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Accumulation under Post-Colonial Capitalism – II

War, Debt and Reconstruction of the Economy

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Content

Rural Incomes, Rural Debt and the Dynamics of Accumulation in Post-war Jaffna[1]

Ahilan Kadirgamar *

Introduction

In May 2009, a two and a half decade long civil war came to an end in Sri Lanka. The Liberation Tigers of Tamil Eelam (LTTE) were decimated and the state gained control of the entire island, including the war-torn Northern and Eastern Provinces. While the Jaffna District, the peninsula in the Northern Province, was under state military control after 1995, it had remained cut off from the rest of the country as there was no land route. It is the political economy of the Jaffna District as it regained connectivity with the rest of the country that this paper seeks to analyse. Particularly, what do the incomes of the people in rural Jaffna look like as lands that were fallow during the war are re-cultivated? What does income from agriculture look like in relation to other forms of incomes including remittances? What are the causes and consequences of the mounting indebtedness? And what is the relationship of the current structure of incomes and indebtedness in post-war Jaffna to the process of capital accumulation and dispossession?

Such questions about the economic life of the people are important as the war-torn districts of Sri Lanka are increasingly mired in an economic crisis. However, the state is either in denial or does not recognise the failure of reconstruction and the attendant crisis. Much of the debates on the post -war situation, both within Sri Lanka and in the international realm, have focused on the lack of a credible process of accountability of war-time abuses, the absence of a political settlement to the ethnic conflict and the continuing militarisation. While these are important issues and do relate to the political economy of the war devastated regions, they do not address the larger question of changes to the peoples economic lives after the destructive war. The Jaffna District was cut off from the market and processes of accumulation impacting the rest of the country. Indeed, neoliberal reforms commonly known as the open economic reforms in Sri Lanka since 1977 and the impact of changes to global economy during the past decades have drastically transformed the Sri Lanka economy, and it is during the post-war period that the war-torn districts are facing the full impact of those changes. The economic crisis in these war-torn districts has accelerated during the five years after the war and have tremendous social consequences given the devastation during the war. However, the predicament in the war-torn districts is also a snapshot of the broader problems facing the political economy Sri Lanka. Therefore, the analysis of accumulation and dispossession in the post-war Jaffna is also an entry point into a critique of postcolonial capitalism in Sri Lanka.

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Historical Context of Jaffna

The Jaffna District, while in terms of land area is small, continues to house most of the population of the Northern Province.[2] Historically, Jaffna gained from advances in education with schools built during the British colonial period, particularly starting in the mid-19th Century. These schools providing English education helped produce a small stratum of professional middle class that worked in the colonial clerical service and as educationists in the rest of the country and even in Malaysia. Thus a remittance economy was also historically true for Jaffna during late colonialism.

While such educational advancement among the small stratum of upper castes led to the emergence of a middle class with some capital, it was only with a boom in cash crop production and expansion of fisheries in the late 1960s and into 1970s that there was significant capital accumulation in the countryside. Such accumulation led to rising living standards of rural households including the building of cement houses in many parts of Jaffna. Furthermore, this was also the time when land pressure in Jaffna peninsula resulted in migration and colonisation of the Vanni; the region south of Jaffna where extensive paddy cultivation became prevalent. Much of the labour in the Vanni region came to be formed by Up-Country Tamils, who were originally indentured labour brought over by the British to work in plantations. These Up -Country Tamils were displaced to the Vanni starting in the late 1950s after repeated pogroms in the central regions where the plantations are located.

The prosperity in Jaffna had a caste character. The dominant and majority caste in Jaffna is the Vellala. Due to the small holding character of land ownership by the Vellala in the relatively small land area of Jaffna, cash crop cultivation was suited for caste relations in Jaffna. The Vellala caste which had been involved in tobacco cultivation for export to the rest of the country and even South India as early as the late 19th Century, made major gains from cash crop boom in the 1960s and 1970s. (Gunasinghe 1985) Sections of the fishing community, belonging to the Karaiyar caste also gained from the fisheries boom. Caste relations in Jaffna, where a Brahmin caste is for the most part non-existent, is characterised by the upper sections of the Karaiyar fishing caste almost in par with the landowning Vellala caste. In this context, the oppressed castes consisting of those working as landless labour and those involved in Palmyrah and Coconut work launched major caste struggles around temple entry, access to wells, equal access and dignity for work. Here, the smaller stratum of middle castes supported the Vellala caste. The pitched battles around caste in the late 1960s were supported by the Communist Party.

The caste struggles emboldened the oppressed castes with respect to agricultural working conditions and access to education. It also gave them dignity in terms of access to temples and equal seating at tea shops. Among one of the more significant changes was the formation of the Palm Development Co-operative, which gave a monopoly to the production and sale of toddy to the co-operative and in the process strengthened the position of the historically exploited toddy tapping community. The co-operatives, the work of the Left, the organisation of oppressed castes around community organisations including community centres were beginning to weaken caste structure in Jaffna. (Lebbe 1979) However, the emergence of the ethnic conflict and the heightening of Tamil nationalist mobilisation in the 1970s dampened and eventually silenced the caste issue. Significantly, it is the oppressed castes from Jaffna and the displaced Up-Country Tamils who also belong to the oppressed castes that became the cannon fodder in the war, as their children were the most vulnerable to recruitment by the LTTE.

Economically, the import substitution policies from 1970 to 1977 in particular, supported the cash crop boom in onions, chillies, tobacco etc, which fetched higher prices in the rest of the country. (Gunasinghe 1985) There was also a fisheries boom as sea food was exported with the introduction of trawling and fish processing facilities in Jaffna. (Scholtens 2012) It was in this context of rising standard of living and increasing social mobility that middle class youth articulated their grievances against the state's majoritarian policies privileging the Sinhala Buddhist majority community. The implementation of 'Sinhala Only' language policy, repression of non-violent protests by the Federal Party for autonomy to the Tamil regions, pogroms against Tamils living in the South, real and perceived discrimination in access to university education were the ground on which the Tamil armed insurgency began.

War, Displacement and the Aftermath

With the war, not only were there immense destruction and disruption of the local economy, but also immense displacement including the emergence of a large Tamil Diaspora in the West transferring remittances to the war affected population.[3] Despite the heavy loss of life and the economy grinding to a halt, many of the institutions, particularly schools and co-operatives, continued to function. Schools which were supported by the state even during the war became centres from which post-war rehabilitation and resettlement was initiated. The fishers and toddy tappers co-operatives played a significant role in rallying their communities. Farmers' organisations also regrouped after bouts of displacement. Community Centres which had been abandoned with displacement were restarted after the war. In other words, despite the massive destruction of the war, the social institutions survived. This could be in part due to the structure of the organisations and participation of its members, but also in part due to the economic cushioning effect of accumulation during the decades prior to the war.

During the war, some sections of Jaffna society survived on the remittances sent by their relatives in the Diaspora. Others survived on humanitarian assistance. What was produced in the North during the war, mainly agricultural produce, remained within the North and was distributed locally. Most consumer goods from the South could not be shipped due to lack of transportation, or could not be used due to lack of electricity and shortage of fuel, or were embargoed by the Government if considered useful for the LTTE's war efforts. In the Jaffna District, there were a few industries prior to the war, such as a cement factory, and small industries producing glass, fishing nets and other goods, they did not function and were mostly destroyed during the war. The few production facilities run by co-operatives and built with donor assistance were technologically outdated. The disruption of production and the lack of capital accumulation meant there was little investment in production facilities after the war.

The Government's reconstruction policies focused on the expansion of credit along with the building of infrastructure. Agriculture and fisheries in the North and East were stimulated through a loan scheme at subsidised interest rates granted to households. Infrastructure build-out focused on roads and electrification. Such infrastructure facilitatedthe market for consumer goods. The Government's reconstruction strategy of building infrastructure and expanding credit failed to create business providing employment. Rather, it led to consumption on debt.

As worrying signs of the deepening economic crisis in the North and East emerge, the response of the state has been denial. The Central Bank claims that in 2012 the war affected Northern and Eastern Provinces had the highest provincial GDP growth rates of 26% and 25% respectively. In reality, this was due to the onetime boost of the construction sector and the growth of banking and finance, the latter being part of the problem. In policy circles, and in sections of the business community, the economic problems in the North are frequently dismissed as inevitable during a period of "transition".

Place of Research

I left Jaffna in 1983 just before the escalation of the civil war and only visited Jaffna twice during the ceasefire period between 2002 and 2004. It was after the war in late 2009 into 2011 that I began visiting Jaffna regularly. It was during this period that I could move freely in Jaffna, and I began to consider field research to explore the political economy of post-war Jaffna. In mid-2012 I moved back to Jaffna to live, research and engage with the society coming out of war.

The location of research, Jaffna, was important for me, as it was inaccessible for decades for many intellectuals and activists who cared deeply about the social, economic and political life of the people in the war-torn districts. Furthermore, research also took an important place in my life, as I attempted to become more reflective about my own political engagement. My interest in political economy was two-fold. First, I wanted to understand historical changes with respect to land, labour and capital and how they may have contributed to the tragic situation in the North and East. Second, I wanted to engage with people in the countryside. Such engagement was not possible in the past, due to activism relating to the political urgencies during the war; including the humanitarian crisis, mass human rights abuses, a constitutional political settlement, shrinking democratic space and the attacks on dissent.

My research on rural incomes and debt, draws on field research in Pathemany, a village near the small town of Atchuvely in Jaffna. I chose this village, because it was the only case study in Northern Sri Lanka, in one of the most extensive research projects on agrarian change conducted by the Social Scientist Association. This multi-site research project was conducted between 1980 and 1982 just before war, and provides an excellent baseline of the political economy of cash crop production in Jaffna. The principal researcher of the project Newton Gunasinghe, one of Sri Lanka's most brilliant social scientists, claimed, there have been many village studies in Sri Lanka: "But they do not make a theoretical contribution to the understanding of the socio-economic processes at work in our countryside." (Gunasinghe 1985, vii) I fully agree with that statement. My research in Pathemany is not a village study in the anthropological tradition, rather an attempt to ground my research on previous work recognising the many global and national forces at work in shaping post-war rural life under a neoliberal economic regime.

I began my field research, even as most households had returned to their livelihood that they had been practicing before the war, and where possible during the war. In Jaffna, that meant mainly cash crop cultivation and a lesser extent paddy cultivation for small holder farmers and fishing for the coastal communities. There is also the large population of landless labour dependent on wage labour when it is available. Within a few years after the war, most fields were cultivated. While there have been many challenges to cultivation with floods, crop diseases and more recently drought, agricultural production levels are back to the levels of cultivation during the pre-war period. (District Secretariat of Jaffna 2014) However, agricultural incomes have not been increasing. Fisheries, on the other hand, have been devastated by the Indian trawlers poaching the seas around Jaffna. Both the number of fishing days and fisher incomes continue to suffer. (Kadirgamar 2014b) There is also widespread indebtedness in Jaffna linked to the failure of rural incomes, connectivity to the market for consumer goods and the expansion of credit. In this way, rural incomes and indebtedness became my questions to analyse the political economy of post-war Jaffna.

Failure of Rural Incomes

The Jaffna economy is characterised by the failure of incomes and rising cost of living. How does one account for the falling incomes relative to household expenditure after the war? This problem can be analysed from two angles. First, the challenges faced by the different sectors after their integration into the market. Second, the impact of systemic changes to the rural economy after the war; in the form of monetisation of the economy, shift in rural provisioning and changes in consumption.

Land and Ground Rent

The size of plots cultivated by farmers, which were historically small in Jaffna have continued to fragment. Some agricultural lands used for cash crop cultivation have been transformed into housing land.[4] Most farmers in Pathemany cultivate on the order of 1,000 to 4,000 crops, which is merely quarter to one acre of land [5]. The low agricultural incomes[6] are also reflected in the low cost of share cropping which is rent on the order of Rs. 6,000 for quarter acre of land[7]. Indeed, ground rent which had become monetised with the cash crop boom in the 1970s continues in the same form. However, as Gunasinghe describes it, during times of accumulation and growth, rent was high:

> "On the one hand, the rent of land from the mid-70s to1980 increased 2 to 3 times. On the other hand, a new system of rent came into operation which in actual fact increased the ground rent still further. The new system of rent known as 'otti' requires the renter to deposit a substantial amount of money with the land owner; the interest emanating from this amount forms the ground rent. When the contract comes to an end the land owner is obliged to return the entire amount to the renter. … The new system of renting also drives the cultivators with no savings out of the cultivation process." (Gunasinghe 1985, 213)

While both systems of rent exist today, ground rent relative to incomes and expenditure is quite low, reflecting low levels of accumulation. The process of driving out cultivators with low savings is also not true given the expansion of credit discussed below.

Rising Input Costs, Falling Prices and Capitalist Scissors Crisis

In post -war years, there has been the increasing monetisation of the rural economy. This is in part influenced by the major expansion of credit. And it is in part shaped by the move away from subsistence production. Labour is not exchanged through networks but monetised wage labour which rose sharply after the war. Male wage labour per day costs Rs. 1,000 plus lunch and tea. Women's agricultural labour can be between Rs. 600 to Rs. 800 plus lunch and tea. However, agricultural wage labour is not available regularly. And when it comes to skilled labour relating to cash crop cultivation such as seeding, building water channels and harvesting, it is networks of groups of skilled workers from neighbouring Puttur village that are employed.

