



THE UNITED COMMERCIAL BANK LTD.

CALCUTTA

Chairman's speech

1950

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UNITED COMMERCIAL BANK LIMITED
CALCUTTA

CHAIRMAN'S SPEECH

ANNUAL GENERAL MEETING
APRIL 25, 1950.

THE UNITED COMMERCIAL BANK LIMITED

ABRIDGED STATEMENT OF ACCOUNTS AS ON
DECEMBER 31, 1949.

		Rupees
LIABILITIES		
PAID-UP CAPITAL	...	20,000,000
RESERVE FUND	...	5,250,000
DEPOSITS & OTHER ACCOUNTS	...	311,586,000
DEBTS DUE TO BANKS, AGENTS ETC.	...	33,887,000
LIABILITY ON LETTERS OF CREDIT, GUARANTEES, ETC.	...	19,704,000
BILLS FOR COLLECTION	...	19,822,000
SUNDRIES	...	9,237,000
		TOTAL
		419,486,000

Contingent Liability on Bills rediscounted

Rs. 30,972,000/-

On Forward Exchange Contracts

Rs. 133,714,000/-

		Rupees
ASSETS		
CASH IN HAND AND AT BANKERS	...	63,722,000
INVESTMENTS	...	162,730,000
ADVANCES	...	120,269,000
INLAND BILLS	...	9,500,000
FOREIGN BILLS	...	14,368,000
CUSTOMERS' LIABILITY FOR LETTERS OF CREDIT, GUARANTEES, ETC.	...	19,704,000
BILLS RECEIVABLE	...	19,822,000
LAND & BUILDINGS	...	1,160,000
SUNDRIES	...	8,211,000
		TOTAL
		419,486,000

Profit for 1949, including
amount brought forward from
1948, Rs. 3,361,000/-

G. D. BIRLA
Chairman

B. T. THAKUR
General Manager

THE UNITED COMMERCIAL BANK LTD.

Speech delivered by Shri G. D. Birla, Chairman of the United Commercial Bank Ltd., at the Seventh Ordinary General Meeting of the Bank held on 25th April 1950.

GENTLEMEN,

I welcome you to our 7th Annual General Meeting. The Balance Sheet and Profit and Loss Account which you have to consider are prepared in accordance with the new Banking Act of 1949. In principal heads of account, there is no change but in details there is greater elaboration. We, of our own accord, have been giving you in our past balance sheets full information. It is therefore not at all difficult to consider the present accounts in relation to the previous ones.

BANK'S BUSINESS

The year 1948 was a difficult year for business but the year 1949 was much more so. There has been heavy shrinkage in bank deposits in India. Deposits of Scheduled Banks which at the end of 1947 stood at Rs. 936 crores rose to Rs. 987 crores in July 1948 but came down to Rs. 934 crores at the end of 1948 and to Rs. 833 crores at the end of 1949. In comparing our deposit position we must add to the deposit figure of Rs. 30.75 crores appearing in the Balance Sheet, the figures of Bills Payable and certain other items which were formerly taken under deposits and the comparable figure then comes to Rs. 31.17 crores. This is, of course, lower than the deposit figures of 1948 and 1947. As compared to 1947 there is a fall of Rs. 338 lakhs which is only 9.8% as compared to the fall of 11% in the deposits of Scheduled Banks between the two years. As compared to 1948 the fall comes to Rs. 707 lakhs but our deposits at the end of 1948, contrary to the general experience of most banks, were actually higher than in 1947. I shall discuss later at some length the causes of decline in bank deposits in India. They require urgent consideration and to a large extent reversal of governmental policies in relation to credit institutions. They are in general outside the control of banks themselves.

Our cash and bank balances stand at Rs. 6.37 crores against
CASH Rs. 7.37 crores at the end of 1948; but the ratio of
cash to deposits is actually higher and stands at 20.4%
compared to 19.3% at the end of 1948.

Our investments today stand at Rs. 16.27 crores against
INVESTMENTS Rs. 25.78 crores at the end of December 1948. This
reduction is mostly accounted for by the fall in
deposits. After deducting the amounts borrowed there-against,
the amount of unencumbered investments comes to Rs. 12.88 crores
which works to about 41% of deposits. Cash and bank balances,
and free investments total up to Rs. 19.25 crores and form 61.4% of
deposits.

You will be glad to find from the Balance Sheet that our invest-
ment policy continues to be conservative. The bulk of our investments
continues to be in Government securities, both Central and Provincial;
and out of the remainder a large portion is invested in foreign govern-
ment and foreign trustee securities. The amount invested in shares,
excluding Rs. 20.39 lakhs invested in the shares of the Imperial Bank
of India, is only Rs. 30,000. Even the amount invested in debentures
and bonds is only Rs. 12½ lakhs. A major portion of our investments
continues to remain in short-dated securities.

The amount of bills purchased and discounted has gone up from
BILLS PUR- CHASED Rs. 2.09 crores at the end of 1948 to Rs. 2.39 crores at
the end of 1949. When dealing with our bills portfolio
I am happy to point out that the amount of bills payable outside
the Provinces of India, which in a large measure corresponds to foreign
bills purchased appearing in our balance sheet of 1948, shows an
improvement of nearly Rs. 48 lakhs. As a result of the restrictions
put on the import licences, there is considerable fall in the credit
and acceptances on behalf of our customers which have come
down from Rs. 3.63 crores at the end of 1948 to Rs. 1.97 crores at the
end of 1949.

