# THE CAPITAL MARKET IN INDIA SINCE INDEPENDENCE

E. R. Krishnamurti

FORUM OF FREE ENTERPRISE
PIRAMAL MANSION, 235 DR. D. N. ROAD,
BOMBAY 400 001.

"Free Enterprise was born with man and shall survive as long as man survives."

—**A. D. Shroff**

1899-1965

Founder-President
Forum of Free Enterprise

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In the last three decades, since Independence, we have witnessed kaleidoscopic changes taking place in several spheres in India. For the first time in our history, the economic development of the country, on an All-India basis, was taken up through the process of five years plans. To give an overall boost to our economy, the planners had set a pattern of development—for the uplift of the under-privileged and have-nots, and for fulfilling the hopes and aspirations of the people—long denied even the minimum necessities of life under alien rule. The first few plans were modest in their outlays, but later on, plan expenditure was stepped-up to make an impact on the economy.

**TABLE 1**

**FIVE YEAR PLANS : OUTLAY AND INVESTMENTS :**

| PLAN | PERIOD | OUTLAY (Rs. in crores) | INVESTMENTS (Rs. in crores) |
|---|---|---|---|
| I | 1951-52 to 1955-56 | 3,760 | 3,360 |
| II | 1955-56 to 1960-61 | 7,772 | 6,831 |
| III | 1961-62 to 1965-66 | 12,763 | 11,319 |
| | 1966-67 Annual Plans | 2,081 | ... |
| | 1967-68 ,, ,, | 1,711 | ... |
| | 1968-69 ,, ,, | 1,689 | ... |
| IV | 1969-70 to 1973-74 | 24,882 | 22,635 |
| V | 1974-75 to 1978-79 | 53,411 | 47,561 |
| VI | 1979-80 to 1983-84 (approx.) | 1,16,240 | ... |

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There were criticisms from several quarters that the initial plan outlays were too modest to leave an impress on the economy. The later plans were dubbed as over-ambitious, and doubts were expressed that it would be difficult to raise the necessary resources. A number of problems clouded the implementation process. Even the ardent admirers of planning were dissatisfied with the implementation of the plan programmes. Plan proposals and performances showed a wide gap and resources mobilisation led to steep increases in taxation on a wide front and handy resort was made to deficit financing.

In the process of development, the community was obliged to undergo many trials and tribulations. The country began to experience a severe shortage of basic consumer goods. We did not have adequate foreign exchange to import all our requirements. In the result, Government had to impose price controls, rationing, higher taxation, regimentation and regulation of all industrial and agricultural activities. The planning process, set in motion a rampant inflation. The common man, instead of getting reliefs, from planning, was made to shoulder the burden and suffer.

The country had to grapple with a number of problems, beginning with the impediments arising out of the partition of the country, the Kashmir dispute, the Chinese aggression, the two wars with Pakistan and the influx of refugees from Bangladesh. These upheavals had an unsettling effect on economic programmes.

Also the expected rate of development could not be achieved and its impact on the economy was not effective, because of stumbling blocks, like the explosive growth of population at 33,000 every day, requiring an additional 35 lakh jobs and 24 lakh houses annually. Besides, the gigantic problem of rural backwardness and the consequent flow of people into cities and towns to eke out a living, beset our progress.

The planners did commit the mistake of planning for scarcity which contributed to diminish the anticipated impact in the direction of growth. The fundamental factor that was overlooked in our Five Year Plans was the gnawing gap between targets fixed and performance achievements. The plan targets were not reached due to ineffective implementation and not because they were ambitious or the resources were not available. A five year plan took eight years to complete and economic policies were chipped and chopped without rationale on ideological considerations.

Yet when one makes an overall survey of the whole period of the last 31 years, even the most vociferous critics would admit that some progress has been made in development in several fields of economic activity. Today we are in a somewhat positive position and are on the path to economic growth and stability.

