THE SMALL INDUSTRIES POLICY AND THE DEVELOPMENT OF CAPITALISM IN INDIA

CENTRE FOR THE STUDY OF REGIONAL DEVELOPMENT
SCHOOL OF SOCIAL SCIENCES
JAWAHARLAL NEHRU UNIVERSITY

Certified that the thesis entitled "The Small Industries Policy and the Development of Capitalism in India" submitted by Nasir Tyabji for the degree of Doctor of Philosophy is a bona fide work to the best of my knowledge and may be placed before the examiners for their consideration.

Dated : 23·4·83. Supervisors

Dated : 23·4·83 Chairman

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NASIR TYABJI

CENTRE FOR THE STUDY OF REGIONAL DEVELOPMENT
SCHOOL OF SOCIAL SCIENCES
JAWAHARLAL NEHRU UNIVERSITY
NEW DELHI 110067

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NASIR TYABJI

ABSTRACT

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At the time of Independence in 1947, the structure of Indian industry differed very markedly at its upper and lower reaches. While concentration of capital had already reached advanced levels, widespread industrial activity took place on a precapitalist basis in the hands of small producers. These producers consisted both of those producing for the market (commodity producers), and of the village craftsmen exchanging their produce on a traditional basis.

In the post independence period, when faced with such a situation, the Government was required to take specific steps to "modernise" these pre capitalist structures of production; this was an important precondition for the continued growth of the capitalist market. By encouraging the growth of the small commodity producers to capitalist manufacture and small factory production, a substantial market could be generated both for machinery, tools and raw materials, and the wage goods produced in large factories.

The economic rationale for policies which embodied these specific steps was generated in the course of the nationalist movement. The pre-independence Government of India, largely a bureaucratic instrument for the fulfilment of imperial policy, in the response to the demands of the urban educated unemployed, initiated a few measures which amounted to support

for the small capitalist stratum. At the same time the Nehru variant of "democratic socialism" was advancing towards a specific role for small capitalist industrialists in its vision of industrial development as a whole.

However, this logic was countered by the socio-political argument in favour of continued protection to small commodity producers which emerged in the form of the Gandhian approach towards small industry. The Gandhian approach, which repre- sented the interests of both the small agricultural and industrial producer, gained a substantial amount of prestige as a result of Gandhi's influence on the national movement as a whole.

In the period before independence, the large Indian industrialists also appeared to be in favour of the Gandhian approach because their major fear was the Nehruvian approach to <u>large</u> scale industry. Nehru's strong advocacy of a dominent public sector essentially created by the nationali- sation of private sector units was a direct attack on their interests; and the creation of an expanding home market by the development of small capitalist units would have had no appeal to them if their own units were to be nationalised. Almost so as to complete the circle, they would probably have favoured the imperial Government's post Second World War approach to industrial development, which emphasised State "control" over specific industries so as to coordinate developmental activity, and large scale provision of credit and infrastructure.

The set of policy measures which we define as the Indian Small Industries Policy, and the integration of these measures into the plans of economic development after independence, were the results of the interaction between these varying conceptions of the industrialisation process, the specific degree of concentration and centralisation of capital in the economy, and the specific administration structure in the country; although this had evolved in accordance with the requirements of general imperial policy, it was in all essentials retained in the post independence period. In the work that follows, we have attempted to trace the form of this interaction and development and the results it has produced, in the period ranging from 1919, when Gandhi entered the nationalist movement, to the later half of the 1970s.

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CONTENTS

LIST OF TABLES

LIST OF FIGURES

****

INTRODUCTION

THE SMALL INDUSTRIES POLICY AND THE DEVELOPMENT OF CAPITALISM IN INDIA

At the time of independence in 1947, the structure of Indian Industry differed very markedly at its upper and lower reaches. While concentration of capital had already reached advanced levels, widespread industrial activity took place on a precapitalist basis in the hands of small producers.[1] These producers consisted both of those

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1. The term "concentration of capital" is used here to denote the situation where the majority of the means of production utilised for industrial production is effectively controlled, if not actually owned, by a small number of identifiable "interest groups". It is similar to the term "country wise" concentration used by the Monopolies Inquiry Commission in their report published in 1965 (p.2). Hazari has also used this concept to measure the share of the 20 largest private business groups in the Indian Economy, in 1951, and 1958. His results showed that in 1951, these groups controlled companies which accounted for 29 per cent of the share capital of the non government corporate sector (Table 2.3, p.40). Public Limited Companies within these groups accounted for 34 per cent of share capital, and 38 per cent of net fixed assets, of all non government companies of this type (Table 2.2, p.37).

   In terms of "product wise" or industry wise concentration, the results were similar. M.M.Mehta's work shows that in the cotton textiles, jute, sugar, iron and steel, paper, cement and coal industry, the managing agency system was used by large industrial interests to control a substantial proportion of the productive capacity in these industries.

   On the other hand, according to the 1951 population census, 58 per cent of the work force involved in processing and manufacture i.e. divisions 2, 3 and 4 of the Indian Census Economic Classification, consisted of "independent workers". These worked on their own account, and did not use hired workers.

contd...

producing for the market (commodity producers), and of the village craftsmen exchanging their produce on a traditional basis.[1]

In the post independence period, when faced with such a situation, the Government was required to take specific steps to "modernise" these pre-capitalist structures of

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The contrast between the two extremes of the industrial structure are evident from these sets of figures.

See, Government of India, Report of the Monopolies Inquiry Committee (Delhi : 1965).

R.K. Hazari, The Structure of the Corporate Private Sector (Asia, Bombay : 1966).

M.M. Mehta, Structure of Indian Industries (Popular, Bombay : 1955).

Census of India, Paper No.I of 1960 : Economic Tables of Reorganised States - 1951, Census, (Register General, Delhi : 1961).

1. A survey undertaken by the Planning Commission as late as 1955 showed that 35 per cent of the 401 artisan or craft households in the sample worked on a customary payment basis. See Government of India, Planning Commission, Programme Evaluation Organisation, Study of Village Artisans (New Delhi : 1956).

production; this was an important precondition for the continued growth of the capitalist market.[1] By encouraging the growth of small commodity production to capitalist manufacture and small factory production, a substantial market could be generated both for machinery, tools, and raw materials, and the wage goods produced in large factories.[2]

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1. According to the Taxation Enquiry Commission, the "imputed value" of total consumer expenditure was 44.6 per cent in the rural areas and 36.9 per cent in the country as a whole, in 1952. These figures provide some evidence for the extent of the "non-monetized" sector of the economy, and a rough indication of the volume of the demand potentially available for wage goods. Although comparable data on investment in the precapitalist industrial sector is not available, it seems logical to assume that the major part of the instruments of production, and raw materials, would be supplied from local sources. Transfer of even a part of the work force in this sector into capitalist enterprises using modern means of production would enormously increase the demand for factory made instruments of production.

   See, Government of India, Ministry of Finance (Department of Economic Affairs), Report of the Taxation Enquiry Commission 1953-54, Volume 1 (Delhi : 1955) pp.65-66.

2. This formulation of the problem of capitalist economic growth, and the role of industrial development within it, is essentially based on the model used by Lenin in his analysis of capitalist development in Russia. There are, of course, other theories of economic growth within "dual economies", of which the following are perhaps the most distinctive:

   W.A. Lewis "Economic Development with Unlimited Supplies of Labour". The Manchester School of Economic and Social Studies XXII (1954), 2.

contd...

Within this context, three sets of questions arise:

(1) What was the response of the government to this situation, in terms of policy, and how did these policies evolve?

G.Myrdal Economic Theory and Underdeveloped Regions (Duckworth, London : 1957).

J.M. Boeke Economics and Economic Policy of Dual Societies (Institute of Pacific Relations New York : 1953).

However, our major purpose in the work which follows is to attempt an explanation of the actual forces that led to the development of a policy to encourage small scale industrial production, and the way this was integrated into an overall plan for economic and social development. It is quite likely that within this concrete historical background, none of these latter models, postulated to explain the parameters determining economic growth in "backward countries" in general would fit the Indian case.

In fact, in his survey of literature on small enterprises in India, Douglas Fisher comes to the conclusion that:

..... While the overall approach of the Indian planners iscast within the Harrod-Domar framework, emphasis on small sized units is best explained either in terms of a model of absorbtion of excess unemployment (defensive) or in terms of creating diffusion effects to strengthen the economic base of the economy (offensive). It will be clear.... that some such processes as these underlie most, but not all, of the efforts to rationalise the strong emphasis on small size, where their superior efficiency cannot be established.

D. Fisher "A Survey of the Literature on Small Sized Industrial Undertakings in India" in B.F. Hoselitz (Ed.). The Role of Small Industry in the Process of Economic Growth (Mouton, The Hague and Paris : 1968). /Emphasis in original/ Lenin's study is The Development of Capitalism in Russia (Progress, Moscow : 1964).

More specifically, policy towards the "small producer" would need to be integrated with broader policies for economic development as a whole, that is, with a strategy of capitalist development.

The questions to be answered are therefore the following:

What was the Indian strategy of development?

What was the role for the "small producer" within this strategy?

How did the strategy and the role of the small producer within it evolve?

(2) How can we conceptualise the "small producer" so that it may be possible to monitor the effects of policy measures? Is there a framework within which the small producer may be located so that different stages of evolution are clearly marked?

Can we distinguish between capitalist and pre-capitalist forms of production on the one hand, and between the small capitalist and other capitalist strata on the other?

(3) Within this conceptual frame, what were the results of government policy, and of the

general strategy of growth, on the small producer?

Can we use the evolutionary framework to identify the state of evolution of the mass of small producers at two stages of time, so as to see the results of the strategy?

In the work which follows, it is the first set of questions outlined above which is the primary focus of attention. The other questions form subsidiary parts, elaborated to the extent to which it is considered necessary in order to clarify the answers to the primary questions. It is for this reason that in the next few paragraphs, we set out the framework for these primary questions, before describing the contents of each chapter in detail.

The socio-political rationale for policies which embodied these specific steps was generated in the course of the nationalist movement. The pre-independence Government of India, largely a bureaucratic instrument for the fulfilment of imperial policy, in its response to the demands of the urban educated unemployed, initiated a few measures which amounted to support for the small capitalist stratum. At the same time the Nehru variant of 'democratic socialism' was advancing towards a specific role for small capitalist industrialists in its vision of industrial development as a whole.

However, this logic was countered by the socio-political argument in favour of continued protection to small commodity producers which emerged in the form of the Gandhian approach towards small industry. The Gandhian approach, which represented the interests of both the small agricultural and industrial producer, gained a substantial amount of prestige as a result of Gandhi's influence on the national movement as a whole.

In the period before independence, the large Indian industrialists also appeared to be in favour of the Gandhian approach because their major fear was the Nehruvian approach to large scale industry. Nehru's strong advocacy of a dominant public sector essentially created by the nationalisation of private sector units was a direct attack on their interests; and the creation of an expanding home market by the development of small capitalist units would have had no appeal to them if their own units were to be nationalised. Almost so as to complete the circle, they would probably have favoured the imperial Government's post Second World War approach to industrial development, which emphasised State "control" over specific industries so as to coordinate developmental activity, and large scale provision of credit and infrastructure.

The set of policy measures which we define as the Indian Small Industries Policy, and the integration of these measures into the plans of economic development after independence, were the results of the interaction between these varying conceptions of the industrialisation process, the specific degree of concentration and centralisation of capital in the economy, and the specific administrative structure in the country; although this had evolved in accordance with the requirements of general imperial policy, it was in all essentials retained in the post independence period. In the work that follows, we have attempted to trace the form of this interaction and development and the results it has produced, in the period ranging from 1919, when Gandhi entered the nationalist movement, to the later half of the 1970s.

For this purpose, the thesis is divided into four parts. In the first part we set out the basis for understanding the developments in the field of small scale production by elaborating in the first chapter the process of evolution of an industrial capital. The features distinguishing this form of capital from merchant and usurer capital are identified, and the specific social forms of organisation which personify industrial capital are described and illustrated with reference to Indian data. Distinctions are also drawn between capitalist and precapitalist forms of industrial activity, and population census data are used to demarcate these two forms of activity on the criterion of the predominant use of wage labour.

In the second chapter, we use the concepts of concentration and centralisation of capital to demarcate the small industrial capital from other strata of the capitalist class. We demonstrate that the legal forms of organisation such as the proprietorship, partnership, and public and private limited companies represent increasing levels of centralisation of capitals. The correspondence between this hierarchy and the usually accepted one based on the size of the capital in question is also brought out. The distinction based on legal forms enables us to place capitals in the hierarchy relatively easily, though the existence of groups of enterprises under common control requires our criterion to be used with some care and knowledge of these connections.

In the third and fourth chapters, which constitute the second part, we analyse the structure of several industries in which units of small size predominated. We conclude that at the beginning of the period preceeding the formulation of the Second Five Year Plan, the system of commodity production subordinate to merchant, and sometimes to usurer capital, was the predominant structure in these industries. In specific cases, in particular in the handloom industry, cases of "karkhanas" in which the capitalist had risen from the ranks of the producer were also to be found, though here too the raw material and marketing networks were dominated by merchants.

Within the theoretical framework provided by the first part, and the empirical base provided by the analysis of the second part, the third part examines both the evolution of the small industries policy and its development. In the fifth chapter of the thesis and the first of three chapters in the third part, we examine the way in which the development strategy to be followed by the country after independence was refined and elaborated in the course of the national struggle. The development of the concept of planning is described, and the positions on planning taken by various strata and classes articulated.

In the next chapter, the two other historical components of the policy are analysed. These are the influence of Gandhian thinking; and the measure taken by the Government of India to combat educated unemployment through the encouragement of small scale units. Although these efforts were feeble, they were responsible for creating a climate in which small scale production was a recognised activity, and were influential for this reason.

Independence and the formalisation of the planning process led to the integration of these threads, and to the struggle between the "modernisors", and the more traditional Gandhians, over the specific role of small scale production units in a long term view of the economy. Circumstances which we analyse in some detail in Chapter VII, led to the implicit rejection of the Gandhian approach, in its substance, and towards measures to encourage the modernisation of small units already existing; and to the injection of new small units into the industrial sector. The Gandhian legacy continued in the form of the Khadi and Village Industries Commission, which was empowered to grant financial aid to units registered with it; but the Commission remained aloof from official policy formulation and was therefore unable to protect the markets of the industries in its care.

In the fourth and final part of the thesis, we attempt to measure the results of the Small Industries Policy, and the impact of general economic development, on the growth of the small scale sector. We do this in Chapters VIII, IX and X. As official data largely follow the distinction between those units which are exempt from the provisions of the 1948 Indian Factories Act, and the officially registered "factory" sector, we have had to follow suit. In Chapter VIII, therefore, we make use of National Sample Surveys, and the data in the Economic Tables of the population census to examine changes in the precapitalist and smaller capitalist units in the unregistered sector.

The National Sample Survey data refers to the unregistered sector as a whole, and it is not possible to break down the data into the pre-capitalist sector on the one hand, and the small capitalist sector on the other. However, on the whole, we find a decline in unregistered manufacturing activity on the basis of the surveys, and an analogous decline in employment. However, as the fall in employment is proportionately less than the fall in the number of households undertaking manufacturing activity, there appears to be a small increase in the workforce per manufacturing household.

The population census data, which we analyse with due regard for conceptual changes, refer only to the household or precapitalist sector, and here we find a very sharp fall in employment. What is of significance is the fact that the proportions of hired and family labour remain almost the same inspite of this large change in the total number of workers. This would imply that there has been a clearcut destruction of household manufacturing activity, with many units becoming defunct. From these results we may conclude that precapitalist producers, to be found within the ranks of the household units, have declined in economic activity on an absolute basis.

However, when we turn to the capitalist or non-household sector as a whole in Chapter IX, there is a completely different picture. Employment in this sector has increased substantially by 27 lakhs. Breaking down the capitalist sector into the registered factory subsector, and the unregistered subsector, by the use of Factories Act data, we find that though the share of employment in the unregistered subsector as a whole has increased, in most individual industries, its proportion has declined. Thus even in terms of share of employment, the larger units in an industry dominate.

Within the registered factory sector, we find that the small and medium small capitals, as defined in Chapter II have been largely able to retain their strength vis-a-vis the other capitalist strata. We find that the smaller capitals have managed to retain their share of fixed capital, value added and output, and have actually increased their share of the work force substantially.

Finally, in Chapter IX, we examine the growth of the home market in terms of the growth of units making use of modern energy sources. We presume in this exercise that units which make use of these sources are likely to use "modern" means of production. We find that by 1971, a large proportion of even those units which employed less than 10 persons were making use of electricity or liquid fuel. A substantial market for modern inputs and machinery must therefore have been created.

In Chapter X, which concludes the main body of the thesis we consider aspects of the small industries policy specifically concerned, in our view, with the problem of developing new capitalist entrepreneurs; and in defending the programmes against entry by ineligible persons and financial interests. We examine the issues of an appropriate definition for small scale units, the common response to this by entrepreneurs who "split" their units, and the controversy over the ancillary development programme. These are all issues requiring a sociological investigation and we are unable, on the basis of the evidence available, to reach a firm conclusion about the success of this aspect of policy. It does, however, seem to us that the base of entrepreneurship has been substantially widened by the combined operation of the programmes and of more general forces at work in the economy.

The strengthening of capitalist structures in the course of capitalist development, and the destruction of precapitalist production, are both features which are obviously related to the process of planned development in the Indian context. However, it is equally unsurprising that in the late 1970s, under the aegis of the Gandhian ideology proclaimed by the Janata Party, there should have been a resurgence of debate about the content of small industries policy. Our conclusion in Chapter XI, however, is that while some important points were raised in this debate, active support to the small commodity producer has been shown by experience to be infeasible. The very rapid collapse of the Gandhian point of view and the strong reiteration of the prevailing ideology of capitalist development in the latest, 1980, Industrial policy statement would appear to provide fresh evidence of the infeasibility of protecting precapitalist structures against the forces of capitalist development.

It would appear, then, that the answer to the question of whether the small industries policy has been a success can be satisfactorily answered only in relation to the logic of capitalist development. Within this logic we would expect the policy to encourage small capitalist production which, as we have seen, has been achieved. To expect the policy to support small commodity producers, and therefore to run against the logic of the differentiation of these producers, or their wholesale proletarianisation, would be to misread the very logic of capitalist development.

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CHAPTER I

THE CONCEPT AND THE ORIGIN OF AN INDUSTRIAL CAPITAL

I.1 Introduction

Marx had laid the basis for a sociological study of capitalist society in the first volume of Capital.[1] Social processes which were observed in such a society could be understood, in his view, only in relation to the fundamental social groupings which arose from the economic basis of the society. These fundamental groups were, of course, the capitalist class as a whole on the one hand, and the working class on the other; and the division between the two groups originated in the fact that the capitalist class, as the personification of capital in the form of the means of production, had monopoly control over the opportunities open to the working class for its own reproduction. In other words, the working class had no other access to sources of

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1. Karl Marx Capital, Volume I (Progress, Moscow:nd).
As we have pointed out in the introduction, the questions we shall attempt to answer in this work concern the nature of interaction between social forces, specific policy measures introduced by the State, and the evolution of the industrial structure. These are essentially questions of political economy, defined by Lenin as follows:

> It is not with "production" that political economy deals, but with social relations of men in production, with the social system of production. Once these social relations have been ascertained and thoroughly analysed, the place in production of every class and consequently, the share they get of the national consumption, are thereby defined.

V I Lenin The Development of Capitalism in Russia (Progress, Moscow:1964), p.63 [Emphasis in original] livelihood than that offered to them by capitalists, in return for the transfer to capitalists, of proprietory rights over their labour power for a specific duration.