It should be a source of satisfaction to you that your Bank has
FOREIGN BUSINESS been able to achieve progress in this field of banking
business which until recently used to be a close
preserve of foreign banks. That is of course understandable, as the
foreign trade of the country was mostly in the hands of foreigners.
With Indians entering into this field, Indian banks are getting some

share. But the preference of foreign traders for foreign banks has obstructed the expansion of business in this field.

You will be glad to find from the figures of contingent accounts in the Balance Sheet that our contingent liabilities **NO EXCHANGE SPECULATION** in respect of foreign bills rediscounted and forward exchange contracts though standing at large figures of over Rs. 3 crores and over Rs. 13 crores respectively have run off by over $\frac{2}{3}$ rd in the case of the former and nearly by $\frac{1}{2}$ in the case of the latter by the date of the Balance Sheet. Forward exchange contracts, both for purchase and sale of foreign currencies, are a legitimate part of exchange banking business; and in accordance with the exchange banking theory and practice, your bank always takes care to avoid in these transactions speculative positions and speculative operations.

The amount of our advances stands at Rs. 12.03 crores, compared to Rs. 10.74 crores at the end of 1948. But our **ADVANCES** advances at the end of 1948 were unduly low and formed only 28% of deposits. On account of contraction in bank deposits it was possible for the Bank to get many first-rate propositions for lending which your directors felt in the interest of the Bank to accept and thereby bring up the ratio of advances to deposits to the level usually prevalent among first class banks. As you will observe, this ratio for 1949 stands at 38.6% which is 8 points lower than the ratio of 46.3%, on the same date, for the Scheduled Banks.

The liquidity of your Bank's business continues to be as high as ever. The total of the three most liquid assets viz. **HIGH LIQUIDITY** cash and bank balances, unencumbered investments and bills purchased and discounted comes to Rs. 21.65 crores which forms 95% of the Bank's demand liabilities as represented by current accounts, savings deposits and bills payable, amounting in the aggregate to Rs. 22.64 crores. The ratio of liquid assets to total deposits works out to nearly 69%. In-as-much as the Bank's advances are against goods, commodities and readily realisable assets, the ability of your bank to meet demands for repayment of deposits is indeed great and invulnerable.

The profit of the Bank is Rs. 32.41 lakhs against Rs. 36.48 lakhs at the end of the previous year. There is a fall of Rs. 4.07 lakhs. But the fall could have been much greater because of heavy shrinkage of over Rs. 7 crores in deposits. In **PROFIT**

relation to deposits the ratio of profits for 1949 is actually higher than the 1948 ratio, the 1949 ratio being 1.04% as compared to 954 for 1948—a betterment of 1/12th of 1%. If you examine the profit and loss accounts for 1948 and 1949 and compare the components of both, you will see that salaries and allowances to staff, including contribution to Provident Fund, account for an increase of Rs 3.10 lakhs in expenses. Other expenses show a nominal increase of only Rs 4,000. The gross earnings of the Bank i.e. earnings from all sources minus interest paid, show a shrinkage of only Rs 93,000. It is creditable that in spite of such a heavy decrease in deposits, which is also the general experience of all banks, it has been possible to confine the decrease in gross earnings within such a small limit.

HANDICAPS ON ECONOMY The Bank's management continuously examines all possible directions of reducing expenses of the Bank, but it is helpless because of the restrictions imposed by labour laws and decisions of the Tribunals appointed to adjudicate upon disputes between banks and their employees. The restrictions on our freedom are extensive and galling. We are told not to close down even unremunerative branches or terminate the services of unwanted and inefficient staff.

Whether men work or not, banks are expected to give them annual increments. Some of the decisions of the Tribunals are indeed baffling. I shall deal with this subject later in greater detail.

GOOD LABOUR RECORD It is a source of immense satisfaction to the Bank that in all cases affecting the Bank, the Tribunal has held that there was no victimization. But still it takes upon itself to go behind the established contractual obligations and awards undue payments to ex-employees whose services were terminated for bad work or as a measure of economy.

BRANCHES During the year 1949 the Bank opened branches in Kolhapur, Lucknow (University Area,) Shillong, Bombay (Chowpatty), Agartala and Navsari. Since the closing of the accounts the bank has also opened a branch at Mandalay in Burma. We have closed down our branches in Pudukottah, Rander and Sandur. Our efforts to open branches at some of the important commercial centres in South East Asia and elsewhere are nearing completion. Under the Banking Companies Amendment Act recently passed by the Indian

Parliament we have now to obtain the sanction of the Reserve Bank of India before we can proceed further in the matter of opening branches in foreign countries.

The Banking Companies Act has placed restriction on the voting rights of shareholders of banks established after 15th January 1937 and no member can have more than 5% of the total voting rights of all the shareholders irrespective of the number of shares held by him. The Reserve Bank has advised the banks concerned to alter their articles to bring them in conformity with the law. You are requested to pass the relative resolution on today's agenda as a special resolution.

I must take this opportunity to express our warmest thanks to the Bank's General Manager, Mr. B. T. Thakur, and his staff for ably carrying on their duties and responsibilities. The strain on higher officers of the Bank has greatly increased and every one of them has to work at high pressure.