While no one disputes the all-round improvement, if one goes into the cost factor of the benefits derived, it would easily be noticed that the planners did not take stock of performances periodically in the implementation process, to rectify the imbalances and mistakes. This, the planners are now seeking to set right by introducing a system of Rolling Plans. By this, Government would make a survey in the light of actual achievements at the end of each year and take the earliest opportunity to remove imbalances. This is a correct way of planning and may prove its usefulness and utility in the process of time. Care should be taken that it does not slow down the pace of implementation.

It is heartening to note the present attitude of the Planning Commission. Before finalising the draft sixth plan, the Planning Commission has very imaginatively decided to seek the views of the private industrial sector on important issues, like investment constraints, industrial sickness and impediments in the way of exports. Conceding that the Government is fully aware of the shortages in important sectors like coal, power, steel, cement and railway wagons, the Planning Commission has asked private industry to make suggestions to reduce the bottlenecks and for improving the industrial climate on the labour front.

In the first two and a half decades of our development, we had to borrow heavily from several countries. Even well-meaning patriots expressed serious doubts whether we would be able to service our loans, leave alone repayment. Successive finance ministers were battling out the strategies to meet the onslaught of this stupendous task. We were obliged to augment our resources by external borrowing to keep up the pace and process of development and consequently staggering foreign debts were mounting up. But due to changes in the international economic scene in the last few years, the situation has become almost easy and comfortable in our favour. A whole metamorphosis has taken place in the last five years, proving pundits of pessimism wrong. Today our financial position in the international market ranks high and our credit is commendable.

In the sphere of industry, we have developed technical skills of quality and fineness. We are able to compete effectively with developed countries in the international export markets. In many avenues, we have even surpassed foreign technology and are now in a happy position to export our improved know-how and technology to many countries. The same spirit of development pervades in the field of agriculture. We have adopted modern methods of cultivation by taking to scientific and technological implements. The professional touch of technocrats is noticeable both in industry and agriculture. With this dynamism in approach, and with the use of scientific technology in several aspects of life and activity, the Indian economy is poised for a big breakthrough in the early 1980s.

In this drama of partial achievements, the credit should go more to the people of India. While Government could feel satisfied that its policies and programmes have borne fruit and have brought about the shift to our well-being and progress, this transformation is due to the innate goodness of the people of India in all walks of life, be they workers and white-collared administrators or technocrats, professional managers, engineers, accountants, and the common citizens. It is to them, who by their benign sense of tolerance, spirit of sacrifice and willingness to bear the brunt of the burden, we are indebted for bringing about this economic stability. The Government should exploit the present position and take fullest advantage of the complex favourable factors by speeding up measures to improve the overall infrastructure of the economy. It should abstain from dealing with matters of public interest in the ideological backdrop of political predilections, adopt expeditious and pragmatic policies and eschew cumbersome regulations and procedures.

In the first 15 years of our economic development, the emphasis was more on industry with greater financial outlay being set apart to industry. This resulted in a somewhat avoidable distortion in our agricultural development. It was genuinely thought then by our planners that the downtrodden condition of the people of India was due entirely to the lack of adequate industrial development. They felt that big industries, when established, would give a boost to the economy, paving the way to remove the poverty and pestilence of the people. This was not to be. In the next 15 years this imbalance has been set right by proper allocation of resources to both agriculture and industry. Even the early preferential input in industry has proved to be a blessing in disguise. Our present level of industrial development would not perhaps have been possible but for the priority given to heavy industry and machines in the first fifteen years.

Our earlier neglect and indifference to agriculture did hamper industrial efforts. In the process, the poor farmer suffered a great deal. We faced a big crisis on the food front and to save the multitude from hunger, we had to incur a lot of expenditure on import of foodgrains. Agriculture has now been given its rightful place in our economy. We have been able to revolutionise our agricultural production by the use of modern methods of cultivation. The conservative Indian farmers have been coaxed into the use of hybrid seeds and fertilisers. The vast potential of mother earth is being exploited to the fullest to augment production from land. The present awareness of the agriculturist, the improved production of fertilisers, the use of electrical energy in agricultural operations, the benefits of several irrigation schemes, increasing acceptability of farm machinery and the fair prices agricultural products command, have all added up to make our achievement in agriculture a continuous process.

