NEWSLETTER

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ISID FOUNDATION DAY LECTURE

Learning from the Crisis —Is there a Model for Global Banking?

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Jawaharlal Nehru University, New Delhi
May 01, 2009

Prof. C.P. Chandrasekhar, CESP, Jawaharlal Nehru University, delivering the Foundation Day Lecture

May First of every year is celebrated as Foundation Day of the ISID. On previous occasions the Institute organised Foundation Day Lectures by eminent scholars as also seminars and workshops. This year the Foundation Lecture was delivered by Prof. C.P. Chandrasekhar of the Centre for Economic Studies and Planning (CESP), Jawaharlal Nehru University, New Delhi. He spoke on 'Learning from the Crisis—Is there a Model for Global Banking?'

Earlier, Prof. S.K. Goyal, Vice-Chairman, ISID, while presiding over the Lecture briefly recounted the history of bank nationalization in 1969 and his association with the event. The Director of the ISID, Prof. S.R. Hashim, highlighted the important events that have taken place at the Institute in the last one year.

Prof. Chandrasekhar while delivering his lecture highlighted the following points. A noteworthy feature of the evolving financial and economic crisis in the world economy is the belated recognition that the crisis is not restricted just to the mortgage-periphery of the financial system, but afflicts its core: the banking sector. It has also become clear that the banking crisis cannot be resolved without the infusion of capital in magnitudes and forms that would amount to nationalizing banking. An analysis of the factors that led to this outcome suggest that its roots lay in the deregulation that was necessitated by the contradiction inherent in structurally regulating a privately owned banking system in order to ensure its stability. Glass-Steagall-type regulation implies profit levels that are not adequate compensation for private owners. Deregulation becomes inevitable. And deregulation in turn triggers processes that deliver a crisis which necessitates nationalization. The implications for developing countries are clear. They should stall and reverse the movement to private from public ownership or opt for public ownership if banking is fully private. This would serve a larger purpose. The regulatory framework that Glass-Steagall represented was created to deal with fragility. But intervention to shape financial structures is needed for another reason *viz.* to use the financial sector as an instrumentality for broad-based and equitable growth. This is particularly required in late industrialising developing countries faced with international inequality and handicapped by an inadequately developed capitalist class. Public ownership would also permit bank profits to settle at low levels so as to direct credit to sectors and groups at rates of interest that are commensurate with the private returns that are low, so as to garner the social returns that are high.

Prof. Chandrasekhar concluded his lecture by saying contemporary developments and historical experience illustrate the positive effects that public ownership can have in varying contexts, and offer it as a key element of a new model for global banking. But this is not to say that this one factor can resolve this crisis, guard against future ones and make finance developmental and inclusive. New governance structures to make public ownership work may be necessary. And the crisis offers other lessons for the kind of regulation we need to shape. What the crisis teaches us is that public ownership of banking is a necessary, if not a sufficient condition for stable, broad-based and inclusive growth.

The ISID Foundation Day Lecture was attended by a number of scholars.

ISID

EVENTS

Workshop on "Are Development Discrepancies Undermining Performance?"

June 02, 2009

The Institute is carrying out a study on 'Aid Salary Discrepancies and Development Worker's Performance' coordinated by Prof. T.S. Papola. This is a part of a bigger project titled "Are Development Discrepancies Undermining Performance" (ADDUP) covering six countries (China, Uganda, Papua New Guinea, Solomon Islands and Malawi being other countries), and being coordinated by Prof. Stuart C. Carr of the Massey University's Poverty Research Group in New Zealand.

This interdisciplinary project examines a range of issues in development work, from pay and conditions to relationships between expatriate and local staff. The main objective of the study is to assess how pay diversity affects people at work in aid projects, development sectors in international organisations, international NGOs, multinational corporations and academic institutions. It attempts to compare international and local compensation systems and explore the extent and impact of pay diversity and put forward various ways to improve the system that would be beneficial for everyone. ADDUP's purpose is to make a constructive contribution towards understanding and managing pay diversity in aid and other capacity development work. The approach uses a stakeholder model—seeking participation from important, key organisations to help complete a meaningful and helpful project on an important issue for employers and employees.

