

Book Reviews**A Useful Compendium**

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Rs 17.50 *The Capital Market, of India* by S L N Simha. Vora & Co, Bombay, 1960 pp 300. Price

THE literature on industrial finance in India is abundant, thanks to the inclusion of this subject in University courses, which provides a guarantee of sales to books on the subject. Publishers and authors alike produce what they believe the market demands. Barring a few exceptions, the results are not very happy. A familiar comment or two on managing agency and official financial institutions, a rearrangement of data and chapters, and you have another book on industrial finance, the marginal utility of which is near-zero. Books on other 'Indian Economic Problems' are, in general, no better but they at least have the excuse of difficulty of securing reliable data. Information on industrial finance is much easier to collect but authors apparently hate to move out of the groove.

It must be said to the credit of Shri Simha that he has widened the area of data collection. In addition to the perennial history and working of the managing agency system and official financing agencies, he also covers the Companies Act, capital issues, the stock exchange mechanism and its regulation, L I C operations and a useful resume of Reserve Bank studies on company finances. The book is perhaps the best on the capital market available at present. The reader may, nevertheless, feel on several occasions that Shri Simha has merely collected a large number of building blocks and left them lying around. An immense amount and variety of facts have been put in, but the only major conclusion to emerge is that the Indian capital market is by no means underdeveloped; its constituents merely suffer from inadequate specialisation. This fact had been suspected for some time but coming as it does from a senior economist, the conclusion, one hopes, would be duly noted by future writers on the subject.

Shri Simha does not discuss whether the level of development of institutions is to be judged primarily by the amount and variety of the services which they provide or by

the extent of their functional specialisation. The capital market cannot divorce itself from the general pattern of the economic structure. If the economy as a whole and industrial management in particular is not, in general, characterised by a high degree of functional specialisation, it is idle to look for such specialisation in the capital market alone. If stockbrokers are also jobbers, financiers and (now increasingly) industrial entrepreneurs, the phenomenon is no different from the multiple occupations of farmers and large industrial houses. This inadequacy of specialisation could itself be considered an aspect of undevelopment since it reflects the limited amount of progress we have made, and the shortage of talent, resources and experience for carrying out the variety of functions created by industrialisation.

The author believes that integration of the capital market is proceeding well and institutional intermediaries are playing a larger role. There is no need for any new official agencies. The emphasis should now be on the balanced growth and coordination of existing institutions, since their gestation period is already over. (Does this apply to the Refinance Corporation and most of the State Financial Corporations as well?). The blame for heavy speculation on the stock exchanges is placed squarely on Government policies. This conclusion may be substantially correct but Shri Simha's cryptic reasoning is not likely to convince those readers who are not convinced already.

Some of the remarks and suggestions made by the author merited a somewhat detailed discussion. They are instead left hanging. For instance, the fact that company profits in India compare, on the whole, favourably with those in leading Western countries could have been analysed in some detail to highlight the incentives offered in the form of tax holiday, development rebate, etc. Shri Simha believes that the

enforcement of banking legislation has not been satisfactory but "it would appear that the situation is being remedied"; one does not know the precise reasons for his earlier dissatisfaction and subsequent contentment with the remedy. He would like a greater measure of control over the utilisation of the owned funds of companies but he does not indicate how it should be done. He sounds a note of caution against excessive bank lending to industry since the ratio of bank credit to deposits is already high at around 65 per cent (after excluding P L 480 deposits). He is not very optimistic about the prospects of the Credit Guarantee Scheme for small industries. State financial Corporations, he opines, should not raise their interest rates further and should finance working capital requirements only if banks cannot do so.

A plea is made for Unit Trusts but the nature of their organisation and operations is not amplified anywhere. This is a rather serious omission in a book which purports to be an introduction to the capital market. The chapter on finance for rural investment could have been safely omitted. Its conclusion is a masterpiece of negativism: "It is hard to say to what extent the hope of the authorities that 'co-operation must succeed' will eventually be realised, but the experience of the last few years does not suggest that the hope be abandoned". The problems of housing finance and so-called investment trusts are treated rather perfunctorily. It is doubtful whether "thousands of private trusts have to put in their funds predominantly in Government securities" and also whether the contribution of managing agents to the finances of companies under their management can be judged by the ratio of the paid-up capital of the former to that of the latter. One hopes that a revised edition of this useful introductory study of the capital market would come near to fulfilling the long-felt need for a thorough and detailed analysis of the subject.

