CHAPTER
I
INTRODUCTION
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ORIGIN OF CREDIT CONTROL

Control of credit and currency are as old as the monetary system itself. Examples may be piled up in support of the fact that ancient Greece practiced scientific management of credit, and with some effort it is even possible to prove that ancient Egypt had a controlled currency. The prince who first minted the first coin was a monetary reformer of his times, and the princes who debased their coinage to finance their deficits were also monetary reformers. In the words of Paul Einzig, "managed currency was not entirely unknown to the ancient Egyptians, Greeks, and Chinese, who shifted bullion to and from the shrines of their temples in order to counteract movements in the price level." But the control of currency and credit
that existed throughout 19th century and until 1914, was based upon the credit system that considerably based on gold, and therefore, was automatic in character. This characteristic was completely erred during the First World War and control of currency and credit assumed new dimensions. Control of currency and credit, in the modern sense may be defined as a deliberate policy which aims at the scientific and systematic regulation of the size of credit with a definite objective in view. The policy may aim at the maintenance of fixed exchange rate or slightly changing price level or steadily increasing quantity of trade and employment. The apparatus should be able to suspend the expansion of currency and credit or even to reverse it. Circumstances may call for a reduction in the purchasing capacity of the public, contraction of credit an increase of interest rates and a suspension of public works expenditure. More correctly, the credit control means a positive efforts to regulate the volume and value of currency and credit in a way which is consistant with the best interest of the community, independent of any technical consideration of international field.

Statements in all countries were faced with the task of reconstructing a topsy-turvy and broken fibre of of credit system after the First War which gave much importance to the problem of credit control. International conference in Brussels in 1920 and another conference in Geneva in 1922 affirmed the importance of credit control. Prior to this the international Gold Standard was automatic in character and therefore, the problem of credit

management was not so prominent. In the days of international Gold Mechanism, the technique of Central Banking itself was but a nebulous idea. Some classical economists, however, assigned to it an important role in the mechanism of adjustment between the national and international systems, viz., that of changing the volume of domestic money in accordance with the balance of payments.\(^1\) The balance of payments of a country was this deemed to be the barometer by which the credit and money were examined. Besides, the Central Banks were considered to be merely the results of certain historical circumstances, which raised a few institutions in their respective territories to positions of superiority and power over their contemporary institutions with the virtue of the sole right to issue paper currency or by their special relations with the state. It is accepted on all hands that control of credit seeks a more suitable and consistent price level. This idea was more or less ignored and the price level was not cared for. In the words of Mac Millon Committee, at the time scarcely anyone considered that the price level could or ought to be the care and pre-occupation, for less a main objective of the policy (of a central bank) so far as it has within the power to influence the price level, stability of output and employment at a high level."\(^1\) The idea of credit control gathered momentum through the crisis of 1931 and the following years of depression. Now the Central Bank of a country has to decide the terms on which it is prepared to grant credit, and the problem of credit control has assumed wider dimensions.

\(^1\) Cind. 3897 paras 276, 275, 280, 282, 298.
A change in the cost of credit may make new developments possible or may fail; a change in an exchange rate may make a certain business profitable for one country and unprofitable for another. Credit expansion at one moment may mean apparent extra prosperity at the cost of disastrous future; credit contraction may create or prolong a slump. Profits, prices, wages, income debts are consequences, co-ordination in monetary policy is needed, and monetary authorities should co-operate as far as possible to this end ultimately. More recently with the withdrawal of the individual's right to demand in exchange for his currency metallic coin or foreign currency, the issue of credit management has become a paramount importance.

OBJECTS OF CREDIT CONTROL

Credit control in the field of monetary management has become an unavoidable feature and has involved various techniques in almost all the countries of the world. Whether the economy of a country to developed or undeveloped, its money market well-knit or weak, the significance of credit control measures is not minimised in any of them. This fact may be proved by the help of objectives of credit control.

