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GOVERNMENT AND BUSINESS FINANCE

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Democratic Integrity and Financial Molasses: The Business Environment in India

The evolution of national financial regulations in India from the early 1950s, shortly after independence, to 1993, approximately two years into the most far-reaching changes of economic regulations in at least two decades—and perhaps in four—involved the rules governing three external sources for the finance of industry: (1) international financial markets; (2) domestic capital markets; and (3) domestic credit markets. The story of regulatory evolution in India has three themes. First, the industrial policy choices of political leaders drove their preferences in financial regulation. The "industrial plans drive financial rules" refrain is as valid for understanding the dramatic nationalization and "statization" of financial markets that began in the 1950s and reached its peak in the early 1970s as it is for comprehending the comparatively rapid financial liberalization of the 1990s. Second, Indian policymakers, in a quite conscious way, have had multiple, and often conflicting, goals for financial regulation. Political leaders from Jawaharlal Nehru to P. V. Narasimha Rao sought simultaneously to promote economic growth, economic equity, and political democracy.[1] Third, the patterns of Indian financial regulation through the 1980s clearly produced inefficiencies from the standpoint of employing scarce capital in the most profitable of its potential uses. Financial intermediation was slow and viscous—like molasses. However, the redistributive bias in financial regulation probably helped to build loyalty in a newly independent country to what was then an unfamiliar form of government: electoral democracy. Even if we concede this point, prospects for Indian economic growth in the 1990s clearly will be greater as the process of market-oriented financial liberalization continues.

India escaped British colonial rule in 1947, after a long, largely peaceful struggle. The newly independent nation was one of the world's poorest. In fiscal year 1950-51 national income per capita was a mere US$55 (Table 6.1).[2] Achieving overall growth was, therefore, the most pressing economic problem facing the government of Nehru and the Congress Party. Concrete economic policy choices, however, did not simply arise from the nature of "objective" problems. The possible solutions that occurred to India's leaders rather reflected their conceptions of political and economic reality.

Many Indian intellectuals and policymakers, Nehru among them, had formed their understanding of economics by exposure to British Fabian socialism and to the apparent successes of Soviet centralized planning in achieving rapid industrialization in a large and poor country.[3] Dominant leaders at the time of independence favored activist government economic management, believing it to be more efficient than capitalism. By the same token, their understanding of political democracy made Indian politicians suspicious of the motives and behavior of wealthy capitalists. The victorious fighters of the Indian National Congress feared that big business, if left unregulated, would "waste" society's scarce resources of investable capital on the production of profitable but socially useless luxury goods that only the lucky few could afford.[4] Decades later, Indira Gandhi, Nehru's daughter and India's prime minister from 1966 to 1977 and again from 1980 until her assassination in 1984, used populist, antibusiness rhetoric and policies to her electoral advantage; privately owned large commercial banks served as convenient targets.

Consequently, the story of Indian business–government relations from independence through the 1970s was one of increasing government restrictions on private entrepreneurs. In the arena of financial regulation, controls on foreign finance, domestic credit markets, and local capital markets peaked in the mid-1970s. The record of the financial options pursued by large Indian business houses, however, suggests that adherence to the letter, albeit not always to the spirit, of the law nonetheless allowed considerable leeway for private firms to prosper. At the macroeconomic level, the country probably paid a price for democratically mandated controls in terms of lower overall growth than otherwise might have been achieved.

TABLE 6.1

India: Economic Growth, 1950–1991

Time Period	Gross National Product (US$ billions)	GNP per Capita (US$)	Real GNP Growth, Annual Average (%)	Real GNP per Capita Growth, Annual Average (%)	Real National Income (1950–51 = 100)	Real National Income per Capita (1950–51 = 100)
FY 1950–51	$19.6	$55			100.0	100.0
Mean 1950–51 to 1960–61			3.8	1.8		
FY 1960–61	33.9	78			144.9	119.8
Mean 1960–61 to 1970–71			3.4	1.2		
FY 1970–71	57.2	99			203.2	134.9
Mean 1970–71 to 1980–81			3.0	0.7		
FY 1980–81	165.1	243			273.6	144.7
Mean 1980–81 to 1990–91			5.2	3.3		
FY 1990–91	292.6	351			453.6	198.8

Source: Centre for Monitoring the India Economy (CMIE) 1991, "Key Indicators of India's Economic Growth," n.p.

Economic deregulation in various arenas began slowly in the 1980s. The major impetus came from the growing number of economists, Indian and foreign, who argued that excessive government economic intervention over the past decades had undercut economic growth. Financial liberalization, which dates from the Rajiv Gandhi administration (1984–1989), has been less commented upon than other forms of economic liberalization, especially trade reform and the reduction of the complex system of government controls over industrial investment and production, sardonically referred to as the "license–permit–quota raj."[5] Important changes in the rules governing international finance, and domestic credit and capital markets, occurred in the 1980s and 1990s. The experience of Reliance Industries, India's largest industrial group in the early 1990s, illustrates the enthusiasm with which both private actors and various government agencies engaged in battles for control over investment and production decisions—through the medium of wrangling over the forms of changing financial regulations in the 1980s and beyond.

The closing section of this chapter attempts a brief assessment of the record of Indian financial regulation. On the one hand, there is every reason to believe that the loosening of anachronistic financial controls that began in the 1980s will stimulate more rapid economic growth in India in the future. On the other hand, current (mostly justified) worldwide enthusiasm for economic liberalization may mean that some important achievements of India's license–permit–quota raj in financial regulation are in danger of being overlooked or underappreciated. A case can be made that interventionist financial regulation in India contributed to the strengthening of democracy during the crucial post-independence decades—a unique and impressive achievement in an extremely poor and ethnically diverse country. Whereas financial deregulation surely is desirable today, the interventionist model of the past had its benefits as well as its costs.

REGULATORY ENVIRONMENT OF BUSINESS IN THE 1970s

Construction of the interventionist state began under Prime Minister Jawaharlal Nehru (1948–64) and expanded under Indira Gandhi (1966–77, 1980–84). The major components in the regulatory environment of Indian business as of the mid 1970s were: (1) a large state industrial sector; (2) industrial licensing for all private businesses; (3) geographic preferences for industrial investment in less-developed regions; (4) additional controls on "monopoly" firms; (5) wide-ranging guarantees for workers in the formal sector of the economy; (6) comprehensive import and export restrictions; and (7) strict rules governing both foreign capital inflows and domestic financial intermediation. By contemporary U.S. standards, virtually all of these bodies of laws and practices appear extraordinarily intrusive.

Beginning in the late 1940s, Indian policymakers designated a series of "strategic" sectors—initially coal, iron and steel, aircraft manufacture, shipbuilding, and mineral oils, but in the mid 1950s expanded to armaments, railroads, many capital goods, mining, communications, and power generation—in which only state-owned enterprises (SOEs) could set up new plants or expand existing production. An additional list defined other industries, from machine tools to fertilizers, in which state firms were to have priority (Dasgupta and Sengupta 1991, 53–55). Nonetheless, the largest share of national product continued to be produced in the private sector (Hardgrave and Kochanek 1986, 330).

Controls on private commerce, construction, and especially manufacturing complemented the expansion of the SOE sector. Beginning with the government's Industrial Policy Resolution of 1948 and evolving through successive parliamentary resolutions and five-year plans, the regulatory regime for business required that entrepreneurs obtain a series of permits ("licenses") for the industry they wished to enter, as well as for a factory of a certain size, sited at a particular location, and scheduled to produce so much of each type of product in a specific time period. All permissions were renewable annually. Expanding production or altering the product mix even slightly required a new license. Access to credit, to foreign exchange, and to the right to import machinery or raw materials or to export products, all were likewise rationed by the central government. The rules reserved the production of many types of goods, from cotton textiles to hand tools to most consumer goods, exclusively for small businesses. Support for these "cottage and small-scale industries," planners thought, would maximize employment in the short to medium term while anticipated modern factories were gradually being built throughout the country.

Spreading the benefits of economic development among the Indian states was another goal. Throughout the 1960s and 1970s, the principal mechanism of so-called "location policy" under Indira Gandhi was to allocate a disproportionate share of public-sector infrastructure and industrial investments to less-developed regions. Eventually, the 1977 Statement on Industrial Policy bluntly mandated that no new licenses at all would be issued to the private sector for industrial units in large cities (Gupta and Dar 1991, 98–99).

Some of India's most contentious industrial regulations have been those specifically targeted at larger private firms. In 1969, Parliament passed the Monopolies and Restrictive Trade Practices (MRTP) Act, designed to regulate the concentration of economic power. Firms designated as "monopolies" not only had to obtain permissions from the various functional departments of the central government before altering their production mix, location, and the like, they also had to obtain confirmation from the Monopolies Commission that their requests to shift production would not unduly restrict trade. The politicians reasoned that the "monopoly houses" might bamboozle individual regulators, passing judgment on their applications to import equipment, for access to foreign exchange to pay for those equipment imports, or to produce a specified number of widgets with manpower requirements of such and such. The Monopolies Commissioners would be able to assess the entire picture by combining the information available to each of the functional agencies with sufficient authority to cancel any unwarranted permissions individual regulators might naively have granted.

Two categories of firms came under the regulatory purview of the Monopolies Commission. First, any individual firm or business group with revenues in excess of a specified, absolute amount (Rs200 million or about

$27 million in 1969 value) needed the commission's blessing to make even minor business decisions. Second, firms or conglomerates with total gross assets of as little as Rs1 million were classified as "dominant undertakings" if they produced, supplied, or distributed at least one-third of any of their goods or services in India in any given year (Dasgupta and Sengupta 1991, 104–126). These so-called MRTP companies prominently included the diversified business empires headed by such families as the Tatas, the Birlas, the Singhanias, and the Chidambarams.

