In a capitalist economy, finance plays a crucial role. It is the provisor of money capital for industries -- both for investment and for normal day-to-day operations. Given this role of finance, how does it facilitate or accelerate the process of concentration of industrial capital? This is the central focus of our study. Though this study is based on developments relating to the Indian economy, it would be useful to look at some of the literature on this area to see how finance and concentration of industrial capital have been related.

The earliest insight on the role of finance in bringing about a transformation in the process of accumulation of capital is that of Karl Marx. In his monumental work, Capital, Marx deals with the process of "transformation of many small capitals into few large capitals." Aiding this process is the credit system, according to Marx. The laws of motion of capitalist society would lead to the expropriation of individual producers and concentrate the means of production in the hands of associated producers. Coming to the specific role of credit in facilitating the process of concentration, Marx said "In its first stages, this system (the credit system) creeps in as the humble assistant of accumulation, drawing into the hands of individual or associated capitalists by invisible threads the money resources which lie scattered over the surface of society, but it soon becomes a new and terrible weapon in the battle of
competition and is finally transformed into an enormous social mechanism for the centralisation of capitals.\footnote{1}

Marx thus recognised the role of money and credit in aiding and assisting the process of concentration and centralisation of capital. The credit system offers to the capitalist an absolute command over the property and capital of others and, thereby, command over social labour. But Marx was not analysing monopoly capitalism. He only referred to the trend towards concentration and centralisation of capitals at a time when competitive capitalism was still the dominant form and assumed to be the 'natural law' by the then dominant sections of political economists. Monopoly capital in the form of giant enterprises began emerging in Britain, Germany and the United States towards the end of the 19th century. This development was taken up by Lenin for a critical analysis of the monopoly phase of capitalism in his book --"Imperialism, the Highest Stage of Capitalism". One important aspect of the imperialist stage was that industrial capital came to be increasingly dependent on banking finance and thus under the dominance of a financial oligarchy. Even the big industrial combines were dependent on banking finance. Taking up the German iron and steel industry and the big coal companies, Lenin observed that "an ever-increasing number of enterprises in one or in several different industries join together in giant enterprises, backed up and directed by half a dozen Berlin banks".\footnote{2} Thus a few banks were put in a favourable position to

\begin{itemize}
\end{itemize}
dominate industrial capital which finally merged together to form finance capital.

Lenin also referred to the ingenuous method of control of the bourgeoisie over vast sums of capital in the form of parent companies controlling subsidiary companies which in turn controlled other companies. While the mother firm was controlled by the promoter, the subsequent controlling was done nominally by the principal company but actually by the original promoter. By such a system of interlocking, it is possible to control vast amounts of capital with a much smaller initial capital. A company with freely available funds would buy the controlling equity share in another company which in turn would utilise its free funds to acquire controlling equity share in another and so forth. Lenin observes that during times of boom, finance capital's profits are immense. But during times of depression, businesses go out of existence and the big banks acquire such businesses for a song or participate in profitable schemes for their reconstruction and rehabilitation. These activities of the banks achieve two-fold objectives - they provide profits and help banks acquire control over companies in difficulties. 3

Lenin surmised that the concentration of banking in the late 19th century and the early part of the 20th century laid the foundation for the control of almost the whole of the money capital of all the capitalists and small businesses. "When, however, this (banking) operation grows to enormous dimensions, we find that a handful of monopolists subordinate to their will

3. Ibid., pp. 53-54.
all the operations, both commercial and industrial, of the whole of capitalist society; for they are enabled by means of their banking connections, their current accounts and other financial operations -- first, to ascertain exactly the financial position of various capitalists, then to control them, to influence them by restricting or enlarging, facilitating or hindering credits, and finally to entirely determine their fate, determine their income, deprive them of capital, or permit them to increase their capital rapidly and to enormous dimensions, etc." 4

"As regards the close connection between the banks and industry, .........., a personal link-up, so to speak, is established between the banks and the biggest industrial and commercial enterprises, the merging of one with another through the acquisition of shares, through the appointment of bank directors to the supervisory boards (or board of directors) of industrial and commercial enterprises and vice-versa." 5 "The concentration of production; the monopolies arising, therefrom, the merging or coalescence of the banks with the industry - such is the history of the rise of financial capital and such is the context of that concept (finance capital). Finance capital is highly concentrated capital, controlled by banks and employed by industrialists. 6

Hobson in his work on the tendency towards monopoly in modern capitalism, noted the advantages that large banks had over small banks. He observed that "the advantage of a large capital over a small capital is normally greater (in finance) than in any

4. Ibid., p. 34.
5. Ibid., p. 40.
6. Ibid., p. 45.
other business operation." The joint stock companies who had control over "co-operative capital, drawn from inumerable private sources, (and) welded into large masses and utilised for profitable industry" replaced the private financiers who could no longer advance the sums of money required for the establishment of modern enterprise. But he believed that monopolies were inevitable since the countervailing effects on the tendency towards monopoly were not strong enough to reverse the tendency in any case.

