

Stock Exchange

## Deficit Financing Played Out

*The Stock Exchange cannot be regarded as a dependable barometer of the country's economic weather in a controlled economy.*

*Aggregate savings of the community are growing under the impact of rising development Expenditure but they are not having any visible effect on the volume of funds available for employment on the Stock Exchange for speculative purposes.*

*Is it not high time for the Stock Exchange to start thinking how best it can adjust itself to the changing institutional set-up?*

"W H A T difference does it make for me or for that matter to anybody if shares go up and down?" asked Shri T T Krishnamachari in a valedictory address to the Commerce Association of the Vivekanand College in February. Surely the Finance Minister could not have been very serious when he asked that question. For, that would imply that the stock market was more of a gambling den where the up and down movements in shares concerned only bulls and bears who were trying to live merely by fluctuations.

It is true that the stock market cannot be regarded as a dependable barometer of the country's economic weather in a controlled economy. But New Delhi's socialism continues to have an important place for the private sector. And stock exchange trends matter quite a good deal for the private sector. Normally it is easier to raise capital when the stock market is in good temper. Of course a declining trend in equity prices is not incompatible with a growing economy. Economic development can take place even without a stock market but that stage has not been reached in Indian-

It would be rash to suggest that equity prices do not reflect the fluctuating fortunes of industry. For, even a casual glance at the Indices for variable dividend securities for Bombay, Calcutta and Madras over a period of years will convince any one that the movements in these regional indices broadly reflect the changing fortunes of textile industry, jute and coal and plantings. The relative movements in the variable dividend securities for different industries indicate that these industries have not been marching in step.

To consider that the changing fortunes of an industry have an important bearing on the course of prices of shares of that industry

is not to suggest that fiscal and monetary measures and political climate cannot seriously deflect the course of equity prices. The behaviour of Indian Iron (Clive Street's barometer) has an important lesson. These shares have been declining for long despite the company's impressive performance. Why? Because the Government is unwilling to allow the shareholders to share increased profits until the company has completed its expansion programme and discharged all its obligations to the Government and the World Bank. It is true that the company is becoming financially stronger, thereby increasing the intrinsic worth of its shares. But what is that to the shareholders? Where is the guarantee that this basic industry will not be nationalised before the shareholders are allowed to benefit from larger profits? Dividends may be strictly controlled in future.

### Inevitable Fall

Dalai Street's performance provides the basis of discussion of stock market trends in these columns every week. Trends in Calcutta and Madras are not very different but those markets have their own peculiar problems and it is not possible to deal with them in this small article. Equities have been declining since about the last week of August 1956. The table overleaf gives an idea of the huge depreciation in share values between August and May. This has led the stock exchange fraternity to talk about crisis of confidence and T T K has been blamed for this "crisis".

But the decline was Inevitable. For nearly three years Dalai Street had been gambling heavily on the inflationary implications of deficit financing under the First Plan. By about August, equity prices had been bid up to levels which reduced yield on first class issues to barely three-and-a-half per cent when call

money fetched that much. Equity prices were marked up despite the declining profit margin, as indicated by the relative movements in the index numbers for prices of industrial raw materials, manufactured goods and food articles. Between September 1955 and August 1956 the price index for manufactured articles rose only by 22 points from 368 to 390 while the index for industrial raw materials advanced by 114 points from 392 to 506 and that for food articles rose by 96 points to 402.

### "Crisis of Confidence"

Guardians of shareholders' interests and champions of investor's cause, who are now playing up the "crisis of confidence" and are cursing the Finance Minister for his taxation measures to finance the Plan, took no serious notice of the speculative rise in equity prices to levels which had reduced the yield to even below the Bank Rate. They did complain about the continued stringency in the money market and also expressed their dislike for New Delhi's socialism but they did not care to draw investors' attention to the speculative boom in prices.

One does not have to conduct a very searching inquiry to conclude that speculative activity provides the mainstay of Dalai Street. Genuine investment business handled by the stock exchange is hardly sufficient to enable fifty brokers to make a living. The volume of speculative business has been steadily declining in recent years because political and fiscal trends are not conducive to the accumulation of big private fortunes. Although so much is often heard about the small middle class shareholder constituting the backbone of joint-stock enterprise, he has never been considered an important client by a stock-broker. Not many brokers care to woo the small investor and



## Power to Grow Electrically

A Nation's onward march is a travail necessitating constant widening of its citizens' opportunities for advancement. In other words the watchword is to grow. Growth is a challenge and its life blood is electricity flowing through the arteries of industrial plant and distribution systems serving the people in diverse ways.

