

to become subsidiaries of the State Bank and will therefore continue to function independently. Though persuasion to join the State Bank is backed by offer of certain advantages, and things are made a little difficult for banks which keep out, no direct compulsion is being exercised.

Instead of straight amalgamation which the Rural Credit Survey had recommended, the Bill seeks to establish them as subsidiaries of the State Bank, which will hold a minimum of 55 per cent of the share capital. A number of reasons were given by Shri Gopala Reddy, the Minister for Revenue and Civil Expenditure, for departing from this recommendation of the Rural Credit Survey Committee. He pointed out that the banks concerned had developed contacts, traditions and working methods of their own, and it would hardly be advantageous to merge them in the huge all-India organisation which is the State Bank. Moreover, as subsidiaries, they would be able to function as any other commercial bank, without being subject to the restrictions imposed on the State Bank e.g. in the matter of advances against certain types of securities.

It was only at the end of the debate that the Minister gave out what, perhaps, was the most important single reason for non-merger. He admitted that if the employees of the State associated banks were paid according to the pay scales of the State Bank, their wage bill, which totalled Rs 150 lakhs in 1958, would rise by about Rs 30 to 40 lakhs. The Minister thought this rise in the wage bill would not be to the interests of the potential shareholders who would hold 45 per cent of their share capital. Actually, it is hardly likely that individual shareholders will exercise the choice open to them to become members of the reconstituted banks, for even the State Bank had private participation to the extent of only 10 per cent of its capital. The Minister could have been a little more forthright and admitted that it was not in the interests of the State Bank to absorb these banks by amalgamation, because then its branch expansion programme would become prohibitive in terms of cost. A solution has been found by specifically laying down in the Bill that the losses, etc. if any. incurred by these banks in development programmes

would be fully met or subsidised by the State Bank out of its Integration and Development Fund.

### **Why Not for Other Banks ?**

THE principle underlying the Bill raises certain fundamental issues. If the State Bank and its potential subsidiaries are legally empowered and/or encouraged to take over other banks as subsidiaries, why should the commercial banks, which also would like to expand their branches at a low wage cost, be denied this privilege? After all, the advantage of lower pay scales in mofussil towns is not an inconsiderable one even for the big banks which want to open more branches.

The Bill provides that no individual, singly or jointly, will be allowed to hold more than 200 shares in the subsidiary banks, but this limit will not apply to corporate and similar holdings. The shares will be approved trustee securities and freely transferable. The State Bank will have the authority to issue directions to the subsidiaries. Members of Legislatures, directors of other banks, salaried officials of Government, and the banks' own employees will not be eligible for Directorships. The subsidiaries will become agents of the State Bank for all kinds of business, though, for a period of six months, their existing links with the Reserve Bank or State Governments will continue. They are authorised, with the approval of the State Bank and the Reserve Bank, to negotiate for taking over any other banking institution, incorporated or otherwise, including co-subsidiaries.

As at the end of 1958 these eight banks had total deposits of Rs 95 crores. These, added to the deposits of the State Bank, constituted nearly 35 per cent of the deposits of all scheduled banks at that time. In effect, therefore, the public sector in commercial banking will cover about one-third of aggregate bank deposits in the country, after the State Bank takes over these subsidiaries. This would not, of course, make much of a difference, by itself, to commercial banking policy or the direction and pattern of bank advances, at least not immediately. But when the subsidiaries properly get going, the large areas hitherto served by the State-associated banks, which had so far suffered from neglect, should witness a vigorous

development of banking expansion. At least that is the hope. But so slow has been the progress in this direction that there is greater likelihood of the State Bank's policy of hastening slowly being pursued even more slowly in the areas hitherto served by the State-associated banks.

### **Tickling the Auditors**

IF democracy is defined as a form of rule by persuasion rather than coercion, ministerial speeches in this country are the very essence of democracy, for none of them is free of appeals and pleadings. This is understandable when Ministers address the public, but it is difficult to appreciate when they speak in the same vein at business conferences of officials working under them. A PIB release on the third conference of Regional Directors and Registrars of the Company Law Department, for instance, reports that the Minister of Commerce and Industry "pleaded for delegation of more powers to the Regional Directors and Registrars of Companies" (emphasis ours). This delegation of powers is now overdue, but one is entitled to believe that the occasion called for something more than banal pleading. Since it is ultimately the Minister himself who decides how much power is to be delegated and to whom, the official gathering, as well as the recipients of PIB hand-outs, would have welcomed a more concrete statement on how precisely this was proposed to be done and to what extent. This airing of the Minister's views would have been doubly welcome since the last Annual Report of the Company Law Department appeared to be quite hesitant about the idea of delegating more powers to Regional Directors,

The Minister was on firmer ground when he asked the officials to consider the "ticklish point" of conferring on auditors the power of going into the merits of various transactions and investments entered into by companies. The point is ticklish not merely because company managements may object to further supervision but also because it may strain the independence of auditors too far. While it is true that auditors have a great responsibility to the shareholders, whose watchdogs they are supposed to be, they also have a more immediate responsibility towards the managements who employ and pay them. Auditors