By the 1970s, India also had numerous labor protection laws. In the main, their thrust was less directed toward influencing working conditions and benefits than toward securing stable employment. It is worth recalling that one source of the outrage of independence hero Mohandas Gandhi (the "Mahatma") against British colonialism had been his sympathy for the weavers in his native state of Gujarat, who had been bankrupted by competition from imported textiles. Most Hindu castes were associated with traditional occupations. Thus, the problem of unemployment in India due to technological advance not only carried for the public the emotional weight of economic hardship disproportionately borne by lower-income groups but had added overtones of disrupting the natural, God-given order of human society. If regulations required that private factory owners obtain government permission to open a new factory or to alter the production mix of an existing one, licenses were also required to shut down a factory, including one that was losing its owner money. Capitalists whose investment had gone bad, therefore, not infrequently resorted to arson as a way of closing an unprofitable plant.[6]

Not surprisingly, government planners also were distrustful of foreign trade and regulated it heavily. Would-be importers needed numerous licenses, not only for the goods to be imported but also in order to be granted access to the foreign exchange "cover" necessary to pay for imports. Tellingly, exports, particularly of food, were as heavily regulated as imports on the grounds that excessive exporting would drive up the local prices of essential consumption items. The East Asian model of export-led development emphatically was *not* in favor among Indian economic policymakers through the 1970s.

In addition to amplifying industrial licensing applicable to large domestic firms through the MRTP Act, Indira Gandhi's government intensified restrictions on foreign investors. The purpose of the Foreign Exchange Regulation Act (FERA) of 1973 was to reduce the role of foreign capitalists, both as majority owners and minority shareholders, in the Indian economy. FERA mandated that foreign shareholding be reduced to a maximum of 40 percent in all but a few high-technology sectors for which the government would make case by case exceptions. After FERA, regulations governing foreign direct investment became confining enough to discourage most comers (for the workings of FERA legislation, see Encarnation 1989; Grieco 1984; Stoever 1989). The new legislation also heightened restrictions on other kinds of cross-border investment. For example, since independence, private Indian firms had been forbidden to seek foreign bank loans directly. Capital controls on foreign minority investments in Indian firms (or vice versa) remained pervasive, and all foreign exchange available to Indian businesses was rationed according to Planning Commission priorities.[7] Furthermore, the foreign exchange earnings of corporations or individuals (through the early 1990s) had to be exchanged for rupees with the Reserve Bank of India (RBI), the nation's central bank. Firms could not even secure for themselves access to foreign exchange through exporting.

The broad policy arena with which this chapter is primarily concerned is that of financing business investment. Due to the very tight external capital controls, financing options for private industrial investment were effectively limited to locally available funds. Both the Nehru and Indira Gandhi administrations attempted to manage credit and capital markets. RBI set both interest rates and total lending ceilings for commercial banks and other financial institutions (Reserve Bank of India 1983). The biannual announcement of the RBI's seasonal credit policy was so important to the overall macroeconomic environment that it was the front-page news of major newspapers and received extensive commentary and criticism from a wide segment of elite opinion around the country.

Extending public ownership to the financial sector, whether by nationalizing private banks or creating new state banks, was another means of both widening and deepening financial markets—and centrally managing them. At independence, India's largest commercial bank was the British-owned Imperial Bank, descended from the three Presidency banks of the high colonial period. The Imperial Bank, in fact, had been the country's monetary authority prior to the mid-1930s. In 1955 Nehru's government nationalized the Imperial Bank and created the giant State Bank of India (SBI). Government planners also created several development finance institutions (collectively known as DFIs) to provide long-term industrial credit, underwriting, and equity investment. The most important were three industrial development banks: the Industrial Finance Corporation of India (IFCI), created in 1949; the partly privately owned Industrial Credit and Investment Corporation of India (ICICI), dating from 1955; and the Industrial Development Bank of India (IDBI), by far the largest DFI, which began operations in 1964 (Uppal 1984). The year 1964 also saw the establishment of the Unit Trust of India (UTI), a public-sector mutual fund that accepted citizen deposits and invested in private, corporate securities. The huge public sector Life Insurance Corporation (LIC) of India, created by nationalization of private, often foreign, life insurance firms, also invested heavily in corporate equity.

In the 1950s and 1960s, virtually all of India's large commercial banks, other than the SBI, were privately owned and associated with family-run conglomerates, most of which had evolved from a nineteenth-century institution known as "managing agency."[8] Each managing agency combined the functions of a de facto holding company for a diversified industrial/commercial conglomerate with those of an investment bank. Managing agencies made long-term loans to, and took equity positions in, an expanding group of loosely or tightly associated businesses on whose corporate boards senior officials of the managing agency would sit. Gradually, if not always initially, businesses financed by a given managing agency would, in effect, become part of the group. Thus, in an economy without discrete financial institutions offering long-term credits, these integrated groups, providing in-house finance, had sprung up. One novel aspect of Indian managing agencies resided in their acceptance of deposits from the general public, which the managing agent then intermediated to firms within the group. Although virtually no formal regulation of the financial activities of managing agents existed, citizens entrusted their money to them on the basis of the directors' reputations as solid citizens.[9] During the first two decades after independence, the managing agent system remained in place, gradually evolving into its contemporary shape in which groups of interlinked firms have come to be referred to as "business houses." Reformist socialist critics called them monopoly houses.

Although Nehru's administration took steps to reduce the dominance of large business groups in industrial production, it made no direct attacks on their key financial role. However, in 1969 Prime Minister Indira Gandhi, under electoral pressure from the Left, nationalized Indian banks. Soon new regulations obliged banks to expand their branch networks rapidly in rural areas and direct a much greater share of their deposit takings and loan activities to agricultural and small-business activities. Interestingly, very little changed at the operational level; most senior managers, for example, stayed on.[10] Despite fiery rhetoric on both sides, the nationalization of India's banks took place mostly peacefully and within democratic processes.

In addition to controlling credit allocation, indirectly through the 1960s and directly through the nationalization of all large banks thereafter, the state reached out to regulate capital markets. In 1948, the Indian government had established the office of Controller of Capital Issues (CCI) within the Ministry of Finance, extending, in effect, the principles of industrial licensing to the capital markets. In order to open a new business or expand an existing firm or factory, the would-be promoter needed to convince the controller's office that the proposed investment was of sufficiently high priority in terms of the five-year plan and that the project justified the levy on the nation's scarce savings. There also were numerous financial and accounting requirements to be complied with, whose purpose was to ensure the safety of the proposed new issue. Issuance of the permit, however, fundamentally rested upon the authorities' judgment about the developmental desirability of the investment project—not simply its financial soundness.

The existence and functioning of the CCI illustrate the strong influence of ideology on economic policymaking in India. One might, for example, contrast the boosterism that characterized the United States during most of the twentieth century, which incorporated the widespread assumption that investment and capitalist competition *created* and expanded wealth, with the very different attitudes among Indian elites, in both government and society and even in the business community. Indian planners were extremely worried that heedless capitalists would *waste* the country's scarce and precious stock of investable surplus, perhaps in luxury consumption, or even by selecting productive projects that filled "nonessential" needs. With this understanding of economic reality, India's leaders believed that failure to ration access to equity markets would be deeply irresponsible.

An intriguing twist to financial regulation came from the central government's deliberate policy in the 1970s of promoting the state—by means of the investment policies of the development financial institutions—as a very consequential owner of private corporate securities. The significance of equity investment was that it brought with it the presumption of managerial control or influence for those persons or groups that united the largest block of shares. The policy originated in the practice of nationalized commercial banks holding blocs of shares in associated firms within the business group; upon taking over the banks, the government "inherited" the shares. However, planners rapidly decided that this was a policy worth promoting in its own right. In 1971, at the height of state economic interventionism under Indira Gandhi and senior advisor M. Kumaramangalam, the government toughened and enforced preexisting legislation by mandating a "convertibility clause" for government loans to private industry (Kulshreshtha 1986, 103–108; Prasad 1987, 113–115).

Henceforth all major loan contracts of MRTP firms (that is, large companies) with state development finance institutions had to contain language that would give a lending institution an absolute right to convert a portion of the total loan into common stock—at the creditor's discretion. Public-sector development banks such as the Industrial Development Bank of India (IDBI) were virtually the only source of long-term investment credit available in Indian financial markets. Furthermore, firms that were not yet publicly traded companies ("public limited firms") but that wished to take out large loans had to reconstitute themselves in this corporate form or do without long-term financing, since more than 90 percent of all formal-sector financial intermediation took place through state banks. Indian businesses objected to the convertibility clause, likening it to piecemeal nationalization, but to no avail. Long-term loans from DFIs also gave the central government the right to nominate directors to corporate boards, whether or not the convertibility clause actually had been exercised. (See Gupta [1989] on role of government appointees to private-sector corporate boards.)

After nationalizing the banks, the central government was in an even better position to support its broader development policies since it could virtually monopolize corporate access to both long- and short-term credit. After 1969, the Reserve Bank of India (overseeing credit terms and allocation) and the banking department in the Ministry of Finance (overseeing bank administration) jointly ran Indian banks. Government regulators enjoined all banks to provide an equivalent mix of services on the theory that attempts at specialization would result in "wasteful" competition among banks. Industrial firms thereafter were assigned to one major bank. If a firm wished to switch banks for any reason, its directors had to apply to the RBI for permission, stating why regulators should not consider their application frivolous. Banks, in turn, received detailed guidelines from New Delhi that covered everything from branch locations to minimum proportions of total credit that had to be allocated for priority sectors to the minutiae of personnel policies (dress codes, break times, detailed job descriptions) and loan forms. Although central government controls were extensive, a few chinks in the system did exist.

