Industry and Banking

Saloni Goyal (2023115001)

Nilanjana De (2023115002)

Shravani K (2023115009)

Introduction

In this essay, we will go over the banking and currency, industrialisation, nationalisation and liberalisation-globalisation-privatisation of 20th century India.

Nilanjana De wrote the first section of this essay, Banking and the Evolution of Currency. She created all of her graphs, and the data used to create them is listed in the bibliography. She covered the major banking structure of India from the 1900's to mid-1950's.

The second section of the essay is about India's industrialisation. Saloni Goyal wrote this part of essay. The flow chart used was created by her, and the websites and books she used for it are properly cited at the end of this document. She has written details of industrial events till 1950s and also covered a little on the first few five-year plans.

Shravani K has written the final section of this essay which is about the nationalisation of banks, the economic crisis of 1991, New Economic Policy and LPG (liberalisation, privatisation, globalisation).

All three members have contributed equally to the building of the bibliography.

Banking structure of India in 1900’s

(Nilanjana De)

There were five prominent banking institutions in India in 1900’s: indigenous banks, joint stock banks, foreign exchange banks, cooperative banks and the Reserve Bank of India.

Indigenous Banking

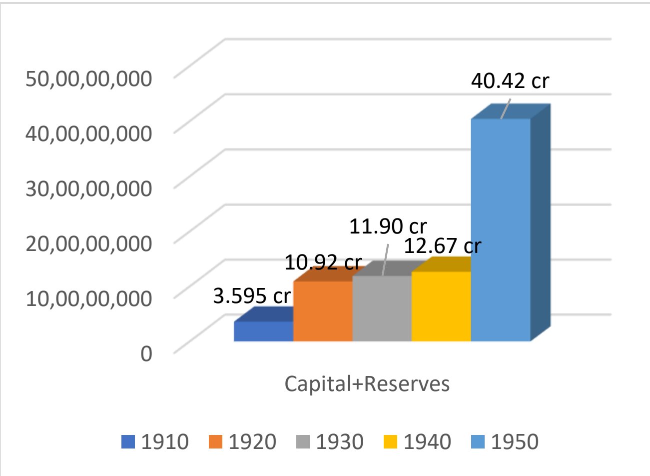
Indigenous bankers range from just a village moneylender or zamindar to a Hundi or Hawala trader. Some of these bankers grew to be so large that their trade had expanded to places beyond the Indian subcontinent across oceans. Slowly with colonialism, these banking systems faded away and ultimately some of them (like Hawala trade) were banned by the British. All sorts of indigenous banking were considered informal credit source and declared illegal by the Government after India’s independence.

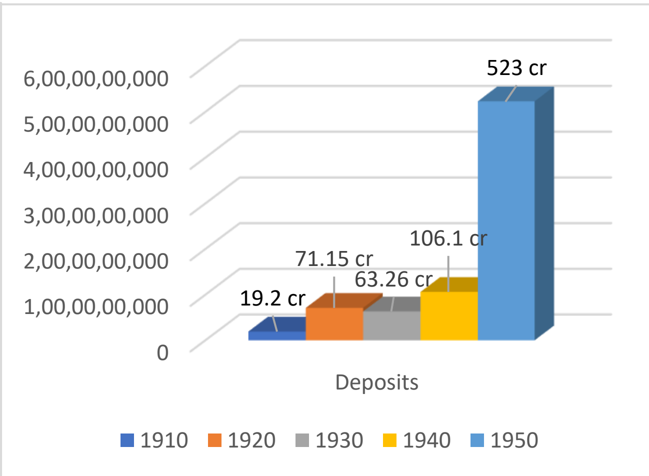
Joint-stock Banks

These are the banks that have multiple shareholders. The biggest Indian joint-stock bank present back then was the Imperial Bank which was created by the amalgamation of the three Presidency Banks: Bank of Bengal, Bank of Madras and Bank of Bombay. This bank was essentially Indian in organisation and yet British in management. The Imperial Bank was later nationalised and renamed State Bank of India. Other banks that are still functional today are Allahabad Bank and Punjab National Bank.