(1) CONTROL OF 'CYCLICAL' PHENOMENON:

Ever since wide fluctuations in prices conditioned by sudden upsurge and downfall became the day to day feature of capitalist economy, the question of credit management has been a subject of hot discussion. Credit control aims at averting mal-adjustments, that is, at rooting out the causes of 'primary
recession.' The idea that 'prevention is better than cure' applied in the matters of banking and currency as well as of hygiene. The smoothing out of booms is not only a question of credit control to slow down the general tempo of economic activity, but also one of partial control through banking action of the direction as well as volume of lending. The significance of this contention lies in the fact that booms are usually associated with the rapid expansion of particular industries and not merely of industry in general. Once maladjustment has taken place, the policy of credit control should do nothing which adds to it or holds up the tendency towards re-adjustment. It is worth noting that mal-adjustment may be greatly accelerated by action which falls entirely outside the control of monetary authorities. The existence of surplus capacity in the British cotton and iron and steel industries is a prominent fact admitted by all competent observers, and there seems no reason to suppose that direct attack on problems of this sort would have brought anything but good in its train. The function of credit control is also to counteract 'secondary recession'. But steps at fighting secondary recession should not be presumed to such a degree that they create a spurt so vigorous that it preserves old mal-adjustment or brings into being new ones. To achieve these objectives, 'investment finance' needs to be regulated through appropriate variance in the rate of interest in the capital market. The main function of it is to make provision for the supply of money to respond adequately to all reasonable demands for 'investment

1. The future of Monetary Policy, Royal Institute of International Affairs, P.51.
finance'. The rate of interest is a vital link that connects the volume of credit and investment in a given economy. The success or failure of a credit policy largely depends on the influence which the rate of interest can be expected to wield on the investment and consumption decisions of the community. Goldenweiser observes that, "the broad objective of (credit control) is to assure the distribution of monetary flow or income in such a way as to place in the hands of consumers sufficient means to purchase the output of consumer industries and in the hands of investors funds adequate to maintain the existing productive plant and expand it sufficiently to meet the consumption requirements of a growing population with a rising standard of living." Owing to fulfilment of this objective which must be fulfilled in all developing economics, the significance of credit controls cannot be minimised. The channel through which the control of credit is striven for is the rate of interest. It is, therefore, not surprising that the object of credit control is thought to be essentially of a regulatory character, namely to maintain the rate of interest at a proper level by shielding it from speculative blows. The Committee on the Working of Monetary System in England observed in 1959 that 'the monetary authorities have to regard the interest rates rather than the supply of money as the centre-piece of the monetary mechanism. This does not mean that the supply of money is unimportant but that its control is incidental to interest rate policy.'

BALANCING OF SAVING AND INVESTMENT:

Credit policy can play its part through its influence

on the terms of lending and on conditions it can make them more or less favourable to new development. In the first place, it should aim at smoothing out the flow of investment so that it balances voluntary saving and does not outrun or fall short of it. It must be the business of the monetary authorities to preserve stability, to endeavour to regulate the flow of money through appropriate changes in the terms of lending and otherwise, so that the proportion between the supply of capital goods coming on the market and the savings devoted to their purchase is maintained. But this by itself is not enough. A second aim must be to try to ensure that saving is used to make more efficient the methods of production and not merely to duplicate them unnecessarily. At the same time, the resulting investment must not take such elaborate forms that the processes set up prove unprofitable due to inadequacy of market.

REGULATION OF VOLUME OF CREDIT:

The task of credit control is to balance so far as it can, by cheques in the quantity and terms of credit, the effect on the price level of certain fluctuating factors, which, whether we prefer to call them monetary or non-monetary, are largely out of the direct control of the monetary system. By various credit control measures stability of purchasing power can be ensured and the destruction of the value of supply by price adjustment can be prevented. Thus the volume of the consumption and absorption of wealth to the capacity to produce wealth can be raised.

This policy translates itself in weiling those instruments which assist the monetary authorities directly or indirectly to bring out, what W.R. Burgess so lucidly stated, as "a through adjustment of the volume of credit to the volume of business."

FULL EMPLOYMENT OF RESOURCES:

Need of credit control is ultimately emphasised by the fact that it achieves and maintains permanently a condition of full employment of resources. For this purpose monetary policy takes as its basis the keynesian idea that effective demand determines employment. Effective demand is made up of consumption demand and investment demand. The Keynesian proposition—that consumption demand becomes increasingly inelastic as the income increases—is also useful in this connection. Credit policy and government policy concentrate on stimulating demand on both the investment front and the consumption front. The central monetary authority by stimulating effective demand can bring out full employment of resources. The obvious objective of credit policy is, therefore, to attain an equilibrium between saving and investment at the point of full employment.1 "The public undoubtedly now expects", observes the Radcliffe Committee, "the maintenance of a level of employment that would have been thought utopia a generation age, and the pressure of demand implicit in this extremely high level of employment is believed to have substantially compromised Government efforts to maintain

2. The Reserve Banks and Money Markets, P 168.
the external and internal volume of money."\(^2\) Several countries have individually declared, in official documents during 1944-45, that the basic objective of their general economic policy would, in future, be that of maintaining full employment (United States and Australia), or a stable and high level of employment and income (Great Britain, Canada, Sweden and South Africa); and that all available instruments of credit action would be applied towards the achievement of this objective.

