Introduction

An important feature of the Indian economy has been the presence of planning that identified priority sectors in the growth process. Controls and promotional measures are essentially an integral part of the strategy of a planned economy and can be extended to any segment of the economy to facilitate growth in the desired directions. In India also, a mixed economy, we observe several such measures. The Five Year Plans laid down in specific terms the investment outlay and physical achievements to be made by both public and private sectors within the objectives and strategies of each plan (Sandesara, 1992: 12). To facilitate realisation of plan priorities, the State also devised various fiscal measures and undertook development of financial system. Any analysis has, therefore, to take into consideration the institutional framework. In this chapter, we examine the role accorded to the private corporate sector (henceforth corporate sector) in the process of industrialization, and the fiscal and financial system, which affect private investment.

The chapter is divided into three sections. Section I examines the significance of corporate sector in terms of the investment outlays proposed for both public and private sectors under various Plans. Section II gives an overview of fiscal measures faced by the corporate sector, a factor which influences internal funds. Section III provides an overview of the State's role in the development of the financial system, a major determinant of availability of external funds.
Section I

I Role Assigned to Private Sector Under the Plans

This section attempts to provide the role accorded to private corporate sector in the industrialization process and the policy framework in which it had to function, as seen through the Plan documents.¹

At the beginning of the First Plan (1951/2 - 1955/6) industries held a major chunk of productive assets of the economy, which accounted for 43 per cent. Ninety six per cent of this was with the private sector and only four per cent was in the public sector (GOI, 1952: 32). Envisaging a crucial role for the State in industrial development, the Plan specified

"... it is best for the public sector to develop those industries in which private enterprise is unable or unwilling to put up the resources required and run the risks involved, leaving the rest of the field free for private enterprise" (GOI, 1952: 422).

¹ Such an attempt could have, alternatively, been based on a review of evolution of policies. The policies as an instrument to regulate industrial development have been well documented by various committee such as Hazari Committee (GOI, 1966a); Dutt Committee (GOI, 1969a: 23-28), Ramakrishna Study Group (GOI, 1978a: 1-8), Nanda Committee (GOI, 1979a: 1-15), Dagli Committee (GOI, 1979b: 9-32), and Background Papers of Narasimham Committee (GOI, 1985d). Hazari (1986), Marathe (1986), Mohan and Aggarwal (1990) and, Inoue (1992) have also studied the policy framework. These studies provide a history of industrial development policies along with a review of the functioning of regulatory apparatus.

In order to understand the implications of these policies for the relative role accorded to corporate sector, it is necessary to view them in the context of the overall development strategies pursued, and more particularly in the field of industries. The Plan documents embody these strategies and, hence, the attempt to assess the place of corporate sector is made based on these documents. In addition, the relative role given to the private sector vis-a-vis public sector could be understood from an analysis of investment outlays for each sectors. For want of more detailed information, the term private sector is used as a proxy for the private corporate sector.
The Plan, based on the Industrial Policy Resolution (IPR) of April 1948, defined areas reserved exclusively for public sector, areas where co-operation of public and private sector was expected, and areas left for private sector (GOI, 1952: 33 and 422). The private sector was expected to make about 80.3 per cent of total industrial investment during the First Plan period (see Table 2.1).

But the thrust on industrialisation begins only with the Second Plan (1956/7 - 1960/1). In this Plan, the highest priority was accorded to building up heavy and basic industries (GOI, 1956: 24). The most significant feature of the Plan was the assigning of a vital role to public sector in these industries with the objective of building a strong industrial base for future growth (GOI, 1956: 28). This is reflected in the sharp rise in the relative share of public sector in investment outlay for industries from 19.7 per cent under First Plan to 53.8 per cent in the Second Plan (see Table 2.1).

---

2 The IPR of 1948 demarcated the industries reserved for public sector (GOI, 1985d: 1). Accordingly, industries were grouped into four broad categories: 1) The State's ownership and control was accepted in the segments comprising of arms and ammunition, atomic energy and railways. 2) In areas called key industries, the then existing private units were allowed to operate and expand, and the State was responsible for further expansion except to the extent cooperation was considered necessary from private sector. 3) Industries of basic importance which the State could plan and regulate. Public as well as private sectors were allowed to start new units. 4) Private initiative was allowed in the rest of industrial spheres, however, with the provision that Government had the right to acquire in public interest any undertakings and intervene where the conduct was found not satisfactory.

3 Most of public sector projects were in the manufacture of capital goods or of intermediate products which were considered important for future economic development. About 80 per cent of private sector outlay was in capital and producer goods industries (GOI, 1952: 429-431).

4 The industrial sector was expected to increase its contribution to national income from 6.3 per cent in the First Plan to 12.9 per cent in the Second Plan.

5 The Second Plan was preceded by the adoption of 'Socialist Pattern of Society' in December 1954 as the national objective. To pursue the objectives enshrined in this phrase, the Plan envisaged a 'lead role' for public sector in the development process of the economy.
Table 2.1: Distribution of industrial investment outlay by types of sectors under the Plans (in per cent)

<table>
<thead>
<tr>
<th>Plans</th>
<th>Public Sector</th>
<th>Private Sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Plan</td>
<td>19.7</td>
<td>80.3</td>
<td>100.0</td>
</tr>
<tr>
<td>1951/2 to 1955/6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Second Plan</td>
<td>53.8</td>
<td>46.2</td>
<td>100.0 (20.1)</td>
</tr>
<tr>
<td>1956/7 to 1960/1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Third Plan</td>
<td>59.1</td>
<td>40.9</td>
<td>100.0 (24.7)</td>
</tr>
<tr>
<td>1961/2 to 1965/6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual Plans</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>1966/7 to 1968/9</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fourth Plan</td>
<td>57.5</td>
<td>42.5</td>
<td>100.0 (23.4)</td>
</tr>
<tr>
<td>1969/70 to 1973/4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fifth Plan</td>
<td>58.0</td>
<td>42.0</td>
<td>100.0 (26.1)</td>
</tr>
<tr>
<td>1974/5 to 1978/9</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual Plan</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>1979/80</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sixth Plan</td>
<td>30.4</td>
<td>69.6</td>
<td>100.0 (27.4)</td>
</tr>
<tr>
<td>1980/1 to 1984/5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seventh Plan</td>
<td>26.7</td>
<td>73.3</td>
<td>100.0 (22.9)</td>
</tr>
<tr>
<td>1985/6 to 1989/90</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual Plans</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>1990/1 to 1991/2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eighth Plan</td>
<td>25.0</td>
<td>75.0</td>
<td>100.0 (23.6)</td>
</tr>
<tr>
<td>1992/3 to 1996/7</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes: Total outlay is exclusive of current outlay.
Industrial outlay refers outlay for industries and minerals for large and medium industries.
Figures in parentheses are percentage to total outlay and NA means Not Available