These banks can be divided into two groups:

1. **Scheduled Banks:** They are listed in the Second Schedule of the RBI Act, 1934. They are required to maintain at least Rs. 5 lakhs as their capital and reserves. These banks are also referred to as Class A_1 banks.





In these charts, we can see that there is a huge increase in capital + reserves as well as deposits in scheduled banks from 1940 to 1950 because of two major events: World War II and India’s independence which resulted in more investment by the general public in Scheduled Banks which were more reliable as to not fail when compared to Non-Scheduled Banks.

2. **Non-scheduled Banks:** They are not listed in the RBI Act and divided into different classes based on their capital and reserves namely A_2, B, C, D.

Exchange banks

The Exchange Banks were established to facilitate the interconversion of foreign currencies with the local one. Back in the early 1900s, there were practically no purely Indian exchange banks operating in India and thus the exchange banks present in India were mostly foreign-owned. In this way, the foreign exchange banks gained a good market in India and took advantage of it by discriminating against Indians by only giving loans to the Europeans and not the natives. The Indian businessmen complained against this which led to the formation of Banking Enquiry Committee. The 1929 Reports of this Committee recognised all these discriminatory actions and the fact that the interests of India were not safeguarded while also recommending the Indianisation of banks as a solution to this.

Co-operative Banks

As joint-stock banks mostly operated in Presidency towns, there was a dilemma as to how people with low wages or middle-income families based outside these towns could access formal credit. One option was to open branches of joint-stock banks in rural areas and another was that the co-operative movement could help with this. In the case of a joint-stock bank, all the profit of the bank would go to the large traders who had a share in the company whereas in a co-operative system, this is totally opposite. The members have access to a share of profit made by the co-operative. Clearly co-operatives were a better option and hence the implementation of the Co-operative Credit Societies Act, 1904 came by. The McLagan Committee of 1915 gave recommendations for the development of the urban cooperative credit in various sectors. And thereby co-operative societies were developed for a variety of sectors in both rural and urban areas.

Reserve Bank of India

The Reserve Bank of India was established in 1935 on the basis of the Hilton Young Commission. The Reserve Bank of India took over the tasks of the Controller of Currency and Imperial Bank like regulating the issuance of bank notes, keeping of bank reserves with a view to secure financial stability, maintaining Cash Reserve Ratio and also operating the currency and credit system of the country. The Currency offices at Calcutta, Bombay, Madras, Rangoon, Karachi, Lahore and Kanpur were turned into branches of Issue Department. RBI ceased its services in Burma (Rangoon office) after the Japanese invasions and in Pakistan (Karachi and Lahore) in 1948.

In 1949, the bank was nationalised and brought under the control of the central government in order to set up a “Central Bank”. The RBI was made the regulator of India’s banking system and given the duty of dealing with foreign exchange, regulating interest rates of banks, deciding cash-reserve ratio and also storing foreign exchange reserves. The Bank played a significant role in the implementation of the Five-Year Plans by supporting the value of the Rupee.

Evolution of Rupee

(Nilanjana De)

India had a well-established gold standard exchange so there were huge amounts of gold reserves to be stored. Storing both silver coins and gold bullion seemed strenuous in terms of both finance as well as storage. Another problem that metallic coins posed was the rising prices of silver that was bound to result in interconvertibility by the government. Hence paper notes were encouraged more. In fact, coins were made of such denominations that only small change transactions could take place with those. Both the notes as well as coins were convertible on demand into bars of 400oz of fine gold.

