NATIONALIZATION OF COMMERCIAL BANKS

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# ABSTRACT

The present paper means to examine the effect of 'Nationalization' on the working of the commercial banks. It attempts to look for the inquiries like-whether the nationalization of banks is attractive or not. Nationalization of banks in India created a debate which was futile. Truth be told people in general stores in the bank have expanded so much that it is perilous to leave in private hands. Banks by propelling advances to the theorists and non need segment can make ruin in the economy. So banks were nationalized for the bigger premiums of the country. Banks are the caretakers of the general population cash yet they were in the grip of the private brands.

The authorities of the banks completed unjustifiable intends to acquire benefits. Open intrigue was totally disregarded. The investment funds of the general population were utilized to be utilized for private issue. The nationalization of banks turns out to be very important so as to shield the clients from the out of line amusements played by the brokers. The nationalization of banks was not a simple advance to take. Like some other development, it also had a few upsides and downsides. It also was assessed just as scrutinized. The paper hence goes for explaining the different accomplishments, benefits of nationalization and its effect on different segments of economy. The dynamic nationalization of banks has expanded the job of open area managing an account in the nation. Without a sound and viable keeping money framework in India we can't have a solid economy . The saving money framework in India ought in addition to the fact that hassle be free it ought to have the capacity to address new difficulties presented by any outer or inside components. Along these lines, nationalization of banks has controlled the different in saving money area.

# introduction

Administration of India made significant strides in this Indian Banking Sector Reforms after freedom. In 1955, it nationalized Imperial Bank of India with broad managing an account offices on a substantial scale particularly in country and semi-urban regions. It shaped State Bank of India to go about as the central operator of RBI and to deal with saving money exchanges of the Union and State government everywhere throughout the nation.

Seven banks framing backup of State Bank of India was nationalized in 1960. On nineteenth July 1969, noteworthy procedure of nationalization was completed. It was the exertion of the then Prime Minister of India, Mrs. Indira Gandhi. 14 noteworthy commercial banks in India were nationalized. Second period of nationalization Indian Banking Sector Reform was done in 1980 with more banks.

Banking in the sunshine of government ownership gave the public implicit faith and immense confidence about the sustainability of these institutions.

## Nationalization of commercial banks

The principal bank in India, however preservationist, was built up in 1786. From 1786 till today, the voyage of Indian Banking System can be isolated into three unmistakable stages. They are as referenced underneath:

* Early stage from 1786 to 1969 of Indian Banks.
* Nationalization of Indian Banks and up to 1991 before Indian saving money part Reforms.
* New period of Indian Banking System with the approach of Indian Financial and Banking Reforms after 1991.

After autonomy the Government of India (GOI) embraced arranged financial advancement for the nation (India). As needs be, multi year designs appeared since 1951. This monetary arranging fundamentally went for social responsibility for methods for creation.

Be that as it may, commercial banks were private divisions those days. In 1950-51, there were 430 commercial banks. The Government of India had some social goals of arranging. These commercial banks fizzled helping the legislature in accomplishing these goals. Therefore the administration chose to nationalize 14 noteworthy commercial banks on nineteenth of July, 1969. Every single commercial manage an account with a store base over Rs.50 crores were nationalized. It was viewed as that the banks were controlled by business houses and flopped in taking into account the credit needs of poor areas, for example, bungalow industry, town industry, agriculturists, creates men, and so forth. The second portion of nationalization came in April 1980 when 7 additional banks were nationalized.

The nationalization of banks in India occurred in 1969 by Mrs. Indira Gandhi the then PM. It nationalized 14 banks at that point. These banks were for the most part claimed by agents and even overseen by them. They are:

* Central Bank of India
* Bank of Maharashtra
* Dena Bank
* Punjab National Bank
* Syndicate Bank
* Canara Bank
* Indian Bank
* Indian Overseas Bank
* Bank of Baroda
* Union Bank
* Allahabad Bank
* United Bank of India
* UCO Bank
* Bank of India

Before the means nationalization of Indian banks, just State Bank of India (SBI) was nationalized. It occurred in July 1955 under the SBI Act of 1955. Nationalization of seven state bank of India (framed backup) occurred on nineteenth July, 1960.

The State Bank of India will be India's biggest commercial bank and is positioned one of the best five banks around the world. It serves 90 million clients through a system of 9,000 branches and it offers – either specifically or through backups a wide scope of keeping money administrations.