However, the antagonism between the two classes did not originate in the mere dependence of the working class on the capitalists for their sources of livelihood; for in fact the capitalist as capitalist is equally dependent on the working class as the creator of the material elements necessary for his own reproduction. In Marx's words:

> Capital presupposes wage-labour and wage-labour presupposes capital. One is a necessary condition of the other; they mutually call each other into existence.[1]

The crux of the conflict lay in the nature of the commodity transaction whereby the variable component of capital was exchanged for the use of the hired labour power for a specific duration. The terms of the contract did not lay down that the duration was to be such that the worker produced commodities of value equal to his wage, which was presumed sufficient for the reproduction of the worker considered in a generic sense. The duration of the working day was fixed by forces essentially

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1. Karl Marx, Capital, Volume 1 (Progress, Moscow nd) fn 3 p.542. Marx also retells the story of Mr.Peel, who took £50000 and 3000 working class persons from England to Australia in the expectation that an individual enterprise could be established in Australia irrespective of the socio-economic formation there. On arrival in Australia, Peel found that all his workmen deserted him, leading Marx to comment that Peel's chronicler was forced to realise that "capital is not a thing but a social relationship between persons". Capital, Volume 1, p.717.

different, such as the ability of the working class as a whole to limit the number of hours, either through collective action or, as happened later, through legal enactments by the State. In any case, the extension of the working day beyond a point necessary for the worker to reproduce the value of his labour power was necessitated by the need for creation of surplus value, which was required by the capitalist class for its personal consumption. In the process of extended reproduction, the surplus value was conceived as consisting of two parts, the additional part utilised by the capitalist class for accumulation, or productive consumption. Thus the two classes were antagonistic because of the nature of the social relationship between them and the conflict over the appropriation of the value created. The attempts by the working class to increase its share of this value led to struggle which was the principal element behind the dynamic forward movement of capitalist society, through the processes of capital accumulation; but concurrently, the experiences gained during the struggle would lead the working class to greater consciousness that only by the overthrow of the capitalist social order would they achieve a society free of exploitation.

I.2 The Concept of the Industrial Capital

In the analysis of the capitalist mode of production, the individual capital was the core unit of the capitalist social system. The capital in question was linked to other capitals by economic relations through the processes of capitalist competition; by technical relations due to the specific technology embodied in the means of production at its command, and by social relationships through the mediation of personal relations of the capitalist class itself. However, all these relationships were organically based on the fact that the concentrated means of production in question took the form of capital: "a larger or smaller concentration of the means of production with a corresponding command over a larger or smaller labour army."[1]

In the present chapter, we are concerned with elaborating this concept of a capital, for our purpose is finally to identify characteristics which could help to locate the forms in which industrial capitals exist within the Indian social formation.

It is precisely the need to isolate industrial capitals from other forms of capitals that requires this development of the concept of a capital. For in the Indian social formation there are economic activities which industrial capital has not yet subordinated to itself. Surplus extraction in these cases may take place through domination

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1. Karl Marx, Capital, Volume 1 (Progress, Moscow: nd) p.585. Cf. "... the size of plant is a compound of capital and labour which are in it combined as factors of production." W. Baldamus "Mechanisation, Utilisation, and Size of Plant" Economic Journal LXIII (1953), 1.

by merchant or usury capital, or as Marx put it, through the formal subvention of labour to capital.[1] This is a question to which we shall return in a later chapter, on the basis of concrete evidence of surveys of small scale production; in this chapter we are concerned with capitals which are industrial capitals i.e. where the real subvention of labour has taken place. We are therefore concentrating on those capitals for which:

> ...not only the appropriation of surplus value, or surplus product, but simultaneously its creation, is a function of capital. Therefore with it the capitalist character of production is a necessity. Its existence implies the class antagonism between capitalists and wage labourers.[2]

The larger reason for distinguishing industrial from other forms of capital is provided by Marx in the immediately following sentence:

> To the extent that it seizes control of social production, the technique and social organisation of the labour process are revolutionised and with them the economic-historical type of society.[3]

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1. This aspect is discussed by Marx in the Chapter on Absolute and Relative Surplus Value, in Volume 1. See also the appendix entitled Results of the Immediate Process of Production in the Pelican edition of Volume 1 of Capital (Penguin, Harmondsworth: 1976).

2. Karl Marx, Capital, Volume 2 (Progress, Moscow: 1971) p. 57.

3. Capital, Volume 2, p. 57.

Identification of the strength of industrial capitals is therefore a necessary step before the relative strength of the capitalist mode of production (whether in industry or in agriculture) may be determined, and as we are concerned with the development of capitalism in industry, we need to investigate the process by which social production in this sphere becomes dominated by the urge to create surplus values.

I.3 The Origin of the Industrial Capital

There are three related aspects to the process of evolution of an industrial capital. The first is the accumulation in the form of money, or of commodities, of exchange value sufficient to cater to the requirements of advancing both constant and variable capital. The second is the evolution of the "collective working organism" which is the form in which the industrial capital actually exists. Only when a mass of value finds expression in the collective working organism of a capitalist type, does the mass in question become an industrial capital. Conversely, as we pointed out earlier, the defining characteristic of an industrial capital, that of creating surplus value, postulates the existence of a working organisation embodying the worker-capitalist antagonism.

The genesis of the capital, i.e. the process of accumulation which takes place outside the sphere of capitalist production occurs in two ways. The first is through the growth of merchant capital, which creates a role for itself through the separation of the circulation process from the exchanging producers at either end.[1] The merchant accumulates through the exchange of non-equivalents, buying cheap and selling dear. The second method of accumulation takes place with the transformation of the individual producer of use values, through the transitional stage of commodity producer, to that of capitalist entrepreneur. In this case the accumulation takes place concurrently with the evolution of the production organisation itself, so that the two aspects of the development of an industrial capital proceed organically. The surplus product which forms the basis for accumulation is generated in this case through increasing productivity, which reduces the necessary labour time for the production of the commodities in question below the socially determined labour time.

The third aspect of the development of an industrial capital is the continued application of the accumulated exchange values to the process of production. In essence this is the defining characteristic of industrial capital seen from the point of view of the circulation process:

> The two forms assumed by capital value at the various stages of its circulation are those of money capital and commodity capital. The form pertaining to the stage of production is that

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1. Marx discusses this process in Capital, Volume 3 (Progress, Moscow: 1971) p. 328.

> of productive capital. The capital which assumes these forms in the course of its total circuit and then descards them and in each of them performs the function corresponding to the particular form, is industrial capital, industrial here in the sense that it comprises every branch of industry run on a capitalist basis.[1]

The third aspect is then the actual use of the accumulation of value in the process of production. For Marx, the transition of merchant capital to industrial capital was a far less revolutionary process than the direct increase in the value accumulated gradually in the process of production. Comparing these two methods of the genesis of industrial capital he wrote:

> The transition from the feudal mode of production is two fold. The producer becomes merchant and capitalist, in contrast to the natural agricultural economy and the guild bound handicrafts of the medieval urban industries. This is the really revolutionising path. Or else, the merchant establishes direct sway over production. However much this serves historically as a stepping stone.... it cannot by itself contribute to the overthrow of the old mode of production, but tends rather to preserve and retain it as its precondition.[2]

As our purpose is to estimate the extent of development of industrial capitals, we have necessarily to examine these accumulations which have "direct sway over production", whether they have grown through the "revolutionising' process or not. We will therefore discuss the process of this transformation in greater detail.

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1. Capital, Volume 2, p. 50

2. Capital, Volume 3, p. 334

In his work on the development of Russian capitalism, Lenin had further worked out the process by which industrial activities were first separated from agriculture, and then became increasingly specialised, with division of labour taking place within branches of industry, and within individual production units.[1] The value composing the capital accumulated as the division of labour within the branches of industry evolved, and brought about organisational evolution of the structure of the units within the industry.

Six structural stages had been identified by Lenin, of which three were precapitalist, and three capitalist.[3] Starting with natural production where the family or household units' non-agricultural requirements were individually produced, the production structure evolved to include artisan production where specific households might specialise in items required by the community. The third stage was that of commodity production on a small scale, usually the mediation between

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1. V.I. Lenin, The Development of Capitalism in Russia, (Progress, Moscow: 1967).

2. Buchanan used a scheme involving four stages - usufacture, retail handicraft, wholesale handicraft, and centralised production - to classify various stages of evolution of Indian industry in the nineteen thirties. This scheme is similar, in many ways, to Lenin's.

   D.H. Buchanan, The Development of Capitalistic Enterprise in India (new ed.) (Frank Cass, London: 1966), Chapter VI.

producer and market taking place through the agency of merchant capital. Simple commodity production then developed to capitalist commodity production through either one of the two processes described earlier i.e. either the commodity producer, or the merchant, turning into an industrial capitalist, employing hired labour working on the raw materials and with the instruments of labour provided by the capitalist.

On the basis of his analysis of the house to house census of handicraftsmen in the Moscow Gubernia, Lenin reached two important conclusions. The first was about the replacement of family labour by hired labour as the total labour force of the unit increased i.e. '"Family cooperation" is thus the basis of capitalist cooperation.'[1] The second concerned the relationship between the size of the capital, and the form in which the proprietor himself took part in the enterprise:

> Whether he himself is a worker, if his capital is still very small, or whether he gives up working himself and specialises in commercial or entrepreneur functions. "One can establish a connection between the position of the workshop owner and the number of his workers" -- we read, for example, in a description of the furniture industry. "The employment of 2 or 3 workers provides the proprietor with such a small surplus that he has to work alongside of them... The employment of 5 workers already gives the proprietor enough to enable him to give up manual labour in some measure, to take it easy some-

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1. Lenin, op. cit., p. 355

> what, and to engage mainly in the last two business functions." (i.e., purchase of materials and sale of goods). "As soon as the number of wage workers reaches 10 or exceeds this figure, the proprietor not only gives up manual labour but practically ceases to supervise his workers; he appoints a foreman for the purpose.... He now becomes a small capitalist, a 'born master'."[1]

The development of capitalist entrepreneur is therefore logically dependent on extent of the surplus per worker. Marx had analysed the relationship in the following manner. He argued that a worker in possession of his own means of production would typically need to work for 8 hours in order to produce his means of subsistence; the capitalist on the other hand who makes him do:

> Besides these 8 hours, say 4 hours surplus labour, requires an additional sum of money for furnishing the additional means of production. On our supposition, however, he would have to employ two labourers in order to live, on the surplus value appropriated daily, as well as, and no better than a labourer, i.e., to be able to satisfy his necessary wants. In this case the mere maintenance of life would be the end of production, not the increase of wealth; but this latter is implied in capitalist production. That he may live only twice as well as an ordinary labourer, and besides turn half of the surplus-value produced into capital, he would have to raise, with the number of labourers, the minimum of the capital advanced 8 times.[2]

The question which remains unanswered by the analysis so far is why should the capitalist not continue to use his own and his family labour, in addition to hired labour, thus reducing the quantum of variable capital to be advanced. The

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1. Lenin, op. cit., p. 361

2. Capital, Volume 1, pp.291-92

answer to this is provided by the demands of coordination dictated by the work situation:

> All combined labour on a large scale requires, more or less, a directing authority, in order to secure the harmonious working of the individual activities, and to perform the general functions that have their origin in the action of the combined organism, as distinguished from the action of its separate organs.... The work of directing, superintending, and adjusting, becomes one of the functions of capital from the moment that the labour under the control of capital, becomes cooperative.[1]

The reason why the capitalist and his family are gradually removed from active work in the production process is thus due to the need engendered by the scale of operation, of persons to control and coordinate the production process; in other words, the elaborate scale of operation requires the development of supervising occupations.[2]

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1. Capital, Volume 1, p. 313
2. In his study of small business in the United States, E D Hollander makes a distinction between "little" business and "small business" in a analogous manner. He says:

   > The borderline between "little" business and "small business" comes as the number of employees and the asset size of the firm increase to the point at which the owner becomes primarily a "manager", or must hire a manager. This borderline is necessarily imprecise and differs with the nature of particular businesses. But because of the usefulness of "little" business as an analytical distinction, we will attempt to distinguish it in this study wherever possible".

   E D. Hollander et al The Future of Small Business (Praeger, New York:1967) pp. 6-7.

   In England, the Committee of Inquiry on Small Firms had, in their Report, accepted the distinction made by Hollander, though they did not use it in analysis.

contd...

We can see that the proportion of family to hired labour is an important index of the level of development of capitalist relations, for it captures the essence of both the growth of the capital to a size where variable and constant capital of sufficient magnitude may be advanced; and also the division of labour between workers and directors of work. However an important development of Marx's analysis takes place in the following excerpt.

> The minimum of the sum of value that the individual possessor of money or commodities must command, in order to metamorphose himself into a capitalist, changes with the different stages of development of capitalist production, and is at given stages different in different spheres of production, according to their special and technical conditions.[1]

The point is that as the organic composition of capital is different in different branches of production at a given time, and changes within these branches over time, it is not sufficient to determine that "minimum sum of value" as an average across all industries. Secondly, because of the relatively more advanced nature of a particular industry, the sum of value owned by an individual, although greater than that owned by a capitalist entrepreneur in another

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They did, however, have a separate chapter on "The crafts" where they dealt with the full time self-employed craftsman, distinguishing him from the small businessman by the absence of employees, and the consequent need for him to undertake all the functions required in a business. Great Britain, Report of the Committee of Inquiry on Small Firms, (Cmnd. 4811) (HMSO, London: 1972).

1. Capital, Volume 1, p.293

industry, may still not be sufficient for capitalist operation within his own area of production.

In this connection the point that needs to be stressed is that a high value of investment in instruments and subject of labour does not in itself imply capitalist production relations within the unit. For it may happen that technical progress in a specific branch of industry has so raised the organic composition of capital, that only commodity production rather than capitalist production is possible, using only family labour. As Marx says:

> ...in each business there exists, commensurate with the development of its production, a normal minimum of invested capital essential to maintain its capacity to compete. This normal minimum grows steadily with the advance of capitalist production, and hence it is not fixed. There are numerous intermediate grades between the normal minimum existing at any particular time and the ever increasing normal maximum, a medium which permits of many different scales of capital investment.[1]

The point is that industrial capital cannot be said to dominate a particular branch of industry if the capital-wage labour antagonism does not as yet dominate the social relationships within the industry. The actual value of the means of production may well be greater than in another less advanced branch of industry, run on capitalist lines, but they do not yet constitute capital.

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1. Capital, Volume 2. p.262.

I.4 Empirical Identification of Industrial Capitals

The process of development of industrial capital depends as we have seen, on the one hand on the accumulation in individual hands of value sufficient to meet the needs of advancing both constant and variable capital; and on the other, on the evolution of social forms of production in which wage labour predominates, and the entrepreneur concentrates on the managerial aspects of the work process. In establishing the extent of development of capitalist relations in industry, the most rigorous method would then be to determine the dominating form or forms of organisation of production within an industry, and then proceed to the question of whether these forms were capitalist or precapitalist in content. To do this we need to have data on the extent of wage labour as a percentage of family labour; the role of family labour in actual production on the one hand, and in coordination and in functions related to production on the other; and some indication of the value of the instruments and the subjects of labour used in the production process.

The limited empirical basis for such observation is provided by data in the 1971 Census, and the Census of registered small scale units which was carried out in 1973.[1]

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1. Government of India, Ministry of Industry, Development Commissioner, Small Scale Industries, Report on Census of Small Scale Industrial Units (New Delhi: 1977).

We will first examine the national census data, and discuss the transition from family oriented units to wage labour dominated ones. We will confine our discussion to units which are smaller than registered factories (i.e. employ less than 10 workers with the use of power, and less than 20 without power). The census has made an effort at separating units at different levels of technology by classifying them according to the type of motive mechanism which is used. The five sources of energy are electricity, liquid fuels, solid fuels (coal, wood and bagasse), other fuels (wind, water, animal power), and human energy. For each of these energy sources, data are provided for the number of "household" (HH) and "non-household" (NHH) units employing 1, 2-4, 5-9, 10-19 persons respectively.[1]

This level of detail allows us to judge the employment size group in which NHH units begin to predominate. A priori we would expect this to happen earlier in the technologically more advanced industries, for it is precisely in such units that the surplus product per worker is comparatively large. On the other hand, problems of coordinating work processes also become more complex with advanced technology. Thus on

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1. According to the Census, a household unit employs predominantly family labour, while a non household unit employs predominantly wage labour. The HH to NHH transition is therefore a close approximation of the transition from "family to capitalist cooperation". There is also a locational criterion, in that a household unit is expected in urban areas to be situated adjacent to the living quarters of the family, and in rural areas, in the same village. This criterion is meant to ensure family participation in the unit.

both grounds we would expect a transition to capitalist units (in terms of dominance of NHH units) to occur in smaller units (measured by employment size) in technologically advanced industries.

We have chosen three distinct groups of energy sources; these are electricity, solid fuels, and human power (manually operated units).[1] It is possible for each of these to indicate visually, unfortunately only at the level of 2 digit National Industrial Classification industry groups, the ratio of the number of NHH to HH units in a particular employment size range. By joining the corresponding ratios for each industry group, we get a "contour map" of the transition to capitalist development.[2] Results of exercises of this type are presented in the accompanying figures (Figures I.1 and I.2).

In the case of manually operated units, the contour of the 1 person and 2-4 person units are almost identical. This indicates that family labour is used equally frequently whether 1 person, or 4 persons are at work.[3] NHH units increase

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1. The three energy sources have been chosen because there are sizeable numbers of units using these sources in each size group of employment.
2. We would emphasise here that the purpose of joining the points denoting the ratios for each industry group is purely for easier visual identification.
3. As the proportion of predominantly family labour based units to predominantly wage labour based units is about the same in both employment size classes, it would follow that the ratio of the family labour force to the wage labour force would also be similar in the two classes.

slightly in proportion as we move to the 5-9 person units; but the sharp break with family labour occurs in units employing more than 10 workers. Of course there are exceptions. In industry group 24, the transition does not appear to take place at all, while in group 35, it takes place in units employing more than 5 workers.[1]

In units using solid fuels, there is very little uniformity of behaviour. Four industry groups, numbers 29, 32, 34 and 38 appear to be dominated by family labour, while in industry groups 22 and 30, transition to capitalism occurs in units employing more than 5 workers. It is clear that the solid fuel using units cover a very wide range of technologies, and a more detailed breakdown than available in the census would be necessary if we were to wish to reach more definite conclusions.

As was to be expected, the electricity using units show the most sharply defined behaviour patterns. The larger surplus product generated per worker leads to capitalist operation in almost all industries in units with more than 5 workers. The clear distinction between the contours, and their similar shape shows the regular nature of the transition to wage labour.