After independence, the Rupee was linked to the British sterling-pound to mark the value of the Indian Rupee. However, this put India at a risk when Sterling values would go alarmingly low like it did in 1975. So, in 1976 when the par value system broke down in accordance with the Second Amendment of articles of the IMF and the member countries were allowed to choose their exchange rate arrangements, India chose to peg Rupee to the SDR basket link whose value depended on five currencies: the US Dollar, the Euro, the Chinese Renminbi, the Japanese Yen and the British Pound sterling.

Industrialisation Era

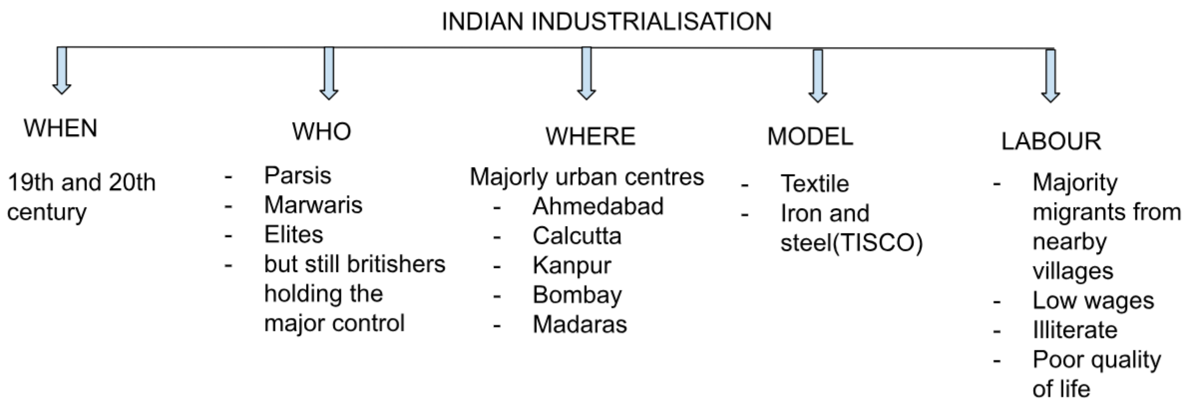
(Saloni Goyal)

Deindustrialisation

Prior to the period of industrialisation, India went through phase of de-industrialisation. While England was industrialising, India was de-industrialising. In 18th and 19th centuries, Britishers destroyed traditional Indian weaving industry by importing foreign Manchester clothes into the Indian market.

Industrialisation

Indian industrialisation occurred in the late nineteenth and twentieth centuries. Following flow chart shows the major aspects of it.



In the 1900s, India was manufacturing yarn not textiles, because it couldn’t compete with high quality Manchester clothes imported from Britain. Indian yarn was used by weavers and exported to China. However, in beginning of 1905, China established its own market and India's exports declined. Swadeshi movement and feeling of self-reliance started. Jamshedji Tata also built his most famous TISCO company during the swadeshi movement in 1907.

Despite the fact that Indians owned these industries, Britishers maintained the majority of control. They had restricted import and export. Only textile and some other sectors were given some leeway.

These workers used to come from the surrounding rural areas. One of the causes of this migration was British policies during the 18th century, like Permanent settlement, Mahalwari, Ryotwari, and more. As a result of these policies, many people in rural areas were landless. Also, after WWI ended, many soldiers became jobless. Hence, many people migrated to urban centres in search for work.

Small-scale industries were predominant in the pre-independence era. And they were the reason why India can't develop much. They had limited capital, assets, production, etc.

Handlooms prospered greatly as a result of technological advancement i.e., fly shuttles. Weavers, on the other hand, didn't fare well because they used to sell coarse clothing, which were typically purchased by the poor. But due to famine, if the impoverished can't afford food, how can they afford clothes. On the other hand, rich people used to purchase fine fabrics, such as silk clothing. As a result, Banarasi sarees and fine textile cloth enterprises were not much affected.

There were large-scale industries as well, however 67% of them were concentrated in important provinces like Bengal and Bombay. Furthermore, only 5% of India's total labour force was employed in these registered factories, out of the total working force of India, only 5% used to work in these registered factories, with the remainder employed in small-scale units or households.

