

Bank Nationalisation

Nationalising the commercial banks is one of the main election pledges of the present government, and this commitment has been acknowledged and recognised from time to time by Ministers and other responsible Government spokesmen.

Even though the Government has not nationalised the Banks as yet, it is clear from statements by government spokesmen that this commitment is expected to be honoured within the next 2 years. The Government appears to be actively engaged in removing the economic and political constraints which have so far held up this measure. In the circumstances, the crucial question with regard to bank nationalisation is not whether it will take place, or when, but whether the Government has made adequate preparations to ensure the success of the takeover when it comes. This question is worth examining in some detail.

First of all, it must be appreciated that banking and finance constitute the very life-blood of any economy, be it planned or free-enterprise, socialist or capitalist. Therefore, the takeover of this sector should not be attempted in a haphazard manner.

Secondly, the objective of bank nationalisation is not simply one of transferring the ownership of banks from private individuals or groups to the state. Banking is a high-profit industry, and there is no doubt that one of the desired benefits of nationalisation is a transfer of such profits from private pockets to state coffers. However, the main objective of bank nationalisation is to take direct control over the entirety of this vital sector so that its resources can be used single-mindedly for the realisation of the Government's economic policies by using its full potential purposefully to bring about the radical changes in the economy needed to make the transition to socialism.

Thirdly, it is now inevitable that when the nationalisation of the banks takes place it will be almost at the tail-end of the Government's term of office, and after a considerable portion of the Government's economic programme has been launched. If circumstances had permitted the Government to implement its programme in the logical order dictated by the need for maximising returns, bank nationalisation should have been one of the earliest measures to be implemented. This was not to be, and now there is very little time left for bank nationalisation to make its contribution to furthering the Government's economic objectives. This handicap must be overcome by careful and detailed planning of the operation so that, when nationalisation does take place, a well integrated nationalised banking structure can immediately be set up and activated. Otherwise, the first few years after nationalisation will be taken up in working out a viable banking system, and the Government's term of office would have expired before bank nationalisation could have had any effect on the economy.

Transition

This is not the occasion to set out in detail the nature and scope of the preparation that should be made to ensure a smooth and quick transition from our present basically free-enterprise banking system to a nationalised banking system fully geared to supplying the needs and meeting the challenges of an economy which is undergoing a radical transformation towards socialism. That job must be tackled by a competent task-force devoting itself full-time for the purpose. It is therefore proposed to only briefly examine the main areas which should receive the attention of such a task-force.

It is important to recognise that the concept of a nationalised banking structure is quite different from the concept of a state-owned banking system. As observed earlier, the nationalisation of banking must be

viewed primarily and overwhelmingly as one of the important means of making the economic transition to a socialist society. This cannot be achieved by a mere change in the ownership of the existing banks. This is well borne out by the experience of the nationalisation of the Bank of Ceylon in 1961. It will be recalled that this nationalisation measure came as a surprise announcement in the Budget Speech of that year and no plans had been made for any changes in the Bank's operations subsequent to nationalisation. In the event, it turned out that the nationalisation was merely a take-over of the share capital of the bank by the Treasury from the private shareholders, and the bank continued its operational policies with hardly any change for almost a decade. One of the most important tasks to be completed before the impending nationalisation takes place is to work out, in as much detail as possible, the post-nationalisation transformation to be made in the operations of the new banking system. If no radical operational changes are made immediately after nationalisation, due either to a lack of preparation or the absence of an appreciation of its need, then it is inevitable that the nationalised banks will not only fail to make their due contribution to the implementation of the Government's programme, but will also discredit the very concept of bank nationalisation, and even some parts of the Government's overall programme itself.