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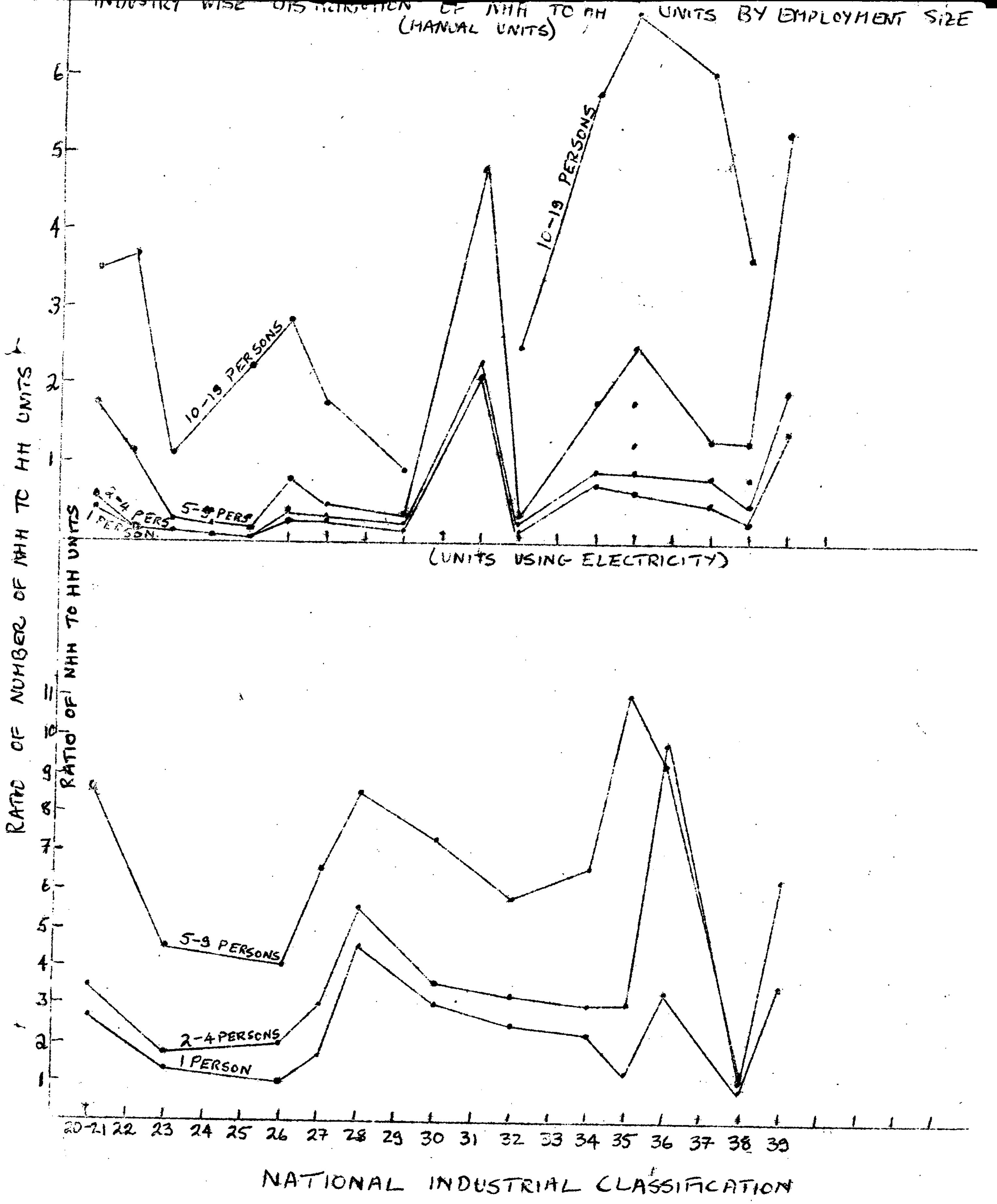
1. While a two digit breakup is sufficient for illustrative purposes, it is too broad to allow further analysis. Unfortunately, there is no other source of data at all which provides information of a similar kind.



INDUSTRY WISE DISTRIBUTION OF NHH TO HH UNITS BY EMPLOYMENT SIZE
(MANUAL UNITS)
(UNITS USING ELECTRICITY)
RATIO OF NUMBER OF NHH TO HH UNITS
RATIO OF NHH TO HH UNITS
10-19 PERSONS
5-9 PERS
2-4 PERS
1 PERSON
5-9 PERSONS
2-4 PERSONS
1 PERSON
NATIONAL INDUSTRIAL CLASSIFICATION

FIGURE I.1

...USTRY WISE DISTRIBUTION OF NHH TO HH UNITS BY EMPLOYMENT SIZE (UNITS USING SOLID FUELS)

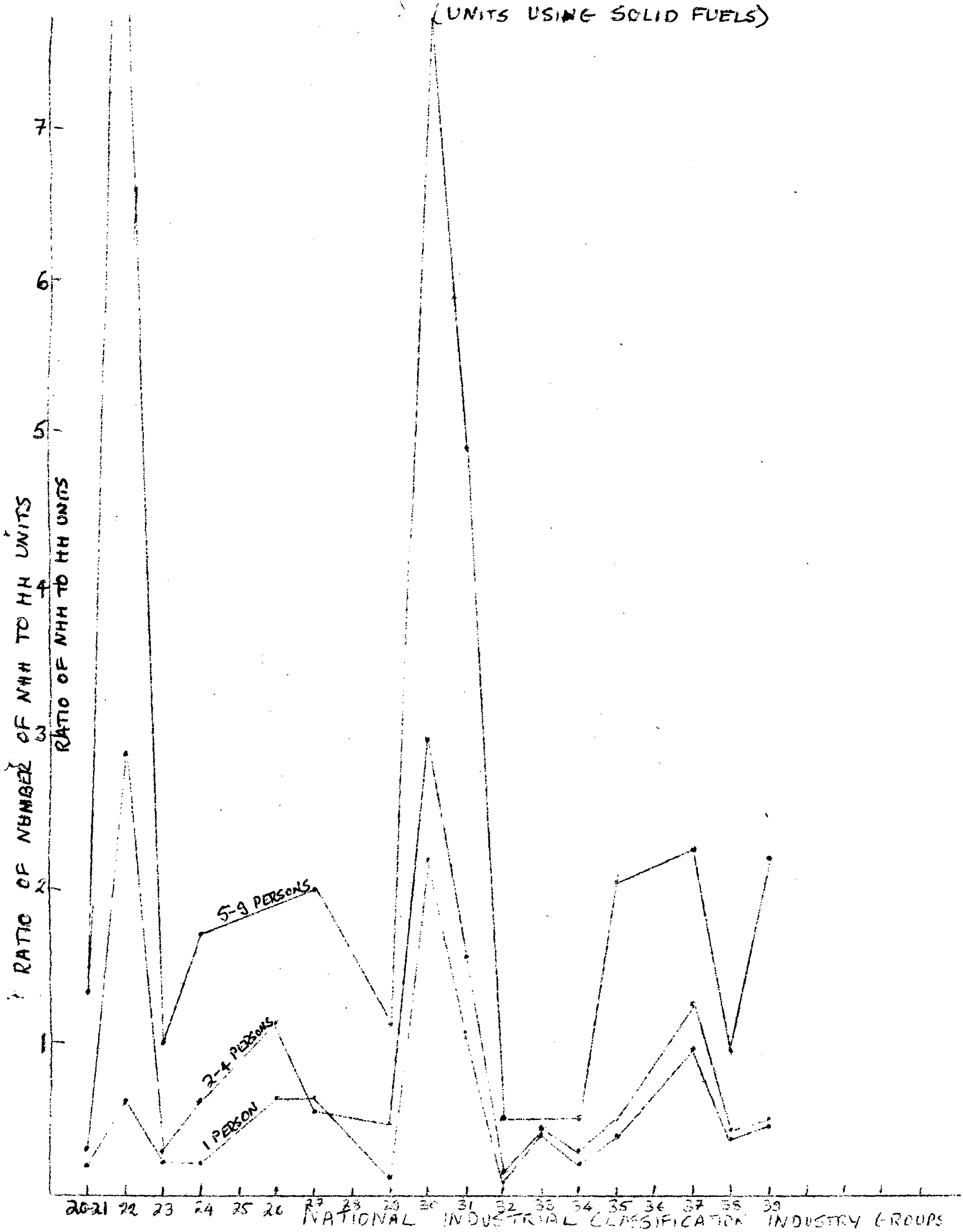


FIGURE I.2

These results illustrate a general uniformity in the transition to capitalist forms of enterprise, the strength of the labour force varying from five to ten in demarcating the capitalist units from pre-capitalist forms. Generally, the higher the level of technical development, the lower the number of workers required for the transition to capitalist forms of organisation.

This leads us naturally to the other approach towards distinguishing different social forms of production. In this second approach, which might be referred to as "organisational", the distinction between capitalist and precapitalist forms is made on the basis of the role of the owner of the means of production as a manager of the production process. We can then define a capitalist unit to be one in which the owner, and members of the associated family, undertake supervisory or related functions. Following Lenin, we may take a three way classification:[1]

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1. Lenin, <u>Op. Cit.</u>, pp. 335-339; pp.359-362; pp.389-391; and pp.458-460.

   i) Natural production implies the processing of raw materials in the household of the peasant family for domestic consumption. Industry is not yet an occupation distinct to agriculture.

   ii) Artisan production refers to the production of articles to the order of a consumer. The raw materials may belong either to the customer consumer or to the producer, while payment is either in cash or in kind, sometimes on a customary basis.

   iii) Small commodity production implies production for the market, and through the development of commodity exchange with agriculture, leads to the complete separation of industry from agriculture.

contd...

Nature of involvement of the head of the household and/or members of the family in production	Class character of the head of the household and	Type of social organisation of production
Manual work-no wage labour	Petty bourgeois	i) Natural ii) Artisan iii) Small commodity
Manual and supervisory work with some wage labour	Transitional	i) small commodity
Supervisory work with wage labour	Capitalist	i) Simple cooperation ii) Manufacture iii) Factory-machino-facture

Empirical data for an exercise of this type is available from the original schedules of the Census of registered small scale units. We have been able to examine the schedules for Ranchi revenue district in Bihar. Inspite of large scale

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iv) Simple capitalist cooperation marks the development of capitalist production, though the techniques and methods of production remain as before. The number of workmen simultaneously employed by the industrialist, increases either under the domestic, putting out system, or through parallel working in a workshop.

v) Manufacture is the further development of cooperation, through now with division of labour and further increases in the workforce.

vi) Factory production, or machinofacture is the replacement of hand-tool by power-driven machine production. Under the factory system, the division of labour may be further extended and the resulting economies of scale fully utilised.

public investment in Ranchi, it remains industrially a backward area; but this is an advantage for our purpose, as lower forms of industrial enterprise are likely to predominate.

Table I.1 shows the breakdown, by 2 digit National Industrial classification industry groups, of the 419 units surveyed. We have selected three 2-digit industry groups, numbers 27, 31, and 34 for detailed investigation, the choice having been made on the basis of their relatively larger representation in the universe. The three groups between them account for 208, or almost exactly 50% of the 419 units surveyed. Each of them has a small proportion of units with gross investment in plant and machinery of more than Rs.1 lakh, while the number of officially defined factories, (units employing more than 10 workers with power, or more than 20 workers without power) in groups 27 and 34 is large. In other words, these two groups have a large proportion of units with low fixed capital but a comparatively large work force (they are subject to the Factories Act); and are likely to be in transitional stages, analysis of which will help to clarify some of the issues we have raised.

These 3 groups have been further broken down into 4-digit industry subgroups with representation as shown in Table I.2.

Table I.1

BREAKDOWN BY 2-DIGIT INDUSTRY GROUPS OF REGISTERED SMALL SCALE UNITS IN RANCHI DISTRICT

Two digit industry code	Number of units	Number of factories	Percentage of units with gross investments of more than Rs.1 lakh in plant and machinery
20	23	7	-
21	1	-	-
26	11	-	-
27	82	53	-
28	30	15	3.33
29	8	-	-
30	18	7	11.11
31	51	5	-
32	17	5	11.76
33	28	26	53.57
34	75	35	8.00
35	26	13	19.23
36	12	3	16.66
37	10	4	10.00
38	4	1	25.00
97	23	7	-
	419	181	8.35

Source: Office of the Development Commissioner, Small Scale Industries (Ministry of Industrial Development, Government of India).

TABLE I.2

BREAKDOWN OF INDUSTRY GROUPS BY 4-DIGIT CLASSIFICATION

Group	Number of Units	
2710	57	
21	1	
23	1	82 total
29	3	
30	2	
60	16	
99	2	
3121	1	
31	1	
32	3	51 total
42	16	
97	24	
99	6	
3401	3	
02	6	
03	6	
09	10	
10	22	75 total
20	7	
31	3	
35	2	
36	2	
40	3	
42	4	
52	5	
99	2	

Source: Office of the Development Commissioner, Small Scale Industries (Ministry of Industrial Development, Government Of India).

Of these 4 digit groups we have taken the following for detailed examination:

2710	Sawing and planning of wood other than plywood
2760	Manufacture of wooden furniture and fixtures
3142	Manufacture of washing soap and soap powder
3197	Manufacture of Shellac
3410	Manufacture of structural metal products.

The following items of information were collected for each unit: gross investment in plant and machinery, gross investment in handtools, number of family workers employed, number of wage workers employed, and number of family and hired supervisors or managers. Workers have here been taken to include both production workers as defined by the Factories Act, and all other subordinate employees. In other words, all employees except those in supervisory or managerial positions have been classified as workers.

From an examination of these items of data, the following pattern emerges:

Industry Group	No. of Units	Characteristics	Comments
2710	57	No family labour in any unit, 55 units have at least Rs.5000 invested in machinery, 56 units employ at least 5 workers	Industry operates predominantly in the form of capitalist factory, i.e. machinofacture.

Industry Group	No. of Units	Characteristics	Comments
2760	16	13 units do not use machinery, 5 units employ family labour 12 units have at least 5 workers.	Industry operates predominantly in the form of simple cooperation and manufactories with some transitional elements from small commodity production.
3142	16	4 Units employ family labour, 11 units have at least Rs.5000 invested in machinery, 12 units employ at least 5 workers	Industry appears to operate either as capitalist factory or simple cooperation/ manufacture.
3197	24	23 units use no family labour, 20 units have at least Rs.5000 investment in machinery, all units employ more than 10 workers.	Industry operates predominantly in the form of capitalist factory.
3410	22	19 units use no family labour, 11 units have upto Rs.10000 investment in machinery 9 between Rs.10000 and Rs.50000, and 2 above Rs.100000. 4 units employ less than 5 workers, 11 between 5-10 workers, 6 between 11-25 workers and 1 unit employs 79 workers.	Industry operates as manufactory or factory.

Generalising across the 4 industry groups, we may infer that the units are all capitalist in social organisation, whether this takes the form of simple cooperation, manufacture or factory (machinofacture) production. Secondly, that these units, of whatever form, employ 5 workers or more.

I.5 Conclusions

Discussion of these data have further illustrated the fact that although the transition point in terms of the number of workers will vary according to the social organisation and the technology in use, it seems to lie within a range of five and ten workers.

As the data we use in the later Chapters does not provide information of the types of fuel or motive mechanism in use in a unit, we will need to have a common index of the size of work force which characterises a capitalist scale of operation. We will take, therefore, as a rule of thumb that a single industrial capital may be identified with a manufacturing unit employing a minimum of 5 workers irrespective of the industry and the specific technology in use. We will make use of this defining characteristic of an industrial capital in our examination in later chapters, both of the growth of small capitals, and the extent of their evolution at the time of formulation of specific "Small Scale Industries" policy in the middle 1950s.

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CHAPTER II

THE STRATIFICATION OF INDUSTRIAL CAPITALISM IN THE PROCESS OF CAPITALIST ACCUMULATION

II.1 Introduction

The process of capital accumulation was inherent in the capitalist system, and in Chapter 25 of Volume 1 of Capital entitled "The General Law of Capital Accumulation", Marx developed the basis for the stratification of the capitalist class itself. He did this by moving away from the class seen as a grouping of individual persons, and introduced the concept of individual capitals which, in the aggregate, add up to the total social capital in the society in question. "Every individual capital is a larger or smaller concentration of the means of production, with a corresponding command over a larger or smaller labour army."[1] We believe that the concepts of individual capitals, and capitalists, like human beings as personified capital is crucial to the process of sociological analysis of the capitalist class. For while it is the relationship to the means of production, or total social capital that distinguishes the working class from the capitalist class, it is the relationship to an individually larger or smaller capital that distinguishes between a larger or smaller capitalist.

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1. Karl Marx, Capital, Volume 1 (Progress, Moscow : nd). p. 585.

Historically, the capitalist or bourgeois family was the personification of a capital, and Marx saw the breakup of such families as a major process by which new individual capitals were formed; there were, of course, other methods of formation of new individual capitals such as through the process of non capitalist accumulation which we considered in the previous chapter.

II.2 The Concepts of Concentration and Centralisation

It was the individual capital which was the subject of the laws of accumulation. Essentially, Marx dealt with two processes, which he called concentration and centralisation. Concentration was identified with accumulation, the process of growth of individual capitals; given equal rates of profit, ceteris paribus, they would each continue to account for the same proportion of the total social capital.[1]

Centralisation was the process by which individual capitals combined. This involved a redistribution of the total social capital, and could therefore take place independently of any growth in the total. Centralisation took place either through the absorption of generally smaller capitals by larger capitals, or by the combination of capitals through the medium of joint stock companies. What is important for

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1. "...concentration which grows directly out of, or rather is identical with, accumulation...", Ibid. p.586.

our purpose is the ultimate possible degree of centralisation that Marx hypothesised for a capitalist society. This would take place, he ventured, when all the capitals were centralised within a giant company.[1] There would then be one solid phlanx of previously independent capitals, and presumably, of capitalists.

Although Marx outlined the basis for the laws governing the centralisation of capitals, he did not develop them in any great detail.[2] However, some of the specific processes leading both to the technical concentration of production and the financial centralisation of capitals have been elaborated by later economists. In the discussion on the optimum size of the firm, or of the production unit, and the principles governing the operation of economies of scale, there are many references to processes inherent to concentration of production in ever larger production units, which is one aspect of the concentration and centralisation of capitals. Similarly, the relatively more recent literature on the processes of the

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1. "In any given branch of industry centralisation would reach its extreme limit if all the individual capitals invested in it were fused into a single capital. In a given society the limit would be reached only when the entire social capital was united in the hands of either a single capitalist, or a single capitalist company." Ibid pp. 587-88.

2. Karl Marx Capital Volume I (Progress, Moscow: nd) pp. 582-589.

growth of firms without diversification, with diversification, and through acquisition and merger deal with another aspect of concentration and centralisation.

The theoretical literature on the optinum firm and the principles of the economies of scale may itself be seen to be divided into two broad streams for the purposes of our discussion.[1] The first stream is characterised by what may be thought of as a relatively greater concern for integrating new theoretical insights into a pre-existing theoretical framework; the other appears to place relatively greater emphasis on the "observed" behaviour and characteristics of firms, even at the cost of making such insights somewhat incompatible with rigorously defined theory.

Adam Smith's observations, which are generally recognised as the major source of the concepts of economies of scale were, of course, based on his direct observation of practices in some manufacturing organisations.[2] While drawing attention to the role of the increasing division of labour made possible as the capacity of a manufacturing unit was expanded, he also noted the possibility of mechanising tasks which had been made simple and repetitive by this division of labour. In effect, he recognised the interactive nature of : changes in skill composition and the relative volume of different kinds of labour

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1. Cf. Bela Gold "On Size, Scale, and Returns:A Survey" Journal of Economic Literature XIX (1981), 1.
2. Adam Smith The Wealth of Nations (Pelican, Harmondsworth 1970), Chapters I and II.

power; the technology used in production; and the shifts in the proportion of the value of labour power and of the value of the means of production advanced. Charles Babbage agreed broadly with these views, while extending the principles of the division of labour to functions such as maintenance, technical improvement effects, management, and the steady improvement and specialisation of machinery, to increase efficiency as the scale of production advanced.[1] Significantly, he felt that capacity increases beyond that allowing for optimal specialisation, by duplication of existing arrangements would not yield further economies.

Marshall, too, seemed to agree that there was a systemic aspect to the interactions leading to the greater efficiency of large scale production:

> Increasing Return is a relation between a quantity of effort and sacrifice on the one hand, and a quantity of product on the other. The quantities cannot be taken out exactly, because changing methods of production call for machinery, and for unskilled and skilled labour of new kinds and in new proportions.[2]

The problem then lay in explaining those efficiency differentials within a framework constituted of the following assumptions: (a) diminishing marginal returns to factors of production and (b) the cost advantages of changes in factor proportions from hitherto efficient combinations would only occur as a result of changes in relative factor prices.[3]

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1. Charles Babbage On the economy of machinery and manufacturers (Knight, London: 1833) Chapter 22.
2. Alfred Marshall Principles of Economics (Macmillan, London: 1920) p.266.
3. Cf. Gold Op. cit. pp.7-8.

Marshall apparently refused to accept the logical solution of proportionate rather than differential increases in inputs (i.e. constant factor proportions), combined with the use of more efficient forms of organisation possible at large scales of production. It was the requirement of constant factor proportion that he found difficult to accept:

> ...the capital required per head of the workers is generally greater in a large factory than in a small one. The reason is that in most... businesses the large factory has many things done by expensive machines which are done by hand in a small factory.[1]

It is useful for our purpose to split the subsequent theoretical development in the literature on the economies of scale on the basis of the acceptance or rejection of the twin requirements of rigorous static economic theory : the absence of technological change and constant factor proportions. While there appears to be general agreement that the very requirement of static theory excludes technological change, there are differences in perception on the utility of retaining the requirement of fixed factor proportions.[2]

This requirement is, of course, necessary for the demonstration of marginal product based returns to factors under competitive equilibrium.[3] However, this rather tight assumption does not appear to allow for the explanation of the sources of the economies of scale which are also intuitively

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1. Marshall <u>Op. cit</u> p.235 fn 1.