With respect to cash crop production in particular, there are much greater fluctuations in prices. At harvest time prices have been falling due to fluctuations in imports, with little coordination between the ministries of agriculture and trade, as well as price determination by traders. [8] Input costs have also increased from wage labour necessary at planting time and harvest to fertilizer and irrigation costs. With the expansion of credit and increasing indebtedness discussed below, there has also been extensive investment in technology from irrigation pumps to small tractors. Given that the cultivated plots are small, the return on the investment for households in such agricultural machines is low. Given the increasing individualisation of credit schemes and little movement towards co-operative or collective work, such investment costs also work against returns.[9] In reality, any accumulation in this context is only for the foreign producers of agricultural machinery and the banking and financial sector which has facilitated the purchase of such items on credit. These problems of increasing costs, falling incomes and lack of accumulation are not new.

Gunasinghe saw these problems emerge in early 1980s as labour costs were increasing with the boom in the mid -1970s and then other costs rose with the introduction of the open economic reforms, even as the price of cash crops declined:

> "Hence the picture that emerges is on the one hand a very sharp decline in the prices relating to commercial crops and on the other a very sharp increase in the prices relating to factors of production. This process has introduced a crisis in commercial crop cultivation which may be called a capitalist Scissors Crisis."
> (Gunasinghe 1985, 214)

While these crisis conditions are similar to what can be observed now, there is also another side in the form of rising cost of living which needs to be factored.

Household Expenditure

In Pathemany, the minimum household expenditure per month for a household of four or five persons is Rs. 20,000. Thus wages for wage labour on the order of Rs. 1,000 per day is not high, particularly given that wage labour is irregular. My data[10] corroborates with rural household expenditure from the Household Income and Expenditure Survey of 2012/2013. Food and drink expenses for the bottom 50% percent of the population in rural Sri Lanka is on the order of Rs. 10,000 to Rs. 15,000. (HIES 2013)

The increasing monetisation of costs in Pathemany are evident from the costs of firewood and fuel for cooking. If the household, does not have medium sized plots of housing land as is the case in the lower caste quarters of the village where most houses are on very small plots on the order of 1.5 lachams (close to one tenth of an acre), in the context of declining possibilities of foraging for firewood, the cost of firewood and fuel for cooking alone can be close to Rs. 2,000 per month.[11] This is not the case in the Vanni where land alienation schemes have provided most families with half an acre of land and some level of subsistence including the possibility of a home garden. Thus rural provisioning has gone through a major change in the post-war years with the increasing monetisation of the economy.

Rural Debt and Dispossession

The post-war reconstruction strategy of the Government has been one of expanding credit along with the building of infrastructure. In this context, the relationship of credit to indebtedness becomes important.

Pathemany, like many other villages in the country, over the years benefited from the agriculture loans that came with the Central Bank backed New Comprehensive Rural Credit Scheme in the 1970s. These are loans determined by the Central Bank based on the crop cultivated per acre of land (onion – Rs. 95,000, chilli – Rs. 65,000 etc). And on the ground, a large number of banks work with village farmers' organisations to determine who should receive such loans, which are to be paid back with a subsidised Central Bank interest after the harvest. In recent years, farmers have been unfortunate with weather conditions; harvests are failing due to untimely rains, crop diseases and more recently the drought. Furthermore, the proliferation of debt instruments and expansion of rural credit after the war have crippled rural folk from even repaying historically feasible agriculture loans.

Financialisation and Cascading Loans

With the end of the war, the Government encouraged banks to open branches all over the war affected districts. The banks were initially tasked with providing loans for initiating livelihoods from restarting farms to the purchase of fishing boats. These loans on the order of Rs. 50,000 to Rs. 200,000 in the Northern districts coming with the 'Northern Spring' reconstruction program led to the proliferation of banks which are now visible in every small town. The Northern population including large sections of the Jaffna population which had been uprooted from their land and livelihoods through many bouts of displacement, readily absorbed these loans from the banks. Once the banks were established with the expansion of credit at the national level, the banks began providing self-employment loans. Banks also expanded into pawning business with the rise in global gold prices. Subsidiaries of banks and a range of finance companies also came into the rural economy providing micro-finance loans and leased hire purchasing of a range of items. The significant point here is that indebtedness in the war affected regions would not have been possible on this scale, if not for the process of displacement, uprooting from the local economy and then integration into the economy under conditions of financialisation.

The Bank of Ceylon[12] took the lead followed by a number of banks and financial institutions situated in Atchuvely town next to Pathemany village providing a variety of self-employment loans, micro-finance schemes, lease purchasing loans and pawning services.

Encouraged by campaigns by banks and the availability of loose credit, villagers were quickly caught in a cycle of debt, whereby they took more loans for further consumption or to pay the interest for other loans and lease purchases. Within a couple years, household debt has reached levels that cannot be repaid. Families are pawning all their gold, their leased vehicles are being seized and some are on the run from the banks and police. Devastated by the crop failures and the banks tightening credit, accumulated debt has reached crisis proportions. In Pathemany, most families including landless labourers are indebted on the order of Rs. 2 lakhs to Rs. 4 lakhs per household.

Loans Targeting Individuals

A major shift in recent years is that loans are directly negotiated between the individual and the financial institution. This is unlike the agriculture loans which involves farmers' organisations. Thus in the village, many individuals have got self-employment loans up to Rs. 2 lakhs to start up shops and to buy three wheelers. The banks ask only for two guarantors, most of whom are also recipients of debt. Loans from banks are leveraged for leased hire purchasing of three wheelers and tractors.

There has been no analysis about the demand for so many shops, three-wheelers and tractors in the same village. Furthermore, many such loans are used for purposes other than self-employment; for consumption, for festivities or to repay other debts. And this approach of targeting individuals with debt without engaging village organisations makes individuals vulnerable both in the process of taking loans, where the conditions of the loans may not be clear and then to face the intimidating collectors, when loans cannot be repaid.[13]

Low Levels of Debt among Toddy Tappers in Co-operatives

My research in Pathemany also looked at the toddy tappers belonging to the oppressed caste. While the toddy tappers are socially marginalised, a hardworking toddy tapper can earn as much as Rs. 80,000 per month. However, it is only during a short period of their life before the age of forty that such intensive toddy tapping which is physically taxing is possible. All toddy tappers belong to the Palm Development Co-operative which was given the monopoly on toddy tapping in the early 1970s. The co-operative was instrumental in reducing their exploitation by the Vellala caste, advancing the dignity of the community and providing a range of services including accident insurance and a pension plan.

The interesting fact is that the toddy tapping households are the least indebted. This is because the toddy tappers can take low interest loans from their co-operative based on their savings for pension schemes. The co-operative also is much more vigilant in monitoring the reasons for the loans, unlike the banks which expanded their loan portfolio based on competition with other banks, where bank managers were pushed to meet targets. However, the Palm Development Co-operative which survived the war and has been a great strength to its oppressed caste community is now beginning to face pressures from the market. After the war, the opening of large number of bars and the influx of beer and arrack from the South is undermining the consumption of toddy in taverns as well as the consumption of local arrack, which cannot compete with the advanced production of arrack in the South.

Debt tied to Housing Schemes

Another major problem tied to the reconstruction efforts is the indebtedness tied to the housing schemes. During the latter phase of the war and soon after the war, many donors gave grants to households to rebuild houses destroyed by the war. Soon after the war, India's major contribution was 50,000 houses to the war affected each worth a grant of Rs. 550,000 given in instalments with step by step building of the house. The problem however, is that most houses cost between Rs. 800,000 and Rs. 1 million[14], thus what was meant as a major cash grant has led to indebtedness in the context of the availability of credit.

Pawning and the Depletion of Rural Assets

In the context of such widespread indebtedness, there has been a major decline in household assets. Rural households in the North had managed to keep some amount of gold jewellery despite the war. Indeed, historically, pawning of gold was the mechanism of fall back for rural household financing and provisioning during familial and agricultural crisis. With the boom in global gold prices between 2009 and 2012, many banks got into the pawning business in a major way even extending their hours of operation so that wage labourer could come to the banks after work. In this way, households have lost most of their gold assets through pawning[15] as they attempted to repay other bank loans and make instalment payments on the leased goods.

As the crisis deepened, their leased goods were ceased by the leasing companies, their gold assets have depleted and they continue to be indebted to banks. The significant point about rural debt in Pathemany or for that matter in Jaffna District and the Northern Province as a whole is that indebtedness is caused by and is mainly to the formal sector of banks and financial institutions as opposed to local money lenders. While there is of course some debt owed to relatives and local money lenders[16] the process of indebtedness was fuelled by the expansion of credit in the formal banking sector, and any solution requires addressing the loans by this formal sector.[17]

The most worrying next stage of the crisis could be if the rural households are pushed to meet food costs and repay debts, by selling their small plots of land and even houses, which are their most important assets accumulated over generations. Already, there are reports of malnutrition among children in rural households and donor agencies are concerned about widespread food insecurity among the war affected population. (Vhurumuku 2012) Furthermore, medical sources claim increasing reports of suicides and attempted suicides related to debt. Thus falling incomes and increasing indebtedness are important conditions for post-war dispossession.

Out Migration and the Neoliberal Circuit of Accumulation

The faltering incomes have led a section of wage labour moving to construction.[18] Over the five years after the end of the war there has been a construction boom in the entire country as well as the war-torn districts. Indeed, construction now accounts for 10% of Sri Lanka's GDP as infrastructure and tourist hotels and malls absorb much of the capital flowing into the country. It is also a major portion of the provincial GDP of the North, where in addition to road building, construction is booming with reconstruction of state and private buildings and the major housing schemes. However, this is a onetime post-war construction boom which is now beginning to slow down and the incomes of the Northern population may also be affected once such construction efforts are completed.

There has been some flow of Vanni labour to the few factories and military farms in the Vanni. Women in particular, are increasingly employed in the new MAS garment factory in Killinochi and to some garment factories in the South. Such employment in factories are stable incomes for households, as opposed to wage labour in agriculture, construction etc. which is sporadic.

While there were considerable remittances coming from immigrants to Western countries during the war that flow has been steadily decreasing since the end of the war. Once immigrants are married and immediate family members have migrated, remittances tend to decrease.[19] The more significant flow of remittances after the war is migrant labour to the Middle East, where a regular monthly remittance is possible. [20] Indebted families in particular, are depending on such remittances by young men and women to meet household expenditure in the context of the agricultural crisis and to meet their debt payments.

I have elsewhere discussed the second wave of neoliberalism in Sri Lanka in the context of the post-war development push and the flow of global finance capital to the "emerging markets". (Kadirgamar 2013c) That second wave of neoliberalism is characterised by financialisation leading to the accumulation of capital by the local financial elite and global finance capital. The monetisation of the rural economy in Jaffna and the massive indebtedness is led by the process of financialisation in the country. The loss of assets and rural dispossession in Jaffna is linked to the accumulation of finance capital through the proliferation of banks and finance companies into the rural economy.

That process of accumulation is now reaching the next stage, where rural indebtedness is leading to out migration to work in the Middle East, and a portion of the remittances are routed back through the rural households as debt payments to banks and finance companies. These banks and finance companies are themselves increasingly indebted through the sale of euro dollar bonds in the global capital markets. Thus the new circuit of neoliberal accumulation begins with dispossession in the countryside, out migration to the Middle East where labour is exploited but provides remittances back to the village, some of portion of those remittances are in turn sent as debt payments through domestic banks to the accumulation of global finance capital.

By Way of Conclusion: Historical Transformation, Class and Caste

My research into the rural economy in Jaffna was also an attempt to understand the transformation of the rural economy by the civil war and liberalisation policies that came in parallel after the cash crop boom in rural Jaffna between the 1960s and 1970s. I am fortunate to be able to draw on the theoretically rich work of Newton Gunasinghe, whose case study in the North I returned to after three decades. In this concluding section, I analyse the historical transformation underway through an analysis of capital, labour, accumulation and social relations in postcolonial Sri Lanka.

Agrarian Systems and Over-Determination

Gunasinghe and others emphasised that in plurality of agrarian systems in Sri Lanka. (Abeysekera 1985) Indeed, even within the North, the cash crop agriculture of Jaffna is very different from paddy cultivation in the Vanni. In the process of looking at these agrarian systems they attempted to analyse if each system had potential for growth or a tendency to disintegrate. They were also conscious of the macro -economic conditions including the changes with the open economic reforms during the course of their research project. They emphasised the market and the terms of trade as they impinged or over-determined these agrarian systems. While they had identified some of the dynamics of open economic policies, particularly the impact of trade liberalisation, the civil war froze the north and east of Sri Lanka in terms of these global processes. Research on political economy was also displaced by questions of ethnicity and the urgencies of addressing the conflict including work towards finding a constitutional political settlement.

Thirty years later, when neoliberal policies have continued for a considerable time in the country and such policies are in fact accelerating with what I consider to be a second wave of neoliberalism, differences between theses agrarian systems are losing importance. The reproduction of agrarian systems is in crisis as they are unable to withstand the force of capital. It is not just the impact of the market and the fluctuations of prices, but also the process of financialisation and related dispossession. In other words, macro-economic changes shaped by financialisation are over-determining the agrarian systems, where adaptability and differentiation are increasingly difficult.

Agriculture for Subsistence

Agricultural production might be on the cusp of change. Without radical changes to the economy including reversing the processes of financialisation and trade liberalisation, it is only large commercial interests with finances, independent of debt from the financial system and large enough to determine prices in the market, that may be able to continue with agricultural production. But such change will also require a major consolidation of land which will require state repression towards land grabs. Thus the likely scenario is a steady decline of agricultural production as a form of rural income generation in the ensuing years. However, agricultural production for subsistence, including land as a resource for survival, will continue to be important, even as the crisis in the countryside deepens.