The steady improvement recorded in the agricultural front is revealed by the foodgrain production.

**TABLE II**

**TREND IN AGRICULTURAL PRODUCTION FOODGRAINS PRODUCTION**

| Period | Production (in million tonnes) | Period | Production (in million tonnes) |
|---|---|---|---|
| 1950-51 | 54.9 | 1970-71 | 108.4 |
| 1955-56 | 66.9 | 1971-72 | 105.2 |
| 1960-61 | 82.0 | 1972-73 | 97.0 |
| 1965-66 | 72.3 | 1973-74 | 104.7 |
| 1966-67 | 74.2 | 1974-75 | 99.8 |
| 1967-68 | 95.1 | 1975-76 | 120.8 |
| 1968-69 | 94.0 | 1976-77 | 112.0 |
| 1969-70 | 99.5 | 1977-78 | 125.5 |
| | | 1978-79 (Estimate) | 126.0 |

In the initial period, the industrial policy was rational and liberal, economic considerations mainly dictating the policies. Slowly, from the early 1960s, there was a distinct shift and ideological and political viewpoints began to have a sway on our industrial policy. The large sterling balances, accumulated during the world war, were all used up in the import of capital goods as a result of faulty programming. When the sterling balances were wiped out, we had to think of import substitution and the industrial policy was re-oriented with industries being set up mostly with foreign collabortation. Licensing of industries was given on regional considerations, creating over-capacity, under-utilisation and huge financial losses.

From the late sixties, Government stand on industrialisation had become weighted in favour of the public sector and indirectly against the private sector. Certain major industries such as Steel, Machine Tools, Fertiliser, Paper, Cement and Sugar were exclusively reserved for development in the public sector, stifling the progress of these industries in the private sector. Insurance, life and general, and certain industries like coal were nationalised merely to satisfy the whims and wishes of those in power, more out of an anathema to the private sector and to please the palate of the politicians. The policies were merely directed against the private sector on the mistaken belief of reducing the concentration of economic power. Statutory regulations were imposed to clip the wings of big business by the introduction of MRTP Act, denying even genuine credit facilities from banks to industries, imposition of punitive price controls on several industries, and followed by stiff imposition of direct and indirect taxes on a wide front. These, cumulatively had the effect of affecting productivity and production of goods and services, supply falling abjectly short of demands, leading to spiralling prices due to shortages, creating black market, unaccounted money and a parallel monetary system. The sixties were one of the most agonising decades for Indian industries.

There are emerging shortages in key industries. The investment climate is extremely sluggish and there is precipitous lack of resource generation. This dampening trend on investments has to be reversed. A continuing slump in new investments would aggravate the shortages, necessitating massive imports, which cannot be either a long-term or permanent solution. Imports require foreign exchange, and it is costlier now to import basic commodities like aluminium, coal, edible oils, cement, etc. at higher prices, compared to ruling domestic prices. This would lead to exposing our economy to international inflation. Again large-scale import of commodities would amount to importing unemployment, to the extent fresh employment opportunities, which can be created by expanding the domestic capacity in the concerned industries, are being denied. Government must create conditions to fully utilise the existing industrial capacities, as partial utilisation signifies imbalances in the economic environment.

During the year 1977-78, the performance of the industrial sector was modest compared to the exceptional performance in 1976-77. The rate of industrial growth was just 3.5 per cent in 1977-78 as against 10.5 per cent in the preceding year. The production of steel, coal, cement and textiles slowed down, mainly because of shortages of power. labour unrest and insufficient supply of agricultural materials, due to lower foodgrains crop in 1976-77. We are endowed with the richest iron reserves in the world, but yet we believe in exporting iron ore and importing steel. Steel production increased in 1977-78 to over 8 million tonnes, just 0.2 million tonnes over the previous year's production. In 1978-79 the total production of steel is expected to be 8.79 million tonnes, indicating a growth of 7.1 per cent. The production of capital goods has increased by over 10 per cent in 1977-78. Government's estimate to accelerate the growth rate to 7 to 8 per cent in 1978-79 from only 3.5 per cent in 1977-78 may be a tall order, as industrial growth rate is presently heading to a nominal 2 per cent in 1978-79.