A BALANCE SHEET OF INDUSTRIAL AND FINANCIAL INTERVENTIONISM THROUGH THE LATE 1970s

What were the consequences of almost three decades of intense central government economic intervention in industrial and financial development? The most important shift in underlying economic conditions by the late 1970s was the achievement of substantial industrialization, with a majority of enterprises Indian-owned and a considerable portion of that in the state sector. However, by the end of the decade, the costliness of the

TABLE 6.2

India: Industrial Growth, 1950–1990
(FY 1980–81 = 100)

Year	*Total Industrial Growth*	*Manufacturing Only*	*Mining and Quarrying Only*	*Electricity Only*
1951	21.1	22.6	28.5	5.2
1960	36.0	38.2	45.5	14.6
1970	65.0	66.7	67.8	48.6
FY 1980–81	100.0	100.0	100.0	100.0
1990	209.3	205.0	214.2	233.1

Source: CMIE 1991, summary tables in "Key Indicators of India's Economic Growth," n.p.

"model," both in terms of macroeconomic sluggishness and of the energy expended by private entrepreneurs in locating loopholes that would enable them to cope, was increasingly apparent. Confidence in the efficacy of state interventionism gradually began to melt. (On the slow shift to economic liberalization see Echeverri-Gent 1990; Kohli 1991, 305–338; Sridharan 1992.)

The structure of the Indian economy underwent decisive change in the thirty-odd years following independence. Industry's share of gross domestic product (GDP) rose from 15 percent in 1950–51 to 26 percent in 1980–81, whereas that of agriculture fell from 56 to 38 percent over the same years. There also was excellent progress in diversifying the industrial structure, considered by policymakers to be essential in order to reduce the vulnerability that might result from having to purchase essential goods and services in international markets. Furthermore, most Indian economists and planners believed in the growth-enhancing virtues of backward integration into heavy capital goods, sometimes without regard for the industry's microeconomic record of profitability. Thus, in 1956, consumer goods accounted for 48 percent of industrial production, whereas capital goods contributed only 5 percent; industrial raw materials and intermediate inputs accounted for the remaining 47 percent. By 1980, the share of consumer goods had dropped to 30 percent while the share of capital goods had increased threefold to 15 percent.[11] Table 6.2 shows that electricity generation—a sector dominated by state investment and public sector firms—grew slightly faster than manufacturing. Overall industrial production expanded by a factor of ten between 1950 and 1990. In fact, by the late 1970s or early 1980s, several of the concrete economic goals set by the independence generation of Indian leaders had been achieved. Examples of Indian industrial and scientific prowess are the explosion of a nuclear device in 1971 and the country's strong presence in designing and building turnkey heavy engineering projects in the Middle East from the 1970s on.

The macroeconomic results of thirty years of interventionist industrial policies were more sobering. Table 6.1 shows that by 1980–81, gross national product (GNP) had risen to only $165.1 billion. In three full decades the index of real national income rose from 100 in 1950–51 to only 274 in 1980–81. Real GNP growth was slow by developing country standards: 3.8 percent in the 1950s, 3.4 percent in the 1960s, and only 3 percent in the 1970s.[12] Even worse, due to rapid population growth, the index of real GNP per capita reached only 144.7, and per capita income in 1980–81 was the equivalent of an abysmal $243.

The ownership profile in industry also shifted notably, away from dominance by foreign and large domestic firms and toward national and public ownership. The Foreign Exchange Regulation Act (FERA) was a success—at least if measured by the narrow criterion of dropping foreign equity below 40 percent of total paid-up capital (total corporate equity) for most firms. By 1980, most foreign owners of "FERA companies" either had sold their holdings or had issued new equity to dilute them. Whether this usually or always resulted in substantial decreases in foreign control is more problematic, since sales of common stock to widely dispersed holders typically resulted in a plurality of shares remaining with the erstwhile foreign owner. Foreign entrepreneurs certainly became more circumspect. N. K. Sengupta notes that there were five multinational affiliates—ICI, ITC, Macneill, Hindustan Lever, and Dunlop—among the twenty-five largest business houses in 1972, but by 1978 there were only three, as Dunlop shrunk and Macneill became majority Indian-owned (Sengupta 1984, 230). Prominent multinational firms, such as IBM and Coca-Cola, pulled out entirely (Encarnation 1989; Grieco 1984).

The rise of state-owned enterprises (SOEs) can be gauged by their share of total paid-up capital, which grew from only 3.41 percent in 1951 to 30.08 percent a decade later to 45.84 percent in 1971, and 70.88 percent in 1981 (CMIE [Centre for Monitoring the Indian Economy] 1991, table 15.1). SOEs received 30.70 percent of the total income of the organized corporate sector, comprised of firms large enough to be assessed income tax, in fiscal year 1960–61, 36.58 percent in 1970–71, and 49.21 percent in 1980–81 (CMIE

1991, table 8.7). The lower share of public-sector firms in income, as compared to their share of equity investments, principally reflected the fact that they operated in the most capital-intensive sectors. Furthermore, the government often preferred to fund its enterprises through new equity, whereas many of the strongest private firms, profitable enough to service debt and concerned with yielding control if shareholding became too diluted, had a predisposition toward debt financing.

It was less clear that policies aimed at reducing the power of large, privately owned Indian businesses had succeeded. The state's regulatory maze undoubtedly had slowed the growth of big business, but it was hard to see that policies had promoted the expansion of small and medium-sized firms in their stead. Large Indian business houses maintained their dominance in most markets—an interesting fact, given the panoply of industrial policies ranged against them. In fiscal year 1972–73, the twenty-five largest business houses controlled 42 percent of the total assets of all medium and large public limited firms—roughly equivalent to all large corporations, since the central government wielded strong incentives to encourage firms to become public companies. In 1978, the top twenty-five houses controlled 44 percent of assets. Firms dominant in one or more lines of production or large enough to fall under the MRTP provisions went from 70 to 74 percent of these assets in the same period (Sengupta 1984, 228). However, it is important to recognize that private firms' choices of sectors in which to invest were extremely responsive to the "carrots and sticks" that were part of the interventionist, regulatory environment in which they found themselves.[13] The data just cited on the wholesale shift out of "low-priority" consumer goods production and into heavy industry are probably the best single measure of the effectiveness of government controls. Overall, state policies under Nehru and Indira Gandhi did not succeed in measurably reducing the dominance of large industrial houses in the economy per se. Nonetheless, the government of India was quite successful in directing the investment and production of the business community into those activities that central government planners deemed of greatest importance.

Financial regulations had played important roles in all of these achievements: growth in the relative share of the industrial sector coupled with increasing macroeconomic distortions from the mid 1960s; a shift away from foreign and toward state ownership of the means of production; and, though less successful, a shift away from the dominance of private production by a few large business houses. First, central government policies had isolated Indian industry from international financial markets quite effectively. Foreign loans or bond issues had been prohibited to Indian companies since independence. The passage of the Foreign Exchange Regulation Act (FERA) in 1973 effectively deterred most new foreign direct investment through the 1970s. Dennis J. Encarnation concluded that the authorities succeeded in "dislodging multinationals" but that they paid for their choice with significantly slower industrial growth (Encarnation 1989, especially 176–225).

Second, domestic capital markets too were quite distorted, being both overregulated and underregulated at the same time. They were excessively regulated in that state banks held huge chunks of voting stock in the major private companies and managed their shares according to both political and narrow profit-maximizing goals. Furthermore, the Controller of Capital Issues (CCI) was as concerned with capital rationing as with the honesty and profitability of companies seeking permission to expand their equity bases. Actual trading in both the primary and secondary markets was rife with abuses, mainly because of insufficient and anachronistic regulations.

However, the central planners' control over equity markets and loan finance never was as complete as the authorities intended. This comment particularly applies to government financial levers over the largest business houses, that is, those covered under the provisions of the Monopolies and Restrictive Trade Practices Act (MRTP). As is commonly the case in a capitalist or mixed economy, Indian political leaders found that they needed the cooperation of businesspersons who otherwise might be tempted to invest elsewhere, legally or illicitly. Thus, when resourceful entrepreneurs inevitably discovered loopholes in stifling regulations, it was politically—and perhaps economically?—prudent of the central government authorities sometimes to pretend not to notice. Another way to tell the story, of course, would be to emphasize regulators' incapacity to control everything. Both "slants" are valid.