As you will observe from the Profit and Loss Account the Bank spent Rs. 41.62 lakhs on staff during 1949 which is 43.6% of our gross earnings, i.e., total earnings minus interest paid, amounting to Rs. 95.5 lakhs. This is exclusive of Rs. 3 lakhs set apart for bonus which further increases the share of staff in gross earnings to 46.7%. The corresponding ratio of banks in America, where the standard of living is highest in the world is only 35%, which used to be also the case with most of the Indian banks including your Bank until 1946. In that year we liberalised the terms of employment, of our own accord, to meet increased cost of living and we had hoped that the staff would repay this additional cost in better production and improved efficiency. Though our expectations in this respect have not been realised and the real cost of operation has gone up I hope that there will be an early realisation of the fact that it is only through increased production and efficient work that overhead charges could be brought down making possible the payment of increased emoluments.

The majority of employees have entered the Bank for a career and look forward to advancement in their profession and improvement in their prospects. I sincerely hope that they will always be on their guard and resist the influence of disruptive elements on their conduct or the performance of their duties. They should not forget that they owe a duty to themselves and their dependants to build up

good prosperous careers for themselves through education, preparation, industry, accurate work and self-discipline.

POLITICAL AFFAIRS

Having dealt with the Bank's business, I shall now refer to other important questions, both internal and external. Your Bank does not and cannot function in isolation. Every visible and invisible force acts upon it. For the proper appreciation of your affairs it is necessary to bear in mind the setting in which your Bank works.

We are meeting for the first time under our country's new status of a sovereign democratic Republic. Our new constitution ensures to every citizen fundamental freedom of life and government according to the highest principles of democracy.

The date on which the new constitution became effective, viz. 26th January 1950 also saw the unification of the country. There are no longer any pockets of medieval despotism, nor is there any portion of the country governed by one man's rule. Credit for political integration of India and the elimination of semi-independent Indian States belongs, by universal consent, to India's Deputy Prime Minister, Sardar Vallabhbhai Patel. Without his foresight, determination and untiring energy it would have been impossible to achieve this result. It is no mean achievement. It required patience, perseverance, tact and above all speed. A great bloodless revolution has taken place in the history of India, for the good of the people, the full effects of which will become apparent as time passes. His name will go down in history as the builder of new India. There are, however, a few patches of Indian soil still outside Indian jurisdiction, viz. French and Portuguese Colonies. The people are eager that these areas must completely merge with India. It is hoped that this union will be achieved through peaceful negotiations.

It is a matter of gratification to us that the recent talks between the Prime Ministers of India and Pakistan have ended successfully and an agreement has been arrived at regarding the problem of minorities. There are, however, a number of other questions yet to be solved. First and foremost there is the Kashmir question. The conflicting policies of the two countries on the question of devaluation or non-devaluation of the Rupee have created

a complete deadlock in the trade between India and Pakistan. The question of Indian property in Pakistan has been made much worse by the new law which defines every Indian as an evacuee no matter whether he was ever in Pakistan before partition or had permanently shifted to India many years before partition. I hope the successful conclusion of the agreement on minorities will be followed by other agreements on these outstanding questions so that the two countries can go forward with their plans of economic development.

A number of important political developments have taken place in the world. China is now governed by a new party whose methods to achieve social ends are somewhat different from those of the democratic countries. Indonesia is now a Republic. There is improvement in the internal situation in Burma. The Commonwealth loan of six million Pounds must assist Burma in liquidating internal disorders and rehabilitating her economy.

Our Prime Minister had a wonderful reception in the United States of America when he went there last October as the guest of President Truman. Visits like this are always helpful in improving understanding and solving outstanding problems.

India holds a vital and strategic position on this side of the world. It is to the benefit of every free country to see India grow stronger both militarily and economically so that she can successfully resist any aggression. Economically, India lags behind and is therefore unable to cope with all demands for progress which are necessary for a country of her size and resources, and what is still more important, for the purpose of defence. But she is too proud to beg for any help, nor is she prepared to barter away her political freedom for a mess of pottage. Her problems must be considered objectively. To get the best out of India she must be looked at with the eastern eyes and in the field of eastern psychology. The trouble with the West is that it looks at Eastern problems with their own coloured glasses.

India's cautious attitude in international affairs should be easily understandable. On account of British domination during the last 200 years she lost all international contacts. Since her independence she has had to face many serious problems, internal and across her frontiers. She has still to find

out who are her true friends. But she has given abundant proofs of her wisdom and capacity to view international affairs objectively. It is this trait in our national character that has induced us to voluntarily remain in the British Commonwealth of Nations, even though we are now a sovereign independent Republic. This one act alone should dispel doubts about India's political wisdom or international sagacity.

India's culture, history, resources and manpower are a sure guarantee that any help that is given to her will be fully reciprocated in friendship and cooperation and in the final analysis it will be to the good of the humanity at large. The Western world has spent astronomical amounts of money in past wars, political alliances and defence pacts and still continues to do so but without any real peace in sight. A small portion of such help would create a powerful non-aggressive and a stabilising force in this part of the world whose value would be immense. South East Asia is the most dangerous spot at the present moment, full of potential disintegrating germs. India is the only country that can stop the relentless tide of forces of disorder which gather momentum every day.

MONETARY CONDITIONS

Monetary conditions throughout 1949 continued to be stringent. Continuous contraction in deposits meant reduction in credit. Although the bank rate continued to be nominally at 3%, the bazar rate for private lending at times went up beyond 9%.

This is a suitable point in my address at which to consider the causes of tightness in the money market and the factors responsible for falling deposits.