The biggest single factor that has affected our speedy progress in industry is the fixation of prices for many industrial products. There has been a great deal of arbitrariness and prices were fixed on an *ad hoc* basis. There was a tendency on the part of Government to change the structure of prices to meet the temporary alternating pressures from producers and consumers. The economic and industrial policies of the Government have all along been singularly directed against the principle of profitability—the cardinal criterion of business confidence. With anti-inflationary objective, Government has been pursuing a policy of putting a ceiling on prices. The continuous increase in the overall burden of direct and indirect taxes in the last three decades has added to the cost factor of industrial products. Government has perhaps been oblivious to the fact that money left to be retained with industry and individuals, by a reduction in both direct and indirect taxation, will ultimately increase the purchasing power, and the volume of demand for goods and services, thereby creating expansion of business activity.

But recently this position has changed and Government has now conceded that input of investment should have sufficient recompense and reward. A return on capital of the order of 12 per cent after tax on net worth has been deemed reasonable for fixation of prices. This is a welcome feature and industrial development could be planned on this basis.

Happily for us, in the last few years, the nation has come out unscathed from many challenges. We have been able to shake off the severity of several problems. The demon of inflation has been contained. The Janata Government has been able to give a re-orientation to the economic policies, which has given a sense of reassurance and confidence to the people of India and the business community. The approach of Government to the economic development is liberal and realistic. Despite bickerings and some disjointed ministerial announcements now and then against big business, by and large the Janata Government has been following a policy of progress on the economic front.

We are yet miles and miles to go to reach our goal of full employment, abolition of poverty, provision of health care, transport, housing and economic facilities that go to make life worth living. But the present position is promising.

It is my sincere prayer and fond hope that, in the years to come, Government and business will pull together in unison as two horses yoked to a chariot, for the common benefit of the people of this great country. A spirit of give and take should pervade the approach of Government and business community, which will beget faith and understanding between each other, so that the economic millennium, we have set our sights on, will be easy of realisation.

Our fiscal and monetary policies should be production-oriented and all agencies of production, to whatever sector they may belong, should be given a free hand to produce goods and services without let or hindrance. Production is the in-thing today that will revive and change the entire complexion of the economy. This emphasis on production should be tried out for at least five years initially. I am sure it will lead to an accelerated flow of funds into the banking system, bringing down interest rates, boosting up investments, activising capital markets, bolstering up capital formation and culminating in the economic and industrial prosperity of the country.

Presently industrial entrepreneurs are confronted with the stupendous problem of having to incur high capital costs which is anything between 10 to 15 times of the cost of similar units established two decades ago. More than procuring the resources for the heavy outlay at current costs, and meeting the interest charges thereon, new industries have to compete and sell their products in the same common market with old units operating with lower cost of production. Another problem besetting industries is the inadequacy of depreciation allowed under existing conventional, conservative methods. A reappraisal in this regard is necessary and depreciation should be allowed on the basis of cost of replacement and renewal.

Direct taxes have increased by 13 times between 1948-49 and 1977-78, indirect taxes by 28 times and total taxes by 22 times. In the process of finding the huge resources required for the administrative, defence and development expenditure, additional and fresh taxation from year to year was relentlessly levied. The total additional fresh taxation imposed in the last 11 years from 1968-69 to 1978-79 in the annual Union Budgets adds up to a stunning figure of Rs. 2,906 crores.

