REVIEW ARTICLES

THE FUTURE OF JOINT STOCK ENTERPRISE IN INDIA*

H. M. PATEL

Mr. H. T. Parekh's book, "The future of Joint Stock Enterprise in India" was published first in 1950. That it has now been republished testifies to the fact that it has been found useful by students and the general public. Its great merit is that it is written in simple language and with great clarity. That simplicity and clarity is the result of clear thinking. One may agree or one may disagree with the conclusions to which he arrives, but there would be no warrant for anyone to say that the author has expressed himself either ambiguously or that he is obscure.

That the joint stock company has a great future in India cannot be questioned. This is not because the policy of the Government in any way has made the task of the promoters of joint stock companies any easier or more attractive, but because that has been found by experience to be the only form of organisation which can undertake the efficient running of any large undertaking. It is significant that most public sector enterprises are also organised as joint stock companies.

A joint stock enterprise can be launched successfully only if it can attract investors to put their money in the enterprise. In the case of a public sector enterprise, the practice hitherto has been for the entire capital to be subscribed by the Government. The problem of raising finance does not, therefore, raise any difficulty. More recently Govern-

* H. T. Parekh, The Future of Joint Stock Enterprise in India, Bombay: Jaico, 192 pp. Rs. 7.50.
ment has not been unwilling to accept equity participation with foreign collaborators or even with Indian shareholders. In such cases too, the problem of initial finance does not present any serious difficulty. It is the private entrepreneur for whom the raising of the capital and other necessary funds is a serious problem: this is so even when the investment climate is most satisfactory, but his position becomes infinitely more difficult when the investment market is in doldrums, as it is today.

It is the economic, monetary and financial policies of the Government during the past two years that have very largely been responsible for destroying the investment climate that had, slowly but surely, been developing in the country. Shri Parekh’s book was written just about the time when the small investor was beginning to realise the value of investing in a joint stock company, and the latter, as a consequence, was for the first time in India beginning to enjoy a measure of freedom from the pressures of the rich on the one hand and the institutional investor on the other. This period of popular support, however, has been short-lived: thanks to the somewhat short-sighted policy of the Government of India, this highly promising development has been virtually destroyed: not only is the small investor no longer desirous of investing in new enterprises, but even the larger investors have begun to get shy of new investment. No one could have predicted in 1958 that in 1964 and thereafter the ordinary public will cease to show any interest in the investment market. Indeed it would be more correct to say that today there does not exist a genuine investment market in India.

However sound a project may be, however experienced and high the calibre of its Board of Directors, a new floatation today would have to rely for almost the entire amount of its equity and preference capital upon institutional investors and, in particular, upon the Industrial Development Bank, a subsidiary of the Reserve Bank. Except for the promoters, directors and their friends, the ordinary citizen of large, moderate, or small means is just not attracted. And how can we have an investment market without genuine investors?

The Industrial Finance Corporation as well as the Industrial Credit and Investment Corporation Limited used to be until recently the two
houses principally responsible for meeting both long and short term capital requirements of the joint stock companies. They have recently been assisting new enterprises by agreeing to underwrite fairly large blocks of shares purely with a view to fill the gap between what the promoters and their friends are prepared to subscribe and the total amount required. But they could not cope with the demands upon them from genuine enterprises. And so the Government had to establish new institutions. The Industrial Development Bank is one such institution. It is a wholly owned subsidiary of the Reserve Bank. It has been brought into being precisely because of the decline in interest of the public investors. It must be admitted that this new Bank has adopted and is following a generous policy. Thus, it agrees readily to underwrite upto 25% of the joint stock company's capital requirements on being satisfied that the balance of the money required can be found. The larger investor still occasionally invests, but he does so more willingly only where he is able to secure some additional advantage besides the return of his capital. The small investor cannot expect to receive such special offers: his ability to invest has been destroyed. Government have been taking a variety of steps to put back life into it. Alas, they have all been unsuccessful.