**ECONOMIC STABILITY**

Proper measures of credit control, through the conditions of supply of money, can explore the possibilities of increasing production without affecting the level of consumption of the community. The monetary authorities can bring about the development of productive resources--actual or potential by financing them with new money, without any risk of inflation, for the increasing stock money will be simultaneously matched by growing output, even though the interval of time may temporarily disturb the existing price structure of the economic system. As a matter of fact, the whole problem of economic development is very intimately and closely linked with successful and effective control of credit. Credit control, "is supposed to regulate the availability, cost and use of money, both in aggregates and segments so as to make the maximum contribution to a high level of economic stability."\(^3\)

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Credit control to be effective must provide the basis of 'continuity of value'. Such continuity has been completely absent in India after the First World War and other countries are no exceptions. There have been violent oscillations in the price level which have put to losses the parties involved in contracts in terms of money. Voluminous appreciations and deprecations in the value of money have caused adventurous profits to some people while terrible unmerited losses to others. Prices and costs have not been able to keep pace with one-another. The symptoms associated with 'Boom' and 'Slump' have been exhibited to an unprecedentated striking degree. Control of credit must be directed to preventing a repetition of such discontinuity of values in the future. Stability in the monetary values is still an important service rendered by a controlled credit.

'Continuity of values' and 'exchange stability' are, however, absolute alternatives as the one is not fully attainable without a substantial measure of the other. Continuity of values carries the implication that general price movements, if any, should not exceed movements in the general level of costs resulting from technical changes. In a country with huge foreign trade, prices and costs are severally affected by exchange movements and not merely by what occurs within the national boundaries. To such a country monetary doctors should also obtain, as far as possible stability in exchange rates. Continuity of values and exchange stability depend largely on the preservation of balanced condi-
tions in economic activity at home, and on an international machinery (the nucleus of which may be found in the I.M.F.) which would enable the main financial centres to work together not only in controlling credit but also in keeping the flow of lending more consistent, and in providing temporary financial help under conditions of emergency.

REGULATION OF INTERNATIONAL EXCHANGE RATES:

The traditional objective of credit control was that of keeping exchange rates stable. As a result of this, the desirability of aiming deliberately at the stabilisation of the price level and/or smoothening out of the business cycles, was mooted from time to time, particularly in academic circles. The reason for such a stable policy prior to 1931, was universal belief that exchange stability was basis of international trade and confidence. After suspension of gold standard this point has gained ground also in banking and business circles.

The most recent tendency in official monetary circles is to combine the objective of international exchange stability with the promoting and maintaining high levels of real income. This is, of course, subject to the provisions for orderly adjustment of exchange rates in certain circumstances. This is embodied in the Monetary Fund Agreement, which represents the concerted effort of the United and Associated Nations to provide the necessary machinery for international monetary collaboration and co-operation, with a view to attaining and reconciling the objectives of international exchange stability and international
economic stability on a high level.

LIMITATIONS:

The various facts discussed above that go to certify that intense need for credit controls can be underlined not only by theoretical considerations of appropriate credit policy, but also by the needs of the world situation and the world state of mind. Credit policy is moulded by the world in which it takes shape. The scope for its exercise is not invariable, and the aims which it is intended to serve, the resolution with which it is applied, and the techniques which give it effect are all conditioned by the facts of the economic situation and the ideas of the time. A country can enjoy conditions of economic stability, and the full employment are not the achievements of credit policy unless and until such policy is supported by other government policies. There are so many factors as strong as the credit supply itself regarding their effect on price situation and volume of business. Some of the factors are beyond the debit or credit policy as they are non-monetary factors. Their effect on business activity may express itself in an increased or decreased rate of use, or turnover, of the existing supply of money as well as in a change of supply itself. The influence that the central banking can exercise over the interest rate has an important effect on business activity, but it may be fully offset by other factors. In times of depression or stagnation the monetary authority can do very little. It might not be called upon to create additional credit facilities, keeping in view the existing liqui-
dity of the banking system which emerges from the process of self-deflation during the depression period. The authority of credit management cannot enforce investment; it can, to a certain extent control the rate of interest. Similarly, it cannot control the rate of profit which may happen to be of a negative quantity. The credit authority, furthermore, is not always at liberty raise the interest in order to check an inflationary expansion. Increasing rates of interest are equivalent to a recad in security prices and may be opposed by the public, the treasury and the banks alike. In this way the statement, that objectives of economic stability and conditions of full employment cannot be achieved by credit policy alone, proves to be correct and unopposed. Really speaking, these objectives can be shot through co-ordination of credit and other major policies of the Government that go a long way in influencing the business activity.