Source:
Third Plan - GOI, 1961: 59
Fourth Plan - GOI, 1970: 53 and 314
Fifth Plan - GOI, 1976: 41 and 61
Sixth Plan - GOI, 1981: 37, 63, and 270.
Eighth Plan - GOI, 1992a: 45 and 55
The number of industries allocated to public sector was also increased from 9 to 29 under IPR of 1956. The development of both public and private sectors was envisaged in the Plan.

The emphasis on public sector for the development of heavy and machine making industries continued in the Third Plan (1961/2 - 1965/6) also. The share of public sector in the overall outlay for industries was increased from 53.8 per cent in Second Plan to 59.1 per cent (see Table 2.1). And, the remaining 40.9 per cent was to come from private sector. In terms of perspective, the Plan sought 'to ensure that the opportunities available in the private sector do not lead to the concentration of economic power in the hands of small numbers of individuals and businesses' (GOI, 1961: 7-8). This was sought to be achieved by effective exercise of Government's control and regulation and use of appropriate fiscal measure.

Three successive Annual Plans followed the Third Five Year Plan. The emphasis of these Plans was on agriculture. Consequently, the share of industry and mining in total public sector's outlay declined over the Annual Plans from 25.2 in 1966/67 to 23.2 in 1967/68 and further to 23.1 in 1968/69 (GOI, 1966b: 8; GOI, 1967: 21 and GOI, 1968: 13). Besides, bulk of these outlays was directed towards continuing projects where substantial investment had already been made (GOI, 1968: 46-47). The relative emphasis on the role of public vis-a-vis private sector, however, cannot be discerned.

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6 In view of the adoption of Socialist Pattern of Society, the IPR 1956 stated that industries of basic and strategic importance, or in the nature of public utilities should be in public sector; that which were essential and required investment that the State alone could provide should be in public sector (GOI, 1956: 29). In the first category, the then existing privately owned units were allowed to expand with state participation or with the power of the State to control their operations (GOI, 1956: 45-47).
from these Plan documents as the overall role of private sector and its outlay has not been discussed. While this is so, the changes in policies during the Third and Annual Plans do indicate some relaxation of controls.\(^7\)

The Fourth Plan (1969-1974) followed a period of severe deceleration in the economy. The Plan acknowledged that licensing and control performed the vital function of fostering industrial growth by channelizing investible resources into desired direction (GOI, 1970: 301). It was, however, lamented that such processes created imbalances between production and capacity. To correct all these, the Plan argued for 'permitting fuller play of market forces in various sectors of industry' (GOI, 1970: 302) (italics added).

Towards this end, the Plan proposed to have a core sector and heavy investment sector with investment of over Rs. 5 crores (GOI, 1970: 304).\(^8\) In these two categories, except those reserved for public sector under IPR of 1956, undertakings belonging to

\(^7\) The exemption limit for obtaining license under the Industries (Development and Regulation) Act of 1951 was raised in 1964 from Rs. 10 lakhs to Rs. 25 lakhs. Various measures were initiated to speed up the procedures for licensing of imports of raw material and capital goods, issue of capital, and approval of foreign collaboration agreement. In October 1966, the substantial expansion was defined as an increase from 10 to 25 per cent of licensed capacity and diversification, that is, entry into new articles was permitted. Letters of Intent, analogous to Condition Letter that was in practice till 1959, was introduced to signify the preliminary approval of proposals (GOI, 1969a: 31). In line with the recommendations of 'Report of the Reconstituted Industries Development Procedures Committee' in 1966, Government announced the exemption list of industries in May 1966 which was enlarged in July and November 1966 (GOI, 1969a: 35). Cement and paper industries were exempted from licensing provision of IDRA. The controls on prices and distribution of industrial commodities were relaxed from time to time. Control over industries such as iron and steel, coal, fertilizers, and commercial vehicles was relaxed. Sugar industry was decontrolled. Price control on paper was lifted.

These changes in policies since the mid 1960s were considered as experiments with economic liberalism 'towards a greater and more sophisticated reliance on the market mechanism' (Bhagwati and Desai, 1970: 477) and were attributed to sluggish investment in private sector (GOI, 1969a: 35-36).

\(^8\) This was based on the recommendations of the Dutt Committee.
larger business houses (LBHs)\textsuperscript{9} were allowed to participate in collaboration with foreign concerns or branches or subsidiaries of foreign companies.\textsuperscript{10} In the middle sector (investment of Rs. 1 crore to Rs. 5 crores), applications of undertakings not belonging to LBHs had to be treated liberally except for foreign exchange. And, new undertaking or expansion involving less than Rs. 1 crore was not required to take license under Industries (Development and Regulation) Act (IDRA) of 1951.\textsuperscript{11}

To the extent licensing was done away with and registration with Directorate General of Technical Development (DGTD) was made automatic in case of industries with fixed assets up to Rs. 25 lakhs, it represented a measure of liberalization.\textsuperscript{12} In addition, the Plan allowed foreign collaboration where the know-how was conducive to further growth while being non-detrimental to indigenous efforts.\textsuperscript{13}

\textsuperscript{9} Dutt Committee defined LBHs as those with assets, along with their inter-connected undertakings, exceeding Rs. 35 crores (GOI, 1969a: 11-20). The Industries Licensing Policy (ILP) Statement of February 1973 lowered this assets limit to Rs. 20 crores to be consistent with MRTP Act.

\textsuperscript{10} The ILP of February 1970 allowed 9 industries in core sector to LBHs and the ILP of February 1973 enlarged this list to 19 (GOI, 1985d: 4-8).

\textsuperscript{11} Consequent to this, the earlier exemption provision relating to 41 industries was withdrawn. This brought about a shift in the delicensing policy from industry based to quantum of investment. This was implemented with effect from February 1973. See GOI (1985d: 3-4).