2. Cf. Gold <u>Op. cit</u>. pp 8-18.

3. See, for instance, E.H.Chamberlin <u>The Theory of Monopolistic Competition</u> (Harvard University Press, Cambridge, Mass:1948) p.143.

plausible to a number of theorists.[1] This latter group of theorists, placing greater emphasis on observed phenomena, are generally unwilling to accept the requirement of fixed factor proportions in an analysis of the economies of scale.

Perhaps the theorist with whom this latter approach is most generally associated is E.A.G. Robinson.[2] There were essentially three kinds of problems to which Robinson's work was devoted. These were the notion of the "optimum" firm in an industry, and the reasons why such a firm should be smaller or larger than in another; the reasons for there to be any limit to the size of a firm in a competitive industry; and the problem of the continuance of competition if there was no limit to size. The concept of an optimum firm size, to which all real firms with comparable technology would approximate over time was the result of the acceptance of a U-shaped long run average cost curve, which had been shown to be necessary for determinate equilibrium of the firm under competitive conditions.[3]

There did not appear to be any theoretical grounds for technological diseconomies of scale, as the possibility of

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1. See, for instance, H.H. Liebhafsky The Nature of Price theory (Dorsey Press, Homewood, :1968).

2. E.A.G. Robinson The Structure of Competitive Industry (University Press, Cambridge: 1958).

3. Piero Sraffa "The Laws of Returns under Competitive Conditions" Economic Journal XXXVI (1926) pp 535-550 reprinted in K.E. Boulding and G.J. Stigler Readings in Price Theory (Allen and Unwin, London: 1953) pp 180-197.

multi plant operations were always open. It was felt that managerial diseconomies, the costs resulting from the difficulty of managing large units as successfully as small, would provide an intelligable explanation for stable competition in industries where technical and all other factors appeared to make for steadily falling costs.[1]

Although E.A.G. Robinson provides an extensive discussion of the factors leading to the determination of an optimum size of firm the analysis is, of course, limited to the case where the behaviour of a specific market, or at the most general, a specific group of markets determines the possibility of expansion.[2] This was perhaps a reasonable assumption at a time when firms might have been expected to be conscious of a limited number of products or markets. However, the post second world war phenomenon of the growth of conglomerates required new approaches to the theory of the firm. Essentially, the requirements of static theory were relaxed to enable the discussion of the growth of firms

> that can produce anything for which a demand can be found or created, and it becomes a matter of taste or convenience whether one speaks of the

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1. Alec Cairncross "The Optimum Firm Reconsidered" Economic Journal, Special Issue, CXXXII (1972) p.312-320.
   See also, Martin Slater's Introduction to the second edition of Edith Penrose The Theory of the Growth of the Firm (Basil Blackwell, Oxford; 1980)

2. Alec Cairncross Op. cit. p.314.

> 'market' or of the resources of the firm itself as the consideration limiting its expansion.[1]

The quotation is from Mrs Edith Penrose's book "The Theory of the Growth of the Firm." The publication of this work was followed chronologically by a number of major contributions dealing with the issues of the growth of firms free of market restrictions on their growth, and with various assumptions, distinct to profit maximisation, about the intentions of their controlling interests.

Some of the major contributions to the field of economic theory have been made in the "Post-Penrose" phase by Baumol, Marris and Williamson.[2] All three writers have concentrated on steady rate growth paths, analysing different requirements associated with the assumptions made by them, through mathematical models. Baumol assumed profit maximisation, and the ability of the firm to increase output at a constant price. His model showed that the costs of growth (which had been suggested as the controlling element on firm size at any given time by Mrs Penrose) would have to accelerate in order to ensure a finite rate of growth.

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1. Edith Penrose <u>Op. cit.</u> p.13.

2. W.J.Baumol "On the Theory of Expansion of the Firm" <u>American Economic Review</u> LII (1962) pp 1078-87.

   R. Marris <u>The Economic Theory of "Managerial" Capitalism</u> (Macmillan, London: 1964).

   J.M.Williamson "Profit, Growth and Sales Maximisation" <u>Economica</u>, XXXIII (1969) pp 1-16.

Marris paid a great deal of attention to the objectives of corporate enterprise in an era where ownership of firms was generally accepted to be divorced from close control. Marris' view was that salaried managers would rather have high growth rates than high profits, as they would not themselves benefit from the latter. While giving specific attention to the problem of diversification, Marris also examined two important areas. The first was the mechanism by which managers were restrained, by the fear of a takeover bid, from pushing the growth rate to its limits. This was necessary as Marris felt that the shares were too diffusely held for the shareholders to exert effective control. The second area that Marris analysed was the financial aspect of growth. In order to acquire new assets, a firm must either retain current profits, issue shares, or borrow at fixed interest. The different methods of financing have implications for the dividend stream and for the market valuation. In this way the fear of takeover is linked to the optimal financing policy.

John Williamson showed that both growth maximising and profit maximising firms would set prices on profit maximising principles, for high profits are a requisite for high growth. The differences would lie in their policy towards investment and retention of profits.

This literature has helped in improving the understanding of the processes of growth, specifically in the corporate economy.[1] However, there is apparently little work in an area of concern which has been described most cogently by Alec Cairncross, in the course of a reappraisal of A.E.G. Robinson's contribution :

> ... it is no good shutting our eyes to the increasing influence of the State. The day has long gone by when one could oppose nationalisation to private enterprise as if there were nothing in between. Firms are not independent of the State and solely engaged in trying to supply a market at minimum cost. They have to keep one eye on what the State is doing or may decide to do and their success as productive enterprises may depend almost as much on their success in conforming to government policy (or even in divining it) as in adopting more efficient methods of production.[2]

Cairncross goes on to argue that in a mixed economy, the prevailing form of business organisation is

> ...not governed exclusively by market forces. We may continue to view competition as favouring one form of organisation and destroying another. But the forms of organisation that triumph do so in relation to the whole environment in which they function, and government is an everyday part of that environment. If we ask what is the optimum industrial structure it must be one that is adapted to the circumstances of a mixed economy, not to the conditions of a free market economy that has ceased to exist.[3]

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1. Other work includes: R.Marris and A. Wood (Eds) The Corporate Economy (Macmillan, London:1977)

   G.B.Richardson "The Organisation of Industry" Economic Journal LXXXII (1972) pp 883-896.

2. Alec Cairncross Op. cit. p. 316.

3. Alec Cairncross Op. cit. p. 316.

Although there is, of course, substantial literature on the empirical examination of mergers, takeovers, and on monopoly control, there does not appear to be work which integrates Cairncross's view of the role of the State, with the overwhelming evidence now accumulated on extensive concentration of capital.[1] In other words, there appears to be little or no work on the subject of the interaction between what Lenin had called, as early as 1916, State Monopoly Capitalism, and individual firms and groups of firms.[2]

The reason for this seems to be that economic theory has seen its concerns to lie, if at all in the area of economic power, solely in that power exerted through market control. E. Preiser points out that the theses concerning

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1. Cf. Edith Penrose's description of the historical and institutional environment to which her theory applies directly (Op. cit. p.6)

   > The present analysis is concerned only with the incorporated industrial firm operated for private profit and unregulated by the State (hence not to regulated public utilities, financial organisations, or even 'trading' firms) and is applicable only to an economy where the Corporation is the dominant form of industrial organisation.

   Applied Studies on the subject of merger and takeover include: W.W. Alberts and J.E. Segall (Eds) The Corporate Merger (University of Chicago Press, London: 1966)

   J.M. Samuels Readings on Mergers and Takeover (Elek, London: 1972)

   A. Singh Takeovers (University Press, Cambridge: 1971)

   G. Meeks Disappointing Marriage: A Study of the Gains from Mergers (University Press, Cambridge: 1976)

   K. Cowling et al Merger and Economic Performance (University Press, Cambridge: 1980)

2. V.I. Lenin Imperialism, the Highest Stage of Capitalism (Progress, Moscow: 1964)

the role of economic power in the theory of distribution put forward by Bohm Bawerk have been generally taken for granted.[1] The theses are that power exerts its influence not outside and against, but within and through economic laws; and secondly, perhaps crucially, that the effects of power are not long lasting. Bohm Bawerk chose monopoly to demonstrate the effects of power, and it has been generally accepted since then that the market is the appropriate concept with which to study the effects of power. It would follow from this approach, that economic power can have no lasting influence on the State, any more than it can on the market. There would then be no real reason for economic theorists to analyse the role of economic power on the State, particularly under circumstances where they might be disinclined to accept that the analysis of power was at all within their sphere of concern.[2] Another reason for the apparent lack of interest of economic theorists in this area is suggested by a remark made by Edith Penrose:

> The Marxian analysis of capitalism implies, of course, a theory of increasing concentration; the Marshallian theory of the rise and fall of

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1. E.Preiser "Property and Power in the theory of distribution" International Economic Papers, No.2, 1952, pp. 206-20, translated and reprinted in K.W. Rothschild (Ed.) Power in Economics (Penguin Education, Harmondsworth: 1971).

2. Cf. J.K. Galbraith "Power and the Useful Economist" American Economic Review LXIII (1973) pp.1-11.

> firms implies a theory of a constant degree of concentration with a continual change of the individual population of firms; and the theoretical analysis of the question of increasing returns to scale is also an analysis of one aspect of the problem of increasing concentration of industry.[1]

Marx, of course, was referring to the process of concentration of Capital in the economy as a whole, while Marshall was concerned about increasing concentration, in a statistical sense, of an industry by a limited number of firms. However, the point is that Marshall's theory contains a view similar to that described as held by liberal theorists by Sweezy in his comparison of various conceptions of the State.[2] He points out that in liberal theory it is assumed that existing property relations are given as a datum, with the rise and fall of individuals, families or groups providing the dynamic element. Theorists have then to confront the problem of how the State would mediate between conflicting interests to ensure the long term stability of society. If on the other hand, in addition to the rise and fall of individuals, there is a process of change in property relation themselves, then it appears logical that the State would be likely to have a more fundamental task: that of attempting to ensure the

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1. Edith Penrose Op. cit. p.257 fn.2

2. P.M.Sweezy The Theory of Capitalist Development (Monthly Review Press, New York:1968) pp.240-1

   The essays contained in Professor Lionel Robbins book on Political Economy provide a very clear view of liberal political philosophy as it relates to problems of political economy. Lionel Robbins The Economic Basis of Class Conflict (Macmillan, London: 1939).

continuance of the existing set of property relations in the interests of the property owning class as a whole.

Within this latter view, the effects of economic power on the State, and the role of State, in turn, in furthering concentration of economic power become crucial. It is this concern which requires us to search for ways of categorising capitals which will allow for an interpretation of the State's policies towards capitals within various strata.

II.3 Stratification of Capitals through the Growth of Monopolies

Although differentiation of capitals by size was inherently a result of a combination of such processess, Marx did not deal with the implications of this, perhaps because the consequences were not clear in his time. Just as the differences between the capitalist class and the working class appear innocuous and accidental without the understanding gained through the labour theory of value; so also the initial differences between the "large" capitals and "small" capitals appeared to have little sociological consequence, until Lenin developed the theory of monopoly capitals.

Lenin's purpose in his essay was to show the dominating position reached by an oligarchy of monopoly or finance capitalists in the four or five advanced capitalist societies of his day.[1] He was to use these arguments to define the nature

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1. V.I. Lenin, Imperialism, the Highest Stage of Capitalism (Progress, Moscow:1964)

of contending political and military forces during the First World War, and of the nature of colonial expansion. However, in the course of his explanation, he was to provide the basis for analysing the conflicts of interest between capitals which were at that time providing evidence for the significance of the stratification of capitals.

Lenin showed that the concentration and centralisation of capital led, at a certain stage, to monopoly in specific branches of production.[1] These monopoly capitals, precisely because of their privileged position, were able to accumulate at an accelerating rate, leading to yet further centralisation. The banking system brought about centralisation of these big capitals, both by drawing them together, and by placing small money capitals at the disposal of the oligarchy of monopolists.[2]

It was the power of the oligarchy, exercised through the form of banks, the stock exchange and joint stock companies, over the money capital of small capitalists, that led to the stratification of the capitalist class. For while the small money capitalist obtained his returns on the basis of dividends or interest, the private nature of the control exercised by the oligarchy gave them opportunities to engage in a variety of money making operations, not necessarily connected to the productive potential of the enterprises under their control.

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1. Ibid p.197

2. Ibid p.216

The profits from these operations were, of course, directly at the expense of the visible "profit" which would otherwise have been shown on the balance sheet of the enterprise.

By emphasising the control exercised by the oligarchy through the terms that the banks demanded before agreeing to a loan, Lenin had elaborated the concept of centralisation.[1] For it was now seen largely to take place across the boundaries of separate production units recognised by law as separate joint stock companies. He emphasised this point by describing another method of operation of monopoly capital, in this case by the judicious splitting of capitals.[2] This was done in such a way that the parts of the capital were able to control a number of joint stock companies. Often, these companies served as "mother" companies, controlling "daughter" and "granddaugher" companies in turn. In this way, spheres of production many times larger than any individual capital, or even combinations of capitals, could possibly command, came under the sphere of control of monopoly capitals.

The crucial element for this to be possible, of course, was the concept of limited liability. This ensured that neither the banks, nor the small owner of money capital, could be held financially responsible for any debt the undertaking might incur beyond that contributed by the bank or the individual.

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1. Ibid pp.223-4

2. Ibid pp.227-8

The point is that although the role of banks, as sources of money capitals had far overtaken that of the stock exchange, loans, as these advances were called, were clearly not extendable indefinitely. An important indicator of the financial soundness of an undertaking was the value of the quotation of its equity shares on the stock exchange.[1] In addition, the use of concepts such as debt/equity ratios shows that the stock exchange served an important function as a base for centralisation, in addition to its barometer role. Thus it is the existence of "quoted" joint stock companies, widely dispersed shareholdings which allow control by a minority holding, and the access to loans, which in combination provide the method by which many capitals are centralised under the control of monopoly capital.[2]

In addition to these types of control over small money capital, leading to the cornering of surplus by the monopoly strata, the smaller industrial capitals were also at a disadvantage in respect to monopoly.[3] As technology developed,

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1. Cf. E.W. Davis and K.A. Yeomans Company Finance and the Capital Market Department of Applied Economics Occasional Paper 39 (University Press, Cambridge 1974) p.2.

2. Cf. "It is clear, therefore, that the Belgian financial holding companies need a capital market setting to function on a large scale because they require the funds of the Belgian Savers to finance their controlling interests."

   Herman Daems The Holding Company and Corporate Control (Martinus Nijhoff, Leiden and Boston: 1973) p.3

3. O. Lange, "The Role of the State in Monopoly Capitalism" in Papers in Economics and Sociology (Pergamon, Oxford: 1970), pp.8-9.

the minimum size of capital to undertake production also rose, and the number of areas free of control of monopoly capital was constantly declining.[1] Thus all small capitals, whether centralised and under the control of monopoly, or relatively independent, suffered from the growth of monopoly.

II.4 Extension of Lenin's Concept of Stratification to the non monopoly strata

Lenin did not extend his argument further to complete the stratification, by analysis of the non monopoly strata. However, it is possible to extend the logic of his argument. Briefly put, this is that the logical culmination of concentration and centralisation is the creation of monopoly capitals, and the transfer of part of the surplus "owned" by small money and industrial capitalists, to monopolists; this point is crucial, for stratification is then inherent in a situation where all capitals have not been centralised, and are therefore growing at different absolute rates depending on their individual sizes. The push or urge towards greater centralisation which occurs both through capitalist competition and because of the growth of new social requirements, and the development of new technologies to produce the commodities to meet these requirements, increases this stratification continously.

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1. Karl Marx Capital Volume 1 p.587

Although Marx had emphasised the importance of the joint stock company as a means of centralisation, the process had actually begun much earlier with the formation of partnerships of capitalists. This was the method by which not only could a large mass of capital be put to productive use, but the individual talents and knowledge of the partners be combined for this purpose. The relationship has been well defined in the following passage by an economic historian.

> /The English law/ was based on the conception of partnership, largely justified by the prevailing practice, as the business association of a few persons intimately known to one another and usually working together. Each partner could then be fairly regarded as the full accredited agent of the others. As a sharer in the profits, each could be regarded as fully liable for the losses. And the rule had been developed for the better protection of creditors, that this liability extended to all his private property, "to his last shilling and acre".[1]

Here then, was centralisation in its origin, as the fusion of the private property of individuals for a business purpose. The fusion was complete in the sense that the law made no distinction between the property of an individual either in the form of money capital or commodity capital for use in the business, and the other assets of the individual. This was of course, a direct extension of the notion of the individual capital, where no distinction was made between these forms.

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1. H.A. Shannon, "The Coming of General Limited Liability," Economic History, II (1931), 6, reprinted in E.M.Carus-Wilson (Ed.) Essays in Economic History (Arnold, London: 1954), Volume 1, p. 361.

However, before long, economic advance had brought about further changes in economic behaviour:

> The exploitation of the new economic changes, however, often required a larger capital than a few individuals could raise or risk. A different kind of association grew up, a business union with numerous members, not well known to one another, each contributing a little capital, and leaving the management in the hands of a few directors or officers.[1]

The essential point here is that the risks involved in undertaking technologically advanced projects required that the large mass of capital should be mobilised through the centralisation of numerous individual capitals. This was, so to speak, on the demand side. On the supply side individual accumulations of capital had led to a situation where:

> Much capital was lying idle or not employed to the best advantage. Capitalists, not able or inclined to enter business as active partners by reason, e.g. of age, sex or training had no way of safely investing any part of their wealth in productive enterprise without risking all their possessions. Poor but able men /on the other hand/ were unable to get support from richer men, for these would thereby risk their entire fortunes.[2]

It was at this stage that the help of the State, in codifying the concept of limited liability, was necessary for further economic advance to take place:

> While unlimited liability might be advantageous in the larger transactions of the nation, carried out by firms of a few rich partners, limited liability

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1. Carus-Wilson, <u>Op. cit</u>. pp. 361-362.
2. Carus-Wilson, <u>Op. cit</u>. pp. 373-374.

> was needed for local enterprises of a useful kind, financed by numerous passive small investors under the guidance of their richer neighbours.[1]

Such a safeguard was necessitated by the very process of economic advance, and the gradual recognition of the difference between "active" and "passive" capitals, which we have described. However, the process of recognition by the State, of the existence in the form of companies of combinations of capital distinct economically from the partnership, followed a fumbling path.

The first attempt at controlling the activities of unincorporated companies in England came with the 1844 Registration Act.[2] This defined a joint stock company as either a commercial partnership with more than 25 members, or with a capital divided into freely transferable shares. It is interesting to note that these two definitions indicate the prevailing confusion between limited liability, as a protective device in the process of centralisation of small capitals generally with larger capitals on the one hand; and regulation of the operations of small <u>numbers</u> of relatively large capitals on the other. For, on the one hand, the criterion of freely transferable shares without the stipulation of a minimum number of members implies that one and two members companies centralising one or two large capitals were

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1. Carus-Wilson, <u>Op. cit.</u>, p.375.

2. E.M.Carus Wilson, <u>Op. cit.</u>, pp. 368-372.

permissible. Essentially this latter category represent what came later to be known as Private Limited Companies:

> All the economic characteristics of this type /of company/ are those of partnership proper, whether the company was merely the adoption of the corporate form by an old partnership or the registration, of, intrinsically, a new partnership. In both there would be no appeal to the general public for funds, and a fair amount of personal acquaintance among the members may be presumed.[1]

On the other hand, the criterion of a minimum number of 25 members or capitals, whether or not the shares were transferable, implies a recognition of the importance of the <u>number</u> of capitals comprising a company for measuring the size of the company. In other words, both the processes of centralisation and concentration were implicitly recognised by the 1844 Act, but the specific differences between the two were not yet clear.