As already remarked by me, deposits of scheduled banks have come down during the last two years, from Rs. 936 crores to Rs. 833 crores, a fall of Rs. 103 crores or 11%. The total monetary supply of the country also shows similar contraction, the figures for December 1947 and 1949 being Rs. 22,65 crores and Rs. 20,04 crores respectively, and the size of the fall Rs. 261 crores or 11.5%. Such a big reduction cannot but upset the country's financial markets. But the question does not end here. Has the contraction affected equally all the sectors of the people or all the departments of our national economy? It is the varying experience

on these questions that has heightened the baneful effects of the monetary contraction.

The prices of primary products have not fallen but, on the contrary, they have gone up materially. During these two years the index number of food articles has risen from 292.2 to 389.2 and the index of industrial raw materials has gone up from 365.3 to 463.9. They show a rise of 97 and 98 points respectively.

The index number of prices of manufactured articles has moved up during the two years from 276.6 to 343.9 i. e. by 67 points. This rise is not enough to meet the increase in the price of industrial raw materials and the increase in industrial wages, the latter having risen from an average per annum per worker of Rs. 619. 4 in 1947 to Rs. 738. 3 in 1948. The rise in the price of manufactured goods has thus more than proportionately gone to the agricultural and industrial workers at the cost of other participants in the income arising out of the country's economy.

The *Eastern Economist*, which does valuable statistical and research work on questions of national economy, has made detailed study on the changes in the annual income of the different sectors of our population, in its Annual Number for 1949. The following table based on figures appearing in that journal gives changes in the annual income of principal sectors of our people.

Share in Annual National Income

(Amount in Rs. crores)

Sector	1939-40		1947-48		1948-49		Change in 1948 Over			
							1939		1947	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
Agricultural & allied occupations.	95.27	49.5	212.93	54.0	246.52	55.0	151.25	+ 5.5	33.59	+ 1.0
Industrial Sector	37.00	19.2	98.00	24.9	115.45	25.7	78.45	+ 6.5	17.45	+ 0.8
Tertiary Sector	60.26	31.3	83.28	21.1	86.65	19.3	26.39	-12.0	3.37	-1.8
	192.53	100.0	394.21	100.0	448.62	100.0	256.09	-	54.41	-

The shift in the capacity to save is tremendous. Workers on the farm and in the factory have acquired greater purchasing power. The middle classes who are mainly engaged in tertiary occupations and form a bulk of our investors and depositors are poorer to the extent of 40% as compared to their prewar ratio of their share to total national income.

The industrialist and the big business man also experience diminution in their capacity to save. Depression and high rates of direct and indirect taxation have affected them, in several cases, to such an extent that they are living on past savings.

We are now in a position to understand why progress in bank deposits did not synchronise with expansion in currency from 1939 to 1947 and why since that year there is tremendous fall in deposits and money supply, both absolutely and also in relation to the currency in circulation. The sectors of our population who feed the banks with deposits are experiencing continuous and steady deterioration in their capacity to do so; and those sectors which have newly acquired great purchasing power have failed to fill that vacuum. It is immaterial whether their non-fulfilment of the role in the national economy is due to ignorance, illiteracy or absence of facilities; the fact is that they do not play the part which laws of economy demand of them. There cannot be isolated unconnected pockets of monetary resources. They must be all connected with each other so as to keep one integrated reservoir of monetary and credit supply.

The Bank's Statistical Department has made a study of the size of the shift in money income of agricultural occupations during the nine years from 1939 to 1948. The basis of this study is that for each year of this period share of additional annual income received by them, over and above the 1939 share of 49.2%, is calculated and the grand total for the whole period taken, which represents the size of the shift. This comes to about Rs. 1500 crores. Much of this was used up in the liquidation of rural debt, in the purchase of gold and silver and to some extent in the purchase of land. Amounts utilised for the first two purposes should have largely returned to the monetary system and a proportion spent on purchase of land, where sellers were used to banking and investment habits, should have also done likewise. But even making allowances for all these payments there should be about Rs. 150 crores

lying diffused in the pockets of people in the rural areas. The amount of rural savings that has come out in the United Provinces for the purchase of land is Rs. 20 crores. This, however, is not all the savings in the countryside of that Province even. But even on this basis the total savings of all the member states of the Union should be about Rs. 150 crores.

The amount of idle money with industrial workers should be about Rs. 100 crores. There would be another Rs. 100 crores lying in the city hoards locked up in safes or domestic chests. The total amount of money lying idle and doing no economic work thus comes to Rs. 350 crores.

We can check up the above estimate from the relationship that used to subsist between deposits and currency in the pre-war days. Currency in circulation at that time was 80% of deposits of scheduled banks. On that basis scheduled bank deposits of Rs. 850 crores at the end of 1949 can be supported by only Rs. 680 crores in currency in circulation. The difference between currency in circulation at the end of December last, Rs. 1100 crores and the amount just calculated, as necessary on prewar basis to support the present figure of deposits, comes to Rs. 420 crores. This represents the amount of money which is in the possession of people who are outside the influence of banking system. My estimate of Rs. 350 crores as representing the extent of shift that has taken place in the saving capacity from the banking minded sections to the new classes unfamiliar with the credit system is not an exaggeration.

Our government is agitated at these adverse developments in the monetary field and they are eager that the channels of automatic flow must be soon established. They have appointed a Committee to report on extension of banking facilities to rural areas, which have assumed tremendous importance under the altered circumstances, under the Chairmanship of India's able financier Sir Purshotamdas Thakurdas. Banks anxiously await the recommendations of the Committee.

