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Growth of Stock Exchanges in India

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Abstract: *Stock markets are considered to be the barometers of economic development. A nation's development directly depends on the working of its stock markets. The United States of America and other Western countries' economic development is attributed to the existence of vibrant and transparent stock markets. Though a stock market is a secondary market, it directly influences the primary market's effectiveness. The primary market is used to issue securities both by corporates and governments. A firm gets a market for its securities in the primary market only when its existing securities are well traded in the secondary market. In other words, the stock market acts as a mirror of the working of the company.*
Keywords: *Market, Stock Exchange, Securities, Trades, Transport, Economic*

I. Introduction:

Origin and Growth of Stock Exchanges in India

A security that does not get listed and/or traded in the secondary or stock market affects the ability of the firm to raise resources in the primary market. Lack of resources in the form of capital affects the firm's investment decisions. This also applies to governments. Governments, the world over, depend on stock markets for financing their developmental plans. Government security that has no trading or listing in the security market affects the ability of the government in raising resources. Stock Exchanges are the most perfect kind of market for securities of government or other public bodies and also for shares and debentures issued by joint stock companies. Naturally, the evolution of a Stock Exchange (SE) requires the existence of joint stock companies whose shares are sought to be traded there at. The earliest shareholding company that can be traced in the world was in France. It was Societe des Moulins Du Bazacle in Toulouse1. It had 16 stocks that could be bought and sold. The local electric company's scrips were quoted on the Tonlouse Stock Exchange until 1946. The earliest version of the Stock Exchange - a Bourse appeared in Lyon's2 in 1540. In 1969, it was named, 'Agents De Change'. A house meeting the features of SE was established in 1724 in Paris.

However, it did not remain very active. Nevertheless, it was reopened as a result of the direction of Napoleon Bonaparte in 1801. In 1553, for the second time in the economic history of the world, a proposal for the formation of a joint stock company was submitted to the British Monarch explorer, Sebastian Cabot. Under his leadership, some 25 merchants contributed $25 each to equip three ships for a sea voyage to find a North East trade route to China and the Orient. Two ships floundered and only one reached the port of Archangel. Trading started between England and Russia under the banner of "Muscovy Company". In 1600, the East India Company (EIC) was established. This was formed to develop trade with India and the East Indies. Another company called, Hudson's Bay Company, which is still in existence was formed in 1668. United East India Company of Netherlands was established in 1602. In 1621 Dutch West India Company was formed.

Need for the Study: India is the home of one of the world's oldest stock exchanges. The Bombay Stock Exchange, Mumbai (BSE) is more than 100 years old and is the oldest Stock Exchange (SE) in the Asian region. The National Stock Exchange (NSE) is a newly established hi-tech stock exchange in the country. Its establishment has brought a sea change in the working of stock exchanges in India. Besides these two premier institutions, the country has 21 Regional Stock Exchanges (RSEs). How efficient are Indian Stock Markets? How do they compare with the world's best stock markets or stock exchanges? These are some of the questions that are raised in many circles and deliberations. The general complaint is that Indian Stock Markets are not as good as compared to their counterparts in some of the major countries. The working of the stock markets in India is hampered by a series of scams, one followed by another; Harshad Mehta's scam, 4 Ketan Parekh's scam, Bansali's scam, UTI Scam, de-materialization scam, etc. These scams have killed the vibrancy of Indian stock markets and have made the task of regulators and the government difficult in improving the standards of work. Small investors are highly skeptical and are unwilling to put their hard-earned savings in stock market securities. With the lack of small investor participation, the Indian stock markets have lost their depth and breadth in recent years. The shareholding pattern of corporates is highly skewed in favor of promoters and their friends. The use of takeovers for removing inefficient managers is hardly heard in Indian contexts. There are no hostile takeovers in the Indian context. All takeovers, if they exist are friendly and arranged. This has accentuated and perpetrated inefficiency at all levels. The inefficient managers go unpunished and in some cases rewarded also. A nexus has developed among market players in Indian stock markets whereby the firms and promoters can raise resources from the primary market and disappear. There is a big list of "Vanishing Companies", companies disappearing after raising resources.

STOCK EXCHANGES AND ECONOMIC DEVELOPMENT

Stock Exchanges i.e., the securities markets, are part of the whole financial system. The role of the financial system in economic development has been a much-discussed topic among financial experts and economists. Economic development greatly depends on the rate of capital formation1. Capital formation depends on the availability of finance in time, inadequate quality and on favourable terms. Stock markets contribute to economic development by enhancing the liquidity of capital investments2. Without a liquid stock market, many profitable long-term investments would not be undertaken because savers would be reluctant to tie up their investments for long periods of time2. On the other hand, liquid equity markets permit savers to sell their shares easily, thereby allowing firms to raise equity capital on favourable terms. By providing long-term, more profitable investments, a liquid market improves the allocation of capital and enhances prospects for long-term economic development. Stock exchanges - the secondary markets for dealing in the already issued securities, though incapable of providing direct finance to the companies, have become a highly crucial institutional framework to ensure the marketability and liquidity of the financial instruments.

They are considered to be the barometers of the financial health of the economy of any nation which has free market forces in place. From the outer fringe of economics, the bourses have arrived on the centre stage of the national economy of India; with the advent of economic reforms and dismantling of the suffocating license and permit Raj of the ill-fated socialistic era. These auction markets have ushered into the economy a new and all-promising financial environment. Stock markets in developing 74 countries account for a disproportionately large share of the boom in global stock market activity4. The growth of stock exchanges in India is truly incredible. It is an engrossing account of economic miracles that have firmly put the country on the path to superpower states on the global scene.

Bombay Stock Exchange (BSE): The birth and history of the Bombay Stock Exchange is not only interesting but it also reads like a story. A few brokers used to gather in 1830s near the Fort, Mumbai under a sprawling banyan tree. The East India Company, which started industrialization and the concept of modern industry in India, formed the background. By the early eighteenth century, the East India Company had full control of India and Bombay was in a way the fully controlled territory of the East India Company, which was the first of its kind in India to give birth to the corporate sector.

Brokers used to come together to transact and deal in loans securities. 4 per cent and 5 per cent interest loan-trading was in 114 ways the beginning of the capital market and that of BSE which was started in the second quarter of the eighteenth century. About half a dozen share brokers used to meet during 1840-1850. They had only a limited business to transact and their meeting place was under the wide-spreading banyan trees in front of the Town Hall at the Cotton Green where Elphinstone or Homiman Circle is now situated. Brokers continued to meet there till 1855 by which time their number had increased between 30 and 40. After 1855, brokers made their marketplace again under the shade of some banyan trees, between the old Fort Walls and the old Mercantile Bank on the open site now facing the Central Bank of India head office building at the junction of Medows Street and Mahatma Gandhi road. By 1860, the number of brokers swelled to 60. During the exciting period of the American civil war, their number increased remarkably from about 200 to 250.

II. Conclusion:

Till 1874, they used to meet and do business in the open in a street, now, known as Dalai Street. In Gujarati and another Indian language, the word "Dalai" means a 'broker'. And hence the name 'Dalai Street'. In the year 1875, the native Share and Brokers' Association which came to be known as the Bombay Stock Exchange (BSE), was established in Bombay. Initially, the BSE was founded and dominated by the Gujarati community.

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