In fact the first Companies Act of 1856 did not distinguish between Public and Private Limited Companies (which we have argued, are implied in the two criteria of the earlier law). It was not until 1907 that this distinction was made; while with the passage of the Partnership Act of 1890, English Company law had given effect to the economic reality of the different types of combination of capitals we had described earlier. These were, to recapitulate: the single capital (proprietorship); a combination of capitals (partnership);

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1. H.A. Shannon, "The Limited Companies of 1866-1883", <u>Economic History Review</u>, IV (1933), 3, reprinted in E.M. Carus-Wilson, <u>Op. cit.</u> p.380.

further increase in the number of capitals combined with a differentiation into "active" and "passive" capitals (Private Limited Companies); and finally, large scale centralisation through the Public Limited Company:

> It was taken for granted that where a large capital beyond the means of a few partners was needed for a work of acknowledged public usefulness, the subscribers should be given that privilege /of limited liability/. Even the size of the capital was not always looked at. As the members had no real control over the Company, limited control must be balanced by limited responsibility if the capital was to be raised.[1]

The three essential stages in the increasing importance of centralisation as a means of accumulation lay therefore in the methods of centralisation available. The single capital could grow only through individual accumulation. Combinations of capitals could grow through further centralisation, and through accumulation. Finally the stage would come where differentiation between "active" and "passive" capitals would lead toenormously increased possibilities for centralisation. However, the differentiation would need to be sanctioned by the State -- in the form that Marx noted, of company law, defining and regulating the functioning of joint stock companies.

Once this distinction had been defined by law, the process of economic centralisation could proceed further. What had happened at this stage was the divorce between "ownership of capital and actual direction of production".[2]

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1. Carus-Wilson, Op. cit. p. 375.
2. Paul Sweezy, The Theory of Capitalist Development, (Monthly Review Press, New York: 1968), p. 258.

Put another way it was "the freeing of the industrial capitalist from the function of industrial entrepreneur".[1]

Both of these distinctions, between ownership and direction, and capitalist and entrepreneur, were the outward signs of a significant economic change in the making. Hilferding's work on the Marxist theory of the corporation was the first to make the significant point that a distinction could now be made between the industrialist capitalist, and the money capitalist.[2] This was the distinction made possible by the concept of limited liability. However as Sweezy points out in his review of Hilferding's work, it was not the corporate form in itself that could bring about this new category of money capitals:

> What is decisive is the growth of a reliable market for corporate securities, itself a long historical process which cannot be gone into here. The reason for this is clear; only through the securities market does the capitalist attain independence of the fate of the particular enterprise in which he has invested his money. To the extent that the securities market is prefected, the shareholder resembles less and less the old fashioned capitalist operator and more and more a lender of money who can regain possession of his money on demand.[3]

In essence, then, we have the breaking of the bond between an individual capital and any given, specific, human

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1. Rudolf Hilferding, Das Finanzcapital, 1910, p.112 quoted in Sweezy, op. cit., p.258.

2. Hilferding, op. cit.

3. Sweezy, op. cit. p. 258

capitalist. The legal right to the capital (the shareholding), itself becomes a commodity to be bought and sold, its value lying in its ability to draw on a part of the social surplus generated by centralised capitals.

We have now reached the stage where we have been able to develop the following line of argument: that as capitalism develops, the size of enterprise required to meet social needs grows at a rate greater than the rate of accumulation of any individual capital. Thus the need arises for combinations of individual capitals to develop through the medium of the credit system and joint stock companies. The process of centralisation becomes more important as technology develops further. The increasing centralisation which is necessitated leads to increasing growth of large companies, and groups of such companies, and finally, a stratification of capitals develops based on the number of fused capitals that each is comprised of.

II. 5(i) Tests of Empirical Validity : The "Big Business" Groups

Although our argument so far has been that we propose the use of legal forms in order to identify the different types and sizes of capitals, we consider it incorrect to identify the legal forms strictly with one and only one type of capital. To demonstrate our point, we return to the issue posed repeatedly in discussion of the Indian economy, about the nature of the "monopoly" or big business groups which have been shown to exist in India.[1]

The ILPIC, or Dutt Committee, had prepared the most exhaustive list of enterprises of which the big groups are comprised. In addition to joint stock corporations, both public limited and private limited, these also include a number of unincorporated firms (partnerships and even proprietorships).[2] However, the dominating feature of each group is the presence of at least one "quoted" public limited company with a paid up capital of Rs.20 lakhs or more. In fact, the structure of some groups consisting of comparatively small companies and unincorporated firms clustered around such a public limited company, tends to suggest that these groups developed through the growth of such companies, and subsequent floatation of others, while diversifying their interests.

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1. See, for instance, Government of India, Report of the Committee on Distribution of Income and Levels of Living (New Delhi:1964), and Report of the Monopolies Inquiry Committee (Delhi:1965); R.K.Hazari, The Structure of the Corporate Private Sector (Asia. Bombay:1966); Aurobindo Ghose, "Monopoly in Indian Industry: An Approach" Economic and Political Weekly 7 (1972), 5-7 and "Investment Behaviour of Monopoly Houses" Economic and Political Weekly 9 (1974), 43, 44, 45-46; Arabinda Ghosh Concentration in Indian Industries, 1948-1968 (xerox Microfilms, Ann Arbor: 1974); Asim Chaudhuri Private Economic Power in India (Peoples Publishing House, New Delhi:1975); N.S. Siddhartan Conglomerates and Multinationals in India (Allied, New Delhi:1981).

2. Government of India, Ministry of Industrial Development, Report of the Industrial Licensing Policy Inquiry Committee, New Delhi, 1969.

Table II.1

CONCENTRATION OF SHARES AMONGST LARGE
SHAREHOLDINGS OF 40 COMPANIES IN INDIA

Total Number of Shareholders in the Company	Proportion of Total Shares held by the largest 10% of holdings					
	Below 50%	50% to 60%	60% to 70%	70% to 80%	80% to 90%	90% and above
Below 1000					3	2
1000 to 5000	1		1	3	9	
5000 to 10000		1		1	5	2
10000 to 15000				2	3	
15000 to 25000			1	1	2	
25000 and above				2	1	
	1	1	2	9	23	4

Source: Company News and Notes VI, 1(1967), p.34.

The point therefore, is that while the commonly accepted "monopoly houses" clearly do operate through large quoted public limited companies used as a means of centralising capital, centralisation also takes place across legally separate units, in a manner that the Dutt Committee had shown to be similar to the patterns described by Lenin. These are interlocking of directorships, intercorporate investment and, of course, family and social bonds.

However, two questions are raised by the specific character of these groups. The first is the place of quoted public limited companies which may not have been included within any of the groups by the Dutt Committee and might therefore be said to be independent of monopoly capital; and secondly, whether there are <u>any</u> capitals independent of these big houses.

To answer the first question, we undertook a company by company examination of all the 1522 quoted public limited companies that existed on 30th September 1966. Given our scheme of stratification, our purpose was to examine whether each of these companies either (i) belonged to one of the big houses as specified by the Dutt Committee or (ii) shared at least one common director with any company in criterion (i) or, finally (iii) shared a common director with a banking company as they existed prior to the nationalisation of the 14 major banks in 1969.[1]

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1. For this exercise we took the complete list of quoted public limited companies, provided by the Department of Company Affairs, as the basic document. The public limited companies which were identified by the Dutt Committee on industrial licensing and mentioned in its report were compared with this list, and the common ones identified (Set A).

   For the remaining quoted public limited companies, we used Kothari's Handbook to identify the members of the Board of Directors of such companies. The composition of the Board obtained in this way was then compared with the composition of the Board of Directors of the 85 banking companies listed in an issue of Company News and Notes. In these cases where at least one common director between the two sets of directors was identified, the relevant companies (Set B) were added to Set A.

contd...

We have in this way, extended Hazari's concept of inner and outer circles to define a web of monopoly capitals which dominate the economy through control of public limited companies, and all their interrelated groups.[1] We would certainly admit that these linkages, of common directorships, inter-corporate investment, and social and communal ties between leading personnel do not preclude differences over economic and political issues amongst controllers of these large capitals. However we would argue that they provide the structure for this stratum to exist in a stable form notwithstanding occasional or even protracted internecine war.

The results of our calculations on the 1522 companies show that we were able to account for 1040, or about 69% of the companies in number, and for Rs.999.54 crores of paid up capital. This amounted to 89.2% of the paid up capital of the 1522 companies. It would most probably have been possible to extend the coverage still further with greater

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Finally, we compared the composition of the Board of Directors of the residual quoted companies with the corresponding boards of companies within the list provided by the Dutt Committee, in those cases where there were a priori reasons to expect a link. A third set of quoted companies (Set C) was in this way isolated.

The paid up capital of companies in all the three sets was then compared to the total paid up capital of quoted public companies. The results are described later in the text.

Sources: (i) Government of India, Department of Company Affairs, Information Broadsheet No.3/1967 (mimeograph).
(ii) Company News and Notes VI (1967), 1 pp 113-203.
(iii) Kothari's Economic Guide and Investors Handbook of India 1966-67 (Kothari, Madras: 1967)
(iv) Report of the Industrial Licensing Policy Inquiry Committee, Appendix, Volume 2.

1. R.K. Hazari, The Structure of the Corporate Private Sector, (Asia, Bombay:1966).

effort. However the point at issue appears to be established by our exercise.

To answer the second point, that is whether capitals independent of the monopolies exist at all, we would need to demonstrate the case with all the apparently independent capitals operating through unquoted public limited companies, private limited companies, and unincorporated firms (partnerships and proprietorships). This is a difficult exercise with capitals in unincorporated firms, so we will concentrate on these capitals that operate through private limited companies.

We have done this by examining the share of paid up capital of all private limited companies accounted for by such companies which lie within the big groups as specified in Hazari's study, and in the Dutt Committee report. The results, for three periods of time, are shown in Table II.2. As can be seen, as little as 15% of the total paid up capital is accounted for by private limited companies within the groups.

Although some of the remaining 85% of the paid up capital may be associated with private limited companies linked to capitals in public limited companies not mentioned in these specific studies, we think that with such a large proportion of private companies having "slipped out of the net" of the big houses it is reasonable to conclude that substantial pockets of non monopoly capitals exist, even within the corporate sector.

Table II.2

PROPORTION OF THE PAID UP CAPITAL OF PRIVATE LIMITED COMPANIES CONTROLLED BY THE BIG BUSINESS GROUPS, TO THE TOTAL PAID UP CAPITAL IN ALL SUCH COMPANIES

Scheme	Paid up capital of companies in groups (Rs. Crores)	Paid up Capital of all companies (Rs. Crores)	Column (2) as % of(1)
1. Hazari's 20 complexes (1951)	33.50	219	15.3
2. Hazari's 20 complexes (1958)	41.98	321	13.1
3. ILPIC Report (1966)	61.42	399.7	15.3

Source: Rows (1) and (2) Hazari, Op. Cit
Row (3) ILPIC Report, Appendix Volume 2, (includes 73 houses, large independent companies and subsidiaries of foreign companies).

II.5(ii) Tests of Empirical Validity : Size Comparisons

To complete our task of stratification, we have to demonstrate the consistency of our argument. By this, we mean that it is necessary to show that larger capitals (in the sense of controlling greater proportions of social production) have also a greater number of capitals fused within them. In other words a partnership (multiple capitals) must be shown to be generally larger than a proprietorship (a single capital), but smaller than a private company (multiple differentiated capitals), which is itself smaller than a public company (money or stock capitals).

We take the single/multiple transition first. The data we have are based on a stratified random survey of 138 small scale units registered with the Director of Industries in the State Governments.[1] At the time of the survey a small scale unit was defined to be one in which the gross value of plant and machinery was less than Rs.7.5 lakhs. Valuation of the assets of small units presents several problems, because of the general absence of profit and loss accounts, let alone balance sheets. However the original value of plant and machinery is more easily available, at least from registered units, because this is required for administrative purposes.

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1. The survey was undertaken in February 1974 by the Indian Institute of Public Administration, New Delhi. Although the Report of the Survey is condential to the sponsoring authority, we have been able to make use of the data collected.

On the basis of the data we have prepared a graph (II.1) which shows the proportion of the cumulative value of plant and machinery which is accounted for by single capitals and multiple capitals.[1] The graph shows the gradually increasing proportion accounted for by multiple capitals as the cumulative value of plant and machinery increases.

Also shown on the graph is the relative degree of correspondence between the types of capitals and the legal forms of proprietorship, partnership and private limited company. For this purpose we have assumed that the partners, or the directors, are the personification of capitals and have examined the social relationship between the partners, or between the directors in the case of a company.

In addition to single capitals in the form of proprietorships proper, such capitals also exist in the form of what may be called joint family partnerships. Economically, these represent single capitals which may have been distributed among members of an undivided family in order to lessen the burden of wealth tax, by distributing the legal burden of the wealth. Though some of them may even have been registered under the Partnership Act, they still remain a single capital. As the line on the graph shows, they account for a fairly constant 10% of the cumulative value of plant and machinery.

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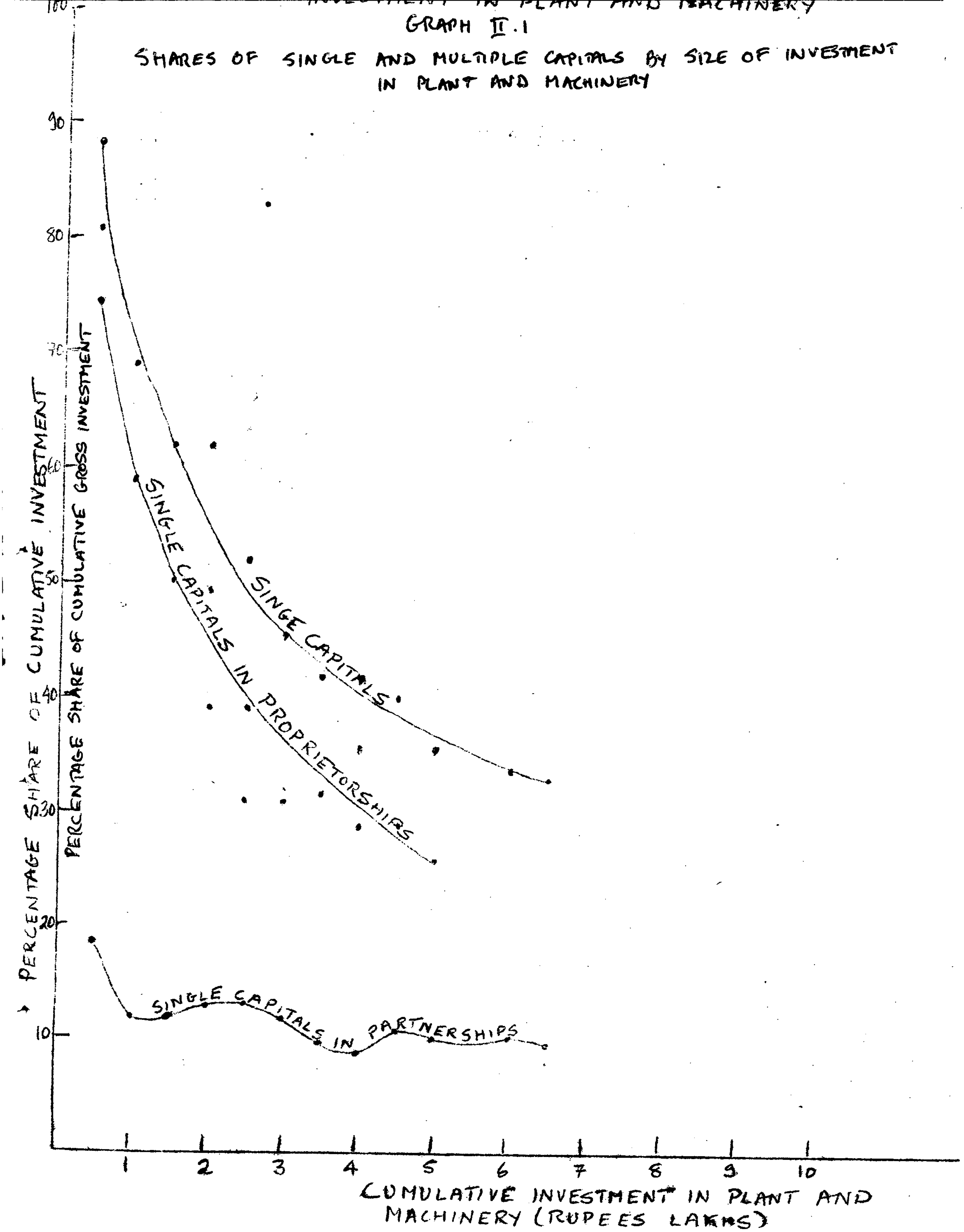
1. We have had to make use of this admittedly small sample as there does not appear to be any other source of data which classifies the items in a form suitable to our purpose.

GRAPH II.1

SHARES OF SINGLE AND MULTIPLE CAPITALS BY SIZE OF INVESTMENT IN PLANT AND MACHINERY



The constant percentage of the joint family partnership in the cumulative value of plant and machinery combined with a falling percentage of single capitals as a whole implies that they have a greater weightage as a form of operation amongst the larger single capitals. This would imply that the joint family partnership, whether registered or not, may be an intermediary form leading to the development of multiple capitals (partnerships proper).

In a sense contrary to the case of the joint family partnership, which are in fact single capitals, we may also have multiple capitals operating as a proprietorship. Centralisation has occurred here but the unit has not been registered as a partnership, probably because of ignorance of the advantages of registration.

The discussion so far has shown, firstly that the importance of multiple capitals increases systematically as the size of the unit in terms of the value of plant and machinery increases; and secondly, that the legal forms of proprietorship and partnership are good indicators of the existence of a single or of multiple capitals. In addition, we have discussed the joint family partnership, and the multiple capitals proprietorship, both of which represent transititonal forms from single to multiple capitals, and the alternative legal forms appropriate to this transition.

As far as multiple differentiated ("active" and "passive") capitals are concerned, we find this occuring, as might be expected, only in private limited companies. Of course there are cases of "sleeping partners" within partnerships, and even proprietorships run by a salaried manager, both of which could classify as examples of the existence of both active and passive capitals. However it seems that in such cases the passive capitals are combined with the active ones primarily on the basis of social bonds and trust, as distinguished from the economic logic of centralisation.

Turning to the second transition, i.e. from multiple undifferentiated to multiple differentiated capitals, our survey contained few examples of multiple differentiated capitals (i.e. private limited companies) and so we are unable to establish with this data that such capitals are of larger size than undifferentiated capitals (partnerships). However we can establish this through the use of different kinds of data.

We have shown that, historically, it was the increasing pace of technical and economic progress that required an accelerated accumulation through centralisation of capitals and, inevitably, that this led to the differentiation between active and passive capitals. We have also mentioned that on the evidence of our survey data, this differentiation through centralisation took place ordinarily through the legal form of the private limited company. If we can now demonstrate that these companies represent centralisation, combined with differentiation of capitals, we will have in essence established our point that the private limited company represents an economic advance on the proprietorship in the sense that a greater degree of centralisation has taken place in the formation of the associated capital.

We may mention in this connection that our survey did not include any case of a single capital operating in the form of a private limited company; thus some centralisation does seem a necessary condition for the utilisation of the company form.

The other data that we have which are relevant to our argument are based on a census scale analysis of private limited companies, registered in Maharashtra, and in operation in 1962.[1] The data have been presented in a manner so as to describe the characteristics of the companies in terms of shareholding, directorships, place of operation, balance sheet items and so on. We note that the census covered 3194 companies representing 80% of the private limited companies, and 62% of all companies (public and private limited) in Maharashtra. On an all India scale, the companies represented 16% of the total number of private limited companies, and 28% of their paid up capital.

