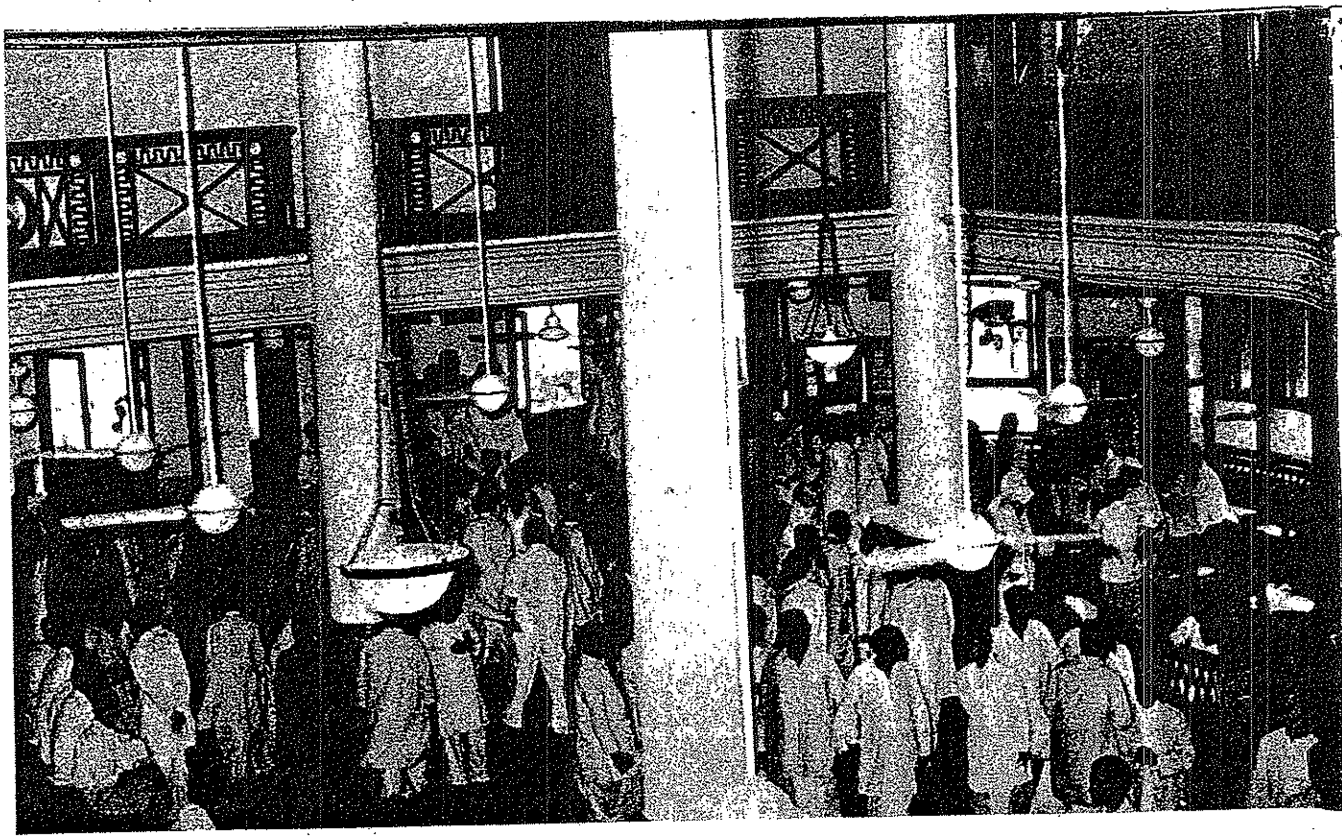
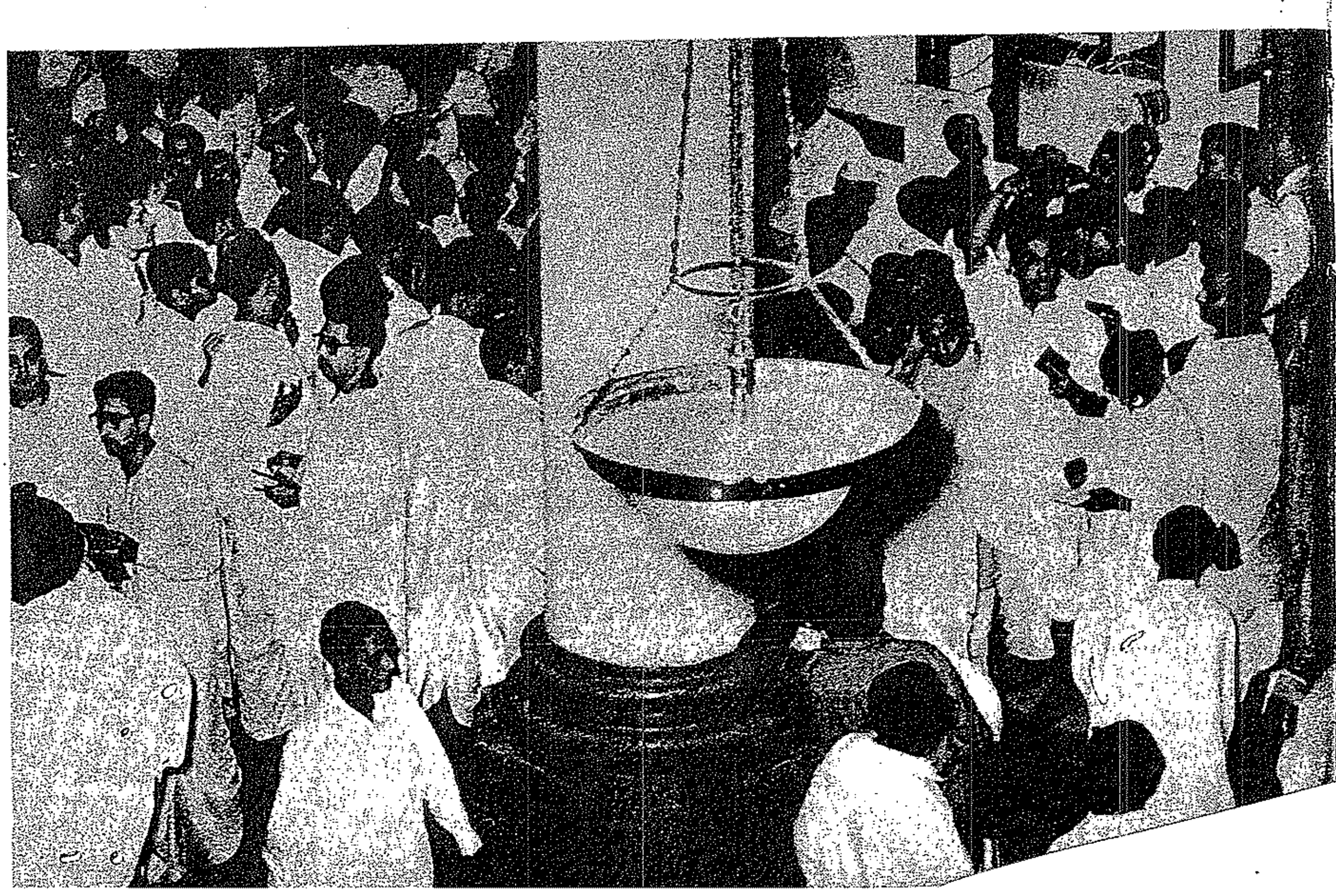
The Calcutta Stock Exchange Building



TOP *South-western corner of the Association's spacious trading hall with the visitors' gallery above*
BOTTOM *The Trading Ring for Indian Irons*



THE STOCK EXCHANGE

A Symposium

Edited by
A. K. SUR

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THE
CALCUTTA STOCK EXCHANGE ASSOCIATION LTD.
1958

Planned by
C. L. Jhunjhunwala • Eric Gregory
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WHAT THIS BOOK CONTAINS

BY WAY OF A FOREWORD

It is my privilege, as President of the Stock Exchange for the year in which is celebrated its Golden Jubilee, to present to the nation this symposium on the Stock Exchange specially prepared to mark this occasion. Publications on the role of the Stock Exchange in national life have been virtually non-existent in this country. I am sure this publication will help everybody, and particularly our legislators and administrators, to gain a better knowledge of the Stock Exchange. To allow them to make a correct assessment of the use and importance of the Stock Exchange in a nation's economy, we have followed a unique method in the preparation of this publication. Instead of telling the story ourselves, we have printed here only what the financial editors of leading newspapers and journals have to say on the matter, so that the readers may have an unvarnished picture of it. I must add to emphasise that we have printed their writings as received, without modifying even a dot or comma of same.

On this momentous occasion I am naturally reminded of the useful service that the Calcutta Stock Exchange has rendered in connection with the financing of industrial development in this country. Calcutta's Official List will show that almost all the jute mills and the paper mills; most of the coal and mining companies; the majority of the railways and electricity supplying undertakings under private management; the bulk of the tea companies; most of the sugar mills of upper India; companies with international affiliations like the Stanvac, the Burma-Shell, the Caltex, the Imperial Tobacco, the Hindusthan Lever, Dunlop Rubber, Philips, Alkali and Chemical (the Imperial Chemical Industries), National Carbon and Indian Aluminium; Indian Iron, the second largest steel producing company in the country; many of the worthwhile engineering concerns; the Big Five of the Indian banking world; and a host of miscellaneous companies engaged in diverse kinds of processing and manufacturing business ranging from automobile production to shoe making; have for the support of the investors to their issues of capital either in the form of debentures or shares, depended on the Calcutta Stock Exchange. For well over four decades Calcutta has supported the financial securities of over 500 companies. Today Calcutta officially quotes 969 securities of some 620 companies. The total nominal value of these securities amounts to over Rs 300 crores. In addition, Calcutta also quotes 116 securities of the Central and State Governments and the Local bodies, nominally valued at Rs 1,800 crores. The companies quoted on the Calcutta Stock Exchange account for a major portion of India's national income in the corporate industrial sector of the economy. If the weal and happiness of a nation depends on diversification of its economy, then the Calcutta Stock Exchange has certainly made its due contribution to it.

In regard to the rendering of services to the investors the Calcutta Stock Exchange has been for the past two or three decades emulating the methods of its confreres in the U.K. and the U.S.A. Like London and New York, Calcutta too has a public gallery for visitors. Year in and year out students from nearby and distant universities and colleges and also members of the public come to watch the market from its visitors' gallery. It has also a research and information department which lays its ungrudging service at the disposal not only of the investing public, but also of the Reserve Bank of India, of the Government's tax departments, and of various chambers of commerce and trade organizations in the country. It has also been issuing for near about quarter of a century an Official Year Book to furnish to the investing public all essential information helpful to the formation of wise and intelligent judgment on investments.

Over the past fifty years Calcutta Stock Exchange has experienced numerous slumps and booms. Out of the crises born of them Calcutta has always come out successful—not provoking to need any official intervention. Calcutta's success has been due to its functioning predominantly as an investment market. Out of the 620 companies quoted on the Stock Exchange, dealings in the shares of no less than 612 are done exclusively on cash basis, that is to say, shares bought are required to be taken up on the third day after the date of transaction against payment of the value in cash.

To the editors of the various papers who have helped us to make a success of this publication and to our numerous friends, admirers and associates who have blessed this historic occasion in our life with their greetings and good wishes, I personally and on behalf of the members of the Exchange and its Committee, tender our most sincere thanks. My personal appreciation of the services rendered in editing this work goes to Mr A. K. Sur, M.A., A.I.C.S., the officer in charge of our Year Book, Information and Research Department.

B N Chaturvedi

PRESIDENT

LIBRARY

GREETINGS AND MESSAGES

ON this happy and historic occasion in its life the Stock Exchange has received greetings and messages from far and near—from its many friends, admirers and associates. Heads of administration both in the State and at the Centre have greeted it with unqualified sentiments. Distinguished industrialists and Presidents and Vice-Presidents of Chambers of Commerce and sister institutions have also sent their messages to bless the Exchange on this momentous occasion. The Exchange remains deeply indebted to them for the kind words they have all spoken about its success and achievements during the past fifty years. We take great pleasure in reproducing some of them on the following pages.

★

Sri Morarji Desai,
Finance Minister,
India.

An organised securities market, like the Calcutta Stock Exchange Association Ltd., provides marketability and price continuity for shares and assists in a reasonable evaluation of securities in terms of their intrinsic worth. Thus it helps the orderly flow and distribution of savings as between different types of investments. I am happy that the Calcutta Stock Exchange Association Ltd. has rendered valuable service in this direction.

This Association has been recognised by the Central Government under the Securities Contracts (Regulation) Act, 1956, which was legislated with a view to prevent undesirable transactions in securities by regulating the business of dealing therein, by prohibiting options and by providing for certain alternatives connected therewith. The recognition of the Association confers on it a monopoly of business in securities in the area served by it. As every privilege carries with it some responsibility, the Association has to maintain high standards of care and supervision to sustain and enhance its reputation. I wish all success to the Association and trust that the conditions attached to the recognition given to it will be implemented very soon.

I wish the Golden Jubilee Celebrations of the Association every success.

★

Dr. B. C. Roy,
Chief Minister,
West Bengal.

I send my best wishes to the Calcutta Stock Exchange on the occasion of its Golden Jubilee. This institution plays a notable part in the economic life of the country, acting as a free market for securities where prices are determined by the forces of supply and demand. It has helped banks and other institutions to make proper assessment of securities for the purpose of granting loans. To the Government also, it has been of great service for raising loans from the market as investors would be reluctant to subscribe to these loans if they were incapable of selling them on the Stock Exchange in times of need. May the Calcutta Stock Exchange continue to pursue its useful career!

Sir John Braithwaite,
Chairman,
London Stock Exchange.

On the occasion of your Golden Jubilee it gives me great pleasure to send you the congratulations of the London Stock Exchange. It is, I believe, increasingly appreciated that the function of a Stock Exchange is not only to provide a free market for securities but also to assist in the raising of funds for Government and Industry and to supply for all a channel for the investment of savings in the performance of this function. We wish the Calcutta Stock Exchange continued success.

*

Mr. G. Keith Funston,
President,
New York Stock Exchange.

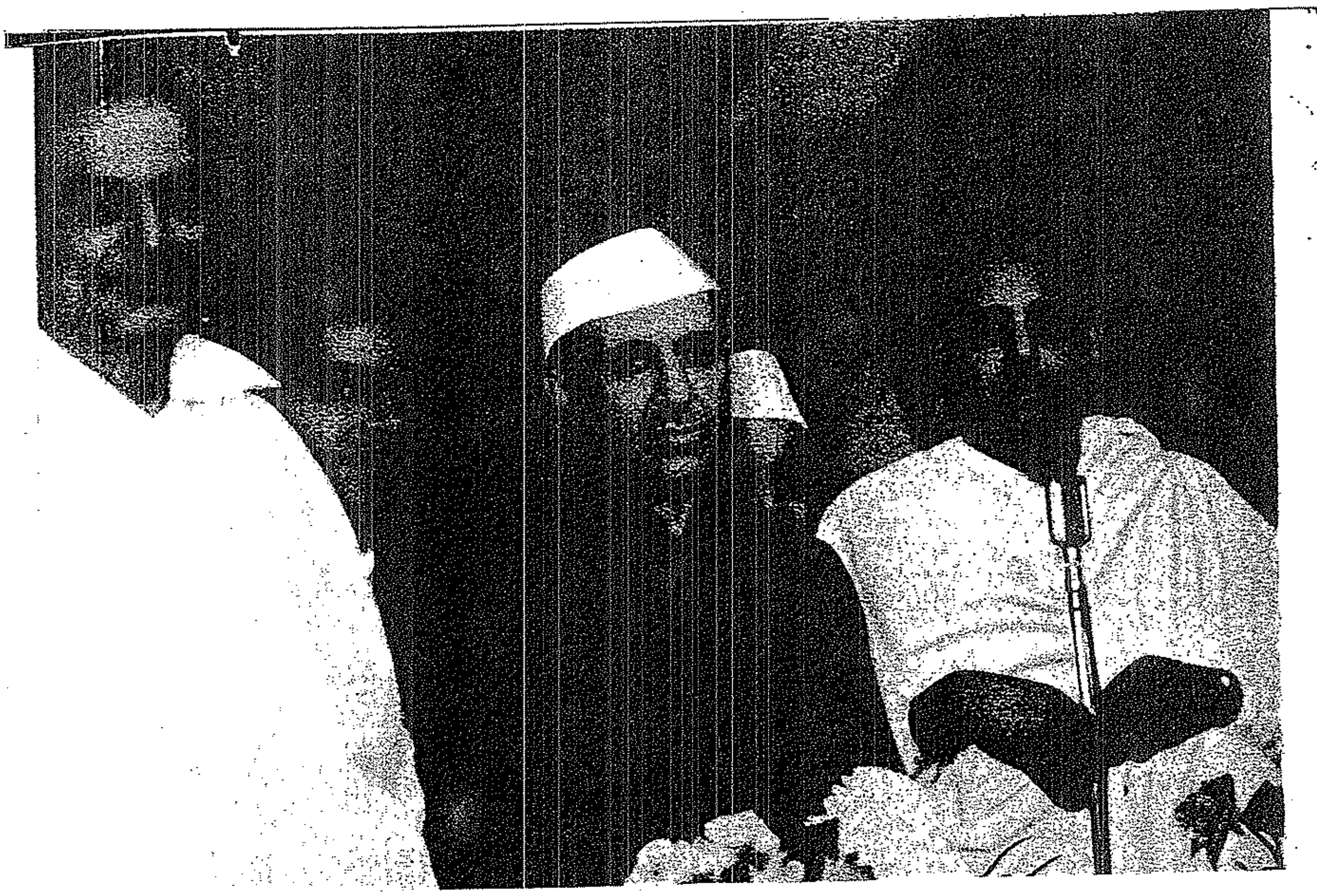
The Board of Governors and the Members of the New York Stock Exchange take great pleasure in extending congratulations and best wishes to the Calcutta Stock Exchange on the happy and historic occasion of its Golden Jubilee.

For fifty years the Calcutta Stock Exchange has fulfilled its great mission by providing an honorable and responsible market place for those investors whom you and your Members serve. May all the years beyond this special day bring success in equal measure.

Sri K. R. P. Shroff,
President,
Bombay Stock Exchange.

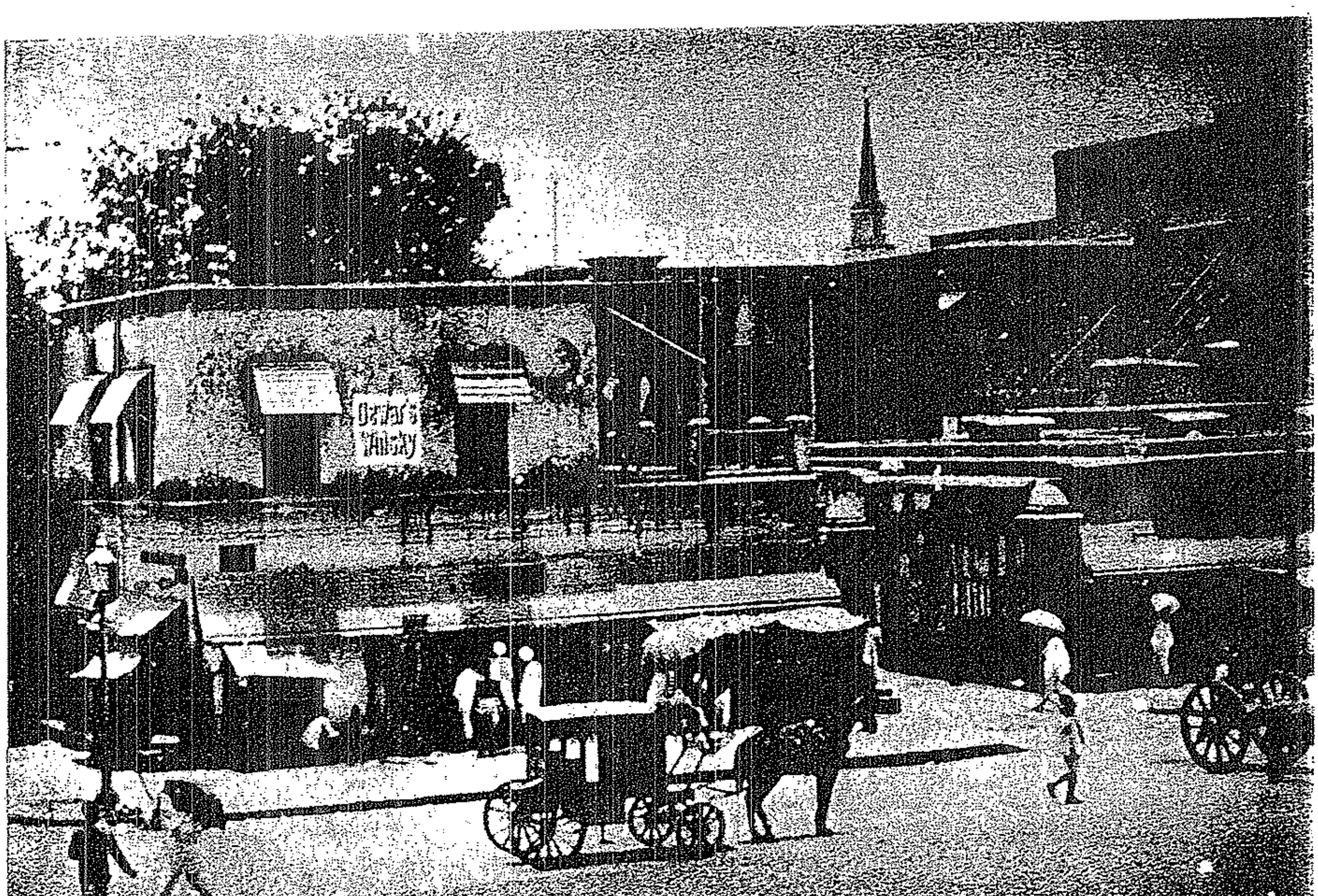
I have great pleasure in sending our felicitations and sincere good wishes to the Calcutta Stock Exchange on the occasion of its Golden Jubilee. As a sister association, we join in the celebration and share your joy and pride of achievement.

Stock Exchanges are not, and have at no time been, the private concern of a few individuals; nor have their activities been limited to the cyclical booms and slumps which attract so much popular attention. As public institutions, they have from the earliest days made a vital contribution to the economic progress of the country. Investment is the life-blood of economic development. By providing a meeting place for buyers and sellers of securities spread all over the country and by establishing a machinery for free and fair evaluation of prices, Stock Exchanges have made investment in stocks, shares and securities easily negotiable and imparted to them the essential qualities of liquidity and price continuity. Without these, no person, big or small, would be inclined to part with his savings. The stock market has thus mobilised the savings of the nation and channelled them into useful activities. Through its medium, the Central and State Governments have raised crores of rupees by floating public loans; Municipal Corporations, Improvement Trusts, local bodies and State Finance Corporations have obtained from the public their financial requirements; the central monetary authority and the banking system have regulated the volume of credit and performed their essential lending functions; and industry, trade and commerce—the backbone of a country's economic structure—have secured capital of crores of rupees through issue of stocks, shares and debentures for financing their day-to-day activities, organising new ventures and completing

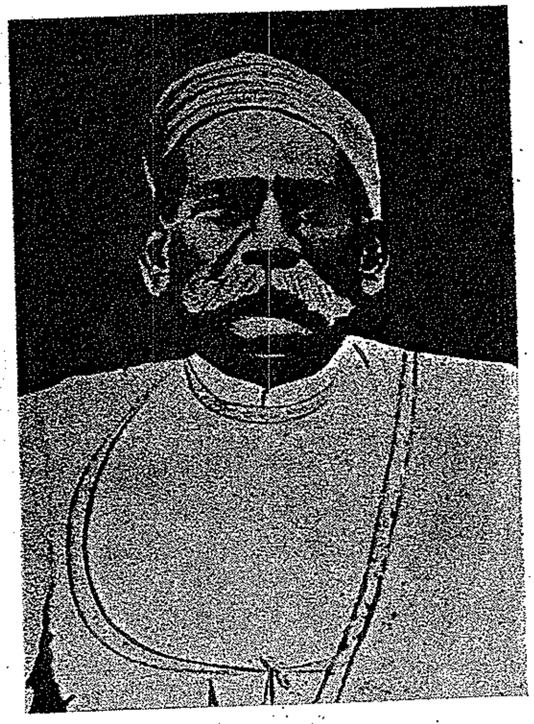


TOP *Pandit Nehru's and Dr. B. C. Roy's visit to the Stock Exchange*

BOTTOM *The crest of the famous Neem tree as seen behind this building in old Clive Street. By courtesy of the Chartered Bank*

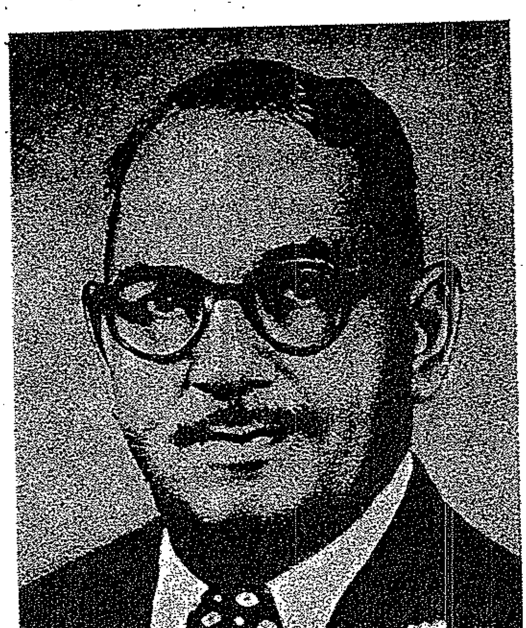


THE ASSOCIATION'S FIRSTS



BABU BULDEODASS
de facto founder of the Association
and its first Treasurer

MR H. L. B. SIDDONS
First President



MR K. N. KHANDELWAL
First Indian President

projects of expansion, improvement and renovation. In this manner, the Stock Exchanges have from the very outset served both the public sector as well as the private sector. At the same time, they have distributed the ownership of stocks, shares and securities far and wide among all classes of people, thereby broadening the economic base and laying the foundations of a true economic democracy.