An estimate of the overall additional taxes collected since Independence has been placed around Rs. 30,000 crores, including direct and indirect levies. This order of mopping up revenues has naturally blunted our rate of growth. If only this staggering quantum of resources had been left in the hands of the community, with freedom to invest productively, it would have led to a resurgent resource regeneration and transformed the growth rate to high peaks. Economists estimate that the gross national product would have aggregated to around Rs. 670,000 crores, nearly ten times our present level and the current per capita income would have been approximating to Rs. 11,000 per annum. Besides, the current revenues according to Government coffers would have augmented to Rs. 85,000 crores, almost seven times of what it is today.

A substantial lowering of tax both direct and indirect is called for. The objective and aim of taxation policy should not primarily be revenue collection alone. Our fiscal policies should permit savings to accrue in the hands of individuals, institutions and the corporate sector for investment. Such a statecraft would generate and augment the purchasing power with the community.

There is now a robust awareness in the policies of Government with regard to taxation. This is a welcome change. The policy of taxation is expected to be completely revolutionised by rationalisation on the basis of the Reports of the Jha Committee on indirect taxation and the C. C. Choksi Committee on direct taxation—a happy departure from the past *ad hoc* methods of imposing tax levies more by dictates of expediency than imagination. Government has begun to realise the economic impact of the stiff taxation on the community.

The Choksi Committee on direct taxes has suggested that the ideal maximum marginal rate of income tax should only be 50 per cent of a person's income. The Committee has recommended the reduction of the maximum marginal rates of income tax immediately to 60 per cent on incomes exceeding Rs. 2 lakhs inclusive of surcharge. The Committee is of the view that conditions prevailing in India warrant a progressive reduction in the rates of tax. The Committee is sanguine that the reduction in the rate of tax will not lead to a loss of revenue. Even our own experiment of reduction of the maximum marginal rate of income tax from 97.75 per cent to 77 per cent in 1974-75 actually resulted in higher collection of tax by Rs. 130 crores. The Committee also wants direct taxes to operate under stable conditions, so that investments could be made on the basis of expectations of net return over a period on capital employed. This will be in keeping with Government's policy of planned economic development under quinquennial planning.

But the recent announcement of the Finance Minister that there is no alternative to a high level of taxation, and that reduction of tax in personal and corporate taxation could be considered only if it is matched by alternative proposals for resource mobilisation, is bewildering and counter to the views of the expert committees.

Against this background, we have to view the capital market in India. The pattern of growth and developments in the capital markets, savings and investments in India in the last 31 years since Independence is similar to the trends in our economic development. There are many favourable factors and adverse points. The Indian capital market, which has made rapid strides since Independence, is well organised and compares qualitatively with modern capital markets in developed countries. The post-Independence era has brought about two major qualitative changes in the infrastructure of the capital markets in India: (i) greater institutionalisation of the financing, and, (ii) predominant Government regulation over organised finance.

This was secured by the setting up of various financial institutions, commencing with the Industrial Finance Corporation of India in 1948, primarily to assist the establishment of industries by direct financial assistance. Several State Financial Corporations came into being in 1952-63. The Industrial Credit and Investment Corporation of India was formed in 1955, for providing foreign currency loans and guarantees to industries. The Industrial Development Bank of India and the Unit Trust of India were established in 1964 to support the development of industries and to encourage investments.

The developmental financial institutions have played a notable part in the path of progress of the Indian economy. The assistance given by these institutions to industry and agriculture is of the order of over Rs. 1,000 crores annually. With the experience gained in the past, the financial institutions will definitely have a bigger and bolder role to play in the process of industrial development of the country, leading to the economic emancipation of the people of India.

The setting-up of the various financial institutions did enable the captains of industry to exploit their entrepreneurial ability by securing financial resources for projects of merit. Promotion of companies was readily made possible by financial institutions freely providing underwriting and loan facilities. While this has been a positive aspect, there was set in motion a distinctly negative feature, by making industrialists more dependent on financial institutions. In the process, the activity of the Indian capital market to tap the resources of individual investors was blunted, creating almost a vacuum. The accrual of savings with the community was not being effectively canvassed for investments as input of capital for industries.