\textsuperscript{12} The licensing policies were further relaxed in the course of Fourth Plan. Undertakings belonging to LBHs were allowed in certain new and reserved sector for small scale industries, but linked to their export commitments. A Industrial License (IL) was introduced in the place of Letter of Intent (LI) if the approvals did not require either foreign collaboration or capital goods clearances, and if both approval were obtained, then LI automatically became IL. See GOI (1984d).

\textsuperscript{13} In the course of the Plan, Foreign Exchange Regulation Act (FERA) of 1973 came into force in the place of FERA of 1947. All non-residents, non-citizens, branches of foreign companies and Indian companies having non-resident share holding of more than 40 per cent were covered by FERA of 1973. Under section 29, these units could not involve in certain acts without obtaining prior permission of RBI. All branches and subsidiaries of foreign companies were required to convert into Indian companies with a minimum Indian equity participation of 26 per cent. Companies with more than 40 per cent of foreign holdings but operating in core industries of Industries Licensing Policy (ILP) Statement of February 1973 or in export thrust industries or requiring sophisticated technology (for import substitution) were allowed to operate provided Indian equity participation was 26 per cent. Foreign Investment Board was also set up to identify the fields and to streamline foreign collaboration. See GOI (1985d: 6-7).
A shift in policies governing both domestic and foreign investment could, thus, be discerned. These measures aimed to bring in more private initiatives into industries while placing some hurdles for LBHs by means of the Monopoly and Restrictive Trade Practice (MRTP) Act of 1970.\(^\text{14}\) This is reflected in the marginal increase in the share of private sector in total investment outlay for industry from 40.9 per cent in the Third Plan to 42.5 per cent in the Fourth Plan (see Table 2.1).

The basic objective of the Fifth Plan (1974-1979) was to remove poverty and to achieve self reliance (GOI, 1976: 5). As its relative share in the investment outlay for industries remained almost the same, that is 42 per cent (see Table 2.1), it may be assumed that private sector continued to enjoy the role as envisaged by the Fourth Plan.\(^\text{15}\)

The Sixth Plan (1980-1985) expressed concern over the effectiveness of planning. With regard to industrial development strategy, the Plan called for promoting

\(^{14}\) Various committees set up in the 1960s (Monopoly Inquiry Commission in 1964, Hazari Committee in 1966, and Dutt Committee in 1967) had a common consensus that LBHs had grown and that licensing mechanism failed to check tendencies of economic concentration.

In pursuance of the recommendations of Monopoly Inquiry Commission (GOI, 1965), the MRTP Act came into force in 1970 and a statutory body known as MRTP Commission was set up. Main objectives of the Act were to ensure "(a) that the operation of the economic system does not result in the concentration of economic power to the common detriment, (b) control of monopolies and (c) prohibition of monopolistic and restrictive trade practices" (Cited in Ahuja, 1986: 1). The Act empowered MRTP Commission to enquire into substantial expansion (u/s 21), setting up of a new undertaking (u/s 22), and amalgamation, mergers and takeovers (u/s 23) as referred to it by Central Government. The Commission could enquire into restrictive trade practices as referred to it by Central Government or suo-moto. Its report on the necessary actions to be taken by Central Government was, however, not binding on the Government (GOI, 1985d: 44).

To exercise effective control over growth of LBHs, MRTP Act covered undertakings with assets of Rs. 20 crores or more individually or together with assets of its interconnected undertakings.

\(^{15}\) During the Plan period, the interregnum Government brought out 'Industrial Policy Statement' in 1977 that reinforced the role of public sector in the economy (Marathe, 1986: 107-108).
competition through changes in policies.\textsuperscript{16} To this end, the Plan proposed changes in
policy, embedded in Industrial Policy Statement of July 1980, that placed emphasis 'on
improving efficiency and productivity in the industrial sector through optimum
utilization of existing capacity' (GOI, 1981: 262).\textsuperscript{17} The Sixth Plan's thrust was, thus,
on competition among industries in the domestic and in the international market. And,
subsequently the Plan enlarged the role of private sector as evinced by its relative share
in total outlay for industry which increased from 42 per cent under Fifth Plan to 69.6
per cent in Sixth Plan (see Table 2.1).

The main objective of Seventh Plan (1985-1990) was to increase efficiency and
productivity so as to attain international competitiveness.\textsuperscript{18} To this end, it argued that
production should be left to more competition and achieving efficiency through
competition became the guiding principle.\textsuperscript{19} The Plan admitted the major role played
by the public sector in widening industrial base and undertaking investment in
infrastructure and basic industries. At the same time, mobilizing adequate resources
for public investment was recognized as a crucial problem and the need to inject an

\textsuperscript{16} Ramakrishna Report (GOI, 1978a), Nanda Report (GOI, 1979a), and Dagil Report (GOI, 1979b)
maintained that the licensing procedures created delays and tended to favor vested interests. They argued
that licensing system had created a built-in mechanism of entry barrier and hindered competition.

\textsuperscript{17} This was to be achieved by endorsing industrial licenses selectively on the basis of need for
increasing capacities arising from technological improvements and labour productivity. In addition,
automatic growth was permitted in industries within core sector or those which have a direct linkage
with the core sector or with long term export potentials.

In pursuance of the liberalization measures, the Government in 1982 enlarged the list of industries
opened to LBHs and FERA to 24 industries from 19 industries. In May 1983, Government exempted 9
industries of national importance from Section 21 and 22 of MRTP Act. The exemption investment
limit was raised from Rs. 3 crores to Rs. 5 crores. See GOI (1985d: 9).

\textsuperscript{18} The expected annual growth of manufacturing, at 1984/85 prices, during the Plan period was 5.5 per
cent in terms of gross value added and 8 per cent in terms of value of gross output (GOI, 1985a: 26).

\textsuperscript{19} The Narasimham Committee (GOI, 1985c) endorsed to the moves towards liberalization and had
various suggestion for intensifying the pace of reforms in the Seventh Plan. Also see Ahluwalia (1987).
element of competition within the public sector was felt as well (GOI, 1985b: 171). The allocation of outlay for industry and minerals shows that public sector got a low share (26.7 per cent) during Seventh Plan, while private sector was expected to play a vital role as seen from the rise in investment expected to come from this sector, that is, almost three times that of the public sector (see Table 2.1).²⁰

The Eighth Plan (1992-1997) was preceded by difficult circumstances with widening of fiscal gap and depletion of foreign exchange which put severe constraints on the economy (GOI, 1992a: 1). Some measure were initiated by the Government to surmount these problems.²¹ Against this, manufacturing sector was seen as a vehicle of growth

"Manufacturing will occupy a crucial position in future economic development. The nation's ability to grow fast, export, be competitive and create an expanding base for direct and indirect growth of productive employment will depend upon the growth and efficiency of the manufacturing sector" (GOI, 1992a: 5).