Central government controls over large Indian firms by means of the capital markets had several important loopholes through which large monopoly houses could slip and assert their independence. Table 6.3 shows that the share of equity held by public-sector financial institutions in large open capital firms was about 20 percent in 1965 and approximately 27 percent by 1978. Even if we (plausibly) assume that directors together with their friends and extended families directly owned as much as 5 percent in the 1960s and 1970s, and that the "corporate stockholders" category principally referred to other firms with interlocking directorates within the business house group, the voting weight of public-sector development banks (statutorily obliged to cooperate rather than compete with one another) was at least equal to that of the owner–managers. Sometimes the

TABLE 6.3

India: Ownership of Corporate Securities, 1965, 1978, 1989–90

Time Period — Sample [1]	Percent of total outstanding corporate securities owned by: Individuals	[of which, directors of firm and relatives]	Corporations [2]	Financial Institutions and Government	Foreigners (including NRIs) [3]	Total
1965 (RBI sample)	45.5	n.a.	13.0	20.3	21.3	100.0
1978 (RBI sample)	38.5	n.a.	13.8	27.4	20.3	100.0
FY 1989–90 (BSE sample; medium and large firms)	36.9	[3.9]	23.7	23.6	15.8	100.0
FY 1989–90 (BSE sample; large firms only)	36.4	[3.8]	22.7	24.9	16.0	100.0

Notes:

1. The Reserve Bank of India (RBI) sample of private-sector publicly traded corporations includes the entire universe of reporting firms, in most years from 500 to 2,000 businesses. The Bombay Stock Exchange (BSE) sample includes most of India's largest firms but especially those with a presence in western India. The BSE survey of large- and medium-sized firms had 629 respondents, of which 523 were chosen for the more select sample of large firms only.
2. Individual firms affiliated with business houses are counted separately. In India, corporations generally own stock of firms in the same business house; that is, most corporate stockholding represents interlocking ownership, not merely investment for the purpose of financial management.
3. Foreign shareholdings represent foreign participation in joint ventures. Only in late 1992 were foreign institutional investors permitted to hold portfolio investments. As of mid 1993 foreign individuals were excluded.

n.a. = not available

Source: CMIE 1991, Tables 15.17 and 15.22, n.p.

public sector's share of the largest private business houses, including the house of Tata—from independence to the early 1990s India's largest business group—went as high as 40 percent. State influence over the "commanding heights" of the private sector, at least on paper, was extremely consequential.

Yet the effective uses of state stockholder power often were more symbolic than real. What were dissatisfied nominee directors (that is, members of corporate boards there to represent government interests) to do in cases of disagreement? Replace management? If so, then with whom, given that the role of professional manager (as opposed to a son or nephew of the

TABLE 6.4a

India: Internal Sources of Funds for Large, Publicly Traded Private Firms

(share in total sources of funds, %)

Time Period	*Reserves, Depreciation, and So On*	*New Equity from Existing Shareholders*	*Total Internal Funds*
10-year mean FY 1961–62 to 1969–70	42.3	5.5	47.8
5-year mean FY 1970–71 to 1974–75	52.8	4.2	57.0
5-year mean FY 1975–76 to 1979–80	35.2	6.0	41.2
5-year mean FY 1980–81 to 1984–85	34.1	2.3	36.4

Source: Computed from Prasad 1987, pp. 129–130, and appendix. Prasad employs Reserve Bank of India data, which uses a self-selected sample, varying between about 500 and 2,000 responding firms per year.

founder, or at least another member of the same ascriptively defined community) was only just beginning to catch on? The working assumption of the convertibility clause and policies of government investment in the corporate sector had been that the public financial institutions would be as united as the in-house directors, which was sometimes, but not always, true in practice.[14] Prior to the 1980s, few displays of government muscle in corporate boardrooms had been sufficiently significant for India's extraordinarily inquisitive press to have discovered and publicized them. Moreover, one reason for the concentration of the investments of public financial institutions, such as the Unit Trust of India (UTI) in securities of Tata or Birla companies, simply was that the shares of monopoly houses always were good investments that reliably paid dividends and improved the financial institutions' own balance sheets (Encarnation 1989, 52). It is thus quite possible that the blocks of stock held by public banks encouraged more professional management, greater transparency in accounting and reporting practices, and so on. It is less clear that greater conformity with the detailed objectives of the Planning Commission, the Monopolies Commission, and other central government regulatory bodies always resulted.

Third, the ostensible nationalization of credit markets may have been even less effective in terms of achieving the presumed objective of making

TABLE 6.4b

India: External Sources of Funds for Large, Publicly Traded Private Firms
(share in total sources of funds, %)

Time Period	*New Equity (from markets and debt conversions)*	*Commercial Bank Loans*	*Other Loans (from financial institutions and government)*	*Public Deposits*	*Debentures*	*Trade Credit*	*Total External Funds*
10-year mean FY 1961–62 to 1969–70	6.6	18.0	2.4	4.3	4.4	16.4	52.2
5-year mean FY 1970–71 to 1974–75	4.6	9.6	1.2	7.0	0.0	23.8	45.8
5-year mean FY 1975–76 to 1979–80	2.6	15.6	6.2	6.0	0.0	26.6	57.0
5-year mean FY 1980–81 to 1984–85	2.9	10.2	9.2	12.0	2.7	24.2	63.6

Source: Computed from Prasad 1987, pp. 129–130, and appendix.

large business houses dependent upon the state for external financial resources. Large, well-established businesses, when confronted with increased central government credit controls, could and did rely more on internal sources of funds. Table 6.4a shows a sharp rise in the early 1970s of the share of internal corporate resources in total funds used by large, publicly traded private firms. Internal funds averaged about 48 percent through the 1960s but jumped to 57 percent in the early 1970s, at the height of the radical phase of Indira Gandhi's stewardship. Interestingly, by the late 1970s, the share of internal funds had fallen back to 41 percent, perhaps suggesting that the business community had learned to live with the new regime. Furthermore, there were two important loopholes in the operation of credit markets. The first large lacuna in state control of credit allocation came through domestic suppliers' credits, a mechanism through which large corporations with ongoing commercial relations, in fact, made loans to one another. A second loophole arose from a revival of an older financial mechanism, deriving from the old nineteenth- and early-twentieth-century practices of the "managing agencies." These so-called "public deposits" allowed individuals to deposit funds with nonfinancial businesses, usually large and well-known Indian business houses, which paid higher rates of interest than commercial banks were allowed to offer.

Table 6.4b employs figures from Prasad, whose data on balance sheets of large publicly traded firms come from the RBI's annual compilation of balance sheets, which typically covered between 500 and 2,000 of India's largest companies.[15] We may assume that the lines labeled "commercial bank loans" and "other loans from financial institutions and government" represent relatively carefully monitored sources of credit, whose allocation closely conformed to central government priorities. "Trade credit" (also known as suppliers' credit) and "public deposits," in the main, represented virtually unregulated financial intermediation, which took place quasi-legally yet largely outside the elaborate system of government controls.[16] The central government was able, by dint of considerable pressure, to limit the amount of total financing through public deposits. In the late 1970s, for example, the legal maximum was 25 percent of corporate net worth (Kulshreshtha 1986, 242). However, such legal limits often were not respected. More importantly, neither the Planning Commission nor the Monopolies Commission, nor the Reserve Bank had oversight power regarding how such funds were used by borrowers. In the 1960s, these uncontrolled credit lines together summed to 101 percent of loans from commercial and development banks. In the early 1970s, following bank nationalization, India's largest private companies received almost three times as much financing (285 percent) from the unregulated market as from government-controlled sources. The amount of financing dropped by approximately one and a half in the later 1970s as the new national credit system settled into a more comfortable routine, one that found some room for its traditional best customers.[17] Even in India's tightly controlled credit markets, the larger businesses—that is, those resilient MRTP firms—carved out for themselves considerable room in which to maneuver. The general public proved willing to make unguaranteed deposits with the business houses for the sake of obtaining a higher rate of return than was possible with deposits in state-owned commercial banks.

INDIA AS A SLOWLY EMERGING MARKET

In the 1980s, policymakers' assessments of the overall economic trade-offs associated with an interventionist financial regime began to change. Indian economists had observed that industrial investment had grown less efficient through the years, just as controls had multiplied.[18] Isher Judge Ahluwalia called her influential monograph, published in 1985 but circulated in draft or partial form prior to then, *Industrial Growth in India: Stagnation Since the Mid-Sixties*. Intellectuals, including those serving in the elite Indian Administrative Service that staffed the higher bureaucracy, were painfully aware that India had grown much more slowly than the East Asian economies of South Korea or Taiwan—slower even than dependent capitalist countries such as Brazil and Mexico. At the same time, India's record on equity did not compare well with that of China.[19] The Congress Party's slogan of "eliminate poverty," proclaimed by Indira Gandhi in 1969 at the time of bank nationalization and other populist policies, seemed manipulative and even shameful, given the persistence of massive and desperate poverty, to many sophisticated urbanites.

The Congress Party's economic policies began a slow but real shift toward economic liberalization, almost imperceptibly under Mrs. Gandhi (1980 until her assassination in 1984), primarily at the symbolic and rhetorical level under her son and political heir, Rajiv Gandhi (1984–89); and, after a hiatus of two years of weak coalition governments of the Left, once again, with genuine substantive changes this time, under Congress Party Prime Minister P. V. Narasimha Rao, who assumed office in 1991.

A quick review of the major regulatory arenas gives an idea of the dimensions of the policy shift in the early 1990s (Adams 1990; Echeverri-Gent 1990; Kohli 1991, 305–338). Although the state-owned enterprise (SOE) sector remained large, its inefficiencies became a matter of public debate, not only in the relatively liberal, elite English-language media, but also in

Parliament. The first timid moves toward privatization—selling of minority stakes of large SOEs to publicly owned banks, who then would resell them on the stock markets at some unspecified date—occurred in 1992.

At the federal level—although, significantly, often not within individual states—the most onerous requirements of industrial licensing began to be phased out under Rajiv Gandhi's government. For example, under the previous excruciatingly detailed rules, a factory owner who wished to switch from producing a small motor for a popular form of household fan known as a "swamp cooler" to making a small motor for another household appliance such as an electric mixer or simple air conditioner, would require multiple permissions, often taking years to obtain. Under Rajiv Gandhi's administration, "broad-banding" of similar products allowed a factory to use an existing license to produce a different product mix than had been envisioned at the time of application. It was not until 1991 that licenses ceased to be required for increases in annual production (over the previous year) of as little as 5 percent annually or 25 percent over three years.[20]

Location policies did not begin to change significantly until the Narasimha Rao administration. In 1993, however, the government announced its intention to gradually abolish the "freight equalization scheme" by which Indian Railways, both the largest SOE and largest employer in the country, had charged equivalent rates to haul many types of intermediate industrial products, most notably steel, to the major industrial markets (for example, large cities such as Bombay) from any factory in the country, regardless of how far-flung and inaccessible its location. Steel mills that had been sited in the rural northeast entirely for political reasons of equalizing regional income thus were destined to become almost instantly nonviable.