Stock Exchanges are today, more than ever before, at the heart and centre of the new economic order that is being evolved. The Calcutta Stock Exchange, as an integral part of the national stock market, has played a significant role in this development. There is therefore special cause to rejoice in its Golden Jubilee. As one connected with Stock Exchanges for the last fifty-four years and as President for over thirty-five years of the Bombay Exchange which is the oldest trade association in this country, I claim the privilege of extending to the Calcutta Stock Exchange our greetings and warmest congratulations on the auspicious and memorable occasion of its fiftieth anniversary. May the Exchange prosper and grow from strength to strength in the years that lie ahead and may it continue to render increasingly useful service to the community at large.

★

Sri V. Natarajan,
President,
Madras Stock Exchange.

The Calcutta Stock Exchange is unique in many respects. The wide spread of investments offered by a number of leading companies in different sections is a worthy feature of your Exchange. The establishment of the iron & steel industry, the jute, coal and tea industries as joint stock enterprises clearly bear out the services that you and your members have rendered in mobilising the resources of the country for productive and profitable use. Yours has always been an investment market—similar to the Madras Stock Exchange—catering to the needs of different classes of investors, large and small. Your Stock Exchange has also the distinction of being one of the earliest institutions for publishing the Official Year Book, providing all the relevant data about leading joint stock companies in this country, which are of vital interest and utility not only to investors but also to bankers and members of the Stock Exchange. I have no doubt that it will continue to play a leading part in moulding public opinion in favour of investments in Indian joint stock enterprises in an increased measure.

In the context of the Second and the Third Five Year Plans etc, the Stock Exchanges in India have a vital role to play in the economic well-being of the country and in the industrial growth of companies in the private sector, besides giving a helping hand to Government to raise the internal resources for the successful implementation of the various development schemes in the public sector.

May your Stock Exchange grow from strength to strength and be of service to the Nation!

★

Sri M. R. Dhawan,
President,
Delhi Stock Exchange.

It is a matter of immense pleasure that the great Calcutta Stock Exchange is celebrating its Golden Jubilee this year. I send it my hearty congratulations and while doing so, I deem it a great pleasure to say a few words on this historic occasion. The prosperity of a nation depends a great deal on its industrial progress. The Stock Exchanges have a vital role to play in helping industries to raise necessary finance. They have a supremely important function to perform in developing a strong capital market to enable Government to raise loans. Their services are indispensable in the operations by the authorities, for the regulation of the country's credit policy.

The Calcutta Stock Exchange has performed these functions all these years with a measure of success and distinction of which any Stock Exchange can justly be proud.

India has gained freedom after centuries of subjugation. The leeway of Industrial backwardness has to be quickly made up. The building up of a new resurgent India is a thrilling adventure in the words of our beloved Prime Minister Pt. Jawahar Lal Nehru. In this the private sector has a very important part to play. The more recent policies of the Government lend colour to the belief that in future the Government policies may be guided more by realistic consideration than by doctrinaire approach. In this scheme of things, the Stock Exchanges functioning properly have important services to render to the nation. I am sure, the Calcutta Stock Exchange with the best of experience and fine traditions will as in the past play its historic role in a manner which will not only cover it with glory, but also do credit to the institutions of the Stock Exchanges in the country. I wish it all success.

★

Sri Ramanlal Vadilal Mehta,
Vice-President,
Ahmedabad Stock Exchange.

On this happy occasion, the members of my Stock Exchange and the Governing Board and myself send blessings that your Stock Exchange may render its useful services to the nation and achieve greatness and glory from year to year. I wish your Golden Jubilee Souvenir Volume a great success.

★

Sri P. C. Bhattacharyya,
Chairman,
State Bank of India.

I am happy to learn that you are celebrating the Golden Jubilee of the Exchange this year. I send my best wishes and I do hope that the Exchange will continue to function in the public interest, while offering necessary scope for profitable activity to its members.

★

Sir Biren Mookerjee,
Managing Director,
Martin Burn Ltd.

The growth of joint stock enterprise on the principle of limited liability would not have been possible anywhere in the world without a well-regulated Stock Exchange. A Stock Exchange assists in the canalisation of the savings of not only the so-called capitalist classes, but of all classes of people including the peasant and the wage earner, and imparts to such savings held in the form of Stock or Debentures the attribute of liquidity and an index of value. The Calcutta Stock Exchange Association Ltd., can look back with pride on its record of achievement over the past fifty years, and I wish the "Exchange" on the occasion of its Golden Jubilee a long career of useful service to the country.

Sri G. D. Birla,
Eminent Industrialist,
Calcutta.

There can be no two opinions on the fact that the Stock Exchanges all over the world and so in India are the useful institutions for stimulating investments and guiding the investor. Their importance in India shall be realised more and more as India marches towards industrialisation and the private sector is called upon to make greater and greater contribution towards the same. It is, therefore, in the fitness of the things that the Calcutta Stock Exchange, which has played such an important part in the past in directing investments into the proper channels, should draw the attention of the public towards its remarkable achievements by celebrating its Golden Jubilee and bringing out a Souvenir on the occasion.

I hope the Souvenir will make the public realise that to the investor it is more remunerative to put his money in industries rather than in fixed yield securities. Unfortunately, in recent years the investor has become shy due to various reasons, into which one need not go. Yet, the fact is that there is money in the country—even with the industrial workers and the cultivators—which has not at all been mobilised for the purpose of sponsoring industries. It is essential for the banks and the stock exchanges to tap the new resources and stimulate a broad-based investment in the capital structure of the industries. It will require patience and hard work to achieve the object. But it has happened in other countries and it should happen here too. The virtue of equity investments in the face of the danger of inflation should be made to be realised by the smallest man.

Unfortunately, in our country we have been less enterprising in this direction and, therefore, investments have been attracted only from a few quarters. The common man hardly shows interest in investments. And yet, India can never progress industrially unless the investment flows in from the smallest man. The question, therefore, is whether with the changing times the Stock Exchange too is going to change its outlook and cater not only for the big investors and the speculators but also for the small man. If they can do this, they will have rendered a great service to the country.

★

Sir B. P. Singh Roy,
President,
Federation of Indian Chambers of Commerce & Industry.

The country is committed to an ambitious programme of industrial development and it requires financial support and public confidence. I have no doubt the Calcutta Stock Exchange can contribute largely to the creation of that confidence and render valuable assistance to the industrial expansion of our country.

The Souvenir Volume proposed to be published by the Calcutta Stock Exchange on the occasion of the celebration of its Golden Jubilee will, I am sure, serve the useful purpose of dispelling misconceptions about the functions and activities of the Stock Exchange and of conveying correct information to the investors in industrial stocks.

I congratulate the Calcutta Stock Exchange on this happy occasion and wish the Institution a long career of usefulness and prosperity.

Mr. J. D. K. Brown,
Vice-President,
The Bengal Chamber of Commerce & Industry.

It gives me great pleasure to send you the congratulations of the Bengal Chamber of Commerce & Industry on the occasion of the Golden Jubilee of the Calcutta Stock Exchange Association Ltd.

Representing as it does in its membership a large proportion of the trade and industry of West Bengal, the Chamber is well aware of the vital service both to the private and public sectors of the economy rendered by the organised stock exchanges of the country. On behalf of the Bengal Chamber of Commerce & Industry, I wish you every success in the future.

★

Sri D. N. Jalan,
President,
Indian Chamber of Commerce.

I am happy to learn that the Calcutta Stock Exchange is celebrating its Golden Jubilee this year. It has indeed a proud record of 50 years of unstinted service to the country and particularly to business and industry in the Eastern part of India. The great value and utility of Stock Exchange to the country's economy cannot be overemphasised. It will be impossible for business and industry to run in the absence of Stock Exchange which not only functions as a barometer of the country's economy and business activity but also actively helps raise the necessary finance, particularly for the private sector which represents 97 per cent of the country's industry.

I am confident that with the further development of our economy and fulfilment of the plans of economic regeneration of the country the Calcutta Stock Exchange will continue to play an increasingly important role in the years to come. I send my best wishes for the success of the Golden Jubilee Celebrations of the Calcutta Stock Exchange.

★

Sri S. Vaidyanath Aiyar,
President,
The Institute of Chartered Accountants of India.

The Golden Jubilee of a Stock Exchange is a memorable event; when that occasion arises in connection with an Institution such as yours which has played a consistently prominent role in industrial and financial economy of the country for half a century, the event becomes more significant indeed. As representing the auditing profession whose reports furnish a basis of the quotations at which industrial securities exchange hands through your members the Institute offers you its felicitations on the happy occasion with the hope that your Exchange will long continue to serve the investors' interest.

Mr. Abdul Karim Noormohamed,
President,
Oriental Chamber of Commerce.

I have great pleasure in offering my hearty felicitations on the occasion of Golden Jubilee Celebrations of the Calcutta Stock Exchange.

Stock Exchange plays an important part in the economy of the country. Calcutta Stock Exchange has, during the past fifty years of its existence, rendered varied and valuable service to the Nation by helping the industries of the Eastern India and elsewhere in raising the necessary finance.

I send my best wishes for the success and increasing usefulness of the Calcutta Stock Exchange.

★

Sri K. L. Dhandhania,
President,
Bharat Chamber of Commerce.

My good wishes for the Calcutta Stock Exchange on the completion of fifty years of its useful existence through struggles and achievements. I believe that in building up a property-owning socialist society in India, with broader distribution of wealth and income, a healthy Stock Exchange can be and would be a potent Institution. I am sure that organisation and working of the Stock Exchanges in India would be oriented in future years in this direction to attract larger number of smaller investors. I hope Calcutta Stock Exchange would emerge as the spearhead in such orientation. The expansion of the corporate sector in small and medium-sized business should receive greater attention of our Stock Exchanges to broaden and stabilise the base of the economy. The growing institutionalisation of Nation's savings and the Governmental tendency to rely more on compulsory community savings than on voluntary individual savings may increase the financial difficulties of small and medium-sized companies and in this silent revolution that is taking place in the field of savings and investment, the Stock Exchange would do a national service by attracting larger number of individuals to the market for investing in small and medium-sized enterprises.

I confidently hope that the Calcutta Stock Exchange would pioneer in this transformation of the Capital Market in India.

HISTORY

OF THE

STOCK EXCHANGE

BY THE EDITOR

A RUBICUND DAY

To be quite sure there are not even half-a-dozen men living today who can recall with pleasant reminiscence the thrill and excitement of that Monday morning in the summer of 1908 when the stockbrokers of Calcutta clubbed together to form what came to be known as "The Calcutta Stock Exchange Association". It was certainly a moment of thrilling experience in their lives. For, it was for the first time that the stockbrokers of Calcutta organized themselves into a closely knit body to move indoors for protecting themselves from the perils and indignity of trading in public. It was for the first time that they came to function under a constitution and set of rules framed by themselves. It was for the first time that they began to evolve an ethical code for the guidance of the brokers so that stockbroking could be raised to the status of an organized profession in the Capital of India.

STOCKBROKING BEFORE 1850

It is no legend, but recorded fact that stockbroking in Calcutta dates back to the end of the 18th century when transactions in the Securities of the East India Company used to take place in the city. Business in corporate securities had also come to be done from the 30's of the last century. In the *Englishman* of 1836 we find quotations not only of the 4 per cent, 5 per cent and 6 per cent Loans of the East India

Company, but also of the shares of the Bank of Bengal which were quoted at a price of Rs 5,000 premium buyers and Rs 5,700 premium sellers. Three years later in 1839 quotations were also to be found in the papers of the shares of the Union Bank, the Agra Bank and certain other commercial undertakings like the Bengal Bonded Warehouse, the Docking Company, and the Steam Tug Company.

From 1850 to 1900

The advent of the Companies Act in 1850 and the subsequent introduction of the principle of 'limited liability' made investment in stocks and shares popular. By the boom year of 1864 Calcutta had come to do business in the securities of more than 90 companies. For in the *Daily Money Market Report* of January 2, 1864 issued by Roussac & Company we find quotations of no less than 91 joint stock companies, the largest in number being the Teas comprising 38 companies. Coals were represented by five companies including the Bengal, Beerbhoom, East Indian and Equitable. There were also various miscellaneous companies including the steam tug companies. Jutes were then conspicuous by absence, for although the jute mills had already come into being on the banks of the Hooghly, transactions in jute shares did not appear to have become popular until the 70's when there was a veritable boom in jute shares. The boom in jute shares of the 70's was followed by the boom in tea shares of the 80's and the 90's.

Although the number of shares traded in Calcutta went on multiplying during the last three decades of the last century, business in stocks and shares however continued to be done in an unorganized way. There were no code of rules for the guidance of the brokers. Neither was there any element of cohesion among them. Indians were then the preponderating element in the market with a sprinkling of Europeans among them. To be precise Indian brokers at the time numbered some fifty while the Europeans were as few as four or five.

The Famous Neem Tree

The venue of activity of the brokers of the time was under the shade of a *Neem* tree on the site where now stand the buildings of the Chartered Bank of India. In nearby locality were the offices of prominent stockbrokers of the time. The leading scrip of the time was the 4 per cent Government Papers (converted into 3½ per cent in 1901), while the chief industrial counters were the Teas, Jutes and Coals. Among miscellaneous shares India Generals were one of the most favourite stocks, and transactions in them were then as popular as that in Indian Irons today. Business was done on cash basis, and unhappy incidents were few and far between.

The Coal Boom of 1908

Between 1904 and 1908 there was a coal boom in Calcutta. Prices of coal shares went up to dizzy heights. This will be clear from the rates of some of the selected coal shares at the peak of the coal boom in 1908 as compared with those for 1902:

Scrips	1902	1908
	Rs	Rs
Adjai	139	291
Bengal Nagpur ..	22	103½
Borrea	115	290
Burrakur	85	540
Gopalichuck ..	6	21½
Katras Jherriah ..	37½	112
New Beerbhoom ..	167	61½*
Ondal	80	33
Raneegunge ..	11½	43½
Reliance Coal ..	160	50*
Seebpore	14	33

*Rs 100 paid up in 1902, and Rs 10 paid up in 1908

In 1905 the Chartered Bank of India had started building. This led the brokers to shift the venue of their activity to the neighbourhood of the present Allahabad Bank. A contemporary document (see Appendix) would show that some prominent brokers of the time had taken on rent the upper central room of 9 New China Bazar Street (in the rear of the present Allahabad Bank) as also the outhouses and the compound, on a monthly rent of Rs 60 for the purpose of using that as a "meeting place". This had happened sometime between 1905 and 1908. The coal boom had by that time drawn new comers to the market. Lured by the constant rise in the prices of coal shares many who had previously taken no part in share dealings rushed in and bought coal shares to make their fortune on a rise. Others wiser in their generation became brokers to secure some competence either way. But in many cases the new comers were totally ignorant of the usages and customs of share dealing, and soon an amorphous body became a source of danger to their more experienced brethren and to the public. Need of some form of organization was badly felt for mutual protection and security of the brokers.

Foundation of the Association

Meanwhile the indignity of trading in public was brought into prominence by a street incident in May 1908. It was at this stage that, mainly through the enthusiastic endeavours of Babu Buldeodass Duduawala and Mr Overend of Place, Siddons & Gough, an Association was founded in 1908 under the name and style of "The Calcutta Stock Exchange Association".

Luck evidently favoured the Association in finding out a home for its members in close proximity of its previous venue of activity. For just at that time Mr J. C. Galstaun erected a new building at No 2 New China Bazar Street (later known as Royal Exchange Place after construction of the Royal Exchange Building in 1913). Babu Buldeodass met the proprietor of the building and took lease of the ground floor and the mezzanine floor of the building for 20 years in his own name on a monthly rent of Rs 1,080 plus half share of the municipal rates and taxes. It was here that the Association was formally opened on June 15, 1908. The ground floor of the building served as a trading hall, while the rooms on the mezzanine floor were let out to the members for their offices.

The founder members numbered some 150, and to meet the cost of furniture and installation of electric lights and fans and other preliminary expenses a donation to the tune of Rs 3,525 was raised.

From June to August 1908 members were enrolled free, but after that an admission fee of Rs 50 was charged from every firm applying for enrolment as a member of the Association.

The first committee of the Association comprised nine members—five European and four Indian. The President and Honorary Secretary were elected from the firm of Place, Siddons & Gough, and Babu Buldeodass became the first Honorary Treasurer and he remained in that position till his death some 12 years later.

From contemporary newspapers we learn that shares of no less than 236 companies used to be traded on the Exchange at the time of its foundation. Among these 10 were railways, 19 banks, 26 jute mills, 69 coal companies, 31 miscellaneous companies and 81 tea companies.

Association's Incipient Years

The incipient years of the Calcutta Stock Exchange were however packed with difficulties. The coal boom which added lustrous glow to Calcutta's stock trading between 1904 and 1908, petered out in 1909. A severe trade depression followed. Many of the stockbrokers suffered huge losses and left the Association. Others who defaulted were turned out. In consequence of this the Association had a worried existence at this time. Financial difficulties pinched it so hard that in the early part of 1910 the Association even thought of winding up.

Presently we find the men at the helm of its affairs put their hearts and souls to placing things on a satisfactory footing. It is indeed gratifying to note that despite the bank failures of 1913 and the widespread ruination that then stalked this part of the country in the wake of the cotton figures gambling of the time, the Association made an easy and smooth progress. Its prosperity grew apace. The number of members multiplied. And by cautious and prudent management, the finances of the Association were put on a very sound and stable basis.

Wartime Boom

Soon after came World War One. Though the market was closed for a time in 1915, however it was the phenomenal rise in the prices of jute shares during the war period which ultimately turned the fortune of the Calcutta Stock Exchange and its members. The war demand for jute goods so much galvanized the fortunes of the jute mills that Howrah mill which failed to pay any dividend in 1914, paid a dividend of 17½ per cent in 1915, 55 per cent in 1916, 120 per cent in 1917 and 130 per cent in 1918. Kamarhatty's dividend too skyrocketed from a bare 8 per cent in 1914 to 250 per cent in 1920. Kanknarrah too put up an equally proud record. Against 20 per cent in 1914, it paid as much as 200 per cent in 1919. Hooghly's record was however unequalled. In 1919 the company paid a dividend of 400 per cent—100 per cent in cash and 300 per cent in fully paid up shares of the Century Mills Company Limited.

It was not the jute mills alone which had a run of good luck during the war period. Other industries, notably paper, cotton textiles, sugar, steel and flour mills also shared the same fortune. The stock market is ever reputed to be a faithful recorder of the pulse throbs of the business world. It reflected the wartime prosperity of the industries on share prices and staged one of the notable booms of modern times, which lasted until 1920. The following table illustrates the price trends during the period.

	1914	1916	1917	1918	1919	1920
	Rs.	Rs	Rs	Rs	Rs	Rs
Titaghur Paper	50	182	291	404	435	530
Bengal Coal ..	830	1,111	1,056	955	950	900
Bowreah Cotton	91	180	275	385	706	1,640
Dunbar Cotton	10	17	46	70	274	765
Kanknarrah Jute	160½	790	650	905	915	897½
Kamarhatty Jute	113	638	500	868	1,110	1,200
Howrah Jute	90*	505*	446*	62	56	67½
Hooghly Jute	7	96½	42	120	169	166
Bengal Paper	17	91	119	115	105½	148
Champaran Sugar	60	200	185	190	226	44
Hooghly Flour	10¼	12¼	29¾	34½	40	47½

As security prices during the boom period zoomed up to unprecedented levels, the stockbrokers of Calcutta reaped a good harvest out of same. The Association too got a new lease of life. Business on a gigantic scale invested it with a new dignity and importance, and the members soon felt the need of registering the Association. Pressure was put on the Committee to accomplish it at an early date, and from the committee records of November 8, 1922 we learn that some 74 members of the Association having grown restless on account of the delay in accomplishing it exhorted the committee "to

* Rs. 100 shares. These were split into Rs. 10 shares in 1918

expedite the incorporation of the Association". On December 15, 1922 an extraordinary general meeting of the members was held to pass the proposed Memorandum and Articles of Association as drafted by its solicitors Orr Dignam & Co. Legal preliminaries took time, for it was not until six months later that the Association could add that charming word "limited" after its name.

Registration of the Association

Messrs Girindranauth Roy and Aaron R. Gubbay representing the unincorporated Association and Messrs C. A. Jones and Mugneeram Bangur representing the proposed incorporated Association) was made by virtue of which each of the then 210 members of the old Association got a vendor's share in the new Association, issued and credited as fully paid up, in consideration of the purchase of the assets and undertaking of the old Association.

It is to be noted here that although incapable of corporate action, the old Association had served its purpose for 15 years. On the eve of its incorporation as a registered body the Association had a membership of 210 firms with 442 individual members. The finances of the Association were then in an extremely satisfactory position. Its balance sheet was a clean one. It had a Reserve of Rs 5,88,117 with liabilities of only Rs 2,319. On the assets side its investments were shown at Rs 5,42,765, interests and outstandings at Rs 10,995, while cash in hand etc amounted to Rs 36,680. Truly this was an enviable position, and it redounds to the credit of the unincorporated Association that all this it could achieve in course of little over a decade.

Rosier Days for the Association

After registration rosier days began for the Calcutta Stock Exchange Association. The Association was at this time fortunate enough to have capable men at the helm of its affairs. Under the masterly guidance of Mr C. A. Jones who was its President from 1922 to 1927, the Association gained from strength to strength. Membership increased from year to year, the finances were put on a very sound position, and the working results revealed huge surpluses. This will be evident from the following table:

Year	*Membership*		*Net Profit*	*Reserve*
	Firms	*Individuals*		
	No	No	Rs	Rs
1923	200	437	8,167	3,86,284
1924	200	427	52,882	4,38,166
1925	208	440	1,36,408	5,74,575
1926	208	443	1,05,958	6,80,533
1927	208	457	1,11,073*	6,55,533

It was during Mr C. A. Jones' regime that the Association decided to construct a building of its own. How it came about is described below. The inestimable service that Mr C. A. Jones rendered to the Association did not remain unacknowledged. For on April 2, 1928 the Committee of the Association conferred on him a unique honour—an honour not once again repeated in its history. They elected him as an Honorary Member of the Association.

Association Builds its Home

The enlargement of membership in the 20's made the Association feel the inadequacy of trading accommodation in its rented house at 2, Royal Exchange Place. So the Association decided to have a building of its own. The members of the Committee were on the look out for a suitable site.

*After transfer of Rs 25,000 from Reserve.

From the Committee's proceedings we find that it was Mr Sagarmull Nathany who took a very keen interest in the matter. Various sites were inspected but none proved useful. However on September 2, 1926 the Committee received an offer from Messrs Nirojendra Nath Deb, Sarojendra Nath Deb, Jatindra Nath Deb and Srimati Chandra Prova Debi, owners of the premises No 7 Lyons Range to let it out on a lease for 99 years. The offer was accepted by the Committee at its meeting held on October 28, 1926 and a lease was signed on November 9, 1926. On behalf of the Association Mr J. M. Dutt and Mr Sagarmull Nathany took possession of the property on March 1, 1927.