In my field research an important point that emerged about the viability of rural agricultural production and accumulation is the diversification of incomes. During the war, it is those oppressed caste households, which had the steady monthly income of at least one member of the household as a government or co-operative employee, that managed to purchase land and augment their agricultural engagement. Increasingly, that is becoming the condition of agricultural production; it is only viable for those who have an alternate source of income and are not dependent on agriculture for the day to day expenditure of the household. Here again, agricultural production may take the form of subsistence.

Proletarianisation and Contingencies of Accumulation

Gunasinghe and Shanmugaratnam worked with concepts of pauperisation and proletarianisation. (Gunasinghe 1985 and Shanmugaratnam 1985) That framing is useful, but has to be considered within the new circuit of neoliberal accumulation and dispossession. In this context, there is pauperisation in the sense of immiseration of the peasantry, but it not likely to lead to agrarian change and different forms of productive relations. Rather it is more a process of proletarianisation as the younger generations are leaving agriculture all together. This process of proletarianisation is now increasingly centred on migration to the Middle East for work.

The new circuit of accumulation for global finance capital is characterised in part by accumulation through dispossession, and not necessarily through production. (Harvey 2005) That circuit involves the double exploitation of proletarianised workers from the war devastated regions where reconstruction has failed. These workers migrate to the Middle East where they are first exploited and then part of their remittances is siphoned off for the accumulation of global finance capital. There are contingencies relevant for this circuit of accumulation. First, this circuit is dependent on the oil rents and stability in the Middle East. Second, if a barrier to migrant labour to the Middle East emerges for any reason, for example if the recent wave of anti-Muslim attacks in Sri Lanka leads to sanctions by Middle Eastern countries, it can lead to a major crisis in the Sri Lankan economy. Furthermore, the mounting debt crisis not just at the rural level but at the national level, as evident from the increasing number of non-performing loans, can create a financial system crisis and/or a balance of payment crisis, which can cripple the Sri Lankan economy as a whole. These possibilities of crisis are linked to the second wave of neoliberalism. (Kadirgamar 2013c)

Critiquing the notion of Transition

In looking at the *longue duree* of changes to the Jaffna economy it is important to question the concept of "transition". I find Kalyan Sanyal's profound critique of the concept of transition to be important, as it has implications for the manner in which sections of society may be excluded by postcolonial capitalism. (Sanyal 2007) In the Sri Lankan context, Gunasinghe critiqued the singular narrative of agrarian change, as a transition towards capitalist development, by analysing the variations within agrarian systems and varying impacts of different factors. (Gunasinghe 1985)

As mentioned earlier, many actors who dismiss the crisis in the war-torn regions with the failure of reconstruction, explicitly or subtly deploy the notion of transition to claim there is a move towards a normal market economy. Indeed, the concept of transition becomes the justification for all forms of dispossession. It is the conservative certainty of the concept which needs to be critiqued. One starting point for a critique of transition is the importance of contingent factors. Indeed, the colonial legacy, the disruptive civil war, vulnerability of Sri Lanka's economy to global economic forces and neoliberal processes such as financialisation can drastically reshape the path of postcolonial capitalist development.

Dispossession, Caste and Social Exclusion

Neoliberal accumulation and dispossession, through the process of indebtedness leads to the rise in inequalities and uneven development. In the context of post-war Jaffna, it should be noted that indebtedness is widespread throughout society, and thus the rise in inequality has to be analysed at the national as well as the global scale . These dynamics of dispossession can shape social relations over the *longue duree* including caste structure, class formation and forms of social exclusion.

In this context, what are the consequences of dispossession on peoples' livelihoods and ways of economic life? One consequence as discussed above is proletarianisation and out migration to exploitative employment in the Middle East, which also has tremendous social costs including pressures on familial life and child rearing. In my research, I find that the most marginalised within the oppressed castes, particularly the landless labour, do not have the social capital to find avenues for employment in the Middle East. Since the landless class of oppressed castes are solely depend on wage labour in agriculture, they are now facing the direst conditions.

The consequences of dispossession are that the landless among the oppressed castes end up in a cycle of social exclusion. Such social exclusion is evident in subtle segregation of schools where some rural schools are mainly populated by the children of the landless oppressed castes and where school dropout rates are high.[21] Such social exclusion is then reinforced in employment and avenues for household income generation. Furthermore, in the post-war context, with a return to the land which spatially demarcated caste structure and with rural social life absorbed in temples [22], caste relations are reconsolidating. This hardening of caste structure is shaped by dispossession, and if the process of indebtedness leads to the sale of land and houses owned by the oppressed castes, it will lead to further social exclusion and tremendous suffering. In Sri Lanka, colonialism, postcolonial capitalist regimes and the civil war had shaped social relations, and now in the post-war context neoliberal accumulation and dispossession are again redrawing and aggravating caste and class relations.[23+]

Notes

[1] This paper would not have been possible without the research assistance of Akalya Francis -Glaim and Thiagarajah Nirosh. Niyanthini Kadirgamar's support in designing the survey and processing the data was valuable. Cenan Pirani read a version of this draft and provided feedback.

[2] Due to the civil war, the population census was not conducted in the Northern and Eastern Provinces after 1981 until 2012. According to Census Data, Sri Lanka's total population in 2012 was 20,277,597. The population in the war affected Provinces, North is 1,060,023 and East is 1,547,377. The Jaffna District, one of five districts in the Northern Province has the majority of the population in that Province. The Jaffna District population is 583,071.

[3] Table 1 in the Appendix, shows the considerable fall in population in Jaffna from 1981 to 2012. Furthermore, between 1981 and 2012, while Sri Lanka's population grew from 14,846,274 to 20,277,597, but the population of Jaffna District fell from 734,474 to 583,071. That is over that period a positive population growth in Sri Lanka overall of 1%, in the Jaffna District there has been negative growth, that is of -0.74%. Source: Census and Statistics.

[4] Even in the decades to prior to the 1970s some of these changes were there: "For the past number of decades residential land in the peninsula has been expanding and this expansion has necessarily converted previously cultivated land into residential compounds." (Gunasinghe 1985, 209) However, as shown in Table 1 land

pressure due to demographic pressure is less. Thus the increasing conversion of cultivated land to residential land signifies in part the lack of potential for income in agriculture.

[5] See Appendix Chart 5 and Chart 6.

[6] See Appendix Chart 8.

[7] It is very rare for the Vella landowning caste to provide their lands for share cropping by the oppressed caste, in a monetized cash cropping arrangement where cash returns are also low. This is reflected in the low number of share cropping plots despite lack of land owned by the oppressed castes. See Appendix Chart 5 and Chart 6.

[8] Interview with Agriculture Department Official.

[9] In the Vanni districts where paddy cultivation has been high, the influx of expensive harvest machines has led to the displacement of labour during harvest season. Furthermore, those who have invested in harvest machines are also unlikely to make the returns unless there is major move towards consolidation into large paddy farms.

[10] See Appendix Chart 1.

[11] See Appendix Chart 4.

[12] The Bank of Ceylon Annual Report for 2012 states: "The Bank provides a variety of other loan schemes, such as short term "pawning" loans on personal property, loans for travel expenses, and loans for self-employed individuals and government workers. As of 31st December 2012, pawning loans & other loan schemes accounted for 44% of the retail banking loan portfolio of Bank amounting to LKR 136,962 million. Pawning loans are short-term loans that are fully secured by pledged gold coins and jewellery. Pawning loans are primarily utilised by farmers and individuals in rural areas for agricultural purposes." See BOC 2013.

[13] Such targeting of individuals for loans and allowing them to fend for themselves as opposed to negotiating defaulters concerns in a collective manner through farmers' organisations and co-operatives are reflective of neoliberal mechanisms of dispossession. There are two significant ways in which neoliberalism is transforming the countryside, first through indebtedness with neoliberal financialisation (Kadirgamar 2013c) and then through an emphasis on individual initiatives, where rural people are asked to fend for themselves through individual loans as well as self-employment schemes as opposed to working collectives in co-operatives or small industries. (Kadirgamar 2014a)

[14] See Appendix Chart 17. About 25% of those surveyed have got housing grants and most of them have far exceeded the grant in building the house and much of that was built through debt.

[15] See Appendix Chart 15. About 85% of the surveyed households have pawned their jewelry.

[16] See Appendix Char 16. Only about 20% of the surveyed households claim to have such informal loans from money lenders, friends and relatives.

[17] This point about the formal sector vs debt to money lenders is very different indebtedness in many part of rural India where the debt is mainly to local money lenders.

[18] See Appendix Chart 9.

[19] See Appendix Chart 11. Only about 12 of the 102 households surveyed get remittances from permanent migrants to the West.

[20] See Appendix Chart 12. Only about 25 of the 102 households surveyed are already getting remittances from migrant labour to the Middle East. The rate of out migration has been increasing during the post-war period.

[21] Part of my research relates to the issue of rural education and social exclusion. See Kadirgamar 2012.

[22] In Pathemany, as with all over Jaffna, temples continue to be the one institution in which capital is absorbed. In the context of temples being centered on caste, the post-war rebuilding of temples and the large amounts spent on temple festivals signify a hardening of caste structure.

[23] These issues of class and caste in post-war Jaffna will be addressed in another paper.

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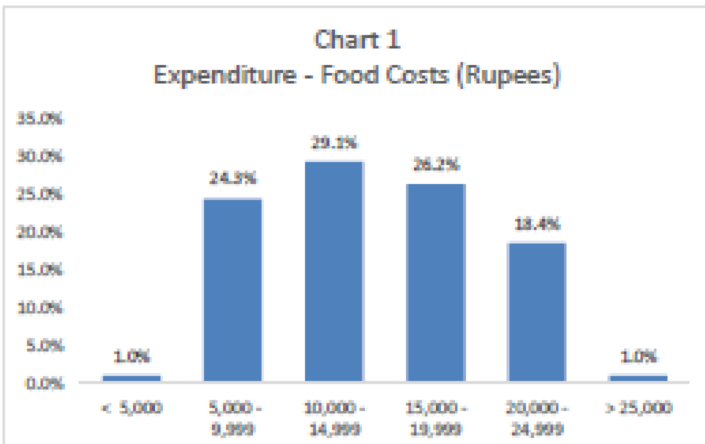
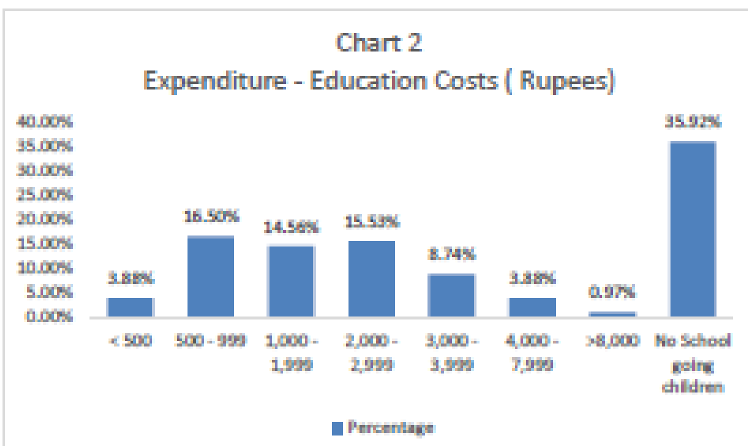
Appendix

Survey Data

The following charts are generated from a survey of 102 households in Pathemany village. This survey data reflects the responses of the households from the Bharathy Veethy side of Pathemany village, which also coincides with the oppressed caste quarters. This is in part because it was the lower castes households were more willing to participate in the survey. The survey was conducted between November 2013 and February 2014.

Analysis of household expenditures looked at in this survey were limited to three categories. Food costs are the main household expenditure. Next, education costs were looked to understand the increasing costs of education despite education being considered free in Sri Lanka. Finally, the cost of fuel and firewood is analysed to describe the monetisation of the economy.