As a part of this study, a survey of about 240 respondents from international organisations, international NGOs, multinational corporations and academic institutions was conducted by Dr Jesim Pais and Dr Partha P. Sahu earlier this year. Preliminary findings of the survey were discussed in a one-day workshop on June 02, 2009 at the institute. Key stakeholders; representatives of UN and other international organisations, embassies and

Prof. T.S. Papola making his opening remarks in the inaugural session of the workshop

Ms Ishbel McWha, Dr Jesim Pais and Prof. Stuart C. Carr making their presentations in the workshop

international NGOs, and subject matter experts participated in the workshop.

The inaugural session of the workshop was chaired by Prof. S.K. Goyal. Prof. T.S. Papola while making his opening remarks to the workshop pointed out that working in international settings often implies that employees receive different levels of pay and benefits for undertaking similar work. Because of labour market conditions, these differences can be especially sharp in economically poorer countries and regions. This has implications for poverty reduction and capacity development work undertaken by international organisations. In the first and second technical sessions, Prof. Stuart C. Carr and Ms Ishbel McWha made presentations on overall objectives of the study. They also shared the experiences of other countries in the study. Dr Jesim Pais and Dr Partha P. Sahu made presentations on the findings from the study in India. This was followed by a group discussion on the steps to be taken at the institutional as well as at the organisational level to reduce pay disparities.

The Politics Of Technological Choice: Origins Of The Pharmaceutical Industry In India

Prof. Nasir Tyabji

June 30, 2009

Prof. Nasir Tyabji made a presentation of the preliminary results of his ongoing study—"The Politics of Technological Choice: Origins of the Pharmaceutical Industry in India" on June 30, 2009.

Prof. Tyabji spoke on 1950s era Government technological choice in the pharmaceutical industry. He raised questions of why, when faced with an offer from the USSR for an integrated pharmaceutical complex also manufacturing dye intermediates, and from the German conglomerate Bayer for a stand alone plant for chemical intermediates, both for drugs and dyes, the Government decided to accept the Bayer proposal.

Requirement of Minimum Public Shareholding in Listed Companies: Why does the Government Want Further Debate?

Prof. K.S. Chalapati Rao
July 20, 2009

Prof. K.S. Chalapati Rao initiated a discussion on "Requirement of Minimum Public Shareholding in Listed Companies: Why does the Government Want Further Debate?" on July 20, 2009.

The discussion was held in the backdrop of the official pronouncements regarding minimum public holding in listed companies, disinvestment in public enterprises (PEs) and the reports in the press that the government would come out with an analysis of the suggestions received in response to the discussion paper "Requirement of Public Holding for Listing" which was released by the Ministry of Finance in January 2008 and seek further comments. It was suggested that the stated objectives of the government and implementation issues were directly related to the definition of public which the Ministry itself raised last year. If public was defined as non-promoter holding, the problem would be essentially restricted to public enterprises as the number of private sector companies affected significantly would be very few. On the other side, if only Indian non-promoter shareholders were treated as public, it would require more careful handling as much larger number of public and private sector companies have to dilute the promoters' holdings and the corresponding value of shares would also be quite large. It was felt that since the decision regarding the extent of disinvestment in PEs rests with the government, there was no need for further public discussion except as a strategy to prevent individual ministries from coming out with very low public offers. Further discussion, if any, should therefore be related to the definition of public. It was also noted that the government's pronouncements regarding sharing the increased wealth created by private enterprise and the ownership of PEs with the Indian public would be served only if the promoters' share was brought down drastically. Such a measure would also strengthen the efforts to improve corporate governance in India.

Further elaboration of this subject appears in this issue under the heading 'Observation' (pp. 6–8).

FACULTY

- Prof. S.R. Hashim was appointed as the Chairman of the Working Group of 67th Round of the National Sample Survey Organisation (NSSO) under the Ministry of Statistics and Programme Implementation. The subject coverage of the NSS 67th round will be Manufacturing, Services and Trade (unincorporated proprietary and partnership) enterprises.
- Prof. S.R. Hashim was invited to the Finance Minister's Pre-Budget (Budget 2009–10) Consultations meeting on June 04, 2009.
- Prof. S.R. Hashim was elected as Member of the Management Council of Pravara Rural Education Society, Pravara Nagar, District Ahmadnagar, Maharashtra.