The land having been secured the Committee presently turned its attention to constructing a building thereon. Several eminent engineering firms of the city were consulted in the matter, and the work was ultimately entrusted to the reputed engineering firm of the city Mackintosh Burn Limited. It took them 13 months to construct the imposing building that now stands at the corner of Lyons Range and Royal Exchange Place. It is a five-storied building including a mezzanine floor. The entire ground floor is occupied by the trading hall (the best in Asia), the mezzanine floor by the Association's own offices, and the upper floors by the offices of the members. In constructing the building the Association took special care to provide a visitors' gallery as in London, from which the members of the public can have a look down at the crowded trading hall humming with activity. To allow non-members communicate with their brokers for facility of business the Association also provided an open space on the northern side of the building now known as the "Northern Enclosure". The Association moved into its new premises on Monday June 11, 1928, and it was formally opened by Sir Stanley Jackson, the Governor of Bengal on July 2, 1928.

During the 20's the Association was taking a serious view of its responsibilities. To discipline its members it was imposing a better code of ethical standards on them. It was reprimanding its members for the unprofessional conduct of publishing in newspapers, under their names, the quotations of transactions daily done in the market. Wanting to be more strict on this matter the Association passed on November 29, 1928 a bye-law to the effect: "A member of the Stock Exchange is not allowed to advertise for business purposes or to issue circulars or business communications to persons other than his own principals."

Stock Exchange in the 20's

From this narration of the internal affairs of the Association let us for a moment turn to the conditions on the stock exchange during the 20's. After the end of World War One there was a phenomenal outburst of industrial activity. Old enterprises went on expanding, while new ones came into being. But unfortunately "a great deal of accumulated capital did run to waste in the flotation of quite impracticable and unproductive enterprises between 1919 and the mid-1920's". This was particularly true of the numerous coal companies that came into being during the coal boom of the early 1920's. For it soon became clear that war-time prosperity was fast fading into the background. In the sphere of the jute mill industry the disappearance of the demand for sandbags after the close of the war made the condition of the mill industry bad. They did not indeed fare well all through the years 1920 to 1924. After the war, troubles also came for the cotton mill industry. Japan was determined to make a bid for the Indian market. Year after year the imports of Japanese piecegoods surged higher and higher. The impact of this as also of labour troubles that at this time infested the industry was so heavy that in many cases the profits of the mills almost came to vanishing point. Naturally the effect of all this was faithfully mirrored on the stock exchange and there was a rapid slumping of prices up to the mid-20's, after which however better times once again came for the stock exchange.

The momentum for a revival came from the jute shares, which were at that time the mainstay of the Calcutta market. It has already been referred to that the jute mill industry had a depression in the early 20's. But the mills were determined to improve their fortunes. So in 1925 they took to the policy of restricting production by reduction of the working hours to 45 hours a week. Regulated production improved the position of the mills all through the years 1925 to 1929. As a result, jute shares once again rocketed in prices and the sympathetic lustre of same was reflected on other sections of the market. Simultaneously a boom was also in the making in Wall Street, and as the principal stock exchanges of the world in those days used to move on the same axis, Indian stock exchanges too basked in the sunshine of same. But the Wall Street boom burst in September 1929, and the Indian stock exchanges were soon caught in the whirlpool of a world depression that followed it. There was a severe landslide of share prices, and in 1931 when England went off the Gold Standard prices came to the nadir. So much so that Indian Irons which in 1927 were priced at Rs 22-14 came down in 1931 to touch the rockbottom of Rs 1-14. The table below will show the price trends of some selected scrips in the Calcutta market between 1921 and 1937.

	1921	1925	1929	1931	1937
Indian Iron ..	71*	$14\frac{1}{2}$	$17\frac{3}{8}$	$1\frac{7}{8}$	$79\frac{3}{4}$
Howrah Jute ..	$55\frac{3}{8}$	$37\frac{3}{4}$	$62\frac{1}{2}$	$46\frac{7}{8}$	70
India Jute ..	2500	200	320	110	452
Kamarhatty Jute ..	1033	525	771	311	$658\frac{1}{2}$
Kanknarrah Jute ..	$661\frac{1}{2}$	$404\frac{1}{2}$	$643\frac{1}{2}$	287	520

*Rs 100 paid up in 1921, and Rs 10 paid up since 1925.

	1921	1925	1929	1931	1937
Bengal Coal ..	985	480	507	249	396
Burrakur Coal ..	55½	21	17¼	9⅛	20
Equitable Coal ..	50	9½	31⅝	18¼	44⅞
Dunbar Cotton ..	618	121	240	62½	198
Bengal Paper ..	108	10	49	36	110
B.I. Corporation ..	12¼	4	4¼	½	5¼

First Indian President

From the point of view of the Association's domestic affairs 1930's were singularly momentous. So long the Association was under the stewardship of European Presidents. But in 1931 it decided to elect an Indian President, and Mr Kedarnath Khandelwal, B.A., LL.B. was chosen as the first Indian President of the Association. Close upon the heels of this an Indian Honorary Secretary was appointed in 1932 in the person of Mr Satya Ranjan Mitra of the firm of Mitra Banerjee & Co. Mr Mitra discharged his duties in a very capable manner up to 1935, when the Association decided to appoint a paid Secretary. The decision to appoint a paid Secretary was particularly hastened by the death of Mr R. K. Claridge, who as Assistant Secretary of the Association had ably carried on its Secretarial work for more than two decades. The present incumbent Mr Dhirendranath Chakravirty, M.A., B.L. was appointed as the first salaried Secretary of the Association in April 1935.

Issue of a Year Book

Other momentous things also happened in the 30's. In 1933 the Association acquired the site on which the Association's building stood (previously held on lease). An equally momentous decision had also been taken by the Association at an Extraordinary General Meeting held on July 24, 1936. At that meeting the members of the Association decided to issue an Official Year Book on the lines of similar publications issued by the London and New York Stock Exchanges. By this decision the Association conferred upon itself the unique honour of being the only stock exchange to the east of the Suez to issue an Official Year Book of its own. It was one more evidence of the Association's consciousness of its wider responsibilities to the investing public. For the object of the Year Book was to present to the investing public unbiassed information relating to all stocks and shares known to the Stock Exchange. So far there had been no publication in existence which gave information relating to *all* the companies or such information of importance to the investors as managing agents' remuneration, directors' qualifications, voting rights of shareholders, borrowing powers of companies and so forth. For many years since its inception the Association's Year Book remained the only official publication of its kind issued in this country. Madras was a tardy second, for it issued its Year Book only in 1952. Other stock exchanges in India are yet to emulate it.

Association's Lifeline

The Year Book Department of the Association came into existence on October 1, 1936, and the first issue of the Year Book came in the summer of 1937. Placed under the guidance of a distinguished economist since its inception the Association's Year Book Department has served as a vast storehouse of information relating to company affairs and economic matters. Ungrudgingly it imparts information not merely to the members of the Association but also to the investing public outside. Not only all this information is given free, but each year the Association incurs a heavy postage expenditure on answering queries from outsiders. To important institutions and organizations of the country like the Federation of Indian Chambers of Commerce and Industry, the Indian Association of Trade and Industry, the

Employers Association, the chambers of commerce and the universities, this department has served as a laboratory for the conduct of researches in connection with many of the important publications of theirs. To the Reserve Bank of India and the Government too, particularly to its departments of income tax, estate duty, and wealth tax, this department has rendered invaluable and unstinted service in connection with the valuation of shares for purposes of assessment. In addition to the issue of a Year Book, the department also issues for members' use a weekly bulletin containing information relating to the book closing dates, dividends, ex-dividend dates, and changes in the capital structure of companies. It is also the function of this department to examine and report to the Committee the suitability or otherwise of a company applying for enlistment and also to keep a vigilant watch over violation of enlisting rules by enlisted companies. With the tightening of these rules under the Companies Act and the Securities Contracts (Regulation) Act, this aspect of the department's duty has become more onerous and responsible at present. Today this department indeed ranks as the lifeline of the Association.

Democratisation of the Committee

Another notable development in the internal affairs of the Association during the 30's was the complete democratisation of its governing body. We have seen that at the time of its foundation in 1908 the Committee of the Association comprised nine members—five Europeans and four Indians. In 1913 the strength of the Committee was increased to 11—six Europeans and five Indians. In 1918 the composition of the Committee was reshuffled, and the number of members was increased to 12, consisting of four Europeans, four Marwaris and four Bengalis. In 1921 two members elected from the "other Hindu communities" were added to the

Committee, thus raising the number to 14. It was in 1939 that full democratic character was given to the Committee by grant of two more seats to the "other Indian communities", thus raising the total strength to 16. The total strength of the Committee remained at that figure until 1957 when after the grant of licence to the Stock Exchange two representatives of the Central Government took their seats on the Committee. Under one of the conditions of the Licence the constitution of the Committee is to undergo further metamorphosis in the near future.

Boom of 1937

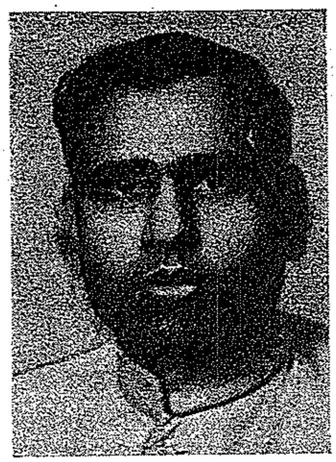
So far as conditions on the Stock Exchange during the 30's are concerned, we have already seen that the decade heralded the dawn of a severe depression. Indian Irons came down to touch an all-time record of Rs 1-14 in 1931. This brought great disappointment and disillusionment not only to the stockbrokers but to the investing community as well. But good omens were soon in the offing. A process of recovery set in from 1933. It continued through the following years and received great impetus after the devaluation of the currencies of the gold bloc countries and their subsequent alignment with Sterling and American dollar. World trade vastly improved and was fast nearing the crest of 1929. Commodity prices witnessed a phenomenal rally. Boom conditions prevailed in the iron and steel industry all over the world, and India having considerable stake in the world's pig iron trade naturally shared in same. News from other industrial fronts were also encouraging. The railways changed their policy of purchasing coal, and the tea industry tided over its decade-old depression by an International Agreement for restriction of crop. Sugar too prospered under the aegis of a policy of protection. All this brought about extravagant activity and a remarkable groundswell of prices on the stock exchange.

The Association's President Sri B. N. Chaturvedi

Vice-President
SRI C. L. JHUNJHUNWALA

SRI R. M. SEAL
Whose absence all keenly feel today

SOME MEMBERS OF THE COMMITTEE

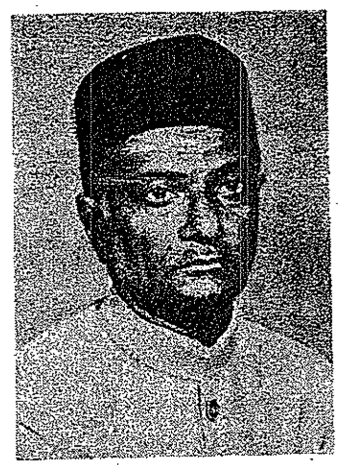


Sri H. L. Somany

Sri B. C. Seal

Mr G. C. Fletcher

Sri Abani Ganguli



Sri Chhotalal Haridas

Sri M. L. Pyne

Mr A. E. Sopher

Sri A. V. Seth

ASSOCIATION'S TREASURERS

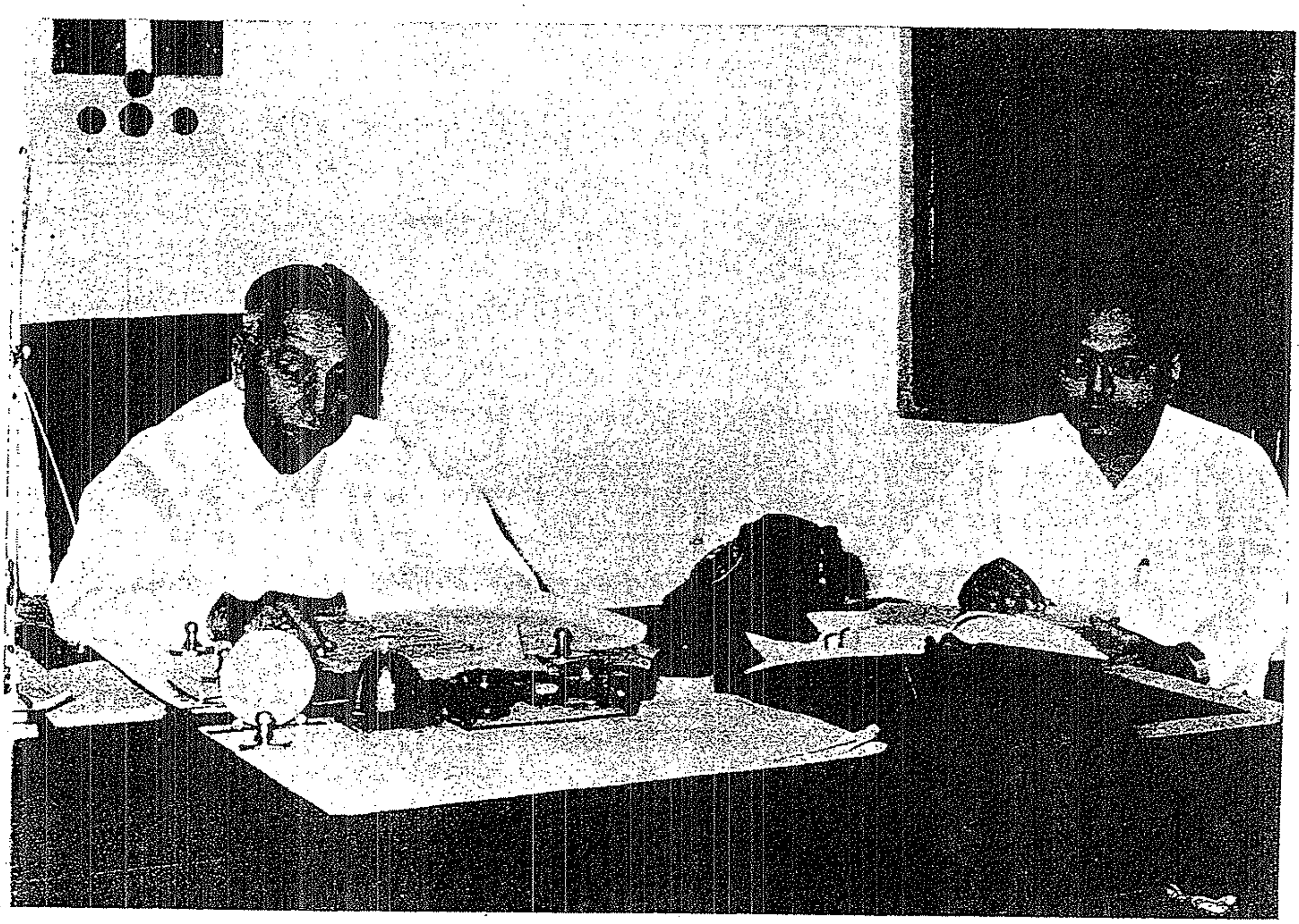
Mr Eric Gregory

Sri H. C. Chatterjee

Sri C. L. Khandelwal

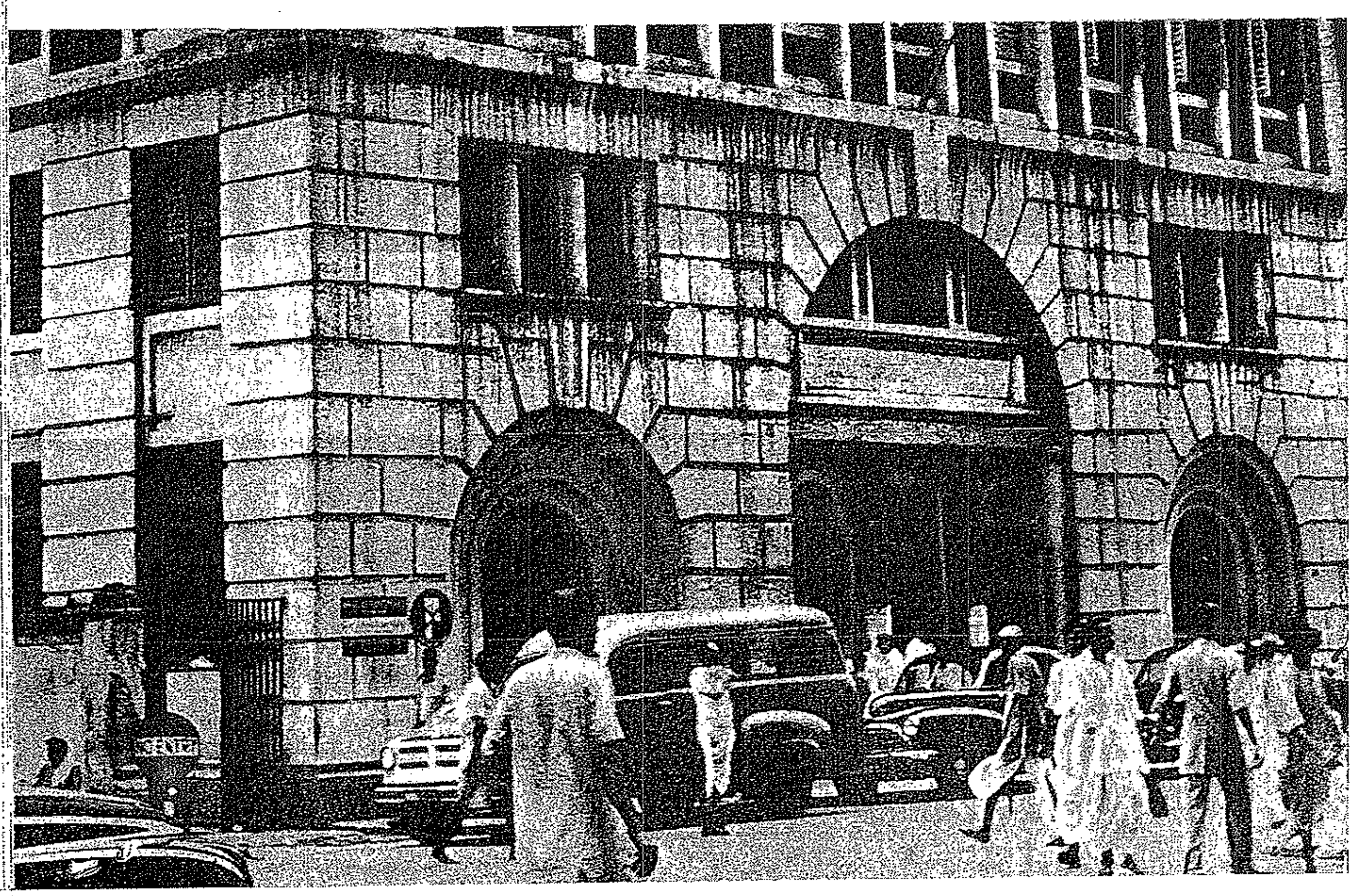
The Vice-President is also a treasurer. The treasurers are chosen annually from among the members of the Committee at its first meeting.

The Association's Secretary and Assistant Secretary



TOP *The Association's Memo Department*

BOTTOM 2 *Royal Exchange Place where the Association was housed before* 1928



After reaching a record level of Rs 79-12 in April 1937, Irons experienced a headlong sweep. Many did not care to honour their transactions and left their brokers in the lurch. But it stands to the credit of the members of the Calcutta Stock Exchange that in course of two days only all of them with the exception of one or two, honourably met all their liabilities amounting in value to several crores of rupees. By the end of April Irons had come down to Rs 43-4. Thereafter a period of emasculated lethargy followed during which stock prices continuously sagged, and the brokers found themselves without any preoccupations.

Wartime Slump

It was in this setting that World War Two came on September 3, 1939. Initially the war produced a boom on the stock exchange, but this was almost an ephemeral episode, for soon the jitters of the Excess Profits Tax and adverse fortunes of the Allied Powers in the war depressed sentiment. Prices continued to fall, and to check the movement the Committee of the Stock Exchange imposed various restrictions on deliveries, and later from May 20, 1940 decided to keep its doors closed. The market reopened on July 3, 1940, but business in equities continued to be on a poor scale. In 1941 the E.P.T. was raised from 50 per cent to 66²/₃ per cent. This along with repeated reversal of fortunes of the Allied Powers in the war, communal riots in Western India, closure of Bombay and Ahmedabad stock exchanges for a time, Japanese entry into the war on December 7, 1941, generated an atmosphere of pessimism and nervousness that lasted until 1943. Stock prices during the period crumbled down so steeply that early in 1942 the Committee of the Stock exchange found the need for fixation of minimum prices. Meanwhile the Government of India too fixed the minimum prices for Government Securities and the Local

Bodies' Loans. To curb speculative activity in shares the Government of India also issued on September 11, 1943 an order under the Defence of India Rules by which on and from September 24, 1943 budla (carry over) business was prohibited and ready delivery contracts in stocks, shares and debentures etc were required to be performed by actual delivery of or payment for the securities, within seven days (or if the seventh day happened to be a holiday, the business day next following) from the date of contract. Accordingly the Committee of the Calcutta Stock Exchange (although budla business was never officially tolerated on the Stock Exchange) by a resolution passed on October 18, 1943 directed all members of the Exchange to do business in strict conformity with the said order. As this particularly affected forward trading which was the mainstay of the Bombay Stock Exchange, this order had its mighty repercussions on the Bombay market where forward trading came to be stopped from October 15, 1943.

Recovery of Market

But after 1943 the tables turned in the theatres of war. By this time the bugbear of taxation had practically passed out of the minds of the marketmen, for although the E.P.T. and the Corporation Tax were increased the same did not however leave any durable impress on the market. People no longer judged securities from income earning standpoint. The idea that dominated both investors and speculators was capital appreciation in the near future rather than dividend prospects. The fact that in 1944 the investors cared more for capital appreciation than any dividend prospects was more than proved by the fashionable craze then exhibited even for those shares which for ages had been considered the "trash" of the market, and had consequently remained inactive and untouched by hands.

Apart from plethoric abundance of funds, other factors particularly helpful were: in the first place, the reduction of the E.P.T. from 100 per cent to 60 per cent in the U.K. and Canada and the prospect of its wholesale abolition in the U.S.A. led people to think that the Government of India too might be giving similar relief to the Indian industries as well. Secondly, the lowering of the interest rate on long-term loans in the U.K. led people to believe that cheaper monetary policy would also be pursued here, and this caused the market to adjust itself to lower yield pattern. The disclosure by the Government of the war time secret that India had to her credit Rs 400 crores in the Empire Dollar Pool and the favourable position that India then held in world economy also infused bullish hopes into the minds of the investors.

The tempo of rise in the prices of shares was checked for a moment by the Demonetisation Ordinance of January 1946. But this phase was soon over, and on the eve of the budget in 1946 there was a fresh spate of buying. The abolition of the E.P.T. and the reduction in the rate of the Super-tax galvanised the market. Hectic activity followed, and though the political uncertainties connected with the visit to this country of the Cabinet Mission dimmed activity for a moment, yet the conversion of the 3½ per cent non-terminable loan, and the expectation of a reduction in Bank Rate made the market mad during June and July. People went on buying shares at any price, and prices skyrocketed to wild levels. The boom burst after the communal riots of the Direct Action Day of August 15, 1946. Price structure fell down like a house of cards. So much so that on November 26, 1946 the Committee of the Stock Exchange were compelled to fix minimum prices for all categories of shares except banks, insurance companies and railways, to stop further rot in prices. But this was of no avail, as the smaller banks which failed at this time came to the market as sellers of securities to depress the prices further.

Nemesis Comes Again

The market further succumbed to jitters in 1947. The Reserve Bank's fiat to the scheduled banks to suspend extension of credit against stocks and shares, the accursed Liaqat Ali Khan budget and the reimposition by it of the wartime E.P.T. in the garb of peacetime B.P.T., the constant threats of nationalization of industries, the scare of dividend limitation, the recommendation for a profit sharing scheme, and last but not the least the conflicting and confusing statements coming out of the lips of various official and unofficial spokesmen effectively crippled the market beyond the hope of any possible repair. So much so that the combined index number of prices of all categories of shares fell from the August 1946 level of 452.2 to 256.0 in August 1947, and further down to 216.0 in March 1948. Indeed a debacle had set in in the Stock Market, and the story of the next few years is the story of the accentuation of this debacle under the impact of which both the stock-broking community and the investing public in this country came to be utterly ruined.