There are, however, certain broad principles which our politicians must always bear in mind when dealing with a volatile commodity like money. Wrong decisions in the past did havoc to the banking system. A set of new,

laws enacted during recent years touching on the sanctity of trust and the labour policy as applied to banks, have all added to diminish confidence in banks' function as repositories of peoples' confidence. The injury they have caused to banks will take time to heal. Such mistakes are tragic and should be avoided. Why rate the banker at lower value than the lawyer or the solicitor, as keeper of private confidences? Bankers' business is of immense national importance and his role as keeper of peoples' secrets should be left inviolate.

To suit the purpose of the ignorant and illiterate people, India
 NEW INSTRUMENTS OF SAVINGS must devise new methods and new instruments of savings. The bearer deposits and bearer certificates are admirably suited to meet the hoarding habit of the people. In fact it is the only method that can give big and quick results. This is not a new idea. The banks of the country made a unanimous recommendation to this effect to the government some-time back. But it was not accepted. In matters of finance, in my opinion, it would help the government if they went by the advice of those who deal in finance. Unfortunately it has become a fashion these days that decisions are taken or refused to be taken against the suggestions based on experience of those who are in daily contact with economics of the country. The result is that government as well as private enterprise suffers from the paucity of finance. By postponing economic uplift, which must follow from too much interference with the natural laws of money, credit and finance we are merely continuing the pangs of poverty and delaying the day of adequate standard of living for the average man.

The Banking industry needs rationalization. There is no need
 RATIONALIZATION OF BANKING for hundreds of banks most of whom exist merely in name. Failure of banks, even small and badly conducted, does cause a certain amount of loss of confidence even in those which are perfectly sound and strong. The Reserve Bank of India as the friend and guide of banks may look into this question and use its good offices towards integration and rationalization of the industry.

CAPITAL MARKET

The catastrophic effect of contraction in money coupled with shift in the centre of gravity of savings has done utmost havoc to

the capital market. It is impossible to float new issues. Even the programme of government and public borrowing lags far behind their budgetary figures. Last year the Central Government could borrow only Rs. 66 crores against the expectation of Rs. 122½ crores, a deficiency of 46%.

But the worst effects of these trends in money and savings are visible in the collapse in the value of stocks and securities, utterly ruining all investors and dissuading even the most optimistic of them to enter into new operations. The following table of index numbers of principal divisions of investments indicates the degree of depletion in their value and the extent of their depression.

INDEX NUMBER OF SECURITIES

(Base 1938=100)

	Government & Semi-Govern- ment securities.	Fixed Dividend Industrial Securities	Variable Dividend Industrial Securities
1946	104.4	141.3	273.9
1948	102.3	112.0	130.4
1949	101.4	103.3	88.9
1948 December	101.8	108.1	101.0
1949 December	101.2	100.4	81.9
1950 February	101.0	100.1	75.2

The table tells its own tale — not the full story. Fall in the price of Government Securities, though steady and continuous is not so large, as in the industrial sectors. The fall would have been much more but for the support of the Reserve Bank ; and it is a matter of no small gratification that the decline in

Government Security prices here is very much less than in the United Kingdom.

But the decline in the industrial sections of the investment market is calamitous. The fixed dividend portion has lost 38 points or 27% in value between 1946 and 1949. The worst sufferer is the ordinary share where the fall during the same period is 185 points or 68% in value. The rot is still not stopped. Prices continue to decline further. Figures for February 1950 show further fall on figures of December 1949; 1/5th of 1 point in the case of Government Securities, 8 points in the case of fixed dividend bearing industrial investments and 26 points in the case of ordinary shares. Latest prices are still lower, in spite of the good budget and relief in income-tax and corporation tax. Declining markets make investors, even those who have capacity to buy, still more aloof and nervous.

In his answer to a question recently put to the Finance Minister in the Parliament, he replied that, besides the incidence of the rate of income tax, share prices were dependent upon many considerations such as the unsettled political conditions, and the difficult position of raw materials of certain industries. That is of course perfectly correct. But I think he has missed the new development in the monetary field namely dwindling deposits, or reduced money supply and the considerable shift in the purchasing power from the classes used to banking and investment habits to the new classes untrained in these habits. That is the pivotal issue on which hangs the whole fabric of investment market. It calls for an urgent consideration and brooks no delay.

It is urged by some that reversal of cheap money policy will mend matters and induce money to come out of the hoards. Our disease is too deep-rooted to be remedied by such a palliative. Under the present conditions of controls on the investment of money across international frontiers and internal ignorance and illiteracy higher rates of interest may not help. A dear money policy may, further accentuate the fall in security prices and worsen the present position. Banks, insurance companies and institutions will have to write off huge losses in the value of their investments which will weaken confidence in the general structure of the institutions which mobilise the savings of the nation. People will be

still more nervous to operate in the security market. It will put up the nation's bill of interest on public debt and thereby further increase the already bloated national expenditure. Dear money policy will give a further push downward to the already dangerously poised credit and capital mechanism of the country.

Created money can under certain conditions meet the deficiency in capital and monetary supplies. That requires constant watchfulness and quick mobility of action, otherwise we might experience again the inflationary effects of this created money upon the price of consumer goods which, luckily, are held in check at the moment.

Creation of money to meet capital deficiency can be justified if its use does not impinge upon the price of consumer goods. The new purchasing power so created, should either be mopped up in savings and investments, or drawn off by a liberal supply of consumer goods. There has to be a balance between the capital and production programmes. If we can keep this balance, we can create money, but only to the extent that it does not upset such a balance and also only for internal use. Creation of domestic money does not help in buying abroad capital goods, payment for which must come from the balance of payments account or foreign loans.