Government has also acquired ownership and control of institutional funds, beginning with the nationalisation of Life Insurance Corporation of India in 1955 and fourteen Commercial Banks, in 1969. General Insurance was taken over in 1971. There is a Government stronghold on the Central Banking Authority and financial institutions providing long-term finance and on regulation of investments of private savings. Today almost 90 per cent of the investment of organised savings is under the tutelage of Government--a remarkable change in the composition and character of the Indian capital market.

Though resources from savings are available aplenty for investment, and mobilisation of industrial capital is not now so difficult as in pre-Independence days, yet the risk capital in new industries is not able to attract savings, and industrial equities do not get adequate attention from investors. Fresh capital raised annually by joint stock companies in India is just Rs. 100 crores or less.

The following table depicts the quantum of new capital issues through prospectus over the years.

**TABLE III**

**NEW CAPITAL ISSUES THROUGH PROSPECTUS**

(in crores of rupees)

| Year | Capital consent | Capital raised | Year | Capital consent | Capital raised |
|---|---|---|---|---|---|
| 1951 | 33.49 | 7.9 | 1965 | 86.3 | 100.4 |
| 1952 | 19.62 | 4.7 | 1966 | 66.0 | 71.9 |
| 1953 | 48.31 | 12.5 | 1967 | 150.6 | 81.4 |
| 1954 | 80.72 | 33.2 | 1968 | .. | .. |
| 1955 | 66.2 | 26.2 | 1969 | 84.9 | 80.1 |
| 1956 | 96.92 | 45.1 | 1970 | 48.5 | 75.4 |
| 1957 | 51.59 | 24.9 | 1971 | 84.9 | 45.9 |
| 1958 | 55.35 | 55.2 | 1972 | 111.9 | 98.1 |
| 1959 | 89.70 | 71.6 | 1973 | 109.8 | 72.8 |
| 1960 | 114.0 | 87.6 | 1974 | 103.6 | 56.5 |
| 1961 | 133.0 | 88.7 | 1975 | 156.8 | 98.6 |
| 1962 | 163.0 | 73.1 | 1976 | 139.7 | 56.1 |
| 1963 | 141.5 | 55.9 | 1977 | 104.7 | 22.7 |
| 1964 | 138.9 | 94.8 | (upto June) | | |

The volume of fresh capital raised through equity, rights and debentures from the market in 1977-78 was of the order of Rs. 135.5 crores, the highest in the last decade. This performance of the capital market looks reassuring when compared to the figures of Rs. 82.1 crores in 1976-77 and Rs. 93.9 crores in 1975-76. In the last year and a half, the capital and investment markets have recorded a sizable measure of improvement. Public capital issues, phenomenal in size and magnitude, have successfully been marketed by tapping the resources from the savings of the community at large and with institutional support.

Individual investors have been planking their savings in investments of good issues of well established managements. Lately, the fever of fresh investment has caught the imagination of investors, mainly because of the high premia commanded by what are called FERA issues, i.e., capital disinvestments of successfully run foreign-owned companies, which are obliged to seek Indian participation in the capital structure by a fiat of the Government. Most of the FERA Companies are functioning profitably and the earning potential is assured. But many foreign controlled companies had resorted to bonus issues before offering the shares to Indian shareholders at heavy premium. This has evidently been done to ensure the continuity of return on capital.

The future of the Indian Capital market is promising with bright possibilities. Industrial growth has to improve to between 10 per cent and 12 per cent. The present rate of growth is just under 4 per cent. To attain the growth rate target of 10 to 12 per cent, the capital market has to be geared to mobilise savings of the order of Rs. 300 to Rs. 500 crores for fresh investment in new capital annually. Only then will it be possible for our economy to have the impact of capital as a factor of production. Free flow of capital is a pre-requisite for economic growth. In the eighties, I expect the Indian capital market to grow manifold with the number and value of marketable securities increasing in size and quality.