FORTH COMING EVENTS

- ***Seminar on "Commodity Derivative Markets: Opportunities and Challenges"*** - *October 30, 2009*

  Institute for Studies in Industrial Development (ISID) and Takshashila Academia of Economic Research (TAER), Mumbai are organising a seminar on "Commodity Derivative Markets: Opportunities and Challenges" at ISID, on October 30, 2009 in New Delhi.

  In the wake of global financial meltdown, financial and commodity derivative markets have come under a cloud of suspicion, especially in India. The government of India is seized with the challenges faced in regulating the derivative exchanges to ensure orderly pricing and marketing of commodities. For that purpose, a new legislation for strengthening the government regulation is in the offing. In this backdrop the event assumes importance to all stakeholders.

- ***Symposium on "Land Acquisitions for Development"*** – *November 2009*

  The process of economic development leads to a change in the structure of the economy away from primary agriculture based activities towards industry and services. The transition from agriculture to industry or services not only involves the movement of persons from agriculture and related activities to industrial activities, it also involves an important change in the pattern of land use. Land acquisition for developmental purposes, i.e., for making roads, constructing dams and irrigation canals, establishing manufacturing industries and for urban development has been going on since long, and has also generated debates around the fallouts of such developments for the poor people and for environment. But in the last 5–6 years the debate has not only become more intense but has acquired new dimensions.

  With the introduction of the Land Acquisition (Amendment) Bill, 2007 and the Rehabilitation & Resettlement Bill 2007 by the government, land acquisitions have raised a number of concerns related to fair compensation, valuation of land, definition of 'public purpose' and other issues. To discuss the issues relating to the land acquisition for development and its implications, ISID is organizing a one day symposium in November 2009.

- ***Round Table Conference (RTC) on 'Water, Livelihood and Adaptation to Climate Change'*** – *November 04–05, 2009*

  ISID is the host institution of India Water Partnership (IWP) Programme. IWP on behalf of the Global Water Partnership-South Asia is organising a two-day Round Table Conference "Water, Livelihood and Adaptation to Climate Change" during November 04–05, 2009 at ISID. More than hundred partners and experts from South Asian countries are expected to participate in the conference and share their experiences on issues relating to conservation of water and adaptation to climate change. The deliberations of the conference will help evolving a policy prescription for the region.

- ***Chandra Shekhar Memorial Lecture***

  Shri Mohan Dharia, a close associate of late Sri Chandra Shekhar from the days of the Young Turks, will deliver this year's Chandra Shekhar Memorial Lecture on December 08, 2009.

Projects / Research Studies

- ***Structural Changes, Industry and Employment in the Indian Economy: Macro Economic Implications of the Emerging Trends***—research programme sponsored by ICSSR

  The three year research programme "Structural Changes, Industry and Employment in the Indian Economy: Macro Economic Implications of the Emerging Trends" was approved by the ICSSR after the Committee with Prof. K.L. Krishna as Chairman, Prof. B.N. Goldar, Prof. Pusha Trivedi and Prof. T.C.A. Anant, Member-Secretary visited the Institute and held discussions with the Programme Director and other faculty members. The work on the project has commenced and Prof. T.S. Papola is the Principal coordinator.

  The objective of the research programme is to review and analyse the Indian development experience over the past 50 years with particular focus on the post-reform years. Further, the ongoing structural changes in GDP and employment in the Indian economy raise major questions in respect of the macroeconomic balances, employment and equality. These questions will be examined in the following studies planned under the programme:

  - Growth and structural changes over the past 50 years and, in particular, since 1980's;
  - Employment implications of the structural changes;
  - Growth and structure of industry: Manufacturing, construction and other sub-sectors in the rapid economic growth, employment intensity and export performance and potential;
  - Structure of services sector and its relationship with commodity producing sectors and tradability;
  - Income distribution, demand-supply balances and price stability; and
  - Trade as an instrument of demand supply balances, efficacy of 'export-services import goods' model.