Workers and their condition:

Living Condition of workers wasn't good enough too.

"Life and Labour integral *part of process of industrialisation."*

This means that increased production among weavers and craftspeople did not always lead to prosperity. Whole family, including women and children, used to work for long hours, still didn't prospered much. But these were the people who spend their whole life without getting much in return, and leaded India to path of industrialisation.

Bhai Bhosle, a trade unionist of Bombay, recollected his childhood in the 1930s and 1940s:

"In those days, the shift was 10 hours- from 5pm to 3am- terrible working hours. My father worked for 35 years; he got the asthma like disease and could not work anymore... Then my father went back to village."

-Meena Menon and Neera Adarkar, One hundred years: One hundred voices.

When it came to female labour, the situation was no better. Employers were happy to hire women as they were paid one-third of what men were, so they provided cheap labour. They worked in a huge number in textile mills doing spinning and weaving, skills they generally had acquired as homemakers. This was the reason that more than 50% of workers in weaving industry were females only. They weren't allowed to take breaks and if they were found taking one, they were strapped. Some women said that they used to work in shifts as long as 13 hours. It was adversely affecting their health. One of them said that her food was mostly covered with dusts, and hours were so long, that she lost her appetite and was rarely eating anything in lunch time.

Marketing techniques:

On the other note, both Indian and foreign clothes used a variety of marketing techniques. One of them was advertising using images of gods, important personalities, emperors, etc. It was designed so that people connect with objects and develop a desire for those objects.

World Wars and Rise of TATA

Both the world wars created demand for commodities like iron, steel, and other army products which were satisfied by TATA. During WWI, thousands of workers were employed by TATA. However, following the war, demand for products decreased. Also, one of the importers of TISCO products, Japan, was hit by an earthquake. And in upcoming years, the great economic depression occurred. All of this resulted in a huge drop in the market. Companies were firing their employees and staffs. But TATAs, on the other hand, were not doing trade just for sake of profit, rather they believe that industries are backbone of a country's economy. Over the course of the ten-year economic depression that lasted from 1928-38, they reduced their own expenses but didn't lay off single worker. They even sold the jewellery of the ladies of house. Also, they provided their workers with many schemes like retirement gratuity, maternity, free-medical aid, etc.

Also, in WWII they manufactured armour plates, axles, tyres, benzol for explosives, and other items.

Five-year Plans

Nehru's believed that heavy industries because will be nation's true asset in long run, hence he saw development of this sector as crucial. They will provide more jobs and opportunities. Also, our exports will increase. So, the first three 5-year plans (mainly second) were based on how to develop these industries. His vision was to translate this profit into public sector rather than private wealth. But he ended up making a frontload model of heavy industries, at the time when India was scarce in terms of investable capital. Thats why the sum of money allotted to these sectors didn't end up being enough, so currency of India was to be devalued 2 times.

<u>Nationalisation of banks</u>

(Shravani K)

In 1969 Indira Gandhi, who was the prime minister of India at that time, decided to nationalise banks which as some scholars say, was a decision taken by Indira Gandhi mainly to satisfy her political interests rather than economic or social interests. 14 banks were nationalised in 1969. However, in the present day, 11 of these nationalised banks continue to exist as some banks were merged.

Nationalisation also played a role in increasing inflation and increasing tax rates during emergency. Bank nationalisation has also led to an increase of bank scandals. This was because private banks were smaller and had lesser shareholders, and when a situation came where a scandal has occurred, they would change the management or replace the owner, which couldn't be done in nationalised banks, thus increasing the number of scandals.