For the first time, the Plan expected contribution from manufacturing to be greater than agriculture (GOI, 1992a: 54). It sought to reduce controls as a measure to boost up

²⁰ In the course of Seventh Plan, following important measures were initiated (GOI, 1992b: 106): a) raising the assets limit from Rs. 20 crores to Rs. 100 crores for exemption to companies from the purview of MRTP Act; b) exempting 83 industries under the MRTP Act for entry of dominant industrial units; c) grant of exemption from licensing for industrial units with an investment of up to Rs. 50 crores in backward areas and Rs. 15 crores in other areas on the basis of a negative list; and, d) delicensing non-MRTP, non-FERA companies for 31 industry groups and MRTP/FERA Companies in backward areas for 72 industry groups.

²¹ These include a) those governing trade, technology and transborder capital flows; b) industrial deregulation and administered price policy; c) financial sector reforms; and, d) the stance of demand management as reflected in the monetary and fiscal policies (GOI, 1992a: 84). According to the Plan, the first of these three constitutes the structural adjustment policies (SAP) aimed at improving the supply side of the economy, whereas the last was a stabilization programme aimed at controlling aggregate demand in accordance with long term growth path of the economy.
efficiency and to make Indian industry more competitive (GOI, 1992a: 8). On the industrial programme, the Plan was guided by the Statement of Industrial Policy (SIP) of July 1991 (GOI, 1991a). The SIP called for procedural reforms and leaving the question of investment and production to be determined by market forces. On the basis of SIP, the Eighth Plan argued that the thrust of policy was to remove controls and to open up a larger number of industries to private sector.

On the domestic investment front, two major changes were made. One was the number of areas hitherto reserved for public sector got reduced from 17 to 8\(^{22}\) and the other was that threshold asset limit of MRTP companies was removed but the control over restrictive trade practices continued. In addition, industrial licensing was abolished for all projects except in 18 industries.\(^{23}\) The Plan placed greater thrust on foreign investment, allowing automatic approval of foreign technology collaboration as well as foreign equity participation up to 51 per cent in certain areas (GOI, 1992a: 86). The FERA was amended in order to place FERA companies on par with Indian companies.

On the role of public sector within industry, the Plan argued for restructuring public sector in terms of vacating areas in which private investment could enter. The Plan, thus, provided for a significant shift in the policies governing public investment in industries as visualized in the early era of planning.\(^{24}\) This is reflected in its reduced

\(^{22}\) With the de-reserving of basic telecommunication services in 1994/95 (Economic Survey 1994/95: p. 104), the number of industries reserved for public sector stood at 5.

\(^{23}\) With delicensing of consumer electronics in 1996/97, the number is reduced to 14 (Economic Survey 1996/97: p. 111).

\(^{24}\) The SIP of 1991 reserved those industries for public sector where security and strategy concerns predominated (GOI, 1991a: 6-8).
share in investment outlay (25 per cent) that indicated giving more space for private sector in the industrial development (see Table 2.1). This coupled with the overall thrust given to industry in the growth process clearly indicates that the performance of private (corporate) sector is crucial for the overall performance of the economy.

To summarise, it is seen that there has been varying emphasis on private investment over the (Plan) period. The thrust on public sector within industrial sector beginning with the Second Plan continued till about the end of the Fifth Plan since when there has been a reduction in the share of public sector in the outlay for industries. During this period, private sector was given a fairly important role (expecting to contribute on an average 42 per cent of investment) but with the beginning of the Seventies it had to function within strict controls. An easing of such controls begins only with the Sixth Plan ending with the far reaching reforms in 1991. With these changes, private sector, particularly private corporate sector in the industrial sphere, is assigned a 'lead role' in the growth process and its performance, therefore, becomes crucial for the stable performance of the economy.

From the analysis, it is clear that private investment had to take place within the institutional framework as dictated by the plan priorities. The review of policies helps to identify four distinct phases (periods) in the role assigned to the private sector in the industrialization of the economy. They are

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25 The liberalization measures pursued in the 1980s may be classified into three categories, namely, a) measures to facilitate capacity creation; b) measures to facilitate output expansion; and, c) measures to remove procedural impediments (Economic Survey 1989/90: p. 55). These liberalization measures are essentially relaxation of control but within the overall regulatory framework. The reform measures initiated in 1991 are aimed at doing away with controls.
1. 1956/7 to 1969/70 - when both public and private sector functioned, but with *public sector dominating*;

2. 1970/1 to 1979/80 - when a gradual decline in the role of public sector is observed and the *private sector was severely controlled*

3. 1980/1 to 1990/1 - there is a gradual relaxation of controls and a *slow withdrawing of public sector*

4. 1991/2 onwards - *a lead role is assigned to the private sector* and greater freedom given to grow

**Section II**

**II. The Fiscal Framework**

Dictated by the prevailing economic and social conditions, the State adopts various fiscal measures.\(^{26}\) There have been different tax provisions existing at different points of time. The capacity of corporate sector to generate funds internally depends upon the level of corporate income taxation and tax relief measures.\(^{27}\)

\(^{26}\) Various committees whose recommendations guided formulation of taxation policies in the post independence period are Mathai Commissions (GOI, 1955a and 1955b), Bhoothalingam Committee (Bhoothalingam, 1968), Wanchoo Report (GOI, 1971), and Chelliah Committee (GOI, 1992c).