The main intermediaries of the capital market are the stockbroker members of the various stock exchanges in India. They assist in the raising of initial capital for industries and also in the purchase and sale of shares of existing companies. Stock Exchanges also help capital to be raised by Government, quasi-Government agencies and civic bodies. Government is the biggest borrower of long-term loans. Presently Government borrowings by way of Central and

State Government securities is well over Rs. 1,000 crores annually. Today the total outstanding Government marketable loans exceed Rs. 10,500 crores. Of this, individuals hold just 1 per cent and the Life Insurance Corporation of India, Banks and Provident Funds and Trusts hold about 75 per cent.

Individual investors, provident funds and trust monies should be given an opportunity, if necessary with a weightage in their favour, to participate in new issues of Government securities and other loans. This could be done by keeping the subscription list open at least for one full day, similar to the case of new capital issues of companies which have to keep the list open for a minimum period of three days. Presently, taking advantage of a captive market, subscription lists of Government and other securities are closed within minutes of the opening.

Government has entered into industry in a big way in the last three decades and several public sector industrial units have been set up. This financing of public sector industries by Government has led to larger issue of Government loans, and funds were raised from the capital market. Financial Institutions also were financing the public sector companies. The financial burden on Government could have been reduced considerably, if only shares and debentures of the public sector undertakings were offered to the individual investing public. The shares of public sector companies should be thrown open to the investing public. Government should offer 60 per cent of all public sector capital both equity and other securities to the Indian public, similar to the foreign companies operating in India.

This will give an opportunity for Indian investors to get a sense of participation in public sector and lead to greater utilisation of community savings for national development.

Private sector investment has virtually come to a trickle, mostly because of the tirade against big industrial houses in the name of curbing the concentration of economic power, restriction on issue of licences, shifting policies and implementation, denuciation of efficiently managed proven business houses, threat of nationalisation and rejection of applications for expansion and diversification by big houses —all these have had a toll on the industrial growth rate, making it sluggish. The industries are now sought to be fragmented by giving priority to medium and small scale units. The Reserve Bank's annual report for the year ending June 1978 refers to the slackening of investment, shortage of power, and scarcity of important inputs like coal and cement. Unless the taxation, fiscal and monetary policies are growth-oriented and conducive to the promotion of savings, the sluggishness in investment will continue.

Looking back to the last three decades since Independence, one notices with a sense of disappointment, that the cumulative result of actions initiated by Government is, that the strength of the capital market has been sapped, and the individual investor has been impoverished. The unwitting equity investor—not a capitalist by any stretch of imagination—has been unable to get his share of comparable return on investments. This unedifying experience should change and investors should fervently be wooed back to the security industry with necessary inducements and concessions. Without reviving the financial support of the middleclass investors, I do not think our ambitious industrial development programmes will succeed. Savings and investments should be actively promoted by offering attractive concessions in taxation. A radical change in the outlook of the Government is called for in promoting savings and enlarging investments, the pre-requisites for industrial and agricultural development, so as to pave the way for the redressal of poverty.

What is needed presently is quantitative work of tapping the savings of the community in full measure and this has to be tackled in right earnest. In a country with increasing domestic savings of the level of Rs. 10,000 crores, at current prices, of which over 70 per cent is the share of the household sector, and enlarging national income which has reached the size of Rs. 67,000 crores, at current prices, we could easily canvass fresh investments in industrial securities of the order of Rs. 300 to Rs. 500 crores from the market annually.

Ever since 1962, beginning with the Chinese insurgence, the Stock Exchanges could not provide a free market to shares and securities because of several constraints. The major factors that have been responsible for the continued apathy of the Stock Exchange activity could be traced to the fiscal and monetary policies of the Government, with greater accent on socialisation, severe credit squeeze on a wide front, total denial of advances by commercial banks against shares of joint-stock companies, dividend restrictions etc. These have cumulatively contributed to enervate the Stock market, making capital formation for investments extremely difficult and costly. Equity shares had become less attractive. Every worthwhile issue that came into the market till last year had to be fully underwritten to ensure the success of the issue.