The progress of industrialisation leads to an increase in the fixed capital requirement for investment, says Duncan Burns. Burns argues that this increase in fixed capital requirements leads to gaps in financing of this investment. The firm has internal resources and augments these resources by borrowing from banks, capital market etc, which are traditional sources. These sources are not capable of providing in entirely the heavy capital requirement needed for the purpose. The problem to a certain extent has been solved by the creation of specialised financial institutions which have been especially geared for lending towards fixed capital. These institutions have augmented the flow of funds from internal sources and traditional external sources.

However, the volume of funding by all these institutions have not been adequate at all times. "For large firms whose reputations are high and whose shares are marketable, the institutions ...... have seemed adequate." "For smaller firms --

What we have outlined above is a brief survey of literature relating the role of finance in the process of concentration of capital. The fact remains to be seen if all these hypotheses, which emphasise the advantages of big capital over small have any empirical grounding, especially in the post-war period, when capitalism has had uninterrupted growth in most of the advanced countries. The purpose is not to draw conclusions and accept the hypothesis that finance helps concentration of capital if there has been an increase in the concentration of capital or to reject the hypothesis if there has been a decline. The idea is to get some information as to what is happening in industry in the advanced countries. We shall look at some of the empirical findings of various firm size studies, most of which are based on the experience of the United States and Britain.

Section 2: Empirical Studies on Concentration and Monopolies

There is a vast body of literature relating firm size and growth. It is not our purpose to go into the entire literature but to briefly report the findings of the studies on firm size and growth that are more relevant for our purposes. The important aspect to note about these studies is that the conclusions have been based on different samples and differing methodologies. As can be seen, the conclusions are also varied.

Smythe, Boyes and Peseau analysed the performance of the Fortune 500 firms in both the United States and United Kingdom.

and found that the smaller firms were growing faster than the larger firms in the group between 1963 and 1972. This was irrespective of whichever measure of size they considered -- assets, sales or employment.  

Dunning and Pearce contradicted these findings when they found from their sample of the world's 2000 largest firms that there was no correlation between size and growth. However, they found evidence of some evidence of a positive correlation between size and profitability.

Storey and others found that a striking feature of the performance of the smaller firms was the extreme volatile nature of their performance and the high mortality rate among this category of firms.

Studies of UK firms by Boswell revealed no significant relationship between firms size and growth. This was corroborated by Singh and Whittington who too did not find evidence of any such statistical relationship. But later studies by Hart of the performance of firms in the United Kingdom between 1920 and 1962 found that larger firms grow faster than

smaller firms. Meeks and Whittington too came to the conclusion based on their study of large firms in the United Kingdom between 1948 and 1969. Their finding was that most measures of size of firms reveal a significant correlation between firm size and growth.

In this section we have surveyed some of the literature on the theory relating monopolies and the role of finance in the growth of concentration of capital. We have also very briefly surveyed some literature on the empirical findings with regard to the growth of large firms vis-a-vis smaller firms in the United Kingdom and United States. There is no unanimity of opinion on whether large firms grow faster than smaller firms or vice-versa. The findings of faster or slower growth depend on the sample considered, the time period which is being analysed and the methodology. We now take up the Indian experience and the relevant literature in this area in the subsequent sections.

Coming to the studies on monopolies in India, after independence, prevention of concentration of economic power in private hands has been laid down as a policy objective in India. Research and reviews on various aspects of this problem have been conducted by individuals and government-appointed committees.

The reason for the concern on the growth of monopolies and the concentration of wealth was officially that first, the presence of monopolies in any line of activity distorts the output and price structure thus placing the consumer at a handicap. Second, concentration in an industry has deleterious effects on productivity and efficiency in the industry when the larger firms prevent the entry of other firms or chase out smaller firms by resorting to unfair practices. Last, concentration of capital at the aggregate level, by creating huge vested interests, gives an anti-people slant to the political structure of the country.

