

TOWARDS A STATE BANKING SECTOR

The formation of the State Bank group remains perhaps the most enduring outcome of the Report of the All-India Rural Credit Survey. Attention was drawn in the preceding chapters to the conclusions of the Survey and its wider recommendations. The nationalization of the Imperial Bank and the formation of the subsidiaries of the State Bank of India differed in matters of detail from the blueprint of the Rural Credit Survey. While the Bank and the Government of India agreed quickly to nationalize the Imperial Bank, they were not always of one mind about expanding the State sector of banking in the manner proposed by the Survey's Report. Discussions about the takeover of state-associated banks also raised in passing, interesting issues concerning the rights of states to own banking companies and the propriety of the Reserve Bank entering the field of commercial banking. Finally, although the State Bank group expanded greatly after it was formed, the impact of its lending activities was felt more on the small industrial sector than in the sphere of rural or cooperative credit. Nor were relations between the Reserve Bank and the State Bank always easy or free of friction, with the former at one time taking the view that nationalization had actually weakened rather than strengthened its control over the group's operations.

This part of the volume too is organized in two chapters. The first chapter covers the story of the formation of the State Bank of India, while the second narrates the takeover of the major state-associated banks.