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1. V.D.Lall, "Structure of Private Limited Companies in Maharashtra, Part II, Ownership and Management", <u>Economic and Political Weekly</u>, VI (1971), 28, pp.1368-1402.

As far as centralisation is concerned, the following table shows the essential link between the process and the formation of private limited companies.

Table II.3

DISTRIBUTION OF COMPANIES BY THE NUMBER OF OWNING FAMILIES

No. of Families	No. of Companies	% of total
1	1030	32.3
2-3	1190	37.3
4-5	471	14.7
6-7	195	6.1
8-10	136	4.3
11-15	75	2.3
Above 15	97	3.0
Total	3194	100.0

67.7% of the companies are owned (more than 50% share-holding) by at least two families, which we take to represent distinct capital, while 15.7% involve more than 5 families or capitals. It is important to note that as ownership has been defined as a minimum of 50% of the total shareholding, the total number of owners, and the degree of centralisation, may be much greater than this table demonstrates. In addition, corporate holdings unconnected with other corporate, or individual holdings have been included within the definition of a "family"; and such holdings themselves imply centralisation, although in these cases, as Lenin described, it takes the form of control of "daughter" and "grand daughter" companies, that is, across organisations which are legally distinct.

The differentiation between active and passive capitals is shown by the following table of the extent of ownership by Directors, and their families and associates:

Table II.4

Ownership of Shares by	Companies Registered Before 1954 %	Companies Registered Between 1955-1962 %	Total
1. Directors	41.9	37.1	40.5
2. Directors' families and associates	39.4	38.0	39.0
3. Others	18.7	24.9	20.6
Total	100.0	100.0	100.0
Paid up Capital Rs. Crores	76.87	32.31	109.18

The percentage share of "others" which we have taken to be "passive", capitals was 21% in the total. What is interesting is the sharp 6% rise in this share between the Pre 1954 companies and those registered between 1955-1962. This implies that the controlling capitals were making increasing use of passive capitals in the later period.

Table II.5

SIZE PATTERN OF COMPANIES VIS-A-VIS SHAREHOLDERS POPULATION

Equity Capital	Number of Shareholders						
	1000 and below	1000 to 5000	5000 to 10000	10000 to 15000	15000 to 25000	Above 25000	Total
1) Rs.50 Lakhs to Rs. 1 crore	3	1					4
2) Rs. 1 crore to Rs. 5 crores	5	14	13	4	2	3	41
3) Rs. 5 crores to Rs.10 crores		1	3	1	3	2	10
4) Rs.10 crores to Rs.20 crores					2	1	3
5) Rs.20 crores and above						1	1
	8	16	16	5	7	7	59

Source: Company News and Notes, VI, 1 (1967), p.27.

We may now turn to our fourth degree of centralisation, represented by the quoted public limited company which, by definition, may have an unlimited number of members or shareholders.

Rigorous proof that our fourth stratum consists of capitals larger than the third, would require us to show an increasing presence of such capitals amongst the larger size groups of all capitals. This is a tedious exercise, and we will confine ourselves to demonstrating evidence for this proposition. We take the paid up capital as an index of the size of the individual company, which itself may be taken as a manifestation of the centralised capital.[1] In this exercise there is a clear qualitative distinction, generated by the relationship to the stock exchange, between "quoted" public limited companies on the one hand, and private limited companies and unquoted public limited companies on the other.

The data that we have relate to the year ending 30th September, 1966.[2] On this data there were, in all, 27010 companies registered under the Companies Act. Our of these, there were 689 companies with a paid up capital of Rs.50 lakhs or more. These accounted for Rs.2008 crores out of the total paid up capital of Rs.2987 crores. Detailed breakdown was as follows:

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1. Table II.5 shows the relationship between the increasing size of the paid up capital, and the increasing number of shareholders, or previously independent capitals.

2. Government of India, Department of Company Law, Information Broadsheet No.4/1967.

Table II.6

	Number	Paid up Capital (Rs. crores)
All companies with paid up capital greater than Rs.50 lakhs	689	2008
of which		
A) Public sector companies	78	988
B) Private Sector		
i) Public Limited Companies	588	978
ii) Private Limited Companies	43	42

Of the Private Limited Companies in the Private Sector, we find that all 43 have a paid up capital of less than Rs.5 crores, while there are 27 Public Limited Companies in the same sector with paid up capital ranging between Rs.5 crores and Rs.40 crores. In other words, the Public Limited Companies, which as the table above shows, dominate the bracket over Rs.50 lakhs, are supreme when we consider that above Rs.5 crores. Thus Public Limited Companies do extend to a size group well beyond the largest Private Limited Company.

However, not all Public Limited Companies are quoted on the stock exchange. In fact, of the 6411 companies of this type, only 1540 were quoted companies, including 10 sterling companies and 8 which were in the Public Sector.[1] These 1522 quoted rupee Private Sector companies accounted for Rs.1120.72 crores out of the total of Rs.1385 crores of all such public limited companies, which represents about 80% of the capital at face value. Of course many of these companies are comparatively small, but the point is that such companies with access to the stock market dominate both the group of public limited companies as a whole, and of the entire corporate sector when we consider the largest size groups. Thus while there are 30 quoted Rupee companies with paid up capital greater than Rs.5 crores, it may be recalled that there were only 27 non government public limited companies of this size. Thus the largest quoted companies do include the entire range of very large non government companies, and 3 Government companies in addition.

It is a straight forward, if very tedious exercise, to continue such break downs to smaller companies. If such an analysis were undertaken, we would obtain a chart or graph showing the declining importance of our fourth stratum (quoted companies) as the PUC limit declined; this would be similar to the results for the single/multiple capitals transition we have demonstrated.

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1. "Securities quoted on the various Indian Stock Exchanges as on September 30, 1966". <u>Company News and Notes</u>, V (1967), 21.

II.6 Conclusions

We have been able, in this manner, to identify four strata of capitals which depends essentially on the relationship between the individual fused capitals themselves. We have also been able to hypothesise that the strata are distinguished by the following forms of organisation.

Stratum	Characteristic	Form of Operation
Small capital	Single capitals	Proprietorship
Medium small capital	Multiple capitals	Proprietorship, Partnership
Medium big capital	Multiple differentiated capitals	Proprietorship, partnership, private Limited Company, Unquoted Public Limited Company
Big capital	Money capitals or stock capitals	Proprietorship, Partnership, Private Limited Company, Unquoted and quoted Public Limited Company.

For each of these comparisons we have had to use qualitatively different data to bring out the essence of changes in size of the capitals. For the transition from single to multiple undifferentiated capitals we used data on gross value of plant and machinery in small scale manufacturing units. In the transition from undifferentiated to differentiated (active and passive) multiple capitals we demonstrated the difference in the relationships between the capitals; in the transition to advanced stages of centralisation we used the concept of paid up capital (i.e. face value of equity shares); and finally we showed how increases in paid up capital are generally accompanied by increases in centralisation as indicated by increasing numbers of shareholdings.

We have now completed the outline of our task of stratification. We have been able to define the strata through the use of the concepts of the individual capital, and the process of combination of capitals through centralisation; and we have illustrated the correspondence between these strata and the legal forms of organisation enabling us to identify individual members of each stratum. With this identification machanism we have looked again at the findings of studies of the process of concentration in India; and finally we have shown that all the four strata we have identified by our scheme exist in greater or lesser measures within the Indian economy.

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CHAPTER III

THE STRUCTURE OF SMALL SCALE INDUSTRIES

(i) INDUSTRIAL CAPITAL AND MERCHANT'S CAPITAL IN SELECTED INDUSTRIES IN INDIA, 1953-1956

III.1 Introduction

In the two previous Chapters we have discussed the origin and the growth of industrial capital essentially from a sociological point of view. For this reason we were concerned there with the individual industrial capital and, in particular, the processes by which such capitals were generated. Implicit in the line of reasoning we developed was the conception of the development of capitalist production as lying essentially in the twin aspects of the growth of industrial forms of capital, combined with technical advances in the process of production. We would therefore emphasise that, for us, industrial capital might find concrete expression in industrial units using very different kinds of technology. Each specific technology might in turn be in use in industrial units whose social character was petty bourgeois or a transitional form. It is this conception of the development of capitalist production that links the sociological discussion in these Chapters with our overall purpose, which is the effect of the Small Industries Policy on the development of capitalism in industry.

The origin and the evolution of the Small Industries Policy will be discussed in later Chapters in some detail. However, before we can proceed to what might be called the political economy of the Small Industries Policy, it is necessary to have an understanding of the structure of small scale production in the period when the policy became operationally effective. For this reason, in the following sections of this Chapter, and in Chapter IV, we shall examine the level of evolution of capitalist relations of production in selected industries in the middle nineteen fifties.

III.2 The Stages of Capitalist Development In Small Scale Production 1953-56

During the period of the debate on the Second Five Year Plan strategy, with its emphasis on the role of small scale production in meeting the expected demand for consumer goods, the Research Programmes Committee of the Planning Commission funded a series of studies of small scale production in various industries, and in specific locations. At about the same time, the All India Handicrafts Board had commissioned research into the conditions of some of the industries within its purview -- in this case those producing goods of artistic value.

These surveys, although they have followed different methodologies, and even within the same series of surveys, have often defined a small scale unit in different ways, are valuable in the information they provide about the level of development and the possibilities of further growth of small scale production. As most of them were undertaken before specific policies to encourage small scale units had gained momentum, they provide some benchmark against which progress may be measured. Unfortunately, no further surveys of an equivalent type have been undertaken in the succeeding 20 years, and it is not possible to see the effects of general economic development on specific industries or geographic locations. However, the studies are of importance in enabling us to establish the level of development of early capitalist forms of industry, and also the strength of those units ancillary to the growth of large industry, commerce, and urban life in general.

III.3 Carpet Industry of Mirzapur and Bhadoi

A survey of this industry was undertaken by the Indian Cooperative Union on behalf of the All India Handicrafts Board in December 1953.[1] Although there were about 50 firms in Mirzapur, the industry was at that time largely in the hands of a group of 4 or 5 British dealers who were responsible for 75 per cent of the export trade in carpets. Exports themselves accounted for 90 per cent of production which was then about 25 lakh square yards a year.

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1. Government of India, Ministry of Commerce and Industry, All India Handicrafts Board, Report on the Carpet Industry of Mirzapur and Bhadoi (Indian Cooperative Union, New Delhi:1955).

The dealers were very hostile to the Factories Act, and in some cases, had given away the dyeing and finishing establishments to contractors.

In 1953, there were approximately 12 000 carpet looms, each of which provided employment to 4 or 5 persons (60 000 in all), and subsidiary occupations, mostly to women, for an additional 1 00 000.

Employment throughout the year was unusual, even 250 days in the year would be uncommon. The working day was from 7 AM in summer (8 AM in winter) until night fall, with a one hour break at midday, amounting in all to an 8-10 hour working day.

The dealers would generally advance raw material, designs and specifications to karkhanedars or loom owners who employed weavers on a piece rate basis. Occasionally dealers would approach weavers directly, and in other cases, karkhanedars would pass on orders to self employed weavers who would be supplied with raw material.

The process of sorting, spinning and yarn opening was done by women of the loom owners', or weavers', families while carding was done entirely by men who owned their own equipment. They were not attached to any particular loom owner and moved from cottage to cottage as work arose.

Weavers were paid according to the number of diharis (6000 knots) woven by them, an average weaver weaving 1 dihari a day. Monthly earnings were about Rs.20-22 when employment was continuous, though no payment was made for the time spent in setting up the warp on the loom; this would normally take 4 weavers 2 days to complete.

Carders and clippers earned Rs.15-20 per month, while the women engaged in spinning and opening yarn got Rs.5-10.

While the loom owner's commission varied between Rs.0-8-0 and Rs.2-0-0 per square yard depending on quality, the net earnings were small because of his expenses and the fines imposed by dealers.

In an average of 25 working days in the month, about 100 sq. yards would be woven on 2 looms, with 4 workers on each. Taking the breakdown of the dealer's production cost as in Table III.1, this would give the loom owner a gross receipt of Rs.50 and a net receipt of Rs.35-13-0 (see breakdown of expenses in Table III.2). However, the fines levied by dealers for (i) non uniformity of pile (ii) loose threads at the ends (iii) warp or weft threads less than specified or (iv) woven area short of specifications could amount to 10-25% of the loom owner's commission. The dealer's margin varied from 20-50%.

Table III.1

CARPET INDUSTRY : BREAKDOWN OF PRODUCTION COSTS PER SQUARE YARD

Item	Rs.	As.	Pies	% of dealers salesprice
1) Woollen yarn (including dying)	14	14	0	59.5
2) Cost of jute twine	1	4	0	5.0
3) Cost of cotton yarn	1	0	0	4.0
4) Labour charges	2	12	0	11.0
5) Loom owner's commission	0	8	0	2.0
6) Clipping charges	0	2	0	0.5
	20	8	0	82.0
Dealer's margin	4	8	0	18.0
Dealer's sale price per square yard	25	0	0	100.00

Table III.2

CARPET INDUSTRY : EXPENSES OF LOOM OWNER

	Rs.	As.	Pies		% of total expenses
Rent for Workshop	5	0	0	per month	35.3
Provision of beedis	3	2	0	per month @ 2 annas per day	22.0
Cartage from Workshop to dealer (@ 4 annas per piece of 12 sq. yards)	2	0	0	(for 8 piece-woven in the month)	14.1
Charity deduction at 3 pies per sq yard	1	9	0		11.0
Loom Maintenance	2	8	0		17.6
	14	3	0		100.0

Note (a) The expenses are spread over a month of 25 working days during which 100 square yards of carpet are woven.

Table III.3

CARPET INDUSTRY : PIECE RATE EARNINGS FOR WORKERS ENGAGED IN VARIOUS PROCESSES, AND THEIR HISTORICAL DEVELOPMENT

Process	1906	1939	1944	1953
Sorting (per 5 seers wool)	1 anna	2 annas	3 annas	5 annas
Carding Rs. 1 per	32 seers	16 seers	10 seers	Rs. 1¼ per 10 seers
Spinning Rs. 1 per	16 seers	5 seers	4 seers	4 seers
Yarn opening per seer	1 pice	1½ pice	2 pice	1-1½ annas
Weaving Rs. 1 per	8-9 diharis (a)	4 diharis	2 diharis	1½ diharis
Clipping per yard	--	2 pice	3-7 pice	2 annas

Note (a) one dihari = 6000 knots.

III.4 Ivory Industry in Delhi State

This industry was surveyed by the Indian Cooperative Union in November 1953.[1] The value of production at that time was Rs.2.5 lakhs per year of which Rs.1 lakh was accounted for by the Ivory Palace establishment, and the balance by 5 other dealers, all in Delhi.

Business, except during the four winter months from October to January, was slack. During the peak period dealers would bind even the ivory workers not working on the dealer's premises to them exclusively, although engagement of workers was on a no work-no pay basis. The industry employed 200 workers, 150 in Delhi and the rest in the mofussil (Gurgaon etc.). Except for the Ivory Palace which employed 13 workers, dealers generally had 4-5 workers on their premises on a regular basis. Payment was on a piece rate basis except for regular workers employed on the premises of a dealer.

Of the output, Rs.40 000 worth was made by workers in villages around Delhi; the competition from these workers lowered both the earnings and employment opportunities of city workers. Workers who worked at home were helped by their

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1. Government of India, Ministry of Commerce and Industry, All India Handicrafts Board, Report of the Ivory Industry in Delhi State, (Indian Cooperative Union, New Delhi : 1955).

families who contributed unpaid labour, thus reducing labour costs for the dealers.

Most of the mofussil workers, and about half the city workers worked part time, some of the latter being government and municipal employees. A whole time worker earned Rs.3-4 per day, while part time workers and beginners earned Rs.1-2; highly skilled workers earned Rs.7-12.

Money was borrowed from the dealers for special occasions and occasionally for normal consumption purposes.

Table III.4

IVORY INDUSTRY : COSTS OF PRODUCTION

	Inferior necklace (per dozen)				Superior necklace (each)				Elephant with trappings (each)		
	Rs.	As.	Pies	%	Rs.	As.	Pies	%	Rs.	As.	Pies
Cost of Ivory	9	0	0	50	2	8	8	41.6	50	0	0
Cost of labour	7	0	0	39	3	0	0	50.0	30	0	0
Dealer's profit	2	0	0	11	0	8	0	8.4	70	0	0
Dealer's sales price	18	0	0	100	6	0	0	100.0	150	0	0
Insurance & Freight to USA by sea	1	2	0	6¼	0	6	0	6.25			
By Air	2	4	0	12½	0	12	0	12.50			
Final sale price[a] (USA)	24	0	0	33 1/3 (Over dealer's Price)	50	0	0[b]	733	(over dealer's price		

Notes: (a) Import duty levied at rates ranging between 22% and 55%.
(b) Includes 100% purchase tax in San Francisco.

III.5 Silk Brocade Industry in Banaras

This was the subject of the third survey by the Indian Cooperative Union in December 1953.[1] At this time there were about 30 000 looms in Banaras, and a further 5000 in Mubarakpur. About a third of the former were idle.

75% of the weavers worked at home with the assistance of their family, buying material to use on their own looms and selling to traders directly. The rest worked on a wage basis in approximately 1000 karkhanas owned by prosperous weavers turned into master weavers.

Each loom provided work to 1 weaver and 2 assistants, implying a total employment of 90 000 in Banaras if all looms were working. Daily wages varied between Rs.1-3 per day. Advances were taken from workshop owners when there was no work, but no interest was charged on these.

There were about 500 stockists, 500 small shopkeepers, and 1000 brokers in Banaras. Various alternative links between the weaver and the consumer were as follows:

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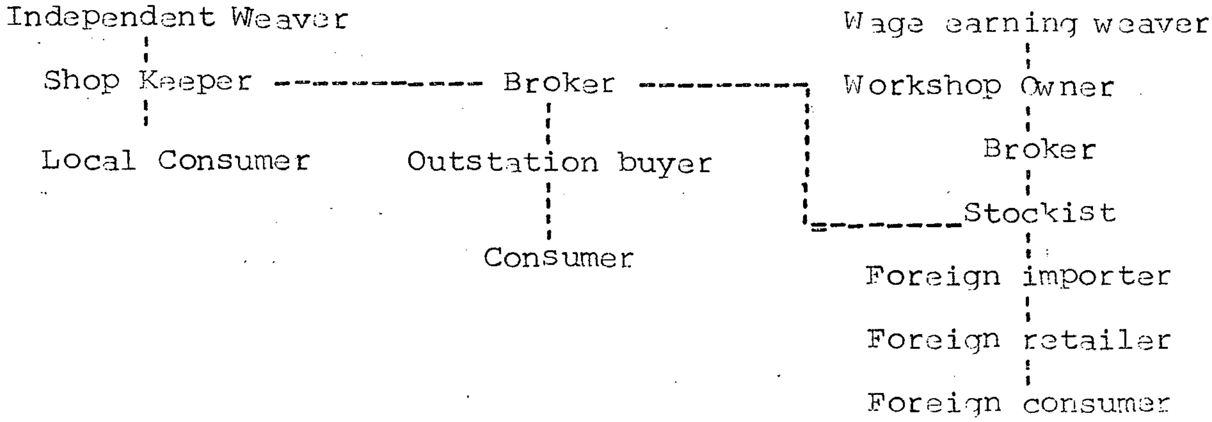
1. Government of India, Ministry of Commerce and Industry, All India Handicrafts Board, Report on the Silk Brocade Industry of Banaras (Indian Cooperative Union, New Delhi : 1955).

Chart III.1



III.6 Brassware Industry in Moradabad

Small scale establishments defined as those establishments employing less than 20 workers were surveyed in detail in Moradabad by the Department of Economics of Lucknow University in 1954-1955.[1]

Of the 3798 establishments found to be operating, 2645 were in the brassware industry, or in processes connected with this industry. The survey therefore concentrated on establishments engaged in the four processes given below:

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1. Baljit Singh, The Economics of Small Scale Industries : A Case Study of Small Scale Establishments of Moradabad (Asia, Bombay: 1961).