OFFICIAL STUDIES ON MONOPOLIES

Till 1960, the government of India had not taken into account how the planning process and the developmental efforts of the country were yielding lop-sided benefits to different sections of society. In 1960, an expert committee was set up to go into the question as to who benefited from the additional income that had been generated in the economy as a result of developmental efforts.

The Planning Commission appointed Prof. P.C. Mahalanobis to "ascertain the extent to which the operation of the economic system has resulted in the concentration of wealth and means of
production." Some of the findings of the committee were:
a. "that the working of the planned economy has contributed to
(the) growth of big companies in Indian industry. The growth of
the private sector in industry and especially of the big
companies has been facilitated by the financial assistance
rendered by public institutions like the Industrial Finance
Corporation of India (I.F.C.I.), the National Industrial
Development Corporation (N.I.D.C.), etc."
b. the major beneficiaries of bank credit were the big and
medium-sized enterprises.\(^{16}\)

The Mahalanobis Committee recommended that the government of
India set up a commission "to enquire into the existence and
effect of concentration of economic power in private hands."\(^{17}\) On
the basis of this recommendation, the government appointed the
Monopolies Inquiry Commission (M.I.C.).

The M.I.C. concentrated on the role of the industrial
licensing system, which though seen as an instrument to control
the growth of industrial monopolies, the actual working of the
system produced contrary effects. But it also looked at the
working of the financial system and its impact on concentration.
The working of banking and financial institutions, wherein, big
business had an edge over small in obtaining assistance, was
pointed out as being another factor in facilitating the growth of

\(^{16}\) Government of India (1964), Planning Commission : Report of
the Committee on Distribution of Income and Levels of Living,
Part I Delhi.

\(^{17}\) Government of India (1966), Report of the Monopolies Inquiry
In July 1966, the Planning Commission requested Dr. R.K. Hazari of the University of Bombay, to conduct a review of the industrial licensing system. In its final report, the highlights of the findings were how a system which was ostensibly designed to prevent concentration has been manipulated and subverted precisely to obtain the contrary effects. In July 1967, a three-member Committee under the chairmanship of Professor Thacker, the Industrial Licensing Policy Inquiry Committee (I.P.L.I.C.) was appointed to inquire into the actual working of the licensing system. The Committee submitted its report in July, 1969. The I.L.P.I.C came to similar conclusions as that of the Hazari committee with regard to manipulation and subversion of the licensing system. 19

In July 1969, 14 major banks with deposits of Rs. 50 crores or more were nationalised. This move succeeded the period of social control of banks which was in force since 1968. The reasons that were outlined in favour of nationalisation were that funds mobilised by the banks from general public were being diverted for the use of a few large industrial houses. These banks had failed to tap resources from the rural areas and also failed to channelise resources for rural development and small industries. In addition, there was general misuse of funds in the hands of the bank which was being used for speculation in

foodgrains and other essential commodities. Finally, these banks were charged with failure to support the Five Year Plans and the social objectives therein.

After the nationalisation of banks, there were no other major official studies on monopolies and concentration of economic power till 1977. In June that year, the government of India constituted a High-Powered Expert Committee to look into the Companies Act and the MRTP Act, and recommend suitable review of the above Acts. The Committee, in its report in August 1978 noted "that concentration in economic power, however, cannot be curbed by the mere fixation of any monetary limit. This is because the expansion of a group beyond a point can happen only with the full knowledge, and in many cases, with the approval of the government." 20

UNOFFICIAL STUDIES

In a study covering approximately 1000 public and private companies in which twenty selected corporate groups had some sort of interest, Hazari found striking evidence of a "clear and significant increase in the concentration of economic power in the corporate private sector between 1951 and 1958,". 21

Inter-corporate investment became the main instrument for the control of companies. About 83 per cent of the additional contribution by the controlling interests came from companies, 12

per cent from Trusts and only 5 per cent from individuals."
Between 1951 and 1958 while some of the groups maintained a
strong net worth positions, they grow at a much slower pace than
some of the other groups who relied extensively on borrowings to
finance their expansions and grew much faster. Between 1951 and
1958, though total liabilities of public companies doubled, the
loan component trebled. As a percentage of total liabilities, loans increased from 19.6% to 30.6%.22

Bimal Jalan pointed out that licensing has made little or
absolutely no impact in the prevention of concentration of
economic power. "In order to show that the licensing system was
biased in favour of "bigness", one would have to compare the
extent of concentration under licensing with the concentration
that would have resulted if there were no licensing. "In the
absence of such an analysis, it unfair to assume a particular
distribution of economic power that we would like to see, and
then blame the licensing system for the fact of not having
achieve this." The focus on licensing as a perpetuator of
"bigness" has led to the focus on licensing as the means to
achieve a wider diffusion of economic power."23