\(^{27}\) It is to be noted that there was differential tax treatment to some industries, whose growth had enjoyed a bias in industrial policies. For the review purpose, only general provisions are broadly kept in view.
In India, companies are treated as if they are separate entities and taxes are imposed on their income. Along with corporate income tax, an additional tax, called surcharge, may also be imposed.\textsuperscript{28} Higher rates are likely to constrain internal generation of funds and vice versa. There are also tax incentives to be administered when necessary. These incentives were linked to growth of assets the motive being to stimulate investments. Two important such incentives were depreciation and investment allowances.\textsuperscript{29}

To enable firms to replace assets whenever they are worn out, depreciation allowance is granted to firms. As a tax incentive in computing net profits for a year, an appropriate reduction from gross receipts on accounts of depreciation of capital assets is allowed (GOI, 1992c: 11-12). In principle, depreciation allowance should increase availability of internal funds so as to replace the depreciated value of assets.

Another main incentive is the investment allowance.\textsuperscript{30} With a view to stimulate capital formation, this tax relief is provided in a proportion to new investment in fixed assets in the form of plant and machinery in the year of acquisition. As it is directly linked to

\textsuperscript{28} Surcharge was levied to surmount the fiscal problems posed by difficult economic conditions prevailing in different circumstances. Earlier, the surcharge was computed with reference to total taxable income. From the year 1987/8, it was computed with reference to tax payment whenever it exceeded a certain sum of tax. It was Rs. 50,000 till 1989/90, which was raised to Rs. 75,000 for all subsequent years.

\textsuperscript{29} Besides these major ones, there were other incentives often offered on an adhoc basis, such as tax holiday, loss carry forward, backward area relief, rural area relief, priority industry relief, export market development allowance, expenditure on scientific research, preliminary and prospecting expenditure, export turnover relief, foreign construction contract relief, and other. For a discussion of these measures, see Lall (1983: 10-21). We confine ourselves to the main incentives such as depreciation allowance and investment allowance.

\textsuperscript{30} It was initially known as development rebate. With effect from 1976/7, this came to be known as investment allowance.
the act of fixed investment, it is found to be an effective way of encouraging such investment by all concerns, both new and old (GOI, 1955b: 98-99). The rebate is a charge on profit after depreciation, and if the profit is inadequate, the charge can be carried forward for a period of 7 years to set off against the profits accrued. The rate in respect of these tax provisions are mapped in the Table 2.2 (see Table 2.2)
Table 2.2: Statutory corporation tax rates, and depreciation and investment allowance in India; 1956/7 to 1998/9 (in per cent)

<table>
<thead>
<tr>
<th>Years</th>
<th>Corporation tax rate</th>
<th>Surcharge</th>
<th>Total 2+(3/2)</th>
<th>Depreciation Allowance (General rate)</th>
<th>Investment Allowance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
</tr>
<tr>
<td>1956/7</td>
<td>43.44</td>
<td>Nil</td>
<td>43.44</td>
<td>7</td>
<td>25</td>
</tr>
<tr>
<td>1957/8</td>
<td>50.00</td>
<td>1.50</td>
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Source: a. Rao (1980: 14) for corporate tax rate from 1956/7 to 1965/6
c. Government of India, Finance Bills, Budget Volumes, Various Issues
It is seen in Table 2.2 that statutory corporate income tax rate (corporate tax rate plus surcharge) remained well above 50 per cent throughout the period from 1956/7 to 1989/90, except in 1956/7, 1960/1 and 1961/2. As against this, we find that in the 1950s, this is sharply reduced and ranged between 43 and 51.75 per cent. Thus, barring the era of economic reform in the 1990’s, corporate sector was subject to higher income tax.\(^{31}\)

Looking at the movements in depreciation allowance, it is seen that the general rate on plant and machinery has remained at 7 per cent in the 1960s. This was raised to 10 per cent in 1969/70. The Union Budget 1980/1 allowed an additional depreciation equal to 50 per cent of normal depreciation on plant and machinery in the year of installation (GOI, 1984: 475). Union Budget 1983/4 raised the general rate from 10 per cent to 15 per cent (GOI, 1984: 517).\(^{32}\) In view of this, additional depreciation allowance was discontinued in 1985/6. The Union Budget 1986/7 allowed depreciation allowance on block of assets rather than on individual assets. The budget for the year has rationalized the rate structure, and accordingly introduced 33.33 per cent in general and 50 per cent on anti pollution devices and indigenous know how. Based on the recommendation of Chelliah Committee (GOI, 1992c: 15), the Union Budget 1991/2 reduced the rate to 25 per cent.

As regards investment allowance, following the recommendation of Mathai Commission, a rebate, known as Development Rebate\(^{1}\), was provided to the tune of 25

\(^{31}\) On observing higher corporate income tax rate in India as compared with some of industrial and developing countries and given the spread of rates found in different countries, Chelliah Committee considered a rate of 40 per cent to be reasonable (GOI, 1992c: 11).

\(^{32}\) Lall (1983) showed that while such income would not fully index replacement cost of assets, it helped to generate internal funds.
per cent by Union Budget 1955/6. This was reduced to 20 per cent in 1961/2 and further to 15 in 1965/6 (GOI, 1984: 204 and 246). This was withdrawn in 1974/5 (GOI, 1984: 387). Instead, a standard deduction of 20 per cent of actual cost on all plant and machinery was allowed. This was reintroduced in 1976/7 under a new name, 'investment allowance', which retained all characteristics of development rebate. The rate was 25 per cent (GOI, 1984: 418). Subsequent to the reduction in corporate tax rate to 40 per cent, Union Budget 1990/1 did away with it.

To sum up, taking into consideration the movements in both tax rate and tax incentives, it is observed that the period prior to the 1990s had higher statutory corporate income tax rate, but there were compensating allowances such as depreciation allowance that was successively raised till 1991/2. In the post 1991/2, corporate income tax rate was scaled down. But there was also a reduction in depreciation allowance and the investment allowance was done away with. It is the combined effect of all these measures that largely determines availability of internal funds.

33 Bhoothalingam Committee (Bhoothalingam, 1968) and Wanchoo Report (GOI, 1971: 113) recommended to withdraw investment allowance.