- ***SME Clusters in India: Identifying Areas of Intervention for Inclusive Growth* –** sponsored by Planning Commission

  This project primarily focuses on how promotion of industrial clusters in India can be integrated to the broader goals of 'inclusive growth'. The project critically reviews the small scale industry promotion programmes hitherto undertaken by the government and locates the relevance of cluster approach beyond the traditional dichotomy between large and small scales of operation. It includes field survey of four clusters in two product lines *viz*. footwear and garments and aims to identify the lacunae that exists in cluster development programmes.

  In this connection detailed field survey of two footwear clusters, Kolkata and Agra and two garment clusters, namely Tirupur and Delhi NCR has been completed. These surveys throw light on the causes of successes and failures of clusters producing similar kind of products. Using the case study approach the project aims to capture also the differences in industrial dynamics in the case of ancillaries, industrial estates, techno-poles and traditional manufacturing clusters and propose policies that could help generate a course of industrialization that could meet better the dual needs of employment and efficiency.

- ***Quality in School Education (Phase II): Accreditation Standards for MCD schools for Quality School Governance***

  The study attempts to improve the quality in school education through interventions. The salient features are: selection of 12 MCD schools for the purpose of schools accreditation; awareness workshop; readiness report, documentation of records; auditing, self assessment by the schools, application for certification, assessors' report and compliance reports, and award by accreditation body (QCI).

Presentations / Lectures Delivered

- Prof. Sunanda Sen delivered a Keynote Address on "Global Financial Crisis" at Department of Economics, Calcutta University, May 02, 2009.
- Prof. Sunanda Sen delivered lectures at Centre for Development Studies (CDS), Trivandrum during May 23–25 for the participants of the CDS–UNCTAD Training Programme on "Contemporary Issues in International Trade".
- Prof. S.R. Hashim delivered the Alak Ghosh Memorial Lecture of Bangiya Arthaniti Parishad on "Inequalities in the Pattern of Urban Development", 20 July, 2009.
- Prof. S.R. Hashim delivered two lectures: (i) Rural Urban Divide in Education; and (ii) Reforms in Higher Education, at Pravara Rural Education Society, Pravara Nagar, District Ahmadnagar, July 27, 2009.
- Satyaki Roy delivered two lectures on 'Labour Market Issues: Theory and Evidence' to IES probationers undergoing training at the Institute of Economic Growth, July 31, 2009.
- Mahua Paul delivered a few lectures on "Time Series Analysis" to the Indian Economic Service probationers undergoing training at the Institute of Economic Growth, July 2009.
- Seema Goyal Papola along with a team of experts from the field of communication, facilitated a *National Workshop to Develop Communication Strategy* held in New Delhi on August 29, 2009. This workshop was part of a consultancy for the Indian Clinical Epidemiology Network (IndiaCLEN) to develop a communication strategy for safe injection practices in India for their project titled *Model Injection Centers: An IPEN Study*. A comprehensive media strategy for the Safe Injection campaign was presented and pre-tested among over 100 participants from interdisciplinary fields. An interactive multimedia CD for the presentation was put together by B. Dhanunjai Kumar which also includes a *voxPop* and scratch Television Ads produced in-house by ISID Media Center.