Amiya Bagchi, in a review of Hazari's 'The Structure of
Corporate Private Sector' attacks the author's perception that
the biggest houses run their enterprises inefficiently and,
therefore, it is the medium-sized business groups who have to be
encouraged. This, he argued, pre-supposes contradictory or
opposed interests between big and medium groups, which was not

22. Ibid., pp. 309-16.
really the case. Many businessmen, including the biggest, were helped out with loans from State-sponsored organisations in case of any financial contingency.24

Nanekar refers to a government and monopoly private sector nexus which cannot be broken and is an ever growing one. He refers to growth and equality as antagonistic concepts given the path of development that the country is following. The process of growth of monopolies is but a natural phenomenon and any legislation aimed at its control is bound to be subverted because private enterprise frames its own rules of the game.25

S.K. Goyal points out how over a period of time, public sector financial institutions were manipulated into providing cheap credit for the private sector and the largest beneficiaries of these credits were the big business houses. Though the control of enterprises lay with the promoters, their contributions towards the equity of the enterprise barely averaged around 20%, the bulk of the contribution coming from the public-sector financial institutions. The terms and lending facilites were so liberal that in many cases, the actual cost of completing of a project was completely borne by the public sector's funds which initially had not taken up the project precisely on the grounds that funds were not available.26

In this section, we have attempted to survey the literature on how monopolies have grown since Independence. There have been various interpretations on the growth of monopolies which can be categorised into two broad sets of explanations. First is by way of manipulating the licensing system. Through this, existing monopolies or monopoly houses were able to pre-empt competition and maintain their strangulation over the industry. As cited by numerous studies, this has been a well-used method of subverting competition. The House of Birlas, for example, had a large number of licences which were unutilised precisely because this led to shortages and high levels of profits for the existing producers in the industry in which the Birlas already dominated.

Second, was by way of manipulating the financial system. There have been numerous instances cited where monopoly houses had a control over the banking system (prior to the nationalisation of 14 major banks) and they utilised this control to obtain the requisite flow of funds for their concerns. Even after nationalisation, there were private sector representatives on the boards of nationalised banks and financial institutions, which enabled them to put pressure on the system to obtain loans and credit for their concerns. Through this linkages, monopolies were able to obtain a disproportionately large amount of credit from banks and financial institutions in order to finance their growth at the cost of smaller rivals.

These are not improbable hypotheses, as can be seen from the painstaking evidence unearthed by various official committees and corporate researchers. The basic thrust of these theories are
that there is a nexus between business houses, politicians and bureaucrats and this nexus manipulates the financial system and policy to suit the interests of monopolies which in turn helps the concentration of industrial capital. But this is also a limited viewpoint. It does not consider the possibility of concentration of capital occurring independent of any overt or covert bias in the working of the economic and financial system or resorting to manipulation by monopolies.

The other way of looking at the process of concentration is to examine how given a particular corporate structure in industry, the day-to-day working of the financial system by itself contributes to strengthening and furthering concentration. But in order to do that, we will first have to see how the corporate structure evolved in India. This is what we turn to in the next section.

Section 4: Evolution of Indian Industry and Finance

To understand the emergence and strengthening of monopolies, we shall briefly go into the evolution of Indian industry and finance and related developments.

In the pre-Independence period, financing of Indian industry was mainly done by a) the personal wealth of indigenous business communities who derived their wealth from trading and moneylending activities and later turned their attention to new industrial ventures; b) the capital market which had just come into existence but was fast growing; and c) the system of direct deposits from individual savers on loan basis; and d) the steadily growing commercial banks which provided only working
The development of proper financial institutions had not taken place as yet, and it was only in the case of firms managed by the managing agency houses that there was a nexus between finance and entrepreneurship which gave them access to funds. In all other cases, financing was mainly carried out from personal funds. Also, the closed-circle character of industrial entrepreneurship prevented potential entrepreneurs from entering industry. These are some of the main reasons why India remained industrially backward.

**Emergence of a Modern Credit System**

The banking system, prior to the first world war was entirely geared to the requirements of foreign trade and thus their terms of lending varied not with industrial performance but with slack and busy conditions in trade which had a corresponding reflection in the demand for money. The extreme variation in the short-term rates of interest did not suit industry since industrial investment is essentially long-term in nature, which the banking system, then, was not willing to risk. These variations in lending rates also pushed up the cost of working capital. Further, only established business houses were advanced credit - which then implied European business houses. Inspite of these restraints in lending, there was some supply of long-term capital to industry in the guise of indefinite extensions of short-term capital.