An Active President

Like the 30's, the 40's too saw some important developments in the domestic affairs of the Association. In 1943 Mr B. N. Chaturvedi, B. A., LL. B., was elected as President. For efficient administration of the Association Mr Chaturvedi wanted to devote his whole time attention to the affairs of the Association. Accordingly the office of the President was invested with certain executive functions. Urgent matters no longer waited for their disposal by the Committee, but came to be promptly disposed of by the President himself. This implied grave responsibility and immense sacrifice on the part of the President—for having had now to devote his wholetime attention to the affairs of the Association, he could no longer possibly mind his own broking business in the market. It is an evidence of his love for and good will towards the Association that though this has meant tremendous personal loss to him (it has to be noted in this context that the office of the President is an honorary one in Calcutta), Mr Chaturvedi has at the continued persuasion of his colleagues accepted this office for fifteen years in succession and has thus benefited the Association with his sagacious counsels and unremitting labour towards maintenance of its status and stability. He has commanded universal respect, and the members of the Association have always looked upon him as their friend, guide and philosopher.

First Vice-President

Once the President was invested with executive functions the need presently arose of having some one in office next to him to perform these functions during his absence. So the Association soon amended its Articles of Association to create the office of a Vice-President. In 1946 Mr Chiranjilal Jhunjhunwala, B.A., LL.B., became the first Vice-President of the Association, and he has remained in that office since then. He too has proved his mettle by successfully steering the affairs of the Association during temporary absence of the President, particularly in recent years when Mr Chaturvedi had to leave the station on Government work and also on foreign tours for study of stock exchanges abroad.

In the same decade the Association conferred on the partners of the different firms in the roll of its membership the right of becoming an independent member by obtaining a share from its unissued capital. Partners of many firms have since then become independent members by exercise of this right.

Introduction of Clearing System

The 40's also saw a profound change in the mode of doing business on the Stock Exchange. Previously all business used to be done on the Exchange on cash basis which implied that any share bought in the market had to be taken delivery of against payment of value in full on or after the second day after the date of transaction. But from the autumn of 1944 the Association introduced a system of periodic settlement of transactions in certain specified shares through the Clearing House. In its embryonic form the system was introduced on October 9, 1944 when delivery orders in respect of transactions in the shares of Indian Iron, Steel Corporation and Howrah Jute came to be cleared through the United Commercial Bank which acted as the Association's authorised agent in the matter. Two months later (December 4, 1944) when full-fledged clearing came to be introduced this task was entrusted to the Allahabad Bank. After Allahabad, United Commercial Bank ran it for a time, but since 1949 the Allahabad Bank has continued to run the Association's Clearing House for the purpose. For a time after the debacle of 1946 the clearing system was kept in abeyance, but it was subsequently revived from April 12, 1949, and since then the clearing system has an unbroken continuity. Today transactions in the equity shares of some eight companies are fortnightly settled through the Clearing House.

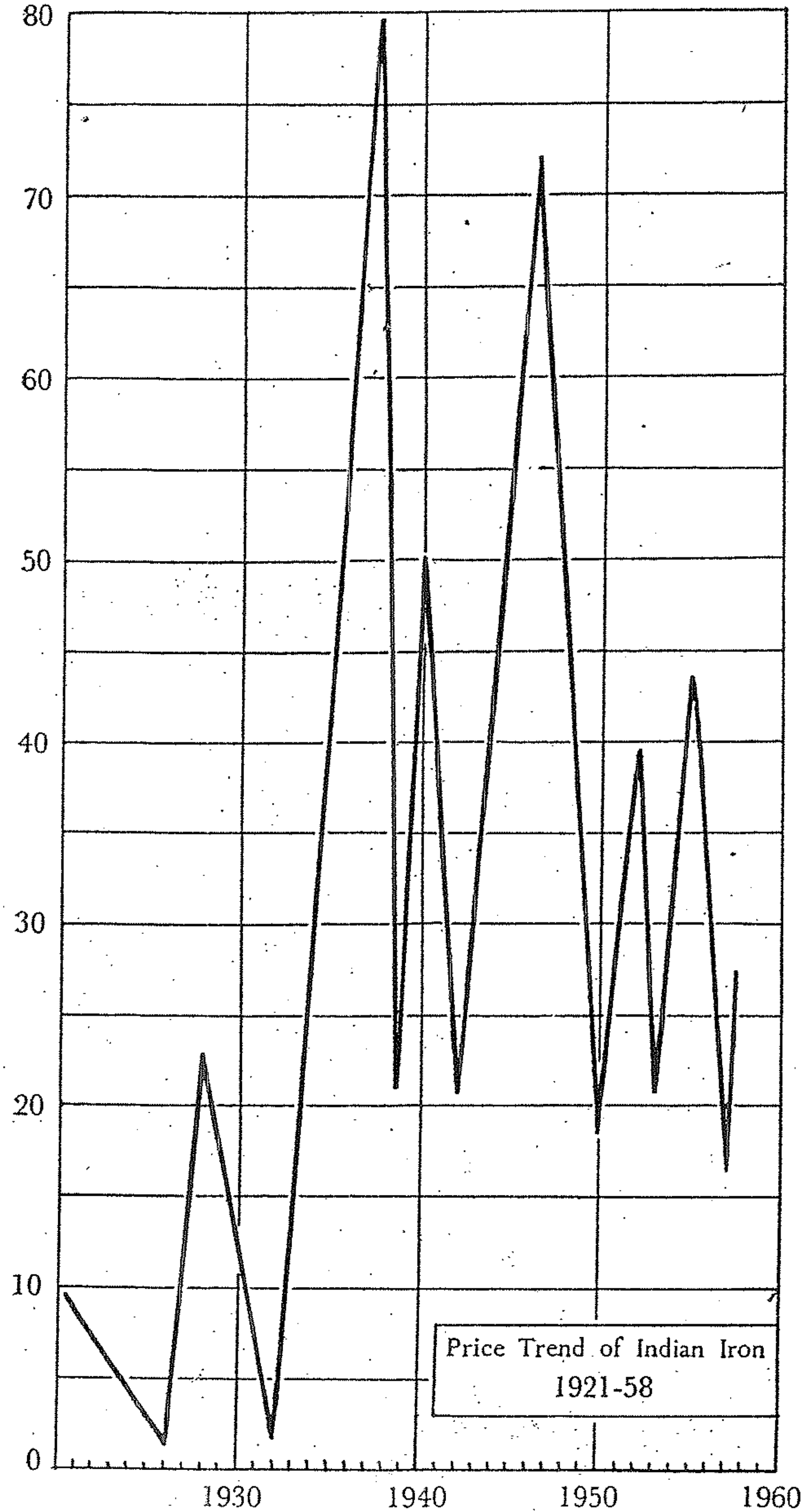
Framing of Enlistment Rules

It was in the 40's too that the Association wanted to be strict in regard to the enlistment of shares for official dealings on the Stock Exchange. Previously the Association had no enlisting rules, and any share which reported transactions in the market for three consecutive days could be added to the Official List by the concurrent orders of any two members of the Quotations Sub-Committee. It was in 1943 that the

Association for the first time framed a set of elaborate rules governing the enlistment of shares. The application for the enlistment of a new company had to be henceforth accompanied with necessary documents and disclosure of certain information having bearing on the public interest in the company's shares. At the same time every application became scrutinisable by the Quotations and Enlistment Sub-Committee at a meeting and it was on the basis of the recommendations of the Sub-Committee that the Full Committee ultimately granted sanction for dealings.

An Age of Ruin and Disaster

Let us now turn to a survey of conditions on the Stock Exchange after the 40's. We have already seen that in 1948 the very bottom was taken from the stock market and in the following year the prices further sagged to touch the nadir. Indian Irons were at this time priced at Rs 18-9. The crisis brought ruin and disaster not only to the stockbroking community but to the investing public as a whole. What particularly affected investment outlook of the time were the Kashmir episode, recrudescence of communal riots, political uncertainty, the crisis in the jute mill industry after the partition of the country, unabated spiralling of inflationary forces, labour unrest all over the country, constant threats of nationalisation and shrinkage of savings. In the words of the Joint Memorandum submitted in February 1949 by the Presidents of the Calcutta, Bombay and Madras Stock Exchanges to the Government of India, the ills that affected the stock market were in truth the ills that affected the country as a whole. But despite these joint representations the budget of the year proved to be far short of market expectations and the worsening of the Indo-Pakistani relations gave a further rude shock to the market. Though the Korean War helped the market to some extent in 1950 conditions however soon became unsettled, and in 1952 the situation once again took an adverse turn under the impact of such disquieting factors as accumulation of stocks in the piecegoods market, the introduction in Parliament of the Estate Duty Bill, the crisis in the tea industry due to severe fall in the prices of tea, the huge deficit in India's foreign trade, the withdrawal of the normal supply of funds from the market by the State Government Loans and so forth. There was no important change in market psychology until 1954 when the speculative firmness of Indian Irons, recovery of the tea industry, the prospect of accelerated execution of the First Five Year Plan and sympathetic report of the Shroff Committee for the private sector prompted investors to lend their support to the market. The psychology of the investors indeed remained in such good stead that the market could easily bypass the jitters of the Avadi Resolution of the Congress and the report of the Taxation Inquiry Committee, in its pleasant journey towards consummation of the boom of 1955. Crisis once again came when on January 20, 1956 the Government of India issued an ordinance relating to the nationalisation of life insurance companies. It acted as a great blow to knock down the prices, for since the disappearance of the princely houses and the zemindars, the life insurance companies were the principal prop of the market. With this vital prop gone the backbone of the market was broken. Stricken by panicky jitters, everyone turned out to be a seller at the time. A crisis of grave moment confronted the market, and to tide it over the Committee of the Stock Exchange had no other alternative than to fix settlement rates for clearing shares and suspend business in them for a time. The Committee no doubt succeeded eminently in rescuing the market from this crisis, but the slump which had overtaken it showed no sign of abatement when normal business in the clearing shares was again resumed early in February 1956. The Krishnamachari budget and its con-



Price Trend of Indian Iron
1921-58

comitant features—the levy of a surcharge on railway freight, the imposition of new taxes on dividends and bonus shares, the enhancement of super-tax on personal incomes—darkened the investment outlook still further. At the same time the continued unprofitability of the jute mills, the uncertainty about the future of the coal industry, the introduction of State trading in cement and ores, scarcity of finance, and the compulsory deposit scheme for companies introduced at the end of November 1956 crushed all enthusiasm for the future and made the market totter to its fall. Stock prices toppled down to reach the very bottom (Indian Irons touched Rs. 16.60) in May 1957 when the wealth tax, the expenditure tax, and a host of excises were introduced. In the moribund condition that followed every genuine investor got the creeps of his life to enter the precincts of the Stock Exchange.

Control of the Stock Exchange

Internally 1957 was a year of grave moment in the life of the Association. It was in this year that it first came under the control of the Central Government. So long the stock exchanges enjoyed freedom from governmental regulation—though the Government of Bombay had exercised some control over the activity of the Native Stock and Share Brokers' Association through the Bombay Securities Contracts Control Act of 1925, and the Central Government had during the period of the war had controlled certain types of business in stocks and shares through the D.I.R. 94C. The urgency of a comprehensive legislation for the control of business in stocks and shares on an all-India basis was first felt by the Government of India when there was unbridled speculation in stocks and shares during the boom of 1946. Dr P. J. Thomas, the then Economic Adviser to the Government of India was appointed to probe the matter and report on the same. His report was submitted in 1948, and this was followed by the appointment in the same year of an official committee to examine *inter alia* the expediency or otherwise of prohibiting forward business for the settlement of business. The Committee was also asked to submit detailed proposals for a legislation on the matter. While making various recommendations, the committee expressed the view that an essential prerequisite for the introduction of reforms in stock exchange practice was the reform of the Company Law in several major directions. Meanwhile in January 1950 the Constitution of the Indian Republic came into force, and in it regulation of the stock exchange was made a central subject. In 1951 the Government of India appointed an informal committee to prepare a draft bill for the regulation of the stock exchange. This Committee too found that some major changes in Company Law must precede the enactment of any legislation on the matter. The draft bill as prepared was examined by a representative committee (on which amongst others also sat the Presidents of the Stock Exchanges at Calcutta, Bombay and Madras) appointed in June 1951, under the chairmanship of Mr A. D. Gorwala. The Committee submitted a revised bill on the subject. An official bill largely adapted from the bill prepared by the Gorwala Committee was introduced in the Lok Sabha on December 24, 1954. The Securities Contracts (Regulation) Bill, as it was called, was referred to a Joint Committee of the Lok Sabha and Rajya Sabha respectively on November 28 and December 5 of 1955. The bill as amended by the Committee was passed with certain amendments by Parliament in July-August 1956. The Act was brought into operation on February 20, 1957, and under it the Calcutta Stock Exchange came to be licensed on and from October 10, 1957. Since then a new set of rules and regulations has come into force, and two representatives of the Central Government have now taken their seats on the Committee.

Completion of 50th Year

In 1958 the Stock Exchange completed its fiftieth year. On May 29, the Committee of the Association decided to celebrate its Golden Jubilee in an appropriate manner. A religious ceremony to sanctify the event was held for three days in the middle of June, and a mirthful social function participated by the members and their kins also marked the occasion. A formal ceremony was decided to be held later on.

The Best Stock Exchange in Asia

We have now come to the end of our story. Perhaps to many minds this story would appear to be the story of a crude alternation of slumps and booms. But behind the story of these booms and slumps there also lies the story of the Calcutta Stock Exchange's eternal vigilance for establishing an efficient market—and, by so doing, to serve the public interest. Time and again the efficiency of the Calcutta market has been tested. Whereas in times of booms and slumps, ugly developments born of them on other stock exchanges prompted the Government to intervene, inquire and impose legislative control, Calcutta had been free from such developments. The fact that Calcutta is not the first among the stock exchanges in this country to be officially controlled under the Securities Contracts (Regulation) Act is also a pointer to that direction. Calcutta's zeal for serving public interest is also shown by the incessant efforts that it has made during the past fifty years to help the development of industries in this country by providing a free market for their securities. This will be evident from the statistical table printed on a later page. No other stock exchange in Asia has provided a free market for the securities of so many corporate enterprises engaged in the production of national income in so diversified fields of activity. At the same time through its Year Book and Information department the Calcutta Stock Exchange has made an ever-growing effort at helping the investing public in this country to secure correct information for appreciation of the investment possibilities of different securities. Today at this happy and auspicious hour of its life, when it goes to celebrate its golden jubilee, the Calcutta Stock Exchange must feel proud that it has truly performed the function that one would expect of a modern stock exchange.

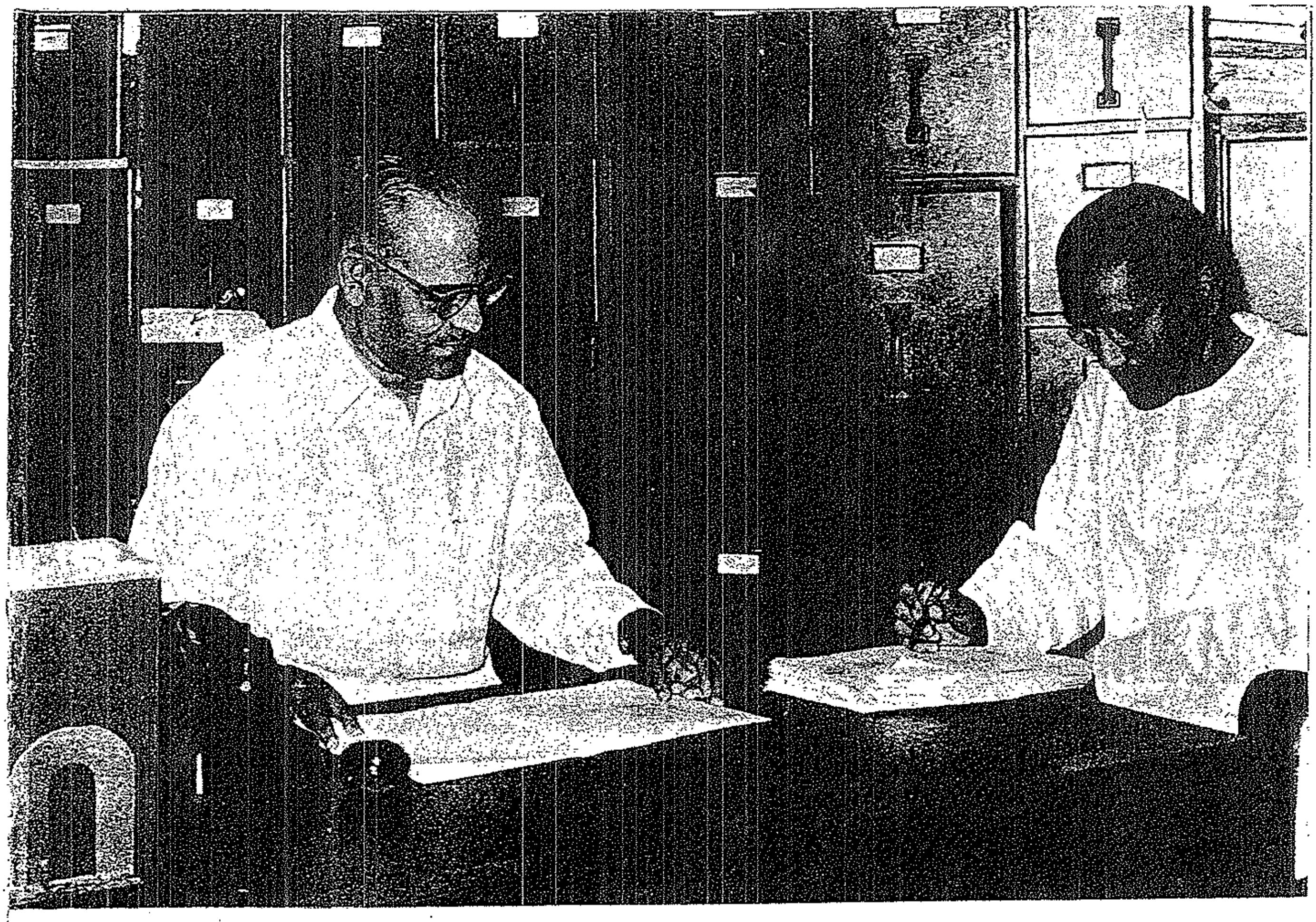
Today the Calcutta Stock Exchange is perhaps the biggest Stock Exchange of the East. It has over 1,000 members representing some 278 firms who employ a clerical staff of several thousands. The total nominal value of the Securities quoted on the Exchange amounts to over Rs 2,100 crores including Rs 1,800 crores of Government and Public Bodies' Loans. It has in its Official List 969 securities of some 620 companies, 23 Central Government Loans, 39 State Government Loans, and 54 Municipal, Port Trust and Improvement Trust Loans.

A Statement Showing the Capital of Companies Quoted on the Calcutta Stock Exchange in 1957

(000 omitted)

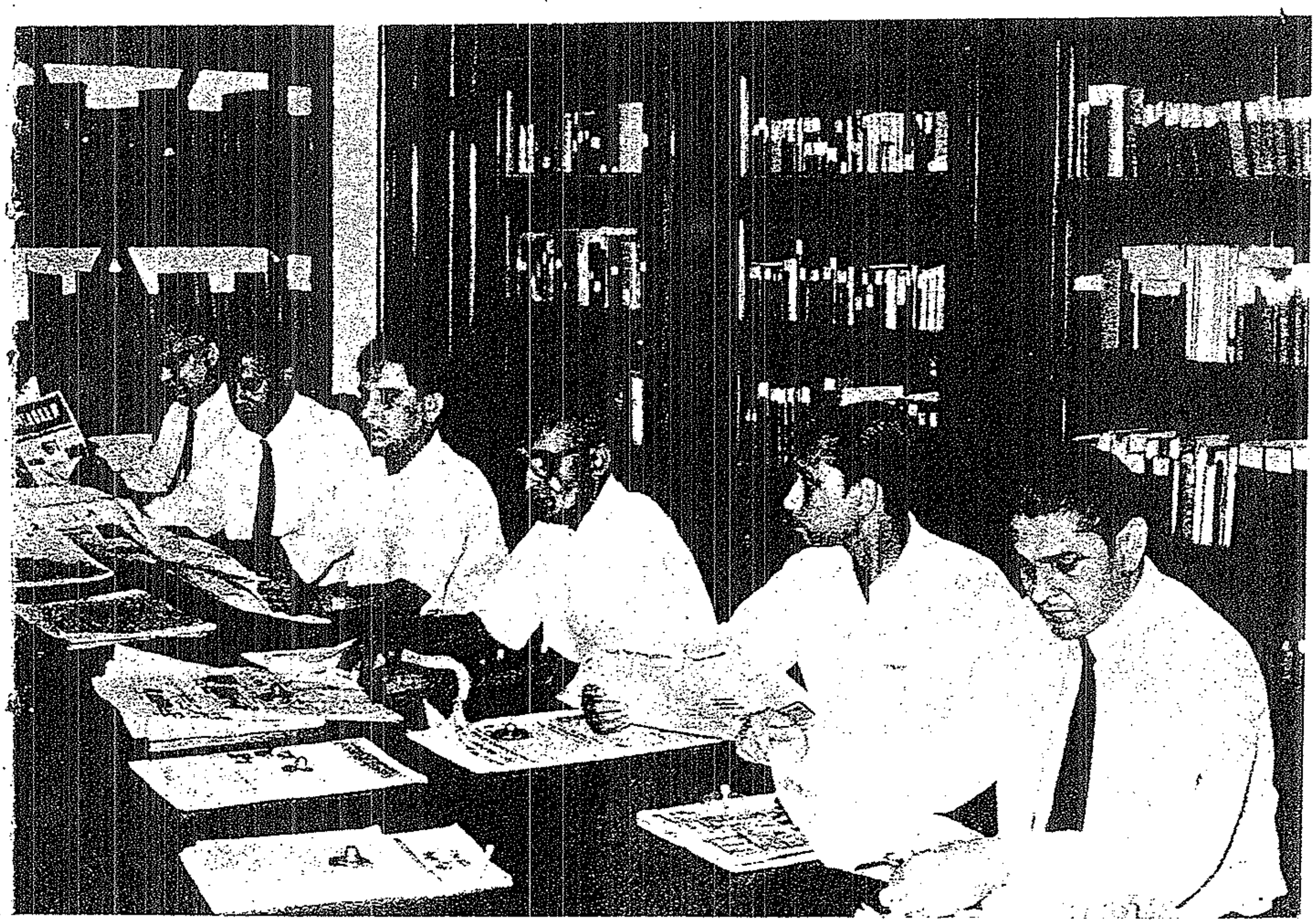
	No of Companies	*Ordinary Capital*	*Preference Capital*	*Debenture Capital*
Banks ..	11	14,89,77	30,00	..
Railways ..	13	2,01,67	10,00	53,75
Coal Companies ..	67	9,69,25	1,53,69	1,19,50
Cotton Mills ..	22	16,24,28	5,10,05	1,94,00
Jute Mills ..	58	19,75,24	7,39,23	4,22,96
Minings ..	13	1,72,31	47,50	15,00
Cement, Pottery, Fire-clay ..	10	5,94,95	2,99,50	62,50
Chemical Industries ..	10	4,81,85	1,26,13	15,85
Electric Companies ..	25	3,60,51	28,78	3,52,16
Engineering & Metal Works ..	26	10,06,13	2,15,46	1,30,00
Flour Mills ..	4	28,60	90	..
Insurance Companies ..	9	1,52,25	..	..
Oil Companies ..	8	1,20,00	52,00	14,00,00
Paper Mills ..	9	8,98,86	3,81,65	1,05,26
Jute Presses ..	6	31,30	10,50	..
Real Property ..	9	2,29,83	47,91	86,00
Saw Mills ..	2	20,00	3,00	..
Shipping Companies ..	8	14,10,43	28,00	4,14,13
Sugar Mills ..	34	6,54,47	1,30,62	67,79
Tea Plantations ..	139	10,55,92	79,58	6,00
Miscellaneous Companies	103	75,91,30	14,27,71	4,95,65
Total ..	586	Rs. 210,66,90*	43,22,21	39,40,55
Sterling Companies ..	11	£ 11,802,443	2,794,300	3,894,000
Rubber Companies ..	32	$ 22,406,560	..	..