ECONOMIC PLANNING; CONDITION FOR SUCCESS OF CREDIT CONTROL.

Many a supporters of credit management are wrong in asserting that strict credit controls are in themselves sufficient to regulate the economy in the manner required. They pin their faith in creating employment for whole able bodied population by increase and decrease in the volume of credit. Their conception is that the volume of trade can be regulated with the aid of changes in the volume of credit in the same way as the temperature of a bath can be regulated by turning on and off the ho
hot tap or the cold tap to suit the requirements. But this theory is fallacious and goes to oversimplify a situation which is extremely cumbersome. As a matter of fact, credit control in itself cannot avoid disequilibrium from developing in individual branches of production which may eventually affect the general trend. The significance of this disequilibrium, therefore, can never be exaggerated. All these bottlenecks are on the borderline between credit management and general economic planning. Just as we cannot think of economic planning without credit management, so credit management is bound to collapse in the absence of economic planning. In view of preventing booms and slumps, when adequate economic planning is added to credit management and control, credit control is able to pave the way towards higher standard of living and better economic conditions.

**EMERGENCE OF CENTRAL BANKING AS A 'TECHNIQUE' OF CREDIT MANAGEMENT.**

Within the national framework to meet the objective of credit management, central banking has, of late, achieved a new dignity and status which it had certainly not possessed before. The principles of credit management by the Central Bank were discovered in England only after the appearance of 'Walter Bagehont's' Lombard Street in 1873. Even then the criteria by which the Bank of England acted were mostly rules of thumb, and there were very few attempt at conscious control in pursuit of a consistent policy before the outbreak of the war. Though there were central banks in France and Germany during nineteenth century, they never came forward to control so delicate and
subtle a mechanism of credit management, partly due to the lack of large and elastic money markets and partly because the Bank of France and Reichbank never confined themselves to serving the Member Banks and the Government. The Banks completed with other commercial banks up and down the country. When the War was over, while considering the restoration of pre-war international standard, successful maintenance of it was pronounced to be conditional on the existence of Central Banks. War-time exigencies had disrupted the many links that previously connected the various currencies in Europe. Soaring prices and fluctuating exchanges had reduced banking almost to chaos and confusion. Besides, there were so many new and intensely nationalistic states, each with a brand new currency policy to match. Appeals were, therefore, sent out from one international conference after another prescribing the formula of a Central Bank for each country. Establishing of Central Banks in all countries was emphasised by a resolution at the International Financial Conference at Brussels. Under the manner of Bank of England and of the financial experts of the League of Nations this formula of Central Banking was put into effect and even such small entities such as Estonia, Dauzig, and Albania were equipped with Central Banks. By the outbreak of Second War there was hardly any country in the world where a Central Bank was neither established nor proposed. Kisch and Elkin assured that "the arguments of economic side for handling over the management of the currency to a Central Bank are convincing........ The risk for prematurity in the creation of a Central Banking System should not necessarily be regarded
as a decisive factor, because there is no influence so potent in the way of developing a credit system on sound and progressive lines as a well-founded Central Bank.\textsuperscript{1} Theodore Gregory gave a classic statement on the importance of central banking as a technique of control over currency and credit, while giving evidence before Royal Commission on Banking and Currency in Canada in 1933. He observed that, "A Central Bank is a centre not only for rediscounting, but a centre of moral authority in moments of crisis and an authority which is also capable of exercising and expressing a certain volume of moral critique in moments of exaggerated optimism or of exaggerated pessimism.\textsuperscript{+}