---

In the pre-Independence period, a major portion of the capital invested in European-controlled (mainly British) enterprises comprised ploughed-back profits and capital raised from European residents in India. The long-term capital for all ventures was mainly raised by way of equities, preference shares and debentures. The subscription for these came mainly from the high-salaried Britishers in government, banking and various offices as also those interested in trade and industry. Therefore, those companies managed by European managing agency houses had few problems in getting their equity issues subscribed or in obtaining loans. There was a deep rooted suspicion of Indian-managed companies among Europeans, with the result that little long-term capital came to such companies from European-controlled institutions. As regards working capital requirements, while the managing agency houses managed to divert some funds from their other interests, a major portion of such funds came from the European controlled presidency banks of which the British managing agency houses had a giant share.

The method by which the managing agency houses managed to obtain a disproportionately large share of the credit from the presidency banks were through formal and informal links. Many chairmen and directors of the presidency banks were also involved in the leading managing agency houses.29

29. Ibid., pp. 60-61.
In the later inter-war period and during the second world war, indigenous capital entered into cement, paper, jute, sugar and other industries where European capital did not make a significant foray. Their entry was facilitated by the growth and increasing maturity of the financial system which we discuss below.

Apart from external sources of financing, there was also some internal generation of resources arising from war profits. After the first world war, many companies had accumulated huge amounts of profits. Unfortunately, quite a few of them frittered these surpluses away by paying out huge dividends. But a few indigenous companies reinvested these surpluses, either with themselves or in shares with other companies with the result that the share of Indian capital and control in the industrial structure steadily increased during the inter-war period and during the period of the Second World War. The reasons for this trend can be attributed to the large number of incorporations done during the 1930s. At the same time the newly incorporated companies controlled by foreign houses showed a steep decline throughout the period 1910-1947. Not only was the emergence of the Indian companies noticeable in the number of companies, but also in the share of employment and output in industries - even in traditional ones like coal, tea, sugar, cement, paper, etc. Further, Indian businessmen started diversifying into new fields like bicycles and textile machinery.\textsuperscript{31} Control of banking too followed the same pattern, which would be of interest to anyone

\textsuperscript{31} Kidron, M. (1965), \textit{Foreign Investments in India}, Oxford University Press, London, pp. 41-42.
studying the disproportionate share of bank credit to the large industrial houses at the present point of time.

The disturbing aspect of this indigenous emergence of entrepreneurship was that there was a visible tendency for certain large groups to straddle several industries. This was the preliminary stage of the heavy concentration of industrial investment in a few industrial houses which is the characteristic feature of the industrial scenario in India today. The reason why the monopolisation process is also the beginning of the indigenous industrialisation process is that, first of all, the entrepreneurial class sprang from certain business communities and the caste and kinship network played their role in developing and fostering these monopolistic tendencies. Second, the managing agency system facilitated the process of vertical integration, i.e., moving into the areas connected with the existing industries which were controlled by these groups.32 It has been the unenviable record of these indigenous groups, that through fraud and financial manipulation, they came to control a sizeable chunk of industry in India. Fortunately for them, the timing of most of their investments coincided with favourable demand conditions, e.g., the Wars, etc. and thus they were able to capitalise easily on their initial investment.

The slow growth of the Indian manufacturing sector prior to Independence can in addition to the colonial government's discriminatory policies be largely attributed to the lack of finance due to the underdeveloped stage of the financial

Rough estimates for the corporate sector's financing in the inter-war period are as follows:

|-----------------------------------|

The above table brings out the importance of the stock and capital market in augmenting corporate finances. While bank borrowings and retained earnings constituted equal proportions of the financing structure during the inter-war years, stock issues and debentures were the most important sources of finance.

At the same time, the number and assets of financial joint stock companies increased between 1920 and 1933, and thereafter there was a slight decline. Financial companies provided the funds needed for investment through purchase of stocks. Thus, the study of their contribution to the financing of the corporate sector is important since it complements funding by the banking sector which is a part of the financial sector. Table 4 below gives a break-up of the constituents of financial joint stock companies, their growth both in numbers and in the paid-up capital. We can see that the most impressive growth has been recorded by loan companies followed by the banking companies.
though the absolute dominance of banking has been maintained throughout the period.