Many parties opposed this idea of nationalising banks. One of them was Minoo Masani, who was the leader of the Swatantra party. He made some very intellectual arguments against nationalisation. He argued that nationalisation of banks would lead to bureaucratic red tapism i.e., domination of the nationalised banks thus leading to the reduction in freedom of other financial institutions; graft i.e., abuse of the authority by the politicians; corruption; political interference i.e., unwanted involvement of a person or group; and chronic loss-making businesses and the events that followed liberalisation have proven him to be right.

THE TIMES OF INDIA

BOMBAY: SUNDAY, JULY 20, 1969

14 TOP BANKS ARE NATIONALISED

Ordinance follows unanimous Cabinet decision

"The Times of India" News Service

NEW DELHI, July 19.

WITHIN an hour of the formal exit of Mr. Morarji Desai from the Union Government, the Cabinet today decided to nationalise 14 major commercial banks, thus providing an immediate economic justification for the Prime Minister's political decisions taken during the week.

Nationalised banks

Kamaraj, Chavan happy

'Syndicate' in disarray as Morarji goes

Assam flood worsens: heavy havoc

Nanda called to Delhi

A vital step, says Indira

<u>Source:</u> Ramesh, J. (2019, July 19). *July 19, 1969: Fifty years ago, India nationalised 14 private banks. This is how it was done.* Scroll.in. https://scroll.in/article/930982/july-19-1969-fifty-years-ago-india-nationalised-14-private-banks-this-is-how-it-was-done

New Economic policy

In 1991, India faced a severe economic crisis due to inefficient management of the economy by the government. The country was facing deficits, unable to pay off international loans or import goods. Foreign exchange reserves were depleted, and obtaining new loans became challenging. India approached the World Bank and IMF for a loan, which was granted on the condition of implementing liberalisation measures, removing trade restrictions, and reducing government intervention. India accepted these conditions and announced a new economic policy whose major implementations were through liberalisation, privatisation and globalisation.

Liberalisation, Privatisation, Globalisation

Liberalisation

Liberalisation, in simple terms, refers to the removal of restrictions. In the context of economic policies, liberalisation has been achieved through various means, each aimed at fostering a more open and competitive market environment. The key components of this process include the de-regulation of the industrial sector, financial sector reforms, tax reforms, foreign exchange reforms, and changes in trade and investment policies.

De-regulation of the industrial sector marked a significant shift in economic policy. This involved abolishing industrial licensing for all industries, except for specific products like alcohol, drugs, pharmaceuticals, hazardous chemicals, etc. Previously reserved industries, which were solely under government control, were now opened up to the private sector. Furthermore, the power to determine the prices of goods shifted from government control to market dynamics, allowing even the private industries to set prices based on market forces.

Financial sector reforms were instrumental in transforming the role of the Reserve Bank of India (RBI) from a strict regulator to a facilitator. The intention was to reduce the authority of the RBI and grant more freedom to other financial institutions. This shift aimed to encourage healthy competition, leading to the establishment of many private sector banks. The increased competition fostered efficiency in both private and government banks.

Tax reforms played a crucial role in liberalisation by reducing tax rates. The underlying idea was that lower tax rates would encourage more people to pay taxes, subsequently increasing government income. Simultaneously, the reduction in tax rates aimed to minimise tax frauds, fostering a more transparent and compliant tax system.