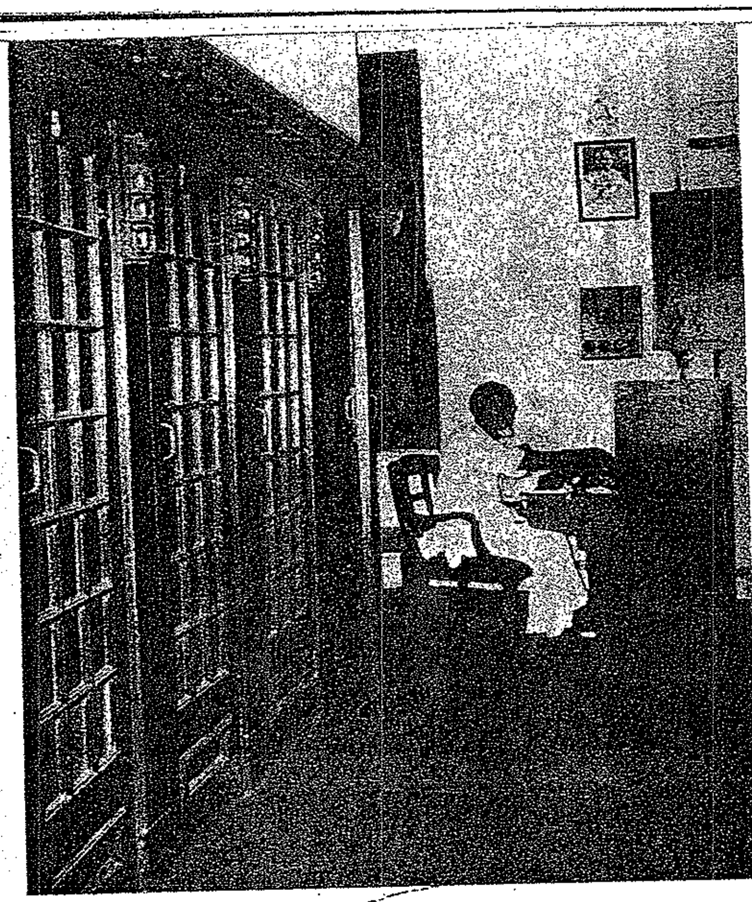
*The market value of the equity shares was Rs 305.48 crores in January 1956, Rs 223.98 crores in May 1957, and Rs 242.57 crores in August 1958.



TOP *The Association's Year Book, Information and Research Department*

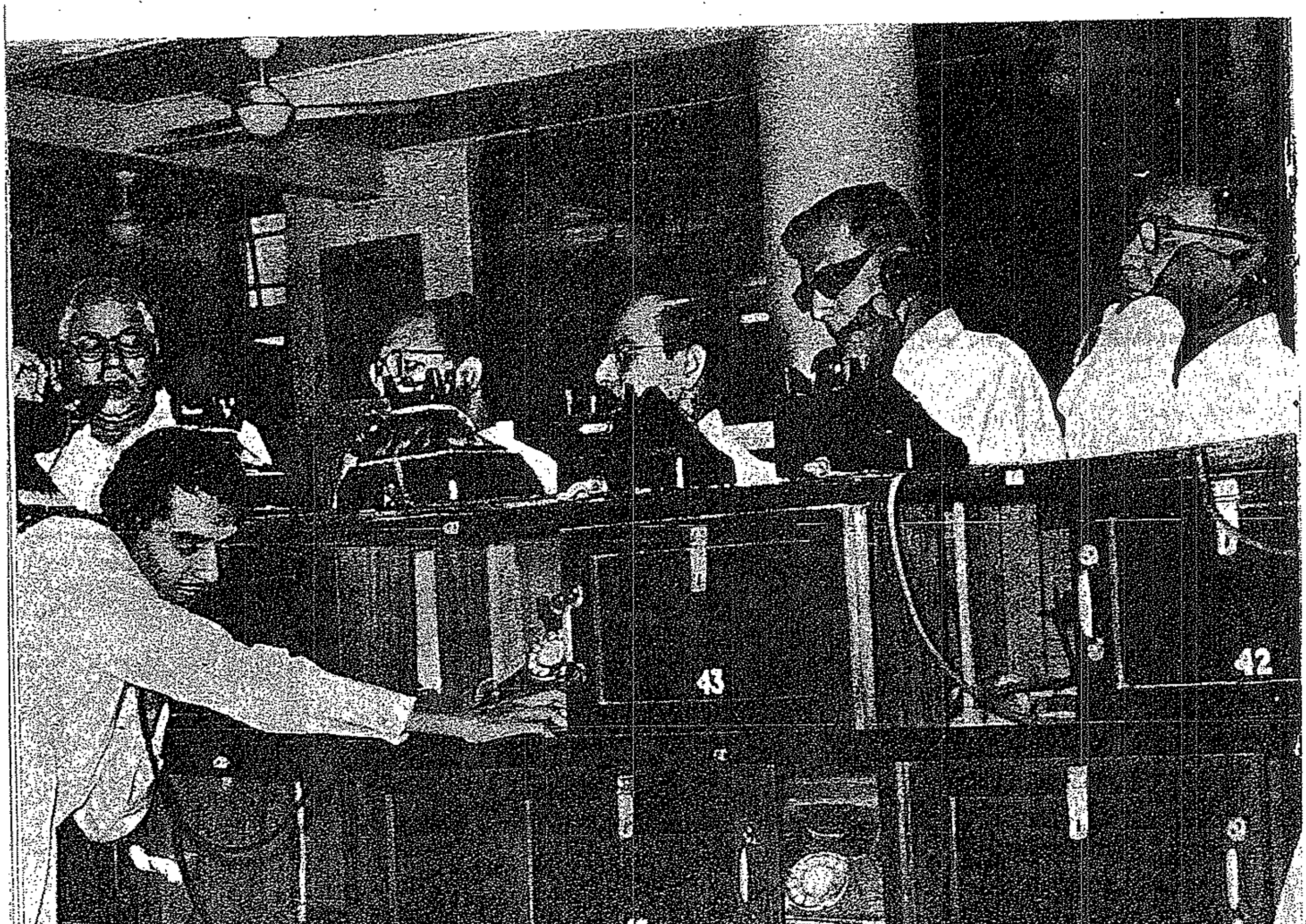
BOTTOM *The Association's Library*





TOP A sectional view of the Association's Telephone Exchange Room

BOTTOM Members' individual telephones are also installed in the trading hall for quick communication with clients



STOCK EXCHANGE IN NATIONAL LIFE

BY S. V. RAYAN

EDITOR, *Commerce*

VITAL TO DEMOCRATIC SOCIETY

STOCK Exchanges constitute a vital organ of a free modern society. This is not a mere platitude. A little reflection will show that, without a stock exchange, a modern democratic economy cannot exist. These are days of large-scale production, requiring immense capital. The days when family partnerships or private limited companies owned by a few friends could establish efficient and economic manufacturing units relying solely on their funds, are fast disappearing, if not already gone. The system of joint-stock companies, financed through public investment, has proved to be the best method for this purpose. No enterprise can raise capital from the public, unless there is a market place where those who have bought shares in it can convert their holdings into cash whenever they wish. Such a market is provided by stock exchanges. The value of stock exchange thus depends on its ability to provide a forum where investors can both buy and sell securities when they wish at fair, competitive prices. If there is no effective stock exchange, people's savings—the sinews of economic activity—will be employed much less fully and much more wastefully than at present. A stock exchange is not a source of capital, but a channel which facilitates the free movement of capital. Without a stock exchange, capital would soon become sluggish and the scope for financing of new ventures, however promising they may be, would be curtailed sharply.

Government Needs it

Stock Exchanges are indispensable to all democratic governments, too. Except in totalitarian States, no Government will be in a position to raise money from the public, if there is no active market where its securities can be bought and sold. Most people are not aware that, in the early days of London Stock Exchange—perhaps the most ancient one in the world—the greatest beneficiary of the market was the British Government, for dealings in Government securities accounted for the major portion of the turnover. Although the Bank of England was started (in 1694) to provide the money needed by the British Kings, it was soon realised by them that dealers in stocks were important for promoting public interest in their borrowings and in the stocks of the Bank of England. For long, therefore, the London Stock Exchange has enjoyed the appreciation of British Kings and Parliament. Even today, it has the privilege of being the first to know the change in the Bank of England rate. At 11 a.m. every Thursday, the broker for the Bank goes to the trading ring and announces the Bank rate. The socialists in this country will do well to remember that at no time has the Labour Party in Britain belittled the importance of Stock Exchange to the Society and that no attempts were made by it when it was in power to interfere with its working. That was as much a tribute to the orderliness and integrity of the London Stock Exchange as to the appreciation of the value of the Exchange by the British labour politicians and trade union leaders.

A Barometer of Share Values

An efficient stock exchange is necessary not only for raising capital but also for measuring the value of securities on any given day. Because there are stock exchanges today in which the shares of almost all the important joint-stock companies are quoted, it is possible for investors to tell at any moment the current worth of their share holdings. If a person owns shares as well as houses, he will immediately realise the value of stock exchange. As there is no organised market in property, he will find it difficult to assess the correct value of his investment in housing, whereas he can easily verify the value of his investment in shares. Similarly, he will find it easier to market the shares than the houses.

Useful to Entire Community

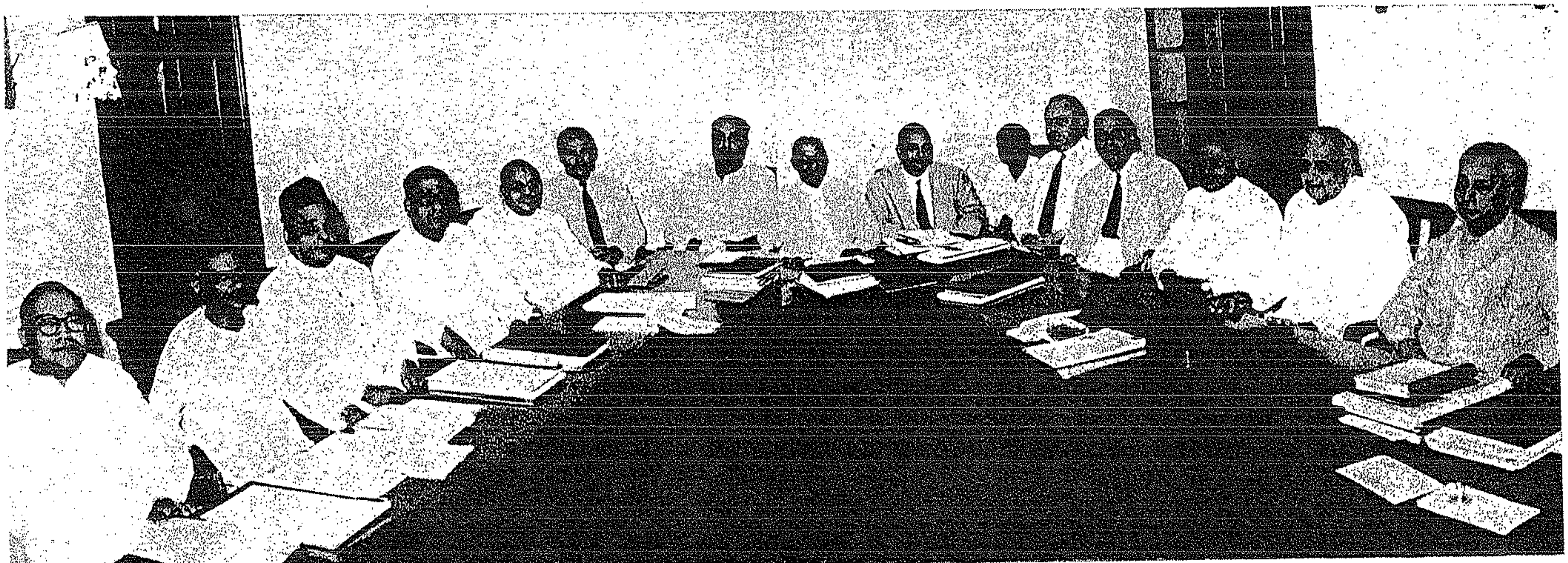
It is generally thought that a stock exchange serves only those who have money to invest and securities to sell. This is an understatement. For a stock exchange benefits the whole community in a variety of ways. By enabling producers to raise capital, it indirectly gives employment to millions of people and helps consumers to get the goods needed by them. Again, all those who save and put their money either in banks or in life insurance, instead of buying shares and securities, are also helped by stock exchanges, because the institutions with which they place their savings avail themselves of the services of the exchanges to invest the money collected by them.

Prime Minister's Gibes Born of Ignorance

A true democratic socialist Government imposing a variety of taxes on wealth, must be more interested in preserving the stock exchanges in good, healthy form than a Government of rightist persuasion. In India today, there are more taxes on wealth than in any other democratic country. Thus, there is an annual tax on total wealth, there is a tax on gifts, there is estate duty and there is a tax on capital gains. If these taxes are to be collected promptly, efficiently and without entering into unnecessary disputes with the assessees, there must be a market which indicates the value of shares and securities and, if the value is to be as nearly perfect in the social and ethical sense as it is in the economic, the market must be a perfect one. A well conducted stock exchange, where shares and securities can be bought and sold speedily and simply, is, therefore, a prerequisite for the levying of the aforesaid taxes. I am afraid there is hardly any appreciation of this point among the powers-that-be which have imposed these taxes. The contemptuous manner in which some of the top politicians refer to stock exchanges is an instance in point. The Prime Minister is more guilty of this charge than any one else. The gibes he has had at the stock exchange fraternity on several occasions in recent years are no doubt born of ignorance of the complexities of a modern democratic economy. But they have done great harm to the exchange by prejudicing public opinion against them.

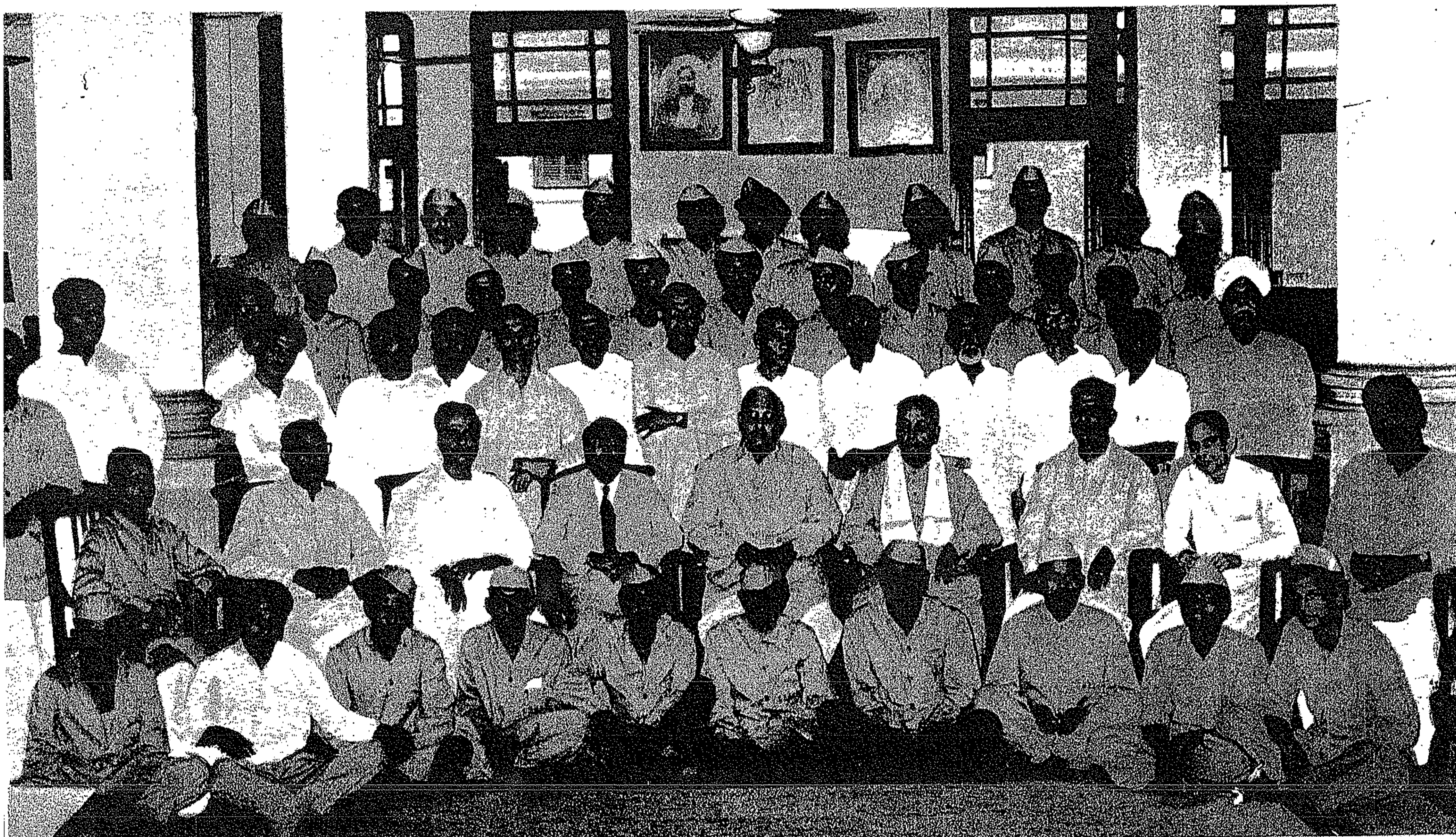
Signs of a Perfect Market

Experience has shown that investors place marketability high among the requirements for a desirable investment. One of the factors that facilitate easy marketability of a scrip is an active market. This is also a prerequisite for a stock exchange to be perfect. But there can be no active market, unless there is a large number of operators, who can buy and sell scrips on their own account. This means that each Stock Exchange must have a sufficient number of members who are rich both in money and intelligence. Unfortunately, the existing system of taxation and the social philosophy of the Government are not conducive to the fulfilment of this condition. No amount of intelligence will avail anything, if a person is not allowed to keep sufficient wealth to perform the function of a jobber or a specialist in the share market. In the years to come, this handicap will become more ap-



THE COMMITTEE IN THE MEETING ROOM

LEFT TO RIGHT *Sri C. L. Khandelwal, Sri Chhotalal Haridas, Sri A. V. Seth, Sri B. C. Seal, Sri N. D. Bangur, Mr R. G. Edwards, Sri Abani Ganguli, Sri H. C. Chatterjee, Sri M. L. Pyne, Sri B. Mazumdar (Asst. Secretary), Mr A. E. Sopher, Mr Eric Gregory, Sri C. L. Jhunjhunwala (Vice-President), Sri B. N. Chaturvedi (President), and Sri D. Chakravirty (Secretary)*



The Association's Staff with the President in the middle of the seated row parent than it is now, unless, of course, the tax situation undergoes a change in favour of individuals, a development which is highly unlikely.

Removal of Misunderstandings

In this age of mass production, misunderstandings and misapprehensions also are mass produced. If mass production of goods has enhanced the indispensability of stock exchanges to the society, mass production of misunderstandings has tended to hurt them in many ways. If the general public is to appreciate the value of stock exchanges and not to regard them as a speculators' den, or as a casino for rich men, where money is made and lost quickly, or something not very different from a race course, every effort must be made to remove the misunderstandings. Fortunately for the Stock Exchanges in India, the science of public relations has been studied and well developed in some of the Western countries. They can, if they have the will, apply this science for educating public opinion about themselves and the valuable work they do for the society as a whole. The New York Stock Exchange is a pioneer in this field and has an excellent Public Relations Department. Even the ultra conservative London Stock Exchange has realised the need for removing the "mysteries" of stock exchanges and has made some notable advance during the last four or five years. Indeed, the younger members of that Stock Exchange do not seem to be satisfied with what their Council has done and are pressing hard for doing more on the lines of the New York Stock Exchange. Not long ago, when Sir John Braithwaite, Chairman of the London Stock Exchange, visited the New York Stock Exchange, he evinced great interest in the measures adopted by it to make itself better known to the public. There is a lot that the Indian Stock Exchanges, too, can learn from their confrere in New York for educating public opinion.

There is a dearth of literature on stock exchanges in India. I am not aware of any good book, written in simple, non-technical language, explaining the history of stock exchanges in India, how they work, and their place in the nation. Even the London Stock Exchange felt the need for such a publication, though, unlike in India, there were no dearth of books on the subject in Britain. Eleven years ago, its Council took steps for bringing out a special publication. The result is an excellent book, entitled "The Stock Exchange", by Mr. W. T. C. King, a prominent financial journalist and the Editor of the *Banker*. Priced moderately at 6s., this book is meant for the general public and is readily available in the Gallery for visitors to the Exchange, where a brief descriptive pamphlet is distributed free. There is an urgent need for a similar book in this country and the Stock Exchanges will do well to sponsor it by entrusting the job to a competent person.

Instructing the Public

As in New York, London and Calcutta, other stock exchanges in India must have a visitors' gallery from where the public can watch the working of the market and understand it with the help of a guide. The public should be encouraged to visit the gallery. Conducted tours should be arranged for students and teachers. Suitable opportunities should be created for intelligent discussion of stock exchange affairs. Members of stock exchanges should conduct seminars and study groups on stock exchanges in all the important places with the help of economists and business men. A special research section should be established which can conduct studies on such subjects as trend of profits, ownership of shares, and other factors relevant to investment and investors and publish the findings. All modern channels of communications, such as films, speakers, informative booklets, exhibitions, newspapers and magazines, should be used for bringing about a better understanding of the stock exchange. Since all this will involve money and it is highly desirable to avoid duplication of effort, it is desirable to have federation of all the Stock Exchanges in India and entrust the task to it.

No amount of publicity and public relations work will succeed, unless the stock exchanges are soundly organised, follow good traditions, establish highest standards of integrity and adopt service to investors as their motto. The stock exchanges in this country must, therefore, re-examine their constitutions, compare them with London and New York Stock Exchanges and see for themselves in what way they can improve their affairs, so that there may be no room for complaints and criticisms. Further, trading practices must be modernised. The trading rings, in particular, should be improved, by installing some of the equipments used by the New York and London stock exchanges and making them noise-proof from the outsider's point of view. It will be pointless to have a visitors' gallery, if the trading ring is kept untidy and looks uncivilised.

Need for Trained Personnel

It will be desirable for the stock exchange members to employ staff with sufficient knowledge of the theory of stock exchange practices and other allied subjects. The stock exchanges will do well to consider the advisability of persuading some of the Universities to introduce courses on Stock Exchange subjects and to conduct examinations. They can help the Universities by offering some financial assistance, if need be, by volunteering the services of a few of its members to serve as honorary lecturers and by instituting special prizes for students of merit. It may be noted here that, in London, two colleges—City of London College and City Day College

—give courses of instruction in Stock Exchange subjects, conduct examinations and award diplomas, and that both of them are actively helped by the London Stock Exchange which has a special education committee for this purpose. Members of the Exchange are urged to encourage their employees to take up these courses, in order to fit themselves for the steadily increasing complexity of modern stock exchange business.

What Stock Exchanges Should Do

In India of today, the ranks of investors are broadening. The days of princes, zamindars, big landlords, and rich industrialists are gone. Life insurance, an important source of investment in equity capital, which provides the bread and butter line of business for stock exchanges, has been nationalised. Banks do not take much interest in equities. Investment trusts and other savings institutions are only a handful and do not count very much nowadays. The future for stock exchanges, therefore, lies in attracting middle-income investors to equities. Fortunately for them, the new land reforms and the emergence of co-operative credit societies are developments which will tend to divert progressively middle class savings from the traditional forms of personal money lending to industrial and Government securities. Now is the time for the stock exchanges, therefore, to adopt appropriate schemes for attracting new investors. It will pay them to examine what the stock exchanges in the U.S., the U.K. and other countries are doing to interest savers in shares and securities and for broadening the base of business ownership.

Finally, the stock exchanges must assume the role of protector of the rights of investors, especially small investors, in joint-stock companies. They have to see that companies give fullest information in their balance sheets, publish quarterly progress statements and do not take an unduly long time to publish their annual statement of accounts and to pay dividends. The companies, in turn, must fully co-operate with the stock exchanges in these matters, for by doing so they are helping themselves and their fraternity. It is needless to add that companies, the shares of which are popular and active counters on a stock exchange, get a tremendous amount of publicity and will find it easy to raise the additional capital required by them for their modernisation and expansion programmes. By keeping the investing public informed, from time to time, of the trend of their progress, they can minimise the scope for *unhealthy* speculation in their shares which is injurious to genuine investors.

STOCK EXCHANGE:

ITS ECONOMIC IMPORTANCE

By P. S. Hariharan

Financial Editor, *The Times of India*

What is the Stock Exchange?

Few institutions in the private sector have provoked so much controversy in the post-independence era as the stock exchange. Although stock exchanges the world over are accepted as a necessary adjunct to private enterprise, and private enterprise, in turn, has all along been assured of a large and positive role in India's economy, there have been occasions when demands ranging from the total regimentation of this institution to its wholesale abolition have been made in Parliament and elsewhere. Fortunately, in recent years, the role of the stock exchange is being increasingly recognised by the authorities. Though a substantial measure of statutory control has already been attempted, it is evident that stock exchanges will continue to fulfil their vital functions in the national economy so long as private enterprise exists.