Publications / Papers / Articles

- *Unfreedom and Waged Work: Labour in India's Manufacturing Industry,* by Sunanda Sen, Sage India, 2009.
- "The Global Economic Crisis and Its Impact on Demand Conditions in India", by Surajit Mazumdar, in the *Global Economic Crisis: A People's Perspective*, Alternative Survey Group and Indian Political Economy Association, (New Delhi: Daanish Books), 2009.
- "Losers Are Once Again Who Lost In The Past", by Satyaki Roy in *Global Economic Crisis: A People's Perspective*, Alternative Survey Group and Indian Political Economy Association, Daanish Books, 2009, Delhi.
- "Labour Market Flexibility: An Empirical Inquiry into Neoliberal Propositions", by Atulan Guha, *Economic and Political Weekly*, Vol. XLIV, No. 19, May 2009, pp. 45–52.
- Review of *The Value of Money*, by Prabhat Patnaik, *The Book Review,* Vol. 23, No.5, May 2009, pp. 12–13. Reviewed by Satyaki Roy.
- Review of *High Growth, Rising Inequalities, Worsening Poverty: India's 'Development Experience'*, by Kamal Nayan Kabra, *Mainstream*, Vol. XLVII No. 29, July 2009, pp. 32–34. Reviewed by Satyaki Roy.
- Review of *The Collected Works of A.K. Dasgupta*, by Alaknanda Patel (ed.), in *The Book Review* (forthcoming). Reviewed by Surajit Mazumdar.
- "Assessing China's Compliance with WTO Commitments", by T.P. Bhat, *India Quarterly*, 65(3), July–September 2009.
- "The Nehruvian Paradigm and Capitalist Industrialization in India in Retrospect and Prospect", by Surajit Mazumdar, in *Contemporary Perspectives* (forthcoming).
- "Budget 2009–2010: Fighting shy of mobilizing resources, fighting shy of spending" (Web Publication), by Surajit Mazumdar, in http://www.newsclick.in, July 2009.
- "Beyond the 'State vs Market' Mould" (Web Publication), by Satyaki Roy, in http://www.newsclick.in, August 29, 2009.

Faculty Participation in Seminars / Conferences / Workshops

- T.S. Papola participated in *National Seminar on Thirteenth Finance Commission and the Backward States,* organised by and held at Giri Institute of Development Studies, Lucknow and chaired the valedictory session, July 03–04, 2009.
- T.P. Bhat participated in the Vikram Sarabhai Memorial Lecture – 2009, organised by the Indian Council of Social Science Research and held at ASSOCHAM House, New Delhi, July 20, 2009.
- T.S. Papola participated and chaired a plenary session on "Legislation to improve the Conditions of Informal Sector" in the International Conference on *The Informal Sector in South Asia: Organisational Dynamics, Institutional Determinants, Inter-linkages and Development,* held at the Institute of Economic Growth, New Delhi, July 27–28, 2009.
- Mahua Paul participated in the *International Conference on Informal Sector in South Asia: Organisational Dynamics, Institutional Determinants, Interlinkages and Development*, organised by and held at the Institute of Economic Growth, July 27–28, 2009.
- T.S. Papola chaired the session on "Tackling Concerns of Migrant Workers" in the Workshop on Urban Poverty, organised by Oxfam India, July 29, 2009.
- Surajit Mazumdar participated as a member of the discussion panel at a "Round Table on Business History", organised by the NSRCEL, Indian Institute of Management, Bangalore, August 28, 2009.

Post-Doctoral Research

- Dr (Mrs) P.L. Beena, Lecturer at the Centre for Development Studies (CDS), Trivandrum was granted institutional affiliation by the Institute for Studies Industrial Development (ISID) for pursuing her post doctoral research in "Corporate Sector, Mergers and Amalgamations".

Research Internship Programme

- Two students, Rajiv Katyal and Abhishek Raj, both from Central University, Hyderabad, joined for their summer internships at the ISID in the period May–July 2009. Both worked under the supervision of faculty members at ISID, K.S. Chalapati Rao and Surajit Mazumdar respectively, and produced a project report each. Abhishek's report was on the 'Financing of FDI Companies in India' and Rajiv's on 'Role of Cross-Holdings in the Control Mechanism of the Indian Private Corporate Sector: An Exploratory Study'.

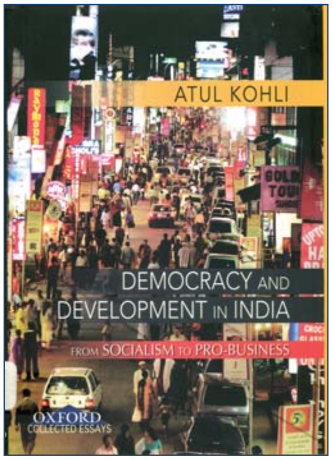
BOOK REVIEW

Democracy and Development in India: From Socialism to pro-Business
Oxford Collected Essays Series

Atul Kohli

Oxford University Press, Delhi 2009, Pp. x+ 447, hb, Rs. 850
Reviewed by ***Nasir Tyabji***

Along with economic history, political economy as an area of academic enquiry, has seen a sharp eclipse in both scholarly interest and visibility. As evidence, it is significant that while Special Reviews on Women Studies, Labour, Industry and Management, and Agriculture continue in *Economic and Political Weekly* (EPW), the Review of Political Economy has fallen by the wayside. Indeed, if political economy's scope is, as was remarked long ago, "not that of production, but of the social relations of people in production", there is little evidence of such research in EPW at all.