In 1985 Rajiv Gandhi had raised the size limits for MRTP firms, or companies falling under the additional regulatory oversight of the Monopolies Commission, for the first time since 1969. In a more subtle shift of attitudes at the top, largeness per se came to be less of a reason for official disfavor. In labor relations, by contrast, policies that might make it easier for private employers to lay off excess workers or close unprofitable factories had barely entered the initial stages of the requisite public debate.[21]

Genuine trade liberalization had occurred, however. The government began to announce export-import priorities and duty rates three years in advance rather than the customary one year. By the early 1990s, firms wishing to import goods were working with a small "negative list" of restricted commodities, such as personal electronics equipment, rather than with a limited "positive list," with everything not expressly permitted being restricted. Most imports came to be subject to "automatic" licensing, that is, permission certain to be granted, at least in principle, although one still had to apply; in the future, quantities were to be kept down by means of tariffs rather than being subject to the elaborate quota system. Government policies on foreign exchange priorities, long dominated by defense needs, petroleum imports, and food imports, were made more flexible and sympathetic to the needs of industrialists for imported equipment and technology in order to modernize their production processes.

Foreign investment regulations also loosened. The Rajiv Gandhi government issued numerous waivers, especially for investments involving sophisticated technology, of the Foreign Exchange Regulation Act (FERA) rules limiting foreign equity participations to 40 percent. In early 1992, the Narasimha Rao government raised the limit for automatic approval of foreign collaborations in joint ventures from 40 to 51 percent of equity. International firms began to trickle back in, mainly lured by the promises of domestic sales in a country of more than 800 million people. Multinational firms such as Singer, Kelvinator, and Unilever, all of which had divested majority shareholding in the mid 1970s, announced planned new investments soon after the decision in early 1992 to allow up to 51 percent in foreign holdings of corporate equity. Prominent Indian firms, such as Bajaj Electricals, known for its motor scooters and small household appliances, announced plans for joint ventures with major multinationals such as Black and Decker.[22]

By the early 1990s, numerous pillars of India's domestic industrial policy regime—prominently including industrial licensing, quantitative controls on imports, and the virtual embargo on foreign exchange except for government-sanctioned uses—all were either fading or gone. Nonetheless, a quick caveat is in order. Although the relative shift from intervention to liberalization had been dramatic, absolute changes in Indian business–government relations by the early 1990s hardly had left a free-market economy. The business press noted correctly that lower-level bureaucrats in the central government economic ministries, not to mention state and local government functionaries, often had to be "convinced" by would-be entrepreneurs that rescinded registration and application requirements no longer applied—typically by means of the time-honored methods of personal-level appeals and/or a bribe. In mid 1992 *India Today*, the premiere newsweekly, made some estimates of the post-liberalization time required to get assorted government responses necessary to open a factory: "Land sanction and electricity connection take up to six to eight months. A water connection and a pollution control certificate take another two to three months each. Registration with the Company Law Board takes four to six months. . . . For their power project in Calcutta, RPG Enterprise [a large business house subject to MRTP controls] had to file eighty different applications."[23]

Profound changes were also on their way in India's financial regulatory regime. Each of the three primary forms of central government intervention in industrial financial markets—control of inflows of foreign savings, of credit, and of capital markets—reflected significant liberalization by the early 1990s. In each arena, the reasons behind financial reform combined the desires of policymakers to achieve greater economic efficiency through liberalization with their perception that the previous regulatory framework developed in the 1950s through the 1970s simply was inadequate to the demands of a modern industrial society and was showing signs of collapsing under its own weight.

As of 1994, the Indian government still did not permit private Indian firms to contract loans directly from multinational commercial banks located abroad. However, Indian banks had been permitted for a decade to receive deposits from abroad, which, in turn, could be invested (or loaned) within the country's gradually liberalizing domestic banking environment. In the early 1980s, the wise men in the Ministry of Finance and the RBI had discovered a new, less-threatening, category of foreign investor—the nonresident Indian, or "NRI." An NRI is anyone who can claim birth, parentage, or grandparentage in "undivided" India—present-day India, Pakistan, and Bangladesh. Commercial banks rushed to set up NRI funds. Among the leaders in this new market segment were Indian subsidiaries of foreign banks like Citibank and ANZ Grindley's, which even through the economically xenophobic early 1970s had retained small, discreet offices in Bombay and other big cities to finance foreign trade. Indian banks and Indian subsidiaries of foreign banks solicited patriotic (and remunerative) deposits—many denominated in foreign exchange to protect against future devaluations—from expatriate Indian doctors, engineers, and other professionals in Great Britain, the United States, and elsewhere. Increases in the relatively short-term capital inflows from NRIs also enabled national economic policymakers to postpone confronting India's persistent balance of payments problems associated with a gradually widening trade deficit.[24]

The second arena of gradual financial reform was in the domestic credit markets. Commercial banks in the 1980s still accounted for the vast majority of loan funds of all types in Indian financial markets despite the existence of large industrial development banks and a small number of other non-bank financial institutions. In 1980, for example, commercial banks still retained 64 percent of assets of all financial institutions that extended financing to the corporate sector or to individuals; that is, the financial sector had not become highly functionally diversified (Morris 1985, 29; based on data from Goldsmith 1983). Furthermore, credit remained important in the total of financial resources available to Indian firms. Calculations based on the data in Tables 6.4a and 6.4b reveal that between 1975 and 1985, credit from commercial banks and development finance institutions (DFIs) reliably provided from 30 to 35 percent of total external sources of funds for medium and large publicly traded firms. Companies whose shares did not trade publicly, of course, depended on bank and DFI credit for even larger percentages of their external funds.

In 1980, shortly after being returned to office in a landslide, the Congress Party government of Indira Gandhi nationalized six more private, Indian-owned banks that had grown big in the decade following the first wave of commercial bank nationalizations in 1969. Unlike the takeover in 1969, when the banks' former owners had resisted vigorously in court, the 1980 transition to public ownership had been expected and was comparatively smooth. However, the second, smaller bank nationalization coincided with serious weakening of the financial health of most Indian banks. One problem, probably of greater symbolic than aggregate macroeconomic significance, was that centralized bank management from New Delhi became increasingly susceptible to political misuse. As the Congress Party came under political pressure in the 1980s from the Right and the Left, the temptation to use public-sector banks to win friends became irresistible. From preelection "loan fairs" in the countryside, at which crowds of demographically eligible farmers were indiscriminately handed "loans" that everyone recognized would not be repaid, to rising overdues from industrial borrowers who found that there were few penalties for defaults, the banks' balance sheets came under intensifying pressure.

Regulations governing banks' loan and investment portfolios also produced serious structural problems for commercial banks' financial health. After 1969, banks were by law required to reserve large percentages of total credit for the "priority sectors" (mainly agriculture and small business) at subsidized rates. Thus, in June 1969, immediately prior to bank nationalization, 20 percent of all commercial bank credit was reserved for government-mandated "social" uses, whereas 80 percent went to industry. By 1989, 41 percent of bank credit was reserved for social credit, mainly to smaller farmers and businesses, whereas only 60 percent went to industry. In addition, banks were funding the central government debt through the requirement that they hold large quantities of low-yielding treasury securities as "investments." Total reserve requirements (including cash and obligatory holdings of government debt) were above 40 percent of deposits throughout the 1980s, reaching 50 percent by the end of the decade (see CMIE 1991, table 17.11).[25] Nonetheless, the core of commercial banks' profits was still providing working capital to private industry. However, as noted previously, India's largest firms did everything in their power to reduce using credit from public-sector banks and turned to public deposits and suppliers' credits from the nonfinancial sector whenever possible. A final source of pressure on the nationalized commercial banks' financial health came from the difficulties of ensuring good performance under centralized, bureaucratic oversight from New Delhi. Incentives to bank officers tended to emphasize easily quantifiable data—numbers of deposits or loans—rather than more difficult-to-collect qualitative information, such as data on borrower creditworthiness or, surprisingly, even data on loan default rates, or "overdues" in Indian parlance.

One reason for the central government's tentative moves toward bank liberalization in the early 1990s was the hope that increasing the competitive pressures on government-owned banks—by allowing new privately owned banks to enter the state-owned banks' previously protected retail markets, for example—over time might improve their profitability. For a variety of reasons, including strong and politically powerful unions among bank and DFI workers, bank liberalization had not progressed much past the rhetorical stage through mid-1994. Nonetheless, the eventual arrival of substantial "privatization" of Indian banking was never in doubt. For one thing, many nationalized commercial banks were in serious financial trouble. To avoid a banking crisis in the future, they needed to begin to keep more transparent books and to be obliged to merge or consolidate as their balance sheets warranted. In addition, the interests of Indian nonfinancial business clearly lay in the direction of financial reform. In the late 1980s, the average interest paid to banks for their "investments" in government securities was only 8 percent. Many banks, meanwhile, had begun to offer "asset-management" accounts to corporate clients paying 12 percent interest. It was not surprising that loan rates to business borrowers were at least 19 percent and often higher.[26] While financial deregulation could be expected to raise borrowing rates for priority sector borrowers—while also increasing supply, according to reform supporters at least—it probably would also result in lowered costs for funds to the most desirable borrowers.