The Electric Supply Industry organized through the Federation of Electricity Undertakings of India are endeavouring to meet the challenge of India's growth by making available electric power as economically as possible.



few of them are really competent to guide him.

### End of Bull Market

To come back to the story of fluctuations, the three-year-old bull market came to an end in August 1956. The decline between August and November was regarded generally as an important correction of the preceding upward trend. The cloth muddle following the excise duty rise in September did cause serious misgivings about the outlook for the cotton textile industry but it was only the sharp break in equities after the Supplementary Budget on November 30 that market commentators began to think seriously in terms of a change in the major trend.

As sentiment deteriorated with the decline in prices, Dalai Street began to show increasing awareness of acute monetary stringency which compelled the authorities to raise the official lending rate and necessitated an upward revision of market ideas about yield on industrial shares. Few had bothered about yield in a rising market, because of gains from capital appreciation. The stock market may not have found much difficulty in reconciling itself to the Capital Gains Tax and enhanced Dividend Tax but it was scared by the compulsory deposit scheme, which is not merely intended to prevent frittering away of reserves by the companies but also to direct industrial development in the private sector along particular lines.

### Sharp Rebound

The downward trend in equities, which started in August 1956, came to an end with a panicky sell-off on May 16, a day after T T K had disclosed his taxation measures. Dalai Street never had any serious doubts about T T K's firm determination to raise domestic resources to the maximum for financing the Plan. Wealth Tax and Expenditure Tax had been anticipated even in the previous year but few had imagined that companies would also come within the purview of Wealth Tax. An increase in bonus tax had been generally forecast but the rise was more than most market men had bargained for. Increase in corporate taxation outweighed concession in dividend tax and earned income relief.

Errors of optimism and pessimism account for the periodic swings in stock prices against the

primary trend. Technical forces assert themselves when the major trend has been in progress for too long. Bears had been dominating Dalai Street for nearly nine months. They exploited New Delhi's socialism almost with a vengeance. T T K's taxation measures came in very handy. That the technical position had become extremely vulnerable became evident when the Life Insurance Corporation entered the market soon after the May-Budget shake-out.

Whether the Life Insurance Corporation's selective support was intended to restore confidence in the investment market, it is difficult to say. But it did help to stem the rot because it came at a time when technical considerations favoured recovery. Bulls had been watching carefully the steady improvement in the technical position of the market. They became aggressive when the Finance Minister told representa-

tives of the business community that New Delhi was anxious to encourage private enterprise, which had a very important role to play in the Plan.

### Blissfully Vague

Shri Krishnamachari was also reported to have said that compulsory deposit scheme and excess dividend tax were temporary expedients and that there was scope for refinements and modifications in wealth tax and expenditure tax. Take away the compulsory deposit scheme, excess dividend tax and wealth tax on companies; there will be a boom on the stock exchange. Dalai Street's remarkable buoyancy in recent weeks, therefore, may not seem surprising. But Dalai Street's reaction to the Finance Minister's talks with business men in Calcutta and Bombay seems impulsive. It is true that T T K spoke in a very conciliatory tone but he made no promises. All that he said was blissfully vague.