After an enterprise begins its operations and if it is successful, normally the price of its shares would appreciate and people would vie with each other in purchasing them. Here again the situation has changed and the average purchaser just finds it not worth his while to buy even first class shares. Realising this development and the retarding effect it would have on further industrialisation, the Government of India has now intervened and established a Unit Trust. This organisation is, without a doubt, very valuable for the small investor in as much as it enables him to invest in a large number of enterprises, and thus, as it were, spread his risk in a manner which it would never have been possible for him to do with the relatively small savings at his disposal.

It would almost seem as if Government wanted deliberately to make private investment in joint stock companies, except through the Unit Trust, unattractive. The bulk of the shareholding in any Joint stock company of any financial strength and industrial importance,
before long, will be held by the Life Insurance Corporation and the Unit Trust between themselves. The former is already well on the way to holding up to the limit it is permitted, namely 30% of the shares of every major company in the country, and the latter will not take long in following suit.

The situation today thus in the investment market is that no new enterprise can come into being nor can an existing enterprise raise fresh capital unless the various financing houses—the Industrial Development Bank, the Industrial Finance Corporation, the Industrial Credit and Investment Corporation of India, the Life Insurance Corporation and at times the Unit Trust—are prepared to help. Autonomous as these bodies are theoretically, everyone of them with the possible exception of ICICI, has in practice to follow the policy line determined by the Finance Ministry. This is true of even so powerful an institution as the Reserve Bank. How much more would this be the case in regard to the other financing institutions?

In effect, therefore, there has evolved, partly by design and partly because of our innate good sense and desire to make the best of a job, a new type of economy. We have nationalisation of industry and finance in the senses that Government is now in a position to regulate and direct any unit of trade, industry and banking. We have at the same time permitted scope for the exercise of initiative and enterprise by private individuals. How much or how little that scope is, it is not easy to assess. Since all Governmental control means in practice control by a set of individuals holding stated positions, the scope for individual initiative and enterprise depends very much upon how understanding they are, and what sympathy and imagination they possess.

Writing in 1958, Mr Parekh thought that the joint stock enterprisers in the private sector are coming increasingly under the ownership of the small investor along with that of the large institutional investor, such as the Life Insurance Corporation, which is itself a nationalised undertaking, but whose funds represent the savings of the common man. The so-called free enterprise economy is therefore increasingly being owned by the small man.” If he had been writing today in
1965, Mr Parekh would have had to revise this conclusion. The disappearance of the interest of the small man from the investment market in so far as new enterprises are concerned, and the establishment of the State-owned and controlled Unit Trust has significantly altered the situation. The ownership could still be described as ultimately that of the small man, for the investment is made with his funds. The control also could be described as that of the small man, because Government too in a democracy can be said to be controlled by him. But that would be true only in a democracy where public opinion was vigilant and fearless, and where the party in power is conscious of being replaced. With us the position is very different, and hence there has crept in a serious degree of irresponsibility and therefore of a dictatorial spirit among the Ministers and their supporters, and through them even among the civil servants. Arbitrary decisions, both policy and of individual application, therefore, are to be seen not infrequently. The people realise this, they grumble, but have not yet developed the consciousness of their rights and their powers, and therefore quickly acquiesce.

However that may be, the fact remains that an interesting evolution has taken place in our economy. The process has not stopped: there still remains the Stock Exchange which enables people to invest in enterprises which are already established. Periodically, there is started an attack against that institution. It is a very useful institution, and so long as private enterprise exists and private investment is allowed, would have to be replaced by something similar, if it is made to disappear.
A contract with another party is entered into

to provide services or products.

The contract details, terms, and conditions are as follows:

- **Party A** (Issuer)
  - Full Name:
  - Address:
  - Contact Information:

- **Party B** (Recipient)
  - Full Name:
  - Address:
  - Contact Information:

**Contract Terms:**

- **Purpose:** The purpose of this contract is to...
- **Services/Products:** The services/products to be provided by Party A include...
- **Duration:** The contract shall remain effective from...
- **Payment Terms:** Party B shall pay...

**Additional Notes:**

- Any modifications or amendments shall be agreed upon by both parties.
- The contract is subject to the laws of...

**Signatures:**

- **Party A:**
  - Signature:
  - Date:

- **Party B:**
  - Signature:
  - Date:

This contract is witnessed by...