Organisational Set-up

Another aspect of this distinction between a nationalised banking structure and a set of state-owned banks is the organisational set-up of the nationalised banking structure. The banking system we have today in Sri Lanka is a colonial, political and economic inheritance which has been tinkered with from time to time by successive Governments in the post-colonial period. The strictly colonial elements in this set up—the Exchange banks—ceased to cater to

the needs of the country as early as the 1930's, and this resulted in the agitation which ultimately led to the establishment of the Bank of Ceylon to cater to the needs of the emerging Ceylonese business community. In later years it was found that even the Bank of Ceylon had failed to adapt itself to the changing needs of the economy in the post-colonial era, and this realisation led to the establishment of the People's Bank with a special responsibility to cater to the needs of those sectors of the economy which had been neglected by the banks until then. It is therefore not surprising that the hotch-potch which the banking system is today is quite incapable of meeting the challenges posed by the radical economic changes that are currently taking place. Careful thought must therefore be given to the organisational set-up of the nationalised banking system which will replace the present arrangements after the banks have been nationalised. In this area we have much to learn from the experience of India where the large indigenous banks were nationalised without adequate preparation in 1969. As happened when the Bank of Ceylon was nationalised, the only change that was immediately effected was the transfer of ownership with the official Custodians replacing Boards of Directors that became defunct. The banks continued to operate as before nationalisation, competing with each other and going their own individual ways. It is only now that some co-ordinated national policy is being implemented in the banking sphere by the nationalised banks in India. Even so, they have still not worked out an organisation set-up to maximise the contribution which a nationalised banking structure can make to the economy.

Among the important matters which have to be considered and decided in the organisational sphere is whether the present banks will continue as separate units of a nationalised system or whether they will be merged into a few large groups. It is well known that the

Minister of Finance sees much merit in having competition between different units within the state sector, particularly in the financial field. Therefore it must be assumed that there is no question of a single monolithic banking institution being set up after nationalisation. But the question remains as to the number of competing nationalised banks that should be set up, the extent to which such competition should be permitted, and the areas in which such competition should take place, and to what extent wasteful competition can be avoided so as to conserve resources which are obviously very much in short supply.

Public Sector

Another aspect which should be examined and decided before nationalisation is the relationship between the nationalised banking structure and the rest of the public sector such as the State Corporations and other public institutions. For some time now Government policy has been directed towards ensuring the profitability of the State Corporations by enforcing financial discipline on them mainly through the two state banks to which they have been directed for their financial needs. While much progress has been made in this direction, the lack of a defined relationship among the state financing institutions, State Corporations, and the various high-level governmental authorities which determine and sometimes dictate policy of the State Corporations, has prevented the state banks from making their full contribution towards the realisation of this objective. The existence of a nationalised banking system will provide an opportunity for associating the Banks in the discussions preceding decisions on overall Government economic policy, and to make available financial expertise to the Government at its highest levels. This can be done only if careful thought is given to this aspect in the pre-nationalisation plans.

Expansion of Trade

Finally, there is the contribution which the nationalised banking system can make to the expansion of the foreign trade of the country and the improvement of the terms of trade. There is a considerable amount of international trading expertise available in the banks, but until now this source has hardly been tapped by the Government for the furtherance of its international trading objectives. There are numerous occasions when commercial banking advice taken during the negotiation of various trade agreements and before making decisions on large tenders for the supply of commodities could have resulted in far more favourable terms for the country. Such an association of banking expertise with the Government's trade negotiators and policy-makers has not been possible because, until now, even though there have been two state-owned banks, they were not considered to be part and parcel of the governmental machinery. Some significant changes have taken place in this area in recent times due to the pressure of the state-owned banks themselves, and there is an increasing tendency for consultations to take place. Unfortunately, so far these consultations have taken place mainly for the purpose of mounting rescue operations. The national interest demands that such consultations should take place at a much earlier stage, and the opportunity for the establishment of a nationalised banking structure should be taken to place such arrangements on a regular footing.

As stated earlier, the purpose of these observations is not to provide a blueprint of arrangements for the nationalisation of the banking system, but to make a case for the establishment of a competent task-force to prepare such a blueprint. Unless immediate steps are taken to set up this task-force the government is bound to be severely handicapped in the implementation of this vital economic measure.