In my previous addresses to you I discussed the issue of import of foreign capital. All that I need further say now is that conditions of taxation and the government policy are now more attractive to foreign investors. He can even enter the field of existing industry, and improve its productive capacity through replacement, or additions of improved machinery, and better technical and administrative efficiency. The low prices of industrial securities offer him a splendid opportunity for real bargains. He can also, if he so likes, start new industrial units. The country has ready made large markets for goods both for internal distribution and for exports.

But the question of tapping new internal sources of savings for industrial investment cannot be ignored. I have suggested when dealing with dwindling deposits that bearer deposits or certificates can induce savings to come out of hoards to the monetary system. Likewise industrial bearer bonds can induce

some of the hoards and diffused savings to come forward in the service of the capital requirements. Workers in industries, who know the value of their industries should appreciate this investment. It gives them benefit of capital participation. On the basis of 6% interest charge to the industry, 4% out of which can be passed on to the investor and 2% to government as royalty on such issue, a bond can be issued at the price of Rs. 100 which on maturity at the end of ten years can be repaid at Rs. 150. Capital gain of 50% should serve as a stimulant to a small man who at present gets no return on money lying in his pocket. This scheme can be made attractive by further gains in the shape of prizes by drawing or bonus on maturity, if the industry concerned prospers well.

Bearer life policies for small amounts may be another means to coax savings out of the new classes of savers. If BEARER LIFE POLICIES insurers do away with medical examination and base their premium tables on average mortality experience, and not on the mortality experience of selected lives, as is the case in general use, the plan should prove more attractive. The life insurance experts can take up this question for their scrutiny and see if they can help the country on the issue of capital formation.

ECONOMIC DEVELOPMENT

Devaluation of the Rupee is the most outstanding event of the year. It followed the depreciation of the Sterling in terms of the Dollar. Perhaps our economy was not so bad but in the interests of our external trade, bulk of which is with the sterling areas, and not to weaken our international balance of payment we had to follow in the wake of the Pound. Loss in hard currencies on our exports has been mitigated by increase in export duties, which left the Dollar price unchanged at the predevaluation level. But devaluation does not go to the root of economic malaise. It is a subterfuge for decreasing internal production cost and internal wages, which perhaps cannot be directly brought down due to political pressure or trade unionism. But we must always beware that the advantage arising from devaluation in foreign trade, may not last long, because our purchasers and competitors will not sit quiet, if their international annual account shows deterioration. The respite that devaluation gives can be but temporary and must be utilised to improve our industrial methods and efficiency, so that production costs come down and can compete with world prices.

We should all be happy that our government is actively pursuing the policy of self-sufficiency in food and raw materials. Food imports which have been absorbing Rs. 137 crores of our foreign currency earnings between July 1948 and June 1949 and cost the public exchequer Rs. 29.67 crores in subsidies, will be less exacting in their requirements in the future. The programme for 1950-51 is to spend only Rs. 50 crores on imported food and the amount of subsidy is estimated to be reduced by Rs. 21 crores. Even if we do not fully succeed in doing without foreign food from the next year, as was announced by the Government, its cost is expected to go down further both on account of reduced quantities and the falling world prices.

On account of high cost of Pakistan's cotton and raw jute India has been compelled to put increased acreage under their cultivation. During the current year we expect to have substantial increases in our jute crop which may be of the size of five million bales.

Experience of industrial production is not uniform. Some sections like paper, cement, iron and steel, bicycles, chemicals, electrical engineering and bulbs, fuel and coal show increased production. Textile industries both cotton and jute record a fall mainly due to difficult position of raw materials. On the whole I think we are not worse off than in 1948.

Loss of work due to industrial disputes is much less. The total number of man days lost during 1949 is 5.41 lakhs compared to 6.58 lakhs for 1948 and 13.8 lakhs for 1947. Last year absenteeism was also of a lower order.

In every annual address to you I have been emphasizing the urgency of increasing the tempo of the country, in every branch of industry, and in both the cottage and large scale sectors. The efforts of the government to train people in improved types of cottage machinery of the Japanese type should be appreciated. But, I must continue to emphasise that quick expansion in the large scale industry is a vital necessity as a solution of our problems both domestic and foreign. In this connection I may be permitted to repeat the seven point programme for the achievement of all-round economic development recommended by the

Federation of Indian Chambers of Commerce & Industry, which I had the honour to move for adoption at its last session :

1. There must be closer co-operation between Government, labour and industry and between the Central and State Governments.
2. There must be a renewed determination in all sections of the community to work harder.
3. In all activities relating to production there needs to be a new awareness of the necessity for economy and speed, eliminating red-tapism as well as extravagance.
4. There must be a simplification of controls to ensure that they help and do not hinder production.
5. The tax structure and all legislation must induce incentive and promote greater production as well as greater contentment.
6. There must be increased opportunities for saving and promoting productive investment.
7. Encourage rationalization of industry, use of modern equipment and elimination of waste.

There is no difference between the businessman and politician as to the social objectives to be achieved. We are both agreed to improve the lot of the common man. But we differ on means. They are theoretical in their outlook and cannot resist emotional appeal. They have always to keep an eye on the vote of the electors and who, for that purpose, must be pampered in their wishes, howsoever impractical or impossible. We, on the other hand, are in daily intimate contact with the realities of economic life and frailties of human nature and cannot accede to impossible plans or impractical methods. Shortest cut is not always the quickest route—at times it takes much longer to travel than the well known and longer tried path.