What is the stock exchange? Why does it exist? What part does it play in the country's economic life and how does it play it? Although apparently simple, not many beyond the circle of the investing public appear either interested in or capable of tackling these issues. The stock exchange is the place where stocks and shares are bought and sold. The introduction is simple and swift. The sustained competition of innumerable buyers and sellers determines the prices with a measure of precision that cannot be obtained in other unorganised markets such as the property market where activities are of a spasmodic nature.

Useful to the Nation

The stock exchange is intricately interwoven in the fabric of the nation's economic life and, as a well-known author, Mr. W. T. C. King, says: "without the stock exchange, the savings of the community—the sinews of economic progress and productive efficiency—would be used much less completely, and much more wastefully, than they are now." The task of mobilising and distributing savings could be attempted in the old days by a much less specialised institution than the stock exchange, but as business and industry expanded and the economy assumed a more complex nature, the need for "permanent finance" arose. Investors wanted liquidity—the facility to convert their investments into cash at any given time. The answer was a market for investments and this was how the stock exchange came into being.

Thus a free and active market in stocks and shares has become a prerequisite for the mobilisation and distribution of the nation's savings on the scale needed to support modern business. The stock exchange by a process of prolonged trial and error, which is by no means complete, has been continuously streamlining its structure to meet these wide and ever-growing responsibilities to the public. In the normal course, bouts of buying and selling pressure in a free market would cause needlessly violent and unwarranted fluctuations. Professional dealers, however, absorb a large part of the shock of these fluctuations thus ensuring that a seller does not get an unduly low price or a buyer has to pay an unduly high one. The activities of the stock exchange are governed by a recognised code of conduct apart from statutory regulations.

Protection of Investors

In its attempt to protect the interests of the investing public, the stock exchange has been increasingly subjecting not only its members to a high degree of discipline, but also those outside who use its facilities—joint-stock companies and other bodies in whose stocks and shares it deals. There are stringent regulations to ensure that directors of joint-stock companies keep their shareholders fully informed of the affairs of the company. In fact, some of the conditions that the stock exchange imposes upon companies before their shares are listed are more rigorous and wholesome than the statutory provisions such as those contained in the Companies Act.

Apart from providing a market that mobilises and distributes the nation's savings, the stock exchange ensures that the flow of savings is utilised for the best purpose from the community's point of view. Although in these days of planning and of controls over capital issues, much of the sifting process in the initial stages is done by the Government itself, the stock exchange sieve, through the medium of the investing public as a whole, ensures a further screening of the good projects from the indifferent or bad ones. It is thus that a good business will be able to borrow all that it wants and on cheaper terms, while the less efficient or less desirable business may get only a part of its requirements or none at all. In the ultimate analysis, the stock exchange with its free dealings and fair rates provides the signposts which show the way along which the community's savings ought to move.

In effect, the stock exchange is the only perfect type of organised market as the commodity dealt on it has negligible carrying costs, is imperishable and is entirely standardised.

It enables the holders of securities to convert them into cash swiftly, and at a comparatively moderate cost. A second important function of the stock exchange is that of evaluating securities, thus acting as a barometer of the state of health not only of individual companies but also of the nation's economy as a whole. Very often members of the stock exchange have a more direct hand in providing capital to industry by underwriting shares. It is not only the private sector that benefits from the existence of the stock exchange but the Governments, Central and States, local authorities and other quasi-official institutions also raise substantial amounts with its aid. The service that the stock exchange renders to the Government can be realised from the fact that during the Second Plan period a total sum of Rs. 1,200 crores is to be accounted for by public borrowings.

Is Speculation Bad ?

The stock exchange can, however, fulfil these functions only if it is properly constituted and organised. Critics might argue that it is impossible for any share market to function properly because of the undesirable activities of speculators; yet genuine speculation which is based on a reasoned forecast of the real value of the investments performs a very vital function. No stock exchange can operate purely on the basis of investment buying and selling. Speculation is an integral part of any ~~market~~ mechanism at least until, as Mr. Harold Wincott said, someone invents a "riskless world." Pure investors cannot provide the requisite volume or continuity of business, which alone would enable a large number of buyers and sellers to trade at all time in the exchanges and to bring about an adjustment of the relative values of the securities in which they trade in conformity with their real worth. Speculative activities should not, however, be allowed to degenerate into gambling.

But the stock exchange is not the only institution where there has been a shortfall in standards from the ideal state. It is only by an overall improvement in public standards, more education and better information and improved codes of conduct in the realm of private enterprise as a whole that unhealthy speculation can be minimised. Mere legislation cannot stop speculation any more than King Canute could stop the waves. In fact, a plethora of regulations such as those imposed by the recent Securities Contracts (Regulation) Act can only lead to the virtual abrogation of the internal autonomy of stock exchanges—autonomy which is essential for giving out their best. The real trouble is that the stock exchange has often figured as a whipping-boy for many of the ills in the country's economy for which it is not responsible. It is futile for the patient to break the thermometer merely because it faithfully records his fever. On the other hand, he should be thankful to this instrument and look for remedies elsewhere.

How to Reform it ?

This is neither to minimise nor to rule out the case for constant reforms in the working of stock exchanges and their practices. The London Stock Exchange is a typical example of an institution which is subjected to the least amount of Governmental control and yet offers the least attraction for gamblers. This is because the stock exchange community in this centre governs itself by an elaborate set of rules—"and does so more speedily, stringently and yet more flexibly than any legal control could do."

At the same time, there are many directions in which the stock exchange itself has to undertake reforms if it is to fulfil its national functions in line with the social objectives of the country from which, as a public institution, it cannot dissociate itself. Firstly, recognised stock exchanges all over the country have to jealously guard the norms laid down by their own constitution. Unfortunately, there has been a certain tendency to compromise with defaulters which cannot but lead to an overall lowering of standards and business morality. Secondly, the cost of dealings in the share market is rather on the higher side for a country which has to promote capital formation in all directions. This has to be brought down through a process of rationalisation and adoption of modern methods of work. There is also a case for a minimum standard of education among members. I know of several stock brokers, intelligent and successful though they are, who cannot read a balance sheet, take a reasonable view of a chairman's annual statement or a State Finance Minister's budget speech and advise a client on a scheme for the reorganisation of the capital of a company. A broker may be successful without academic qualifications, but surely a minimum standard of training in economics, accountancy, company law and political geography can make him more successful and, at any rate, more useful to his clients.

Writing on the Wall

From a longer-term point of view—and this is the central theme of this article—it is essential that the stock exchange has to read the writing on the wall and move with the times. The socialistic objective is an accepted fact. It may be ultimately somewhat different. Realities may force the country to slow down the process or swing a little to the right. There are equal prospects of a further swerve to the left. At any rate, it is clear that the days of "unbridled" capitalism and big individual investors are over.

While the socialistic policies of the Government have been largely responsible for the jolt that the stock markets in the country have suffered in recent years, it cannot be denied that stock exchange authorities themselves have been singularly lethargic in devising ways and means to meet the challenge of the new social order. The traditional investing classes such as the big zamindars and princes have already disappeared from the picture. Even the tin-type image of the "old gentleman of staggering wealth" who was credited with owning the bulk of stocks and shares has turned a mere illusion. The industrialist who amassed a huge fortune and turned to the stock exchange for investment or speculation does even now turn to the share market; but with this difference that he now wants money instead of shares.

Need for Attraction of Investors

It is thus obvious that if stock exchanges want to retain their usual status in the new economic set-up, they would have to launch on a bold campaign to attract a new class of investors represented by the city clerk, the industrial worker and the rural farmer. In foreign countries, stock exchanges have already cast off their garb of mystery and conservatism. In London, girls appointed by the stock exchange take visitors around and explain the true functions of the market. In India it may not be necessary to resort to this expediency, but it is a matter of utmost importance that the base of the investment market should be widened by attracting a new class of investors.

The odds confronting such a campaign will, no doubt, be numerous and the volume of savings which the lower middle classes can spare may not in any case be large. But judging by the amount of funds that find their way to such unproductive investments as in gold and silver, it could be seen that the problem does not necessarily revolve around a physical lack of resources. If the villager and the city worker could be weaned away from the traditional habit of bullion investment or other forms of unproductive expenditure even in a small way, the sum total may represent a major prop private enterprise in general and the share markets in particular.

A nationwide campaign by leading stock exchanges—and here there is no question of personal advertisement—should help build up mass interest in stock investment. For every single visit that a broker makes to his industrialist friend, he will have to visit one dozen employees of the city firm (especially on the pay day) and endeavour to obtain a small percentage of his salary for investment as part of a plan with which I shall deal later. Similarly, splitting of high-priced stocks of which there have been several instances of late, a suitable modification of the minimum unit of business and some form of preferential brokerage for the small investor should all help to a modest extent in promoting public interest in the share market. Joint stock companies, on their part, can give a part of bonus payments to their employees in the form of shares of the respective companies. I.C.I. in London, for instance, has had singular success in this direction.

How They Do it in U.S.A.

The phenomenal response to the monthly investment plan sponsored by the New York Stock Exchange has an obvious moral for India. Basically, the scheme works like this. A person can invest as little as \$ 40 every three months in any stock listed on the exchange. One might call this a method of buying shares by the dollar; \$ 40 would buy two shares of a stock selling at \$ 20 each or half a share of a stock selling at \$ 80.

During the life of a Monthly Investment Plan, stock prices will naturally fluctuate. If they rise, the Plan buys fewer shares. If they fall, it buys a larger number of shares. The experience of Wall Street has been that M.I.P. investors are inclined to buy stock for the long-term anyway and hence they are not apt to be too concerned with the minor fluctuations on a day-to-day basis. Member firms all across the country have opened new offices and recruited new people. In addition, they have carried the investment story to the public through advertising, education and a new investors' information programme.

Such an approach to build up public interest in the share market and thus broaden the base of investment support is particularly essential in view of certain tendencies following the nationalisation of life insurance. A single institution such as this controlling over Rs. 300 crores of investment funds can have a profound influence not wielded by the former life insurance companies as a whole. It is conceivable that over a period of five to seven years these funds would amount to, say, Rs. 700 crores and over a period of a decade or a little more to as much as Rs. 1,000 crores. The influence that a mammoth investor like this could wield on investment patterns as a whole would be tremendous—and even harmful. It is evident that this challenge can be met and the distortion corrected only by an ever-growing mass of individual investors. It is time stock exchanges in the country paused and pondered over their outlook.

What you say [illegible] of shares [illegible]

STOCK EXCHANGE AND TAXATION POLICY

By George Barrell

Editor, *Capital*

Two Extremes of Tax Policy

A new tax is a blow to the investor and a god-send to the speculator. That is probably how most superficial observers would describe the effect of taxation on the stock market. Within certain strict limits they would, of course, be right. But the true picture is considerably more complicated. Such an approach gives the impression of resentment against the facts of organised life. Taxes are indispensable to any modern Government, and the greater its economic and social responsibilities, the larger usually is the overall tax burden. It follows, therefore, that all investors must expect to have to take the fact of taxation into account when making their decisions, just as a wise Government will realise its responsibilities towards investors before shaping its tax policies. Between the two extremes of no taxation at all, and a tax system which stifles all risk-taking investment, there is a wide field in which governments and investors can operate without either seriously harming the interests of the other.

No Effort to Discover Middle Ground

It can be said right away that, up to now, there has been precious little effort on the part of the successive Indian Governments to find this middle ground. Partly through bad planning, partly for ideological reasons, but chiefly from ignorance of the important role which investors play in developing an economy, the present tax system in this country has been built up with little consideration for the health of the share markets. There have even been times when Ministers in search of cheap popularity have actually expressed satisfaction with this fact. That is a pity, because neither spite nor ignorance is reliable aid to economic policy. The result is that India's stock exchanges today are forced to operate under a weight of taxation which is second to no other in the world. It is not surprising, therefore, that they are totally unable at present to play the part they ought to be playing in the development of the national economy. In the past three years tax has been piled on top of tax to the detriment of everybody except the speculators, into whose pockets the Government has unwittingly contrived to put crores of rupees. It is the sincere wish of everybody who is even remotely aware of the important part which stock exchanges play in the economic life of developing countries, that this burden will soon be relieved. Until it is, the share markets will remain in the unsatisfactory state they are in today, and the country's economy will be the loser.

Impact Effect of Taxation

Various taxes differ in the impact they have on the share markets. It is usually safe to say that an increase in a particular tax, or the introduction of a new one, will bring prices down, at least for the time being. Similarly, the removal of a tax will generally have the opposite effect, although individual exceptions, as when one industry suffers from the lightening of the tax burden on its competitors, must be recognised. There are, in fact, three distinct effects to be noted when a new tax is imposed or an old one increased. The first might be called the "impact effect". This is largely psychological.

Operators learn of the new imposition, and before any balanced judgment can be formed about its long-term effects, speculators have rushed in, investors have taken fright, and the prices of shares affected have fallen sharply. This phenomenon can perhaps best be observed on Budget nights when a procession of tax adjustments causes violent fluctuations in quotations. The "impact effect" is not an important one from the market's point of view. It only becomes so if tax impositions are numerous and frequent—as of course they have been in India during the past two years. Then, it tends to become accepted as the normal condition of the market and genuine investors are frightened away.

The second effect is really a reaction to the first. When the price of a particular share affected by a tax increase has plunged down far enough, it strikes speculators that the time has arrived to cover their original bear sales, and investors that a bargain is now available. The result is that the price of the share rises sharply, sometimes almost to the level at which it was standing before the new tax was announced. This can be called the "short term" effect. It usually follows swiftly on the "impact effect" and like it, is not of great importance to the long-term health of the market.

The Long-Term Effect

The third effect is the final one. When the speculative covering has finished, and every bargain-hunting investor has been satisfied, the price of the share gradually falls back to the level at which its yield and future prospects, not of the new tax, dovetail in with the general pattern of the market. From then on it will move according to the normal influences affecting industrial shares. This can be called the "long-term" effect. It is the end result of the oscillations caused by the original disturbance. There is nothing novel about this process; it can be found in any market subject to unexpected

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extraneous influences. It can even take place when a company announces trading results radically different from what the market was expecting. It is not, however, the result of the normal economic forces acting on the share markets.

The important feature of the "long term" effect is that it ought to produce a share price which is exactly the old one, plus or minus the discounted value of the tax adjustment. If it does not, then other factors, such as hesitation on the part of investors, or the prospects of further gain for speculators, are probably at work. If so, then the health of the market is likely to be impaired. In both cases, it will be noted that it is the investor who is the loser by an increase in taxation. The speculator stands to benefit every time there is a sharp fluctuation in the price. He gains chiefly from the investor, but sometimes from his own not-so-skilful fellow speculators. An individual speculator may actually lose, although this does not alter the fact that sharp price fluctuations yield a net gain to speculators as a whole.

Damage to Investors Should be Avoided

It follows from this analysis that a Government should regulate its actions so as to damage the interests of genuine investors as little as possible. Granted that the tax changes are necessary in the first place, it is essential that they be kept a complete secret until announced; that Finance Ministers refrain from threatening tax increases generally, unless it is obvious these are going to be needed; that frequent Budgets are avoided; and that the general size of the tax burden is not so great as permanently to damage the confidence of investors. In India, the tendency during the past three years or so has been to ignore these rules, and the result can now be seen in share prices which are low compared with their yield basis, a general absence of investor support, and in the extreme difficulty which all but the most prosperous and oldest-established companies experience when trying to raise equity capital.

The only way of avoiding this difficulty is for the Government to cultivate a regard for the interests of investors. This should not be difficult when it is realised how important is the part they play in economic development. For the Indian Government, it is necessary only to review the difficulties which various essential, though not spectacular, industries such as coal, tea or cotton textiles, have when trying to raise fresh capital, to understand how indispensable investors are. It has only to follow the growth in the economically-wasteful habit of auto-financing to appreciate how industries can be twisted into inefficient and inflexible shapes because investors have no interest in their fortunes. It is no remedy to strike against the speculator in the hope the investor will be consoled for his losses. For one thing the dividing line between the two is almost impossible to draw. For another, speculators will thrive in any market, however closely regulated, providing its price fluctuations are large enough. This is one point which may by now have been grasped in New Delhi, as the growth of futures markets in this country shows.

Effects of Different Taxes

The manner in which taxes affect share prices depends chiefly on the taxes. So does the extent of the impact. An increase in the general level of personal income-tax will react in two ways. It will leave individuals with less money to spend on everything, including shares, and it will make current yields less attractive by comparison with the risk involved. The result will be a fall in share prices in face of the drop in demand, and a need to increase the yields. An increase in corporate taxes, by reducing the resources available to institutional investors, can have exactly the same effect. Other direct taxes, such as surtax, expenditure tax, capital gains tax and wealth tax, all act roughly in the same way, the intensity depending on how much each investing group loses or gains, because, of course, all these analyses can be applied in reverse.

Increased indirect taxes also operate by reducing the amount of money an individual or institution has to spare for the purchase of shares. On the industry which makes the particular product taxed, the immediate effect will be to reduce future profits and the ability to pay dividends. The prices of its shares will go down. The shares of competing industries may, of course, go up, but the general effect will be to depress prices. Excise duties and local sales taxes are the kind of things which act in this way.

It is possible then to divide taxes into three rough groups, provided it is understood that there is a great deal of overlapping. These are: first, those taxes which act on individuals or institutions so as to leave them with less money to spend on shares or the products of industry; second, those which act on companies and reduce their attractiveness as profit earners whether now or in the future; and third, those which increase the price of things and damage the sales and earning potential of various companies. In the first category would be included such impositions as income-tax and surtax, corporate taxes, excess dividend taxes, expenditure and wealth taxes, estate duties, sales taxes and excise duties. In the second would be corporate taxes, excess dividend taxes and wealth tax, where it is applicable to companies. The third category would include excise duties, sales taxes and, of course, export duties. There is a possible fourth category for taxes whose chief effect is to detract from the value of the shares themselves; capital gains and bonus-share taxes would be grouped in this.

Advice to Genuine Investors

The main thing to notice about these various categories is that none of them is really exclusive. A tax can be included in more than one group, in fact most of them are. The conclusion is that the effect of taxation on the stock market is infinitely complexed, and this is in fact true. To all the points made so far, it is possible to find exceptions. For instance, it need not be true that a Budget which includes a wide range of new taxes will depress the general level of the share market in the long run. If it raises resources from low-productivity, unprogressive industries in order to spend them on, say, a development programme which will stimulate high-productivity construction industries and improve the tone of the economy generally, it might well increase the general level of prices. It is clear, therefore, that although generalisations are possible, an infinite number of exceptions must be admitted. It is up to every investor to make his own decisions from the mass of information at his disposal, much of which is probably conflicting. It is this feature of the investment process which makes it so difficult to distinguish between a genuine investor and a speculator. The opinion which seems to be held in Government circles that it is only speculators who bother about capital fluctuations and therefore suffer when new taxes are imposed, is hopelessly wrong. If an investor does not consider the future prospects of his share holding, he is not being fair to himself. If he refuses to sell when the market slumps, he may find himself holding a piece of paper which, should he need sell it before recovery takes place, will bring him only a fraction of what he gave for it; the idea that all investors can hang on to their holdings indefinitely is a fallacy peculiar to the least initiated type of civil servant. Perhaps the only features which distinguish a speculator from a normal cautious investor are the speed with which he operates and the habit of buying or selling forward. All other decisions are likely to be common to them both.

Capital Levies Reduce Investible Funds

A review of the effect of taxation on stock markets in India requires at least a mention of the peculiar impact of capital gains tax and those two novelties, the wealth and expenditure taxes. These impositions have been put forward as necessary for a "comprehensive" tax system, whatever that question-begging term may mean. No matter what the social convenience, the economic effect is to make share buying, for the vast majority of the class which usually looks to this kind of investment, almost completely unremunerative. The tax on capital gains automatically cuts down the attractiveness of growth possibilities. The levy on wealth leaves less money for share buying and puts a premium on holding money in less accountable forms. The expenditure tax reduces the income available for buying anything, including shares. The combined result is that if an investor decides to buy shares with that portion of his income which he has left after paying his income-tax, surtax, wealth tax, expenditure tax and the excise duties on the goods he needs to maintain his standard of living, he will be taxed on his income from the yield if any, he wil have to forfeit a proportion of any capital appreciation, and the value of the shares will be added to his wealth each year so that he will have to pay tax on that. If he gives up in disgust, realises the shares and spends the money, he will then be liable to a tax on his expenditure. There is little point in calculating what rate of return on a share would be necessary before a person in this position is tempted to buy, because such people are disappearing from the market as fast as they can. Only a rapidly developing economy, or one suffering from galloping inflation, could support booming stock markets with taxes such as these. That is why so many high-yielding attractive shares are available on Indian stock markets for purchase by such institutions as the Life Insurance Corporation.

STOCK EXCHANGE AND INTEREST RATES

By C. S. Rangaswami Jr

Editor, *Indian Finance*

Interest Rates Obscure Impact of Taxes

If the stock exchange can be said to be a barometer that registers changes in the investment weather of a country, it is important to realise that this gauge is as sensitive as quicksilver in its response to the manifold influences that have a bearing upon the prospect before the joint stock companies. Though the influences are known to be many, it has happened of late that the stormy weather which has for some time afflicted the stock exchange has usually been ascribed to one main reason, fiscal policy. There can, of course, be no questioning the fact that, especially since the commencement of the Second Plan, the tax measures instituted by Government have, at the time of their announcement, had a considerable impact upon stock exchange quotations. Indeed, the overwhelming nature of the new taxes levied has tended to obscure all other considerations as far as the stock market is concerned. For example, that which should have been significant in a developing economy, growth prospects, has apparently been lost sight of. Again, and this is what I should like to take up for discussion in this little piece, there is hardly any awareness of the fact that stock exchange yields necessarily form, or at least should form, part of the structure of interest rates as such in the money market. To the extent that there is or should be logic and orderliness in the whole gamut of interest rates, it is inevitable that, apart from any other influences, changes in the primary interest rates should cause a sympathetic action or reaction in the stock exchange yields.

Rise in Share Prices—A Corrective Process

For the purpose of this study, I shall confine myself to the period since the beginning of the Second Plan. The average yield available on debentures in February 1956, that is, on the eve of the Second Plan, was 3.82 per cent. From that level the average yield on debentures went up to a peak of 4.35 per cent in September 1957. It is noteworthy that the rise was gradual. In the four "Budget" months of March 1956, December 1956, May 1957 and March 1958, no significant rise in the yield was discernible.

Similarly, the average yield on preference shares was placed at 5.36 per cent in February 1956, rising steadily thereafter to a peak of 6.18 per cent in May 1957. The yield on variable dividend industrial securities rose from 5.26 per cent in February 1956 to 7.26 per cent in January 1958. The yield on the 3 per cent 1970-75 loan rose from 4.04 per cent in February 1956 to a high of 4.49 per cent in January 1958. Since the months last mentioned, the respective yields, as the table published below shows, have come down.

Yield on	1956 February	Peak	1958 July
Debentures	3.82	4.35	4.25
Preference Shares	5.36	6.18	5.98
Variable Dividend Industrial Securities	5.26	7.26	6.52
3% 1970-75 Loan	4.04	4.49	4.32

Undoubtedly, it is an improvement in prices which, during the past few months, has contributed to the decline in yields. But there is, I suggest, another explanation. That is, the yields had to go down because of a decline in the other money market rates. In other words, the rise in prices as has occurred was in the nature of a corrective or adjustment in relation to other interest rates.

Link Between Interest Rates and Share Yields

Thus, the gradualness in the rise in the yield pattern was clearly not due solely to a reaction in stock exchange prices consequent to fiscal measures. For, if the fiscal measures were wholly or mainly responsible, the magnitude of the rise in yields would have been considerable in the so-called Budget months; and, secondly, the gradualness of the rise would indicate that the trend was in response to some other factor, to, as I shall try to show, the movement of interest rates in the money market sphere.