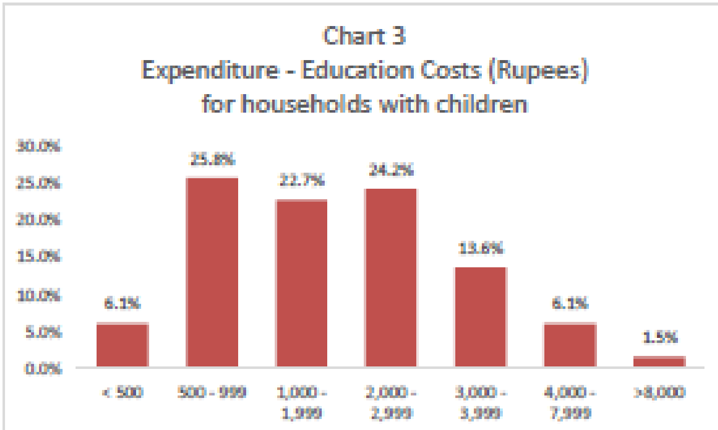


Chart 3
Expenditure - Education Costs (Rupees)
for households with children
30.0%
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
6.1%
25.8%
22.7%
24.2%
13.6%
6.1%
1.5%
< 500
500 - 999
1,000 - 1,999
2,000 - 2,999
3,000 - 3,999
4,000 - 7,999
>8,000

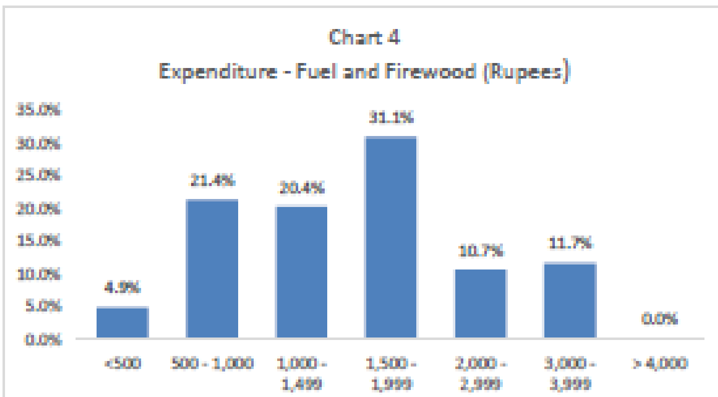
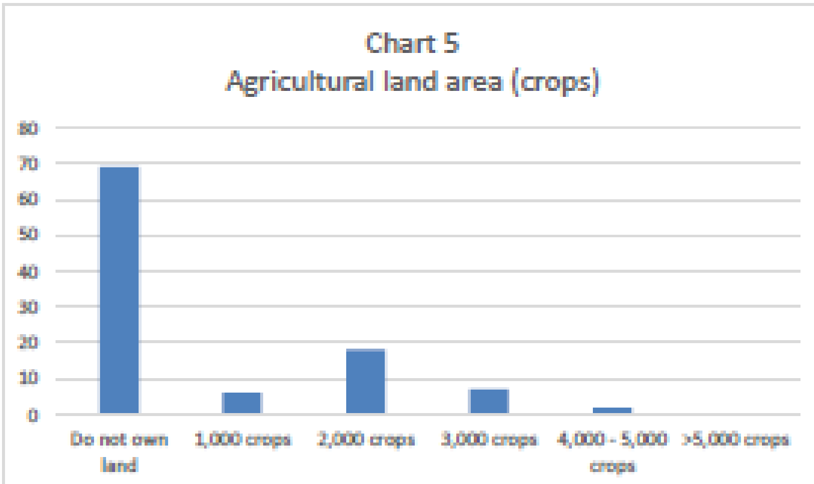
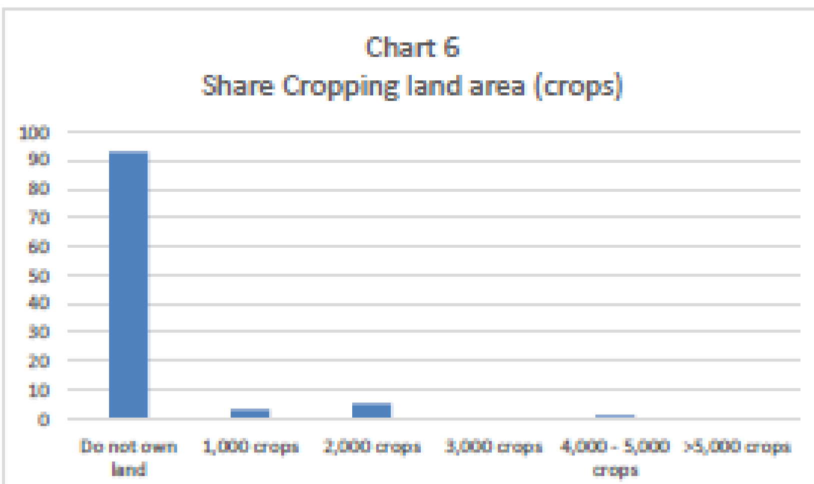


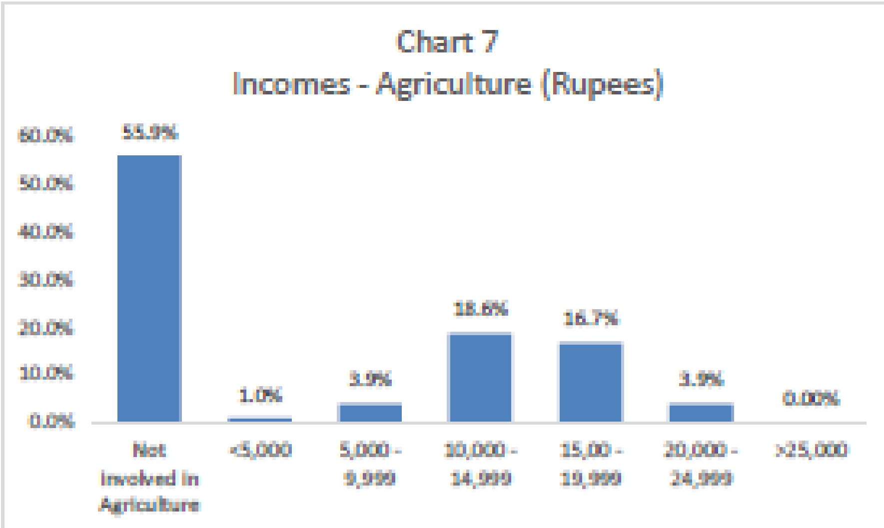
Chart 4
Expenditure - Fuel and Firewood (Rupees)
35.0%
30.0%
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
4.9%
21.4%
20.4%
31.1%
10.7%
11.7%
0.0%
<500
500 - 1,000
1,000 - 1,499
1,500 - 1,999
2,000 - 2,999
3,000 - 3,999
> 4,000

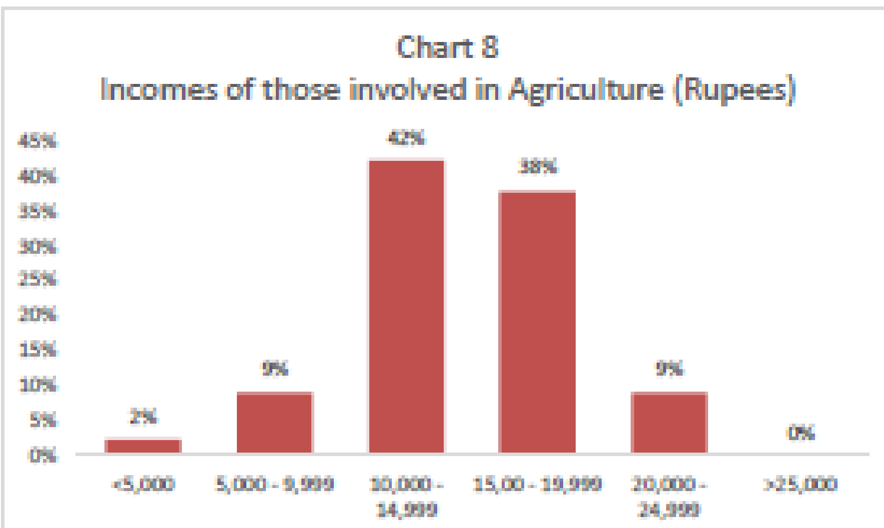
Agricultural land is an important asset in Jaffna and the plots are very small. However, given that this survey was mainly carried out in the oppressed caste quarters, there is only a limited number of plots and even smaller in size. In this context the extent of agricultural land ownership is considered here. Agricultural land for cash crops in Jaffna is measured by crops. The minimal plot is 1,000 crops. And 1,000 crops requires 3.5 lachams of land. One acre of highland is equal to 16 lachams.



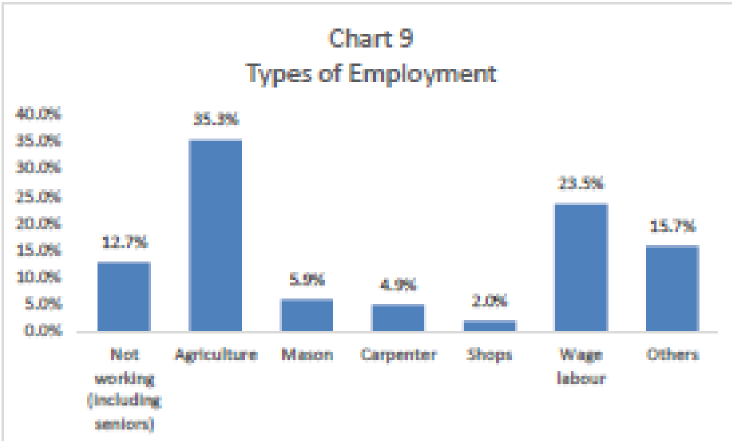


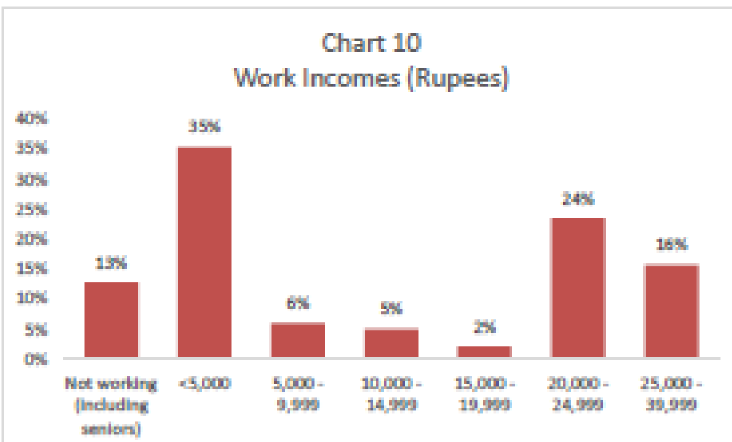
Incomes from agriculture refers to those who cultivate their own fields or are sharecropping. It does include wage labour.





When looking at types of work, masons do not account for entire section of the population involved in agriculture. Masons here refers to skilled masons only. Wage work can be both agricultural labour as well as wage labour going for construction. The category others can include those involved in construction such as road building.





Remittances from Western Countries are mainly from those members of the family who have permanently migrated to the West. Some of those migrants may have left a couple decades ago. Remittances from Middle-East refers to those more recent migrants who have gone there mainly to send remittances to support their families. In recent years there has been a drastic increase in migrant labour to the Middle East.

Chart 11
Remittances from Western Countries (Rupees)

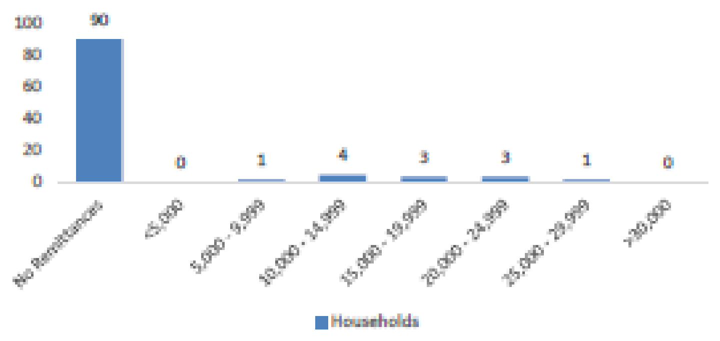
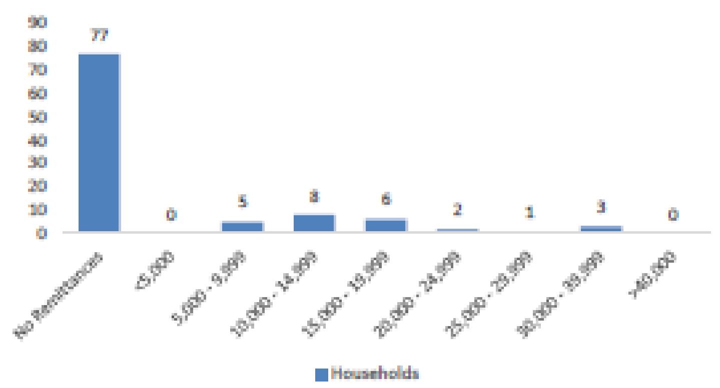
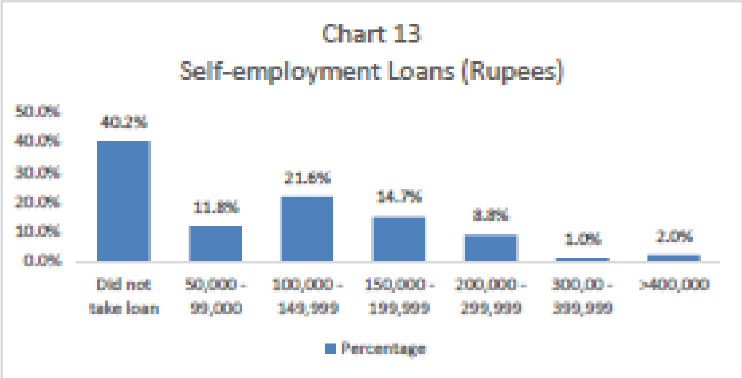
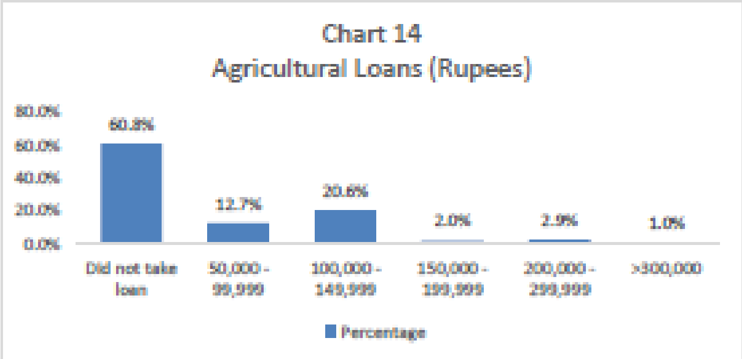


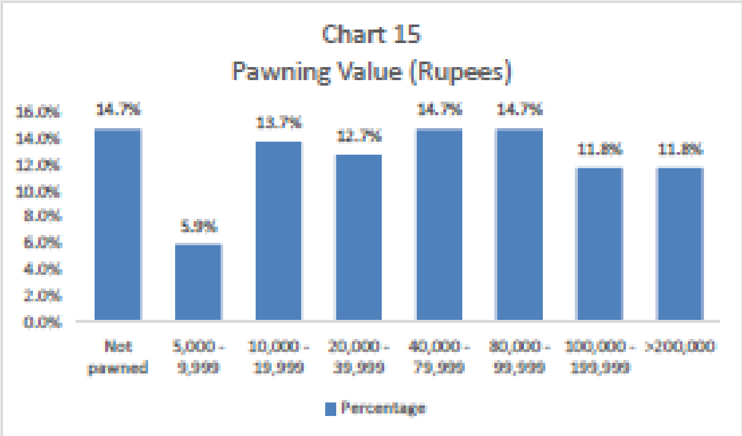
Chart 12
Remittances from Middle-East (Rupees)

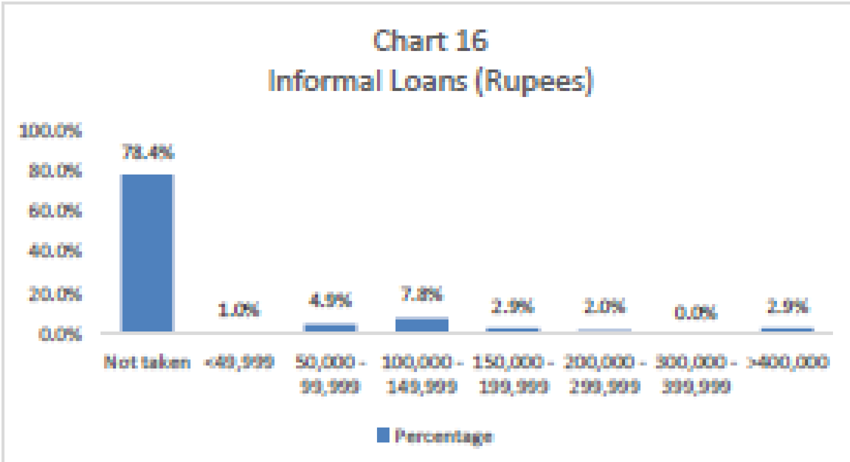


Self employment loans are the recent loan scheme by banks. Agricultural loans have been around from the 1970s and most of those who cultivate tend to take the agricultural loans. Informal loans can be loans from local money lenders, relatives and friends.