I am however glad to notice that the differences between us are getting narrower and there is more realism today. It is now clear and the fact is now readily acknowledged that controls have a corrupting influence on officials, traders

SOCIAL OBJECTIVES

INCREASING REALISM

and the people. Controls in theory may be desirable but when the machinery to administer them is so defective, people so ignorant and illiterate and the size of the country so big, they do more harm than good. If scarcity is to be met by increased production, if the rot of corruption is to be eliminated from the body politic of the nation and if purity of the administration is to be ensured, more of these controls must go.

The impasse in our economic progress is to a large measure due to restrictions all round on the individual initiative in economic matters. There are more DONT'S than DO'S. There is greater emphasis on negative attitude than on positive aspects. The increasing unemployment with threats to social peace, and the feeling of frustration in the minds of men fitted to take out the country from its present economic morass, can be reversed if the controls are loosened and positive approach made to pending questions.

Our last budget of the Republic is good in many respects. I wish I could say the same thing about most of our State budgets. All of them are balanced but they all show an excessive expenditure on services, which starves social purposes. They also mean continuance of existing rates of taxes, direct and indirect, which standards of living and production cannot bear.

Expenditure on defence is a vital necessity. We cannot afford to tinker with it, in the face of internal and external dangers. But the civil expenditure calls for urgent reduction. No one quarrels with the growing need of the secretarial requirements of government, because of expansion in its functions and duties, but businessmen insist on proper outturn of work and elimination of indifference to duty and indolence, which unfortunately characterise the work of most of the government employees. Fewer men are actually needed to do the job, and the huge army of Secretariat staff can be successfully reduced without affecting administrative efficiency—on the contrary, efficiency should improve. Officers should take more responsibility and avoid dependence upon multifarious, wasteful and dilatory noting system, and the red or white-tapism, which clog the smooth flow of work. It is possible to reduce the civil service expenditure and at the same time to improve outturn and efficiency. But the politician must take a

holiday and allow the administrative experts to reform the whole secretarial machinery.

LABOUR LEGISLATION FOR BANKS.

I must also take this opportunity to warn that ad hoc application of labour legislation to employment of educated men in banks, where clerical appointments are a training ground for banking leadership of the country, and entrusting of alleged disputes to men ignorant of technical requirements of bank work, are leading to dangerous situations where the whole credit structure of the country may collapse. The Indian Banks Association has been repeatedly writing on this question to the Reserve Bank of India and the Ministry of Finance. The new Labour Relations Bill includes in its orbit even the officers in banks, which must bring about deterioration in standards of supervision and management. To whom would an officer be responsible—to the union of employees i.e. his subordinates or the Board of Directors? How can an officer insist on correct standards of work, if his subordinates, to whose will he is subject in the Union, refuse to work well or disobey his instructions?

Labour Tribunals have been directing banks to introduce cumbersome, lengthy and dilatory administrative methods in connection with their relations with their employees. Such procedures are impossible to adopt in commercial and credit institutions where speed is the essence of everything. Clerical and higher appointments in banks are filled from educated and intelligent men who can be trusted to know and understand fully the conditions of their service; and their dependence on spoonfeeding and agitation as aids to rise in life, are ruinous both to them and to the banks. This policy must be quickly ended.

Banking will be a very risky business unless banks are exempted from the present labour policy or the proposed labour legislation. I have already remarked how decisions of the Labour Tribunals can be absurd. Attitude of Labour Officers is even more absurd and dictatorial.

Although our States have no jurisdiction on questions of labour relations in the case of banks having offices in more than one province, their labour officers continue to harass banks under Shops and Commercial Establishments Legislation.

Banks cannot be subjected to two different legal enactments; and the mistake has perhaps arisen out of carelessness somewhere. I hope the Reserve Bank will advise the Government about the disruptive effect of their hasty and immature labour policy, in its application to credit institutions.

TRUST NECESSARY FOR BANKS

Banks depend for their success not upon law but upon intangible, but powerful forces of confidence and trust. The country needs tremendous expansion in banking activity; and without such expansion it will be impossible to make any headway with our economic programme. The labour policy of the Government as applied to banks will not only deter men from starting new banks, and existing banks from opening new branches, but on the contrary compel banks to close many of their existing branches. Even the process of amalgamations, so much in the mind of the Reserve Bank and which appears to be a historical necessity in the evolutionary process of the country's banking, will not make any headway. Instead of helping workers in banks, Government's persistence in its present attitude will injure the very workers themselves by throwing them out of employment.

SPECIAL LEGISLATION NECESSARY

In case, however, the Government do not agree to abandon their present attitude and wish to control employment in banks, through labour laws, I would strongly urge upon them in the interest of the country's economy, to devise a special legislation for banks, which must insure the following safeguards for them.

- (i) Banks must have complete freedom in administrative matters and on questions of suitability or otherwise of any employee, with no fetters on their powers and rights to terminate service of anyone, subject to contractual obligations if any.
- (ii) Banks must have complete freedom on questions of retrenchment in staff, expenditure and closing down of branches.
- (iii) Banks must be the sole judges to decide questions of increment, promotion and bonus, which in their very nature cannot be automatic but must be based on merit and efficiency.