As far as the primary interest rate is concerned, only one change has occurred, with the raising of Bank Rate in May 1957 to a level of 4 per cent. However, we must remember that a de facto increase in Bank Rate had already taken place in February of that year, when the Reserve Bank's lending rate against Government securities was put up to 4 per cent and when the effective rate at which Scheduled Banks could secure accommodation against usance bills was slightly over 4 per cent. It may be recalled that, during 1956, and up to about the middle of 1957, the money market witnessed stringent conditions. The inter-bank call money rate was placed at 3 per cent in Bombay in February 1956. In June 1957, the relevant rate in Bombay ranged between 3.7-16 per cent and 4.3-4 per cent. Similarly, call money from the public, figures for which are available only as from December 1956, rose from between 3 per cent and 4.1-16 per cent to a range between

3.3-4 per cent and 4.7-16 per cent in May 1957. Three months' Fixed Deposits in Calcutta commanded 2 per cent in February 1956 and ranged between 3 per cent and 4.1-4 per cent in May 1957. Finally, in Madras, six months' Deposit rates rose from a level of 2 per cent in February 1956 to a range of $2\frac{1}{2}$ per cent to 5 per cent in February 1957.

I trust it is clear that the primary interest rates, that is, in the banking sphere, were inexorably pushed up by the stringency in the money market which persisted until the middle of 1957. In little over a year since that time, and particularly during the last few months, the trend in these primary interest rates has been downward. I suggest that it is no coincidence that the rise in interest rates and the rise in the stock exchange yields should have occurred at the same time, and also that, from about the same period, both interest rates and yields have shown distinct signs of decline. Indeed, we must now see whether there is a distinct link between interest rates and share yields. The following table presents the structure of interest rates as obtaining in February 1956, May 1957 and July 1958.

	Feb. 1956 Per Cent	May 1957 Per Cent	July 1958 Per Cent
Bank Rate	$3\frac{1}{2}$	4	4
Call Money from Banks (Bombay) ..	3	3.7-16 to 4.7-16	$2\frac{1}{4}$ to 4
Call Money from Public (Calcutta) ..	N.A.	2 to $4\frac{1}{4}$	3 to $4\frac{1}{4}$
Three Months' Fixed Deposits (Calcutta)	2	3 to $4\frac{1}{4}$	$1\frac{1}{2}$ to $4\frac{1}{2}$
Six Months' Fixed Deposits (Madras) ..	$2\frac{1}{2}$	2 to $4\frac{1}{4}$	$2\frac{3}{4}$ to $4\frac{1}{2}$
Yields on 3 per cent 1970-75 ..	4.04	4.28	4.32
Yields on Debentures	3.82	4.13	4.25
Yields on Variable Dividend Industrial Securities	5.25	6.51	6.52
Yields on Preference Shares ..	5.36	5.80	5.98

Fiscal Measures Responsible for Depression

The preceding table does not indicate clearly enough the parallel course between interest rates and stock exchange yields. This is, firstly, because there is an element of time lag between changes in the former sphere and sympathetic adjustments in the latter, and, secondly, because fiscal measures have indeed been responsible for a depression in stock exchange prices, so that the yield pattern on them has tended to be high. The inter-relationship between yields is forcibly brought out by what happens when Government announce a new loan. It is always the experience that where a new loan is issued at a higher interest as compared to the yields on Government securities then available, then, the prices of the existing giltedged issues automatically depreciate by the amount necessary to bring the yields thereon into conformity with the yield available on the new loan. Similarly, where a new loan offers a lower yield, the existing issues appreciate in value so that the yields thereon decline to conform with the yield on the new loan. What is true of giltedged may be said to be true generally of the whole structure of interest rate. Thus, when the money market shows signs of stringency, the hardening money rates tend to cause a rise in stock exchange yields as well. Conversely, when the money market is easy, the consequent decline in interest rates would serve to bring about a reduction in the stock exchange yields as well.

Future of Stock Prices

Apart from any other considerations, therefore, the stock markets in the future, with the gradual enlargement of all sectors of the Indian economy, are likely greatly to be influenced by the general structure of interest rates; and, inescapably, that would mean that yield patterns in share quotations will have a discernible relationship with money market rates.

At the same time, we must not forget that the basis for share yields is the dividend that a company is enabled to declare. In that sense, I suggest that we have to take note of the fact that, to the extent that fiscal policy reduces the balance available for distribution, share quotations, by virtue of the yield on a lower rate of dividend, might tend to go down. In other words, fiscal policy, through the amount available for dividend, exerts a subtle influence on the yield pattern. A correction in share prices, owing to the lower rates of dividend, is inescapable. But the overall consideration of share yields forming part of the general structure of interest rates must continue to be basic. Thus, within the framework of this orderly structure of interest rates, share yields will move, but in relation also to changes in the dividend possibly arising from the impact of fiscal measures.

By way of postscript, I would like to add that there is reason to believe that planned disbursements are being reflected in a very considerable accretion to the Deposit resources of Scheduled Banks. This, in turn, would suggest that the funds available for investment in giltedged also tend to be of considerable proportions. In such a situation, with the money market easy and the giltedged market firm, the impact on stock exchange prices cannot be other than pronounced.

STOCK EXCHANGE AND INDUSTRIAL FINANCE

By Atul Sur

Financial Editor, *Hindusthan Standard*

Lack of Proper Appreciation

The role that the Stock Exchange plays in providing finance for industries is not so well understood in this country as it should have been. And even if some people have any understanding of the part played by it in providing long-term finance for industries, very few indeed have any proper appreciation of its role in helping them to get their short-term finance as well. It is the purpose of this paper to give people an understanding of the role that the Stock Exchange plays in providing both long and short term finance for industries.

Nature of Industrial Finance

Now to begin with one must understand the nature of industrial finance. It has to be stated that industries require two distinct types of finance: (1) long-term finance and short-term finance. Each type of finance is required for certain specific purposes. The former is required for the acquisition of the fixed assets of business like land, buildings, plant, machinery, fixtures, furniture etc. Short-term finance, on the other hand, is required for the purchase of raw materials and stores, carrying over of inventory stocks, grant of credit to customers, making of advances to suppliers, payment of wages, salaries and taxes, and financing of other day-to-day needs. Money used for the acquisition of the fixed assets of a business remains locked up for a long time—indeed for ever unless the concern is wound up or a portion of unnecessary capital (either subscribed or borrowed) is refunded. Money required for the other kinds of purposes named above is required for a short period of time. This constitutes more or less the circulating capital of business. Inasmuch as the circulating assets of a business are always in a state of cyclic liquidation or conversion, it becomes possible for a concern to meet much of its operating expenses out of its revenues. But there are at the same time some intermediate fact situations in the cycle (representing four distinct phases e.g., buying, producing, selling on credit, and collecting) in which raw materials have not been used or are in the process of manufacture, or finished goods have not been sold, or receivables have not been collected—and these require to be financed. The finance required for this purpose represents the working capital of a business. The needs for working capital (either regular, seasonal or special) of a business are met partly from the inner resources and partly from other resources represented by loans from managing agents and other parties, advances and overdrafts from banks, discounting of bills, and trade creditors. The needs for long-term finance of a business, on the other hand, are met from the share capital and sometimes (where the business has made some progress) from the debenture capital as well.

Long-term Finance of Industries

The long-term finance of industries is thus secured by issue of stocks, shares and debentures. In the countries of the West there are special institutions and agencies to help the industries in the marketing of their securities. For instance, there are institutions of the type of issue houses in the U.K. and investment banks in the U.S. to help industries in this regard. There, these institutions and agencies in their totality constitute the bedrock of a well-developed capital market to readily assess the demand for long-term capital funds and take immediate steps for meeting the same. The basis of their operation is underwriting. In India, however, there was neither a well-developed capital market, nor institutions, agencies or individuals for underwriting the shares and securities of industrial concerns. It is true that stockbrokers and other individuals have from time to time underwritten the stocks and shares of industrial concerns in this country, but such activities are generally of a sporadic character and in point of time are confined only to the periods of boom on the stock market. But as booms on the stock market happen only once in a blue moon, these activities of the stockbrokers led us nowhere.

What Stock Exchange Did?

In the peculiar situation of India it was the Stock Exchange which had to shoulder the heavy responsibility of marketing the securities of industrial concerns. This is how it happened. It is well known that in the absence of promoters and issue houses in India, the managing agents filled up the gap. It is they who assembled the men, the money, and the materials into a going concern. But the activities of the managing agents were not confined to a single industry. They established industries after industries, and the process required colossal amount of money. But the financial resources of the managing agents were limited. So after establishing an industry and financing the same by themselves taking up the securities, they needed liquidation of same to have fresh finance for starting a new industry. In the Stock Exchange they found a ready mechanism for the shifting of the securities from their own hands to those of the investing public. As Calcutta was the capital of India up to 1911, most of the managing agency houses were concentrated in Calcutta. It was, therefore, through the Calcutta Stock Exchange that the managing agents carried out their process of shifting of the securities from their own hands to those of the investors. In the assessment of the role of the managing agents in developing industries in this country, the service that the Stock Exchange has rendered them in this connection has not been properly documented.

Socially Useful Service

The tremendously important and socially useful service that the Stock Exchange renders to the industries in regard to the shifting of the burden of financing from the shoulders of the managements to those of the investors will be realized from the fact that there is always a conflict of motives between the industries and the investors. Industries require long-term finance with the end in view of locking it up in land, buildings, plant, machinery, materials etc. Investors, on the other hand, have liquidity preference, that is to say, they want to get back the money as and when they would need it. In other words, while the industries require permanent finance, the investors can lend it only for a while, because the money that they lend to the industries comes from their savings (part of the income not spent presently) which are made for future spending over contingencies like daughter's marriage, son's education, building of houses, possible rainy days of life and so forth. It is not merely the individual investors alone who suffer from the "liquidity preference" complex. Institutional investors too have the same motive. Even the Industrial Finance Corporation of India which has been set up with the avowed objective in view of supplying long-term finance to the industries would not help them if the assistance rendered is not secured by the creation of readily marketable securities.

Successful Financing of Industries

Now by providing a market where sellers and buyers can be quickly brought together, and can exchange their shares at fair prices determined by free play of the forces of supply and demand, the Stock Exchange enables the holders of securities to sell them when they need or wish to do so. Indeed if there were no stock exchange the investing public would not have been induced to lend their money either to the industries or to the Governments and the Local bodies. For the successful financing of the myriads of industries which have come into being in this country since the industrial transition of the 1850's, and which account for the production of a large share of the National Income, the Stock Exchange has rendered an incalculable service. The tabular statement appended to this work will show the extent to which the Calcutta Stock Exchange has helped the industries in this direction. The industries in their turn too fully realize the service that they receive from the Stock Exchange. It is indeed in recognition of this service that the undernoted companies applied for enlistment of shares or debentures and were granted dealings on the Calcutta Stock Exchange during the past few months: Hindusthan National Glass, Alkali & Chemical, Kalyanpur Lime and Cement, Assam Silimanite, Hindusthan Lever, Hindusthan Motors, West Coast Paper Mills, Dunbar Mills, Phosphate Company, Philips India, National Rubber Manufacturers, Jay Engineering, Indian Oxygen, Sirpur Paper, Hall and Anderson, McLeod & Company, Mahindra and Mahindra, Standard Vacuum, Indian Cable, Jay Shree Textile, Star Paper, Guest Keen Williams, Bharat Nidhi, Britannia Engineering, Birla Jute, Calcutta Chemicals, Orissa Textiles, Orissa Cement, Burma-Shell, United Flour, Dunlop Rubber, New Central Jute, Jaipur Udyog, Caltex Oil Refining and so forth. The fact that some of these companies were already quoted on the Stock Exchange and applied for and were granted enlistment only in respect of new securities issued by them would show the essential part that the Stock Exchange plays in regard to the new financing of industries. The total value of the securities thus granted enlistment by the Calcutta Stock Exchange during the past few months amounts to about Rs 1.8 crores.

A Market for New Issues Also

The Stock Exchange is generally recognized as a market for old or existing securities. Really it is so. But today it is fast emerging as a market for new securities as well. We have already seen that people do not buy securities if they are not assured of the marketability that is associated with listing on the Stock Exchange. Previously such marketability could be found only in respect of issues which had already their names in the Stock Exchange *Official List*. And usually such issues were the issues of companies already in existence. But today the investors have a statutory guarantee of marketability of the shares subscribed by them. For it is now provided in the Companies Act of 1956 that when it is stated in a prospectus or similar document that application has been or will be made to the Committee of the Stock Exchange for a quotation, amounts paid on application have to be returned and any allotments that have been made shall become void unless the Stock Exchange Committee has granted a quotation within a specified time. This in other words means that today an investor lays out his money in an industrial undertaking with the sure understanding that the shares will either be quoted on the Stock Exchange or he will have his money back. And inasmuch as a statutory obligation has at the same time been also imposed on the Stock Exchange Committee either to grant or to refuse quotation within the next few weeks after the issue of the prospectus, the Stock Exchange today virtually serves as a market for new securities. This provision of the

Companies Act coupled with the tightening of the rules relating to the enlisting of securities under the Securities Contracts Regulation Rules 1957 and searching examination of applications for enlistment by skilled and experienced officers of the Stock Exchange who take into account important matters, as also the adequacy of data furnished, assures to the investors a free market for the enlisted securities and thus infuses confidence in their minds. And once the confidence of the investors gained, the industries find no difficulty in regard to the marketing of their securities through the Stock Exchange.

Easy Marketing of Right Shares

In a more essential way too the Stock Exchange helps the industries to secure long-term capital for expansion and development purposes. This is by way of helping the industries to secure new finance by the marketing of Right shares through the Stock Exchange. If the security is not already quoted on the Stock Exchange, any unsold balance of Right shares always creates a problem for the management. But where the security is listed, and is moderately active, the Right shares issued in favour of existing shareholders can be easily sold to others through the Stock Exchange. The Stock Exchange would absorb the unsold balance of Right shares not taken up by the existing shareholders, through dealings in Renunciation Letters. The extent to which a well organized Stock Exchange is successful in absorbing such selling and keeping the price up in a reasonable alignment with other securities, it performs a valuable function and reduces the cost to the companies of obtaining their new funds.

A Brilliant Record

During the last 14 years the Calcutta Stock Exchange has enabled the listed companies to raise no less than Rs. 54.35

crores by issue of Right shares, which were easily absorbed by the market. The table below will show the number of issues and the nominal value of the Right shares issued by companies officially quoted on the Calcutta Stock Exchange, since 1944:

Year	No of Issues	Total Value of Issues
		Rs
1944	4	1,45,64,400
1945	11	1,43,97,056
1946	25	17,35,49,310
1947	15	4,52,97,268
1948	10	1,74,00,000
1949	1	25,37,500
1950	2	1,85,07,500
1951	4	1,09,02,960
1952	4	1,12,67,340
1953	6	30,00,000
1954	4	43,26,000
1955	20	7,83,10,147
1956	11	5,62,94,860
1957	5	9,31,37,080
Total	122	54,34,91,421

As many of the Right shares are usually issued at a premium the actual money raised by these companies through the Stock Exchange by issue of Right shares was much in excess of their nominal value of Rs 54.34 crores as shown above. In addition to that the listed companies also raised during the period substantial amount of finance by issue of debentures.

Help to Secure Working Capital

Individual businessmen, partnerships and corporations oftentimes secure short-term finance from the banks by providing as collaterals the stocks and shares of companies. If these stocks and shares are non-listed then it becomes well-nigh impossible for them to secure the needed finance from the banks, for dealers in short-term finance as they are the banks would accept only those kinds of securities which are readily realisable and for which proper value is known. Securities which are listed and for which published quotations are readily available make the most satisfactory collateral for such short-term loans taken by the industries to serve the purpose of working capital. Industries are, therefore, particularly appreciative of the usefulness of collateral value of listed securities. In this respect the Stock Exchange indirectly helps the industries to secure working capital from the banks.

The amount of short-term credit that the banks provide will be evident from the following figures relating to the scheduled banks' advances against stocks and shares during the past few months:

1958		To Stockbrokers (In crores of rupees)	To Others	Total
January	..	10.21	64.26	74.47
February	..	10.10	64.00	74.10
March	..	10.36	65.17	75.53
April	..	10.32	64.69	75.01
May	..	10.17	63.64	73.81
June	..	10.66	65.59	76.25
July	..	10.71	65.18	75.89

It will thus be seen from the figures given in the table above that apart from to the stockbrokers, the banks have provided short-term credit to others amounting to on an average Rs 65 crores a month.

NEED FOR MARKET ACTIVITY

Today industries are to secure several hundred crores of rupees of new capital for execution of the development programme assigned to them under the Second Plan. For raising of this finance, activity on the Stock Exchange is essential. For it is to be noted that it is only in periods of active stock market that it becomes easier for the industries to raise new finance on a large scale. This will be evident from the well-known correlationship that exists between the stock market trend and the volume of Right share issues. Periods of activity are, therefore, helpful to the industries in the securing not only of long-term finance, but also of short-term finance because of the fact that an active and rising stock market would enable them to secure a larger amount of working capital from the banks against lodgment of the same quantity of securities.

STOCK EXCHANGE AND INDUSTRIAL DEVELOPMENT

By P. A. Seshan

Financial Editor, *Hindu*

Changing Pattern of Industrial Development

The role of stock exchanges in furthering the industrial development of this country in the first six decades of this century has not been properly recognised. While a closer examination of our industrial history might point to the existence of various powerful factors which have led to the promotion of numerous industries, particularly the export industries in the earlier stages of their growth, since the end of World War I the Indian investor has come into his own. Until the early 'forties it so happened that the broadening of the basis of our industrial structure was brought about through booms on the stock exchanges. The hectic activity in 1919-21, though its great aftermath in the twenties caused many complications, marked the first beginnings of a vigorous period of expansion. But it was only in the thirties, due to the policy of discriminating protection and a better appreciation of industrial development through the extension of corporate activity, that Indian industrialists and investors began to think in terms of developing not only the existing industries but also new ones. In fact, it can even be said that the transaction of business on a large scale in the principal stock markets in 1935-37 led to the promotion of enterprises which are giants in their field today. This phase marked the beginning of the second stage of major expansion of the industrial structure. The third phase came about in the boom years of World War II.

Though it may be claimed that, latterly, there has been more calculated industrial development it has not been possible so far to launch new capital issues on the scale of 1943-47. The importance of the stupendous and spontaneous effort during this period has not been adequately recognised. For, it is difficult to comprehend at this stage what would have happened to the strident progress recorded in the early years of Independence, particularly in 1951-56, if the large sums gathered in the form of new capital and accumulated reserves, in the closing years of World War II, had not been available for erecting entirely new factories, undertaking large expansion programme in the case of established units and proceeding with the modernisation and rehabilitation of worn-out machinery in respect of jute and cotton textile mills.

Role of the Stock Exchanges

It is perhaps necessary to enquire closely into the various causes that brought about the spasmodic but vital development of the various industries over a period and the unconscious filling up of the gaps in the general structure. The psychology of the average investor is inexplicable in many ways especially as in the earlier years there were many imponderable factors. But there is no doubt that the investment habit has spread in many directions through the stock exchanges and that the pioneers have to be warmly congratulated on such auspicious occasions like the Golden Jubilee of the Calcutta Stock Exchange. These occasions should serve as a reminder that the stock exchanges have their proper functions in a dynamic phase of expansion in the country's economy and that, given appropriate policies and robust confidence in the future outlook, the required resources can be found without any great difficulty.

It is the lack of proper appreciation of this important role of the stock exchanges and a correct understanding of the developments in the capital market in the mid-forties that has been partly responsible for the unexpected difficulties that have been experienced at times in the past eight years. Even so, significant progress has been recorded in many directions through the valiant efforts, made by the established companies. During the period of the First Plan the progress recorded was achieved mostly by the utilisation of large sums collected during the boom of 1943-46 and the effective utilisation of available reserves. In the period May, 1943 to September, 1945 consents to new capital issues amounted to as much as Rs. 260.56 crores out of which Rs. 159.62 crores related to the industrial groups. In the period between October 1, 1945 and March 31, 1947 consents amounted to even the substantially higher figures of Rs. 379.96 crores, the share of the industrial group being Rs. 224.87 crores. It had been roughly estimated earlier by me and other important research organisations that a minimum of Rs. 300 crores was gathered by the private industrial sector in respect of new issues mainly during the boom period under reference and that, with borrowings from the statutory corporations, the open market and other sources about Rs. 400 crores were made available which helped to a great extent the development in the first eight years after Independence. Apart from the large number of fresh entrants in the cement, chemical and engineering industries a new entrepreneurial class came into existence and it has been possible to share the burden more equitably between the newly formed and old established companies.

Success of New Issues Due to the Stock Exchanges

It may be asked whether it is correct to form any definite conclusions on the basis of consents to new capital issues by the Central Government especially as no reliable data were available, until recently, to indicate the extent of response to the various propositions when they were actually placed on the market or even to know whether the sponsors persevered at all with their new issues. But any one who has been actually following closely the developments in the stock exchanges, and incidentally the capital market, in the forties, will have no hesitation in admitting that during the boom period of 1944-46 there were large dealings in almost all the new issues at substantial premiums in the markets long before the lists for subscription were actually opened and there was even great difficulty in securing allotment of the required number of shares. Even on the basis of about 90 per cent success, the earlier estimate of Rs. 300 crores as having been gathered mainly in the form of equities would appear to be correct. In making a success of the various new issues during this vital period the stock exchanges played an important part.

It naturally took some time for the stock markets to settle down in the early years of Independence and for the investors to recover from the shock sustained by them on account of the great debacle of 1947-48. It was not expected at any stage during the period of hectic activity that there could be such a catastrophic fall in prices on account of political factors though it was admitted that speculative activity had been overdone and, in the name of cheap money, current yields had been hammered down to ridiculously low levels. But, in the context of large accumulations of sterling balances, rising bank deposits and increasing purchasing power in the urban areas particularly, the boom in stock exchange prices was understandable to a great extent. If the prevailing yields were not attractive to the regular investors they were benefited by the phenomenal capital appreciation.

The disappearance of all gains and even the erosion of capital in 1947-50 had naturally a disheartening effect. The uncertainties regarding Government policies, fears of nationalisation and lack of confidence in the future outlook made Indian capital shy once again. But it was soon recognised that the achievement of Independence opened up new possibilities and that, instead of fitful development, there would be calculated progress. The publication of the estimates of the First Plan and the recognition of the important part that the private sector would occupy in the industrial economy brought forth new enthusiasm.

Stock Market Revival Helped Industries

The history of the past eight years is important in many respects. The revival in stock market activity, in 1954-56 particularly, has enabled the established companies to expand beyond recognition and to gather large sums by issuing additional capital and borrowing from statutory corporations for branching out in various directions. While the position would have been far more happy if new corporate activity had been on a large scale and the strain on established companies could have been lessened, the developments recorded in the past few years could not have been very much bettered as there were many inhibiting factors. While the long-term effect of the crippling taxation proposals of 1956-57 have yet to be judged, there is no doubt that immediately, heavy direct and indirect taxation has led to a diversion of large sums from the private to the public sector. At the same time, the investment climate was considerably spoiled because of the fear that continued heavy taxation might make investment in stock exchange securities unremunerative, not to speak of the risk of capital depreciation involved. With the generation of new incomes and greater industrial activity it can, however, be expected that a new class of investors will emerge and that there can even be a diversion of funds from other forms of investments to industrial securities. That savings do exist in particular directions is borne out also by the enthusiastic response for the offers for sale of shares in companies under foreign management. It has been suggested that bank finance has to a certain extent been responsible for the large oversubscriptions to many of the issues lately made. There might have been also switching over from other securities already held by the various applicants but a closer analysis of the various classes of subscribers to these issues has shown that the smaller investors, many of them new, have shown great interest and that it has been necessary to give preferential allotment to these classes of applicants.

A Happy Feature of Recent Years

Though it might be said that the investment of large sums amounting to over Rs. 10 crores on a modest estimate in this class of securities has not resulted in any furtherance of industrial activity directly, it is a happy feature of recent years that the mainly foreign-owned companies have undertaken large expansion plans and new lines of manufacture have been commenced. There has necessarily been less difficulty in arranging the required sums in foreign exchange for development purposes in many cases as their principals were prepared to provide the required credit facilities or it was possible to fix up other arrangements more easily. The impression, therefore, held in particular quarters that the sale of large parcels of shares relating to foreign owned companies at a premium had resulted in a denial of funds for other purposes is not quite correct.