There have been a few housing grant schemes from the World Bank (Rs. 325,000), Indian Government (Rs. 550,000) etc. However, due to higher costs of house building than the grant, there has been the rise in indebtedness.

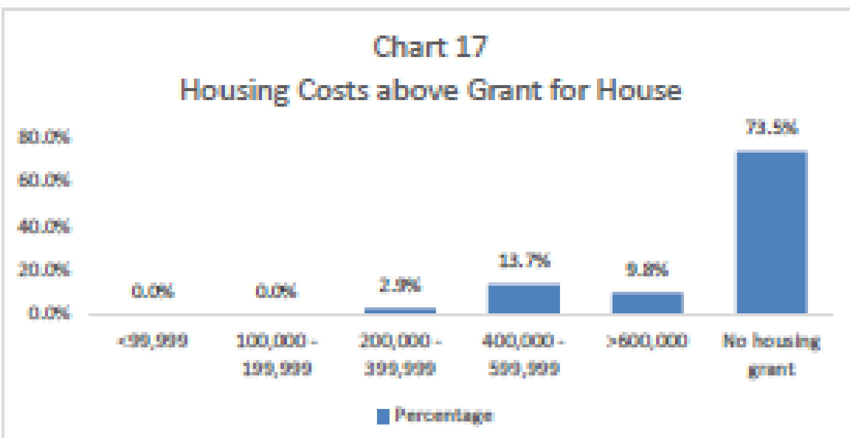


Table 1

Census of Population 1871 - 2012

Population in Thousands

Year	Male	Female	Total
1871	122.5	123.6	246.1
1881	131.5	134.1	265.6
1891	137.6	141.7	279.3
1901	149.2	151.7	300.9
1911	159.7	167.5	327.2
1921	161.6	169.0	330.6
1946	212.2	212.6	424.8
1953	246.4	245.5	491.9
1963	307.9	304.7	612.6
1971	349.9	351.7	701.6
1981	412.7	417.9	830.6
2012	275.5	307.8	583.4

Source: Statistical Hand Book 2013 Jaffna District, Page 58

The Politics of Bank Nationalization in India

Suhit K. Sen *

This paper deals with the nationalization of fourteen scheduled commercial banks in 1969 by the Congress government headed by Indira Gandhi and is part of a larger study of Indian political structures and processes in the years of her first stint as prime minister, between January 1966 and March 1977, ending with her party's post-emergency electoral loss in that year. This qualification has the important implication that the primary focus of the study is the politics that swirled around the issue of bank nationalization and its general outcomes rather than the technical aspects of the operations of the banks after nationalization.

The issue of bank nationalization had cropped up first in 1966 in the form of an election pledge. At an informal conclave of senior Congress party leaders following a Congress Working Committee (CWC) meeting soon after the Congress's serious reverses in the general elections – its majority in the Lok Sabha was reduced from 361 seats out of 494 to 283 out of 520, while it was voted out of power in seven states – the issue of bank nationalization was raised, alongside a raft of other 'socialist' issues such as the imposition of urban land ceilings and collective farming. It was a matter of some significance that the latter meeting was held to discuss economic issues so that the CWC would be aware of what the government was capable of implementing while passing its economic resolution. It was felt, in context, that the government was possibly not in a position to implement the issues mentioned above, though that did not prevent the demand for the nationalization of banks from being raised.[1]

The question of the nationalization of banks gained traction in the middle of May when the Hazari committee submitted its findings. The committee's remit included a study of the industrial licensing and the banking systems.[2] Among the recommendations made by the committee was the need for careful credit planning to reinforce priorities of national economic plans; and the need, too, for guidelines to apportion credit to different sectors of the economy against the backdrop of nation's overall needs, not just in the light of collateral offered. It had also said that the big industrial houses should finance their investments from their paid-up capital and not from loans, so that public funds were available to smaller firms.[3]

With the Hazari committee setting the ball rolling, sections of the political sector, most particularly in the Congress party, could not but run with it. Just a few days later, at a meeting of the CWC, the issue of nationalizing banks cropped up again. All present agreed that this election pledge had to be fulfilled, though, it appears, there was no clarity (or unanimity) on what exactly bank nationalization entailed, and what kind and degree of control would be exercised over the relevant banks. Thus opinions ranged from the idea that social control over banks would suffice, though what that entailed remained equally unclear – we shall have occasion to return to the distinction between

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the two later – to the idea that it meant greater powers of control for the Reserve Bank of India (RBI) for the good of the people.[4] It bears noting at this point that though there was no unanimity or clarity on how exactly banks should have been nationalized, there was a widespread feeling in the party (or at least its leadership) on the need for bank nationalization. In other words, it was not the contentious issue it was later to become.[5]

At a CWC meeting in early May, the demand for bringing banking institutions under control was raised again, along with the demands for nationalization of general insurance, a phased takeover the export-import trade and some other 'socialist' demands[6] that later became the stock-in-trade of the 'radicals' in the party against the purported conservative proclivities of the oligarchs of the party, especially the 'Syndicate'.[7] But at this time, most of these issues, as mentioned above, did not seem to raised many hackles among the party leaders, though it was reported that deputy prime minister and finance minister Morarji Desai disagreed with the demand raised by Atulya Ghosh, the boss of the West Bengal unit of the party and a Syndicate member, for the abolition of privy purses paid by the government to rulers of the princely states (or their descendants) that had acceded to the Indian at the time of independence.

Not very many days later it was reported that Desai had reacted swiftly to reconstitute the boards of directors of the RBI and the State Bank of India, nationalized in 1955, in reaction to ardent pro-nationalization Congress leaders' criticisms in respect of the presence of industrialists or their spokespersons on these boards.[8] A month or so later, he asked representatives of banks to reorient lending policies in six weeks as a step towards the social control of banks, defined, against outright nationalization, i.e. the expropriation by the state of the shareholders of the banks of their holdings, as the exercise of greater control over the policies of private scheduled commercial banks by the government. The two sides agreed that banks should be more sensitive to people's needs.[9] At an All-India Congress Committee (AICC) meeting on 23 June 1967, it passed a ten-point programme, which included the objective of imposition of social control over banks and rejected nationalization.[10]

But the contretemps facing the Congress party in the wake of the electoral debacle allied to the recommendations of the Hazari committee were forcing the government and the organization in a leftward direction, after what was perceived to be a rightward shift in the post-Nehru era both under Lal Bahadur Shastri and Mrs. Gandhi, culminating in the devaluation of the rupee, seen to be under pressure from what was to prove in later days a useful bogey – the United States. We shall not go into the involved politics surrounding the decision to devalue, nor its relative merits and demerits, except to note that it imparted to the byzantine internal politics of the Congress party a new dimension. The bickering and factional politics of the party, it is important to note here, created a divided high command, with oligarch pitted against oligarch, but also, crucially, widened the rift between the government and organizational wings of the party, epitomized by the virtual sundering of relations between the party president, K. Kamaraj, and the prime minister, Mrs. Gandhi. This in itself ratcheted up the problems of political survival with a reduced majority in parliament and the Congress party's defeat in seven states. This, not unsurprisingly, gave the rank and file and second- or third-tier leaders space not just to manoeuvre but also to exert pressure. This opportunity was gratefully accepted by the motley group of young 'radicals', connected to or members of the Congress Forum for Socialist Action (CFSA), some of whom came to be known as the Young Turks. Thus at an AICC meeting in New Delhi, men like Mohan Dharia, one of the leading Young Turks, and S.N. Mishra, deputy leader of the Congress Parliamentary Party and member of the CFSA, attacked the government for not implementing the party's programme, of which the nationalization of banks should have been, by their lights, an important part. But those taking part in aiming acerbic criticism at the government were not necessarily socialist; as noted, they constituted a motley crew of old socialists, those recently converted to socialism and the not-particularly socialists.[11]

In late August, it was reported that the union cabinet would discuss the social control of banking alongside a raft of proposals to control, wages, incomes and prices.[12] This, of course, was consequent to a Rajya Sabha debate in May 1967 on a non-official resolution tabled by Banka Behari Das, a Praja Socialist Party (PSP) member. The government accepted at the conclusion of the debate an amended resolution committing itself to measures, not excluding nationalization, to extend effective control over banking resolutions. Subsequently, after an examination of policies and practices, the policy of social control over banks was announced in parliament in December 1967.[13] We shall return to what the policy was at a later stage.

Despite this, and despite the fact that the proposal for immediate bank nationalization had been defeated at the New Delhi AICC mentioned above, the demand for nationalization, i.e. the acquisition of the banks remained an issue. It is noteworthy that it was the finance minister's rigid opposition to outright nationalization that blunted the demand, with the tacit support of the prime minister.[14] In October 1967, when the AICC met again in Jabalpur, Desai fended off a vigorous challenge calling for outright nationalization, again with Mrs. Gandhi's support. He had secured a majority some while ago in the Congress Parliamentary Party (CPP), whilst under attack from the Young Turks.[15]

In September, Lalit Narayan Mishra, later a union cabinet minister, had called for bank nationalization,[16] while a few days later the finance minister, Desai, while inviting foreign investment, said banks had to satisfy the credit needs of agriculture and small-scale industry.[17] The latter statement being in line with the finance minister's clearly and repeatedly stated opposition to complete nationalization.

The picture at the beginning of 1968 and through that year was fairly clear. Young Turks, socialists and assorted radicals were pushing for bank nationalization, but the party high command was fairly united behind Desai in opposing such a move for the time being, with the prime minister herself suggesting that the policy of social control should be given a chance for two years to deliver the desired results.

The following narration of events will I hope clearly show that the issue of nationalization of banks was a political instrument. The nationalization issue staged a comeback in the public domain with a pretty big explosion in 1969, however, as the internal divisions deepened in the Congress party, with Mrs. Gandhi's camp on one side and the Syndicate on the other. By the time the AICC convened for its annual session in Faridabad, one of her biographers notes, infighting in the Congress had intensified to the point that the Congress president, S. Nijalingappa, a member of the Syndicate, launched a blistering attack on Mrs. Gandhi, focusing on economic policies, especially public sector inefficiency. While the Young Turks tabled censure motions against Nijalingappa, which were ruled out of order by him, Mrs. Gandhi spiritedly defended herself, not knowing that at a meeting of a small committee of leaders, Desai had found himself hopelessly outnumbered.[18]

A newspaper also noted editorially that there was no point in passing a Congress Working Committee (CWC) resolution to deal with internal 'revolts' (in the context of strife-driven politics in Madhya Pradesh), nor would it succeed in achieving its aim when the top leadership – the notorious high command – was itself riven by divisions in outlook which caused mutual attempts at causing embarrassment. Thus, the editorial said, while dissenting opinions were necessary in the party, they should not be actuated by desire of a minority group to impose its will. The result was that political reverses had eroded its influence in the states and ability [or desire, my comment] to promote development and nurturing democracy.[19]

In the same issue of the paper, a commentator noted much the same thing but with greater prescience and at greater length. In the context of a crisis in the party caused by allegations made against the finance minister in parliament by Chandra Shekhar, a Young Turk MP, the details of which need not detain us at present, he commented that though it was tempting to see the incident and its fallout as discord and division at the top, the problem was more complex. The CWC, he argued, was united in its desire to exercise control over the government, but beyond this it was hopelessly divided, this being true both of leaders and followers. These divisions led to mutual mudslinging and attempts to pull the rug from under each other's feet. Low intrigue was resorted to in the belief that such behaviour wouldn't upset the applecart. Thus, while top leaders like Mrs. Gandhi, Morarji Desai and Y.B. Chavan, the union home minister, did enough to antagonize each other, their camp followers exacerbated matters. The followers could be disciplined but the initiative would have to come from the top – in other words, from Mrs. Gandhi herself. But Desai's reaction to the allegations made against him [he had threatened to resign] had put paid to this fond hope. Despite the CWC's pontifications on discipline, the commentator went on to say, the prospect of taking corrective measures was problematic, especially with the CPP in turmoil, reflecting the dire straits of the entire organization, headed ineffectively by Nijalingappa. The Congress party was on a downward slope and would not be able to arrest its descent. Then he said with prescience, that the CPP turmoil could reflect the thought of a parting of ways, which could be expedited by the high probability that there would be a coalition government at the Centre after the 1972 elections. Bearing this in mind factions could choose to split earlier rather than later to line up possible partners, with S.K. Patil, one of the party bosses who comprised the Syndicate, favouring a coalition with the Jana Sangh, Swatantra Party and PSP, and others favouring a left coalition under Mrs. Gandhi.[20] As we shall see, that is more or less what in fact hand before the year was out.