[Signature]

[Date]
હુમાં આ પરાકાશીઓ માં સુનિત હોસ્ટ વિવાસી શત્રુ જાણાય રાજકીય પરિણામો સમજવા સારવાર છે. આયોજકો માટે સફળ રહેવું વિવિધ રીતની સભાઓને સફળ કરી શકે. સારવાર સફળ કરવા માટે આ પ્રકાશીએ રાજકીય પરિણામો સમજવા માટે તમારી સહાયતા મદદગાર છે. સારવાર સફળ કરવા માટે આ પ્રકાશીએ રાજકીય પરિણામો સમજવા માટે તમારી સહાયતા મદદગાર છે. સારવાર સફળ કરવા માટે આ પ્રકાશીએ રાજકીય પરિણામો સમજવા માટે તમારી સહાયતા મદદગાર છે. સારવાર સફળ કરવા માટે આ પ્રકાશીએ રાજકીય પરિણામો સમજવા માટે તમારી સહાયતા મદદગાર છે. સારવાર સફળ કરવા માટે આ પ્રકાશીએ રાજકીય પરિણામો સમજવા માટે તમારી સહાયતા મદદગાર છે. સારવાર સફળ કરવા માટે આ પ્રકાશીએ રાજકીય પરિણામો સમજવા માટે તમારી સહાયતા મદદગાર છે. સારવાર સફળ કરવા માટે આ પ્રકાશીએ રાજકીય પરિણામો સમજવા માટે તમારી સહાયતા મદદગાર છે. સારવાર સફળ કરવા માટે આ પ્રકાશીએ રાજકીય પરિણામો સમજવા માટે તમારી સહાયતા મદદગાર છે. સારવાર સફળ કરવા માટે આ પ્રકાશીએ રાજકીય પરિણામો સમજવા માટે તમારી સહાયતા મદદગાર છે. સારવાર સફળ કરવા માટે આ પ્રકાશીએ રાજકીય પરિણામો સમજવા માટે તમારી સહાયતા મદદગાર છે. સારવાર સફળ કરવા માટે આ પ્રકાશીએ રાજકીય પરિણામો સમજવા માટે તમારી સહાયતા મદદગાર છે. સારવાર સફળ કરવા માટે આ પ્રકાશીએ રાજકીય પરિણામો સમજવા માટે તમારી સહાયતા મદદગાર છે. સારવાર સફળ કરવા માટે આ પ્રકાશીએ રાજકીય પરિણામો સમજવા માટે તમારી સહાયતા મદદગાર છે. સારવાર સફળ કરવા માટે આ પ્રકાશીએ રાજકીય પરિણામો સમજવા માટે તમારી સહાયતા મદદગાર છે. સારવાર સફળ કરવા માટે આ પ્રકાશીએ રાજકીય પરિણામો સમજવા માટે તમારી સહાયતા મદદગાર છે. સારવાર સફળ કરવા માટે આ પ્રકાશીએ રાજકીય પરિણામો સમજવા માટે તમારી સહાયતા મદદગાર છે. સારવાર સફળ કરવા માટે આ પ્રકાશીએ રાજકીય પરિણામો સમજવા માટે તમારી સહાયતા મદદગાર છે. સારવાર સફળ કરવા માટે આ પ્રકાશીએ રાજકીય પરિણામો સમજવા માટે તમારી સહાયતા મદદગાર છે. સારવાર સફળ કરવા માટે આ પ્રકાશીએ રાજકીય પરિણામો સમજવા માટે તમારી સહાયતા મદદગાર છે. સારવાર સફળ કરવા માટે આ પ્રકાશીએ રાજકીય પરિણામો સમજવા માટે તમારી સહાયતા મદદગાર છે. સારવાર સફળ કરવા માટે આ પ્રકાશીએ રાજકીય પરિણામો સમજવા માટે તમારી સહાયતા મદદગાર છે. સારવાર સફળ કરવા માટે આ પ્રકાશીએ રાજકીય પરિણામો સમજવા માટે તમારી સહાયતા મદદગાર છે. સારવાર સફળ કરવા માટે આ પ્રકાશીએ રાજકીય પરિણામો સમજવા માટે તમારી સહાયતા મદદગાર છે.