The second period of nationalization of Indian banks occurred in 1980. Seven additional banks were nationalized with stores more than 200 crores. Till this year, around, 80% of the keeping money fragment in India was under government proprietorship. After the nationalization of banks in India, the parts of general society division banks rose to roughly 800% in stores and advances took a colossal bounce by 11,000%. Thus, the years in which nationalization of banks took place were-

* 1948: Soon after Independence, RBI was nationalized.
* 1955: Nationalization of State Bank of India.
* 1959: Nationalization of SBI subsidiaries.
* 1969: Nationalization of 14 major banks.
* 1980: Nationalization of seven banks with deposits over 200 crores

## objectives

As per the Banking Companies Act 1970, the point of the nationalization of banks in India is "to control the statures of the economy and to address continuously and serve better the issues of improvement of the economy in congruity with national arrangements and goals." The nationalization of commercial banks occurred with a plan to accomplish to following real targets. All the more explicitly, the essential targets of bank nationalization as sketched out by the executive in the parliament on July 21,1969 are :

* Social Welfare**:**

It was the need of great importance to coordinate the assets for the penniless and required areas of the Indian economy. Division, for example, farming, and little town enterprises needed assets for their extension and further monetary improvement. to guarantee that the tasks of the managing an account framework are guided by expansive social reason and are liable to close open control.

* Controlling Private Monopolies**:**

Before nationalization, numerous banks were controlled by private business houses and corporate families. It was important to check these imposing business models so as to guarantee a smooth supply of credit to socially attractive segments.

### Development of keeping money:

In a vast nation like India, the quantity of banks existing those days was basically insufficient. It was important to spread saving money the nation over. It should be possible through growing managing an account arrange in the unbanked territories.

* Diminishing Regional Imbalance**:**

In a nation like India where we have a urban-country isolate; it was important for banks to go in the rustic regions where the managing an account offices were not accessible. So as to diminish this territorial lopsidedness nationalization was defended.

### Need Sector Lending:

In India, the agribusiness part and its associated exercises were the biggest supporters of the national pay. Hence these were named as the need segments. In any case, shockingly, they were denied of their due offer in the credit. Nationalization was earnestly required for providing food assets to them.

### Creating Bank Habits:

In India, over 70% populace used to remain in provincial zones. It was important to build up the managing an account propensity among such a huge populace.

* Assemble investment funds**:**

Nationalization went for preparing the investment funds of the general population to the biggest conceivable degree and to use them for gainful purposes.

* Profitable area**:**

Nationalization guarantees that the necessities of gainful divisions of the economy and specifically those of agriculturists, little ability businesses and independently employed proficient gatherings are made.

* Making new open door **:**

It intends to effectively cultivate the development of new and dynamic business person and make new open door for until now disregarded and in reverse regions in various parts of the nation. • To check theoretical exercises: It likewise centres around controlling the utilization of bank credit for theoretical and other ineffective purposes.

## SUpreme court on nationalisation of banks

The nationalisation of banks was challenged in the landmark judgement of *Rustom Cavasjee Cooper vs. Union of India*[[1]](#footnote-2)along with *T.M.Gurubuxani vs. Union of India* by 11 judges bench*.* Now the researcher would like to discuss the constitutionality through this judgement and what happened there after.[[2]](#footnote-3)

### **Issues**

* Whether a shareholder can file a petition for remedy against violation of his fundamental rights when the company in which the shares are held is taken over.
* Whether the Ordinance was properly promulgated.
* Whether the Parliamentary Act was within Parliamentary Competence.
* Whether the impugned Parliamentary Act was violative of Article 19(1)(f) & 31(2) of Constitution of India.
* Whether the method of ascertaining compensation was valid.

### **Petitioner’s Arguments**

The writ petition is maintainable in light of the fact that the petitioner has recorded it for authorization of his Fundamental Rights and not that of company. Since Company isn't a citizen inside the setting of Indian Citizenship Act, 1955 and the Constitution of India, a company can't guarantee the assurance of those FR's which are exclusively accessible to citizens of India.

Since in only two days the Parliament was coming in storm session the President declared an ordinance which is in direct negation of condition point of reference for proclamation of Ordinance. In this way, the President's declaration of Ordinance is invalid and that the SC has capacity to dissolve an invalid Ordinance.

The three lists under Schedule VII of the Constitution Union, State and Concurrent List obviously differentiate the region of activity of Union Parliament, State Legislature and regions where both can work individually. The Parliament can just enact in the issues of "Banking" as characterized in the Section 5(b)of Banking Regulation Act, 1949 by the ethicalness of Entry 45 of List I. Further, the assembly by the excellence of Entry 42 of list III can just make laws for effectuating laws under List I. Along these lines, the Parliament did not have the required legitimate skill to start the securing procedure.

The upbraided act of 1969 is violative of Fundamental Rights referenced in Article 19(1)(f) and Article 31. Along these lines, the act is in direct negation of Article 13 which plainly gives that any law which is infringing upon the said arrangement will be unconstitutional and the courts will undoubtedly strike it down.