A couple of months after this piece was published, it was apparent that a serious clash was in the works over the presidential election, especially since in the interim, the AICC annual session at Faridabad had witnessed the clash between Nijalingappa and Mrs. Gandhi. All contentious issues had, however, been shelved, for consideration at later meetings of the AICC or the CWC scheduled to be held in Bangalore. A commentator pointed to the two wings within the Congress party, the organizational and parliamentary wings, and went on to say that with the possibility of hung parliament in 1972, Congress leaders like Kamaraj and Nijalingappa would plump for a presidential candidate steeped in the Congress tradition (whatever that meant). The Syndicate had already eliminated potential candidates like Gajendragadkar (a former Supreme Court judge) and Jayaprakash Narayan (or JP) who could have been acceptable to Mrs. Gandhi. In wanting a young, active candidate they had eliminated V.V. Giri, then vice-president, though he remained a possible candidate if the prime minister kept her options open. But, the commentator wrote, whatever happened, no one could take away the prime minister's right to stamp her imprimatur on the party candidate, in other words exercise a veto. As was her usual style, Mrs. Gandhi *was* keeping her options open until at least another round of eliminations. Unlike the earlier commentator, this one opined that within the Congress the choice of candidate could lead to jockeying for prestige and position but not a showdown. To anticipate the outcome, the commentator could not have been more grievously in error.[21]

The 'jockeying' referred to had begun by then, with groups within the Congress preparing tactical plans for the presidential poll in anticipation of scheduled meetings of the Congress Parliamentary Board (CPB) and CWC. One group had started a signature campaign for V.V. Giri, it was reported, while another felt that Neelam Sanjeeva Reddy, at that time Speaker of the Lok Sabha and a member of the Syndicate, was a "formidable" candidate.[22]

It was, perhaps coincidentally but probably not, that C. Subramaniam, a cabinet minister, a member of the CWC and a close aide of the prime minister, floated a proposal to nationalize five or six banks, though his reputation was quite the reverse of a socialist. Desai shot down the proposal saying it was pointless since the social control policy hadn't been given a proper chance.[23] These proved to be the first direct shots across the bows.

Meanwhile, it was reported that the choice of the presidential candidate could be postponed until a meeting of the AICC, scheduled to be held in Bangalore to resolve matters shelved at Faridabad. It was thought that making the choice in the prevailing climate of acrimony would not be wise. It was also reported that Mrs. Gandhi and Nijalingappa had had talks but had failed to resolve the problem. Various combinations and formulae were doing the rounds, including a joint Sanjeeva Reddy-Giri ticket.[24]

Prior to the Bangalore AICC session, it was reported that there would be a bitter wrangle over bank nationalization. The Young Turk Chandra Shekhar, had circulated a document on economic policy insisting on the inclusion of bank nationalization in the party programme,[25] while the party president had circulated to the CWC (meeting on the eve of the AICC session) an official draft (prepared ironically by Subramaniam) that did not mention nationalization, but said the social control policy should be given a chance.[26]

What happened next has been copiously documented. Mrs. Gandhi postponed her trip to Bangalore by a day, thus being unable to attend the CWC meeting. But her cabinet colleague Fakhruddin Ali Ahmed tabled at the CWC session a note by her (later coming to be known as 'stray thoughts') on agricultural, financial and industrial issues, which incorporated a number of policies and programmes mooted in Chandra Shekhar's note, including the nationalization of financial institutions. Desai reportedly reacted saying this would shake confidence in the banking system since the social control policy announced in Parliament in December 1967 had been embodied in legislation in January 1969.[27] Three strands were intertwining themselves: the growing schism within the party, the issue of bank nationalization and the contention over the Congress party's presidential candidate.

The next day, at the AICC session, only Desai opposed bank nationalization; others either supported it or were noncommittal, amongst the latter Mrs. Gandhi, who left herself elbow room for the two options of outright nationalization or tighter control by government. Mrs. Gandhi's note meant that the economic policy resolution prepared by Subramaniam would have to be enlarged or modified given that the ten-point programme adopted by the Congress at Delhi in May 1967 had favoured social control over nationalization, which did not figure in the resolution. It had been assumed that the Delhi decision had settled the issue. As for the details of the 'stray thought' note, it closely followed Chandra Shekhar's, in passages verbatim; as far as nationalization of banks went, however, she followed Subramaniam's formula referred to above, which envisaged nationalizing five or six banks or forcing scheduled commercial banks to buy more government securities to the tune of Rs 250 crore, and retiring industrialist chairpersons of private banks' boards of directors.[28]

But by the end of the AICC session, the Congress high command had once again displayed its talent for papering over internal differences. The resolution piloted by Chavan but moved by Desai dropped reference to nationalization in favour of tighter social control; it also dropped at Desai's insistence a clause providing for an implementation report at the next AICC session, dropping the stipulation of 'next session'. Chandra Shekhar kept up the pressure with a petition in favour of nationalization signed by 146 members. The radicals were happy since further discussions on the subject would have to factor in Mrs. Gandhi's note; the prime minister was happy at catching the bosses off guard and deflecting attention from the presidential elections; and Desai was happy that his position remained the stated policy of the party and, by inference, the government.[29]

It was reported the next day that with regard to the economic policy resolution, Desai had iterated his position that the social control policy was only six months old and expressed reservations about Mrs. Gandhi's note, adding it held no surprises. He also said that banks could be asked to increase investment in government securities to the extent of 5 per cent and that the newly formed National Credit Council, which was to play a major role in implementing the social control policy, would discuss the matter. The finance minister also defended the role of industrialists as chairpersons of boards of directors of private banks, arguing they were not influenced by the private sector, though he admitted that the government would have to be alert to the possibility. But the paper with which differences were papered over proved to be very thin. Chavan, speaking after Desai, said with reference to nationalization that the direction had been set and could not be reversed.[30] At the end, the economic policy resolution was passed in its original form, with Desai saying unity was needed and that there was no rift between him and Chavan though differences could remain.[31] The high command called upon the central and state governments to act on Mrs. Gandhi's note.

I have already pointed out that the issue of bank nationalization was inextricably linked to that of the Congress party's presidential candidate and the politics surrounding it. In an amazing display of simultaneity, the CPB announced on the same day that it had nominated Sanjeeva Reddy by a division of four votes to two. Kamaraj, Patil, Desai and Chavan had voted for him; Indira Gandhi had proposed the name of Jagjivan Ram as a unity candidate; he and Nijalingappa abstained from voting, while Ali Ahmed voted with Mrs. Gandhi for her candidate. But this was just the beginning of a new round in a battle of attrition, some elements of which pertain to the issue of nationalization, which we will presently relate. But it needs to be said at this point that the bosses made their move not without apprehension, which is why they held back the announcement and asked Nijalingappa to talk to Mrs. Gandhi before it was announced. If these steps were intended to soften the blow, they failed. It was reported that when the prime minister left the CPB meeting she was supposed to have said that those who had foisted a candidate would have to "face the consequences".[32]

The shenanigans over the presidential candidature had two consequences, to anticipate the climax. The one that need not detain us was the split in the Congress following the result of the electoral contest, for Giri entered the fray and defeated the official Congress candidate.[33] He could not be faulted given that the Congress bosses had taken the literally unprecedented step of not seeking to elevate the vice-president to the presidential post. The other, which concerns us directly, was, to put it bluntly, the nationalization of the fourteen large scheduled banks, sparing a few small banks and the branches of foreign banks. These two stories cannot, to be sure, easily separated, mainly because the events that led to the nationalization of banks also led, eventually, to the split in the Congress via the outcome of the presidential elections. But the two stories have to be told separately to keep the focus attention on the bank nationalization and because of the overall design of the project of which this paper is just one part.

Within days, reports surfaced that a bill would be prepared on the basis of the prime minister's note to force cabinet colleagues to support measures approved by the CWC and AICC, even if they were not all part of formal resolutions.[34] The very next day Mrs. Gandhi divested Desai of his finance portfolio. Desai quit, calling it retaliation against the CPB vote. Explaining her action, Mrs. Gandhi wrote a letter to Desai saying that given the party mandate, she wouldn't like to burden him with the implementation of economic policy he did not agree with. What followed were efforts at managing what appeared to be a definitive crisis, with Desai refusing to withdraw his resignation despite a second letter from the prime minister.[35]

Without too much of a fuss, Mrs. Gandhi promulgated an ordinance nationalizing fourteen major banks.[36] The cabinet showed it the green light unanimously. The banks were estimated to have deposits totalling Rs 2,000 crore. At the end of June their outstanding credit was Rs 3,536 crore. Under the ordinance, each bank would be an individual corporate entity managed by government appointees, to which end, the existing boards of directors would be dissolved and advisory boards would take over; continuity of banking services would be maintained, however. A banking commission, already formed in January, would look into necessary structural change.[37] Profits, it was later said, would be transferred to the government by each individual entity.[38] I shall return to the objectives of bank nationalization, the need for it, if any, and the question of how bank nationalization played out, once I have pursued further the politics surrounding the issue and, briefly, how it survived legal hurdles to become law.

The ordinance was challenged in the Supreme Court, which stayed some of the provisions of the Banking Companies (Acquisition and Undertakings) Ordinance: it prevented the government from removing chairpersons, who had consequent upon the promulgation of the ordinance been designated custodians; and the provisions relating to compensation. The prime minister told the Rajya Sabha that till the disposal of the petition challenging the ordinance, the RBI would continue to advise the banks in accordance with the existing Banking Laws (Amendment) Act of 1968.[39] A bank nationalization bill was subsequently moved in parliament; amendments for referral to a joint select committee and the inclusion of foreign banks within the ambit of the bill were defeated.[40] The bill which was eventually passed by parliament was voided by the Supreme Court. It was reported that the finance ministry had ready emergency plans if some clauses were struck down, but was wrongfooted by the sweep of the verdict.[41] An anomalous situation was created with government already in possession of the banks' assets. Two options were reviewed: an appeal for a stay to introduce fresh legislation; or introduction of another ordinance. Amidst the debacle, the government could take heart from the court's view that parliament had upheld the right of legislation to nationalize, though it had voided the particular act on a number of grounds, chief among which was that the government had been guilty of 'hostile discrimination' in banning the nationalized banks from engaging in any businesses and on the issue of compensation.[42]

There were confabulations between Mrs. Gandhi, senior colleagues, officials and experts; the conclusion arrived at was that the entire banking industry need not be nationalized, though political pressure to do so would most likely build up, to meet the 'hostile discrimination' objection, the removal of a clause barring the erstwhile banking companies from carrying out non-banking businesses would suffice; and, it was felt, compensation was the real issue. There was some palaver as well on whether to take the ordinance route, the law ministry's preference, or draft fresh legislation, the finance ministry's preference.[43] Finally, the ordinance route was favoured and an ordinance passed to meet the Supreme Court's strictures as regards compensation, which was generous with provisions being made for payment in cash or in securities or a combination of the two, and ban on carrying out non-banking businesses, which was lifted.[44] The government got leave to introduce fresh legislation, which was eventually passed, bringing the judicial saga to an end.[45]

In the period of time that elapsed between the first ordinance and the passage of the final bill, bank nationalization became the focus of intense politics. Let me begin with an editorial comment because it will help us shift our focus back on the politics of bank nationalization and subsequently the substance of the policy.

The Statesman had assailed the bill on the standard line that it was an iniquitous attack on property immediately after nationalization.[46] But in a later editorial it made interesting and connected points about bank nationalization. First, it said, the measure was hasty and legislation badly drafted and unlike the takeover of the Imperial Bank, which became the State Bank of India after nationalization, not preceded by proper groundwork, and pointed out that even the supporters of the bill had been in favour of referring it to a joint select committee. In fact, it pointed out with some justification, that even days before the promulgation there was no indication of how many banks would be taken over, citing Subramaniam's proposal, repeated by Mrs. Gandhi, that five or six banks would be taken over. Second, it cast doubts about the prime minister's statement that 95 per cent of people supported the bill, referring to what it called the orchestrated rallies outside her residence in favour of the bill after the original ordinance had been promulgated. Third, it asked somewhat rhetorically that if the measure was non-partisan why had it not been brought in earlier and why had the government experimented with social control.[47] In essence, the editorial was saying that this was a partisan measure used by the prime minister in her battle with the party bosses, casting doubts about its relevance to the people and saying it was unnecessary.[48] In fact the last point was explicitly made elsewhere as well, where it was argued that only 45 per cent of the banking business would be affected – the SBI and its subsidiaries accounting for 30 per cent and it was the small banks, which had been exempted, that served the small customers 20 per cent. (There is a 5 per cent deficit in the arithmetic, which we can assume was in the hands of foreign bank branches.)[49]

The first point made is fair. As our brief tour of legal hurdles has shown, the first set of ordinance and bill was drafted badly and passed in haste. It was, for instance, also reported that the first, voided act was put up for the law minister, Govinda Menon, so late that he couldn't study it properly but nevertheless gave it his imprimatur.

