INTRODUCTION

This thesis has two purposes. One is to update the study of industrial concentration in India. By examining the concentration in various corporate parameters between 1976-77 to 1980-81, we attempt to advance the factual knowledge about concentration in India to a near enough date permitted by availability of data. The second is a theoretical analysis of the effect of monetary policy on industrial concentration illustrated by the data of this period.

The study is largely based on the RBI sample of 1720 medium and large public limited companies of the private corporate sector for the period 1976-77 to 1980-81. The choice of the time period 1976-77 to 1980-81 is motivated by the desire to update the study of concentration with the widest possible coverage of the private corporate sector. But an additional significance of this period lies in the re-orientation of government policies on industry towards growth and away from egalitarianism in a pronounced manner from around the mid-seventies. In this period a large number of controls were relaxed and additional incentives given to industries for re-investing their profits, exports, etc. However, this was the nascent period of liberalisation which accelerated in full throttle from 1983 onwards. What kind of transformations took place in this interim period with regard to the structure of the private corporate sector and what was the structure prior to the acceleration of liberalisation? These are some of the questions which may be important in view of the current policy debate on liberalisation in the Indian economy.
The period 1976-77 to 1980-81 also witnessed some developments relating to the functioning of the banking sector. Between 1976-77 and 1980-81, there was a steady tightening of controls on the expansion of bank credit. The cash reserve ratio (CRR) was raised from 4 per cent to 6 per cent in addition to impounding of 10 per cent of incremental net demand and time liabilities accruing to the banks since January 1, 1977, by the RBI. The statutory liquidity ratio (SLR) was raised from 33 to 34 per cent. Nearly half the non-resident account deposits were impounded by the RBI and various other controls were placed on banks to restrict expansion of credit. Finally, the maximum and minimum rates of lending were also raised in this period. In the case of the former, the ceiling rate went up from 16.5 per cent to 19.5 per cent while in the case of the latter, the floor rate went up from 12.5 to 13.5 per cent. Thus, the most prominent instruments of India’s monetary policy were being applied consistently during the period, and the period thus offers an interesting backdrop for our theoretical study of the impact of monetary policy on industrial concentration.

The availability of data posed some problem for this study. When this study was taken up, comprehensive data, in terms of coverage of the corporate sector as such, as well as over time, which could be of utility for our purpose, was not available for the private corporate sector. The Reserve Bank of India had intensive data on 1720 medium and large public limited companies but it was only for a limited period. On the other hand this was the widest coverage for the private corporate sector available at that point of time. There had to be a compromise between time
and coverage and we opted for the latter. Data for 1981-82 and 1982-83 would certainly have helped strengthen the data base of the study, but these were not yet available with the RBI.

In short, we are examining the functioning of the private corporate sector in the phase when liberalisation moves were being initiated in order to provide greater maneuverability to industry by relaxing certain controls. At the same time, there was a restrictive credit policy being followed which primarily affected the growth of bank credit. We are interested in analysing what bearing the extant monetary policy had on the phenomenon of an ongoing process of industrial concentration. An important query subsumed in this broader question is how do the variations in bank credit have any impact on the performance and structure of the private corporate sector.

It would be necessary to outline, what do we mean by the term concentration of capital. This is a term extensively used by Karl Marx (Capital, Vol. III) while explaining the process of intensification of internal contradictions of capitalism. It means the increasing expansion of capital in the hands of a single entity either by way of ownership or control. This concentration of capital leads to the concentration of production in which certain large enterprises occupy a substantial part of the economic space in an economy. Concentration of production in turn accelerates the concentration of capital. Thus, the two are mutually complementary processes, whose ultimate result is the formation of giant private monopolies which have tremendous access to resources and technology.
The structure of the thesis is as follows. In Chapter I, we survey the literature on monopolies. In this chapter we take a look at the various interpretations with regard to the role of finance contributing to the growth of monopolies. We also take a look at various empirical studies on growth of monopolies in order to see whether there is in fact a tendency towards concentration in advanced capitalist countries like the United States of America and the United Kingdom. In the next part of this chapter, we attempt to look at the origins of monopolies in India, and especially its links with sources of finance. After Independence, there were a series of official and unofficial studies on monopolies till 1977. We attempt to briefly outline how, in the more important of these studies, the role of banking and finance has been seen in terms of their contribution to the growth of concentration of industrial capital. Finally, we also take a look at the growth of the private sector, its changing structure and performance over time. This chapter, therefore, provides the background for the later discussion on the role of monetary policy in aiding the process of industrial concentration.

In Chapter II, we begin by looking at the limitation of contemporary theory in examining the role of monetary policy on industry and firms. From here we proceed to define what monetary policy is and its scope. There have been sharp differences on this score and this chapter also briefly surveys the debate on this question. In the later part of this chapter, we examine how monetary policy operates in the Indian context. The fact remains that in the Indian economy, there is a significant difference in
the nature of the banking sector with the state playing a major role in this sector, not only in terms of controlling the major portion of commercial banking directly, but also by way of strict regimentation of their functioning. Given this character of Indian banking, the use of various instruments of monetary control by the monetary authorities has a different kind of impact than in an economy, where the banking sector is not so highly regimented. We take up this question by examining the assets-liability equation of the banking sector and the inter-relationship of its various components. With an exogenous change in the parameters of monetary policy, we attempt to answer why the impact on medium and large industry is likely to be more severe, theoretically.

In Chapter III, we take up an analysis of the performance and structure of the private corporate sector in India between 1976-77 and 1980-81. We base our observations on the sample of 1720 medium and large, public limited companies, the information on which was obtained from the Reserve Bank of India, Bombay on computer tape and processed at the Regional Computer Centre, Jadavpur. This is a fairly large and representative sample for this segment of the private corporate sector. In this chapter, we categorise this sample into various size groups and analyse the performance of each of the size groups with respect to some of the key variables and ratios. The movement of these variables and their differences across different size groups indicates certain trends and changes in the structure of the corporate sector. We try and bring out these salient points. Finally, we also try to
identify the points of commonalty and divergence from earlier studies on the behaviour of these variables for the corporate sector.

In Chapter IV, we take up the data pertaining to the 1720 companies and define the relationships between various parameters of corporate performance using econometric tools. The exercise in this chapter has been done by pooling cross-section and time series data since we did not have sufficient number of observations either cross-section or time series to arrive at statistically valid conclusions. In this chapter, we also explain the method of analysis, how the problems of pooling and other econometric problems like that of heteroskedasticity, autocorrelation and multicollinearity were overcome, the limitation of the data and the caution with which the results can be interpreted.

In Chapter V, the attempt is to solve the problem of isolating the effect of monetary policy from non-monetary factors. In this chapter, with the help of a simulation model and a set of assumptions of corporate behaviour, we set out to explore alternative tight money policy scenarios and examine how this influences corporate performance and structure.

In the concluding chapter, we give an overview of our findings. The limitations of the study are also explored in some detail. There are some broad inferences that are drawn from our findings in the previous chapters. These imply certain suggestions for policy changes with a view to minimise the role of monetary policy in facilitating the process of industrial concentration.
A bibliography, containing the list of books, articles and reports - government and non-government - which have been referred to in this thesis follows Chapter V.

Finally, an appendix has also been provided after the concluding chapter. This appendix contains the basic data pertaining to the sample of 1720 medium and large public limited companies for the years 1976-77 to 1980-81, on the basis of which the analysis in chapters III, IV and V were carried out.