This remark is a prelude to welcoming Atul Kohli's book, which strikes a claim to rest its approach to Modern India's development within the political economy framework. The book consists of a collection of essays which are divided into three sections: the first examines what the author refers to as political change, the second to political economy, while the third addresses issues of politics and development in specific Indian states. All the essays have been previously published, and in fairly accessible journals, so the scholarly case for a republication must rest on the perspective that is laid out when the essays are read in continuum.

In this context, it is important to note the dates when the articles were first published. This is because the book aims to track the Indian polity in its transition from regimes of (presumably Nehruvian) socialism to those of the pro-business variety. In actual fact, the four articles dealing with political change were published in 1994, 1997, 1998, and 1990, respectively. The political economy articles appeared in 2006, 2004, 1989, and 1983–84. In the third section, the articles deal with Bihar and Gujarat in 1991, West Bengal in 1983 and 1990, Andhra Pradesh in 1988 and Karnataka in 1982. The purpose of tracking these details is to demonstrate that, whatever the merits of individual articles, they cannot collectively provide any coherent account of the transition posited, from socialism to pro-business.

It should be mentioned that the term "pro-business" is one which, if not coined by Kohli, is his often expressed view of the post 1980s policy regimes in India. In itself, of course, his differentiation of "pro-business" from the more widely used GLP (globalization, liberalization and privatization) could be a useful key to understanding post 1980s policies. For Kohli's major point of departure is that the real change came about in 1980, with Indira Gandhi's return to power and the adoption of a policy which entailed much greater attention to the requirements of Indian big business. He would hold, logically then, that the policies of internal liberalization, and even those of external liberalization were oriented to the interests of Indian big business. However, the problems arise when he uses this framework to explain the post 1991 measures which were openly opposed by the Bombay Club of business people. Kohli argues that these measures of "external liberalization" took place at the behest of, and with the support of a new group of industrialists, largely based in South India, whose further growth depended on export markets and easier access to imported material. He suggests that the sudden growth to prominence of CII, and the relative eclipse of FICCI and ASSOCHAM mirrors these changing concerns of influential sections of big business (p. 168). However, a mere 3 pages further on (p. 171), Kohli cites the presence of CII officials amongst spokespersons of the Bombay Club, concluding that there was, after all, not so much difference between the two groupings of big business. The reader is surely right in feeling aggrieved that a line of argument which makes claims as an analytical advance should so soon fall prey to the logical flow of history. Similarly, Kohli starts off with the heroic statement that market logic would lead to the expectation that capital would flow to areas where capital was scarce, thus reducing interstate disparities, but two pages later the statement is made that the continuing levels of disparities are perhaps due to poor infrastructure in the poorer states. Here the reader would ask, Why start an analytical journey on premises which will be belied so quickly?

All in all, it has to be said that whatever the merits that the essays in this book may have had when initially published, they do not withstand any close reading today. The articles on the politics of different states may have served as contributions to knowledge within the circles of non Indian audiences when they were first published, but they present a tired feeling of *deja vu* when read today. Atul Kohli has written intelligently in the past on industrialization, but this collection of essays does not, unfortunately, add to our knowledge of the India of the 1980s and beyond.