This does suggest that the law was introduced hastily for political gains, as the editorial comment suggests. But it does not logically, or factually, in any way imply that the kind of popular support for nationalization that Mrs. Gandhi claimed for it did not exist and that rallies had to be 'orchestrated' to manufacture support. On the contrary, it does suggest that popular support did exist for the policy measure, which is why Mrs. Gandhi banked on it to give her the upper hand in the battle for control over the party.[50] Factually, it was clear that no major party opposed the move, except the Swatantra Party. The left and communist parties, and some in the Congress party, in fact wanted the measure to be more radical and include in its ambit the entire banking establishment, including foreign banks, and many, both in the ruling party and outside, felt that the compensation was too generous.[51]

M.R. Masani of the Swatantra Party and A.B. Vajpayee of the Jana Sangh had attacked the first bill when it was introduced.[52] Later the Jana Sangh merely asked for its referral to a joint select committee.[53] But the most revealing political position on bank nationalization was that of the Congress (O), the Syndicate wing of the by then split Congress. It was probably par for the course for Kamaraj to call for follow-up action on nationalization, since he had always favoured the move.[54] But it was not just Kamaraj. The parliamentary party of the Congress (O), CPP(O), had officially decided to demand nationalization of foreign banks, after the nationalization move. Though details of the meeting were not divulged, it was reported that Desai was party to the decision. It also decided to move amendments along such lines to the new banking bill. Asoka Mehta, once one of Mrs. Gandhi's inner circle, told the CPP(O) that to navigate the objections of the Supreme Court all banks with deposits of Rs 50 lakh and above, or those which could reach that mark, would have to be nationalized. Nijalingappa was also quick to point out that the policy to nationalize banks was that of the undivided Congress, Mrs. Gandhi was trying to make political capital out of the measure.[55] In a war of letters, preparatory to the great split, he had also accused Mrs. Gandhi of taking personal credit for bank nationalization.[56] Even second-tier leaders Tarakeshwari Sinha and Sucheta Kripalani had written to Mrs. Gandhi seeking nationalization of foreign banks, while Sharda Mukherjee had demanded in the Lok Sabha debate that the bill be referred to a joint select committee.[57]

What I am trying to show here is that bank nationalization was an intensely political and probably emotive affair. If Mrs. Gandhi used it as a political instrument in a political battle to achieve her ends, her immediate opponents spared no effort at denying her this success and trying to steal her thunder, while political parties in the visitors' seats pushed their own rhetorical, political and opportunistic agenda as well.

But whether bank nationalization was used as a political instrument or not surely has no bearing on the merits of the case. An unnecessary and retrograde measure could be completely non-controversial and unanimous, while a necessary and progressive measure could well be a partisan political instrument. The question is that whether in the context of the times bank nationalization was necessary and if it was, did the implementation of the measure in the immediate years following its promulgation achieve its objectives, stated or otherwise.

In her broadcast to the nation on 19 July 1969, the day the fourteen banks were nationalized, Mrs. Gandhi explained that the measure was supposed to accelerate the objectives of social control: removal of control by a few; provision of credit to agriculture, small-scale industry (SSI) and exports (which came to be known as the priority sectors); professionalizing management; encouragement of a new class of entrepreneurs; and provision of adequate training and terms of service to bank staff. Later, in parliament, she emphasized the role of nationalized banks in fostering growth. These were the broad parameters; in operational terms nationalization envisaged a massive programme of branch expansion into unbanked areas to mobilize deposits and the diversification of bank credit to serve the needs of hitherto neglected sectors of the economy.[58]

One of the major achievements claimed for nationalization was a rapid expansion of branches – the number of people served on average per branch going down from 69,000 on 19 July 1969 to 26,000 in June 1976. There was geographical spread as well, with the number of districts with a population-to-branch ratio of over 100,000 going down from 156 at the end of June to nineteen at the end of December 1975. Inter-regional disparities did not change substantially, however, with most of the change happening in the first two years after nationalization. Looking at the performance of the nationalized banks from the point of view of not just the opening of rural branches, no significant difference can be noted. For instance, between June 1969 to June 1975, only new rural branches accounted for a substantial increase in terms of both deposits and credit (60.60 per cent and 58.90 per cent), while in semi-urban, urban and metropolitan areas the figures ranged from 20 per cent to 28 per cent. More significant was the fact that the share of rural branches in total deposits and credit in this period was a mere 11.50 per cent and 8.40 per cent. Interesting, too, was the fact that in rural and semi-urban areas the share of agriculture and allied activities in total advances in June 1973 was just 28.70 per cent, while industry and trade accounted for 50 per cent. The study of banking policy already cited also found that the licensing policy followed by the RBI was just a little too hands-off, leaving wide powers of discretion to individual banks in choosing locations for new branches. Though immediately after nationalization the RBI issued a circular specifying the number of unbanked areas in which the newly nationalized would have to open branches, indicating a bankwise distribution, it issued another circular in February 1970 stipulating a ratio for opening new branches in metropolitan/urban areas, on the one hand, and rural/semi-urban areas on the other, which inevitably brought the idea of the profitability into operation. A combination of these two meant ultimately that the banking system had neither the incentive nor direction to meet the overall developmental needs of the country, especially with regard to addressing the problem of regional imbalances and rural backwardness.[59]

Another positive feature has been noted: provision of credit to the priority sectors. D.N. Ghosh notes a sharp increase: in June 1969, public sector banks had borrowal accounts of Rs 2.6 lakh, rising to Rs 47.22 lakh in June 1976; in the same period the quantum of lending rose to Rs 441 crore to Rs 2,527 crore. The percentage of lending to the priority sectors rose in the same period from 14.90 per cent to 25.50 per cent. Within the priority sector, the most striking increase was in agriculture in which the share of direct finance (loans given to the end-user rather than to providers of inputs and services, state electricity boards for example) rose from 9.11 per cent to 28.73 per cent. The increase in direct finance as compared to indirect finance has been noted, alongside the provision of finance largely to better-off farmers. The thrust was to provide loans for infrastructure development in the form of minor irrigation projects, installation of pumpsets and so on. Of term loans provided, 62.30 per cent went to those with holdings above 10 acres and 20.8 per cent to those with 5-10 acres. This pattern – of providing credit to large and medium farmers – persisted despite RBI guidelines exhorting the nationalized banks to provide credit to small and potentially viable farmers, without any specific direction.[60]

Further, Ghosh notes, there was a clear sectoral redeployment of credit (evident despite some problems of classification) between June 1968 and June 1976. Large and medium industry found their combined share dropping from 60.60 per cent to 37.99 per cent (though this statistic is rendered somewhat suspect because of classification issues); SSI found its share up from 6.9 per cent to 11.00 per cent (after peaking at 12.1 per cent in June 1972); agriculture went up from 2.2 per cent to 10.40 per cent, though the direct finance component within it went up from 4.00 per cent to 5.6 per cent.[61]

Finally, for my purposes, Ghosh notes the RBI's failures in respect of monitoring lending to prevent misuse od credit – commonly, for instance, the use of production loans to build inventories and stocks; he also notes that despite repeated attempts, the central bank failed to curb credit expansion to curb inflationary trends, but attributed that largely to government borrowing, both centre and state, the borrowings by public sector undertakings and entities like state electricity boards and loans for food procurement; in short to government passing expenditures previously met through budgetary resources on to the banking system.[62]

If Ghosh was a kind critic of government policy following nationalization there were unkind ones around as well. And the columns of the *Economic and Political Weekly* gave them hospitable space. Thus, no sooner had the nationalization measure gone through, a correspondent enthused about its possibilities, urged integration of the banking system with the planning process, gave more general advice such as the need for a credit policy, but warned that business as usual would scupper the promise: changes in top personnel, lending policy was necessary; the present boards of the SBI and RBI, the correspondent warned, should not continue in present shape to let management continue in old style.[63] In much the same vein of enthusiasm and exhortation, a correspondent warned that since the majority of credit would continue to go to big industry in the near future, credit policy would have to be calibrated against the underlying approach to the monopolies bill then being considered and licensing policy reform. It said credit must be treated as a scarce commodity and rates of interest had to reflect that scarcity.[64]

In page after page, issue after issue, correspondents urged one fundamental point: that the derailed planning process had to be restored and within that process a bold, holistic credit policy had to be inscribed to bring out precisely those changes in the Indian economy that Mrs. Gandhi had promised in her post-nationalization broadcast. As the enthusiasm dimmed, the criticism of the government, the RBI and the nationalized banks started becoming strident and metronomic.

But in the early days, the tone was optimistic. Knowledgeable sources, a report said, had it that it should be possible "to stretch itself adequately" to open 4,000 new branches in three years in underbanked regions of Uttar Pradesh, Bihar, Madhya Pradesh, Orissa, Assam and Jammu and Kashmir.[65] A report in a national daily, however, put out a much more cautious report: that an RBI committee had envisaged a two-phase plan for underbanked areas: some with 10,000-plus population to be banked by March 1970 and 197 towns with population less than 10,000 in Assam, Bihar, Jammu and Kashmir, Madhya Pradesh, Orissa, Uttar Pradesh and West Bengal by end-1970.[66]

Mrs. Gandhi appeared to mean business when she told the custodians of the nationalized banks, within the stipulations of the Supreme Court order, to open branches, mobilize deposits and devise credit arrangements through personal investments. She also told them they would get treasury business and public sector accounts, which till then had been SBI's sole preserve and warned them that she had come to hear that some bankers came under extraneous pressures "traceable to links with big business".[67]

At a session of the All-India Congress (R) Committee, a note to the committee said loans to agriculture had risen from Rs 162 crore Rs 250 crore (time period not specified) and 350,000 farmers had been covered. The report on the event pointed out that this could also have been achieved under the social control regime; in fact, it went on to say, it was likely that the momentum created in that period was responsible. It also said that banks were showing little initiative in reaching out to agriculturists, small industrialists and exporters – what had transpired till then did not amount to a policy, especially since there was no clarity on which segments of agriculturists were to be covered or what the impact would be on production or traditional suppliers of credit.[68]

The first anniversary of bank nationalization, when the banks' custodians met, passed without fanfare. A commentator said it had done so with good reason; deposit mobilization had slowed down. The writer also noted that the ratio of currency to monetary resources had gone up in a year of unprecedented growth of bank branches and this needed to be inquired into. Conceding the point that most of these branches had been opened in areas with low deposit potential, the columnist pointed out that even in farm-surplus areas deposit mobilization had not taken off, as in Punjab, even though procurement had put money into farmers' hands.[69] But on an optimistic note, another report said 1,067 branches had been opened in the first nine months after nationalization, of which 628 were in unbanked areas.[70]

By the middle of 1971, after the Congress (R) – the Mrs. Gandhi faction – won an unprecedented majority in the Lok Sabha, a coherent credit policy had since not been worked out nor fundamental conceptual issues cleared, though two years had passed since the bank nationalization move had been announced. The debate over differential rates of interest made that quite obvious. The report of a committee set up by the RBI had recommended that weaker sections and the priority sector be provided loans at a rate of interest lower than the usual. This finally sparked off a debate, with some commentators pointing out that the rate of interest was not the real issue; the real issue was the availability of credit, given the fact that the bulk of credit available especially in rural areas was from moneylenders, which commanded a much higher rate of interest than any institutional credit anyway. Such were the issues that led critics to berate the government on its failure to implement the bank nationalization policy in any meaningful way.[71]

But an official press note struck an obviously optimistic note: deposits up 17.6 per cent in June 1970-May 1971 as against 15.3 per cent June 1969-May 1970; 2,934 branches opened between 19 July 1969 and 30 April 1971; advances to 'neglected sector' rose faster in comparison to other banks, thus while the nationalized banks' contribution had been 14.50 per cent in June 1969 and 21.20 per cent in June 1970, it constituted 22.8 per cent in March 1971. The riposte to this note was: So what? Private banks' deposits had grown in the same period by 16.7 per cent; as far as new branches went, while the numbers opened had been 1,658 between July 1969 and June 1970, between July 1970 and April 1971 1,276 branches had been opened, with the monthly average down from 138 to 128. Excluding the SBI group, the figures were 99 and 80. Advances had gone down to Rs 15.20 crore between July 1970 and March 1971 from Rs 26.90 crore between July 1969 and June 1970. The statistical war was, however, a sideshow. The point of the riposte was that the nationalized banks seemed to be adrift, functioning without an overall plan. A further suggestion was that with the enthusiasm of the early months ebbing, the policy of bank nationalization was running aground.[72]

Let me shift gears a little and fast forward to 1974. The burden of criticism in the early 1970s was that the government and RBI were not moving fast enough to formulate a coherent credit policy, to bring it into line with development goals, and the planning and budgetary process; in other words, it was in the realms of broader ideological and political issues. By the mid-1970s, these were not the main issues anymore. Expectations amongst the intelligentsia had evaporated. Now the criticism had more to do with technical issues: the nitty-gritty of credit-control mechanisms; persistent criticism of the RBI for sticking to failed formulae; the details of monetary policy as it related to seasonal credit expansion, not adequately compensated by contraction; and other minutiae. To this was added what seems suspiciously valid, if somewhat trenchant, criticism of the RBI (and, at least, by implication of the government) for not being able to force banks to direct credit to the priority sectors and colluding with large corporate houses, the substantial traders and peasants in misusing credit obtained for productive purposes to indulge in hoarding, stock-building, profiteering and related criminal activity, especially in periods of shortages and spiralling prices.[73]

Six years or so after the bank nationalization law was passed, the eminent economist Bhabatosh Datta took a look at what it had achieved. First, he noted, the former owners were happy; they had not only been generously compensated, but since the compensation had been paid to the companies rather than individuals it could be used for new ventures. Moreover, the former owning groups found their influence with their old banks undiminished and no serious change in operations.