Opinions were divided on the effects of this. Gupta (1973) showed that the rebate was neutral between techniques of various capital intensities and, hence, withdrawal would mean reduction of profitability that, in turn, would affect incentives to invest. On the contrary, Jhaveri (1973) pointed out that the rebate reduced the relative price of capital vis-a-vis labour. Jhaveri (1973) argued that once low profitability was correlated with unutilized capacity, abolition of such rebate eventually would divert capital to higher profitable ventures and, hence avoidance of potential under-utilization of capacity leading to overall improvement in the efficiency of resource use. Alternatively, accelerated depreciation and more reliance on external sources of funds were suggested.
Section III

III.A. Financial System in India

The central place of financial system in the development process of an economy is well recognized. As an economy develops, a dichotomy emerges between decision to save and decision to invest, as the distribution of savings among economic units does not always correspond to the distribution of investment expenditure among them. In the absence of any intermediation between surplus and deficit units, that is, between savers and investors, the savings of the former cannot be channelled to the latter to invest. Under such circumstances, investors are forced to limit their investment to the extent of funds available to them. On the other hand, the savers tend to invest their savings in assets that are of low value for economic growth. This leads both deficit and surplus units to a balanced budget position where savings equals investment. This arrangement, however, would result in a low level of investment and saving and hence, to a relatively low growth of output (Gurley and Shaw, 1960:196). Hence, it is essential to intermediate between savers and investors so as to institutionalise savings and investment.

Intermediation takes place within a system, known as financial system, consisting of intermediaries, instruments and markets. Intermediaries are those who intermediate

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In recent times, the positive association between financial development and future economic growth has received considerable empirical support from studies of cross-country experiences. See King and Levine, 1993; DeGregorio and Guidotti, 1995; Rajan and Zingales, 1998. On the other hand, Demetriades and Hussein (1996) maintained that the relationship between financial development and economic growth is bi-directional.
between savers and investors, instruments are the claims issued, and market is a place where such claims are transacted. Financial system, thus, helps to accelerate economic growth to the extent it facilitates migration of funds to the best uses.

From firms point of view, as noted earlier, availability and terms of finance affects their investment decision. Firms can resort to either their internal funds or external funds to finance investment activities. However, there are limits to growth based on internal funds (Kuh, 1971: 26-44). Availability of external funds, thus, assumes significance. This, in turn, depends on the functioning of the financial system.

At the time of independence, financial system in India was in its rudimentary form, and the link between financial system and industrial finance was rather weak. Gupta observed,

"... the principal feature of the pre independence industrial financing organization in India were the closed circle character of industrial entrepreneurship, a semi organized and narrow industrial securities market devoid of issuing institution, and virtual absence of participation by intermediary financial institution in the long term financing of industry. As a result, industry had a very restricted access to outside savings and had perforce to depend primarily on internal savings. That industry had no easy access to outside savings is another way of saying that the financial system was not responsive to opportunities for industrial investment. Such a financial system was clearly incapable of sustaining a high rate of industrial growth, mostly the growth of new and innovating enterprises" (Gupta, 1969: 9).

35 The intermediaries obtain primary securities from deficit units to provide finance and issue secondary securities, namely, claims against them, to surplus units to mobilize their savings. The margin between yields on primary and secondary securities compensate the intermediaries for their special services.
The role of State in developing a broad-based financial system to facilitate growth process was well recognized by the planners. Therefore, in keeping with the strategy of planned development, we find the State developing financial system both with a view to facilitate the growth process and also to exercise control over distribution of credit and finance. The control was extended to institutions, instruments, and interest rates. This continued till the early 1990s since when we observe a gradual move towards decontrol.

For instance, a committee with Shroff as Chairman was set up way back in 1939. This was one of 29 sub-committees under the National Planning Committee with Shri. Jawarhalal Nehru as Chairman. The Committee examined the then mode of financing of firms and devised how institutional support be extended to industries. It argued that investment climate was good but capital was shy, and underscored the role of the State (Shah, 1948: 73).

The State's role could be viewed in terms of RBI's developmental and promotional role. First Plan assigned RBI with the task of developing the financial system, "... firstly, in creating or helping to create the machinery needed for financing developmental activities all over the country and, secondly, in ensuring that the finance available flows in the directions intended" (GOI, 1952: 38).


The features of decontrol include freeing of interest rates, reducing control over resources disposition, privatisation by means of equity issues and allowing private sector to operate in financial sectors, freeing of capital issues, and so on.

Some important committees whose recommendations played an important role for decontrolling process are Chakravarthy Committee (RBI, 1985), Narasimham Committee (GOI, 1991b) and Malhotra Committee (GOI, 1994). For an overview of the progress made with regard to financial sector reforms, see Reddy (1999).
III.B. Evolution of Financial Institutions

The financial system in India consists of two major segments, namely, 'organized sector' and 'unorganised sector'. The present analysis confines itself only to the organized sector. The organized sector includes commercial, development and co-operative banks, the stock market, and various non-banking financial institutions such as insurance corporations, mutual funds, leasing companies, and so on with the RBI as the central bank and the regulatory authority.

The State played a vital role in fostering the development of each of the different segments of the organized sector. The underlying objective was to align the functioning of various institutions to the overall priorities set in the Plans. By establishing new institutions and through nationalization, the State attained its control over the financial system gradually in the 1950s and 1960s.

III.B.a. All India Financial Institutions (AIFIs)

In the 1950s and 1960s, the State actively promoted development financial institutions such as IFCI, IDBI, ICICI, etc. and investment institutions, known as AIFIs, in order to provide long term assistance in the form of term loans and subscribing / underwriting corporate securities such as shares and debentures. The AIFIs were created with a view to solve two-fold problem facing industries - industries in general could not obtain required funds through normal channel; and, within industry, some sections such as small and medium sized industries were not in a position to obtain resources

39 The unorganised, also known as informal credit market, is the set of indigenous financial institutions such as rural and urban moneylenders who mainly finance small enterprises, farms and household consumption (Morris, 1985: 1).
even through the normal channel (Gupta, 1969: 85-87). We examine most important of these institutions in detail.

III. B.a.i. Development Financial Institutions (DFIs)

The first DFI to be established by the State was the Industrial Finance Corporation of India (IFCI) in July 1948. The objective was to provide medium and long term capital whenever normal banking accommodation was not possible or recourse to capital market was found impracticable. The second major DFI was Industrial Credit and Investment Corporation of India (ICICI) incorporated in January 1955. The object was to provide long term funds to industry, of which provision of foreign currency loan was an important one. The Corporation undertook both underwriting and direct subscription of capital.