- (iv) Banks must be exempted from the provincial laws like the Commercial and Shops and Establishments Acts and be governed only by one Union law.
- (v) Operations of labour legislation must only extend to categories of clerical and subordinate employment. But even in such cases certain confidential posts should be excluded, the number of such posts to be excluded being at least 25% of clerical appointments with a minimum of 2 for each office. Likewise, certain posts in the subordinate cadre like those of watchmen and such as come under the description of domestic employees, must also be excluded.
- (vi) Officers in banks must also be excluded from the operation of labour legislation. Officers are responsible for internal efficiency and safeguards, and looseness in their case would mean looseness in safety of the bank and injurious to depositors. They constitute management, and their functions are inseparable from the duties, responsibilities and obligations of employers.
- (vii) Banks during their infancy, say for a period of 25 years from the start, new branches during first 15 years of their existence, and small branches employing 15 or less employees should be exempted from the labour law. Unless this is done no new banks, and no new branches will be started, nor small branches can function remuneratively, which, therefore, will have to be closed down, leading to further contraction in credit and further unemployment.
- (viii) In case of disputes and appeals at least one representative of banks must be a member of the courts hearing these cases. In the absence of technical information and knowledge so necessary for coming to right conclusions, there is great danger of courts coming to absurd decisions.
- (ix) Administration of law governing Labour relations for banks should be entrusted to the Reserve Bank of India.

The present Labour Relations Bill pending in the Indian Parliament goes much beyond the provisions of labour relations law subsisting even in the most advanced country in the world, the United States of America. According to their labour relations Act bank officers are a part of management.

ECONOMIC PLANNING COMMISSION

We have now a high powered economic planning commission presided over by the Prime Minister himself. Its members are able men. I hope, however that they will continue to draw on the experience of people who are in daily contact with the trend of economic events. Unfortunately at present the Government is generally cut off from the real economic life of the country and mistakes which could be avoided, are committed and then rectified after the mischief is done. Each member should have a suitable Committee of experts to guide and advise him. The last word will lie with him, and the Commission, but the association will widen his knowledge, information and experience, and thereby enable him to avoid experimentation, pitfalls and disappointments.

But whether this suggestion is accepted or not, I may be permitted to give a few words of general advice based on my extensive experience of the questions, it is their job to tackle. I commend to them the following :

- (a) Let us be realistic to acknowledge that man needs incentive to produce his best, and that the verdicts of history and experience point to personal reward as the best means so far devised to make man work hard.
- (b) Let us acknowledge and it is already done so, that increased production constitutes the only means with which to fight poverty and raise standards of living.
- (c) Let us realise that social objectives cannot be achieved without first creating new wealth—impatience is understandable but if pushed too far can be a hindrance.
- (d) Let us avoid experimenting on lines which have proved disastrous in the past or elsewhere. Too many controls

and too much regimentation is unsuited at the present moment and kills enterprise.

- (e) Let us by all means assure the worker that he would be paid well, but in proportion to his contribution to the creation of wealth.

I have taken your considerable time. But I feel great urgency for these problems. They loudly call for solution. Let me close my address on the same note as is contained in the title of the latest book on Germany by Dr. Schacht, one of the world's ablest living bankers, India demands: MORE MONEY, MORE CAPITAL, MORE LABOUR.

I hope and pray that the Planning Commission succeeds in creating these and through them better economic satisfaction of the people.

THE UNITED COMMERCIAL BANK LIMITED.

BRANCHES IN INDIA

Agartala	Cuttack	Moga
Agra	Dehra Dun	Mysore
Ahmedabad	Delhi	Nagpur (<i>Kingsway</i>)
Ahmedabad (<i>Manek Chowk</i>)	Delhi (<i>Sadar Basar</i>)	Nagpur (<i>Itwari</i>)
Ahmedabad (<i>Maskati Market</i>)	Delhi (<i>Subsi Mandi</i>)	Navsari
Ajmer	Deoghar	New Delhi
Allahabad	Dhoraji	Patna
Alwar	Gauhati	Patna City
Amraoti	Giridih	Pilani
Amritsar	Gondal	Poona City
Anand	Gwalior	Poona (<i>Camp</i>)
Asansol	Gwalior (<i>Sarafa</i>)	Rajkot
Bangalore City	Howrah	Rajkot City
Baroda	Indore	Ranigani
Banaras	Indore (<i>M. T. Cloth Market</i>)	Secunderabad
Bhavnagar	Jaipur	Shillong
Bombay	Jalpaiguri	Sholapur
Bombay (<i>Kalbadevi</i>)	Jamnagar	Simla
Bombay (<i>Zaveribasar</i>)	Jodhpur	Surat
Bombay (<i>Chowpatty</i>)	Kanpur	Ujjain
Bulsar	Karakudi	Pay Offices :
Calcutta	Kolhaour	Bhilsa
Calcutta (<i>Bhowanipore</i>)	Lucknow	Bhind
Calcutta (<i>Barra Basar</i>)	Lucknow (<i>University Area</i>)	Bindki
Calcutta (<i>Cornwallis Street</i>)	Madras	Dabra
Calcutta (<i>New Market</i>)	Madras (<i>Sowcarpet</i>)	Morena
Coimbatore	Madura	Palwal

BRANCHES IN PAKISTAN

Chittagong Dacca Karachi

FOREIGN BRANCHES

Mandalay Rangoon
Moulmein Penang
Pondicherry

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The Bank provides complete service for foreign Banking and Exchange all over the world in co-operation with first class Bankers.