Chapter XI: Summary and Conclusions
To conclude our study on the role of new issues market in the finances of corporate enterprises, we attempt here a comparison of the markets of the U.S.A. and the U.K. with that of India.

The characteristic features of the American and as well as the British markets have been studied in great detail. We will present a brief review of the main features of these markets here. The major noteworthy points that have emerged in course of our study are mentioned below:

(1) In both the markets in the U.K. and the U.S.A., the volume of funds flowing through the markets has been very large. This is
mostly due to the large volume of trading in already outstanding securities.

(ii) In recent times, there have been a notable shift away from the issuance of new equity issues as a source of capital funds in these two markets.

(iii) The major part of funds are channelled through several types of financial institutions, such as, life insurance companies, pension funds, mutual trust funds both of closed end open-end types.

(iv) The governmental authorities of both these countries are relatively unimportant direct source of credit except in certain special situations. The financial intermediaries are free to act without any prejudices.

(v) Both these markets have shown, in the late sixties, a declining trend in the volume of capital issues in relation to aggregate volume of capital funds of the joint-stock enterprises.

From the declining trend of total volume of capital issues in the markets of the U.S.A. and the U.K., it cannot be made out that the markets are unresponsive to new issues. This is evident from the fact that share prices have shown a continuous rise in recent years. Besides, there have been 'over-subscription' of new issues of capital by the institutional investors.
The Indian situation is quite different. There was no such case of steady dealing in the new issue market of India over the years of the pre-Plan period, excepting some periodical outbursts of purchase and sale of new issues. Although the situation has improved a lot, the market still is prone to speculative activities. The major characteristic features of the Indian market are presented below:

(1) Although the industrial concerns are to a large degree dependent upon external sources of securing funds, they have not shown any great inclination to raise capital funds through the issuance of new capital. In most of the cases, the predominance of bank loans have been found. In this connection, it may be noted that this same characteristic feature is also shared by the business enterprises in Japan. The reasons, however, have been different. Two factors have mostly worked to make Japanese corporations rely on external finance to so great an extent: first, despite the partial revaluation of assets following the early post-war inflation, most Japanese firms emerged from the devastation of the Second World War with a relatively high ratio of net worth to total liabilities — perhaps 40 percent on the average. Secondly, since the war the growth of firms has been too rapid for their own capital to sustain in the case of Japanese corporations.
(ii) The financial institutions in India being state-owned, they have been compelled to hold 85 percent of their assets in government securities which in its way implies that their provisions have been small for providing funds to non-government business enterprises. Besides, the nature of undersubscription of capital issues has been such that even the provision of funds for established concerns has become difficult.

(iii) The prices of equities have shown a steep declining trend during the period of the sixties (that is, from 1962 onwards); this has been one of the main causes of a marked shift away of individual savings from corporate securities to other forms of non-financial assets. The result no doubt has been an over-all under-subscription of new issues of capital.

The real problem thus, in the context of India, is that of attracting the saving of the household sector to the new issues market. But now, with a declining trend of share prices, the average annual return to the individual shareholder computed by taking into account both the change in the price index and the dividend yield on equities amounted to only 1 per cent in 1964-1965 and 1965-66. The trend can be reversed only through the raising of yields on corporate equities which would mean the profitability of industrial concerns would have to be improved by appropriate innovations as well as by an efficiency-promoting tax policy. This cannot be accomplished unless an active market can come into existence because only in that case it would be possible for any concern
to make shares "marketable".

In course of our study, an attempt has also been made to present a short note on the Latin American experiments; more commonly known as the "Brazilian Experiment". This experiment covers a series of legislative measures undertaken by the government since 1964. The main purpose of the enactment of these laws have been to strengthen the basis of a capital issues market— in conformity with the needs of a developing economy. A major feature of the Brazilian market development effort has been broadly defined as 'institution building'. A Government Fund has been created to help to underwrite new issues. Measures also have taken to widen the narrow margin of the working of capital issue market. All this has meant a spectacular rise in the sale and purchase of new issues of capital. It is quite doubtless that by taking up such an all-out venture to promote the growth of a market infrastructure, Brazil has presented a unique example of comprehensive effort. Its long-run effects have yet to be determined, however. There are costs and benefits in all policy measures. While benefits have been more clearly evident in the Brazilian experience, the costs— such as the opportunity costs of the measures of reducing taxes (thus, foregoing tax revenues)— may not be so easily assessed.

A suggestion may be made on the line of taking up such measures in India as will widen the scope of the market in its perspective.
of channelling funds towards the needs of corporate form of business undertakings.

Suggestions have also been made to float capital issues in lower denominations in order to attract "small" savers in the purchase of capital issues of business concerns. It has been revealed through a detailed investigation into the pattern of denominations of capital issues that in a country like India which lacks a financial intermediation of the standard presented by the U.S. and the U.K., the denominations of capital issues plays an important role in making a particular type of issue popular. This, in India is of substantial importance because individual participation has been rather 'thin' in this respect.

Several complaints have been voiced against the predominance of gilt-edged issues in the overall securities market in India. The two features of the India-economy that have shaped the nature of the market as it exists now are the direct and dominant role of government in the total investment outlays of the economy and government ownership of the major financial institutions. The commercial banks, the Life Insurance Corporation and Provident Funds own 85% of the government debt held by the public and all these are either state-owned or under statutory control regarding their investment policy. There cannot be any doubt that the investment policy of these institutions has affected the allocation of resources.
been the government and the private sector.

The factor, just mentioned above, also has led to the growth of the finance institutions only as underwriters of new issues of capital. In very few of the cases, these intermediaries have shown an active support to purchase corporate quoted securities. This has been in hard contrast with the prevailing practices in the markets of the U.K. and the U.S. — in both of which the demand for purchasing new issues has been in excess of the total volume of issued share capital. The financial institutions there are free to allocate their funds on the basis of their financial programmes.

The preceding study on the role of the new issues market in India in business finance refers to the period 1945-46 to 1965-66. Every attempt has been made to make the analysis as thorough as possible. But availability of data has, in some cases, been inadequate. Nevertheless, it is hoped that this study points towards important trends which are relevant even for the period after 1965-66.