By 1964, there were already DFIs such as IFCI, ICICI, SFCs\textsuperscript{40}, and Refinance Corporation of India. It was, however, felt that their contribution was insufficient both in magnitude and in the range of financing in relation to the emerging investment needs (GOI, 1969b: 47). Hence, the most important DFI, that is, Industrial Development Bank of India (IDBI), was established in July 1964. The object was to reorganize and integrate the structure of industrial financing institutions. Saksena (1970: 201) pointed out the twin objectives of setting up of IDBI; first, to avoid duplication of customers and competition among the then established DFIs; and, second, to reinforce the control of Government over term lending institutions, besides

\textsuperscript{40} At the state level, State Financial Corporations (SFCs) were established by the respective State Governments under SFC Act of 1951. The object was to supplement the activities of IFCI and to provide assistance to medium and small scale industries set up in their respective states. In addition, many State Governments promoted State Industrial Development Corporation (SIDC) since 1960. The object was to provide assistance and promote industries in private sector in their States.
short term money market, the operation of which was already in its grip. The Bank also supplemented term financing of commercial banks and cooperative banks. The functions of IDBI are two-fold. Firstly, to act as an apex institution to coordinate the activities of term lending institutions and to provide direct financial assistance to industrial units. And, secondly, to act as a development agency by providing finance to certain vital and strategic sectors. The DFIs had assured source of funds at relatively stable borrowing rates. The Narasimham Committee (GOI, 1991b) envisaged that due to deregulation and decontrolling the developmental and promotional role of DFIs could diminish.

III.B.a.ii. Investment Institutions

Under investment institutions, we have Life Insurance Corporation of India (LIC), General Insurance Corporation of India (GIC) and its subsidiaries, and Unit Trust of India (UTI). The LIC came into existence in September, 1956 under LIC Act of 1956. The LIC invests in shares and debentures of corporate sector, besides direct purchases and sales on the capital market. General Insurance Corporation of India (GIC) was established in September 1972 under General Insurance Business (Nationalization) Act 1972. These institutions had to adhere to guidelines on the utilization of funds. The LIC had to invest about 75 per cent in socially desired sectors such as securities of Central and State Governments, public sectors, housing building etc. The remaining 25 per cent could be put in private corporate securities. Whereas GIC had to invest 45 per cent in social oriented sectors and 55 per cent in market sectors.

41 Earlier, the Refinance Corporation for Industry Private Ltd. (RCI) was established in June 1958 to perform the function of refinancing term loans. As IDBI was formed to carry out a similar function, RCI was merged with IDBI.
Unit Trust of India (UTI) came into existence on February 1, 1964 under UTI Act of 1963. The basic objective of establishing the Trust was to pool savings of the community and invest them in various types of securities with a view to offer individual saver the advantages of a reasonable return combined with expert management of the investment portfolio (Srivastava, 1984: 355). The establishment of UTI had also brought in an important source of demand for industrial securities, which was earlier limited to LIC (Gupta, 1969: 76). In accordance with the principle of investment trusts, the Trust collects public savings by selling 'units' and the savings so mobilized are invested in securities of both corporate and government. In addition, the Trust undertook to underwrite securities.

In 1991/92, setting up of mutual funds in private and joint sector was allowed (Economic Survey 1991/2, Part II: p.91). Opening up of life business was contemplated (Economic Survey, 1996/7: p.65). This could redefine the monopoly of these investment institutions and, thereby, the State's control.
III.B.b. Commercial Banks

The State attained its control over commercial banks in India gradually by means of nationalization. To begin with, State Bank of India (SBI) was formed in 1955 by taking over the undertaking and business of Imperial Bank of India. With a view to have better coverage of banking system across rural and semi urban areas, and to change the uneven distribution pattern of bank lending, a Scheme of Social Control over banks was introduced in 1967. It sought to achieve a social orientation of banking within the framework of then existing ownership. To achieve this, the Government acquired ownership of 14 banks by nationalizing them in July 1969; and, further six more banks in April 1980. With nationalization of banks, Government's control over banking system was reinforced (RBI, 1985: 61). The Government in consultation with RBI was empowered to issue directives to banks in matters relating to policy.

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42 The Imperial Bank of India was constituted in 1921, under the Imperial Bank of India Act 1920 for taking over the undertaking and business of the Presidency Banks (Bengal, Madras and Bombay).

Consequent to SBI (Subsidiary Banks) Act of 1959, SBI took over 8 state owned or state associated banks as its subsidiaries. The amalgamation of State Bank of Bikaner and State Bank of Jaipur in January 1963 reduced the number of subsidiaries to 7.

43 Banks had some large business groups as their main clients: for instance, Central Bank of India had TATA, United Commercial Bank had Birla Group and Punjab National Bank had Dalmia-Jain Group (Da Costa, 1985: 97). This had facilitated large industries and big and established business houses to obtain finance from the banks affiliated with it (Rosen, 1962: 17). It has been alleged that banks had a tendency to neglect sectors such as agriculture, small scale industries, rural artisans, and so on. And, private sector banks deployed funds not in alignment with the priorities of Five Year Plans (Rangaswamy, 1985: 13-15). To correct these anomalies, social control was advocated.

44 Nationalization brought in 80 per cent of branches, 83 per cent of deposits, and 84 per cent of advances under public sector. Further nationalization of banks in 1980 brought into its fold about 91 per cent of total deposits and advances of commercial banks (Rangaswamy, 1985: 22 and 30).
With nationalization, the State exercised greater control over resource deployment of banks by influencing quantum, cost, and direction of flow of credit. While instruments such as Cash Reserve Ratio (CRR), Statutory Liquidity Ratio (SLR) and Bank Rate (BR) were used to influence the quantum of credit; interest rate was administered to influence the cost of credit.\textsuperscript{45} The CRR and SLR are reserve requirements, whereas the BR is a rate charged on banks borrowing from RBI. Any upward trend in these instruments would affect the quantum of resources available to banks for lending. And, upward trend in reserve requirements would facilitate flow of bank resources into investment in approved securities.

One of the objectives of nationalization was to ensure an increased flow of assistance to the hitherto neglected sectors. To this end, the policy of priority sector lending was formulated by which liberal lending facilities were provided to sectors like agriculture, small scale industries, the self-employed, retail trade, small artisans and so on.\textsuperscript{46} By virtue of priority sector lending, bank credit to medium and large industries became a residual.