The establishment of a Central Bank was thus looked upon not only as an agency for economic stability, but also as a symbol of the economic independence of a country. Allured by these ideas many countries equipped themselves with Central Banks. Despite early attempts, the concept of Central Banking could not assume the form of a well defined and systematic study unless thirties of the present century. Constitutions of the Central Banks were generally silent with regard to the purpose of the credit policy to be followed by them. Sometimes the objective was to maintain stable credit conditions while sometimes the objective was to safeguard the external value of currency. Many countries, therefore, called in the help of experts from older countries, mainly from Great Britain to advise them in this regard. Drawing inspiration from the prominent Central Banks already in existence, certain functions came to be accepted as essentially falling

\textsuperscript{1} Kisch & Elkin: Central Banks - p. 12-B.
\textsuperscript{+} Minutes of Evidence, Royal Commission on Banking & Currency in Canada, 1933, Vol. VI, p. 2992.
within their province and certain characteristics as fundamental to the integrity of Central Banks. In the twenties the idea of central banking developed into a systematised study and it was found necessary to stock its armoury with new methods of credit control. By the thirties, the central banks came closer to their respective Governments, and the mode and nature of their operations also underwent changes in conception and emphasis. Parker Willis wrote in 1936 that "Central banking technique tends more and more to rely upon direct control and intervention, and less and less upon finer balancing of economic and financial forces, which has represented in the older theory of discount rate supervision or direction." He further said that Central Banking has crystallised itself into a new recognised idea.

No reasonable man can deny the fact that Central Banking is neither a science nor an art; rather it is a craft. Science seeks facts and basic laws; art seeks beauty and perfection. Central banking tries to produce a serviceable commodity - economic stability, for which it has come out to be a technique of credit management. As it is a craft it is necessary that it should grow and change with the broader idea of credit management, and these ideas as fast developing both in national and international territories away from easy assumption about natural harmony of forces and towards rational and scientific control. With the changing ideas of credit management, the technique of central banking has been progressively adapting to these changes. The nationalisation of the central banks, the greater direct control of banking system through changes in the methods of control, adoption
of new techniques of credit regulation and assumption of greater responsibilities to provide long and short-term financial facilities are the vanguard of evolutionary central banking. Thus central banking evolved as a technique of credit management and also made rapid strides to meet the changing pattern of credit administration.

Truly speaking, credit control is an important function of a central bank. Being in singularly advantageous position to know constantly and accurately the day-to-day demand for money on the part of the money market, it is in a position to know best when and to what extent to expand or contract currency and credit to meet the changing requirements of money market. Demand for and supply of money must meet in the same institution. Logically, therefore, the function of credit control has to rest on the Central Banks for they alone can bring about an equilibrium between supply of and demand for money and credit. The perfect Central Bank has the duty of nearly always swimming against the current of public feeling, alternately over-optimistic and over-despairing, which is more responsible than any other single factor for the swings of boom and slump. In its task of credit management, the Central Bank is not for looking out and scotching incipient causes of disturbance emerging from the shifting-sands of public psychology, but of trying to bring to rest a see-saw in violent oscillation. In order to fulfil effectively these functions, it is necessary to arm the central banks with wide powers to control currency and credit operations of agencies engaged in that business and also to control institutional move-
ments of capital, currency and credit.

**NEED FOR CREDIT REGULATION IN INDIA**

The need for credit control in India had been felt strongly even by the British Government and it was with this objective that Reserve Bank of India was established in 1935 and entrusted with the sole responsibility of controlling currency and credit. The purpose of credit control during pre-independence period was to remove seasonal variations in the supply of money and adjust the changing monetary demand during busy and slack seasons. It also aimed at regulating the credit structure in such a way as to avoid any disequilibrium in the established exchange rates. The monetary system of the country was peculiarly tied up with the British Pound and Rupee had to follow the movement of the Pound, having no separate and independent position of its own. The Government of India, therefore, sought internal adjustment of credit to keep the gap between the official and the market value of rupee in relation to the Pound.

Like many other countries India being a primary producer and large exporter was subject to cyclical variations in demand in the foreign markets and consequent changes in the incomes and economic activities of the people. When demand in foreign countries was good it led to increase economic activity in the home market causing a surplus supply of money and a resultant rise in the prices. A fall in the external demand led to opposite consequences. These uncertainties had to be contracted both through monetary and fiscal policies.
Internally also, the monetary demand was subject to a lost of variations, India is an agricultural country with major proportion of her national income arising in the agricultural sector. Predominance of agricultural sector creates two monetary problems. Firstly, it creates a sudden demand for money at the harvesting season which dies out after sometime. Indian money market is thus characterised by alternate periods of 'busy' and 'slack' season leading to a fall in the prices of agricultural goods and a consequent loss to millions of farmers in India. The Reserve Bank of India has to adjust the credit structure in such a way as to place large amount of credit at the disposal of banking system. During busy session which lasts from November to April and to withdraw surplus credit during the slack session from May to October, to prevent it from exercising on inflationary pressure upon the prices.