Table III.5

Industrial Group	Number of Establish-ments	Sample size	Of which Proprietor-ships	Partner-ships
1. Brassware and foundaries	923	176	156	20
2. Engraving and Ornamental ware	584	121	116	5
3. Electroplating, polishing, enamelling and finishing	349	66	60	6
4. Metal industries otherwise unclassified	782	187	170	17
5. Total	2645	550	502	48
			(91.3%)	(8.7%)

Only 10.4% of the establishments were found to be composite units (defined as working nearly all the processes required to complete the finished product, and thus owning their own raw material). The non-composite establishments worked only one or two processes, and worked usually for dealers who remained owners of the semi finished goods and processed materials at every stage of the process.

Although the composite establishments were the only ones which may accurately be referred to as a "unit", in that they undertook a number of processes within a single establishment on owned raw materials, they too were linked to merchant capital in the guise of the dealers, as can be seen from the extent of raw material sale on credit terms to such units.

Table III.6

PERCENTAGE OF CREDIT PURCHASES TO TOTAL PURCHASES OF RAW MATERIAL

Industry Group	100%	75-100%	50-75%	25-50%	1-25%	Total
I. (%) of units	38.6	13.6	31.8	9.1	6.8	100.0
II.(%) of units)	30.8	23.1	38.5	-	7.7	100.00
V. (Number)	21	9	19	4	4	57
(%)	36.8	15.8	33.3	7	7	100.0

As can be seen, 86.8 per cent of units purchased raw material upto 50 per cent of their requirements on credit from dealers. It appears that in return for this, units were required to purchase raw material solely from the credit giving dealer, even if at a higher than normal price, and often to sell the finished product to the same dealer at a predetermined price. As dealers, whether those with their own karkhanas, or others, controlled 70 per cent of the produce of the brassware industry, they were clearly in a position to determine prices to a substantial extent.

The non composite establishments on the other hand would haggle and bargain for prices, and were at no time under a formal contract or obligation to work for any particular dealer; they might work on processing material from several dealers at the same time; these dealers were traders-cum-financiers who combined wholesale and retail trade, and even imports and exports. Interfacing between dealers and the establishments was through a group of agents or dalals who farmed out dealer's orders. Their earnings depended on the difference between the price stipulated to dealers and the prices paid to the establishments. Karkhanadars, or composite unit owners, formed a special type of dealer who had workshops for various processes, but who might still contract work to other establishments.

It was found that the 75% of the dealers who farmed out work did so through dalals to the extent of 50% of their orders. On the marketing side, too, there were a long chain of middlemen between the producer and the final consumer, consisting of sales agents, commission agents and retailers.

Brokers were employed by dealers either on a salary or on a commission basis, and were expected to obtain orders from trade centres outside Moradabad. They were paid, when on commission, on the basis of the difference between the dealer's stipulated price, and the sale price, though the margin might in some cases be shared with the dealer. In addition, there were brokers who specialised in booking consignments on the railways, charging all incidental expenses and a commission. It was estimated by the survey that final consumer prices were higher than the dealer's price by 6.4% in the local market, 27.4% in other centres in the country, and 35% in overseas markets.

It appeared that while 10% of the dealers had their own karkhanas, only half this number dealt solely in goods manufactured in their premises. Although these units employed 25 workers on the average and their size would thus have excluded them from the surveyed establishments, 100 dealers were specifically surveyed in all irrespective of the size of their establishment, in addition to the 550 producing establishments employing strictly less than 20 workers.

The size distribution of the surveyed establishments and the relative proportion of hired and domestic workers was as follows:

Table III.7

Industry Group	Percentage of Units with average number of workers				Total	Domestic workers %	Hired workers %
	2-4	5-9	10-14	15-19			
I	51.7	34.1	10.2	4.0	100.0	37.3	62.7
II	73.6	18.2	7.4	0.8	100.0	51.4	48.6
III	54.4	34.9	4.6	6.1	100.0	40.5	59.5
IV	87.7	8.6	3.2	0.5	100.0	68.9	31.1
V	69.1	22.0	6.5	2.4	100.0	48.5	51.5

Although the survey included establishments using power (provided they employed less than 20 workers in all), it was found that 92.6% were manually operated, 0.9% used diesel, while 6.6%, mostly in the electroplating and scraping processes in the larger brassware units, used electricity. Hand techniques and little use of machinery is also evident from figures on the money outlay at historical prices on the instruments of production in establishments.

Table III.8

Money outlay (Rs.)	Industry Group					
	I	II	III	IV	V	%
Less than 100	39	78	37	138	292	53.1
Between 100 and 200	24	6	2	9	41	7.5
Between 200 and 500	45	12	5	17	79	14.4
Between 500 and 1000	22	10	4	6	42	7.6
Between 1000 and 5000	35	15	13	12	75	13.6
Between 5000 and 10000	8			3	11	2.0
More than 25000	3		1		4	0.7
Total	176	121	66	187	550	100.0

Although the notion of "capital" employed (fixed and working) is deceptive in a size range of establishment where the bulk of fixed "capital" is accounted for by land and buildings, which are in most cases hired by the proprietor, and do not count as his own assets, the variations in average value of the fixed and working "capital" between composite and non composite units is of interest.

Table III.9

COMPOSITION OF CAPITAL BY THE TYPE OF ESTABLISHMENT

Industry Group		Fixed (Average) Rs.	Working (Average) Rs.	Total (Average) Rs.
I	a-composite	4522	5123	9645
	b-other	1638	45	1683
	c-Total	2359	1314	3673
II	a-composite	--	--	--
	b-other	974	12	986
	c-Total	974	12	986
III	a	--	--	--
	b	4145	140	4285
	c	4145	140	4285
IV	a	3571	1838	5489
	b	1401	21	1422
	c	1553	147	1700
V	a	4305	4374	8679
	b	1732	41	1773
	c	2001	493	2494

Note: a-composite unit; b-other unit; c-total.

The development of capitalist relations in the larger establishments (in terms of employment) may be clearly seen from the following table:

Table III.10

	Establishments Employing Daily				
	2-4 workers	5-9 workers	10-14 workers	15-19 workers	Total
Principal Product(%)	20.1	33.4	75.2	65.5	48.6
Subsidiary Product(%)	0.2	0.3	-	-	0.2
Work done for others (%)	79.7	66.3	24.9	32.6	51.3
Gross Output (Rs.)	7,02,000	10,46,000	9,21,000	5,99,000	32,68,000
Average gross output(Rs)	1,954	9,962	26,303	46,077	6,381
Average net output (Rs)	959	2,910	2,563	5,789	1,590
Gross output per worker (Rs)	783	1,509	2,325	2,698	1,480
Net output per unpaid worker (Rs)	462	1,311	1,359	2,016	753

All establishments were found to be perennial, although 4.2% had slack seasons. The growth of the brassware industry may be estimated from the growth of demand for raw materials as shown below:

Table III.11

DEMAND (In Maunds)

Item	1938	1947	1951	1954
Brass Sheets	15,000	27,000	31,000	27,000
Brass scrap	40,000	1,50,000	1,70,000	2,00,000
Zinc	35,000	50,000	45,000	54,000
Lead	4,000	12,000	11,000	15,000
Tin	500	1,000	1,000	1,300
Total	94,500	2,40,000	2,58,000	2,97,300

III.7 Match Industry in Sivakasi and Sattur

Surveys of the match industry, and the firework industry to be discussed in the next section, were undertaken in July 1954 by the Economics Department of Shri Venkateswara University at Tirupati.[1]

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1. Government of India, Planning Commission, Research Programmes Committee, Small Scale Industry in Sivakasi and Sattur (New Delhi, 1957).

For excise tax, match units were classified according to production capacities as follows:

CHART III.2

Type of Unit	Production Range
A	Greater than 5 lakh gross a year
B	Less than 5 lakh gross a year, more than 100 gross per day
C	Between 100 gross per day and 25 gross per day
D	Less than 25 gross per day.

The survey found 41 units in existence of which 37 were in a class B and 4 in class C; of the class B units, 18 were Proprietorships, 18 partnerships and one was a Public Limited Company. All units worked perennially, suspension of work occuring only when there was a shortage of supplies. 27 of the class B units used no power of any kind.

The 41 establishments manufacturing matches, employed 14216 workers with a monthly wage bill of Rs.2.15 lakhs. The industry provided whole or part time employment to 44% of the population in these two towns (1951 population figures for Sivakasi was 22,674 and 13,565 for Sattur).

Out of the 14,216 workers on piece wages, 10,026 were working outside the establishments and 3741 within.

Even those persons who, during the day, were engaged in other occupations, took to match making during any spare time. Children from the age of 4 to persons of 90, including the blind, took part--it was the "listed" or visible labour force which accounted for 44% of the population of the two towns.

Piece work rates were as follows with average daily earnings alongside:

Table III.12

Process	Rate			Daily Earnings
	Rs.	As.	Pies	Rs.
Frame filling (for 1 frame)	0	0	6	0-4-0 to 0-10-0 (mostly by children)
Inner box making (per gross)	0	0	9	0-12-0 to 1-12-0
Outer box making (per gross)	0	0	6	0-10-0 to 1- 8-0
Box filling (40) (per gross)	0	1	3	1- 0-0 to 2-0-0
(60)	0	1	6	
Bande rolling (per gross)	0	0	6	0-14-0 to 1-8-0

The survey noted some cases of "piece rate middlemen" who would take work at Rs.0-0-6 per gross and subcontract at Rs.0-0-4 to families.

An indication of the size of the listed work force in the establishments is given by the table below for 36 units including both types B and C.

Table III.13

Workers employed (within and outside premises)	Number of Units
100 to 200	6
200 to 300	6
300 to 400	8
400 to 500	6
Above 500	10
	36

The range of fixed capital (excluding land and buildings which only 13 units owned) was as follows:

Table III.14

Fixed Capital (Rupees)	Number of Units
Less than 2500	3
2500-5000	8
5000-10000	8
10000-15000	9
15000-20000	3
20000-30000	3
30000-100000	2
Above 100000	1
	37

The survey found that there was no relationship between fixed capital and productivity as the equipment could be used more or less intensively.

Figures for productive capacity (as defined for excise authorities) and actual production were as below:

Table III.15

Daily Productive Capacity (Number of units)	Production Range	Daily output (Number of Units)
4	Less than 500 gross	5
4	Between 500 and 1000 gross	10
21	Between 1000 and 2000 gross	15
6	Between 2000 and 3000 gross	2
2	More than 3000 gross	-
-	Not known	5
37		37

Out of the 37 units, the 8 strongest financially sold in the local or regional market. The remaining 29 had sales elsewhere in India through commission agents. 22 units mentioned "lack of demand" as a reason for unutilised capacity; this appeared to be the case with the smaller units which depended on wholesale commission agents for sales. The

Table III.16

SALES HISTORY OF 1 GROSS "FORTIES" (Example)

		Rs.	As.	Pies	% of final sales price
Stage I	Cost of production including appropriate excise duty	3	11	0	81.8
Average railway freight		0	3	0	4.2
Manufacturer's profit		0	1	0	1.4
Sales tax calculated after deducting excise duty		0	0	6	0.7
	Selling price	3	15	6	88.1
First Wholesaler					
	Cost price	3	15	6	88.1
	Profit	0	1	0	1.4
	Sales tax	0	1	0	1.4
	Selling Price	4	1	6	90.9
Second Wholesaler					
	Cost price	4	1	6	90.9
	Profit	0	1	0	1.4
	Sales tax	0	1	0	1.4
	Selling price	4	3	6	93.7
Retailer	Cost price	4	3	6	93.7
	Profit	0	1	0	1.4
	Sales tax	0	1	0	1.4
	Selling Price	4	5	6	96.5
Panwala or Petty Shopkeeper					
	Cost price	4	5	6	96.5
	Profit	0	2	6	3.5
		4	8	0	100.0

agents were mostly from Northern India and the larger units, in addition to having their own marketing channels, were in the process of developing contacts with retailers in the local markets, where the commission agents had little influence.

It appeared that wholesalers dealing in matches did so only as a sideline, and in order to realise their investment quickly, passed on the stock to a second wholesaler. This string of middlemen, and the need to ensure that the panwala obtained at least the same profit as from larger concerns with their own marketing network, kept the profit margin of the smaller units depressed.

III.8 Firework Industry of Sivakasi and Sattur

21 units were surveyed, of which 10 were proprietorships and 11 partnerships, all manually operated. The units were covered by the provisions of the Explosives Act which specified quotas or ceilings upto which a unit might store products. Out of 16 units which owned land and buildings, 6 had sufficient space to store substantial quantities; the others acted as feeder units. The smaller units, with quotas between 25 to 200 lbs had to sell the produce as soon as the quota was reached; some of them obtained raw materials from the larger units. In fact 15 of the 21 units were "feeder" units, obtaining raw materials on credit from wholesalers (either the larger units, or outsiders) and selling produce to them. During the busy season, leading upto Diwali, they were unable to undertake orders independently without risking good will and patronage from the larger units.

3 units worked throughout the year, 9 for 9 months, 8 for six months and 1 for 3 months. Distribution of production was as follows:

Table III.17

Value of Production (Rs. '000)	Number of units	
Below 5	1	
5 to 10	1	
10 to 25	3	Feeder units
25 to 50	7	
50 to 100	-	
100 to 500	3	Financier units
500 to 1000	1	
Above 15000	1	
	17	

Domestic work was not possible in this industry, except for the manufacture of paper boxes. Distribution of units by size of workforce was as follows:

Table III.18

Number of workers	Number of units
5 to 25	10
25 to 50	4
50 to 100	4
100 to 200	1
200 to 300	-
300 to 400	1
400 to 500	1
	21

III.9 Surveys of Large Urban Areas

Although the Planning Commission's Research Programmes Committee had commissioned a number of other studies on small scale production, we have felt it worthwhile to examine only two. These cover Delhi and Bombay, and give some indication of the nature of small units in large urban areas. Unfortunately, the types of units surveyed in the two cities are quite different, and the information has not been collected on a census basis. It is therefore not possible to use the data for any purpose beyond obtaining a feel of the nature of small scale units.

III.9(i) Survey of Delhi

The Delhi study was conducted in 1954-55 by the Delhi School of Economics.[1] As a basis for the survey they made use of a census conducted by the Department of Industries, in 1951, suitably updated. Units in selected industries employing between 2 and 19 workers, with a minimum "block capital" of Rs.250 were included.

The study distinguished between three types of small scale production:

> (1) "Cottage type handicrafts where the individual producer works independently in his own home and controls the entire process of manufacture and marketing.
>
> (2) "A variant of handicrafts which is also carried on in the homes of workers, but on a relatively larger scale, the owner's labour being supplemented by hired and apprentice labour, and often on the basis of advances in respect of cost of raw materials from middlemen traders.
>
> (3) "A small workshop or 'Karkhana' in which workers are engaged by either a craftsman entrepreneur, who has moved up the ladder by proficiency in his craft, or by a merchant who has gravitated from the position of a seller of products to that of the controller and owner of the production unit itself."

The study concerned itself with units in the second and third category i.e. independent small commodity producers were excluded from the survey.

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1. P.N. Dhar, Small Scale Industries in Delhi (Asia, Bombay: 1958)

Unfortunately, the rest of the study does not continue with the same level of scientific enquiry, for inspite of the explicit notice of the existence of merchant capital, the data have not been analysed in a form which allows one to distinguish between units of the second and third types i.e. small commodity production subordinate to merchant capital, and small industrial capital. There are some stray remarks concerning these questions in the section of the study concerned with specific industries, but the importance of the distinction does not seem to have been recognised.

However, a distinction is made between hand, and machine production on the one side; and with units employing 2 to 9, and 10 to 19 workers on the other. It is possible therefore, to make the following categorisation of units.

CHART III.3

EMPLOYMENT SIZE

	2-9 workers	10-19 workers	
Using Power B-	Small commodity producers under merchant capital + small factories	Small Factories	-D
Not using Power A-	Small commodity producers under Merchant capital + Capitalist cooperation + Small manufactories	Manufactories	-C

13 industries, with representation in the population and in the sample as follows, were surveyed.

Table III.19

	Number of units	Surveyed
1. Flour mills	272	55
2. Printing Presses	267	54
3. Trunk manufacture	225	45
4. Leather footware	180	36
5. Light engineering	105	26
6. Electrical goods	36	18
7. General Engineering	80	20
8. Hosiery	77	19
9. Soap	80	20
10. Foundries	51	17
11. Oil mills	32	16
12. Drugs	50	16
13. Electroplating	76	19
	1531	362

Responses were obtained from 326 units in the following distribution of forms of production.

Table III.20

Industry Number	Type of Unit A	B	C	D	Total Responses
1.	-	53		2	55
2.	25	12	2	15	54
3.	38				38
4.	33		1		34
5.	7	4	5	9	25
6.	2	8	6	2	18
7.	3	4	3	7	17
8.	7	5	1	3	16
9.	11		4		15
10.	6		2	6	14
11.		14			14
12.	8	2	3		13
13.		10		3	13
Total	140	112	27	47	326

282 units (87%) were economically of the form of a single capital as defined by us in Chapter II, out of which 154 (47%) took the form of proprietorships and 128 units (40%) were family partnerships owned by two or more members of the same family. Of the remaining 44 partnerships (multiple capitals by our criterion) there were only 2 cases

of a family controlled unit with some share held by outsiders. "There is a fierce tendency to keep the business within the bounds of ownership of the family."[1] In the other 42 cases the partners were individuals or small groups not constituting a family.

Non family partnerships were formed through either ex craftsman or ex merchants coming together to pool resources. The data indicated that although partnerships were generally formed due to lack of finance within the family, and inability to raise it from outside sources, merchants and craftsmen very rarely came together, because of differences in outlook.

Data on the ratio of hired and family labour provide more details of the relative level of capitalist production.

Table III.21

Industry Group	No. of Units	Total Employment	% of which are Owners	Family Members	Hired	Apprentices
1.	55	209	29.7	14.8	54.5	1.0
2.	54	473	15.0	4.0	73.4	7.6
3.	38	177	27.1	19.0	40.2	13.7
4.	34	133	27.0	40.5	28.0	4.5
5.	25	269	13.7	3.7	77.0	5.6
6.	18	140	27.2	7.1	64.3	1.4
7.	17	205	10.2	1.0	82.0	6.8
8.	16	128	15.6	4.7	78.9	0.8
9.	15	96	17.7	15.6	64.6	2.1
10.	14	152	14.5	2.6	72.4	10.5
11.	14	78	17.9	20.6	61.5	-
12.	13	93	18.2	8.6	73.2	-
13.	13	112	16.1	0.9	75.0	8.0

1. P.N.Dhar, Op. Cit., p. 20.

All wage workers except in the hosiery (No. 8) and Footwear (No. 4) industries were paid on a time rate. In the former, the nature of the work made a piece rate system more suitable; while in the latter it was an indication of the nature of the work (essentially a putting out system) operated by shoe and leather merchants.

It is unfortunate that the data collected by the survey on the instruments of production are of little value for tabulation has made no distinction between small commodity producers and capitalists, and all instruments of production within an industry are described as "fixed capital".

Similarly, the study says the following about the wholesale-merchant.

> Besides furnishing a readily available market to the producer, the wholesaler often performs other servicing functions for his clients, provided in other countries by bankers, trade associations, journals and technical bodies. The wholesaler is therefore, a multipurpose institution and <u>constitutes the external economic world</u> for the small producer. One obvious result of this dependence is that usually the terms of trade are turned against the small producer. [emphasis added.][1]

This understanding should have made obvious the inadequacy of an undifferentiated approach (in terms of the 4 categories of units) towards analysis of "working capital", but the study shows no signs of this.

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1. P.N. Dhar, <u>Op. Cit.</u>, p.49

Some idea of the integration of these urban units into the production cycle of large manufacturing units is given by the following table showing the source of the inputs to production and of sales.