But the year 1978 has witnessed a welcome change for the better and Stock Exchange are surging with renewed activity and return of genuine investment business now, as against speculative bouts of buying and selling in the past. A sense of robust optimism is pervading the capital market right now, presenting a golden opportunity for Government to revamp the entire industrial policy.

## STOCK EXCHANGE AND CORPORATE GROWTH

There has been a good deal of misconception in the minds of many about the utility and functions of the Stock Exchanges. This is partly because of ignorance of the relative role of the Stock Exchanges to the economy, and partly due to the lack of effort of the Stock Exchanges to publicise their usefulness to the economy and society. The Industrial Development of India in the last hundred years has been, in no small measure due to the canalising of the savings of the people for investment in industrial securities and the marketability and liquidity afforded by the Stock Exchanges to corporate securities. The steady growth of corporate sector in India over the years will bear ample testimony to the yeomen services rendered by the Stock Exchanges.

## TABLE IV

## CORPORATE SECTOR GROWTH

**(Government and Non-Governmental Companies limited by Share Capital)**

| Period | | | No. of Companies | Capital (Rs. in crores) |
|---|---|---|---|---|
| 1968-69 | ... | ... | 28,024 | 3,974 |
| 1969-70 | ... | ... | 29,009 | 4,325 |
| 1970-71 | ... | ... | 30,461 | 4,424 |
| 1971-72 | ... | ... | 32,612 | 4,765 |
| 1972-73 | ... | ... | 34,922 | 5,457 |
| 1973-74 | ... | ... | 38,384 | 7,187 |
| 1974-75 | ... | ... | 41,808 | 7,597 |
| 1975-76 | ... | ... | 44,489 | 8,837 |
| 1976-77 | (Provisional) | ... | 46,856 | 9,953 |
| 1977-78 | (Quick Estimate) | ... | 49,000 | 11,000 |

## TABLE V

## DEVELOPMENT PATTERNS OF STOCK EXCHANGES

| Years as at December | No. of listed companies | Listed Securities | Paid-up Value Equity | Pref. | Debns. | Total (in crores) |
|---|---|---|---|---|---|---|
| 1946 | 1119 | 1550 | N.A. | N.A. | N.A. | 399 |
| 1961 | 1348 | 2350 | 812 | 158 | 80 | 1050 |
| 1965 | 1837 | 3202 | 1142 | 214 | 277 | 1633 |
| 1970 | 2004 | 3626 | 2092 | 341 | 392 | 2798 |
| 1977 | 2712 | 4751 | 4065 | 436 | 675 | 5176 |
| As on Oct. 1978 | 2784 | 4842 | 4284 | 416 | 458 | 5158 |

There are now 3 million shareholders in India, of whom, individuals constitute 98 per cent. The individual shareholders hold 46 per cent of the Paid-up capital. From the above, it is clear that the Stock Exchanges are serving as the kingpin of the economic development of the country.

The stock Exchanges, the main limb of the capital market, should be permitted to function effectively. Then, there will be adequate capital formation for providing the risk capital to industry.

*The views expressed in this booklet are not necessarily the views of the Forum of Free Enterprise.*

"People must come to accept private enterprise not as a necessary evil, but as an affirmative good".

—**Eugene Black**

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# Have you joined the Forum?

The Forum of Free Enterprise is a non-political and non-partisan organisation, started in 1956, to educate public opinion in India on free enterprise and its close relationship with the democratic way of life. The Forum seeks to stimulate public thinking on vital economic problems of the day through booklets and leaflets, meetings, essay competitions, and other means as befit a democratic society.

Membership is open to all who agree with the Manifesto of the Forum. Annual membership fee is Rs. 15/- (entrance fee, Rs. 10/-) and Associate Membership fee, Rs. 7/- only (entrance fee, Rs. 5/-). Graduate course students can get our booklets and leaflets by becoming Student Associates on payment of Rs. 3/- only. (No entrance fee).

Write for further particulars (state whether Membership or Student Associateship) to the Secretary, Forum of Free Enterprise, 235, Dr. Dadabhai Naoroji Road, Post Box No. 48-A, Bombay-400 001.

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