on ways to achieve the objectives outlined by him, and made clear the government’s determination to tighten its grip on banks and to attain greater social control. The bankers assured him of their cooperation. A little later, a similar meeting was held in Bombay also.

The bankers, naturally, were concerned about the prospect of ‘social control’. The chairman of the Indian Banks’ Association (IBA), which did not include the State Bank of India, wrote to Indira Gandhi saying that the powers already vested with the Reserve Bank were ‘so extensive and comprehensive’ that there was hardly any scope for adding to them or for further extending social control over banks. These powers, he said, included determination of the policy on advances, and directives regarding the purposes for which advances could be made, margins to be kept and the rate of interest to be charged. There were several other ways in which the RBI controlled the banks, he said, including guarantees that might be given on behalf of any one company or individuals by any bank; inspection of a bank, thoroughly and without previous notice, and ordering the bank to rectify actions that it considered unsound, unsafe or anti-social; and issuing directives to any bank to safeguard the public interest and the interests of depositors, and to secure proper management and working of the bank.
The IBA was stung by the criticism that the banks were not lending enough to agriculture and small industries. So, in July 1967, it seriously considered proposals to establish two corporations—a Farm Finance Corporation and a Small Industries Finance Corporation. Ultimately, only the Agricultural Finance Corporation was set up. In August 1967, the IBA also placed a series of newspaper advertisements to rebut the arguments advanced in favour of social control. It claimed that 89 per cent of the borrowers were small, each having a limit of less than Rs 50,000. It also said that banks had never been expected to finance agriculture but had nevertheless been assisting agriculture, albeit modestly. The IBA then posed the critical question: if savings account depositors were exposed to reckless risks there might be financial panic and crisis of confidence, and, further, if political or legislative processes precipitated issues and forced hasty, unjustified changes upon banks, the economic future of the country might be jeopardized. These arguments were just brushed aside. The spirit of the times was against them. A commission of four members was appointed to undertake a study of the banking operations.  

Their main findings were that bank credit in India had not been utilized for financing projects according to Plan priorities but invested in low priority sectors; that between 1953 and 1965, loans advanced by banks for agriculture declined not only in absolute terms but also as a proportion of the total funds; that easy and cheap availability of credit to a few industrial houses had encouraged the growth of monopolies and concentration of economic power; that the Reserve Bank had been ineffective in preventing this tendency.

The Pai Panandikar Report

Pai Panandikar committee which was appointed to study the working of banking system in India submitted its draft report towards the middle of August 1967. It suggested that if existing banking legislation was suitably amended, the objectives of social control envisaged in the ten-point economic programme adopted by the CWC could be achieved. He also said that an important step towards social control of banks would be the setting up of some special institutions to provide credit to certain specified and special sectors. Simultaneously, Morarji Desai also received a report on nationalization of general insurance.

The Panandikar report was not made public but, according to press reports, after a preliminary examination, Morarji Desai concluded that nationalization was not called for and that remedial measures could effectively channelize credit to development needs. Apart from changing the institutional arrangements, more stringent control and supervision were envisaged in the report.
One way of exercising control would be to ensure that the government had a voice in the appointment of bank directors. Another suggestion was that a national commission be set up to study the organization and structure of banking. Thus was born the Banking Commission.

In September 1967, the supporters of nationalization received a shot in the arm from an unexpected quarter. The report of the Industrial Planning and Licensing Policy Committee that had been set up by the Planning Commission categorically advocated state control of banking. But Morarji Desai carried the day. The CWC, at its meeting held in Jabalpur on 27 October, whittled down the controversial elements in the party’s ten-point programme and left the basic task of its implementation to the government. The demand raised for nationalization was rejected. The Working Committee neither prescribed the form of social control nor fixed any time limit for its implementation.

The Board of Directors of the RBI had been informally discussing the issue of social control. There had also been an exchange of views between the government and the RBI. This was reflected in Governor Bhattacharyya’s letter of 2 June 1967 to Morarji. He argued against nationalization, with the caveat that it was still not practicable ‘to issue any rigid or statutory direction’ to banks to grant loans to small-scale industries or to agriculture. But he said that he intended to suggest to all the larger banks that they create development departments or cells to cater to small-scale industries. He also said that the banks would be ‘in a position to supplement the assistance provided by the cooperative banking structure and by the agricultural credit corporations, by financing certain essential inputs like fertilizers, hybrid or other improved seeds and agricultural machinery and implements’. He thought that it would be of help if an appropriate scheme of guarantee or insurance were formulated.

In July 1967, Bhattacharyya was succeeded by L.K. Jha, who had been Principal Secretary to Indira Gandhi and had a close working relationship with her. He convened a meeting with the chairmen and chief executives of the leading banks on 31 July. At this meeting, Jha pointed out to the banks that ‘what was needed was a positive redirection of credit to priority users. Agriculture and exports were obvious priority sectors; in the industrial sector, industries that helped agriculture or stimulated export—as well as small industries—deserved special attention.’ He added: ‘It was necessary that the banks should understand and be in tune with these objectives. If such understanding was there, there would be no need for written instructions
from the Reserve Bank.’ He also announced some liberalization measures to enable the banks to enlarge their assistance to what were regarded as ‘priority sectors’.

Meanwhile, as pointed out above, Pai Panandikar’s report was causing the Reserve Bank some irritation. Panandikar had stressed the inadequacy of the policies and practices of commercial banks in mobilizing deposits and in channelling funds towards the priority sectors, and gone on to say that the Bank’s controls were more of a regulatory nature and did not have a positive directional content. In response, the Bank in a memorandum said that this approach reflected a lack of balance.

No doubt certain areas like agriculture and small-scale industries have received relatively less attention from banks, but it is not fair to conclude from this, as is sometimes done, that bank credit in India has not served as an instrument of development or that the growth of the banking system since the commencement of planning has not proceeded on the lines of national development needs. Nor is it fair to blame the bank managements for failure to promote certain social objectives which were never recommended to them either by Government or the Reserve Bank in the terms in which they are now envisaged. Defending itself, the RBI pointed out that following the recommendation of the Committee of Direction of the All India Rural Credit Survey, the policy decision had been taken that further development of rural credit facilities should primarily be through extension and strengthening of the cooperative credit system. Further, the lower order of attention received by the small-scale industries sector was due to the orientation of banks in favour of large-scale industry because of the low unit cost of such lending, and this did not amount to defiance of policy directives given either by the government or the Reserve Bank. It said that the overall insufficiency of bank resources, which was primarily related to the low levels of savings in the economy, was the major hurdle in directing adequate flow of credit into the priority sectors.

What irritated the Bank the most was Pai Panandikar’s observation that there is some evidence that at least a few major commercial banks have been unduly exclusive in their lending practices. Their internal procedures are often left flexible which vest large discretionary powers in the Boards of Directors who have often acted as sources of patronage in deciding credit matters. Secondly, some of the commercial banks, though they may not have actively aided undesirable social activities, appear to have often connived at such activities. And lastly, the
support of the commercial banks seems to have helped to some extent, the concentration of economic power.

The Bank agreed that the preponderance of businessmen on bank boards had afforded them an undue advantage but this did not mean that the banks connived at fostering anti-social practices. It pointed out that the main objectives of its inspections as well as of its selective credit controls were to check such practices, if any. Complete elimination of anti-social practices cannot be achieved by banking control alone, so long as substantial resources continued to be available from the unorganized sector to those indulging in such practices.

Pai Panandikar’s report had also observed that the effectiveness of the Bank’s ‘direct controls’ was ‘limited only to aggregate advances by the banks. The right of the banks to sanction limits to individuals is not in any way restricted unless it crosses the Rs 1 crore limit. As a result, the Bank often finds that its directives are not as effective as necessary.’ The RBI explained that its controls were confined not merely to the aggregate advances of banks, but were also aimed at ensuring that the level of advances of individual banks was reasonable and that the advances portfolio had a balanced distribution.

The report’s remarks on the coordination between the Bank and the government were so worded as to create an impression that the RBI had very little authority over the commercial banks. The report observed that although it has taken an active position for developing certain types of financing institutions like the Industrial Finance Corporation and the Agricultural Refinance Corporation, the Reserve Bank did not perceive that it was ever assigned a positive and directive role vis-à-vis the credit policy and practices of the commercial banks either by way of the legislation or by various amendments to the Banking Regulation Act. Nor did the Reserve Bank feel that it had either the legal authority or the mandate from Government to play such positive role.

The report further added that it was also felt that at present there were no clear-cut and established channels of communication between the Reserve Bank and the Government for transmitting on regular basis national economic policies which needed the attention of the Reserve Bank. More often than not, there was a heavy dependence upon informal channels of communication for securing broad policy guidelines from the Government. While the Reserve Bank took considerable initiative in promotional activities like setting up the long-term financing
institutions, agricultural and export refinancing schemes, there was no deliberate design of directing the credit policies and practices of commercial banks towards social objectives.

The RBI refuted the charge that it had not played a positive and direct role vis-à-vis the credit policies and practices of commercial banks. In its defence, it cited the various directives issued by it that had a positive content, and that were intended to ensure that the credit policies and practices of commercial banks were oriented towards the objectives of economic policy set by the government from time to time. Sufficient powers also existed in the Banking Regulation Act for the purpose. The Bank also contended that there had always been close contact between the government and RBI in areas of monetary policy and that it had not experienced any difficulty on account of the stated lack of communication channels. The fact was that Pai Panandikar’s report had put the Bank on the defensive. From then onwards, its relationship with the Finance Ministry would undergo a slow qualitative change, characterized, in the main, by a gradual erosion of its powers and authority.

On the agricultural front, commercial banks were expected to commence direct financing on a large scale. The State Bank of India (SBI) had agreed to finance agriculturists directly with short, medium and long-term loans, in a few districts of Uttar Pradesh. Government of India, on its part, had issued a circular to state governments indicating that in order to enable the SBI and other commercial banks to come into the field of agricultural credit on a vast scale, it will be necessary for the state governments to provide them with certain facilities, such as administrative support for carrying out necessary pre-investment surveys, technical assistance of the agricultural department, and statutory facilities with regard to recovery of dues on the lines of the facilities available to the cooperative credit structure. These measures, it was widely hoped, would result in quelling the demand for nationalization. But that was not to be. State control over banks continued to evoke interest. There were complaints that the bulk of commercial bank advances tended to be directed towards large and medium scale industries, and big and established business houses. The complaints grew in strength as the demand for bank credit was accelerating while banks’ resources were growing at a relatively slow pace. The clamour for equitable distribution of the available resources assumed an increasingly strident tone. The measures taken so far in this direction were considered piecemeal and inadequate.

By December 1967, the scheme for social control was ready. On 14 December 1967, Morarji Desai made a statement in the Parliament on the scheme. Basically, he agreed that the
traditional links of banks with industrial and business houses needed to be snapped, and that credit decisions should conform to the development priorities of meeting the credit needs of priority sectors like agriculture, small-scale industries and exports. But, he said, ‘mere acquisition of the banks would severely strain the administrative resources of the government’, and the influence of industrial groups or businessmen could be neutralized by changing the board of directors. He also proposed the setting up of the National Credit Council for better planning of credit, and new powers to be conferred on the Bank.

The Reserve Bank and the Finance Ministry had even prepared the required legislation. A note prepared by R.K. Seshadri, Executive Director, on the proposed provisions of the Bill, was discussed in the Governor’s room on 4 November 1967. In light of these discussions, a tentative draft of the Banking (Social Control and Miscellaneous Provisions) Bill, as it was initially titled, was submitted by the Bank’s Joint Legal Adviser, R.M. Halasyam, on 11 November. The draft, duly revised, was sent to Adarkar on 17 November. In the meantime, on 9 November, Morarji Desai held discussions with officials of the Bank, the government and commercial banks, clarifying certain points as also explaining the major changes proposed under the scheme of social control.

The Bill, which was passed on 6 August, received the assent of the President of India on 28 December and, in terms of Government Notification dated 13 January 1969, came into force from 1 February 1969. Some of the more important provisions of the Act were as under. Banks were required to reconstitute their boards of directors so that not less than 51 per cent of the total number of members were persons having special knowledge of or practical experience in certain fields such as accountancy, agriculture and the rural economy, small-scale industry, cooperation, banking, economics, finance and law. The directors thus constituted should not have substantial interest in or be connected, as employee, manager or managing agent, with large or medium-sized industrial undertakings or trading or commercial concerns. Of these directors, not less than two were to represent agriculture and the rural economy, cooperation and small-scale industry. In consonance with the spirit of these provisions, every foreign bank was also expected to set up an advisory board consisting of Indians (with the exception of the chief executive officer when he was a member), and with a majority of the persons having special knowledge of or practical experience in one or more of the fields mentioned above. Every Indian bank was to have a professional banker and not an industrialist as full-time chairman. The appointment, removal or
termination of appointment of the chairman, and the terms to be granted to him, would require the approval of the Reserve Bank.

The grant of any new loans and advances, whether secured or unsecured, to directors or members of any committee or board appointed by the banks in India, or to concerns in which they were interested as partner, director, manager, managing agent, employee or guarantor, or in which they held substantial interest, would be prohibited, except in pursuance of previous commitments. If the director concerned continued to be a member of the bank’s board, the loan, even if it was granted because of any previous commitment, would have to be recovered within a period of one year from the commencement of the Act; the Reserve Bank might, however, in special cases, extend the period up to three years. The appointment, reappointment or removal of the auditors of a banking company would require the approval of the Reserve Bank, and the Bank was empowered to direct the auditors to audit any special transactions that it might specify.

The Reserve Bank’s powers to appoint directors or observers and to issue directions to banks were amplified. Such directions might hereafter be issued not only in the interests of depositors or proper management of the banking companies, but also in the interest of banking policy. Banking policy as defined in the Bill meant any policy which is specified from time to time by the Reserve Bank in the interest of the banking system or in the interest of monetary stability or sound economic growth, having due regard to the interests of the depositors, the volume of deposits and other resources of the bank and the need for equitable allocation and the efficient use of these deposits and resources.

The government was empowered under the Bill to acquire the business of any bank if it failed more than once to comply with any directions issued to it under Section 21 of the Banking Regulation Act in regard to advances or under Section 35A of that Act in regard to any other matter concerning the affairs of the bank, and if, in addition, the acquisition of the bank was considered necessary in the interests of the depositors or in the public interest or in the interest of banking policy. There was to be payment of compensation in the event of such acquisition. This provision evolved out of an interesting episode. On 6 December 1967, Jha had written to Morarji Desai that:

“When you decided that a bank which misbehaves should be taken over, it was my impression that you wanted to see such a bank nationalized in the true sense of the term and that Government will take over the shares from the shareholders. The draft which I saw is in the
nature of an extension of the existing powers to amalgamate one bank with another; so that nationalization would mean merger with the State Bank. I do not feel happy about this. The State Bank is already a huge mammoth organization and it would not be very desirable to make it even bigger by merging any large bank with it. More important is the consideration that the power to nationalize and therefore the liability to pay compensation must rest with the Government and not with the Reserve Bank. It is one thing for the Reserve Bank to amalgamate a bank which is financially in a bad shape with a bigger bank in order to protect the interests of the depositors and without employing public funds in the operation; it would be quite a different thing for the Reserve Bank to undertake a nationalization operation and provide the resources for compensating the shareholders without Parliamentary scrutiny, control and approval”.

Morarji then had the Bill modified. The meetings the bankers had with Morarji and the Governor prior to the announcement of the scheme for social control had created the atmosphere for speedy implementation. Most banks with deposits of Rs 10 crore and above, and all foreign banks, had reconstituted their boards or constituted advisory boards. Indian banks with deposits of Rs 25 crore or more had appointed whole-time chairmen. On the recommendation of the Bank, which took into consideration certain practical difficulties of comparatively small banks in giving effect to some of the provisions of the Act, the government, on 1 February 1969, exempted banks with deposits of less than Rs 10 crore for a year from the provisions of Section 10A of the Act. Banks with deposits less than Rs 25 crore were exempted from the provisions of Section 10B, which related to the appointment of whole-time chairmen.