The third source of industrial finance came from India's stock markets. Incremental deregulation began in the early 1980s, and India's various regional stock markets, the largest of which was the Bombay Stock Exchange, began to increase their capitalization and trading volumes substantially. The capital market took off in the 1980s, primarily in response to increased potential for business profitability associated with economic liberalization. Market capitalization went from US$6.8 billion in 1984 to $27.3 billion in 1989 (CMIE 1991, table 15.14), briefly reaching $40 billion in early 1992, prior to the stock market crash associated with that year's stock and securities scam (Armijo forthcoming).

Innovations after 1980 in the regulatory framework governing Indian domestic capital markets had two themes. The first theme was deregulation, or easing the restrictions on industrial firms with respect to the amounts of money they could raise, the purposes for which they could employ new funds, allowable instruments, interest rates, and so on. The principal reason for the unpopularity of debentures with the public during the entire 1970s was the unremunerative interest rates mandated by the Controller of Capital Issues (CCI). From the industrial firm's viewpoint, debentures were also inconvenient because the nationalized commercial banks discriminated against firms that issued debentures when it came time to grant loans (Prasad 1987, 204). The CCI's decision in the early 1980s that debentures, and corporate securities in general, were good rather than suspect as a form of industrial finance led to a series of "technical" reversals of regulatory policy that resulted in rapid growth of the market in debentures. The market in corporate debentures—in many respects the international equivalent of India's system of public deposits with large, profitable firms—took off as a consequence of changes in corporate and personal taxation in the early 1980s. In 1988, Rajiv Gandhi's government announced its intention to abolish the CCI and replace it with the Securities and Exchange Board of India (SEBI), whose primary responsibilities would be prudential rather than allocative. In 1992 Narasimha Rao's finance minister, former RBI Governor Manmohan Singh, oversaw the removal of the much maligned "convertibility clause."[27]

Another theme, and one aggressively promoted in both high government and business circles by a cohesive group of academic economists and professors of business law and finance, as well as financial journalists, concerned the need for additional regulation to enforce honesty in the capital markets and to increase protections for the small investor (Barua and Ragunathan 1986; L. C. Gupta 1992; R. Gupta 1992; Kapadia 1992).[28] The new emphasis on prudential regulation was sorely needed. The lack of automation—or even of reliable electric power and telephone service—had increased the opportunities for petty frauds on a grand scale. The rapid climb in the index of the Bombay Stock Exchange fueled intense demand for new issues, which the CCI reliably underpriced in accordance with the historical rather than anticipated value of the stock. New issues were frequently traded at large premiums above their issue prices. Would-be investors made stock purchases (or tried) by standing in long lines—or sending their office boys to wait in their stead—at their local bank branch on the designated opening day. This was the only legal means for small, individual investors to acquire a new issue. At the counter, hours later, the full purchase price of the shares had to be handed over, either in cash or by a draft drawn on the would-be buyers' account, which had to be at that branch of that bank, as was the case with most personal banking transactions in India through the early 1990s. Then the prospective investor waited, often up to two weeks to find out whether the bid to buy had been successful. As often as not, these lucrative "scrips" were oversubscribed. At this point, the waiting began in earnest. Banks and/or the companies issuing the stock frequently kept all of the funds deposited with the bank for six months or more before deigning to return it to the would-be investor, who, meanwhile, had no use of those funds. In 1992, Parliament passed legislation requiring firms and banks to return these deposits (on which they paid no interest) within three months. Although stock market reformers hailed this legislation as a major advance, privately many expressed skepticism that violators of the three-month limit would receive any penalties.

In general, and despite the detailed controls over the purposes for which private companies raised capital, the actual operation of Indian capital markets was quite laissez-faire. Neither the Ministry of Finance nor the RBI did much to police the stock exchanges or the brokers who actually sold new issues and executed trades. Stock exchanges were privately owned institutions, run by and for their members, the oldest and largest being the Bombay Stock Exchange. Small investors were well advised to give their savings only to the Unit Trust of India, the public-sector mutual fund dating from the mid 1960s. There were not even formal regulations barring activities like insider trading, not to speak of enforcement mechanisms.

The early 1990s saw the beginning of two significant regulatory changes that would make it easier for Indian firms to raise funds in world capital markets. On the one hand, a very few private companies were allowed to float global debenture issues in the Euromarkets. One was the Ambani family conglomerate, Reliance Industries, profiled below. On the other hand, a few "country funds," through which foreigners—initially only those of Indian origin—could purchase shares in what were essentially mutual funds investing exclusively in Indian equities, were permitted. In the mid 1980s, the India Growth Fund, an "emerging markets" country fund investing in corporate securities mostly through the Bombay Stock Exchange and selling shares to foreign investors, was listed on the London and New York exchanges. In 1992, the Narasimha Rao government announced its intention of soon permitting foreign institutional investors to buy and sell directly in Indian capital markets.

RELIANCE INDUSTRIES TESTS THE RULES

The story of the Reliance Group's search for finance in the late 1980s and early 1990s illustrates several themes of this chapter.[29] It is a tale rife with the overlap between the realms of politics and the (ostensibly "technical") design and implementation of financial regulations.

The company's founder, Dhirubhai Ambani, started Reliance Industries modestly with "just four imported knitting machines."[30] Ambani entered the textile business in Bombay during the period of Indira Gandhi's emergency rule (1975–77), making his way in a crowded field by focusing on the upscale market for synthetic fabrics rather than India's traditional cottons. The group expanded aggressively into nationwide markets and related fields, such as petrochemicals. By the mid 1980s, the group's two largest companies were Reliance Industries Limited (RIL), the holding company for most of Ambani's smaller manufacturing facilities, and Reliance Petrochemicals Limited (RPL). One of Ambani's sons headed RPL, which had been incorporated separately precisely because of the limitations placed on business expansion by the MRTP Act. Interestingly, and despite concerns that the "license–permit–quota raj" in practice had worked only to entrench those Indian business houses that already were dominant at independence or shortly after, the rise of Reliance from obscurity to a position as one of the country's top ten business houses by the early 1980s demonstrated that new entrepreneurs could succeed within the system.

In August 1988, Reliance Petrochemicals raised Rs5.9 billion (around $420 million)[31] through a debenture issue to finance three stages of a huge petrochemical project at Hazira, in the western state of Gujarat. RPL placed Rs3 billion in orders with engineering giant Larsen and Toubro (L & T) for machines and equipment for the new plants. For several years previously, the Reliance Group had been L & T's single largest customer. Meanwhile, and surreptitiously, a subsidiary of the public-sector Bank of Baroda used funds supplied by Reliance to purchase 7 percent of the shares of L & T. The public-sector development financial institutions collectively owned 41 percent of L & T stock and had several nominee directors on its board. When the Bank of Baroda subsidiary, voting the shares it (still secretly) had bought for the Ambanis, moved to appoint two Reliance directors to the L & T board, the government's nominee directors supported the motion. Two months later another Reliance director joined the board. By this time the Ambani family had acquired a 20 percent stake. The board of directors then voted to accept the sitting chairman's resignation and appointed Dhirubhai Ambani in his place. Reliance had gobbled up L & T—apparently with the full cooperation of those directors representing the interests of public-sector banks, who held the largest block of shares.

In late 1988, as the new chairman of L & T, Ambani announced a "mega-issue" of L & T debentures worth Rs8.2 billion ($590 million) that would be the largest ever single issue in India's capital markets. The prospectus for the issue, to which the markets quickly subscribed—that is, registered their firm intent to purchase as soon as the lottery process for allocating shares was completed—noted that Rs6 billion would be used to extend suppliers' credit from L & T to RPL. In other words, by floating the huge debenture issue to finance a naphtha cracker plant in Hazira, RPL had used up its credit with the Controller of Capital Issues (CCI)—if not necessarily with the investing public. A large portion of the money ostensibly raised for the Hazira plant had instead gone to finance the successful takeover bid for one of RPL's major suppliers, L & T, itself one of India's ten largest business houses.[32] Once ensconced as chairman of L & T, Ambani made plans for an even larger debenture issue from L & T, three-quarters of which would be transferred to RPL as suppliers' credit. All of the above transactions, plus several lesser transactions to the apparent benefit of Reliance and detriment of L & T, occurred only because of the connivance of the central government's nominee directors, who voted the shares of the public sector commercial and development banks. It was a well-known fact that the Ambani family was politically and financially close to the government of then Prime Minister Rajiv Gandhi.

However, the Congress Party lost the general election in late 1989, for only the second time since Indian independence in 1947. The new prime minister, V. P. Singh, had been Rajiv Gandhi's finance minister in the mid 1980s until he publicly broke with his erstwhile political mentor. Singh headed a coalition government committed to fight for social justice for India's rural poor and against undue business influence in economic policies. Using the votes of these same financial institutions, Singh pushed Ambani out of L & T's chairmanship, replacing him with D. N. Ghosh, a respected former public-sector banker and professional manager. Ghosh, not coincidentally, was also well-known as a mildly Left-leaning intellectual and frequent contributor to policy debates, played out in the press, on industrial and financial regulation (Ghosh 1979, 1991a, 1991b). As L & T's chairman, Ghosh canceled the supplier's credit, skillfully sold a block of Reliance stock that had been acquired under Ambani's leadership in such a way as to benefit L & T but not the Reliance group, and, in general, distanced L & T from Reliance as much as possible.