The point to be noted is that due to the emergence of alternative institutions to the banks and the growth of the financial sector, it was no longer possible for European-controlled banks to deny Indian businessmen loans for investment. In any case, quite a few of these financial companies were controlled by the same groups who had interests in manufacturing. Though some part of the investible funds came from the presidency banks, a considerable component came from these financial joint stock companies, mostly in the form of subscription to shares and debentures. Those small businessmen who did not control any financial company, had to raise the money locally and in the informal money market.
The industrial policy of India, after independence, which aimed at setting up basic and core industries in the public sector, suited the interests of big business. This was because, the private sector did not have adequate resources to undertake the volume of investment required to set up basic industries. The resource constraint was overcome by the state using its fiscal and monetary powers to finance the establishment of basic industries, which was essential for the industrialisation process. These investments in turn could create a demand for the
output of other industries, like light engineering goods and also services like transport which the private sector was in a position to supply. Over the first two Plans, private sector investment zoomed in the wake of public sector investment.

But this investment required finances. Some estimates show that by the second five-year plan, nearly 37 per cent of the total capital formation of the private corporate sector was financed by borrowing. The bulk of the financing for fixed capital formation was provided by state-sponsored financial institutions and through stock purchases by the public. Since the banks would provide only working capital, the lending for fixed capital formation was done by special term-lending institutions created specifically for this purpose. The Industrial Finance Corporation of India, the National Industrial Development Corporation, the Refinance Corporation, the Industrial Credit and Investment Corporation of India, etc., were set up for this purpose, with specified areas of operation. The impact of these institutions on the availability of finance started off in a small way from roughly Rs.10 crores per annum in 1955-56 to Rs.30 crores per annum in 1960-61. This amounted to roughly 20% of the total long-term finance from external sources to the privately-owned public limited companies in each year and about 9% to 14% of the gross fixed investment of the same for those years.

Even those efforts were not adequate because the gross amount of investment that was necessary for the rapid

33. FICCI (1982), Background Paper of Workshop on Finance for Industry & Trade, New Delhi, 15th July.
industrialisation of the economy was not forthcoming. The banking sector was still not developed to the extent that it could mobilise all or at least a large part of the potential savings and channelise it towards investment, because a large section of the population still did not have banking habits.

Banking as such remained concentrated around the metropolitan centres and the large urban townships. The reasons why the privately-owned banks were not willing to move into the rural areas was because first, it is extremely difficult to mobilise deposits from the rural areas because of the seasonal nature of agricultural operations; and second, the cost of deposit mobilisation would be much higher than in urban areas given the constraints of transport and communication and would thus reflect in lower profit rates for the banks. Indian private sector realised that without extending the banking network to the rural areas, they would not be able to avail of a major part of the financial resources of the economy.

By 1962, there were some inflationary pressures building up in the economy due to a slowdown of economic growth. The Reserve Bank of India had to resort to a credit squeeze in order to control inflation at the end of 1962. This resulted in a massive cut-back in liquidity, as a result of which, private sector had problems in locating finance for working capital. Further this shrinkage of liquidity resulted in a decline of activity in the stock market, which again reduced funds for the private corporate sector for their investment programmes. This state of depression continued till 1967-68.
But this did not mean that all sections of industry were equally affected by the squeeze. Estimates show that share of medium and large industry in total outstanding credit of scheduled commercial banks increased from 34 per cent in 1951 to 60.6 per cent in March 1968. Agriculture and allied activities, on the other hand, received only slightly more than two per cent of the total credit from the banks. Even within industry, in 1965, one per cent of the borrowal accounts obtained nearly 70 per cent of the credit while 12 per cent of the accounts got only four per cent of the advances. 34 This happened primarily because large industry and established business houses either owned or controlled big commercial banks. According to Mohnot, "Among the leading Indian banks, the Central Bank of India and the Bank of India are associated with the house of Tatas, the Punjab National Bank with Dalmia-Sahu Jain, and the United Commercial Bank with the Birlas." 35

One important development in the Indian economy after the mid-sixties was the Green Revolution. Apart from a rapid increase in the marketable surplus of farmers in certain areas, it led to a rapid increase in the financial savings of surplus farmers. The banking sector, which was largely in private hands, was not geared to mobilise this surplus or lend to farmers to enable the latter to purchase high cost inputs. Thus, in 1969, 14 large scheduled commercial banks were nationalised. Apart from the stated objectives of controlling monopoly and

concentration of wealth and power, two other important grounds were cited. First, the failure of the privately-owned banks to mobilise resources effectively, and second, the indifference shown by these banks towards agriculture. This began a new chapter in the history of Indian banking and finance. The state had taken over major banks, ostensibly to control their utilisation by large monopoly houses, which in the past had obtained a disproportionately large share of the credit given by these banks.