National Credit Council

The National Credit Council (NCC) was said to have been fashioned on the lines of the French model in order to meet the need for aligning more closely the functioning of the banking and credit system of the country to the objectives and requirements of national economic development. The Council was constituted in terms of Government Resolution dated 1 February 1968, wherein particulars regarding the five permanent members and the names of the remaining twenty members were indicated to assist the Reserve Bank and the government in allocating credit.

The main functions of the Council were to

- assess the demand for bank credit from various sectors of the economy;
• determine priorities for the grant of loans and advances or for investment, having regard to the availability of resources and requirements of the priority sectors, in particular agriculture, small scale industries and exports;
• coordinate lending and investment policies as between commercial and cooperative banks and specialized agencies to ensure the optimum and efficient use of the overall resources; and
• consider other allied issues as may be referred to it by the chairman or the vice-chairman.

The first meeting of the National Credit Council was held in Bombay on 16 March 1968. It is interesting to note, in retrospect, how many invited Ministers stayed away. They included Jagannath Pahadia and K.C. Pant, who was Minister of State in the Finance Ministry. Professor D.R. Gadgil, Deputy Chairman of the Planning Commission, also could not attend the meeting as the Minister for Food and Agriculture had convened a meeting of Chief Ministers on the same day, to consider prices and other policies regarding rabi foodgrains. But he did send a note for circulation among the members, which dealt mainly with the issue of the appropriate agency for dispensing agricultural and rural credit, and the complementary roles of the commercial and cooperative banking systems in this area. He favoured the cooperative banking system, with the commercial banking structure supporting the efforts by indirectly providing funds through such means as subscribing to debentures of land development banks.

A number of background notes were prepared for the meeting. Among them, the note titled ‘Credit Planning: The Issues’ by L.K. Jha dealt with the broad principles followed by the central Bank in the past, such as asking banks to conduct their credit operations in such a way that the banking system remained healthy and the depositors’ confidence was not impaired; banks being required to see that their resources were not used for commodity hoarding and speculation; and encouraging banks to allocate a reasonable share of their resources for exports, small-scale industries, term finance for agriculture, etc. The note also pointed out that while nearly two-thirds of bank credit was being enjoyed by the industrial sector, the share of bank credit to agriculture was as low as 2 to 3 per cent. It emphasized the dearth of resources in the banking system as the major impediment in meeting the credit demands of various sectors. While specifying agriculture, small-scale industries and exports as areas requiring special attention, Jha wanted the members to identify other deserving sectors.
In his inaugural address, Morarji Desai dealt with the major issues before the NCC, such as stimulating flow of credit in adequate measure to agriculture, small-scale industry and exports; avoiding distortion by way of creation of ‘credit gaps’ in other sectors like industry and trade while accomplishing the former task; coordination among the different credit agencies, especially in the context of the controversies that were raised regarding the roles of commercial and cooperative banks during this period; placing greater emphasis on mobilization of resources from the savings of the community rather than seeking credit from the Reserve Bank, which would ultimately add to inflationary pressures. Referring to the function of the NCC, Morarji cautioned that ‘the guidelines that we frame would have to take into account the needs of all sectors who contribute and have potentialities to contribute to our national product. This involves difficult decisions and informed judgement.’ He also indicated that a Commission would be constituted to go into suggestions from the members on specific issues. The proposed Commission, namely, the Banking Commission, was formed much later, and was chaired by R.G. Saraiya.

The ensuing general discussion followed the expected pattern, with each member propounding the strategic and economic importance of the sector represented by him, and pleading for adequate attention in the matter of credit allocation. There were, however, divergent views on the matter of branch expansion. While the commercial bankers sought further relaxations in the branch licensing policy, the cooperative sector tended to resist the banks’ increasing presence, which, according to them, was competitive. In this connection, Jha remarked that the Reserve Bank sought to keep up pressure on banks to open branches in the rural areas by tying their branch opening in urban areas to their performance in the rural areas. It was true that the Reserve Bank did not wish commercial banks to go into small population centres where cooperative banks were well developed. Winding up the discussions, the chairman suggested setting up a Standing Committee to go into specific issues and formulate concrete proposals for consideration by the NCC at its next meeting. Accordingly, a Standing Committee consisting of eight members was formed, with the Governor as chairman. The Bank was brought to the centrestage through the Standing Committee, which, as expected, was to drive the agenda of the NCC, keeping in view socio-political considerations.

The second meeting of the NCC was held on 24 July 1968 in New Delhi, under the chairmanship of the Deputy Prime Minister. The deliberations at the meeting mainly centred on
the sector-wise estimates arrived at by the Standing Committee. The Council took note of the Committee’s suggestion that, in addition to the estimated commercial banks’ assistance, banks would be required to deploy a very large proportion of their resources in financing food procurement and allied operations, and also in financing plantations and marketing agricultural products other than food products. This suggestion of the Committee marked the first hint of the RBI agreeing to the commercial banking system taking a more active interest in financing food procurement operations. The Council endorsed the Committee’s view that buffer stocks (as distinguished from trading stocks) should be financed out of budgetary appropriations but recognized that the banking system might have to continue to carry this responsibility for some months. On the often-discussed question of coordination and understanding between commercial and cooperative banks, Professor D.R. Gadgil, Deputy Chairman, Planning Commission, agreed with the view that where commercial banks assisted cooperatives, they should pay heed to the need for preserving the internal discipline of the cooperative movement. He also emphasized the importance of adopting an ‘area’ approach in respect of areas that were neglected by the commercial and cooperative banks.

With regard to small-scale industries, the NCC endorsed the Committee’s recommendations for allocating twice the amount of the estimated credit. The Council also felt that the estimated additional credit requirements of large and medium-sized industries could be met, and that there would be no organizational bottlenecks in the extension of such credit.

The third meeting of the NCC was held in New Delhi on 21 March 1969 and was presided over by the Deputy Prime Minister. Out of the five study group set up in the second meeting of the Council, two—viz. the Group on Deposit Mobilization by Commercial and Cooperative Banks and the Group on Credit Facilities for Road Transport Operators—had submitted their reports. The Council agreed with the recommendation of the report of the Study Group on Deposit Mobilization that it was necessary to speed up the process of opening bank branches in semi-urban and rural areas. On the question of differential interest rates as between urban and rural areas, recommended by the Study Group, the Council agreed with the Standing Committee, which had not favoured this idea on the ground that the response to a marginal upward adjustment in interest rates was not likely to be materially significant. The Council, like the Study Group, did not favour subsidization of branch expansion. The area approach suggested
for branch expansion, without conferring the privilege of exclusivity to any bank, was endorsed by the Council, on its merits.

As regards the report of the Study Group on Provision of Credit Facilities for Road Transport Operators, the Council supported the view of the Standing Committee—that, rather than relying mainly on hire-purchase financing agencies and lending support to them, as suggested by the Study Group, it would be preferable for the banks themselves to engage in direct financing of the road transport operators. It also agreed that extension of the Credit Guarantee Scheme to small-scale operators and arrangements with insurance companies for covering the risk should facilitate a far more positive role for banks in this field than in the past.

The remaining three study groups submitted their reports after the date of the third meeting of the NCC; one among them became the genesis of a path-breaking innovation in the Indian banking system, viz. the ‘Lead Bank Scheme’. Subsequent to the third meeting of the Council, the suddenness of certain banking developments—the nationalization of fourteen major Indian banks in July 1969 and the setting up of a Banking Department in the Ministry of Finance to monitor them—quietly buried the NCC, as the scheme of social control over banks, to which the Council owed its existence, ceased to be in operation.

Nationalization

Barely four months after the third meeting of the National Credit Council, on 9 July 1969, Indira Gandhi sent a note to the Congress Working Committee through Fakhruddin Ali Ahmed, who was the Minister for Industrial Development, suggesting the nationalization of major banks. Mrs. Gandhi’s in her note pointed out that there is a great feeling in the country regarding the nationalization of private commercial banks. We had taken a decision at an earlier AICC, but perhaps we may review it. Either we can consider the nationalization of the top five or six banks or issue directions that the resources of banks should be reserved to a larger extent for public purposes. It also dwelt on some of the inadequacies of the scheme of social control over banks. Even after the new policy of social control and reconstitution of boards of directors, the former industrialist chairmen of the banks still continued on the board and naturally influence the present chairmen who had previously been general managers. It was examined whether through legislation or otherwise it was possible to prevent these men from continuing on the boards. The chief executive of the banks will not then feel obliged to the former Chairman and may be expected to take an independent line in regard to lendings.
As expected, Morarji Desai opposed the move by pointing out that the legislation on social control had been brought into force barely six months ago, and that the confidence of the public in the banking system would be shaken if an impression was created that the issue of nationalization was still open. He reiterated that there should be no further talk of nationalization for at least two years. He had the support of the moderates within the party, but another section, known as the ‘Young Turks’, had been persistently demanding action on issues like nationalization of banks and ceiling on incomes and urban property. They stepped up their demands.

On 10 July, nationalization was discussed in the AICC meeting. The Syndicate, which still controlled the party apparatus, underplayed the resolution on economic and social policy, stressed the ten-point programme, food supply, tenancy security, rural development, science and technology, etc., but made no reference to nationalization of private banks. But Indira Gandhi had out manoeuvred them. Her note sent a day earlier sidelined the official draft. She merely asked: ‘This is all right as far as it goes. The question is whether it goes far enough?’ Morarji said the objectives of social control and nationalization were the same. In his rejoinder to the specific points raised in the Prime Minister’s note, he explained: “Already the minimum that every bank had to invest in public securities was 25 per cent. Last year this rose to 29 per cent. We could also consider whether this could be raised by 5 per cent to 30 per cent. The National Credit Council which is meeting towards the end of the month will consider it and a decision can be taken.”

He also referred to the fear expressed in the Prime Minister’s note about former industrialist chairmen of banks continuing to influence the present chairmen and boards of directors of companies, and said that this was being examined. Some steps had been taken to see that such influences did not operate. As a matter of fact, he said, a majority on the boards of companies now were not industrialists but representatives of agriculture, cooperatives, small industries, economists and such people who were not under the influence of industrialists. The government and the Reserve Bank were also keeping in touch to check any pressures or influence. Y.B. Chavan, who was Home Minister then and who later became a major ally of Indira Gandhi, characterized the note as ‘the product of a restless mind’ and said ‘social control without nationalization is not possible. Similarly nationalization without social control is the greatest fraud.’

He indicated that the take-over would only be a matter of time and did not
attempt to play down the fact that the party’s thinking on economic issues was coloured by political considerations.

Eventually, the resolution on economic policy remained vague about the specific issue of nationalization of banks. It did say, however, that the note by the Prime Minister which is appended to this resolution broadly sets out the policies to be pursued and steps to be taken for the purpose of improving the performance of the economy. . . . The AICC welcomes the note and calls upon the Central and state governments to take necessary steps expeditiously to implement the various points mentioned in the note. It had been widely expected that the Prime Minister’s note would cause a storm but, in the event, the Syndicate chose to stage a tactical retreat by virtually endorsing it without going into details.

The political tempo then began to step up. On 12 July, the Congress Parliamentary Board nominated Neelam Sanjiva Reddy, who was the Speaker, as its candidate for President. The vote was four to two, with two abstaining. This was a serious political setback for the Prime Minister, who then sponsored a rival candidate, V.V. Giri, then Vice President. Her Principal Secretary and confidant, P.N. Haksar, urged her to take some bold economic measures for the sake of her political survival, and advocated nationalization. He convinced Mrs Gandhi that the public would support her on the issue. Mrs Gandhi weighed the pros and cons of nationalization by consulting leading economists like K.N. Raj. G.D. Birla and J.R.D. Tata advised her against nationalization. On 16 July, three days after the AICC session had ended, the Prime Minister surprised everyone by relieving an unwary Morarji of the Finance portfolio, and taking it over herself. The Economic Times of 17 July 1969 reported:

“Indira Gandhi has no doubt sent for the Reserve Bank Governor Mr L.K. Jha, who is arriving here tomorrow. It is expected that she will consult Mr Jha on implementation of the AICC resolution on banks but sources close to her rule out the possibility of her pushing through an ordinance in a day or two in view of the nearness of the Parliament session which is to start on Monday. Mr Jha is also likely to be consulted on a statement on the new economic policy which Mrs Gandhi is reportedly planning to issue.”

According to most oral accounts, Mrs Gandhi did not consult Governor Jha, knowing fully well that he was a strong advocate of social control and not in favor of nationalization. It has been recounted by some persons who held senior positions in the government then that when Mrs Gandhi called Jha to go over to New Delhi on 17 July; he went with a comprehensive note
in support of social control. She is said to have told him that he could keep the note he was carrying on her table and go to the next room and help in drafting the legislation on nationalization of banks. We will perhaps never know exactly what happened in those three days but one thing was certain: Mrs Gandhi had decided to go ahead with immediate nationalization. A day before the announcement on 19 July, she informed I.G. Patel, Secretary, Economic Affairs, that she had taken the decision to nationalize banks on ‘political’ considerations and that he should prepare a speech within the next 72 hours. Patel is said to have offered two suggestions to Mrs Gandhi. One, that foreign banks should not be nationalized. Two, that there was no need to nationalize all banks and it would be better if only the major banks, which accounted for 85–90 per cent of the total banking business, were nationalized.

Mrs Gandhi, it seems, had apprehensions about the support she would receive from officials of the Finance Ministry and Law Ministry. From most oral accounts, it appears that she asked D.N. Ghosh, Deputy Secretary in the Finance Ministry, on 17 July, to draft the legislation within 72 hours. He was helped by R.K. Seshadri, Executive Director, who had had the experience of preparing the draft legislation in 1965 when T.T. Krishnamachari was Finance Minister. Jha oversaw the entire work relating to the drafting, which was done in the Reserve Bank of India building in Delhi.

Subsequently the draft was made. The Banking Companies (Acquisition and Transfer of Undertakings) Ordinance provided for ‘the acquisition and transfer of the undertakings of certain banking companies in order to serve better the needs of development of the economy in conformity with national policy and objectives and for matters connected therewith or incidental thereto’. The names of fourteen banking companies having deposits not less than Rs 50 crore as on the last Friday of June 1969, were listed. The chairman of the existing bank or any other person appointed by the central government, if it were necessary to do so, would be the custodian of the corresponding new bank. An advisory board would be appointed to aid and advise the custodian in discharge of his duties, which would be dissolved on constitution of a board of directors.

In the Second Schedule to the Ordinance it was indicated that the compensation to be paid by the Central Government to each existing bank for acquisition of the undertaking should be an amount equal to the sum total of the value of the assets of the existing bank as on the
On 23 July, the Department of Banking Operations and Development (DBOD) of the Reserve Bank issued a circular to all the fourteen nationalized banks, asking them to consult the Bank before sanctioning any proposal that would normally require the approval of the Board of Directors. Certain other restrictions were also placed. These restrictions were meant to be temporary, for taking care of initial and transitional problems. They were withdrawn on 10 September and, simultaneously, the nationalized banks were asked to form internal management committees. These committees were expected to consider loan applications, investments and all other items of business that might normally be brought up before the board of directors. The banks were told that officers of the Reserve Bank would attend the weekly meetings and that a government representative might also attend.