Then politics came into play once again. When Singh's government lost a vote of confidence in February 1991, Ambani approached the new prime minister, Chandra Shekhar, for support in a new takeover bid. Meanwhile, a suit and countersuit over the supplier's credit canceled in 1990 by

Ghosh were winding their way to India's Supreme Court. Responsive to the democratically elected political leadership, the financial institutions' representatives on the board asked Ghosh to resign. He did, pointedly submitting his resignation not to the L & T board, or even to the chairman of the Industrial Development Bank of India (IDBI) who headed the committee of government financial institutions that held L & T shares, but to the finance secretary, who was the senior civil servant in the Ministry of Finance in New Delhi. The Ambani family mounted a vigorous public and private campaign through mid 1991 to have Dhirubhai Ambani reinstated as chairman of L & T. When it looked as though the government's support was secure, a shareholders' plenary session was scheduled for August. At almost the last minute, the senior Ambani withdrew his bid, apparently having learned that the directors voting for the government would not support it after all. For the moment at least, the takeover had been foiled.

The last turns in the Ambani plot illustrate how recent financial liberalization and deregulation have been gradually altering the character—and politics—of Indian industrial finance. In 1989, the government finally decided to abolish the office of Controller of Capital Issues, thus signaling its willingness to adopt the recommendations of numerous expert committees and foreign advisors to move away from capital-markets regulation for the purpose of furthering industrial policy and move toward a regulatory framework whose primary goals would be prudential. Since 1990, the powers of the Monopolies Commission, the body charged with administering the Monopolies and Restrictive Trade Practices (MRTP) constraints on large companies, have been reduced steadily. Under Narasimha Rao the strictures against free trade and even dependence upon foreign capital (as in the Foreign Exchange Regulation Act, or FERA) also shrank. In a striking departure from a decades-long tradition, the Indian rupee became partially, then fully, convertible on trade accounts within less than a year, ending in early 1993. The result of all of these changes in the economic and political environment was to give the owners of the Reliance group new options.

In February 1992, citing liberalization of the tax code, the MRTP restrictions, and other regulations, the boards of directors of Reliance Industries and Reliance Petrochemicals announced their impending merger. By this time RPL was seriously cash starved as construction on the Hazira project was behind schedule. One immediate repercussion of the announcement was greater liquidity for RPL. About one month later, the new RIL/RPL combine unveiled plans for India's first Euroissue of global depository receipts. Unfortunately, the $150 million issue came to market in late May just as the 1992 Bombay stock scam was unfolding, a process that ultimately brought down not only brokers like Harshad Mehta but also prominent politicians and public-sector bank managers close to the Congress Party. Within weeks, the price of Reliance's GDRs had dropped 40 percent. Interestingly, the issue's short-term failure caused a major embarrassment to Morgan Stanley, its lead underwriter, and prompted (unnecessarily) gloomy predictions about India's future in world financial markets, but hardly tarnished Reliance.[33] In late October of the same year, Anil Ambani, joint managing director and son of Dhirubhai, revealed that the Hazira plant finally had found a wealthy backer. Itochu of Japan would commit $50 million, making this Japan's biggest investment in India, as well as accounting for one-quarter of Japan's cumulative direct and portfolio investment in India since independence in 1947 ($197 million).[34]

The Reliance–L & T saga illustrates two important themes: excessive regulation of private industry and the government favoritism that often resulted; and the clash between traditional—family and ascriptive group-oriented—and cosmopolitan business practices. Although the Reliance group was new, it was fully traditional in the sense of being an old-style family- and community-based industrial empire. L & T, the object of the Ambani family's takeover bid, by contrast, was a former multinational subsidiary that had evolved into a majority Indian-owned firm with "modern," or nonfamily-dominated, management.

The case furthermore demonstrates how even incremental financial liberalization can change the options for a private firm. The Ambanis' takeover bid for L & T had two classic motivations: backward integration and access to financing. L & T and RPL were each other's best customers. Neither RIL nor RPL could raise sufficient debenture financing for the planned petrochemical plant expansion because both had debt-equity ratios as high as the Controller of Capital Issues (CCI) would permit. Arguments that the proposed joint enterprise easily could support further debt financing were unlikely to succeed since the CCI's mandate always had been as much to discourage the growth of large firms as to ensure the financial soundness of corporate issues. Reliance was not willing to borrow from the government-run development finance institutions (DFIs) as long as the convertibility clause remained, or to issue substantial additional common, that is, voting, stock for either RIL or RPL in the markets since those shares, too, would be likely to be bought by the DFIs. Under the restrictive rules of the game in place in the late 1980s, the Ambani family had strong incentives to use its political connections for all their worth. The story shows the power of public-sector financial institutions as holders of huge chunks of corporate equity, as at L & T, although not at Reliance.

Deregulation in the early 1990s necessitated a shift in the Ambanis' tactic. Within a very short time after the rules changed, the family reconstituted its two main firms (Reliance Industries and Reliance Petrochemicals) as a de jure, rather than merely a de facto, conglomerate. Once the Indian government indicated willingness to liberalize access to international financing, the Reliance group ceased its efforts to get around regulations by trying to raise "creative" investment financing—that is, by colonizing L & T and then getting L & T to extend it "trade credit." Instead, the business house aggressively, and successfully, set about raising expansion funds in international markets.

CONCLUSIONS

Three themes stand out in the evolution of business financing in post-independence India: (1) a progressively greater interventionism that characterized industrial and financial policies through the mid 1970s, followed by a trend of economic liberalization; (2) the coequal nature of objective economic problems, persuasive economic ideas, and politics as an explanation for the evolution of industrial regulations in India; and (3) the evolution of financial regulations in light of the outcomes preferred by Indian policymakers—which may after all not have been as benighted as some critics have suggested.

The causal link between industrial and financial policies in India may be highlighted by the sharp contrast between the implicit model of financial development in the minds of Indian policymakers and that suggested in the 1960s and early 1970s by many Western advocates of "financial deepening." American and British scholars and development consultants, working in India and other developing countries, frequently came close to arguing that the combination of freeing interest rates and establishing the legal framework for a variety of financial institutions and innovative instruments, in and of itself, would stimulate savings, private entrepreneurship, and thus vigorous industrial growth (Gurley and Shaw 1960; McKinnon 1973). That is, financial "development" could generate industrial growth. The contrast with Indian ideas and practice hardly could have been greater. Democratic socialism in India first meant selecting a desired path of industrial growth, then manipulating financial levers to try to achieve these results. During the heyday of government interventionism, from the 1950s through the 1970s, neither rapid financial diversification nor dramatic gains in economic growth occurred. Economic and industrial growth during those years were both steady, but hardly spectacular, compared with South Korea and Taiwan in East Asia, or Brazil and Mexico in Latin America.

This chapter also sought to demonstrate the tight link between the democratic vocation of the majority of India's leaders and their belief that democracy would be undermined, or at least they would never win an election, if they were seen as too chummy with a privileged entrepreneurial and financial elite in a desperately poor country. Since India is a multiethnic, multireligious, and even multilingual society—and also a functioning democracy—it is not surprising that the goals of Indian industrial policy have been complex. Bank nationalization in 1969, for example, was in part an attempt by Mrs. Gandhi to scoop her political rivals within and without the Congress Party by being more populist than they. However, bank nationalization also tremendously improved access by a rural population to a sometimes unrecognized, yet essential, component of urban infrastructure: a savings account, perhaps even a small business loan (see Ghosh 1979, inter alia). The sagas of the Monopolies and Restrictive Trade Practices (MRTP) Act, and of the Foreign Exchange Regulation and Control Act (FERA), similarly, were a response to politically important goals of "democratizing" access to the means of production, whereas financial levers were their major means of enforcement.

Those disdainful of the antimarket bias of Indian financial regulation (and, of course, there are many) may do well to keep in mind the contrast between India's political experience and that of other newly industrializing countries. South Korea, China, and Brazil were all industrialized under mostly or entirely authoritarian auspices; political leaders in those countries had no need to consider the preferences or prejudices of the masses. Even if one recognizes that India's industrial and financial policies produced slower growth than a more pro-business regulatory regime would have done, surely there are certain aspects that make this trade-off, more or less consciously made by Indian political leaders through the 1970s, defensible (see Armijo 1995).

Finally, there are good reasons to believe that the shift toward economic and financial liberalization since the 1980s will be a lasting one, temporary setbacks such as the 1992 stock market scandal notwithstanding. Much of the impetus for reform in the early 1990s has come from the public sector's resource crunch. The central government deficit and the trade deficit worry responsible planners. Freer financial markets will mean that indirect taxation through the financial system by means of high reserve requirements will fall, thus magnifying immediate fiscal woes. However, there also are medium-term offsetting benefits for the public purse, quite apart from the overall economic stimulus expected from deregulation. More modern systems of financial control—for example, in the Reserve Bank of India (RBI) and the nationalized banks—can help the authorities reduce tax evasion. Profitable state-owned enterprises (SOEs) are expected to be able to follow the example of countries like Mexico, Chile, and Brazil and raise significant amounts of financing from national and international capital markets, even as the state retains a controlling interest in these firms.[35] In the early 1980s, regulators allowed profitable state firms to follow the lead of the large industrial houses and begin accepting public deposits. A few SOEs even received leave to raise funds in the organized capital markets, first by debenture issues in the late 1980s and then by the unprecedented sale in 1992 of 15 to 20 percent of equity of selected state firms to development finance institutions, such as the Industrial Development Bank of India (IDBI) and the Unit Trust of India (UTI), for eventual resale to the general public. There are plans for Euroissues of SOE debentures as well. Such regulatory changes constitute incremental, and politically less controversial, privatization by means of financial deregulation.