OBSERVATION

Minimum Public Shareholding in Listed Companies Revisited

K.S. Chalapati Rao

Eight years after the Securities and Exchange Board of India (SEBI) sought to insist on certain minimum public shareholding and one and a half years after the Ministry of Finance (MoF) released the discussion paper "Requirement of Public Holding for Listing", a decision is reported to have been taken by the government regarding 25 per cent minimum public shareholding in listed Indian companies (*The Economic Times*, August 21, 2009, and *The Hindu Business Line,* August 27, 2009). The MoF's discussion paper had felt that larger public holding would contribute to greater liquidity in the stock market, help discover the fair prices of shares, lessen scope for share price manipulation and provide an opportunity to the general public to share in the increased wealth generated by the competitive private enterprise and "prevent cornering of the benefits flowing from the policies of the Government and public institutions by a handful of promoters". It also held that "too high a level of public float discourages closely held well-run profit making companies from going public" and the policy challenge was, therefore, to balance the interests of the promoters and of the public. The discussion paper suggested, inter alia, that for a company to be listed and continue to be listed it must have a public stake of 25 per cent with no exemption for Government companies. It also wanted that a view to be taken on whether 'public' should mean 'non-promoters' and include FIs, FIIs, MFs, employees, NRIs/OCBs, private corporate bodies, etc.

According to the press reports, instead of defining the public as only Indian individual shareholders, the view seems to be that public should include all non-promoter holdings; in contrast to the concern expressed by the government about low participation of general Indian public. While the Ministry has once again put up the old discussion paper on its website, it has nothing to say about the feedback that has been received. Even now instead of precise estimates of the number of public and private sector companies that would be affected and the extent of offloading required to be done by the promoters in terms of the number and value of shares, what one merely hears is that a large number of private sector companies would be affected and some leading public sector companies have to dilute the government's equity substantially.

While a decision to ensure certain higher minimum non-promoter shareholding compared to the extremely low 10 per cent which has been allowed in case of large companies is welcome, one wonders why the decision took so long to arrive? For some years now, the Securities and Exchange Board of India (SEBI) has been seized with the problem which arose mainly during the post-1991 period when the minimum public offer was brought down gradually from 60 per cent to only 10 per cent using various arguments. One reason for taking a decision now could be that, in the context of the need to stem the slowdown of the economy, the government wished to remove the uncertainty regarding public shareholding so that private sector companies could go ahead with their plans to raise risk capital in the domestic stock market. However, coming as it does in the wake of the government's renewed emphasis—both in the President's address to Parliament and the budget speech—on disinvestment of its shareholdings in PSUs and the earlier criticism by the left parties that the real motive behind the move was backdoor disinvestment, one might expect the two to be linked.

However, given the choice of the extent of disinvestment remaining with the government, it is difficult to visualise that the process could have anything to do with the minimum public shareholding norm. The only possible linkage could be that the government might be trying to tie its own hands so that individual ministries would not go for nominal disinvestment as was the case earlier. There is another angle to the government's professed intention that the public sector should be owned by the Indian public. Notwithstanding the obvious flaw in this assertion, such wide ownership cannot be achieved with just opening up 25 per cent of the equity to the public defined in such a broad manner. At present the Indian individual investors own a mere 3 per cent of the total market capitalisation (and 14 per cent of the non-promoter-owned market capitalisation) of listed government companies. Assuming that the promoters would offload their shares to meet the minimum 25 per cent public holding norm, additional shares that could be owned by the public would constitute only 2.57 per cent of the total, of which 2.06 per cent would be of government companies.

At the end of June 2009 out of 3,467 listed companies there were 185 private sector companies and 36 public sector companies in which promoters held more than 75 per cent shares. Of these 185 private sector companies as many as 55 were not traded during the current financial year thereby meaning that they hardly existed for the investors, leaving 130 companies which need to do adjustment of varying degrees. Only 25 companies account for Rs. 17,658 crores or 87 per cent of the estimated offloading of Rs. 20,155 crores required by the promoters. Some of the foreign companies among these may indeed delist themselves instead of diluting the promoter's stake. In contrast, the estimated offloading required by the 36 government companies works out to Rs. 1,41,793 crores. Had the definition of public been restricted to Indian individual shareholders unaffiliated to the promoters, the corresponding dimensions would be far greater: Rs. 4,65,922 crore in case of 1,481 private sector companies and Rs. 3,42,092 crore in case of 83 government companies. Obviously, the reported definition skirts the major problem and the main onus would be on the public sector companies save some well-known private sector companies like Reliance Power, Wipro, DLF and a few other IT and infrastructure companies.