Initially, banks with deposits of Rs 100 crore were listed for nationalization. But then it turned out that some important banks, like Dena Bank, with deposits of Rs 98 crore would be left out. So the limit was lowered to Rs 50 crore. Raghunatha Reddy, a senior Congressman, wanted that Andhra Bank too should be nationalized but its deposit level was below Rs 50 crore and it had to be left out. The criterion of Rs 50 crore deposits was itself based on the then prevalent RBI classification of banks into two categories—banks with deposits of Rs 50 crore and above, and banks having deposits of less than Rs 50 crore. On Saturday, 19 July 1969, an Ordinance was promulgated to nationalize fourteen major banks with deposits exceeding Rs 50 crore with immediate effect. The Ordinance was signed by the Vice President, V.V. Giri, who was then also the acting President, President Zakir Hussain having died a few months earlier. The fourteen banks that were nationalized were

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In a broadcast to the nation that evening, Indira Gandhi said:

“As early as December 1954, Parliament took the decision to frame our plans and policies within a socialist pattern of society. Control over the commanding heights of the economy is necessary, particularly in a poor country where it is extremely difficult to mobilize adequate resources for development and to reduce inequalities between different groups and regions. She went on to express the ‘earnest hope’ that nationalization would mark ‘a new and more vigorous phase in the implementation of our avowed plans and policies’, and assured all sections of industry and trade that their legitimate needs for credit would be safeguarded”.  

But the main force driving nationalization was fully comprehended by everyone as being political, rather than economic. Indira Gandhi had won the struggle for supremacy within the Congress party and managed to wrest control, decisively and finally. In its editorial the next day, the Economic Times, summed it up nicely. It said that nationalization climaxed an unprecedented bout of power politics and feared that the psychological impact might be rather worse because of the take-over of a larger number of banks than was feared. There was speculation that more banks were to be nationalized but the government announced that banks in the private sector would not be automatically nationalized when they achieved the level of deposits of Rs 50 crore.

Trade and industry were unhappy with nationalization but it drew support from Congressmen as well as the Communist parties and the two Socialist parties. Both Kamaraj and Atulya Ghosh, the Syndicate bosses who had opposed Mrs Gandhi tooth and nail, welcomed the measure and pointed out that it had been accepted by the AICC in principle. The Young Turks in the Congress party led by Chandrasekhar, who had incessantly campaigned for the take-over of banks said, ‘We are extremely glad.’ Jyoti Basu, who was the Deputy Chief Minister of West
Bengal, remarked that the news of acceptance of the resignation of Morarji Desai was good and the news of bank nationalization better still. The Swatantra leader C. Rajagopalachari doubted if nationalization by an ordinance was permissible under the Constitution. The former Reserve Bank Governor and Finance Minister, C.D. Deshmukh, said he favoured social control over banks. H.V.R. Iyengar, another former Governor, said that nationalization was a wrong step that was not going to make a great deal of difference to the economic situation of the country. FICCI President Ramnath Poddar called it a ‘hasty step’ and said that the Prime Minister’s explanation in her broadcast failed to convince him that nationalization could achieve anything more than social control measures could not have achieved. T.T. Krishnamachari, former Finance Minister, and G.D. Birla were among those who declined to react. The All-India Bank Employees’ Association welcomed the decision. Prabhat Kar, general secretary of the Association, said the step was ‘definitely a bold one’ but much would depend upon how the nationalized sector would function.

The RBI, on its part, assured the newly nationalized banks of its unqualified support to them in the unlikely event of a transfer or withdrawal of business. Simultaneously, it told foreign banks not to take advantage of the prevailing situation. The Bank’s discussions with the custodians or local representatives of nationalized banks were initiated by B.N. Adarkar on 20 July, in the absence of Jha who was away in Delhi. The representatives of the nationalized banks were specifically told to instruct their staff that no uncertainty should be created in the minds of the customers, that business must proceed as usual and bankmen should endeavour to inspire an atmosphere of confidence. Adarkar told the banks that they should retain their separate identities, advertise competitively for business, and that there was no objection to their going ahead with the branch expansion programme as approved by the Bank.

Monday, 21 July, was the first working day under state ownership and, according to newspaper reports, the banks functioned normally but without the suffix ‘Ltd’. The chairmen, who had been telegraphically informed by the Finance Ministry of their new roles as custodians, were considered as public servants. Financial circles were agog with rumours that as a fall-out of bank nationalization, wide changes were on the cards in the organizational pattern and responsibilities of the Reserve Bank. In particular, the newspapers surmised that as the Governor and a majority of the Deputy Governors were said to have opposed nationalization, some important changes at the top could be expected. But nothing happened. In the last week of July
1969, Mrs Gandhi went to Bombay and addressed a huge rally of bank employees in front of the Reserve Bank of India building, which was marked by a show of great enthusiasm and support by the employees. On 21 July, when the Lok Sabha met, it was Atal Bihari Vajpayee who raised the issue by asking about the propriety of promulgating an Ordinance of such significance when the Parliament was to meet within two days. The Deputy Speaker permitted a discussion after pointing out that any comments on the merits of the step taken would not be allowed. The Prime Minister sought to justify the haste in promulgation of the Ordinance.

“The House will appreciate that in view of the very nature of the measure, and also to forestall any possibility of manipulations which may not be in public interest, it was essential to make a swift and sudden move which could only be achieved through an ordinance. The fact that speculation about Government’s intentions had assumed an acute phase in the last few days rendered it all the more necessary to act without any further loss of time, and in anticipation of the approval of Parliament, which will be sought through a Bill which Government proposes to bring during the current session”

In defence of not bringing foreign banks within the purview of the Ordinance, she said that so far as foreign banks are concerned they provide, by and large, business of a specialized nature such as facilitating foreign trade and tourism. The operation of banks of one country in another, subject to the laws of the land, is mainly for such purposes and is part of an international facility. Our Indian banks also maintain their branches in many countries. It has been Government’s general policy to confine the opening of new branches of foreign banks to major port towns, where their specialized services are needed. On the same day, Morarji Desai referred to the circumstances leading to his resignation from the Cabinet and said:

“I came to the conclusion that I can no longer serve in the present Council of Ministers except at the cost of my self-respect and except as a silent spectator to methods that may endanger the basic principles of democracy on which our parliamentary system is established. I came to this conclusion because I was summarily relieved of the Finance Portfolio without even the ordinary courtesy of a prior discussion on this matter being shown to me by the Prime Minister”.

The Prime Minister’s letter to Mr Desai, dated 16 July 1969, among other things, said that since Mr Desai ‘had supported the economic policy resolution at the Bangalore AICC session with reservations’, the Prime Minister did not want to strain him with the burden of
implementing the economic policy, and that, therefore, she would herself take on the burden of directing finance policy.

The political battle over Mrs Gandhi’s populist measure was accompanied by a legal one. Two writ petitions were filed in the Supreme Court by Rustom Cavasjee Cooper, M.R. Masani and another person. On 22 July, the Court gave an interim stay order in respect of three matters, namely (i) that the Union of India will not appoint pending the hearing and disposal of these petitions any boards of advisers, (ii) that the Union of India will not remove the Chairmen of the various banks; and (iii) that the Union of India will not give any directions contrary to the provisions of the Banking Laws Act. The Prime Minister stated in the Lok Sabha that the essential provisions of the Ordinance for nationalizing banks were not affected by the order.

The ownership of the banks continued to vest in the central government. The former boards of directors also stood dissolved. According to her, as the first direction of the Court related to appointment of advisory boards, the Reserve Bank would, in the interim, advise the banks as appropriate. As regards the second direction, she saw no reason why the order should affect the willingness or ability of chairmen/custodians to perform their duties properly. Under the third direction, she assured that the Reserve Bank would take special care to ensure that nothing was done that was contrary to the public interest or to the interests of the depositors.

The Bill to replace the Ordinance was introduced on 25 July by Govinda Menon, Minister for Law and Social Welfare, seeking acquisition and transfer of the banking companies ‘in order to serve better the needs of development of the economy in conformity with national policy and objectives’. During the clause-by-clause discussion on the Bill, the Law Minister explained that the main purpose of the banks’ take-over was to ensure credit to small industries, backward areas, farmers and progressive entrepreneurs. The session witnessed severe criticism on the discernible shift in the policy approach of the government towards the banking sector vis-à-vis the role of the central Bank of the country. Initially, there was a suggestion to appoint an apex body to exercise overall supervision over the fourteen nationalized banks, which would set broad policies, apportion tasks in functional as well as geographical terms, and look after training. T.A. Pai of the Syndicate Bank was expected to be associated with the apex body. The appointment of the apex body was to be announced in the debate on the Bank Nationalization Bill. Those who opposed the Bill deplored the move on the ground that any centralized control and direction would not only thwart competition but also kill banking efficiency. It would also result in an
inclination on the part of banks to look up to Delhi or the apex body and wait for detailed instructions at every turn. In the new situation, banks would have a complex machinery to contend with, namely, issue of directives from the Reserve Bank, from the Finance Ministry and from the proposed apex body. The government was urged to reconsider this idea.

The controversy was ended by Mrs Gandhi on 29 July, when she said that the government was against setting up any monolithic machinery to control and supervise the fourteen banks that had been nationalized. Intervening in the two-day debate on the Bill to take over these banking institutions, the Prime Minister assured the House that any machinery that was set up would only provide directions on policy and not on special items or specific loans to specific parties. The government wanted to preserve the identity of these banks and also encourage healthy competition.

On 27 July 1969, the Sarvodaya Leader Jayaprakash Narayan described the take-over of banks as ‘wrong and unwarranted’, while addressing a public meeting in Rajkot. He said the step would not solve the economic ills of the country but would only enhance the power of the present rulers and bureaucrats. Within the Reserve Bank, the first discussion on nationalization took place on 23 July, at a meeting of the Committee of the Central Board. The proceedings were not recorded except for a cryptic remark: ‘There was a brief discussion on the implications of bank nationalization ordinance.’ At the next meeting of the Committee of the Central Board, on 30 July 1969, Governor Jha pointed out that the present intention was to preserve the individual identities of the nationalized banks. While Government would be the more appropriate authority to handle issues such as compensation, labour disputes, etc., the Reserve Bank would continue to be responsible for monetary policy and ensuring compliance with its policies by the nationalized banks. The objective of nationalization was that access to credit should be open to a much wider range of people than before; credit gaps had to be identified and areas where banks could and should be involved had to be indicated.

The future set-up of the nationalized banks became clear at the meeting of the Central Board on 18 August. Jha clarified that ‘it had been decided not to have a monolithic institution and for the present the separate identities of the fourteen banks were to be preserved’. He also explained that there were practical problems in having one institution. This related to pay scales and seniority. He cited the case of the Life Insurance Corporation, which had not quite yet succeeded in sorting out these problems following the mergers of various insurance companies.
There was also the problem of securing the right type of personnel to man the top positions in banks.

N.A. Palkhivala, who, incidentally, was involved as an advocate in the writ petitions filed against the Ordinance and the Act, and who was also a member of the Central Board of the Reserve Bank, welcomed the proposal to retain the identities of the banks. Competition, he felt, would be a spur to providing better services.

Towards the end of August, reports began to circulate that the Prime Minister was planning to reorganize the Finance Ministry. She was also reported to be of the view that since the nationalized banks controlled an overwhelming segment of the banking industry; banking should be handled on an exclusive basis instead by the Economic Affairs Department.

On 14 August, the Reserve Bank convened a meeting of the chairman of SBI and the custodians of the fourteen nationalized banks, to chalk out the steps necessary to implement the objectives of nationalization and to discuss the problems that the nationalized banks might face in their operations. The Governor told them that the present intention was to retain the identities of the nationalized banks so that they could compete in matters of service and explore avenues of cooperation among them for increased efficiency, greater economy, higher profitability and better overall performance. The meeting also discussed issues relating to rationalization of branch expansion and coordinated efforts in providing training facilities.

When the Banking Companies (Acquisition and Transfer of Undertakings) Bill, 1969, became an Act on 9 August, the Supreme Court’s stay order on the Ordinance was still in force, with the hearing on it fixed for 11 August. But once the Act was passed, the Supreme Court vacated the stay order. Subsequently, on the writ petitions filed against the Act, the Supreme Court issued a stay order on 8 September, saying, ‘The Court further stays the removal of any custodian during the pendency of these writ petitions and further directs that no direction will be given by the Government of India contrary to the provisions of S.35A of the Banking Regulation Act, 1949, as amended by Act 58 of 1968.’ This stay order, however, did not debar the government from appointing advisory boards, unlike the previous order.\(^\text{15}\)

Operationally, meanwhile, the Finance Ministry, through the newly created Department of Banking, and the Law Ministry had taken charge of commercial banking. The Reserve Bank played a supportive and advisory role, which included collection of financial and other particulars pertaining to the newly nationalized banks, convening meetings of the bankers to
chalk out the future course of action, offering comments on various aspects of developments as and when referred to it by the government, and providing clarifications on issues raised by the banks on the provisions of the Nationalization Act.

The Bank did what it was told. It also raised the issues involved in the proposed interim payment of compensation of one half of the paid-up share capital to shareholders under Section 6 of the Act. As such a step would clear violation of the sanctity of the Constitution. The Bank was also actively involved in the discussions for framing the Scheme of Arrangement for nationalized banks, as provided under Section 13 of the Nationalization Act. After one such discussion, R.K. Hazari referred to a sensitive clause in the Scheme (2 January 1970) as follows

“You might remember that we inserted a clause giving veto power to the government and the Bank nominees on the boards of directors of nationalized banks. I have thought further on this matter and feel that this clause might lead to serious misgivings about the extent of government control over these banks. There is no such clause in the State Bank Act and comparable provisions in respect of government companies have been deleted in recent years or are proposed to be deleted. I wonder if you would like to consider the matter.” 16

He further said that another issue that needed to be sorted out was the powers of the custodians in the absence of a board. These had been left undefined and the matter needed to be rectified. Public interest required that some of the more important transactions of the banks were put through only with prior approval of the Reserve Bank. So, directions were issued requiring the custodians to seek prior approval of the Bank before putting through certain transactions. 17

On 10 February 1970, the Supreme Court upheld the legislative competence of Parliament in the matter of acquisition of the banking companies but struck down the nationalization. Firstly, it said, there had been hostile discrimination against the fourteen banking companies in so far as they had been debarred from carrying on banking business when other banks were permitted to do so. Secondly, it said that the principles and methods laid down in the Act for determining the quantum of compensation were invalid. And since these provisions were not severable from the main Act, the entire Act was struck down. However, as against the majority judgment, Justice A.N. Ray gave a dissenting judgment in which he observed that the only way in which the exercise of power by the President can be challenged is by establishing bad faith or malafide and corrupt motive. Bad faith will destroy any action. Such bad faith will be a matter to be established by a party propounding bad faith. He should affirm the state of
facts. He is not only to allege the same but also to prove it. In the present case there is no allegation of malafide … the petitions fail and are dismissed.

In response to the judgment, and on the same day, the DBOD issued a directive under Section 35A of the Banking Regulation Act, 1949, which was identical in content to the one issued on 22 January, except that the present directive was addressed to the chairmen of the banking companies and not the custodians. Another note submitted by the chief officer of the DBOD on 10 February stated:

“The Supreme Court has today struck down the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1969. From the reports available to us, it appears that the Act has been held void mainly on the grounds that it is discriminatory against the fourteen banks which had been nationalized and that the compensation proposed to be paid by government was not fair compensation. As a result of the Supreme Court’s decision, the undertakings of the banks have reverted to the corresponding banks. At the moment, we are not aware of the government’s intention as to the future course of action to be taken in regard to these and other banks. There is, therefore, uncertainty in the banking system and in the circumstances it is necessary that in the public interest and in order to protect the interests of the depositing public, the Reserve Bank should appoint its officers as directors of these fourteen banks, as also of other banks to which we have been sending observers in terms of section 36(1)(d)(ii) of the Banking Regulation Act, 1949.” 18 This was approved by the Governor on the same day and action was initiated accordingly. A resolution to this effect was passed by the Committee of the Central Board on 11 February 1970.