The leading companies under Indian management in the various industries have at the same time, incurred large capital expenditure and it is happy to note that big-sized issues have been handled with not much of difficulty. It could not have been possibly anticipated in earlier years that one could easily think in terms of large expansion plans which would require outlays involving tens of crores of rupees. Between the. Tata Iron & Steel Company Limited and the Indian Iron & Steel Company Limited alone, capital expenditure of over Rs. 160 crores has been incurred. While it must be admitted that large loans from the World Bank and the Central Government, along with the utilisation of internal reserves as they grew up, have been helpful in finding the bulk of the outlay referred to above, equity capital for sizable sums have been raised for over Rs. 13 crores in the case of TISCO and around Rs. 7 crores in the case of IISCO. The new shares were issued at a premium of 40 per cent and 35 per cent respectively. Likewise, the Associated Cement Companies Limited, asked from the existing shareholders about Rs. 7.5 crores, in this case the shares being offered at a premium of 20 per cent. Hindustan Motors issued convertible redeemable preferences for Rs. 5 crores while many other units like Alkali and Chemical, Rohtas Industries, Indian Aluminium, Dunlop Rubber etc, raised equity capital, also at varying rates of premia. Indian Aluminium came out also with a large offer of convertible loan stock.

The method of raising capital naturally varied with the conditions that obtained in the stock and capital markets at the time the various issues were offered and also having regard to the financial position and prospects relating to earnings of the companies concerned. Thus, in the early stages a cautious beginning was made with the issue of debentures on an attractive basis. Later on, as market conditions improved, it was found possible to raise fairly large sums in tax-free cumulative preference shares and equity shares at a modest premium. But whatever the form of capital raised the task of the companies concerned was greatly facilitated by the more active conditions in the principal stock markets in this country in 1954-56.

Firmer Stock Market & New Capital Issues

It is in this context precisely that the relationship between a larger volume of new capital issues and firmer stock market values has to be recognised. Though it may not be strictly correct to effect a comparison between changes in the amounts for which consents have been given by the Controller of Capital Issues, in the light of the observations made earlier and the later attempts to collect more reliable data, it can be said that there is a definite relationship between the two. This will be borne out clearly by the chart given below. The bars provide an indication of the amounts sanctioned by the Central Government in respect of new capital issues in the various periods (1943-58) while the graph represents the fluctuations in the indices for Variable Dividend Yielding Securities. The necessary adjustments have been made in respect of the Index series having their bases as 1927-28=100 and 1938=100.

The chart will clearly show that the amounts have been much larger in periods of brisk activity on the stock exchanges. The amounts given exclude bonus shares and sums expected by way of foreign participation. There is one vital difference between the earlier and later efforts. The large sums gathered in the earlier years were mostly on account of entirely new flotations while in recent years the amounts secured have been mainly in respect of established companies, the placing of shares on the Indian market by those interested in foreign-owned companies and the large sums raised in connection with the oil refineries. If in respect of 1956-57 and 1957-58 there is an apparent divergence in the trend it is due to the fact that Government-owned companies dominated the picture. In fact, in respect of 1955-56, 1956-57 and 1957-58 the authorised capital relating to State undertakings are shown at Rs. 31.40 crores, Rs. 119.92 crores and Rs. 8.70 crores respectively. In the three years 1955, 1956 and 1957 the

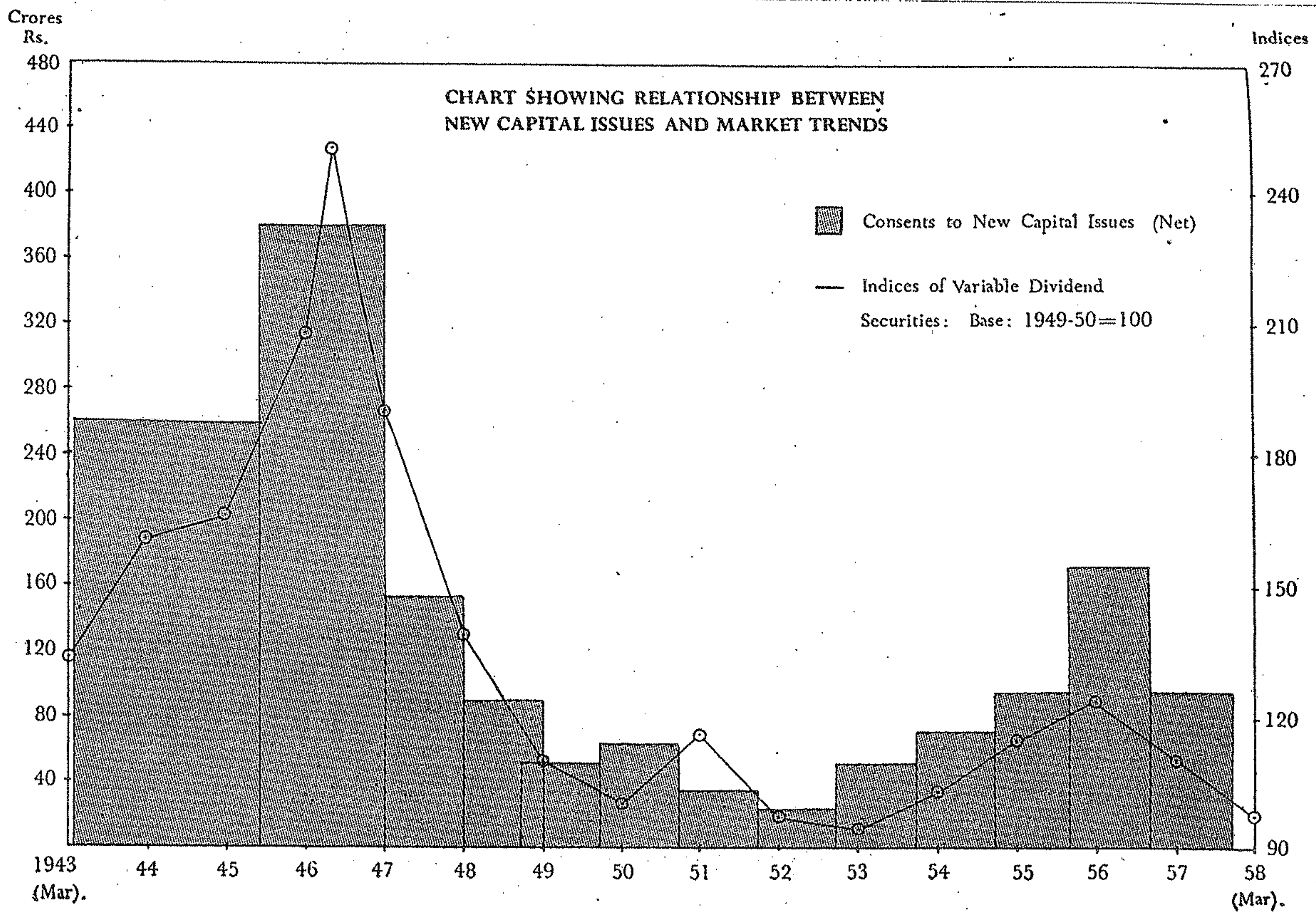
CHART SHOWING RELATIONSHIP BETWEEN
NEW CAPITAL ISSUES AND MARKET TRENDS
Consents to New Capital Issues (Net)
Indices of Variable Dividend
Securities: Base: 1949-50=100
Crores
Rs.
480
440
400
360
320
280
240
200
160
120
80
40
Indices
270
240
210
180
150
120
90
1943
(Mar).
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
(Mar).

amounts of consents pertaining to all applications accepted were Rs. 153.32 crores, Rs. 230.15 crores and Rs. 125.39 crores respectively. It will thus be seen that fresh capital asked for and raised after September 1956 and till March this year has not been appreciable.

It is needless to say that the remarkable expansion programmes undertaken by the various giants in the respective industries has been greatly helpful in broadening the basis of the industrial structure and helping the displacement of import. This in turn enabled savings in foreign exchange which could be utilised for purposes of imported capital goods or other badly needed items from abroad.

Success of the Issues Due to Stock Exchanges

The part played by the stock exchanges in making a success of the various issues cannot be exaggerated. While no doubt the existing shareholders were asked to put up the required funds some difficulty was nevertheless felt and large sales of rights to the various issues were reported. In a good number of instances, the reactions to the announcements of large issues of capital were not quite favourable and the consequent transfers in holdings had to be effected through the medium of stock exchanges. In retrospect, subscriptions to the new issues have been worth while. A proper appreciation of the future prospects with a visible improvement in the current earnings, have led to a smart recovery of the earlier losses.

It must be said, however, that entirely new flotations on a large scale have been found difficult either on account of the current expectations in regard to yield or fear of heavier taxation in the coming years. A movement such was in evidence in 1944-46 has not taken place so far. There have no doubt been a few large-sized new issues under influential auspices. But it has been necessary for the companies concerned to take the help of the statutory bodies like the

Industrial Finance Corporation and the Industrial Credit and Investment Corporation. This sort of arrangement even in the early stages has not been found easily possible nor thought completely desirable. In many a case fears have been entertained about the difficulty in arranging for the repayment of the stipulated instalments. As a result most of the development in recent years has been carried out by the existing companies. The noteworthy expansion that has taken place in the cement, chemical, rayon, iron and steel and engineering is mostly due to the existing companies.

Making the Best use of the Stock Exchange

It has also happened that new types of activity have had to be undertaken by the leading companies themselves. These have been helpful in meeting the requirements of sister companies in the same groups. It has been found advantageous to start entirely new departments on account of the facility for raising the required capital more easily. It has also been suggested that the rigorous provisions of the amended Companies Act and the restrictions regarding the number of companies under managing agencies have encouraged this trend. While it may be true that this procedure has removed the main difficulty in raising capital for entirely new undertakings more widespread management has not been enabled. From the short period angle the progress achieved in the private sector in 1946-58 can be considered gratifying in every sense. But in view of the fact that there will have to be continuous activity on an increasing scale for a considerable time ahead it is of the utmost importance to make the best use of the machinery provided by the stock exchanges. Only if there are more companies under entirely new auspices, while the existing units continue to grow, the necessary entrepreneurial skill will be created and increasing dynamism can be imparted to the economy.

Need for Confidence in Future

It will not be difficult at all to gather the required sums for development purposes if a favourable climate can be created. It has been amply borne out by the developments in the past few months that confidence in the future outlook more than any other factor is necessary for greater activity in the stock exchanges. The more realistic attitude shown by the Central and State Governments recently in regard to the problems concerning the various industries has induced a mood of sober optimism. With greater funds at the disposal of the organised credit structure and a better disposition on the part of the investing public to place their funds in industrial securities, the new issue market has once again shown signs of revival. Many units have come or are coming on the market with new propositions. There are a number of proposals in the offing for raising large sums in the form of equities, preference shares or debentures as the case may be. Such of those companies as have already raised large sums in equities have thought in terms of raising debenture or preference capital.

With the prospect of even more ambitious planning in the years ahead the need for utilisation of available resources for further intensifying corporate activity, through the help of the various stock exchange associations cannot be overemphasised.

STOCK EXCHANGE:

ITS FUTURE

BY GEORGE CARVELHO

EDITOR, PLACE, SIDDONS & GOUGH'S *Share Market Report*

IS FUTURE UNCERTAIN ?

THE claim that stock exchanges in India will, in all probability, be called upon to play a far more important part in the economic development of the country, in the years that lie ahead, than at any time in the past, may appear, on the face of it, untenable. Unfortunately, in its origin and evolution, the stock exchange has come to be inseparably associated, in popular thinking, with the economic system known as capitalism. With a government in power, which is pledged to the realization of a socialistic pattern of society, it is inevitable that, capitalism, as we have known it in the past, should decline and, with it, the institution of the stock exchange, which has been described as its citadel. On this view, the future of stock exchanges in this country would appear to be uncertain.

NO DIRE FATE IN STORE

There are sound reasons to believe that no such dire fate lies in store for Indian stock exchanges, except in the very unlikely contingency of the whole country going Communist. Ruling out this possibility, it is virtually certain that, while the assault on inequality of wealth, income and opportunity will continue, there will remain a private sector, which will extend over large parts of industry and commerce. The right of individuals to acquire and own capital will continue. And, as economic development proceeds, the scope for acquisition and ownership of capital by private individuals, is bound to grow, and with it, the opportunity for the stock exchange to render, on a vastly greater scale than it has done hitherto, the services of stimulating private saving and channelling such savings into productive investment. These are services which the stock exchange alone can render efficiently. It is no exaggeration to say that in a modern industrialist society, which recognizes the right of private ownership of capital, stock exchanges are not simply a convenience, they are essential. Soviet Russia on the one side and say, Basutoland on the other, may be able to get along without stock exchanges, but India is going to need them more than ever.

Extraordinary Ignorance

There is an extraordinary amount of ignorance, and of prejudice born of ignorance, with regard to the nature and functions of stock exchanges. Essentially, they are markets which exist to facilitate the purchase and sale of securities and shares—the securities or bonds issued by the Government, in the course of its borrowing operations, and the shares of joint stock Companies. The principal service which a stock exchange renders, is to provide liquidity of investments. Because of the existence of an organised, active market for securities and shares, security holders and shareholders are able to sell their holdings, at the prevailing market quotations or near about, whenever they desire. They can turn their holdings into cash, should they so desire, or switch from the shares of one company to those of another, about whose prospects they take a more favourable view. And savers, with money to invest, can choose, out of the entire list, the ones that appeal to them most. There are giltedged securities for those investors, individual and institutional, who seek, above all, security of yield and stability of capital value, debentures and preference shares, for those who desire a slightly higher return than that obtainable on gilt-edged, but are still chary of taking risks, and equities for those who are willing to bear greater risks, for the chance of higher return and appreciation of capital value of their holdings.

A Barometer of Values

Investors, both actual and potential, are provided, through the daily stock exchange price quotations, with an up-to-the-minute appraisal of the present worth of their holdings, in the light of all the influences that affect the position and prospects of the companies in question. Admittedly, these prices are sometimes distorted by excessive speculation but, by and large, they provide a continuous assessment of the current value of assets, not available to those who invest in houses or land or other assets, not traded on the stock exchange. It is evident that the ready liquidity and constant evaluation of assets, together with the wide range of available investments, act as a powerful inducement to save and invest and draws the savings of the community into those channels, which are expected to be most productive. It would be difficult to find a more effective method of doing this. In addition, the overall trend of prices and volume of business on the stock exchange serve as an economic barometer which faithfully registers the changing currents of opinion about the investment outlook. Even allowing for the aberrations of speculation, this mirror of the investment scene (to vary the metaphor) is one that neither economists nor business men nor the government, charged with the formulation of economic policy, can afford to ignore. Finally, though the stock exchange deals only in old securities, that is, in already existing bonds and in shares of existing companies, its role in capital formation is vital. New issues would stand little chance of attracting savings, but for the knowledge that the shares would be admitted to the stock exchange list and would therefore derive the advantages of liquidity and continuous evaluation. This applies not only to the formation of capital in the private sector, but also to the borrowing activity of the government. It is often overlooked by critics of the stock exchange, that government securities constitute a very important part of stock market dealings. Without the facility of liquidity, the Government would find it difficult to induce individuals and institutions to hold its bonds.

Controlled Speculation Necessary

Even speculators, as distinct from investors, are not altogether pernicious and, subject to proper restriction, have a useful function to perform. If stock market operations were confined to genuine investors, the volume of transactions would be much too small to ensure ready liquidity and daily price quotations, which constitute its greatest advantage. So the facilities that make speculative gambling possible, such as forward dealings, fortnightly settlements and even option dealings (the last of these being illegal in India under the Securities Contracts (Regulation) Act 1956), may be regarded as beneficial and even necessary, provided there is sufficiently strict control, to ensure that the speculation does not get out of hand.

Need for Adaptation

Adaptation to a changing environment is an essential part of the biological process of survival and evolution. Indian stock exchanges originated and grew to maturity, in circumstances very different from those that exist today. Current trends towards reduction of economic inequality are bound to become stronger in course of time. Before independence, zamindars and ruling princes were the principal sources of investible funds that sustained the stock exchanges, though even then, the savings of the middle classes were an important element, along with the funds of private life insurance companies. Today the picture is very different. The zamindars and ruling princes have withdrawn from the investment scene, and the middle classes are in sore straits as a result of heavy taxation and prolonged inflation. As wealth and income become more equally distributed, it is to the little man that industry will have to turn increasingly, for the savings, out of which alone capital can be formed. Even now, the average shareholder does not, by any means, correspond to the conventional picture of a capitalist. Mr. J. R. D. Tata revealed, at the annual meeting of the Tata Iron and Steel Company in August 1957 that nearly half the shareholders of the Company had holdings of less than Rs. 1000 each, while the holdings of about 87 per cent amounted to less than Rs. 5000 each. According to Mr. E. D. Sheppard of Killick Industries, the ratio of shareholders to labourers in industry is surprisingly large, one shareholder to one labourer in steel, one shareholder to one labourer in cement, one shareholder to two labourers in textiles and no less than ten shareholders to one labourer in electricity.

Reaching Down To The Masses

As the country moves towards the socialistic pattern of society, this tendency is certain to be strengthened. The task facing the stock exchanges is to devise the means to reach down to the masses, to draw the savings of the man in the street into productive investment, to create conditions in which many millions of little investors in cities, towns and villages, will find it possible to make use of the facilities, which have, so far, been limited to the privileged few. This calls for far-reaching changes, institutional as well as operational. The Golden Jubilee celebrations of the Calcutta Stock Exchange would appear an appropriate occasion for serious thought to be devoted to these problems. The stock exchanges in India have an important role to play in the building of a real shareholders' democracy in this country.

APPENDICES

An Agreement to Hire 9 New China Bazar Street in 1905

The undersigned jointly being desirous of securing a meeting place for their business hereby agree to pay through Babu Prosad Das Boral their Hony. Treasurer to Messrs. Prosad Das Boral & Bros. the monthly sum of Rs. Sixty only from 1st December next for the exclusive use by them of the large centre room on the upper floor of the premises No. 9, New China Bazar and to share in the general use of the compound and outhouses.

Place Siddons & Gough	Brojendra Lall Dey
Windram & Co	Kristo Lall Dhur
Prosad Das Boral & Bros.	Sewnarain Maheswari
Deepchand	Radha Chandra Kabra
W. R. Collins	Mohanlal Prabhashankar
D. N. Sen & Sons	D. A. Gubbay
A. O. Cohen	Narsing Bros.
Mohendra Nauth Roy & Sons	M. L. Seal
Babulal Gangaprosad Soonee	Toolsey Dass Roy & Bros.
Mugneeram Bangur	Priya Nath Bose
P. D. Burral	Buldeodass Basantlall
Sham Lall Laha	Hazarimull Juggonpurshad
S. B. Dey	Moolji Premji
N. L. Roy	Charu Chandra Mitter
B. Mitra	Lolith Mohan Dutta
Mohendra Nath Dutt	Anderson & Sons
G. D. Mullick	A. Siddons

Landmarks in the History of the Association

1908 Association is founded.
1913 Strength of Committee increased to 11.
1918 Strength of Committee increased to 12.
1921 Strength of Committee increased to 14.
1923 Association is registered as a limited liability company.
1923 Association prints its Official Quotation List.
1926 Association takes lease of 7 Lyons Range.
1927 Association starts building its premises.
1928 Association moves into its new building—formally opened by Sir Stanley Jackson, Governor of Bengal.
1931 First Indian President elected.
1932 First Indian Secretary elected.
1933 Association purchases the land at 7 Lyons Range—previously held on lease.
1936 Association decides to start an Official Year Book.
1939 Strength of Committee increased to 16.
1940 Association remains closed between May 21 and July 2.
1942 Association fixes minimum prices of shares.
1943 Association runs a Langarkhana to feed the destitutes.
1944 Clearing system introduced.
1946 System of delivery by share warrants for scrips introduced.
1946 President appointed a Special Officer to arbitrate in disputes.
1946 Association creates the office of a Vice-President.
1946 Association starts a department for exchange of memos.
1957 Association gets a licence from the Central Government under Securities Contracts (Regulation) Act.
1957 Strength of Committee increased to 18 to provide rooms for two Government nominees.
1958 Association celebrates its Golden Jubilee.

Committee of the Association in 1908

Mr. F. L. B. Siddons (*President*).
Mr. T. B. G. Overend (*Offg. President*).
Babu Buldeodass.
Mr. G. Ward.
Mr. D: A. Gubbay.
Mr. Shamlal Laha.
Babu Sewduttroy.
Babu Ramprosad Sonee.
Mr. Guy Shorrock (*Hony. Secretary*).

Committee of the Association in 1923

Mr. C. A. Jones (*President*).
Mr. H. B. Turle (*Offg. President*).
Mr. W. P. O'Cock.
Mr. A. R. Gubbay
Mr. A. Hope Stewart.
Mr. Girindra Nath Roy.
Mr. Goralall Seal.
Mr. Nanda Lall Roy.
Mr. Sakshi Gopal Boral.
Babu Ramdev Chokhani.
Babu Sugan Chand Bagree.
Babu Kedarnath Khandelwal.
Babu Chunder Coomar Ugruwal.
Mr. C. H. Heape (*Hony. Secretary*).

Committee of the Association in 1958

Mr. B. N. Chaturvedi (*President*).
Mr. Chiranjilal Jhunjhunwala (*Vice-President*).
Mr. J. L. Esplen.
Mr. A. E. Sopher.
Mr. Eric Gregory.
Mr. G. C. Fletcher.
Mr. Abani Ganguly.
Mr. Bhabani Charan Seal.
Mr. H. L. Somany.
Mr. Narsingdas Bangur.
Mr. Haran Chandra Chatterjee.
Mr. H. P. Dhanuka.
Mr. Chhotelal Haridas.
Mr. Chandalal Khandelwal.
Mr. A. V. Seth.
Mr. M. L. Pyne.
Mr. D. D. Pai (*Government nominee*).
Mr. P. S. Nadkarni (*Government nominee*).

Office-bearers of the Calcutta Stock Exchange Association Limited

Presidents

1923 C. A. Jones.
1923 H. B. Turle (Offg.).
1924 C. A. Jones (held office till 1927).
1928 H. B. Turle.
1929 G. C. Montgomery.
1930 J. R. Coulthard.
1931 Kedarnath Khandelwal (held office till 1934).
1935 G. C. Montgomery.
1936 Kedarnath Khandelwal (held office till 1937).
1938 W. R. Elliot.
1939 J. M. Dutt (held office till 1942).
1943 B. N. Chaturvedi (present incumbent).

Vice-President

1946 Chiranjilal Jhunjhunwala (present incumbent).

Secretaries

1923 C. H. Heape.
1924 J. P. F. Quirke (held office till 1925).
1926 T. Milne Chapman.
1927 J. P. F. Quirke (held office till 1930).
1931 R. G. MacInnes.
1932 Satya Ranjan Mitra (held office till 1935).
1935 D. Chakravirty (present incumbent).*

* First salaried Secretary.

Treasurers and Joint Treasurers

1923 Rameswar Nathany (held office till 1929).
1930 Rameswar Nathany and Sagarmull Nathany (till 1931).
1932 Rameswar Nathany and Goralall Seal (held office till 1934).
1935 Mahaliram Sonthalia and Goralall Seal (till 1936).
1937 Mahaliram Sonthalia, Goralall Seal and B. N. Chaturvedi (in place of Goralall Seal).
1938 Sagarmull Nathany and B. N. Chaturvedi.
1940 Kedarnath Poddar, Kedarnath Khandelwal and Shambhunath Dutt (till 1943).
1944 Kedarnath Poddar, Kedarnath Khandelwal, Shambhunath Dutt and Ram Mohan Seal (till 1945).
1946 Kedarnath Poddar, Mahaliram Sonthalia, Ram Mohan Seal and Haran Chandra Chatterjee.
1947 Kedarnath Poddar, Sagarmull Nathany, Ram Mohan Seal and Haran Chandra Chatterjee.
1948 Ram Mohan Seal, Haran Chandra Chatterjee and Sagarmull Nathany.
1949 Ram Mohan Seal, Kedarnath Poddar and Kedarnath Khandelwal (till 1951).
1952 Ram Mohan Seal, Kedarnath Poddar, Eric Gregory, and Haran Chandra Chatterjee.
1953 Ram Mohan Seal, Eric Gregory, Chandalal Khandelwal and Haran Chandra Chatterjee (till 1956).
1957 Chiranjilal Jhunjhunwala, C. L. Khandelwal, Haran Chandra Chatterjee and Eric Gregory.

Growth of Membership of the Association

Year	*No. of Firms*	*No. of Personnel*
1923	210	437
1924	200	427
1925	208	440
1926	204	443
1927	208	457
1928	213	491
1929	212	512
1930	213	521
1931	204	502
1932	202	505
1933	208	534
1934	215	608
1935	215	637
1936	215	635
1937	217	662
1938	223	679
1939	223	687
1940	222	714
1941	225	717
1942	225	721
1943	232	721
1944	250	877
1945	250	864
1946	263	1,001
1947	267	990
1948	267	964
1949	267	938
1950	268	944
1951	268	969
1952	268	945
1953	269	915
1954	276	933
1955	277	954
1956	277	964
1957	276	942
1958	278	1,006