Back to In-house Banking

Issue of bank licences to corporate houses will be against the country's interests.

The issue of banking licences to the private sector, the third such occasion since 1994, has been put on an accelerated path of decision-making and licences are to be given by January 2014. The Reserve Bank of India's (RBI) decision not to prohibit corporate/industrial houses from applying (unlike in 1994 and 2001) threatens to take us back to the days before bank nationalisation, when all big corporate houses had their own banks and all big banks were owned by corporate houses. Some of India's biggest corporate groups – the Tatas, the Birlas and Reliance – are in the fray this time for new licences.

Banking in the pre-nationalisation era meant no more than mobilising funds from the public to promote the interests of a particular monopoly house. This not only concentrated economic power in the hands of these monopoly houses, but also denied credit to agriculture and other sectors which were outside their control, and thereby caused a skewed pattern of sectoral development. Besides, it put the depositors' money, deployed non-transparently in accordance with the strategy of the particular house, under great risk.

The purpose of bank nationalisation was to put an end to all this. It was based on the compelling logic that the "credit market" is fundamentally different from all other markets, such as for instance, the "potato market". In the latter, the commodity is handed to someone in exchange for resources that the person already possesses; the identity of the person therefore is totally immaterial to the seller and to everybody else. In the credit market by contrast it is resources themselves (or command over resources) that constitute the commodity being handed over. Who it is handed over to is therefore crucial for determining the social, sectoral and spatial configuration of the ensuing scenario. The identity of the person who obtains credit is as important for the bank as it is for society as a whole, whence it follows that there must be a social say on this identity. After a period of experimentation with "social control" over banks to effect such a social say, which proved a failure, the decision was taken in 1969 to nationalise the major banks.

This logic that since the distribution of credit determines which sectors, which groups and which regions grow and which do not is a matter of vital social concern and the credit distributing agencies must therefore be socially controlled, for which nationalisation is the obvious means, is as valid today as it ever was. The case for reviving the pre-nationalisation scenario simply does not exist. And yet, ironically, a government that swears by Indira Gandhi is out to undo the one enduring and beneficial legacy of her rule.

It would of course be argued that nationalised banks are not being privatised; so there is no need to complain. But knowing that privatising publicly-owned banks will be fiercely opposed, this is the government's way of by-passing this issue, and yet working towards the same end, viz, banking as an in-house activity of corporate groups.

The contradictions in the government's stance are glaring. A food security legislation has just been passed which promises a substantial expansion of the public distribution system. If food on the requisite scale is to be made available to the (alas still) targeted population, there has to be a substantial increase not only in public procurement, but also in foodgrain output. This requires a sustained increase in the availability of cheap institutional credit to peasant agriculture.

Public sector banks are essential for this. They too renege on a large scale, in actual fact, on their priority sector lending commitment, but their record is still better than that of private sector banks and foreign banks. Besides, they can be asked to improve their record in this area in a way that private sector banks cannot be. For the RBI to consider banking licences for corporate houses at this very juncture when provision of food security is being announced with such fanfare suggests that this fanfare is perhaps meant only for the election year; and that the food security scheme will be given a quiet burial thereafter, first by shifting to cash payments to the targeted population in lieu of food, and then by allowing inflation to erode the real value of such cash payments. At any rate no significant increase in credit to peasant agriculture is being visualised.

Cynics may argue that since foreign banks and Indian private banks are being allowed to operate anyway, it makes little difference if corporate houses too are allowed to enter the fray; that the principle of social control over the banking sector, of which bank nationalisation was the expression, has been eroded in practice long ago. But the erosion of a principle cannot be a justification for its abandonment. And the entry of Indian corporate houses into banking will certainly constitute a qualitatively new development, a fact underscored by the parliamentary committee under the chairmanship of Yashwant Sinha. This committee has drawn attention to the conflict of interest involved in private corporate groups, which are motivated essentially by the group's interest, also presiding over the disposal of public funds where the interests of depositors, not to mention society at large, should rule supreme.

The parliamentary committee is absolutely right in what it says. One only wishes it had said more than it has, namely, that there is a conflict of interest not just in corporate houses engaging in banking operations, but in private banking per se. Since the activities of banks affect the contours of social development, which are a matter of prime importance in a fragile society like ours, society must control what banks do. Having private profit-seeking banks militates against this principle and is against the nation's interest.