During the hearing of the writ petitions against the Ordinance and the subsequent Act, officials of the government and the Reserve Bank had attended the proceedings and studied the arguments to ensure that, in case the Ordinance/Act was struck down, the government could issue a new Ordinance keeping in view the observations of the Supreme Court. Eventually, the government issued a fresh Ordinance on 14 February that did not contain the offending provisions of the earlier Act. Under this Ordinance, the government again took over the undertakings of each of these banks with effect from the original date, i.e. 19 July 1969. This Ordinance, unlike the void Act, did not set out any principles for the determination of compensation to be paid to each of the fourteen limited companies whose undertakings were acquired but fixed a specific amount of compensation to each of the nationalized banks,
aggregating Rs 8,740 lakh, to be paid within 60 days from the date the banking company applied for it. The banking companies were given three options or any mix of these: in the form of cash, ten-year central government securities at par carrying 4.5 per cent interest per annum, and thirty-year central government securities at par carrying interest at 5.5 per cent per annum. Allahabad Bank and Indian Overseas Bank opted for payment of the entire amount of compensation in cash, ten banks opted for payment entirely in the form of securities, and the remaining two banks opted for payment of compensation partly in cash and partly in government securities. In the case of the first two banks, cash payments were made in installments, while in the case of the other banks the claims were settled as per their options.

The Banking Companies (Acquisition and Transfer of Undertakings) Bill, 1970, to replace the Ordinance issued on 14 February 1970, was introduced in Parliament on 27 February and was passed without any amendment by both the Houses towards the end of March 1970. The Bill received the assent of the President on 31 March 1970.

The international reaction to bank nationalization in India, as officially recorded in the Reserve Bank, appeared to be passive. A rather nondescript remark on the subject made by Jha, while referring to ‘his impressions of views abroad on India’, was recorded by Secretary M. Narasimham in the summary of discussions of the Committee meeting held on 22 October 1969: ‘The various people he met did not hold any strong views on bank nationalization.’ The narration went on to add that from the point of view of international observers, the success of the country in food production had more or less overshadowed all other contemporary developments: ‘the picture of a hungry India depending upon the world charity for its essential food supplies had now given way to a new image of an India able to make significant progress on the agricultural front.

The first phase of nationalization and its aftermath, as revisited by I.G.Patel, offers an interesting picture. By all accounts, the nationalization of major banks was a great success initially. Apart from the political dividends for Mrs Gandhi, it greatly increased popular confidence in the banking system and thus increased the mobilization of private savings through banks. The savings so mobilized were also used now for supporting public borrowing as well as for meeting hitherto neglected genuine credit needs. The rot started with the Emergency and what political opportunism started was compounded by bank staff of all grades. With nationalization came the entry of national unions with allegiance to different political parties,
mostly the Congress and the Left. Shielded by political support the bank staff proceeded to create for themselves a vast superstructure of perks and privileges under which they could define and limit work, enforce overstaffing and generally encourage indiscipline and incompetence without any fear of being held accountable. Merit went by the board as did customer service; and seniority and closeness to political power held sway.

In 1980, after Indira Gandhi was voted back to power—she had been defeated in the general election of 1977—there was a second round of nationalization. Six banks were taken over, but this was a non-event in comparison with the heightened political drama and legal controversies that had accompanied the first nationalization. Its most important distinguishing feature, perhaps, was that while the Reserve Bank had not been party to the 1969 decision and Governor Jha, as later chronicled by M. Narasimham, ‘was clearly unhappy with the decision’, in 1980, the initiative came from I.G. Patel, the Governor of RBI. The records in the Bank are not suggestive of any formal correspondence between the Bank and the government on this subject, nor of any discussion having taken place at the meetings of the Central Board of the Bank. I.G. Patel’s memoirs provide an insight into the whole affair where he writes, that one of the first steps that he had to recommend to Mrs Gandhi was that she should nationalize another swathe of private banks.

The Reserve Bank had the responsibility to supervise private banks and to ensure their compliance with social control norms as well as with law. Several small private banks had now grown to respectable size and it was not easy to control their activities in practice. Some of them like the Punjab and Sind Bank and the Vijaya Bank, had become the personal fiefdoms of individuals who disregarded all rules and advice with impunity. They, with their shady dealings, were offering unfair competition to the nationalized banks. It was felt that the only practical way to tackle the problem was to nationalize the banks which had now reached the cut-off point of the 1969 Act. Mrs Gandhi readily accepted the advice—going against her promise of no new wave of nationalization, strictly speaking. Patel said that the Prime Minister had ‘no appetite’ for nationalization then and that this particular initiative for the second phase of bank nationalization had come entirely from him as Governor of the Reserve Bank.

The Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1980, was issued on 15 April 1980, under the signature of N. Sanjiva Reddy, President of India, nationalizing six more commercial banks. These were Andhra Bank, Corporation Bank, New
Bank of India, Oriental Bank of Commerce, Punjab and Sind Bank, and Vijaya Bank. Their deposits in India, as shown in their returns on 14 March 1980, amounted to not less than Rs 200 crore. The purpose of the nationalization was indicated as ‘to further control the heights of the economy, to meet progressively and serve better the needs of the development of the economy, and to promote the welfare of the people in conformity with the policy of the State’.

It was explained that, as on the previous occasion, branches of foreign banks incorporated outside India would remain unaffected by the proposed measure because it was necessary to maintain the status quo in the interest of the future of Indian banking abroad. Further, the operations of these banks were limited mainly to port towns and Delhi and largely catered to specialized areas like foreign trade, tourism, etc., and the total deposits of foreign banks in India was less than 4 per cent of the aggregate deposits of all scheduled commercial banks. It was also estimated that with the inclusion of these six banks, the total deposits of public sector banks would be around 91 per cent of the deposits of all scheduled commercial banks.

Indira Gandhi claimed at a news conference that the nationalization of the six banks was meant to help the weaker sections of society. The general opinion among banking circles was that the take-over of the banks was no more than a further step in the government’s action of eleven years ago, when it had wanted the large banks to ‘fall in line’ with its goal of attaining national objectives; in that sense, the decision was seen as long overdue. It was also noted that professionalization in the management of private sector banks had not attained the same heights as in the public sector banks, and that there had been recently a ‘whiff of complaints’ against some of the private sector banks of interlocking advances that had been made against the other banks too, before nationalization. The Federation of Indian Chamber of Commerce and Industry (FICCI), in a press release, was highly critical of the government’s action, which it described as a bad and sad decision. Various associations of bank employees, however, welcomed the step as necessary on account of the several malpractices rampant in these banks, and, more importantly, the harassment of their employees and victimization of trade union activities. The All-India Confederation of Bank Officers Organization said that the decision to nationalize should have been taken earlier because the allegations of mismanagement against most of these banks had been on record for over five years. 19.

The Draft Bill to replace the Ordinance was referred to the Reserve Bank for suggestions in the last week of April. The necessary notifications for converting the Ordinance into a Bill
were communicated to the government on 3 May. The Banking Companies (Acquisition and Transfer of Undertakings) Bill, 1980, was introduced in the Lok Sabha by the Finance Minister, R. Venkataraman, on 12 June. In sharp contrast to the heated exchanges witnessed a decade ago while considering an identical Bill, the discussions on the 1980 Bill were brief. While answering a specific query as to why a Rs 200-crore norm had been fixed for the second phase of nationalization, the Minister explained that the norm enabled the government to practically control 91 per cent of the entire deposits of the country, that it would be difficult to take over all the banks at the same time for nationalization and that the government was not committed to such a principle.

He added that when a bank which had Rs 200 crore of demand and time liabilities was nationalized, hypothetically, if there was another bank with Rs 199 crore of deposits, then the Act was likely to be struck down on the ground of improper discrimination. In the extant instance, the next private bank had only about Rs 150 crore of deposits. The Bill was passed by both Houses of Parliament in June 1980 and it received the President’s assent on 11 July 1980.20

Mrs Gandhi’s close friend, Pupul Jayakar, complimented her on the excellent timing of her decision to nationalize the banks. In a revealing reply, Mrs Gandhi said that the timing was not chosen by her but by her adversaries. ‘They drove me to the wall and left me with no other option.’

An Evaluation

Bank Nationalization, as a significant part of the national programme of transforming the economy of the country into a socialist one, is a major step forward and the credit of envisaging and making it a reality goes to the late Prime Minister Mrs. Indira Gandhi. It was felt necessary that this sector has to attain a dominant role and to occupy a key position in the economy, and secondly, to further the speedy achievement of the various socialistic objectives the country had set before itself.

Nationalizations of Banks did not mean depriving the existing industrial enterprises of their credit needs for genuine productives purposes. It was intended to throw open new avenues to the people, particularly to the youth of the country. Prior to nationalization, credit to priority areas had been somewhat neglected. The removal of control by a few, provision of adequate credit for agriculture and small industry and exports, the giving of a professional bent to bank management, the encouragement of new classes of entrepreneurs, and the provision of adequate
training as well as reasonable terms of service for bank staff etc, remained neglected and called for immediate attention. Nationalization was felt necessary for the speedy achievement of these goals.

The Nationalizations of the fourteen big banks is an evidence of the determination of Mrs. Indira Gandhi to bring a greater volume of resources within the area of social decision. It effected a major change in the Indian economic structure. It enabled Indians to pay more attention to the small man’s needs, and it restricted the monopolistic operations of the privileged few, of course, Nationalizations of Banks was never thought of as a universal cure. On the contrary, it was to be a weapon to be used with care and discrimination. In the context of country’s situation, the most compelling and urgent task was to accelerate economic development, to resolve the problems of unemployment and inequalities. Since the resources were limited, it was naturally felt more fruitful to invest them in creating new production facilities in preference to merely taking over existing units of industries. Thus, Nationalizations of Banks was an earnest attempt to bring the banking system into tune with the needs and aspirations of the Indian people.  

Banks play a vital role in the functioning of any economy. To those who have money to spare, banks are the custodians of their savings on which good returns can be earned by wise and efficient management. To the millions of small farmers, artisans and other self employed persons, a bank can be a source of credit, which is the very basis for any effort to improve their meager economic lot. Even established trade and industry, big or small, cannot function or expand without adequate bank credit on reasonable terms. For the growing number of educated young men and women, banks offer an opportunity for employment, which at same time is an opportunity for service to society. To those who do not have a business of their own, Banks, like the postal system or the railways, provide facilities of daily life.

Banks being closely linked with the development of the country’s economy cannot remain entirely uninfluenced by the needs of the political situation. When banks were nationalized, the political situation in the country demanded that banking facilities should be extended in an increasing measure to backward, areas to agriculture, to small-scale industry and so on. Mrs. Indira Gandhi wanted that banking operations should have a larger social purpose. Banks Nationalizations was a challenge to the policies of Mrs. Indira Gandhi. There were detractors but on the whole there was understanding and appreciation. However, those in
charge of banks handled the situation with admirable and the transition was smooth. That augured well for future, and they had found a way to serve the people of India and at the same time, keep to sound economics. Nationalizations brought the custodians of banks full powers to deal with various situations there was no need to seek guidance from other quarters in matters in which they had full competence for decision-making.

Yet there was a feeling of insecurity amongst bankers and also amongst some sections of business and industry. It was assured that there was no need for a feeling of insecurity in any one. The Government had no intention it was emphasized, to disturb the entire system but merely to give it the guidance which it had sorely needed. It was not that the bankers were not functioning well, but they saw things from needs of the country. Good economics was essential, greater production was also essential. Neither of it was possible, it was felt if social tension kept growing and threatened everything. Social tension was growing in the country because of disparities, because of the sense of injustice felt by many people. Therefore, moves had to be made or steps that could help in easing this tension for greater stability and security for all.

Nationalizations of Banks brought in the re-orientation of credit policies designed fulfill some of the aspirations of the people. That depended on the extent the banks were able to mobilize additional deposits. Any failure on this front, it was thought, would impede the banks ability to meet the growing and competitive credit demands themselves to task with vigor and imagination. Deposit-mobilization depended upon the strength of the institutional base of base of banking and the spread of its geographical and functional coverage. The pace of branch expansion, in particular, needed to be stepped up on the basis of a plan geared to definite time-horizons.

Nationalization was an opportunity and a challenge to the bankers to cast themselves in a dynamic and innovating role. Rural banking in particular, required new techniques and methods of work. The attitudes of conventional and conservative banking was not enough for banks to foster and enlarge the oncoming agriculture revaluation, and to benefit from the substantial incomes which it was generating in the rural areas. To mobilize rural savings, they had to work hard to develop new services which would suit the farmers, and make them save and part with their savings. On the side of lending also, new ideas were essential. They had to innovate in respect of security requirements. Clearly, the traditional insistence on collateral security of documents of land ownership was self-defeating, as such methods ruled out millions of small
farmers and tenants. In the context they had to examine how they could forge links between nationalized banks and the cooperative agencies on sound economic principles.

The banker had to become the friend, the philosopher and the guide of the farmer, by providing him technical assistance, inputs, supervision of credit and input use, and by simultaneously financing the development of storage and marking facilities. Some of the most dynamic bankers made it their business to conduct fertilized trials in specific soil conditions. They promoted new hybrid seeds, set up and financed soil testing facilities, collected and analyzed economic data on forms, instituted spraying services, and encouraged actively a host of productive and revolutionary activities. In this challenging situation, no banker who took merely a conventional view of banking business could be successful. Only that banker succeeded who could be more than a mere banker.

Although agriculture was given greater stress because of the primacy it occupies in Indian economic development, industrial leading whether to the small entrepreneur or to the big industrialist, was not overlooked. The emphasis was to be on the credit–worthiness of purpose. Banks had to equip themselves to make techno-economic and financial appraisals of new schemes. They had to engage themselves in up-to-date, perspective market and planning surveys. They had to adopt management systems and techniques. In short, they had to be able to judge and indentify the requirements of a dynamic economy over a broad spectrum, and provide it the necessary financial and technical support.

These tasks demanded an expanded professionalized management of the highest order. For this purpose, the necessary training facilities based on curricula suited to the needs had to be created. There were also fears that courtesy and efficiency would be at a discount in the nationalized banks. But on the part of the Government it was sincerely hoped that these would be belied, and the bank employees who had responded so enthusiastically to Nationalization would ensure that their earlier record of good service was not only maintained but also improved.

**Abolition of Privy Purses and Feudal Privileges**

If Nationalization of banks was a milestone in the socialization of the country’s economy, abolition of privy purses represents an important step in the further democratization of our
India conceived of building up a democratic polity and an egalitarian society after attaining Independence keeping in tune with the prevailing aspirations of the people. Abolition of privy purses and feudal privileges was a step in right direction. It was a bold venture in the direction of bringing about an egalitarian society in which social divisions and disparities were leveled down. A special feature of our freedom movement was that it recognized no class distinction and sought to protect no privileges. At the time of Independence there were nearly 650 princely states prevailing all over India. The then Indian leaders, to placate them and to make the integration of these states into Indian Union hassle free, allowed them some concessions in the form of certain feudal privileges and Privy purses. Subsequently, acknowledging the egalitarian feelings of the people, it was believed that the days were gone when birth was the chief road to distinction. The continuance of heredity titles, customary rights, special privileges and privy purses without any relatable functions and responsibilities, it was argued, was incompatible with our democratic Constitution, the spirit of the times and the demand of changed circumstances. Reiterating it while presenting the Abolition of Privy Purses Bill to the Parliament, the late Prime Minister Indira Gandhi said that the days are gone when birth was the chief road to distinction. All over the world today, distinction comes from achievement, and I believe that the highest privilege to which one can aspire in our country should be that privilege of being an Indian, a free Indian, a democratic Indian, not higher or lower than any other Indian. The Bill to abolish the privy purses was wholly in the spirit of this aspiration of the people of India voiced forth by Mrs. Indira Gandhi. The manner in which it was proposed to be brought about was in keeping with our democratic tradition of achieving far reaching and even revolutionary changes peacefully, through consolation, through debate and through parliamentary approval.