## PRICE TREND ON STOCK EXCHANGE

Name of the Co	Highest in 1956	Pre-Interim Budget Closing on 30-11-56	Closing on 1-12-56	Pre-Budget rates on 15-5-57	Next Day of Budget Lowest on 16-5-57	App. Fall in percentage on the basis of highest in 1956
Tata Ord	216.00*	192.50	180.75	165.75	146.00	32.35
In Iron	39.16	34.03**	31.44**	19.50*	16.55	48.00§
Tata Loco	185.00	171.00	158.00	150.00†	134.50	27.00
Alcock	385.00	318.75	301.25	256.25	240.00	38.00
In Copper	7.59**	4.19*	3.50	3.42†	3.12	37.50§
P Const	224.00	212.50	191.50	149.00†	134.50	40.00
B Dyeing	702.50	625.62	586.87	531.00†	491.00	30.00
Century	609.50	550.50	510.50	444.00†	390.00†	36.00
C I Spg	171.00	132.50	128.50	111.00	102.00	40.00
Finlay	385.50	338.00	316.00	276.00†	262.00	32.00
Indu Ord	14.56	12.19	11.82	9.95†	9.45	35.00
Kohinoor	402.00	345.00	323.50	316.50†	292.00†	27.35
N Rayon	276.25	262.25	248.00	222.50†	198.00†	28.00
Simplex	229.00	195.50	185.00	168.50	160.00	30.00
Standard	500.00	476.25	445.00	415.00†	374.50	25.00
Svadeshi	277.00	253.50	236.00	211.25†	197.25†	29.00
Scindia	19.69	19.19	18.12	18.25†	16.60†	15.70
H Motors	10.81	9.19	8.69	7.15	6.70	38.00
P Auto	118.00	114.50	103.00	90.00†	85.00	28.00
A C C	226.50**	194.75*	185.00	158.75†	142.00	28.75§
Belapur	356.00**	257.50	245.00	220.00†	205.00	16.00§
B Burma	800.00	701.25	633.75	548.00†	485.00	39.35
B I C	13.20	10.22	9.69	6.30	5.85	55.70
B B Petrol	4.59	3.25†	3.00	2.58	2.34	49.00
Tata Chem	20.90	19.59	18.37	16.35†	15.25	27.00

\*—XR

\*\*—CR

†—XD

‡—CD

§—On Ex-right basis.

July 6, 1967

Dalal Street, which had been parading the acute crisis of confidence for quite some time, has retraced<sup>1</sup> nearly 40 per cent of the decline since August 1956 in barely three weeks. This is the magic of fluctuations. It would be unwise to assess the investment outlook on the basis of the Finance Minister's hint that the compulsory deposit scheme and excess dividend tax are temporary measures. As for modifications in the wealth tax, the Select Committee's verdict will be available in a few weeks. It is unlikely to meet market's expectations.

This is not to suggest however, that the recovery in equity prices after the Budget shake-out is unwarranted. Improvement is essentially technical and it would be idle to suggest that it reflects a change in the Finance Minister's attitude towards the private sector. The increase in retention prices of steel announced on July 1 is likely to have a further tonic effect on the market because of the popularity of Steel shares. Technical analysts think that Dalai Street is having a mark-up phase of a secondary rally. It is risky to forecast how a secondary movement will progress week after week.

#### Basic Change in Yield

Few observers expect Dalai Street to cross its August 1956 mark because of a basic change in yield ideas. Indian speculators are quite an aggressive lot and they can play havoc with prices once they gain control over the market. Even so, equity prices cannot be sustained for long at levels where they fetch even less than the Bank Rate. Monetary stringency has virtually come to stay. Bulls cannot derive much comfort from the inflationary implications of increased development expenditure because the banking authorities are determined to see that credit is not used for speculative purposes. Of course it is not easy to ensure the ultimate use of credit. There is no indication yet that price trends of food articles, industrial raw materials and manufactured articles are favourable for an increase in industry's profit margin.

Equities will continue to fluctuate. But the stock exchange is unlikely to regain its prosperity despite the rising tempo of economic development under the Plans. It is not that stock exchange is not interest-

ed in the country's prosperity but It is even more interested in the methods adopted to bring about that prosperity. Aggregate savings of the community are growing under the impact of increasing development expenditure, but these savings are being progressively institutionalised. In any case they are not

having any visible Effect effect on the volume of funds available for employment on the stock exchange for speculative purposes. Is the stock exchange trying to devise measures to popularise and sell investment to the small man? It must, if it is not to remain merely a battlefield for bulls and bears.



You'll feel fresh and cool in dainty handloom cotton sari. Cholis in matching or contrasting handloom materials. - Easy to wash, durable and inexpensive, Indian handloom fabrics are woven in a range of textures, patterns and colours.

## HANDLOOM FABRICS

ALL INDIA HANDLOOM BOARD  
SHAHIBAGH HOUSE, WITTET ROAD, BOMBAY.



DA-57/67