But it would be wrong, Datta argued, to say that no improvements had been made in the directions desired: deposits of public sector banks (including the SBI) had risen from Rs 3,897 crore at the end of 1958-69 to Rs 9,936 crore at the end of 1974-75 and thence to Rs 11,500 crore at the end of January 1976. The number of branches had increased from 6,595 at the end of June 1969 to 15,077 at the end of June 1975. Advances, too, had risen from Rs 2,783 crore in July 1969 to Rs 6,466 crore in December 1974; advances to the agriculture sector had risen from Rs 162 crore to Rs 706 crore, of which Rs 478 crore was in the form of direct finance. Advances to the priority sectors combined rose from Rs 645 crore to Rs 2,509 crore.

But, Datta showed, deposits of private scheduled banks rose 4.23 times in comparison to the 2.55 times achieved by the nationalized banks in six years; the SBI's branches multiplied 2.21 times, those of its subsidiaries 1.95 times, those of the fourteen nationalized banks 2.29 times and those of the private scheduled banks 2.56 times. It could be argued, Datta went on, that the figures flattered the smaller private banks because they began from a low base, but the fact that their deposits rose from Rs 441 crore to Rs 1,869 crores and number of branches from 1,320 to 3,385 didn't speak highly of the brave new world of nationalized banking. Moreover, if the performance of private banks was a matter of a deliberate licensing policy, it didn't explain why, consistent with the objectives of nationalization in the first place, nationalized banks were not given priority; the logical policy would have been to bring all possible bankable assets under government control. As for rural branches, the figures, themselves not impressive, were rigged since most branches labelled rural were actually urban or suburban. Moreover, Datta added, it was not just a question of number of branches; at the end of June 1974 rural branches accounted for 7.8 per cent of deposits and 5.3 per cent of advances.

Datta concluded by damning the Lead Bank Scheme, the centerpiece of nationalized banking, with no praise, calling it a chaotic failure, not inconsiderably because of unhealthy oligopolistic competition via interest rate wars and competition for deposits.[74]

This brief review of some of the outcomes of the nationalization of fourteen banks leaves us with some propositions: first, though a programme of branch expansion had been successfully undertaken, its early momentum was lost after a couple of years, especially with regard to concentrating on unbanked or underbanked areas; second, there was some success in deposit mobilization; third, redirection of credit to the priority sectors was not conspicuously successful up until the mid-1970s, though some re-allocation had happened; fourth, the success in channelling credit to the agrarian sector was vitiated, in terms of stated objectives, by the fact that credit was almost completely monopolized by the rich peasantry, which was not altogether surprising since the first few years of bank nationalization coincided with the new agricultural strategy or green revolution and the political economy of the agrarian sector; fifth, though large industry's share of the credit pie was somewhat reduced the feeble attempts made by the RBI to impose credit-control measures could not prevent its ability, and the ability of big commercial players and rich agrarian interests, to circumvent these measures to direct credit received to purposes other than those stipulated; such credit was often, in fact, diverted to fund unlawful activities like hoarding and stockpiling scarce commodities in times of shortages and price rise, exacerbating the endemic economic crises of the time; and, finally, massive year-on-year credit expansion became difficult to control to a significant extent because of government borrowings, both at the centre and in the states, and the demands for credit made of the nationalized banks for purposes such as running public utilities like state electricity boards, transport corporations, and procuring foodgrains, earlier funded by the government itself through budgetary support or other means.

So the big gainers from bank nationalization were the rich peasants and government, while credit support for big business and industry was not compromised. The weaker sections and 'small' people had once again been given short shrift.

Notes

1 *The Statesman*, 8 May 1967.

2 The Hazari report became something of a cause célèbre. Towards the end of May, a radical Congress MP accused some ministers of being in the pay of the Birlas at a stormy meeting of the Congress Parliamentary Party. The impugned ministers were K.C. Pant and Satya Narain Sinha, with the former defending himself, arguing that he had been a Birla employee before becoming a minister, and the latter admitting two being a member of two Birla trusts. The opposition pressed for an inquiry, which was acceded to, but after having dragged on for over two years the issue was shelved. *The Statesman,* 27/29/30/31 May 1967; 1/2 June 1967.

3 *The Statesman*, 16 September 1967.

4 *The Statesman*, 12 May 1967.

5 Not unexpectedly, the communist parties were also pushing for bank nationalization. In August they were formulating a two-pronged approach: press for bank nationalization in parliament and mobilize support for a strike outside.

6 *The Statesman*, 13 May 1967.

[7] The 'Syndicate' was a group of state party bosses, including some chief ministers, who gained control over the Congress organization some time before Jawaharlal Nehru's death. There was some amorphousness about the group, but those definitely in it were K. Kamaraj of Madras, S. Nijalingappa of Mysore, Neelam Sanjeeva Reddy of Andhra Pradesh, S.K. Patil of Maharashtra and Atulya Ghosh of West Bengal. The first three had at various points of time been chief ministers.
[8] *The Statesman*, 17 May 1967.
[9] *The Statesman*, 19 June 1967.
[10] Francine R. Frankel, *India's Political Economy, 1947-77: The Gradual Revolution*, Delhi, 1978, pp. 397-98.
[11] *Economic and Political Weekly* (henceforth *EPW*), 'Not a Simple Revolt', Vol. 2, No. 26, July 1, 1967, pp. 1151-52; and 'Revolt in the AICC', *EPW*, Vol. 2, No. 26, July 1, 1967, pp. 1160-61. It needs to be noted that the terms socialism, socialist and left, were highly elastic in the context of Indian politics before and after, but especially after, 1947. For the Nehruvian period this point has been pursued in greater detail in Suhit K. Sen, *The Transitional State: Congress and Government in U.P., c. 1946-1957*, unpublished Ph.D. dissertation, London, 1998.
[12] *The Statesman*, 26 August 1967.
[13] D.N. Ghosh, *Banking Policy in India: An Appraisal*, New Delhi, 1979, p. 216.
[14] Inder Malhotra, *Indira Gandhi: A Personal and Political Biography*, London, 1989, pp. 109-111.
[15] *Ibid*, p.111.
[16] *The Statesman*, 12 September 1967.
[17] *The Statesman*, 17 September 1967.
[18] Malhotra, *Indira Gandhi*, pp. 115-16. The meeting was said to have been attended by Kamaraj, Subramaniam, Jagjivan Ram and Y.B. Chavan. No evidence for this meeting has been cited.
[19] *The Statesman*, 14 March 1969.
[20] Inder Malhotra, 'Congress Unable To Check Its Downward Drift', *The Statesman*, 14 March 1969.
[21] S. Nihal Singh, 'Choice of Presidency Exposes Pulls Within Congress', *The Statesman*, 16 May 1969.
[22] *The Statesman*, 19 June 1969.
[23] *The Statesman*, 21 June 1969.
[24] *The Statesman*, 8 July 1969.
[25] Frankel refers to this note, but does not ascribe authorship to anyone. In her narrative, it was prepared by a small group of CFSA members. See, Frankel, India's Political Economy, p. 416.
[26] *The Statesman*, 9 July 1969.
[27] *The Statesman*, 10 July 1969. Presidential assent for the bill was reported in *The Statesman*, 3 January 1969.
[28] *The Statesman*, 11 July 1969. It would be useful at this point to differentiate between outright nationalization of and social control over banks. The former clearly meant complete takeover of banks on payment, in this case generous, compensation. This in turn meant in logistical terms that the government through, or in consultation with, the Reserve Bank of India (RBI) would constitute the boards of directors of the nationalized banks and appoint their chairpersons; additionally, it meant, at least on paper, that the nationalized banks would have to run their operations according to the directions of the RBI in respect of opening branches, setting interest rates both for deposits and advances, providing credit and other operations. Social control, on the other hand, meant that a newly created body, the National Credit Council (NCC), would assess the demand for credit from various sectors and determine priorities for grant of loans and advances. The objectives were broadly the same: divert credit from large industry and business towards what came to be known as the 'priority sectors' – agriculture, small-scale industry and exports. The council would be composed of representatives from various sectors; it was envisaged that the competing pulls of various interests would ensure a rational allocation of credit. It was further planned that a package of legislative measures would ensure that decisions taken by the RBI would be followed by the commercial banks. In short, the difference between the two was one of nuance in terms of achieving certain objectives. For a full discussion, see Ghosh, *Banking Policy*, pp. 216-17; 226-228. A related development was the creation of a department of banking in the finance ministry, which reversed an earlier finance minister's decision to give all banking functions to RBI. *EPW*,

'Starting Points for a Policy Leap', Vol. IV, No. 37, 13 September 1969. Another report said RBI had been placed under the department in all matters other than foreign exchange control; a deputy governor, who had taken over as secretary had secured larger remit than routine administration of nationalized banks, including supervision of National Credit Council.

[29] *The Statesman*, 12 July 1969.

[30] *The Statesman*, 13 July 1969.

[31] *The Statesman*, 14 July 1969.

[32] *The Statesman*, 13 July 1969.

[33] *The Statesman*, 14 July 1969.

[34] *The Statesman*, 16 July 1969.

[35] *The Statesman*, 18 July 1969.

[36] The banks were: Central Bank, Bank of India, United Commercial Bank, Bank of Baroda, Punjab National Bank, Union Bank of India, Dena Bank, United Bank of India, Canara Bank, Syndicate Bank, Indian Overseas Bank, Bank of Maharashtra and Indian Bank.

[37] *The Statesman*, 20 July 1969.

[38] *The Statesman*, 21 July 1969.

[39] *The Statesman*, 23 July 1969.

[40] *The Statesman*, 29/31 July 1969.

[41] *The Statesman*, 11 February 1970.

[42] *The Statesman*, 11 February 1970.

[43] *The Statesman*, 12 February 1970.

[44] *The Statesman*, 15 February 1970. The Supreme Court order also rekindled the debate on the right to property. Some of those opposed to the order wanted it removed point blank, while others wanted it removed as a *fundamental* right. I shall not go into this issue in detail.

[45] *The Statesman*, 28 February 1970; 25 March 1970. When the Lok Sabha passed this hugely controversial bill, only eighty members were present.

[46] *The Statesman*, 20 July 1969.

[47] *The Statesman*, 12 August 1969.

[48] Quite the contrary opinion was expressed by a correspondent, writing in EPW. In the context of the Congress (R)'s Azadnagar (Bombay) session, the writer said that though for the more sophisticated the effects of bank nationalization might have worn off, for ordinary people it remained a symbol of defiance of big business and held out hopes of change. *EPW*, 'Azadnagar Socialism on Tap', Vol. 5, No. 1, 3 January 1970, p. 8.

[49] *The Statesman*, 28 July 1969.

[50] On this 'orchestration', Frankel writes, "Although the demonstrations were, in part, organized by the CPI, the sentiments they tapped were clearly spontaneous." See Frankel, *India's Political Economy*, p. 420.

[51] *The Statesman*, 15 February 1970; also see EPW, 'Uncertainly Poised', Vol. 5, No 7, 14 February 1970, p. 70.

[52] *The Statesman*, 27 July 1969.

[53] *The Statesman*, 30 July 1969.

[54] *The Statesman*, 12 February 1969.

[55] *The Statesman*, 15 February 1970.

[56] *The Statesman*, 31 October 1969.

[57] *The Statesman*, 1 August 1969.

[58] Ghosh, *Banking Policy*, pp. 227-228.

[59] *op. cit.*, pp., 230-244.

[60] *op. cit.*, pp., 269-302.

[61] *op. cit.*, pp., 305-308.

[62] *op. cit.*, pp., 305-330.

[63] *EPW*, 'Budget Plus Banks', Vol. 4, Nos. 28-30, Special Number, July 1969, pp. 1093-94.

[64] *EPW*, 'Starting Points for a Policy Leap', Vol. 4, No. 31, 2 August 1969, pp. 1093-94, p.1256.
[65] *EPW*, 'Programme for Branch Expansion', Vol. 4, No. 32, 9 August 1969, p. 1292.
[66] *The Statesman*, 15 September 1969.
[67] *EPW*, 'Modest Beginnings', Vol. 4, No. 40, 4 October 1969, p. 1579.
[68] *EPW*, 'Economic Post-Mortem on the Split', Vol. 4, No. 25, 20 June 1970, p. 958.
[69] *EPW*, 'Unfinished Business', Vol. 4, Nos. 29-31, Special Issue, July 70, pp.1107-08.
[70] *EPW*, 'One Year After: The Prospect', Vol. 4, Nos. 29-31, Special Issue, July 70, p. 1129.
[71] *EPW*, 'How Cheaply to Lend Little', Vol. 6, No. 27, 3 July 1971, p. 1305.
[72] *EPW*, 'Floundering Without a Plan', Vol. 6, No. 29, 17 July 1971, p. 1414.
[73] See for instance, *EPW*, 'Credit Policy: Loss of Credibility', Vol. 9, No. 17, 27 April 1974, pp. 692-94; *EPW*, 'Money Delusion', Vol. 9, No. 24, 15 June 1974, pp. 929-30; *EPW*, 'Uneasy Portents', Vol. 11, No. 4, 24 January 1976, p. 85. This is a small sample of *EPW*'s reportage on these issues.
[74] Bhabatosh Datta, 'The Banking Structure: A Re-Appraisal', *EPW*, Vol. 11, No. 21, 22 May 1976, pp. 781-86.

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