While introducing the bill no attempt was made to minimize the co-operation given by the rulers and their constructive role in the unification of the country soon after the achievement of Independence. They had contributed whole heartedly to the political, social and cultural life of the community. They had voluntarily conceded to have many of their privileges curtailed in the larger interest of the Indian nation. Yet certain institutions associated with them were not in harmony with a society striving for equality and social justice. In view of it, it was sought to omit Articles 291, 362 and Clause 22 of Article 366, and thus discontinue the privy purses, abolish or restrict the privileges and abolish the concept of rulership. The Bill was not intended
to cause hardship to the rulers or to injure self-respect. The Bill stirred a horns’ nest and met with stiff opposition. Some princes and their friends claimed that the Bill was repugnant to morality. In reply, it was declared that, while there existed poverty and inequality in the country, there could be no immorality involved in wanting and working to end them. The continuance of heredity titles, customary rights, special privileges and privy purses without any relatable functions and responsibilities, it was argued, was incompatible with our democratic Constitution, the spirit of the times and the demand of changed circumstances. It was emphasized that changes do bring difficulty and necessitate adjustments, but they are inevitable. The choice was, it was said, between bringing about change peacefully and with consent or to allow changes to come about in a manner which the Parliament and the country might not like. The Parliament was to show a sense of history irrespective of party affiliations and to consider whether a princely order with attendant rights and privileges should continue indefinitely in a society striving for equality and social justice.

Another argument against the bill was that abolition of the privy purses was a political device with immense skill the arguments were reduced and attributed to two opposed points of view. There was the point of view which fixed on the past and on the desire to conserve all that was old and familiar. The other point of view which recognizes what was good in the past heritage and tradition of a nation but refused to be imprisoned or shackled down by them. It was argued to be imprisoned or shackled down by them. It was argued that the Abolition of privy Purses Bill sought to synthesize the best of the old with all was worthwhile and enduring in the new. This view was happily shared by a majority of the political parties and the overwhelming majority of the people of our great country.

**Abolishing Feudal Privileges**

When the bill to abolish the purses and privilege of the ex-rulers was first introduced in the Parliament, it won more than two-thirds vote in the Lok Sabha, and in the Rajya Sabha it failed to get the required special majority by a fraction of a vote. But that was a mere technical failure. The will of the people was not in doubt. Therefore it was given effect by a Presidential order on September 6th. This was taken to Supreme Court which set aside the Presidential order on December 15. On that very day, it was resolved to pursue it through appropriate constitutional means. The ruling party reiterated the decision in its election manifesto and it secured the overwhelming endorsement of the people of the country. So, it was reintroduced in the House in
fulfillment of a pledge. In the meanwhile some changes had been made in the Bill as presented to the House keeping in view the observations of the Supreme Court. The purpose of the Bill was to narrow the disparities in our society. Since attaining freedom, the country had been setting right the old disparities and social distinctions one by one and this was yet another step towards the creation of an egalitarian society. There was a great deal of feeling in the country against inherited special status, against privileges unrelated to function or responsibility, against exemptions and facilities enjoyed without adequate reason. A series of measures had been adopted to remove such vested interests Absentee landlords had been eliminated. The economic power of the merchant princes was being checked. It was felt fair that the feudal princes also should be asked to shed their special privileges. In this context, the princes were urged to view it in a historical perspective. They were prevailed upon to see that a leveling process was at work in our society, a process which was abolishing divisions and class distinctions. Certain forces were irreversible and inexorable. They could be ignored and resisted and be swept aside or they could be recognized as real and attempts could be made to give some direction to them.

A large number of princes acted with foresight and adjusted themselves to changes. They acted with remarkable patriotic spirit to facilitate the political integration of the country after independence. Later, there were earnest attempts to persuade them to voluntarily abrogate their privileges. The response from some was prompt and encouraging; a few others were not equally responsive. They failed to appreciate the fact that when a moment was not seized, it would not come again. The problem could have been solved through discussions alone. But there was a gap between the thinking of the Government and Princes necessitating legislation. In this context Prime Minister Indira Gandhi insisted time and again that there was no personal animus against any individual prince or even against the princely order as such. Our quarrel, if one can call it a quarrel, is a system that no longer has relevance in our society, or for that matter, in any society. She added that a great community of equals is being created in our country, and I would invite the princes and princesses to join this community unencumbered by a sense of past authority. There was a time when superiority could be measured only by rank or by wealth. But today the scope to show one’s worth is very much vaster, in fact I would say practically unlimited. I feel that by taking away the privy purses and privileges which I do not think add to a person in any way, we might depriving the princes of some pomp and luxury, but I think we are giving them the opportunity of being men. Mrs. Indira Gandhi who piloted the revolutionary Bill abolishing
the Privy purses was modest enough not to claim for the bill status of a panacea for social inequalities in the country. She said “we are poignantly aware that things have not been done. Many inequalities and injustices do exist. But at least those of which that can be removed little by little, step by step, we are trying to remove was abolished with much violence. Here in India we won our freedom through non-violence, and our social revolution is also being achieved non-violently. Whether it is the abolition of untouchability or of absentee landlordism or the princely order, all these things are being done democratically, peacefully and with the consent of the people. This should be a matter of satisfaction to us all”. Mrs.Gandhi further said that we do stand for change in society, we think the change could be more rapid, more widespread than it is at the moment, but at the same time we believes that change should be peaceful. We believe that if the forces of changes are obstructed you do not stop change; you merely obstruct the peaceful and orderly transition. So, our attempt at bringing about social change this includes the abolition of privileges being enjoyed by the princes-should not be regarded by them or by anybody else as an indictment of the Princes as individuals or as a group.

Mrs. Indira Gandhi and Land Reforms

In a predominantly agricultural country, the possession of land is the key to political power and social status. The patterns of land distribution and ownership reflect the actual power structure. The ownership of land is a basic element in the social class differentiation. Even today, most people covet land for its prestige than for its production value. It is the source of economic wealth, political power and social prestige. The fight for land between clans, tribes or nations and within between landowners and the landless formed the life of the people and determined the patterns of society. It is clear from the study of history that the conquerors became landlords and the defeated tenants and serfs.

It is difficult to discuss land reform analytically for a number of reasons. The meaning of term varies from country to country, from writer to writer and from period to period. “Land reform” is defined by the United Nations, as comprising an integrated programme of measures designed to eliminate the obstacles to economic and social development arising out of defects in agrarian structure.

The concept of “reform” implies changes and the direction of changes. A reform is a change in which the power of hitherto privileged groups is curbed and the economic position and
social status of underprivileged groups is correspondingly improved. It means changes in the direction of greater social, economic or political equality. Reform implies a partial dispossession of privileged groups and improving the socio-economic and political status of the underprivileged groups.

In the present Indian context, land reform broadly means reform carried out under government intervention through democratic methods. Primarily, it relates to tenancy, ceiling and homesteads. The ultimate aim of tenancy legislation as pointed out by the Planning Commission is to confer ownership rights on the tenants. The immediate objective of tenancy legislation is concerned with (a) security of tenure subject to the right of an owner to resume a limited acreage for self-cultivation, (b) reduction of rents and (c) conversion of nonrefundable land under tenancies into ownership. Land ‘ceiling’ is a device which permits a landowner to retain certain amount of land, the remainder or excess being earmarked for re-distribution among the landless. The planning Commission laid down the basic policy on land ceiling, fixing an upper limit to the amount of land that an individual may hold.

The policy of the government to assign banjar or waste land to the landless people is an important land reform measure which has changed the agrarian structure at the bottom of the social pyramid. The evolution of land policy can be better understood in the background of the agrarian structure introduced by the British in India in the 18th and 19th centuries. The English merchants of the East India Company who came to India and conquered the country were also landlords and renters of England. Their major object was to squeeze agricultural surplus for their merchant capital. Lord Cornwallis introduced permanent Revenue Settlement in 1773; it was the beginning of the British interference with the land tenure and revenue systems in India. The various forms of tenure such as zamindari, Jagirdari, Inam and Mahalwari were artificially created. The revenue collectors were raised to the status of landowners.

Cornwallis believed that the recognition of zamindaris as proprietors of villages and lands would contribute to the development of agriculture and the growth of prosperity. He thought that the British type landlordism could be transplanted in India and that the Anglicization of the administration was an essential condition of this reform of land tenures. This Zamindari system was first introduced in Bengal and later in North Madras and Banaras.

The Munro system popularly known as Ryotwari settlement was first made in Madras. This system conferred rights of ownership on the peasants without distinction of caste or creed.
The grant of ownership to individual peasants, with the right to occupy as much land as the cultivator could manage with his recourses, was a far-reaching change in the caste-ridden rural society. The theoretical formulations of his agrarian reform threw open the doors of peasant proprietorship to the cultivator of all castes but in actual practice the upper caste leaders of the panchayat continued to rule the roost, and often succeeded in preventing the lower caste peasants from acquiring ownership rights in the village lands.  

The ryot enjoys permanent right of tenancy so long as he pays the assessment of revenue. In introducing Ryotwari settlement, Munro initiated an agrarian and social revolution in such India. The Ryotwari of Munro had been 'transformed into an aggressive instrument of change. This system was prevalent in Bombay, Bihar and Central India. The British government introduced another system of land tenure, the Mahalwari system, first in Agra and Oudh and later on in Punjab. Under this system village lands were held jointly by the village communities, the members of which were jointly or severally responsible for the payment of revenue. The co-existence of zamindari, the Mahalwari and Ryotwari tenures led to the intermixing of characteristics. But the three systems gravitated the tendencies of the zamindari system. Sub-letting and rack-renting became a common characteristic even in the ryotwari area. Guided by their political interests; the British administration introduced the various land tenures with the two-fold objectives of the creation of a privileged landed class loyal to the British and to collect land revenue easily. They introduced zamindari system on the model of British landed aristocracy and another system of tenancy (Ryotwari) on the lines of peasant ownership existing in France.

The land problem in modern India is in some respects traceable to the institutional-structural changes introduced by the British during that period. The different classes in the Indian society were adversely affected by the impact of British policies, especially land and revenue policies. It resulted in deep and widespread dissatisfaction among the people and led to the serious political explosion, known as Mutiny of 1857. The revolt of 1857 was described as an uprising of the displaced landed gentry. The British conciliated carefully these classes after the suppression of the revolt. Otherwise it would have spelt danger to the Raj. There was a reversal of the British polity in India after the Great Mutiny of 1857. They were no longer interested in changes and innovation in the Indian institutional structure and maintained status quo in the property structure. Since then the British policy was oriented towards growth and development.
within the given institutional structure. Thus, the British land policy underwent a change from limited dynamism to conservatism.

Early nationalists like Mahadev Govind Ranade and R.C. Dutt attributed the backwardness of the Indian agriculture to the institutional structure. According to Ranade, the State had become a super-landlord due to the retrograde system of land relations and the landlords and tenants had no incentives or resources for agricultural development. R.C. Dutt attributed agricultural backwardness to the British created institutional framework of agricultural production including land tenure, revenue system and credit.

There were no changes in the attitude of the Indian National Congress towards land problem even after the assumption of its leadership by Gandhi. The Gandhian concept of social harmony as a political tool and mutual agreement and compromise as the instrument of agitation became the policy of the nationalists in the nineteen twenties and thirties. Gandhiji could encourage and applaud non-payment of land revenue to the British government, but he opposed agitations directed against the Indian landlords. His satyagraha movement was directed against either the British landlords or against the British government and never against Indian landlords.

The emergence of radicals in the Nationalist Movement in early thirties changed the attitude of the Indian National Congress towards the question. Indian poverty and economic backwardness were viewed from a different perspective by the radicals. It was because the country was reduced to a colony, which was exploited as a source of raw materials and as a market for finished commodities of the dominant country. Institutional framework of agriculture was influenced by colonialism. The destruction of the cottage industries led to man power pressure in the agriculture and competition for land. Land problem, according to the radicals, was largely the creation of colonialism in India.

The Congress session held at Karachi in March 1931 adopted the Resolution on Fundamental Rights and Economic and Social changes. It was a humanitarian socialist Manifesto, Karachi Resolution, inter alia, called for the reform of the systems of land tenure, revenue and rent. The Kisan conference at Allahabad in 1935 passed a resolution calling for a
system of peasant proprietorship, without the intervention of any zamindari or Talukdar. However, the expropriated zamindars should be paid reasonable compensation. The Kisan conference was presided over by Sardar Patel.

By the thirties, Marxists also became very active within the Nationalist Movement. Like radicals, they identified India as colonial economy and the agricultural structure as semi feudal class structure based on the triple modes of exploitation of the peasantry, namely, the landlords, the traders and the money-lenders. The Marxists tried to present colonialism and feudalism as scientific-economic categories and to analyse the Indian situation in terms of Marx’s class theory in general and Lenin’s theory of imperialism in particular. Like the radicals, the Marxists also advocated drastic changes in the land and revenue system in favor of the peasants. They supported peasant-oriented land reforms. The Congress Socialist Party was formed in 1934. Most of the radical elements became members of the Congress Socialist Party. They influenced the Indian national Congress for radicalization. The need for mobilizing and organizing the peasants in the National Movement was recognized. With the rise of Congress radicalism in the 1930’s, effort to Mobilize the peasantry for the national movement was increased. The All India Kisan Sabha was set up in 1936. But for a variety of reasons, the Congress party was not enthusiastic over such organizations. The leaders of the All India Kisan Sabha were not wholly content with their Congress associates. Within a few years, the Kisan Sabha came to be dominated by the members and sympathizers of the Communist Party.

The organization of the peasantry on militant lines was opposed by the Congress Party, for it was likely to results in class conflicts between the landlords and the peasants. The rural strength of the Congress party largely depended on big landowners and the Indian National Congress did not want to antagonize them by associating itself with the potentially disturbing organizations like the All India Kisan Sabha. Except for a few radicals, the Indian National Congress was, by and large, opposed to the peasant mobilization against the Indian landlordism. But it was in favor of the abolition of the zamindari system for its own reasons. The zamindars were the products of the colonial system and they supported the British Government in India and strongly opposed the nationalist movement. They were the centres of local powers and ran against the Congress candidates. The zamindaris may bolster political opposition to the Congress party and may even defeat them in elections. The subsequent zamindari abolition was largely due to the historical commitment of the Indian National
Congress for the abolition of the zamindari system. The land problem received the attention of the Indian National Movement ever since the radicalization of the Indian National Congress from the early thirties. The abolition of all the intermediaries in land between the state and the peasant is a commitment of the Indian National Movement itself. A cherished dream of Indian landless workers, especially ‘untouchables’ was to acquire land for housing. Personal dependence relations arose in the countryside because the landless workers were forced to settle on lands belonging to big landowners. This led to unbridled exploitation of the workers by extra-economic coercion. It is an integral part of the land reform legislation to give homesteads to the poor and thereby to eliminate the exploitation of rural poor by extra-economic coercion. There has been an immense and unprecedented wave of land reform legislation in India since independence. Andhra Pradesh has one of the most progressive land reform acts in the country. The policy of the government to assign banjar waste land to the landless poor and giving homesteads to the rural poor has changed the countryside. This is evident from the emerging new patterns of landownership with class-caste configuration.

Speaking of the importance of land reforms to Indian polity, Prime Minister Indira Gandhi said: “land reform is the most crucial test which a political system must pass in order to survive. It is also an essential prerequisite for self-sufficiency in food grains.” If land re-distribution under Land Reforms (ceiling on Agricultural Holdings) Act, 1973 is not as spectacular as one desired, the legislation itself had salutary effect. Scared by the legislation, many large owners sold away land and reduced their holdings. The legislation compelled them to become owner-cultivators, transforming themselves into capitalist farmers. Adoption of new technology by the owner-cultivators stimulated agricultural production considerably.

A vast stratum of the agricultural proletariat becomes proprietors of land-by re-distribution of land in some cases, and by the assignment of government waste land in a large number of cases. Thus, the landless agricultural laborers became owners of land in a number of cases and the size of the big landholdings is radically reduced by the land reform measures. A widespread ownership of land is created. The multi-pronged measures adopted by the central and state government have shaped the contours of the rural society with a new class and caste configurations.