Beyond these objective the Govt. of India at that time was not motivated by other factors. There was very little movement of capital and the need for the use of Bank Rate as a regular of the flow of short-time funds would hardly needed. The policy of the Reserve Bank had, therefore, to be more of a secondary or a subsidiary nature.

CHANGE IN THE OBJECTIVES AFTER INDEPENDENCE.

After independence of India in 1947 and more particularly after the introduction of planning in 1951 the need for credit control and credit regulation has become still more imperative. The first object in this case was the development of a
sound money market in the country. A well-knit money market is the basis of economic development and at the time of independence Indian Money Market was in a very disorderly condition. Nearly 60% of the money market was in the unorganised sector upon which the Reserve Bank had little control and which worked almost independently of the organised sector. This unorganised sector which caters to the needs of agriculture consumers credit and cottage and small scale industries was characterised by high rates of interest, (it sometimes was as high as 200%) paucity of funds and lack of sound banking principles. In order to develop the money market and bring this so-called unorganised sector within the network of organised money-market it was necessary that Reserve Bank should take active steps for enhancing the bounds of banking sector, of making credit cheaper and more flexible to the rural areas, thus narrowing a great lacuna between the interest rates in the two areas.

Another need for greater control and vigilence was felt with the introduction of planning which meant guiding the pattern of economic development on lines more conducive to and in conformity with the objectives of our constitution. The Reserve Bank had to play its own part not only in averting serious dislocations in the prices of agricultural commodities both of a regional and seasonal character but also to regulate the flow of credit to the sectors where it was most needed. There was need for putting a curb upon the consumers credit and the excess of trade credit and placing it at the disposal of more crucial sectors. It is because of this reason that selective credit controls have been
more widely in use in India during the planning period.

The monetary policy in the context of a free and developing country had to be of a more creative nature. There was need for an active monetary and credit policy, which is conducive to a long term and sustain economic growth. It needed not only reorganisation of money market but placing of sufficient funds at the disposal of priority industries and create an added incentive to increased investments. Large borrowings of the Government and expansion of the size of Government security market have created an imperative need for maintenance of their prices in the market in order to safeguard the credit of the Government and make it possible for the Government to make continued borrowings in ever increasing amounts.

Yet another objective of monetary control has emerged since the beginning of First Five Year Plan and that is restraining of inflationary pressure working upon the economy. Large autonomous investments by the Government during the First and Second Plans and large scale of deficit financing adopted for the purpose of financing them have created ever increasing monetary pressure upon the consumer goods sector. This has resulted in a secular rise in the prices. The rise in prices which started from agricultural prices in 1956 has gradually spread in dimensions and now encircles the whole of economy. There is need for restricting the surplus credit from exercising undue pressure upon this sector and a strong rigid control of credit can help to keep under check the rising money tide released by the fiscal action of the Government.
Under the present context, therefore, the monetary and credit policy has to follow a bit difficult way. On the one hand the credit has to be restrained to avoid a rise in the prices which on the other it must be made available in large quantities and cheap rates to push up the process of economic growth in the country. The success for the monetary policy will depend on how far the Reserve Bank of India is able to fulfil these mutually contradictory objectives. At any rate, the need for credit control has never been greater than what it is at present in the context of planned economic development of the country where the monetary policy has to work shoulder to shoulder with the fiscal policy helping to achieve its objectives and moderating the extreme influences created by fiscal action upon the economy.

Thus, credit cannot be allowed to flow any way it likes. Certainly it cannot be set so free in India; it has to be moulded according to the changing needs of our country which is knocking at the door of industrialisation with the help of ambitious plans. The doubt whether credit management and control makes any sense at all in Indian economy has no base. The practical problem, however, is what type of credit control and to what extent will fit in Indian context? For this, first we shall attempt a theoretical discussion of the various measures of credit control and then probe into their application, their success or otherwise in the Indian money market.