A low share by the non-promoters has multiple implications. First, it raises the question of the real meaning of listing on stock exchanges. Obviously, mobilising risk capital for investment cannot be accepted as the dominant objective. What is important in this context is the high premium that the promoters can charge by offering a small proportion of the equity to the public. Understandably, during the new policy regime, premium charged is many times the risk capital raised by them. Second and even more important is the relationship between high controlling stakes and the need to ensure good corporate governance. Even those remotely familiar with how companies function in general and the Indian Companies Act in particular know that many decisions by companies, including the appointment of directors, require simple majority and certain other more critical ones a three-fourths majority. It is an acknowledged fact that participation by non-promoter entities in decision-making either in Annual General Meetings or through postal ballot is quite minimal. In the given circumstances, very often minority stakes would transform into a practical majority and if promoters are allowed to retain super majority shares then there is no question of them facing hurdles in the decision-making process.

There are two main aspects to good corporate governance. The first is outright fraud by the promoters. This is where deterrent rules and regulations and vigilant auditors could be effective. Second and the more important one is the promoters' tendency to unduly benefit themselves at the cost of public shareholders, at times even glaringly. This is where individual judgement is more important and law cannot have much say. And this is where oversight of the board becomes critical but which would be found wanting in case of extremely large promoter holdings. Interestingly, in the discussion on minimum promoter holding, this aspect did not receive much attention.

An important motive of the government could be to increase liquidity and contain volatility by increasing the floating stock. It needs to be underlined that in the absence of any major shift in the ownership pattern of the Indian companies, the current high volatility could be mainly due to international developments. Between mid-July 2007 and mid-July 2008 and mid-July 2008 to mid-July 2009, the proportion of high swing days (BSE Sensex changing by 2.5 per cent or more over the previous trading day) increased from 19 per cent to 36 per cent of the total trading days. Much of the trading being speculative and not delivery based, and thus not related to the extent of public holding, it would be difficult to believe that volatility can be contained by tinkering the shareholding at the margin. It should also be underlined that since the Bombay Stock Exchange (BSE) follows free float method for its indices, companies with high promoter holding would tend to get less weightage. While only four out of the 30 companies comprising Sensex have more than 75 per cent promoter holding, their combined weight in the index is just 7.53 per cent. Among these, TCS needs to make only marginal adjustment—from 75.09 per cent to 75.0 per cent. In any case, the weights are not going to change much for TCS and DLF. Free float factor for Wipro would increase only slightly. The only company where substantial change would occur is the public sector NTPC. Thus, the decision on minimum public shareholding would have little effect on the Sensex.

Yet another dimension to the issue is the control of certain sections of the industry/sectors by a few business families, who do not hesitate to benefit themselves, and the consequential impact on concentration of wealth about which the discussion paper itself had hinted. The drama that is being enacted on the KG Basin gas is a clear pointer to the dangers inherent in relying on family control of business. Given the fact that large business families also use cross-holdings to retain gain/control over the public companies, the chances of their promoting self-interest is even greater. There is no point in worrying about crony-capitalism, after nurturing such an ownership structure.

The reported decision would obviously be an easier option. Twenty five per cent minimum public holding may be a good starting point but it is unlikely to deliver the objectives that the government had expressed. A higher public shareholding like the public offer of 60 per cent as in the past, which the policy makers brought down to 10 per cent in the new regime, could pave the way for greater public participation by whichever definition one goes by and also simultaneously help in better monitoring, meaningful resource mobilisation for investment and may be distribution of wealth among larger number of people. It would also obviate the need to monitor limits for different categories of public shareholders. Attracting more companies to the stock market should not be an objective by itself. If the associated measures on corporate governance are made redundant, it would be as good as handing over full control to promoters and relying on their goodwill. Self-regulation which is the flavour of the day could amount to self-dealing by the promoters. An early action would prevent a major surgery later. Otherwise the whole thing would turn out to be an exercise in futility; outside investors would only be incidental and the main achievement would be making funds available to the promoters cheaply.

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