**Rationale of land Reforms**
The agrarian structure is different in different countries and in different parts of the same country. The nature and content of land reforms also differ depending on the degree of land concentration and the stage of economic development. Speaking on the rationale behind land reforms Mrs. Gandhi said “Land reforms play a very important part in any country’s economic development. We think it is a revolutionary measure; but actually even countries which are capitalist in their thinking and their systems have had to give the same priority to land reforms.”

The objectives of land reforms are threefold—the social, economic and the political. All the different objectives are related and they are complementary.

**Social:** The grounds of social equity in promoting land reforms are more compelling than considerations of economic productivity. Land is the main scarce resource and hence the main source of rural inequality and power. Hence, land reform is the main path towards greater intra-rural equality. Rural social justice formed the overt motive for land reform proposals.

**Economic:** Land reforms need not be justified on economic grounds but if they are effectively and expeditiously implemented, they can make vital contribution to the growth-process and industrialization. In a developing country labour is the abundant factor and land and capital scarce resources. By allotting land to the landless peasants, it promotes intensive cultivation and thereby create additional employment opportunities in agriculture. The agricultural sector should be organized into small family farms which economize on scarce land and capital resources and make full use of labors. Land reform may have salutary effect on the economic development from the partially dispossessed landowners. They are likely to divert their economic resources and entrepreneurial talents to business and industry and thereby accelerate industrial growth.

**Political:** Overt objectives of land reforms are different from the real ones which are primarily political. Land reform is a political issue and its political content is very strong. The land policy is to be adapted to the political needs of a given time. Many governments use land reforms or promise of them, to gain or retain power in their countries. It became a vital international issue in cold war between the U.S.A and U.S.S.R. During the post-war period, American policy-makers were impressed with the success of the Communists in the Asian Countries on the issue of land reform. Therefore, to take the wind out of Communists sails, the policy makers of the U.S.A very strongly advocated land reforms in all developing countries because it would fire the imagination of the intellectuals and satisfy the craving of the peasants for land improved standard of living. They felt that the communists can
be prevented from taking over the governments of the backward countries; if land reforms are implemented effectively. It was the assumption of the American policy-makers that land reforms will lead to political stability. Reforms directed at the urban middle class are a catalyst of revolution, reforms directed at the peasantry are a substitute for revolution. To establish western type of democracy is another political objective of land reforms. Middle class is necessary for democracy. The creations of small owner-farmers strengthen the middle class and thereby helps western type of democracy. Even Lenin implicitly agrees that small farms tend to stabilize the non-socialist political system. The timing and scope of land reforms are determined more by the political pressure than by the economic and social needs of the people. The ruling elite may use it either to win support of specific groups, to create or restore political stability and to legitimize their own positions. If the reform are carried out before peasant revolts, its objective is to create stability, and prevent revolution by modifying the existing political system. If they are implemented after a revolution, the political objective is to strengthen and maintain political order and to give it legitimacy.

Land reform is directly related to political stability in the developing countries. Peasantry is the bulwark of status quo or the shock troops of revolution. Landowning peasantry is the most conservative of all social classes. The peasantry which owns too little land or pays too high a rental is the most revolutionary of all social classes. This is amply demonstrated in China under the leadership of Mao, in Indo-China and in some parts of India. Mrs. Gandhi speaking on the land reforms said:” Some people feel that land reform is an extremely socialist measure. I should like to remind you that when the Americans were in Japan immediately after the war, one of the first items taken up by Gen MacArthur was land reform and after that the whole Japanese economy started looking up. Unless, we pay more urgent attention to it, all our efforts of economic growth and social justice will be futile.

I should like to repeat again that its popularity should be given to land reforms and the programs for the rural poor. There have been games in the last few months. I hope that this will not be just a flash in the pan, and duty new enthusiasms. They should become part of normal working. It is necessary to keep a constant watch to guard against over-doing things and to check on the results of whatever steps are being taken and where necessary to initiate remedial actions”. 38
Significance of land reforms in India: India is a developing country with agriculture playing a dominant role in the economic development. There are wide inequalities in land ownership and income. A substantial labour force is working in agricultural sector. In the countryside, the top twenty per cent of the rural population got fifty per cent of the total rural income, whereas the bottom twenty per cent got only four per cent of the rural income. Thus there is widening income differentials between the rural rich and the rural poor.39

To quote an example, the disparities in the distribution of land in Andhra Pradesh gives us a clear picture as to how there is an imperative need for land reforms. The great disparities in income, wealth and power in agriculture in Andhra Pradesh are given in the following Table

<table>
<thead>
<tr>
<th>Size groups (in hectares)</th>
<th>Number of holdings (in lakhs)</th>
<th>Per cent to Total</th>
<th>Area in lakh Hectares</th>
<th>Per cent to total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 1.00</td>
<td>24.91</td>
<td>46.00</td>
<td>10.86</td>
<td>8.0</td>
</tr>
<tr>
<td>1.00 to 2.00</td>
<td>10.65</td>
<td>19.6</td>
<td>15.33</td>
<td>11.3</td>
</tr>
<tr>
<td>2.00 to 4.00</td>
<td>9.42</td>
<td>17.4</td>
<td>26.04</td>
<td>19.02</td>
</tr>
<tr>
<td>4.00 to 10.00</td>
<td>6.89</td>
<td>12.7</td>
<td>41.86</td>
<td>30.7</td>
</tr>
<tr>
<td>Above 10 hectares</td>
<td>2.34</td>
<td>4.3</td>
<td>41.74</td>
<td>30.7</td>
</tr>
</tbody>
</table>


Forty six per cent of the total number of holdings was in the size group of below one hectare. In spite of such large number of holdings, the area covered by them is only eight per cent of the total area, whereas the number of holdings in the size groups of above 10 hectares is only 2.34 lakhs. 4.3 per cent of the total holdings in the State and the area under such holdings is 30.7 per cent of the total area. In other words, the top 17 per cent of the holdings operates 61.5 per cent of the area under cultivations.

The peculiarities of the Indian situation are that not only the land is concentrated in the hands of the bigger landlords but that the big landowners are from the dominant castes in the rural areas. Most of the Scheduled Castes, Scheduled Tribes and weaker sections of the rural people are landless poor. This class-caste domination of the countryside is the peculiar feature of the Indian
rural scenario; Land reform policy should be specially oriented towards the elimination of this class caste monopoly of land.

There are not only wide inequalities in the patterns of land ownership but also a large force is working on agriculture, about 49 per cent of the national income comes from the agricultural sector which accounts for 70 percent of the working population. Owing to these two factors, namely, the wide inequalities in land ownership and the dependence of an overwhelming majority of the working population on agriculture, land reform have a high saliency to politics in India. A satisfactory solution to the land problem is basic to political stability and to the political system.

Land Reforms have their significance in the national plan not only as a pre-condition for raising agricultural productivity but, more primarily, as a means of shattering the foundations of the state class structure of a stagnant society. The goal of the Indian polity as stated in the preamble of the Indian Constitution and also in the Directive Principles of State policy is the establishment of an egalitarian society. This socialist aim of the Indian Constitution together with Nehru’s association with the planning commission made the objectives of the planning in India more or less socialistic. Nehru was impressed by the Russian experiment in Socialist Planning and its success. The goal of Indie, as conceived by Nehru was in the direction of rapid economic development with social justice. Apart from the compulsions of a backward economy, the planners were also influenced by the socialist thinking of pandit Nehru.

The Planning Commission, created in 1950, is entrusted with the task of formulating the plan for the socio-economic development of the Nation as a whole. One of the principal aims of the First Five Years Plan was to initiate measures of social justice on a wide scale, consistent with the Directive Principles of the State Policy of the Constitution of India. The first five years plan accorded the highest priority to agriculture. For initiating and introducing agrarian reforms, highest priority was given to the economic aspect-increase in agricultural productivity, The planners also have given special emphasis to social aspect, from the social aspect, which is not less important than the economic, a policy for land may be considered adequate in the measure in which it reduce disparities in wealth and income, eliminates exploitation, provides security for tenants and workers and finally, promises equality of status and opportunity to the different sections of the rural population. The planners suggested, in the First Five Years Plan, that the
degree of disparity in the distribution of land should be reduced to some extent only since disparities cannot be eliminated altogether.

The Planners have viewed the problems of land reform in two ways, namely 1) from the point of view of agricultural production and 2) from the point of view of various interests in Land. The first is the subject of land management legislation; the second is the land reform legislation. Working out land reform policy, the interest of the 1) intermediaries, 2) large owners, 3) small and middle owners, 4) tenants-at will and 5) landless workers should be considered.

In the first five years plan, a ceiling on land holding was envisaged not only for the existing holdings but also for future acquisitions. In the conditions existing then, this was more a doctrinaire approach then a rational one. It appears to us that, in relation to land (as also in other sectors of economy) individual property in excess of any norm that may be proposed has to be justified in terms of public interest, and not merely on ground of individual rights or claims. The rights of tenants have been recognized and they must be provided with security of tenure. It is also suggested that the right to resume lands for personal cultivation by landlords must be limited. With these objective in view, the planners have advocated the following programme of land reform more or less in all the plans.

1. The abolition of intermediaries
2. Tenancy Reform designed to
   (a) Give tenant permanent rights subject to the landlords right to resume holding for his personal cultivation.
   (b) Enable the tenants to acquire ownership of their lands.
   (c) Scale the rents to 1/4 to 1/5 of the produce,
3. Fixation of ceiling on holding
4. Reorganization of agriculture including consolidation of holdings, prevention of fragmentation and the development of the co-operative farming and co-operative village management.

In the formulation of land reform policy, the planners were guided by the objective of economic growth with social justice, any land reform measure should lead to increase in agricultural productivity and at the same time, it should result in the reduction in the inequality of the possession of land, wealth and income, therefore, in plans, the objectives of increase in agricultural productivity with social justice are emphasized and reiterated. Speaking on the
importance and necessity of other measures to be taken along with land reforms Mrs. Gandhi said, “The land reforms must be supported by measures to give credit and inputs, to revitalise local industry through new forms of organisation and imaginative application of science and technology and also to spread education.  

The formulation of land policy by the planning commission is no assurance of its fulfillment. The bureaucracy is the instrument by which the policy is implemented. The degree of the success of the land reform measure depends on the political will and the bureaucracy. The abolition of the intermediaries in the first decade after independence was largely successful due to the strong political will. But the subsequent land reform measures like tenancy reforms and fixation of ceiling on land holdings are far from successful. The land policy of the planners is basically sound but there is crisis of implementation due to the existence of a gap between the land reform legislation and its implementation by the various states government.

**Perspective of Political Parties on Land Reforms**

The political parties play a decisive role in the evolution of land reform policy. The caste-class composition of the political party, its ideological commitment to social economic transformation, all act and react in arriving at policy decisions, in a developing country, land policy of any political party should be dynamic if the party is to survive, therefore, the emphasis and content of land reform legislation have undergone rapid change depending upon the political compulsions of the times.

The Indian National Congress which opposed even the modest tenancy reforms of the British government in India in the early decades of the 20th century, had to implement revolutionary land reforms in the early seventies. Speaking of land reforms and the concept of socialism, Mrs Gandhi said, “Socialism may be a dream for some but it is a vital necessity for the vast bulk of our people. The masses had participated in a national struggle in large numbers and with enthusiasm because they knew that freedom would lead to emancipation from Poverty.”

Even the policy of the Communist Party of India has undergone change from time to time, land to the tiller policy was the main plank of the Communist Party at one time, Now like all other bourgeois parties, the Communist party adopts a highly politically motivated slogan ‘Land to the Landless.’ Policy decision depends upon the interaction between the ruling party and the opposition parties. A radical policy decision is imperative when the opposition party is a strong extremist party or if the opposition party is a strong rights or conservative party, the ruling party
is likely to dilute or even reverse its radical policies. In a parliamentary democracy, the dominant party must take the initiative in bringing about land reforms. The land policy of the dominant political party will become the national policy. That is what happened during Mrs. Gandhi’s time. Congress being the dominant party took the decision of implementing epoch making policy namely land reforms.

**The Indian National Congress**

The Congress Party dominated the Indian political scene and the government for more than two decades after independence. The policy of the Congress party became the National policy on land reforms but in its formulation the role of the leftist parties was decisive. The Indian National Congress was a Middle class party and remained so in the early years of the 20th century, petitioning for moderate constitutional reform or for representation of Indians in civil services. In general, the British rulers seldom received support from the members of the Congress even for moderate tenancy reform. The Congress leaders sought to avoid divisive stand on internal problems. The early nationalists regarded the social structure of the villages as a Community free from class conflicts and based on inner homogeneity. They believed in the harmony of interests of all classes in a village. They recognized the necessity of capitalism both in agriculture and industry for economic development. Their attitude was characterized by anti-peasant and pro-upper class bias. Early nationalists like Ranade relied on dynamic landlord as an engine of development.

The advent of Gandhi into political arena as the leader of the Indian National Congress has not changed its attitude towards the peasantry. The Gandhian concept of social harmony as a political tool and mutual agreement and compromise as the instrument of agrarian change became the policy, if not the creed, of the nationalists in the twenties and thirties. Gandhi could encourage the land movement for non-payment of taxes to the government or lead a movement against the British Landlords but he opposed peasant agitations against Indian landlords.

Gandhi led a peasant movement against the indigo planters in Champaran, a district of the Tirhut division of the Bihar province. By and large, the indigo planters, were Englishmen and they perpetrated horrible atrocities on the tenants known as the ryots. His Champan campaign against the British landlords in 1917 was successful and the Champan Agrarian Act passed. His Kheda campaign or sathyagraha was conducted against the British government for the suspension of revenue assessment. Owing to the failure of crops in Kheda district of Bombay Province now in
Gujarat, the peasants wanted the suspension of revenue assessment for the year. All representations to the British government on their behalf failed. Gandhi campaign against the British Government was successful and ultimately a compromise was struck between the government and the potidars or peasants. Thus Gandhi Peasants movement were directed against either the British government or the British landlords and not against the Indian government interests. The rise of Congress radicalism in the 1930 has changed the attitude of the Indian National Congress towards land question. The Congress Session held at Karachi in March 1931 adopted the Resolution on Fundamental Rights Economic and social changes, the Karachi resolution was both a declaration of rights and a humanitarian socialist manifesto. The Resolution called for reform of the systems of land tenure, revenue and rent, this was the beginning of the evolution of the Congress party’s land reform policy.

The Congress Socialist Party was formed in 1934 within the Indian national Congress. Efforts were made to mobilize the peasantry. The All India Kisan Sabha was set up in 1936 to mobilize and organize peasants. The Congress Party’s rural strength lay mainly among the well-to-do landowners who were not enthusiastic about such potentially disturbing organizations. Therefore, the Congress party dissociated from the All Indian Kisan Sabha. It came to be dominated largely by the Communists and their sympathizers. Under the presidency of Sardar Patel, the Kisan Peasants Conference at Allahabad in 1935 had passed a resolution calling for a system of peasant proprietor without the intervention of any Zamindar or Talukadar but the resolution had said that expropriated Zamindars should be paid reasonable compensation.

The Congress Election Manifesto of 1945 had called for state ownership and for the removal of intermediaries between the peasant and the state the rights of the intermediaries said the Manifesto, should be acquired by the payment of equitable compensation. Thus the Congress party evinced interest in the land problem and its solution prior to independence.

The Congress Party after Independence

In the first decade of independence, the leadership of the Indian National Congress was in the hands of professionals and intellectuals and was not dominated by the landed interests; it was not the commitment of the Indian National Congress that led to the immediate abolition of the Zamindari system but largely due to political factors. The Zamindars were the supporters of the British colonialism in India and they opposed the National Movement. The Zamindars were the centers of local power and they ran against Congress party and thus bolstering political
opposition. They were not merely a nuisance but also a threat to the Congress party. It was these factors coupled with the nature of the political leadership that was largely responsible for enacting and enforcing legislation for Zamindari abolition by the Congress leadership immediately after independence.