Control, specifically of credit to industry, known as 'Credit Authorization Scheme' (CAS) was introduced by RBI in 1965 even before the nationalization of banks. Accordingly, banks were required to obtain prior authorization from RBI to sanction

\textsuperscript{45} The CRR is the ratio of a minimum cash balance to demand and time Liabilities (DTL) to be maintained by commercial banks with RBI. By the instrument of SLR, commercial banks are required to maintain a ratio of liquid assets to DTL at the close of business every day. Bank Rate is the standard rate at which RBI buys or rediscounts bills of exchange or other commercial papers.

\textsuperscript{46} The RBI required public sector banks to reach a target of 33.3 per cent of outstanding credit to priority sector by the end of March 1979. This was subsequently raised in 1980 to 40 per cent to be achieved by March 1985 (Srivastava, 1984: 223).
any credit more than an upper limit. The credit to industry was further influenced by the recommendations of Tandon Study Group (RBI, 1975b) and Chore Working Group (RBI, 1979), which became the criteria for scrutiny of applications under CAS. The RBI, however, withdrew CAS in October 1989 following its finding that the purpose of CAS was achieved by the enforcement of discipline (RBI, 1989: 305-308). All proposals involving sanction of aggregate working capital beyond Rs. 5 crores and all term loan proposals requiring RBI's prior authorization were, however, subjected to post sanction scrutiny.

As part of financial liberalization in the 1990s, reserve requirements were progressively reduced, entry of private sector into banking sector was allowed, issue of fresh capital by banks to public through capital market was encouraged, and interest rates on bank advances was almost freed (Economic Survey 1999415: p.41 and Reddy, 1999).

III.B.c. Capital Market

Capital market is seen here in the analysis essentially as a market where the corporate sector mobilize funds by means of equity and debentures issues, although it includes a market for state bodies' securities such as gilt edged securities. As regards the regulatory apparatus of capital market, which was in vogue, two important legislation

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47 Initially the limit was Rs. 1 crore or more to any single party, or any quantum that would take the total limit enjoyed by such party from entire banking system to Rs 1 crore or more on secured and/or unsecured basis (RBI, 1983: 6). The upper limit was successively revised. See RBI, 1983: 9; 1989: 202-203.

48 The Study Group, after having studied the lending practices of banks, stipulated specific norms for inventory and receivables that could be had in each industry.
can be identified. One is related to the operation of stock exchange, and the other is related to the public issue of stock.

Regulating the functioning of stock exchange has been recognized as an integral part of economic policy since independence. To this end, Securities Contracts (Regulation) Act 1956 came into force from February 20, 1957. The Act also required listing public companies to adhere to certain requirements. To promote an orderly and healthy development of the securities markets and to provide adequate investor protection, the Government established Securities and Exchange Board of India (SEBI) on April 12, 1988. As a part of financial sector reforms, an important development in capital market in the 1990s was allowing foreign investors to transact in the stock exchanges to infuse more foreign savings into Indian capital market.

More importantly, in addition to regulating the functioning of stock exchanges, the State had exercised control over capital issues through the Capital Issues (Control) Act, 1947. Controller of Capital Issues (CCI) administered this. The controls were guided by three main objectives, namely,

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49 The Act bestowed on the Government complete control over the exchanges from the stages of their formation - ranging from granting recognition to an exchange, making / amending and approving the Rules and By-laws of an exchange, and of withdrawing its recognition.

50 These included: a) the Memorandum and Articles of Association must not contain any provision that restrict free transfer of shares; b) the company must offer at least 25 per cent of its issued capital for public subscription; c) the minimum issued capital of the company should be at least Rs. 3 crores; d) application should be invited in denominations of market units of trading; and e) no previous track record is necessary. The requirement of (b) was with effect from September 20, 1993; earlier it was 60 per cent.

51 These include foreign institutional investors (FIIs) and nationals. Under section 2(f) of SEBI (Foreign Institutional Investors) Regulations, 1995, FII is defined as, 'an institution established or incorporated outside India which proposes to make investment in India in securities'. These institutions are pension funds, investment trusts, asset management companies and so on.
a. to ensure that investment does not take place contrary to the objectives of the Five Year Plans or flow into unproductive or wasteful channels;

b. to further the growth of joint stock companies with sound capital structure and to promote a rational and healthy expansion of the joint stock companies in the general public interest; and,

c. to direct and distribute new issues of capital so as to avoid any undue concentration or over crowding in a particular period or part of the year (Lall, 1981: 1).

The capital issues of corporate sector had to adhere to various guidelines as formulated by CCI from time to time. In contrast to this, with the move towards financial liberalization, it was found that the practice of Government control over capital issues as well as pricing of issues had lost its relevance. The Government, therefore, decided to do away with control over capital issues including premium fixation (Union Budget 1992-93: p. 9). Companies were allowed to approach the market directly provided they cleared their offer documents by SEBI. As a result, CCI was abolished in 1992. This marked the end of an era, which demanded the issuing companies to seek prior approval for the volume as well as pricing of capital issues. Indian companies were also permitted to access international capital market (Economic Survey, 1992/3: p. 66-57).
To sum up, it is seen that the development of financial system in India was a product of the State's effort, which in turn was an offshoot of planned development strategy. However, since 1991, the State control over these institutions is being phased out. Based on this, three phases can be identified in respect of the development of financial system in India.

Phase I beginning from 1948 to 1969/70 when the State took initiative in developing and attaining controls over various segments of financial system. Phase II, from 1970/1 to 1990/1, when the State driven financial system was in operation, and Phase III, post 1991/2, when there is a gradual withdrawal of controls and a move towards greater autonomy in terms of ownership and functioning for the different institutions within financial sector.

Summary

Our analysis of institutional framework showed that over the five year plan periods, there was variation in the direction of regulation. Along with this, we also observed varying emphasis on private investment which had to take place within the institutional framework. It was also seen that both the fiscal framework, and the developments and functioning of financial system were closely aligned to plan strategies and priorities. Beginning with 1990s, the private corporate sector was not only accorded a lead role in the growth process, but fiscal and financial sector reforms aimed to facilitate this. This move tends to drive the economy more by market forces.
Since the fiscal and financial system were shaped within the planning process, it seems appropriate to study the financial practices of corporate sector in terms of different stages in which policies evolved. The subsequent analysis is, thus, carried out by dividing the entire period of study into four phases on the basis of the relative emphasis of private and public sector. They are 1956/7 to 1969/70; 1970/1 to 1979/80; 1980/1 to 1990/1; and, 1991/2 onwards.