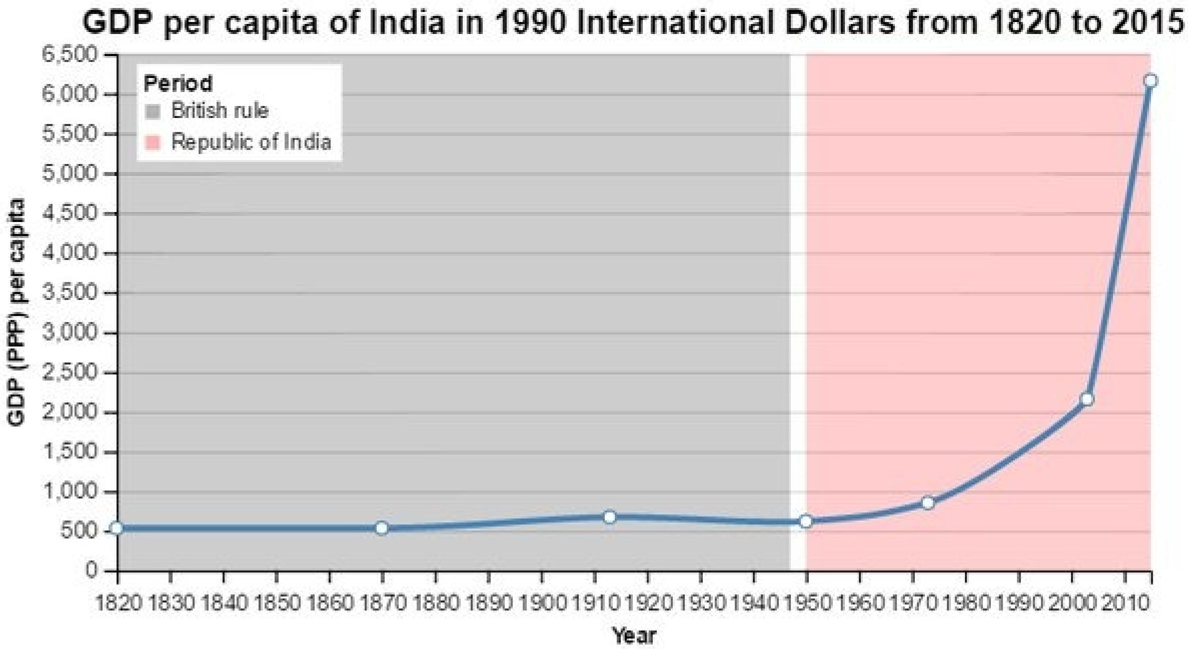
Foreign exchange reforms were necessitated by depleted foreign exchange reserves. To address this issue, the government decided to devalue the Indian rupee, effectively decreasing its value relative to other currencies. This strategic move aimed to boost exports and improve the overall balance of payments.

Trade and investment policies underwent significant changes as well. Restrictions on imports, such as high tax rates and quantity limitations, were lifted. This shift facilitated a more open and globally integrated economy, encouraging foreign investments and trade. The removal of these barriers aimed to enhance economic growth by promoting competition and innovation.

Liberalisation in India involved extensive reforms across sectors, including industrial, financial, tax, trade, and investment policies. These reforms aimed to create a dynamic and globally connected economy, resulting in significant growth and development in the post-liberalisation era.

The reform of industrial and trade policies in India removed barriers for new businesses and allowed existing ones to grow. The elimination of complex regulations and controls on investments and imports was necessary and beneficial. These reforms aimed to make domestic companies more efficient by exposing them to international competition. The liberalisation of the economy has brought positive results like increased foreign investment, more competition, and higher economic growth rates.

On the other hand, when India implemented economic liberalisation, it primarily focused on short-term and medium-term goals, overlooking long-term national development objectives. This led to a neglect of improving managerial and technological capabilities among businesses and overall technological development in the country. While economic liberalisation is often credited for India's fast economic growth, the real turning point or significant change in economic performance occurred in 1951-52 when considering the entire 20th century.



<u>Source:</u> *Indian Economy: Past, Present and Future.* (2020, November 23). THE ECONOMICS CLUB IMI. https://imieconomicsclub.wordpress.com/2017/10/15/indian-economy-past-present-and-future/

Privatisation

Privatisation refers to converting the government companies into private companies.

The goal of privatisation was to modernise the companies and help them work efficiently. This was done in two ways. The first way being selling the entire company to a private owner whereas the second way was by transferring ownership i.e., by making sure that the private owner owns majority stake of the company. This was done through disinvestment i.e., when the government sells its stake to another party or in this case- the private owner.