The year 1949 was a landmark in the evolution of the policy of the Congress party on land ceiling. In 1949, the president of the Indian National Congress appointed a high-level body, the Congress Agrarian Reforms Committee. It presented an analysis of the agrarian problem in India and also a programme of land reform within the parliamentary democracy framework. This Report was a major policy document which provided the guiding principles for agrarian policy to be followed by all Congress Governments in the country. The reports of the Congress Agrarian Reforms Committee recommended the adoption of peasant farming assisted by co-operative organization and suggested a lowering of the upper limit to peasant farming. The Economic Programme resolution of the Indian National Congress, adopted in October 1951, emphasized the imposition of ceiling on agricultural land. The acquisition of surplus land should be completed as speedily as possible.

In the evolution of the land policy of the Congress party, the Nagpur session of 1959 was an important event. In order to remove any uncertainty regarding land reforms and give stability to the farmers, fixation of ceiling on the existing and future holding was called for by a resolution of the Congress party in its Nagpur session of 1959. It urged the completion of legislation to this effect by the end of 1959 in all states. The most important and the most controversial resolution in the Nagpur session was on co-operative joint farming. The future agrarian pattern should be that of co-operative joint farming in which the land shall be pooled for joint cultivation, the farmers continuing to ration their property rights and getting a share from the common produce in proportion to their land. As a first step service co-operatives should be completed within a period of three years.

In pursuance of the above policy of the Congress Party, most of the States have passed legislation imposing ceiling on agricultural land. The legislations of the various states in the 1960’s had numerous loopholes and varied widely, there were mala fide transfers to the members of the family. The ceiling laws in Andhra Pradesh 1961 ignored these transfers. The very purpose of the ceiling legislation was defeated due to the delay in the formulation of the legislation, wide range of ceiling, provisions regarding the transfers and the unit of ceiling. In its
policy resolutions, the Congress Party incorporated the language of radical economic and social change while assuming that no action will take which would unduly upset conservative landed and industrial interests. This radical language on land policy, followed by conservative action becomes standard practice throughout India. After the Congress split of 1969; a serious attempt was made to change the land policy of the Congress under Mrs. Indira Gandhi’s leadership due to varied political compulsions. In 1972 a series of conference of the Chief Minister were organized at Delhi to discuss the legislation on land reform and its implementation. At the national level, the Congress party agreed to the recommendations of the Central Land Reforms Committee, which evolved a uniform method of land reform throughout India. According to the Central Land Reforms Committee, ceiling would be fixed on the basis of the family as the unit and the standard holding varies from 10 to 54 acres depending on the nature of the soil and the irrigational facilities. In pursuance of the recommendations of the Central Land reforms Committee, the state governments have enacted land reforms legislation.

From the statistical point of view, the success achieved by the state governments in general and Andhra Pradesh in particular, is very encouraging. A close study of the implementation of the land reforms in various states by the Congress Party compels us to conclude that the Congress incorporates a radical language in its policy-resolutions but accustomed to follow conservative action. The ruling congress party had to adopt a land policy that will contain the growing influence of the extremists. As Mrs. Gandhi has put it, not banning the Communists Parties but solving the problems raised by them is best way of containing their influence, 47 A satisfactory solutions to the land problems had became imperative.

Mrs. Gandhi took advantage of Emergency to push her reforms through. She admitted that ‘there is not much new in the programs that were announced.” But she emphasised that “what is new is that there is an atmosphere today when it is easier to implement what you want to do”. 48 The importance given to land reforms by Mrs. Gandhi can be gauged from the fact that they were in the top of priority list in the 20-point program and it has been discussed in the preceding pages. Mrs. Indira Gandhi commenting on the inclusion of land reforms in the 20-point program said:”The question of the land reforms is not a new one for us, and it was included in the 20 point programme, because of its basic importance to our economic and social progress. We have to make this understood by legislators, the bureaucracy and/or nonofficial workers, when we are working out the details and also during the implementations. I think it is either
because there are people who have a vested interest in not having land reforms or because of a
general lack of appreciation of the vital role of land reforms that there is a certain amount of
lethargy and hesitation in implementation. Mrs. Gandhi said that in order to make the 20 point
economic program a success, and also to involve the party workers to ensure better results, a
meeting of the conveners of the scheduled castes, and the scheduled Tribes and backward classes
cells of the P.C.C and AICC be held and it was held at New Delhi on 17-18 October, 1975. Indira
Gandhi, while addressing the conference said, "Many of the issues listed in the 20 point
programme were not new. The important point was that there was a great difference between
saying and doing things. It required a hand for the landless labour to implement them."  

She, however, sounded a note of caution that no such action should be taken which could
create a situation of confrontation with the downtrodden people. She warned that if it happened
it would hamper the progress and implementation of economic program. At this meeting the
recommendations of the groups on ‘Agriculture and Housing’ and ‘Bonded Labour and
Constitutional Safeguards’ were considered. The recommendations of the first group demanded
that “the state governments should be directed by the AiCC to allow distribution of surplus land
to the Scheduled Castes, Scheduled Tribes and other backward classes before 1 June, 1976. Prior
edition be removed through capitalism. Therefore, we need socialism. It is the only concept near
to ideals of removing poverty.”  

Countering the criticism that her government was veering towards Right, Mrs. Gandhi put it in an unequivocal language, the goal of the Congress said: “some people have pointed out that there is a lurch to the right. There is no lurch to the right or to the left. We have always followed a particular road with some people have outlined as left of centre and that is the road we intended to pursue. Of course, if circumstances demanded that we have to do something more, if the people demanded, then we naturally have to. Our socialism is not a doctrinaire socialism.”

On 31 December, 1975, Indira Gandhi further clarified the Congress ideology of socialism and its relevance in a given situation. She stated: our goal was ‘socialism’ not because we are enamored of this word but because there is no alternative of removing poverty without adopting this concept. ‘Garibi hatao’ programme has been misunderstood by some people. It did not mean that poverty would be thrown off. It simply meant that it was to remove the shortages, illiteracy and to provide all other goods and inputs.” There is no evidence that Mrs. Indira
Gandhi ever systematically studied socialist thought. She had no clear concept of socialism. All her policies were based on hard realities. Yet there continued to be a wide gap between what the Congress professed time and again, and what it actually put into practice. Though the 20 point programme which among other promises, was designed to implement agricultural land ceiling, speedier distribution of surplus land and accomplished of records, yet it failed to be of significant help to the rural poor. The implementation of land ceiling laws was not quite encouraging. Indira Gandhi was herself highly disappointed over the indifference and the “go-slow” attitude of the Congress leaders regarding the implementation of land ceiling laws. Even after 16 months after the proclamation of emergency the government still had difficulty in preparing lists of active members from different states to implement ceiling acts. The Congress president had to depute important members from the AICC to the districts in order to act device the working of this recurrence committees.

On the 18th and 19th August, 1975 the AICC held a major conference on the question of land reform at which the leaders of the state governments announced new land distribution schemes. The government had the level of ceiling reduced in all the states and the redistribution of land started immediately. By December 1975 about 540000 acres of land had been declared surplus, out of which 250000 had been taken possession of by the state governments. Of these, about 90,000 acres were allegedly distributed to 52,000 people

According to Frankel, the government could do no better than implement the land ceilings established in 1972-73 but this was a step in the right direction since in 1976, 1.7 million acres were acquired by the government and 1.1 million acres redistributed. This achievement was’ attributable mainly to the disability placed on landowners in moving the courts for a stay against the committee’s award, and the determination of the local authorities to reduce the time lag between security of landholdings, surrendered to surplus area, government takeover of the land, and distribution. Similarly, the local administration pressed forward to implement the program largely 1972 and aimed to procure 4 million houses for landless rural labourers by 1979. According to Frankel, three fourths of this target was achieved in the first year of the emergency, mostly because of the efforts of two states, Gujarat and Uttar Pradesh. Other authors maintain that the achievements of the emergency government regarding land reform were mostly disappointing. Economists came to the conclusion that by July 1976 only 1.5% of the total area owned by rural households could be considered as surplus and that 1.5% about 16% was
allegedly distributed. According to the Rudolphs, the emergency regime chose ‘to talk left and act right’ and nothing much was achieved regarding the land reforms. The whole situation was reviewed in a meeting held at New Delhi on 29 September, 1976 regarding land reforms and socialism. She said “the path of socialism was a long path and it was full of difficulties. But India was marching forward on the right lines and would move more firmly with the cooperation of the people.”

**Janata Party and Land Reforms**

The Janata Party was formed by the merger of disparate political parties in 1977. Its constituents range from the righties and communal parties like the Jana Sangh on the one side to the radical socialists on the other. It was neither a cohesive nor homogeneous party at time of its formation nor later. The various constituents were united with the avowed object of defeating the authoritarian forces. The Janata Party as a whole is not committed to any radical socio-economic programme. The composition of the party was such that it will not support any policy that would unduly upset the, landed and industrial interests.

Most of the leaders of the party were formerly congress members and like the Congress Party, the Janata Party adopts highly radical policy resolutions but followed conservative action. In its policy statements, in its emphasis and reiterations, the party is not different from the Congress Party. The party promises all possible help to the states in their attempt to make the land reform a reality. Through land reforms the party promises to increase employment potential, production, improve the socio economic status of the landless poor, establish an egalitarian society, and restrict the domination of the landlords and to enable in the developmental programme.

These are the pious promises of the Janata Party but the performance of the party is very disappointing. In Gujarat, Himachal Pradesh and Haryana the Janata ruled states there was no distribution of surplus land during August 1977-July 1978. In fact in Gujarat, the surplus land has been reduced from 184,000 to 20,000 hectares, In both Gujarat Orissa there were serious attempts to raise ceiling area, No serious attempt has been made by any Janata ruled state to implement land legislation, on the other hand the legislation has been diluted in its implementation. The lack of political will to enforce land reform is demonstrated, beyond any doubt, by all the Janata-ruled states.
The Karnataka Government, the only Janata ruled states in 1984, decided to waive payment of annuities by nearly 80 per cent of over four lakh tenants who became landowners following the abolition of the tenancy system in 1974. This will enable the landowners to raise bank loans. Mrs. Gandhi after she came back to power in the 1980 elections again set the ball rolling as far as land reforms are concerned and she said,”Our land reform legislation has aimed at redistributing land to small owners.” And true her words she made untiring efforts to make the program of land reforms a big success but it proved to be not so encouraging.

**Legislation for Land Reform in Andhra Pradesh**

The future of the world depends partly on the form of government which is destined to undertake fundamental agrarian reforms. The emphasis and content of land reform legislation has undergone change since independence depending on the exigencies of the political climate of the times. The Indian National Congress inherited power from the British in 1947 and since then its land policy has undergone radical changes. After assuming power in the provinces, the Congress party was very anxious to abolish all intermediaries in land and to establish report with the peasantry.

**Abolition of Intermediaries**

The first attempt at land reforms in the country began with the abolition of intermediaries. Thus, in the Andhra area, the Madras Estates (abolition and conversion into Ryotwari) Act, 1948 was the beginning of land reforms. The object of this Act was to abolish the estates altogether and to convert the land to the Ryotwari land.

The Zamindari system was a by-product of the British rule and covered about 40 percent of India. The Zamindar was an intermediary between the British administration and the actual cultivator. He was given the right to collect fixed revenue on behalf of the British administration. In return, he was permitted to keep one-tenth of the revenue and the Zamindar was also recognized as the proprietor of the revenue bearing land. After Independence this system covered most of the cultivated land in the former British India and princely states.

**Political Violence and Land Reforms**

In all societies significant changes in socio-economic and political spheres took place mostly, by violence or the threat of violence. French Revolution and the destruction of feudalism, the Revolutions in Russia China, Cuba and in many other countries violence was sine qua non of fundamental changes in the structure of society. In most societies, civic peace is
impossible without some reform, and reform is impossible without some violence. Important land legislation in India was preceded by violence peasant uprisings. The Telangana peasant armed struggle 1946-51 gave stimulus to the various land reform legislation in India in the early fifties. The Telangana peasant uprising has compelled the unwilling hands of the Congress leaders to embark upon various agrarian reforms, however halting, half hearted and pitiful they were. The subsequent tenancy legislation is also attributed to the peasant struggle in Telangana and other sporadic peasant movement throughout India.

By the mid-sixties even the talk of land reforms was not heard. On the other hand, the emphasis was shifted to the Green Revolution and increase in agricultural productivity, as the period was comparatively free from major agrarian struggle. Emphasis on Green revolution may probably be a diversionary tactics of the ruling class, that is, to divert people’s attention from institutional-structural changes in the countryside to the concept of input-output. The emergence of the conservative Swatantra Party, in the early sixties challenging the pronounced radicalism of the Congress party is another important factor that has contributed to the absence of effective land reform measures during this period.

However, by late sixties acute agrarian struggle developed in the country. The peasant discontent was articulated, mobilized, and organized by the various extremist groups. Violent struggle were conducted by thee groups. This was direct result of decades of agricultural stagnation and urban misery, a reaction to the outdated agrarian structure and ill effect of green Revolution. A study of the agrarian agitations in 1966-69 by the Indian Ministry came to the conclusions that the unrest was associated with the persistence of serious social and economic inequities.

The agitations were widespread in most of the states in India. The most militant expressions of the peasant unrest was in 1967 in Naxalbari, West Bengal. There had been 346 separate incidents of forcible occupation of land in the whole of the state of west Bengal by August 1969, Srikakulam movement in Andhra Pradesh is another militant expression of the agrarian unrest, Again ,the massive land grab movement in July-August 1970 focused on the growing land hunger and explosive situation in the countryside.

By 1969, following careful assessment of evidence concerning all types of peasant agitations in various states, the Ministry of Home Affairs had concluded that steps would have to be taken both by Central Government and by the States to reduce tensions in rural areas. This could best be achieved; it seemed, by meeting the immediate needs of the weaker sections of rural society-
especially the needs of the landless. The share-croppers, and the tenants lacking secure rights in land\textsuperscript{63}. Mrs. Indira Gandhi, the then Prime Minister, and the other officials concerned of the Government of India agreed with the Home Ministry’s assessment of the gravity of the rural tensions arising out of inequality in the possession of land. In her letter addressed to all state Chief Minister in 1969, Mrs. Indira Gandhi has pointed out that effective agricultural development strategy for India would require not only organization and inputs but also the removal of existing institutional and social impediments to production.\textsuperscript{64} She made it very clear that for the preservation of the political stability, various agrarian reforms must be implemented by the states. Mrs Gandhi added”only that society is truly socialist in which the feeling of being exploited has given place to a willing and cheerful participation in national tasks and persons and social objectives are not in conflict.\textsuperscript{65} Thus, by the late sixties land reforms became a pressing issue for the preservation of the political stability. In other words, land reform is considered as a political system-maintaining device.

**Congress Split 1969 and the fear of the erosion of the then Prime Minister’s Political base**

Apart from containing the growing influence of the extremist groups, the most compelling political motive for land policy during that period was the challenge posed to the then Prime Minister, Mrs. Indira Gandhi and ruling elite by the Congress Split of 1969. After the split in 1969, her erstwhile critics in the Congress Party allied them-selves with the Rightist parties, notable the Swatantra Party and the Jan Sangh and challenged her leadership. Mrs. Indira Gandhi feared that her mass support-base is likely to be eroded by the onslaught of her elite competitors. So she has to make a serious attempt to restructure her mass support-base and her Congress Party.

Land policy with the slogan, ‘land to the landless’ was aimed at destroying the mass support base of her elite competitors and build support base for herself and to her party. This was sought to be accomplished by the nominated Chief Ministers in the States.