Keeping in view the objectives of nationalisation, the problem of resource mobilisation and the development of finance in the rural areas, the task of expanding the branch network of the scheduled commercial banks began. The rapidity of the branch expansion is quite impressive. As a comparison, between 1950 and 1969, the number of branches of the scheduled commercial banks, increased from 2765 to 8830, or slightly over three times in twenty years. Within another eight years, i.e., by 1977, the number of branches again tripled to 26,929 branches. Whereas in 1969, only 22 per cent of the branches of the scheduled commercial banks were in the rural areas, by 1977, nearly 50 per cent of the branches were in rural areas.

After nationalisation, the rate of increase in credit advanced has been much faster and the major part of this increase has been given to priority sectors like agriculture, cottage and small-scale industries. By 1982, the percentage of credit advanced to these sectors was more than 34% of the total advances.
made by public sector banks.\textsuperscript{36}

We give below the figures related to the absolute amount of deposits, both demand and time, and also the credit advanced to industry by public sector banks both prior to and after nationalisation. These figures indicate to a large extent the success of at least one of the objectives of nationalisation of banks - the spread of banking habits among a large section of the population. We can also observe the rapid increase in the time deposit component of the total deposits of the public sector banks. It would be interesting to compare how total lending by banks and specifically to industry has behaved prior to and after nationalisation. Between 1961 and 1969, credit to industry increased by 3.5 times while total credit increase was slower at 2.75 times. But in the next eight years, i.e., between 1969 and 1977, total credit increased increased by 3.74 times while credit to industry was up by 3.1 times. When we extend the period to 1980, we notice that credit to industry increased by 14.5 per cent per annum between 1969 and 1980. Non-industry credit increased in the same period by 17.5 per cent in the same period but this also includes food credit which grew at a phenomenal 29 per cent per annum during this period. Therefore, while non-industry credit increased faster, industry did not really lose out as a consequence of nationalisation.

\textsuperscript{36} Reserve Bank of India (1982), \textit{Report on Trend and Progress of Banking in India}, Bombay.
Table 3  
WORKING OF PUBLIC SECTOR COMMERCIAL BANKS  
(in Rs. crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Deposits</th>
<th>Credit</th>
<th>Credit/Deposit Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Time</td>
<td>Demand</td>
<td>Total</td>
</tr>
<tr>
<td>1961</td>
<td>1040</td>
<td>775</td>
<td>1815</td>
</tr>
<tr>
<td>1969</td>
<td>2549</td>
<td>2013</td>
<td>4562</td>
</tr>
<tr>
<td>1975</td>
<td>7317</td>
<td>5180</td>
<td>12497</td>
</tr>
<tr>
<td>1977</td>
<td>11560</td>
<td>7300</td>
<td>18860</td>
</tr>
<tr>
<td>1980</td>
<td>20705</td>
<td>11079</td>
<td>31785</td>
</tr>
</tbody>
</table>

Source: Compiled from Report on Currency and Finance, various issues; Reserve Bank of India, Bombay.

But the phenomenal increase in long and medium-term lending by state-owned financial institutions, offset the diversion of credit to agriculture, small-scale industries and other priority sectors by banks. Therefore, the picture for credit to industry will not be complete until and unless we include credit disbursed by financial institutions. The reason why credit advanced by banks and financial institutions to industry are not grouped together is because the purpose for which they are advanced differ. Whereas banks give credit mostly for working capital, in the case of the financial institutions it is for long-term investment in fixed capital. The credit disbursed by financial institutions to industry is given in Table 5.
Despite this phenomenal increase in disbursement of long-term credit, the credit situation for big business was not happy and Indian industry faced a severe shortage of funds for investment. From 1974 to 1977, there were constant complaints from private industry about a serious dearth of finance from banks with the result that firms were using their reserves for working capital requirements. The importance of banks for industry's needs can not be underestimated. In a study of 1720 medium and large public limited companies selected by the Reserve Bank of India, bank borrowings was estimated to account for nearly 68.4 per cent of their total borrowings. With bank credit constituting an important component of corporate financing, and the control of banking (or at least the major

---
37. FICCI (1982), op cit.
portion of it) being done by the state to prevent its utilisation by large industry and monopoly houses for disproportionately increasing their wealth, what kind of an impact did it have on the process of concentration of capital. This we shall examine in the following chapters.