Economic policies also have shifted because learning has occurred, which, in turn, has brought about shifts in the dominant paradigms of opinion leaders. Many of India's leading economists today are convinced that the economic costs of continuing active policy discrimination against both foreign and large Indian firms exceed the benefits (see Ahluwalia 1985, 1991; Jalan 1991, inter alia). If that is the case, then the pervasive financial controls of the past are no longer needed. There also exist political incentives for elected leaders to support more market-oriented economic policies. Structural changes in the economy over the past decade have created a large, politically assertive, urban middle class that wants to be able to buy modern consumer goods—just the sort of products that planners actively discouraged for decades. The growing size of this constituency, and its high propensity to participate politically, shifts the calculus of rational politicians toward greater market openness. As was the case with the 1969 bank nationalization, which signaled the most interventionist phase of Indian industrial and financial policies, the process of financial liberalization is likely to be contentious. One should hope so. After all, the opportunity to participate in vigorous debate over public policies has to be one reason why citizens put up with the manifest economic "inefficiencies" of democratic government.

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Notes

1. On contemporary Indian politics and political economy see Frankel (1978); Hardgrave and Kochanek (1986); Kohli (1991); Rudolph and Rudolph (1987); and Weiner (1989).
2. See Table 6.1.
3. Two very different works that give great weight to the influence of the economic perceptions and beliefs of policymakers are Frankel (1978) and Jalan (1991).
4. On Indian attitudes toward private capitalists see especially Kochanek (1974, especially pages 27–51).
5. Encarnation (1989, 137) credits C. Ragagopalachari (1980), founder of a short-lived, business-oriented opposition party in the 1970s, with this now ubiquitous term of affectionate contempt that Indians use to describe their national regulatory system.
6. The author's interviews with business persons in Bombay in 1992 uncovered considerable anecdotal evidence on this point.
7. The Planning Commission was the primary locus of economic policymaking through the mid-1970s. Thereafter, the cabinet, and particularly the finance and industry ministers, became relatively more important.
8. At the time of independence, most of the larger managing agencies were British owned and operated in the then industrial heartland of the country, Calcutta, while newer and smaller Indian-owned managing agencies had grown up around the textile industry and the rising industrial center based in Ahmedabad and Bombay (see Basu 1953).
9. A similar phenomenon of integrated commercial/financial/industrial groups played a key role in financial development in Latin America (see Leff 1978, 1979).
10. Interview conducted by the author in Bombay, July 1990, with the former managing director of a bank that was nationalized in 1969.
11. Ahluwalia (1991, 13) based upon ASI [*sic*] and L. C. Sandesara, "Performance and Change: A Study of India's Industrial Sector since Independence." Mimeoscript. Bombay: Centre of Advanced Study in Economics, 1989.
12. These figures have been converted at the official exchange rate, which for many years was substantially overvalued, leading to an underestimation of the real size of India's economy.

13. See Encarnation (1989, 184–193) for an assessment of the types of power and influence the central government and the monopoly houses came to exercise over each another.
14. In 1976, precisely in direct response to problems of disciplining some of the central government's financial arms, the finance minister succeeded in altering the organization chart of the term lending institutions. The new lines of authority charged the Industrial Development Bank of India (IDBI) with the mission to coordinate all other development banks and development finance institutions. The IDBI, in turn, became independent of the Reserve Bank of India and directly subordinate to the Ministry of Finance.
15. Prasad (1987) suggests that the sample size varied from seven hundred to thirteen hundred firms. A pocket folder published by the Reserve Bank of India notes that the annual corporate financial survey included 1,867 nonfinancial private firms (for which full data were available for 1,838 large firms) in fiscal year 1984–85 and 621 nonfinancial firms (581 large firms) in fiscal year 1986–87. See RBI, *Indian Economy: Basic Statistics*, Supplement to the RBI Bulletin, Bombay: RBI (December 1988).
16. The practice among large commercial and industrial firms of accepting the public's deposits dates from the days of the colonial managing agencies. That it continued into the 1990s was less a function of its inherent attractiveness or efficiency than an implicit response to the high degree of repression in Indian financial markets. The regulatory authorities have periodically attempted to restrict the use of both corporate deposits and trade credit (see Kulshreshtha 1986).
17. These totals are computed by summing the relevant columns of Table 6.4b.
18. Economist Intelligence Unit, hereafter EIU (1992, 17), shows that incremental capital-output ratios in the Indian economy had increased from 4.1 during the second five-year plan (1956–61) to 6.8 in the sixth (1980–85). During the late 1970s, perhaps because of the moderately conservative (at least by Indian standards) Janata Party government, the capital-output ratio fell briefly.
19. On the India–China comparison, see Feinberg, Echeverri-Gent, and Müller (1990); Gupta et al. (1991); and Rosen (1992).
20. "Political setbacks will not reverse reforms." *India Business Intelligence* 33 (April 5, 1995): 1.
21. It should be noted that few Indian workers are eligible for government unemployment insurance plans. Many politicians recognize that social policies, similar to the retraining program partially funded by the World Bank in the early 1990s, the National Renewal Fund, will be necessary if labor unions are to be persuaded to accept economic restructuring.
22. See Vivian Fernandes and Daksesh Parikh, "Company Restructuring: The Surge to Merge." *India Today* (June 15, 1993).

23. Sunil Jain, "Liberalisation: now you see it, now you don't." *India Today* (July 31, 1992): 97.
24. Net new inflows of private capital, much of it from NRIs, averaged $0.4 billion annually in the early 1980s and $1.8 billion by the late 1980s. Figures for the balance of payments category "net private transfer payments," mainly from the wages saved by Indian construction and service workers in the Arab and Gulf states, were five times the amount of private capital inflows in the early 1980s, but only one and a half times as large by the late 1980s. Foreign borrowing by the central government, including about one-third on commercial terms, also ballooned in the 1980s. Total foreign debt, only about $18 billion as of 1980, rose to about $70 billion by the early 1990s, catapulting India to the ranks of large developing country debtors.
25. Although government economists were well aware of the problems excessive reserve requirements caused for the banking system, these revenues made a substantial contribution to central government finances. Given that successive administrations, beginning with that of Rajiv Gandhi, were committed to trade liberalization, which inevitably would mean dramatically lessened revenues from import and export taxes, the finance ministry had every incentive to move slowly to reduce reserve ratios. The financial scandal of 1992, involving (among other abuses) illegal routing of bank funds into risky but high-yielding stock market investments, also suggested that the prudential justifications for a high statutory liquidity ratio continued to have some merit. On the scandal see Armijo (1996).
26. These figures are rough estimates. They were cited by the prominent business economist D. R. Pendse in a public lecture at Brown University in Providence, Rhode Island, November 16, 1993.
27. See, for example, the discussion of the lobbying by big business groups to strike out mandatory convertibility clauses in D. P. Sharma, "Private Sector's Privateness," *Economic and Political Weekly* (September 7, 1991).
28. Dr. C. Rangarajan, former professor at the Indian Institutes for Management and appointed governor of the RBI in early 1993, had close intellectual ties with many in this group of would-be reformers of India's capital markets. See also the editorial "The Right to Know," *Business Today* (June 22–July 6, 1992): 7.
29. Among the more important news articles consulted were (in chronological order): S. Gurumuthy, "L & T Under Hijack Again," *Indian Express* (February 17, 1991); Maneck Davar, "Ambani Firm Will Flop Without L & T," *Indian Express* (February 18, 1991); A. R. Ghatak, "Why Dhirubhai Had to Come Back," *The Statesman* (March 3, 1991); "Questionable, Yet Legal," *The Times of India* (April 19, 1991); "Judicial Indictment," *Economic and Political Weekly* (April 27, 1991); "RIL Decides Not to Avail of Supplier's Credit from L & T," *The Economic Times* (May 29, 1991); S. N. Vasuki et al., "Embattled Giants: The Government Turns the Heat on Corporate Czars,"

India Today (July 31, 1991); Maneck Davar, "Ambanis Bid on L & T: Why Are BSE and SEBI Silent?" *Indian Express* (August 14, 1991); "Indian Express Shuts Out the Truth—Because It Involves Nusli Wadia," *The Business and Political Observer* (August 14, 1991); "Major Setback," *Economic Times* (September 20, 1991); M. G. Jajoo, "L & T Saga: Megalomania in Perspective," *Economic and Political Weekly* (November 9, 1991); "Reliance Merger," *Economic and Political Weekly* (March 21, 1992); Jonathan Friedland and Sucheta Dalal, "That Sinking Feeling: India's First Overseas Equity Issue Collapses," *Far Eastern Economic Review* (July 2, 1992); Hamish McDonald, "Breaking the Bonds," *Far Eastern Economic Review* (November 5, 1992); and Jeremy Clift, "Reliance Industries Storms to the Top," *Reuter News Service*, Bombay (May 27, 1993).

30. Jeremy Clift, "Reliance Industries Storms to the Top," *Reuter News Service*, Bombay (May 27, 1993).
31. As elsewhere in this chapter, all rupee amounts have been converted into current U.S. dollars, according to the exchange rate table provided by the Center for Monitoring the Indian Economy (1991). In some cases, the amounts thus arrived at differ from figures in other sources, including some of the news articles cited above.
32. As of fiscal year 1987–88 the Reliance group was India's third largest industrial house, with assets of Rs20.3 billion ($1.5 billion), turnover of Rs10.01 billion ($740 million), and pre-tax profits of Rs130 million ($9.7 million). That same year the Larsen & Toubro group was the eighth largest business house, with total assets of Rs9.3 billion ($693 million), turnover of Rs.658 million ($49 million), and pre-tax profits of Rs440 million ($32.7 million). See Agrawal, Varma, and Gupta (1991, 185).
33. Friedland and Dalal, "That Sinking Feeling"; also "Reliance GDS Plunge Unnerves Investors Abroad," *The Economic Times* (June 20, 1992).
34. McDonald, "Breaking the Bonds."
35. Much of the new foreign investment in Latin America has come from privatization of state-owned enterprises, often in the form of debt-equity swaps. See Cleaves, Conroy, and Baer (1993).

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