Privatisation also had downsides like slow economic growth, risky loans, misuse of company resources, and a lack of proper rules and regulations. These problems often affect specific areas. That's why sometimes governments regain control over privatised businesses after selling them. This is called ‘reluctant privatisation’. Privatisation can have costs like losing control and potential negative impacts on local communities and thus the government opts reluctant privatisation in-order to protect national interests, ensure fair competition, or address market failures. They do this by keeping some influence or oversight even after the enterprise is privatised. Reluctant privatisation is a way for governments to balance the benefits of privatisation with other important considerations.

Globalisation

Globalisation refers to the integration of the economy and culture of a particular country with the rest of the world. It eliminates boundaries and creates a borderless world. The main asset of globalisation was ‘Outsourcing’ i.e., in simple terms, to make others do your work. Outsourcing refers to the practice of hiring a third-party company or individual to perform tasks or provide services instead of doing the work yourself. Outsourcing of labour from different countries has played a major role in developing the world economy and continues to do so to this day.

Globalisation has opened up economic opportunities for India by enabling the country to benefit from international economic activities and allowing for growth and development. It has also helped in cultural exchange.

Whereas according to some critics, it has also worsened inequality, harmed the environment, and made cultures more similar. Certain groups, like farmers and informal workers, have been marginalised as a result. In fact, India’s participation in the global economy has made it susceptible to the unpredictable shifts in market sentiment as well.

Bibliography

1. Nanavati, M. B. (1944). Banking in India. *The ANNALS of the American Academy of Political and Social Science*, *233*(1), 152–160. https://doi.org/10.1177/000271624423300123

2. Murray, R. (1911). BANKING IN INDIA. *Journal of the Royal Society of Arts*, *59*(3037), 263–278. http://www.jstor.org/stable/41339535

3. Ram, V. S. (1953). BANK CAPITAL IN INDIA. *Indian Economic Review*, *1*(3), 33–54. http://www.jstor.org/stable/45149658

4. S. K. Verghese. (1979). Exchange Rate of Indian Rupee since Its Basket Link. *Economic and Political Weekly*, *14*(28), 1160–1165. http://www.jstor.org/stable/4367782

5. Rothfeld, O. (1924). PROGRESS OF CO-OPERATIVE BANKING IN INDIA. *Journal of the Royal Society of Arts*, *72*(3727), 373–385. http://www.jstor.org/stable/41356548

6. RBI history - brief history. (n.d.). https://rbi.org.in/history/Brief_History.html

7. RBI history - brief history - functional - urban cooperative banks in India. (n.d.). https://rbi.org.in/history/Brief_Fun_UrbanCoopBanks.html

8. F. C. H. (1899). Report of the India Currency Committee. *The Economic Journal*, *9*(35), 480–483. https://doi.org/10.2307/2957080

9. Brunyate, J. B. (1926). REPORT OF THE ROYAL COMMISSION ON INDIAN CURRENCY AND FINANCE 1926. *Journal of the Royal Society of Arts*, *75*(3863), 64–90. http://www.jstor.org/stable/41357374

10. Ketkar, K. W., & Ketkar, S. L. (1992). Bank Nationalization, Financial Savings, and Economic Development: A Case Study of India. *The Journal of Developing Areas*, *27*(1), 69–84. http://www.jstor.org/stable/4192167

11. *A history of positive response*. Tata Steel | 102nd Annual Report 2008 - 2009. (n.d.). https://www.tatasteel.com/investors/annual-report-2008-09/html/history_of_positive_response.html

12. *20th century statistics* - census.gov. (n.d.-a). https://www2.census.gov/library/publications/1999/compendia/statab/119ed/tables/sec31.pdf

13. NCERT. (2011). The Age of Industrialisation. In *India and the Contemporary World-II: Textbook in history for class X* (pp. 79–102). essay, NCERT.