**Summing up**

In this chapter we have reviewed some of the relevant literature on monopolies, at the theoretical level and at the level of empirical observations pertaining to monopolies in India. We have also reviewed the literature on the evolution of Indian industry and finance since we felt that in order to understand the process of concentration, it is necessary to look at the evolution of concentration in industrial capital in India. Though the review listed above is by no means exhaustive, it gives an indication of the different currents of thinking among social scientists and policy-makers about monopolies -- its nature, causes, effects and controls. Here we shall try to briefly summarise the arguments and draw some conclusions from the chapter.

One line of reasoning has been that capitalism inevitably leads to monopoly because the very nature of the accumulation process demands that, in order to be more competitive, it is necessary to accumulate faster. With the change in the organic composition of capital, the magnitude of surplus value appropriated would be larger though the rate of profit might go down. But the volume of capital required for large-scale manufacturing no longer enables an individual capitalist to raise
so much capital. The stage then passes on to an association of producers who by agglomerating large amounts of capital from individual capitalists drive out smaller capitals. Thus, a simultaneous process of concentration and centralisation of capital takes place.

In the process of this accumulation, finance initially plays a small assisting role and over a period of time begins to dominate industrial capital. The monopoly stage of capitalism is reached through the formation of cartels, trusts and price agreements between large businesses. At this stage, competition, if any, is not price competition but competition through sales efforts like advertising. State policies, like the taxation policy, public franchises, etc., play an active role in assisting the formation and growth of monopolies.

A second line of reasoning is that monopolies grow and strengthen themselves through greater economics of scale, unfair trading and competitive practices, pricing policies, favourable access to resources -- finance and real, or active encouragement by the state through deliberate policy favouring monopolies. Most of the anti-monopoly legislation in capitalist economies is based on this thinking. The argument is that if monopolies are to be controlled, they will have to be discriminated against by the adoption of corrective legislation. A third line of reasoning stresses on the growth of monopolies due to higher efficiency, spatial or strategic advantage, correct investment and pricing policies. This line of reasoning does not rule out the adoption of unfair practices as a method for monopoly control and argues for corrective legislation only to control the illegal
and unfair aspect of monopoly practices. The adherents to the efficiency argument stress the advantages of monopoly in certain areas for reasons of scale of production.

Though the arguments have been summed up rather simplistically, they do broadly reflect the various views towards monopolies and concentration of capital. This, however, does not imply that these three lines of reasoning are segmented into watertight compartments. There is a considerable degree of overlap between these points of view.

While one does not rule out the advantage of some firms over other in terms of the spatial, strategic or efficiency factors, they do not adequately explain the phenomenon of increasing concentration across quite a few industries in many capitalist economies over a long span of time. Secondly, monopolies do indulge in unfair trading and competitive practices but this does not imply that if strong legal and administrative instruments are applied, they could be controlled.

When we come to the Indian economy, the question of concentration of capital in industry is linked to the evolution of the industrial structure and financial system in India. There are four distinct phases in this evolution. In the first phase, before the first world war, British managing agency houses obtained larger funds for investment vis-a-vis Indian companies, due to their widespread interests and close links with the leading commercial banks --the presidency banks. In the second phase, covering the inter-war period and till Independence, the growth and diversification of the financial system, which
included a large number of Indian-controlled banks and financial companies, the handicap of indigenous businessmen vis-a-vis British agency houses in obtaining funds, was drastically reduced. After independence, the control of leading commercial banks and insurance companies gave the large monopoly houses a major portion of the loans and advances made by these bodies. Finally, with the nationalisation of 14 commercial banks in 1969, the proportion of credit to industry in relation to total credit fell though the absolute amount increased quite rapidly. But, the tremendous growth of credit to industry, mostly medium and large, from financial institutions, compensated to a certain extent large industry for any 'loss' in access to additional finance caused by diversion to priority sectors by commercial banks. In this kind of a financial structure, where the state controls a major part of the banking and financial institutions, and is committed to a more equitable distribution of financial resources, there is no visible bias in the financial system favouring big business. Despite this, concentration of capital continues. One part of this thesis examines whether the pre-existence of concentration in industry forms the basis for further concentration. This process we may term as the "own dynamics" of concentration. Aiding this process is the working of the monetary system. For example, what happens to industry in the wake of tight money conditions brought about by changes in the monetary policy. To do this, we will first discuss how monetary policy might influence financing of industry, what constitutes monetary policy, its scope and operation, with special reference to the Indian economy.