The Schedule II of the criticized act that accommodates the strategy in which the Compensation is to be given to the investors is draconian completely. The said arrangement is excessively unreasonable and dubious. No substantial law can influence an individual to understand the products of the assention following 10 years. Such irrational and illicit condition must be struck down.

### **Respondent’s Arguments**

The writ petition isn't maintainable in light of the fact that the petitioner is looking for the security of Fundamental Rights of the Company which isn't a citizen according to the Indian Citizenship Act, 1955. The rights referenced under Article 19 are just accessible to the Citizens of the country though company is just a juristic individual and not a citizen.

The President's capacity to proclaim an Ordinance u/a 123 is an emotional power and the President can't be requested to illustrate his reasons under the watchful eye of the courts about why the ordinance was declared.

The courts must see the Socialist commitments upon the state to make a libertarian culture in which there is no kind of imbalance. In this way, the court should, keeping in context these commitments, must interpret "Banking" under Entry 45 of List I to mean every one of the activities which the respondent should attempt. The act is not violative of Article 19(1)(f) since it falls within the provisions of Article 31 and since in *A*K. Gopalan vs. Union of India[[3]](#footnote-4)the court held that each Fundamental Right is exclusive of one another and distinct.

### **Judgment**

The court conveyed this landmark judgment on February 2, 1970 and talking in 10:1 greater part held that the investor or executive can't move to the courts for the security of encroachment of Fundamental Right's of the company except if it is demonstrated that by the reproved action his rights are likewise abused. The greater part feeling was written by Justice Shah for himself and for the sake of Grover, Vaidialingam, Mitter, Dua, Shelat, Hegde, Reddy, Sikri and Bhargava, JJ. while equity A.N. Beam composed the disagreeing feeling[[4]](#footnote-5).

## 25thAmendment

The parliament in order to clarify their stance that they are not bound to adequately compensate the landowners amended Article 31(2) in case their property is acquired by the state. The word “*amount*” was placed instead of compensation in the provision.

1. Article 19(1)(f) was delinked from Article 31(2).
2. Article 31 C, a new provision was added to the Constitution to remove all difficulties that
   1. Articles 14, 19 & 31 are not to be applied to any law enacted under the fulfillment of objectives laid down under Article 39(b) & 39(c).
   2. Any law to give effect to Article 39(b) & 39(c) will be immunized from court’s intervention.

The word amount can be interpreted as any figure of money and that is not necessarily an adequate, equitable amount[[5]](#footnote-6).

## researcher’s observations

Hence from the entire talk over, the specialist might want to call attention to the accompanying focuses for nationalization:-

* Speculation activities by private banks is halted
* Financing the needy segments is feasible
* The execution of any money related arrangement is made simple, model demonetisation.
* Appropriate administration is conceivable
* Helps to little scale organizations
* Wellbeing of contributors expanded and the trust is developed
* The social angle is additionally been seen by the banks

Moreover, the researcher would like to give certain points against the step of nationalisation of banks:-

* Violative of essential privileges of the commercial banks' partners
* Red tapism, defilement and other such things hampers the productivity of the banks
* No free and reasonable challenge can win
* A definitive favourable position of rivalry is delighted in by the buyer, however nationalization completely overlooked it.
* Forgoing up of credits by the administration prompts issue of assets with the banks.

# conclusion

Looking at above observations, the researcher would like to conclude in a way that the nationalisation of commercial banks was the scenario where again the government proved that the parliament is supreme to the judiciary. The researcher respects the dignity of hon’ble Supreme Court, but this is a fact. The example can be seen in the recent scenario of ST/Sc Atrocities Act’s judgement.

But, it can be also said on the basis of comparison of merits and demerits of nationalisation that nationalisation was a positive move and the fundamental rights of a small group of people can be suppressed for welfare of the public at large.

1. 1970 AIR 564, 1970 SCR (3) 530 [↑](#footnote-ref-2)
2. Source; https://lawtimesjournal.in/r-c-cooper-v-union-of-india-bank-nationalization-case-case-summary/, accessed on 09/01/2019, 05:22 [↑](#footnote-ref-3)
3. A.I.R. 1950 S.C. 27 [↑](#footnote-ref-4)
4. Source; https://lawbriefs.in/r-c-cooper-v-union-of-india1970-nationalisation-of-banks-impaired-the-right-to-compensation-under-article-312-of-the-constitution-of-india-and-consequently-was-struck-down/, accessed on 09/01/2019, 03:45 [↑](#footnote-ref-5)
5. Source; http://www.iracst.org/ijcbm/papers/vol5no42016/21vol5no4.pdf, accessed on 09/01/2019, 05:43 [↑](#footnote-ref-6)