14. Dutt, R. C. (1980). [Review of Cue From the Inner Voice, by M. Malgaonkar]. *India International Centre Quarterly*, *7(2)*, 129–131. http://www.jstor.org/stable/23002313

15. Lockwood, D. (2015). THE INDIAN EMERGENCY IN ECONOMIC CONTEXT. *Proceedings of the Indian History Congress*, *76*, 865–874. http://www.jstor.org/stable/44156656

16. Rudolph, L. I., & Rudolph, S. H. (1978). *To the Brink and Back: Representation and the State in India. Asian Survey, 18(4)*, 379–400. https://doi.org/10.2307/2643401

17. NCERT. (2019). Liberalisation, Privatisation and Globalisation: an Appraisal. In *Introductory macroeconomics: Textbook in economics for class XII* (pp. 39–56). essay, National Council of Educational Research and Training.

18. *Industrial Revolution in India: Rise, transformation and impact!*. Textbook. (n.d.). https://testbook.com/ias-preparation/industrial-revolution-in-india

19. Torri, M. (1975). Factional Politics and Economic Policy: The Case of India's Bank Nationalization. *Asian Survey, 15(12)*, 1077–1096. https://doi.org/10.2307/2643585

20. K. Srinivasulu. (1994). Handloom Weavers' Struggle for Survival. *Economic and Political Weekly*, *29*(36), 2331–2333. http://www.jstor.org/stable/4401712

21. *Nehru's real big mistake: Heavy Industry wrongly got priority in 1950s. so even at 75, India isn't rich.* Times of India Blog. (2021, August 19). https://timesofindia.indiatimes.com/blogs/toi-edit-page/nehrus-real-big-mistake-heavy-industry-wrongly-got-priority-in-1950s-so-even-at-75-india-isnt-rich/

22. Academic.oup.com. (n.d.). https://academic.oup.com/book/7358/chapter/152152209

23. NAYYAR, D. (2017). Economic Liberalisation in India: Then and Now. *Economic and Political Weekly*, *52*(2), 41–48. http://www.jstor.org/stable/44166888

24. Mukherji, R. (2000). India's Aborted Liberalization-1966. *Pacific Affairs*, *73*(3), 375–392. https://doi.org/10.2307/2672025

25. Timberg, T. A. (1998). THE IMPACT OF INDIAN ECONOMIC LIBERALIZATION ON U.S.-INDIA RELATIONS. *SAIS Review (1989-2003)*, *18*(1), 123–136. http://www.jstor.org/stable/45345767

26. Sharma, S. D. (2014). "India Rising" and the Mixed Blessings of Globalisation. *India Quarterly*, *70*(4), 283–297. http://www.jstor.org/stable/45072803

27. Siddharth Mallavarapu. (2005). Globalisation and an Indian View [Review of *Interpreting Globalisation: Perspectives in International Relations*, by R. Harshe]. *Economic and Political Weekly*, *40*(8), 737–740. http://www.jstor.org/stable/4416235

28. Prajapati Trivedi. (1993). What Is India's Privatisation Policy? *Economic and Political Weekly*, *28*(22), M71–M76. http://www.jstor.org/stable/4399783

29. Makhija, A. K. (2006). Privatisation in India. *Economic and Political Weekly*, *41*(20), 1947–1951. http://www.jstor.org/stable/4418227

30. Gupta, A. P. (1996). Political Economy of Privatisation in India. *Economic and Political Weekly*, *31*(39), 2687–2694. http://www.jstor.org/stable/4404631

31. Women & Children in the Industrial Revolution | *Impact & Effect. (n.d.).* https://study.com/learn/lesson/women-children-industrial-revolution-roles-effects-impact.html

32. Standard, B. (2017, November 9). *Indian textile & handicrafts industry is the largest employment generator after Agri:* Ajay Tamta. https://www.business-standard.com/article/news-cm/indian-textile-handicrafts-industry-is-the-largest-employment-generator-after-agri-ajay-tamta-117110900180_1.html