**The Andhra Pradesh Land Reforms Ceiling and Agricultural holding Act, 1973 and Sri P.V.Narasimha Rao’s Role**

Sri P.V.Narasimha Rao succeeded as Chief Minister of Andhra Pradesh as the nominee of Mrs. Indira Gandhi and followed her words in letter and in sprit. Mrs. Gandhi said.” I should
like to repeat again that due popularity should be given to land reforms and the programs for the rural poor. There have been attempts in the last few months. I hope that this will not be just a flash in the pan, and due to new enthusiasms. They should become part of normal working. It is necessary to keep a constant watch to guard against over-doing things and to check on the results of whatever steps are being taken and where necessary to initiate remedial actions.

It was during the stewardship of P.V.Narasimha Rao that in the state that the Andhra Pradesh Land Reforms Ceiling on Agricultural Holding Act 1973 was passed. It is a unique and revolutionary piece of legislation. Without giving any indication of the impending land legislation, an ordinance was promulgated on 2nd May, 1972, prohibiting all agricultural land transactions by landholders with of ownership more than 10 acres of land or 25 acres of dry land. The ordinance was subsequently replaced by the Andhra Pradesh Agricultural Lands (Prohibition of Alienation) Act (13 of 1972). These two measures prevented large scale transfer of agricultural land by the landlords. Otherwise the very purpose of land legislation might have been defeated by large scale transfer of agricultural land. This is a unique feature of the legislation since no other state in India has resorted to promulgating an ordinance before enacting the legislation. It is revolutionary because enforcing the Act effectively would bring far reaching changes in the villages.

Though the State government has followed the recommendation of the Central Land Reforms Committee, Sri P.V.Narasimha Rao, the then Chief Minister has a political motive for making the Act a unique and revolutionary one.

Before independence, the leadership of the Indian National Congress was in the hands of intellectuals and professionals who were mostly drawn from upper castes, Gradually after independence, the political power passed into the hands of the dominant agricultural castes, since all the Chief Ministers of Andhra Pradesh have been from the dominant agricultural castes of Reddy, Kamma, Velama with two exceptions. Panchayat Raj and Co-operative Institutions have been dominated by the same dominant castes.

Sri.P.V.Narasimha Rao, a very big landlord himself, has no political base in the State. It was because of the caste composition of land ownership, for most of the agricultural land is owned by the dominant castes-Kamma, Reddy, Velama, Telaga and Kshatriya communities. So he wanted to restructure the support base of the Congress Party first by destroying the economic power of the dominant castes, namely, Kamma, Reddy, Velama, Telaga and Kshatriya castes by
imposing land ceiling and secondly by organizing and mobilizing the backward castes and weaker sections of the community and giving them greater representation in legislature and in the Council of Ministers. Therefore, the Andhra Pradesh Land Reforms (Ceiling on Agricultural holdings) Act 1973 is partly the brain child of Sri P.V. Narasimha Rao.

The Ceiling Act of 1973- An Analysis

Land legislation is not within the constitutional competence of the central government but lie in the hands of the States. The Central government can give guidelines in the matter. Therefore, the Andhra Pradesh State legislature enacted this Act in pursuance of the recommendations of the Central land Reforms Committee.

Recommendation of the Central Land Reforms Committee

1) Ceiling should be applicable for the family as a whole, the term family being defined so as to include husband, wife and minor children.

2) Where the numbers in the family exceed five, additional land may be allowed for each member in excess of five in such a manner that the total area admissible to the family does not exceed twice the ceiling limit for a family.

3) The ceiling for a family of five may be fixed within the range of 10 to 18 acres of perennially irrigated of land under assured irrigation from Government source for growing two crops. As soil conditions, productivity of land, nature of crops grown vary from state to state and even within the State from region to region, the committee considered it desirable simply to indicate a range within which the ceiling should be fixed instead of suggesting any rigid ceiling for the whole country.

4) For various other categories of land, conversion ratios should be fixed taking into account availability of water productivity, soil classification and crops grown. The absolute ceiling for a family of five even in the case of day lands should be put at 54 acres. This limit would be relaxable if there is special justification for doing so on account of the nature of soil, rainfall and chronic drought conditions.

5) Exemptions in the existing State Laws in favor of mechanized farms and well-managed farms should be withdrawn.

6) The exemption in favor of plantations of tea, coffee, cardamom and rubber should be carefully examined in consultation with the Minister concerned and state
Government. Thereafter, this and other types of exemptions should be discussed with the Chief Ministers in order to formulate the national policy.

In pursuance of the above recommendations of the Central Land reforms Committee, the land reforms bill was introduced and passed on September 5, 1972 and it received the assent of the President on January 1st, 1973. The Act was included in the Ninth Schedule of the Indian Constitution and finally it came into force with effect from January 1st, 1975.

**Effect of inclusion in the Ninth Schedule:** The Andhra Pradesh land reforms (Ceiling on Agricultural Holdings) Act, 1973 has been included as item 67 in the Ninth Scheduled by the Constitution (Thirty Fourth Amendment) Act 1974. It has held that an Act which is struck down by the court would also be reviewed once it is included in the Ninth Schedule. The constitutional validity of the Act can no longer be challenged as it is included in the Ninth Scheduled. The supreme court has held that once an Act is included in the Ninth scheduled it is not liable to be attacked on the plea that it is inconsistent with or takes away or abridges any of the Fundamental Rights conferred by Part III of the constitutional. But the power of the competent legislature to repeal or amend the Act incorporated in the Ninth Scheduled is not thereby taken away. All the amendments made to the Act at the time of its inclusion in Ninth Scheduled are also protected by Articles 31-B. Therefore, the Andhra Pradesh land Reforms (Ceiling on Agricultural Holdings) Amendment Act, 1974 would get protection of Articles 31-B.

**Constitution of Tribunals**

Under section 6 of the Act, government is empowered to constitute tribunals and specify the jurisdiction of each tribunal. These Tribunals determine whether a person holds land in excess of the ceiling and whether the alienations made in excess of the ceiling and whether the alienation made prior to the notified date are intended to defeat the provisions of the Act. These Tribunals are quasi-judicial bodies. Under sec.20 the Act an appellate tribunal is constituted. An appeal lies with an appellate Tribunal against the decision of the tribunal. Against the decision of the appellate tribunal a revision lies with the High Court under section 21 of the Act.

The Tribunal shall, on receipt of the declarations furnished, enquire and determine the extent of land in excess of the ceiling area and pass an order. The same is communicated to the declarant. The person has to surrender the surplus land, that is in excess of the ceiling area. If the land is surrendered by an owner, the Revenue Divisional officer or any officer authorized by him may take possession of such land without encumbrances. The lands vested with the government
under the act shall be distributed for use as house –sites for agricultural labourers or other poor persons without house-sites or distribute them for agricultural purposes. The Act under section also specifies the extent of the available land to be allotted to the various castes. one-half of the total extent of land is to be allotted to Scheduled Castes and Scheduled Tribes and out of the balance, not less than two-thirds shall be allotted to the members of the backward castes. The balance will be allotted to the poorer section in other castes. Every person, to whom the land has been allotted shall pay to the government on installment basis a certain sum fifty times the land revenue or the maximum amount prescribed on payment of the entire amount by such person, patta shall be granted.

The sympathy shown to the weaker sections, the poor and the scheduled castes suddenly vanishes and the Act says that in case a person fails to pay the installments for the land allotted to him the revenue officials may resume the lands. The amount already paid by the transferees shall be liable to be forfeited to the government. The use of the word compensation is purposely avoided on the other hand, section 15 speaks of the amount payable’ for any land surrendered to the government by the landowners the amount payable shall be a sum calculated on the basis of land revenue. The Government shall pay the amount either in cash or in bonds or partly in cash and partly in bonds. The same will be recovered from the beneficiaries.

The Act also prohibits in Section 18, acquisition of holdings beyond the ceiling area in future also. Therefore, whenever any holdings beyond the ceiling area is acquired in future, the individual or family units so acquiring, have to furnish a declaration of such acquisitions, and the provisions of sections 8 will apply to all such cases. The penalty for commissions and commissions in the matter of filing of declarations by the landowners seems to be severe according to Section 24 of the Act. But the Andhra Pradesh Land reforms (Ceiling on Agricultural Holdings) Rules 1974 prescribes the procedure for the action of prosecutions, in section 18. The procedure is so difficult that the penal clause and no one is prosecuted for the violation of any provision of Act in the States so far. By and large, many of the provisions of the Andhra Pradesh Land Reforms (Ceiling on Agricultural Holdings) Act 1973 were progressive and to some extent transformed the country-side due to the implementation of the Act.

Conclusion

As per the wishes of Mrs. Indira Gandhi, the effective implementation of land reform measures have transformed the agrarian structure with a new class and caste configuration
Abolition of intermediaries has resulted in the changes in the top of social pyramid and conferred ownership rights on the tenants, feudalistic type of landlords in the property structure was eliminated and there is also a sharp decline in absentee landlordism. Ownership of land became broad based, it has encouraged ownership cultivation.

A vast stratum of the landless poor are made the owners of land by the assignment of banjar land. This policy is very successful in most of the villages where government waste land is available. Landless people became the owners of land and thus changed the agrarian structure at the bottom of the social pyramid. By the late sixties, landless agricultural workers had received or seized 10 million acres of fallow land for cultivation. The ultimate aim of the tenancy legislation is to confer ownership rights on the tenants. The tenancy legislation, through not successful in its implementation, however, compelled the landowners to become owner cultivators taking direct interest in agriculture.

The Andhra Pradesh Land Reforms (Ceiling on Agricultural Holdings) Act 1973, cut big landlords to size by expropriating their surplus lands and distributing the same to the landless poor. No landowner owns land over and above the ceiling area prescribed by the ceiling act, there may be a few cases of landlords concealing land or resorting to mollified transaction but they cannot hold their illegal possession for long. The most beneficial consequence of the legislation is the destruction of semi-feudal land relations in the countryside and the prevention of future acquisition of land above the standard holding. Fear of effective enforcement of tenancy legislation and the ceiling act compelled the landowners to dispose of a part of their holdings and remain within the ceiling area prescribed by the ceiling Act. This has discouraged the concentration of landed property in rural areas and made the ownership of land as broad based as possible. But in statistical terms the magnitude of the distribution of the surplus land by the implementation of the Ceiling Act is very small. The landless workers were forced to settle on lands owned by landlords in rural areas. This leads to unbridled exploitation of the landless workers by extra-economic coercion. Hence, it is a cherished dream of every landless worker to acquire a plot of land for housing. The most important and the most successful measure of the government is the provision of homesteads to most of the rural poor and even permanent house to some, this conclusion is confirmed from the collected from all the field study villages. Distribution of government waste land and provision of homesteads to the rural poor is an important land reform measure. A vast stratum of the rural poor is benefited by this land reform.
measure than by the implementation of the Andhra Pradesh Land Reforms (Ceiling on Agricultural Holdings) Act, 1973 or by the tenancy legislation.

The land reform policy of the government created a broad stratum of proprietor of land where it is not successful, rural discontent and social tensions manifested in violent activities, large landlords are adversely affected by the land reform measures. The beneficiaries are largely the middle class peasants and intermediate castes, and the scheduled castes and Scheduled Tribes are also benefited and have become proprietors of land. Rural India cannot solve many of problems however efficiently the land is irrigated or cultivated. Villages are overcrowded. The land problem is one of too many people on too little land. Hence, India should industrialize at a gigantic scale and at a very rapid pace. Then a portion of the rural population would be drawn off into industry and relieve the pressure on land. However, this is a long term strategy.

Land reform, when implemented effectively and efficiently creates a satisfactory and conservative peasantry but if they are carried out half-heartedly, it has an explosive potential. More than the economic compulsions, land reforms are vital for the elimination of social tensions and for the creation of political stability. Hence, the patterns of land ownership must be as widespread as possible.
References

1. Morarji’s unbending stance made the protagonists of nationalization more active. The General Secretary of the Congress Parliamentary Party, Chandrasekhar, commissioned four economists to undertake a study of banking operations in India—H.K. Manmohan Singh, head of the Department of Economics, Punjab University; Dr V.B. Singh, Department of Economics, Lucknow University; Dr S.C. Gupta, Agricultural Economics Research Institute, Delhi University; and Dr S.K. Goyal, Indian Institute of Public Administration, New Delhi. Their report was submitted in the third week of October and said that the demand for take-over was ‘purely based on economic and social considerations’.

2. What was most disturbing for the Reserve Bank was the impression that was created in the media that it was opposed to nationalization. This perhaps had to do with the personality of Jha himself, and with the fact that the Bank had striven hard to make a success of the social control experiment. As Vice Chairman of the National Credit Council, Jha ensured that a large number of documents were submitted on different aspects of social control. The Bank had substantial inputs in the work of the groups formed by the Council. It also helped to provide the secretariat for the Council, and to create in March 1969 a cell attached to the Banking Commission. These actions by themselves did not imply that Jha was opposed to nationalization of major Indian banks. All the oral accounts point out that while Jha did not favour bank nationalization, he did not openly articulate his personal view on the subject.

3. Meeting of the custodians of the fourteen Nationalized Banks and the Chairman of the State Bank of India in Bombay on 14 August 1969.

4. The Hindu, 11

5. The Hindu, 11

7.
6. In his book, Indira Gandhi, the ‘Emergency’ and Indian Democracy, (Oxford University Press, New Delhi, 2000), P.N. Dhar, former Secretary to the Prime Minister, wrote about the meeting thus: ‘The other meeting, along with K.N. Raj, was at Haksar’s house. I learnt later that the second meeting was at the suggestion of the Prime Minister, who was keen to know Raj’s views on the subject. Raj was wholeheartedly for nationalization and said it would take at least six months to prepare for it and it should be done as an elaborate but clandestine exercise’ (pp. 113–14). Professor Raj later told me that there was nothing ‘clandestine’ in his espousal and the theoretical framework for advocating nationalization was given in his doctoral work on the Monetary Policy of the Reserve Bank of India, published in the late 1940s.


8. The oral evidence collected from a number of persons shows that the decision to nationalize a few Indian commercial banks was a political one. However, this view was not shared by left-wing economists of the day.

9. Such as proposals that might involve the grant of a fresh loan or advance or the issue of a guarantee, the renewal of a loan or advance granted to, or of a guarantee issued on behalf of any party whose financial position has deteriorated since the loan or advance was granted or last renewed or since the guarantee was issued or last renewed or the conduct of whose account after such grant or renewal had not been satisfactory in any material respect, or the writing off or waiver of any amount due from or grant of any concession to any such party.


15. There were many writ petitions challenging the Ordinance and the Act. But it was Dr Rustom Cavasjee Cooper, a chartered accountant from Bombay, who emerged as the initiator and main driving force behind these legal proceedings. He was director of the Central Bank of India Ltd and a shareholder in that bank. He also held shares in the Bank of Baroda, the Union Bank of India and the Bank of India. There were rumours of
powerful big business/industrial houses financing his cases. So he wrote an article titled ‘Why I Moved the Supreme Court’ in the Indian Nation, published from Patna, on 25 February 1970, saying that the ‘main reason why I felt very strongly about bank nationalization was the way in which it was done. I thought that it was done with unreasonable haste, in a totalitarian manner. I also felt that in the great haste in which this was sought to be done, there was a

16. The Times of India, 2nd January 1970, p. 1

17. These covered the grant of advances in excess of Rs 25 lakh (with suitable exemptions to ensure that financing of the priority sector was not affected); investments in excess of Rs 1 lakh in shares and debentures of joint stock companies or advances thereagainst above Rs 5 lakh; appointment and extension of service of senior executives, expenditure on land/buildings above specified amounts as also making provisions and appropriations out of profit.

18. The Hindu 11th February 1970, p. 3

19. The Economic Times, 17th April, 1970


22. Address to the Bankers Club, Delhi, August 28, 1969

23. The Indian Express, September 2, 1970.


26. The Indian Express, December, 10, 1971


30. First Five Year Plan, p. 188
32. Ibid
33. Eric Stokes, The English Utilitarian’s and India, p. 116
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64. Ibid, p. 39.
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67. The Hindu, Madras, p. 2.
68. Ibid., p. 184.