Table III.22

SOURCE OF INPUTS TO PRODUCTION

Industry Number	Unprocessed primary products	Processed by small scale units	Processed by large scale units	Sales to		
				House holds %	Small Units %	Large Units %
1. Flour Mills	99.0	0.5	0.5	99.7	0.3	-
2. Printing Presses	1.1	14.6	84.3	54.2	39.6	6.2
3. Trunk Manufacture	0.1	5.0	94.9	100.0		
4. Leather footwear	-	31.2	68.8	100.0		
5. Light engineering	-	4.1	95.9	70.3	22.3	7.4
6. Electrical goods	1.3	14.8	83.9	82.3	0.3	17.4
7. General engineering	5.2	4.8	90.0	54.1	26.3	19.6
8. Hosiery	-	0.1	99.9	100.0		
9. Soap	-	3.3	96.7	100.0		
10. Foundries	1.3	25.9	72.8	31.9	52.2	15.9
11. Oil mills	99.5	0.1	0.4	99.8	0.2	-
12. Drugs	-	0.8	99.2	100.0		
13. Electroplating	1.1	14.3	84.6	79.8	20.2	-

Both the flour and oil mills essentially process produce provided by households and the very high proportion of the entry under "unprocessed primary products" is due to this. The corresponding high percentage of sales to households can be seen.

Specific remarks made in the study about some industries provide further information from which inferences may be drawn.

CHART III.4

Industry	Remarks
Flour Mills	The 2 larger units process flour on their own account, and card cotton and chaff grass in addition to grinding grains, pulses and salt. Some of the smaller ones also deal in retail trade in foodgrains.
Printing Presses	There was considerable pressure on the non mechanised units to mechanise in order to pay equivalent wages. Use of electricity and power driven machinery did not lead to an increase in the labour force.
Leather Footwear	Growth of units retarded due to insistence of middlemen purchasers that 'chamars' buy raw material from their associates. Cash payments were made subject to a discount called Reyalt. The only 'unit' employing more than 10 workers is operated by a merchant on a putting out basis.
Light Engineering	Most units in this industry are run by "genuine entrepreneurs" who are anxious to retain their independence from wholesalers, and thus maintain stocks.
Hosiery	Some units were thinking of transferring marketing operations to merchants because they felt that lower prices would be compensated by freeing money tied up in stocks of finished goods.

The only comment that needs to be made is that the polarity in attitudes between units in light engineering and hosiery about the advantages in retaining the sales function may be due to the specific nature of the two commodities. Thus, in the hosiery industry, the stage where specialisation in the process of circulation and its separation from production, is of value to the entrepreneur, may have been reached.

III.9 (ii) Survey of Bombay

The study of units in Bombay was conducted by the Department of Economics of the University in 1954-56.[1] In this case the sampling frame consisted of units registered under the Shops and Establishments Act, with the exclusion of units liable to regulation under the Factories Act. It was therefore confined to units employing less than 10 workers with power, or less than 20 workers without power. 1060 units were sampled on the basis of this frame.

Unfortunately the results of this survey have been processed in a manner which results in the data being of even less use to us than that of the Delhi Survey. No distinction is made even between powered and non powered units within industry groups, let alone between those with different size ranges of employment. We have therefore been able to use little information from the report since most of the data as analysed has little significance for our purpose.

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1. D.T.Lakdawala and J.C. Sandesera, Small Industry in a Big City : A Survey of Bombay, (The University Press, Bombay : 1960).

The sampled units were placed in 51 groups on the basis of a minimum coverage of 3 units; detailed analysis is available of 20 of these groups which had more than 15 units each. These accounted for 80 per cent of the total number of units and 75 per cent of the workers. However, before examining the data in connection with the 20 industry groups in detail, there are a few points that can be made in general.

It was found that only 18 units, out of the 1060 in the sample, owned the land and buildings in which they operated. In fact, in as many as 93 cases, land and buildings and machinery were leased in by the operators of the units -- in other words, the actual owners of these units were content with a rent.

The other point of interest is the role of merchant capital. The survey found that 342 units, or a third of the total number, made use of borrowed funds, and accounted for 391 cases of borrowing. Of these 259 cases involved traders as creditors, and 84 "friends and relatives". It is significant that in 248 (95.7%) of the trading credits, no interest was charged, implying that control over inputs or outputs was secured, in addition of course, to the probable existence of a hidden interest element in terms of higher costs for inputs, and lower prices for outputs.

We may now turn to detailed analysis of the 20 major industry groups (Table III.23). As can be seen, hand production dominates. In 13 industry groups manually operated

Table III.23

Industry	No. of units	% of units Using power	% of units Not using power	Total labour force	% of which are Owners	Family Members	Salary earners	Wage earners
1. Flour mills	114	100.0	-	318	47.2	5.3	1.6	45.9
2. Sweetmeat & Farsana	36	-	100.0	178	27.5	16.3	9.5	46.6
3. Bidi	192	-	100.0	831	30.3	5.2	6.4	58.1
4. Dyeing and Printing	20	-	100.0	141	17.7	9.2	2.8	70.2
5. Leather products	22	4.5	95.5	95	30.5	21.0	2.1	46.3
6. Footwear	84	-	100.0	232	39.9	28.2	0.9	30.9
7. Metal tinning	26	46.2	53.8	127	24.4	6.3	4.7	64.6
8. Miscellaneous metal products	42	38.1	61.9	232	24.6	9.0	2.1	64.3
9. Engineering Workshops	25	88.0	12.0	157	19.1	8.9	3.2	68.8
10. Electrical repair	22	4.5	95.5	103	25.2	4.8	8.7	61.2
11. Automobile repair	27	29.6	70.4	124	25.8	15.3	3.2	55.7
12. Cycle repair	16	-	100.0	33	57.6	18.2	-	24.2
13. Boxes and packing cases	15	-	100.0	85	25.9	7.1	12.9	54.1
14. Furniture	37	16.2	83.8	174	24.7	8.0	1.1	66.1
15. Printing presses	31	48.4	51.6	219	22.4	2.7	5.5	69.4
16. Photography	22	-	100.0	91	26.4	11.0	3.3	59.3
17. Photo and mirror framing	17	-	100.0	40	50.0	17.5	-	32.5
18. Watch repair	36	-	100.0	85	55.3	10.6	1.2	32.9
19. Stove and tin jobbing	29	-	100.0	52	65.4	26.9	-	7.7
20. Miscellaneous	39	23.1	76.9	194	25.8	11.8	4.6	57.7

units account for at least 80 per cent of the units, in fact in 10 industries, all units are unmechanised. Conversely, only in two industries is mechanisation a predominant feature - in flour mills and in engineering workshops. Unfortunately, even in those two cases as the study has not related this feature to the extent of wage and family workers in the industry, we cannot reach any clear conclusions about the level of development of the industries in terms of manufacture or factory production. However, we can make a distinction between mechanised and manual industries as previously defined; and industries predominantly employing family workers and those employing hired workers (salary + wage workers over 60%) to reach very broad conclusions.

CHART III.5

Predominantly using	Mechanised	Non mechanised
Wage labour	Engineering workshops	Dyeing and printing; Electrical repair, Furniture
Family labour		Footwear, cycle repair, photo and mirror framing, watch repair, stove and tin jobbing, Bidi, Photography, Boxes and packing cases.

Of the uncategorised industries only (1) sweetmeat and farsana is totally unmechanised and equally divided between family and wage labour i.e. in transition between "family and capitalist cooperation". Something useful can be said on the basis of the data in the case of two other industry groups. Firstly, flour mills are in transition between family and capitalist machine production i.e. represent an equivalent transition at a higher technological level to the sweetmeat industry; while in the leather products industry, mechanisation has begun while the transition from one form of cooperation to the capitalist one is simultaneously in progress.

III.10 Handlooms and Powerlooms

III.10(i) Handlooms

According to the 1951 census, of the 20 lakh workers in the cotton textile industry, over half were in the category of independent workers. A little less than half, or 9.81 lakhs were "employees", while there were 50 thousand "employers". As the independent workers would obviously not lie in the mill sector, they must have been concentrated in handlooms and powerlooms, which therefore represent important sectors of the industry. We will examine the status of the workers employed in handlooms and powerlooms, and attempt to draw conclusions about the level of capitalist development on this basis; this will be supplemented by analysis of the role of merchant and usurer capital in the sphere of distribution of both yarn and handloom/powerloom cloth.

Table III.24 shows the Provincial and State wise distribution of hand weavers by the position they occupied in the production structure.[1] On the all India level, about 58% remained independent, in the sense that they worked on their own account, though the hold of yarn and cloth dealers on the raw material supply and marketing network implied that their autonomy of action was limited. We shall examine the effects of the hold of merchant capital on the distribution network later.

Almost 32% of the weavers worked for a mahajan, or an intermediary, either in the guise of yarn or cloth dealers, or of master weavers, themselves from the weaving castes. The remaining 9% or so of weavers who worked in karkhanas or workshops may be said to have been part of an industrial production system, and we may tentatively place them as subordinate to industrial capital.

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1. The Textile Enquiry Committee (TEC) which reported in 1954, had examined the existing state of the industry, and suggested measures for its future, orderly growth. The Committee concerned itself with all the three major sectors in the industry handlooms, powerlooms and the organised factories, and it provided valuable data on the handloom industry on the basis of a sample survey. In fact, on the basis of the survey, the Committee pointed out that the conditions in the handloom sector had not changed appreciably from the time that the Fact Finding Committee (FFC) on Handlooms and Mills had reported in 1942. This is a crucial corroboration of the results of the FFC, which had undertaken an extremely detailed and painstaking survey of the handloom industry, for it allows us to rely on it in our analysis of the industry.

   The powerloom industry, on the other hand, was mentioned in passing by the FFC, and for this sector we will rely primarily on the TEC.

Table III.21

CLASSIFICATION OF HANDLOOM WEAVERS

Province or State	Independent Weavers %	Weavers working under Mahajans %	Weavers in Karkhanas %	Members of cooperative societies %	Total Number
Assam	99	0.5	0.5	...	421,000
Bengal	--	-	-	-	201,979
Bihar	98	2	...	...	102,693
Bombay	21	24	54	1	117,100
Central Provinces and Berar	80	18	2	...	71,390
Madras	28	60	8	4	427,716
Orissa	20	79	...	...	50,000
Punjab	58	39	2	1	355,854
Sind	10	80	5	5	4,569
United Provinces	--	--	--	--	244,712
Baroda	14	80	...	5	5,438
Cochin	13	61	9	16	2,450
Gwalior	85	14	1	...	5,824
Hyderabad	26	32	40	2	109,015
Kolhapur and Deccan States	15	70	7	...	12,891
Mysore	--	--	--	--	35,000
Travancore	47	21	32	...	19,010
All India (% of total)	57.5	31.6	9.3	1.6	100.0

The master weavers in karkhanas generally employed weavers from their own caste, and although they might also have dealt in yarn distribution and cloth marketing i.e. they undertook the same function as the traditional dealers, they were treated with

> ...some affection as they are all of the same caste and bound by something more than mere cash nexus. He [the master weaver] and the weaver workers have to cooperate in their caste festivals and other functions. They are bound to each other by various ties. The workmen are in need of advances and the employer is able to give them with confidence as the weavers are easily within his reach.[1]

Table III.25

CLASSIFICATION OF KARKHANAS IN CERTAIN TOWNS BY SIZE

Town	Number of karkhanas with					Total
	5 to 10 looms	11 to 20 looms	21 to 40 looms	41 to 50 looms	More than 50 looms	
Sholapur	553	230	36	6	1	826
Malegaon	100	15	--	-	-	115
Ahmednagar	40	25	2	-	-	67
Sangamner	16	2	-	-	-	18
Parola	60	-	-	-	-	60
Amritsar	27	56	46	10	11	150
Ludhiana	35	20	10	3	2	70
Cannanore	34	35	22	4	27	122
Mangalore	12	17	7	5	6	47

1. Government of India, Report of the Fact Finding Committee (Handlooms and Mills) (Delhi, 1942), p. 72.

Culturally and socially, the master weaver appeared to have an advantage over middleman from the non weaving castes, and the report points out that only in centres where relatively prosperous master weavers did not exist did the yarn and cloth dealers take over responsibility for the production of cloth, operating the same type of domestic system. The FFC makes the significant point that although the dealers could buy supplies of cloth at local markets or hats, they considered it "more advantageous to employ labourers to produce what they want". This would imply that the surplus which could be extracted in the domestic system by making advances of yarn and money, was greater than the return from purely mercantile operations i.e. "buying cheap and selling dear". Clearly the profits from pure trading operations had been reduced by competition, both from mill made cloth, and from other dealers in handloom fabrics.

The system of advances, known locally as dadan in Bengal and Bihar, katiauti in U.P., mungade in the Karnataka, and munpana in the Tamil areas was used to bind workers in centres where weavers were scarce. It appeared that the hold of the mahajans over the weavers, which had initially had a purely oral or informal basis, was giving way to legal contracts in the form of bonds and mortgages. No interest in the formal sense was levied on these advances, but inflated prices for inputs, and low prices for cloth, combined with "customary deductions" provided a return on the loan. Conversely, in centres which there was acute competition for work, the mahajans would ask for a deposit, in some cases even before the work was allotted to a weaver.

In cases where the scale of operation of the domestic system had advanced to a stage where very large numbers of scattered weavers might be working for a dealer, an intermediary, usually a head weaver, acted as a coordinator of the production process.

> The headweaver undertakes to supply the merchant a certain amount of cloth and the merchant makes advances to him. If the merchant is also a yarn dealer, he gives the required amount of yarn also, but he covers himself against risks by treating the yarn advanced as sold at the ruling market prices and when the goods are tendered he buys them at the prices ruling then. The head weaver in turn enters into a contract with individual weavers, advances them yarn and small amounts of money to meet their day to day expenses. When the goods are delivered the wage fixed is given and the account settled. In course of time weavers become indebted to the head weavers and merchants, and lose their freedom completely.[1]

The system of domestic work organised by the headweaver was also used by karkhanadars when the production in their own units was insufficient; and in such cases the headweaver operated as a commission agent, earning his living on the difference between his costs, and the actual price paid for the cloth.

The karkhana, or manufactory, was the natural development of large scale domestic production supervised by a headweaver. Although karkhanas had existed in Moghal India, it appeared that the 'modern' versions had been introduced by Christian Missionaries to the Malabar Coast:

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1. Government of India, Report of the Fact Finding Committee, (Handlooms and Mills)(Delhi, 1942), p.74.

> The special feature of the West Coast Karkhanas is that in each factory the organisation is complete, from the manufacturing to the marketing of cloth. Each factory has its own arrangements for dyeing, preparatory processes, weaving and marketing, and all this is done by human labour.... They send out travelling canvassers who book orders from various parts of India, from consumers as well as from wholesale cloth dealers. The canvassers are paid a commission ranging from 3 per cent to 10 per cent on the net value of the goods realised.[1]

The karkhanas in the Bombay Province were generally smaller than those found on the Malabar coast; and although the presence of weavers in a single workshop marked a definite change in the organisation of production from the domestic system, the business methods of these karkhanadars remained old fashioned:

> The karkhanadar of Sholapur still remains the middleman weaver in essential respects and his bringing the weaver together at a workplace has not made much difference. In Sholapur the bigger karkhanadar performs several functions. He (a) engages weavers, (b) engages asamis, who are themselves weavers, or have small karkhanas under them, or get the work done through weavers, (c) purchases yarn wholesale, dyes it and supplies it to asamis and weavers, (d) in addition to goods manufactured in his own karkhana, purchases the goods of asamis and weavers and arranges to sell them (e) directs production of important types of pattern, and (f) acts as the financier of asamis and weavers, and for this obtains credit from the banks. Thus he forms the apex of the industry and enables it to face the competition of mills. In other parts of Bombay, however, the karkhanadars are generally dependent on credit supplied by yarn dealers.[2]

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1. Ibid. p. 76-77

2. Government of India, Report of the Fact Finding Committee (Handlooms and Mills)(Delhi, 1942), p. 77.

The difference between the two types of karkhanas appears to be based more on the social organisation of production within the workshop, than on a numerical difference in the number of looms in use. It would appear that the karkhanas in Bombay Province represent a variant of the domestic system i.e. of capitalist simple cooperation, where the workers are concentrated in a specific location but no change in the techniques or organisation of production has taken place; the karkhanas on the Malabar coast, on the other hand, represent an advance to the manufactory, where the possible division of labour, however limited in hand production, is developed to its full extent.

We may now turn to the effects of merchant capital's hold on the yarn and cloth distribution network. It is clear that except for the relatively small proportion of weavers employed in karkhanas, whether operated as manufactories or not, the systems by which yarn was supplied, and the cloth procured from the weavers would be major determinants of their place in the production process. The initial inroads of merchant capital into the system of independent small commodity producers, leading gradually to their conversion into contract and out workers would take place through the monopoly that yarn and cloth dealers had secured over the distribution network.

The marketing of Indian and foreign mill made yarn took place through two distinct systems of distribution. Firstly, there were the agencies for selling the yarn to wholesale dealers, and in some cases to weavers and cooperative weaving organisations directly. Secondly there were the various market structures through which yarn would reach weavers from the wholesale dealers.

The mills' sales organisation was pyramidal in structure, with their selling agents at the apex. Wholesale dealers interested in forward contracts with the mills would make offers through the agents, to whom they were responsible for payment for the yarn. These dealers, in turn, would sell the yarn to one or more retail dealers from whom the yarn would finally reach the weavers. Both the selling agents and the sub-agents, who were located in the important weaving centres, were generally appointed by the mills, and they would presumably vouch for the wholesale dealers whose contracts they forwarded. In addition to this distribution network, there was that might be called a "speculative" network in which speculation in the contracts took place. The FFC report mentions, without explanations, that in some cases the speculators were able to undersell the mill itself, particularly during the busy season.

The retail dealer, earlier referred to as the mahajan, who formed the second part of the yarn distribution network had, according to the report, made himself into the controlling influence in the handloom industry. This was because of his triple function as yarn supplier, financier, and cloth seller; and by this triple function he had "rendered himself almost impregnable against reformist assaults".

> There is usually in every area a chain of yarn dealers ranging from the big city merchants to the smallest (sic) fry in the village. The weavers of the smaller centres get their supplies of yarn from the nearest centre, which is served by yarn dealers or from itinerant dealers, who visit the village hats, shandies or bazaars or penths on bazaar days. As may be expected, they usually combine this business with that of money-lending and purchase of cloth from the weavers against the yarn.[1]

It was necessary for the weavers to set off their sale of cloth against purchase of yarn both because of their small capacity to hold stocks, and the monopsony power of the cloth merchants:

> ...in certain centres like Salem, Conjeevaram, Banaras and Burhanpur, the weaver will be daily visiting the market where there are only a few mahajans or shopkeepers and hundreds of other weavers like him. In such a market higgling (sic) goes on unabated, and the shopkeepers, generally with tacit agreement with one another, reject cloth after cloth for one resson or another.[2]

Apart from the weekly market held both in rural and urban areas, there were periodical fairs held during important occasions, and of course, the regular shops run by dealers in both large and small towns. While in the smaller weekly markets, the consumer and the producer would meet directly, sometimes the sale taking place on the basis of customary

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1. Government of India, Report of the Fact Finding Committee (Handlooms and Mills) (Delhi, 1942) p. 89.

2. Ibid. p.136.

prices, at the larger markets, the bigger dealers dominated.

> In such big shandies or hats, the weekly transactions run into thousands of rupees. Such are the big hats of Bengal i.e. the Howrah Hat, the Kumarkhali Hat, Baburhat, and the Pollachi fair of Madras.... The special feature of the Howrah Hat is that the stalls are owned by the paikars or mahajans from the producing centres. Very few weavers visit this hat. The village weavers dispost of their goods to the local mahajans who, in their turn, take the goods to their stalls at the Howrah hat. The wholesale dealers and the local shopkeepers, who visit this hat, ordinarily buy on credit from the paikars and the account is settled, once in three months.[1]

Usury was often combined with trade in the distribution network. The FFC noted the presence of money lenders at "labour centres", who would sell cloth and other necessities of life to workers. There was also the arumasakadan-karan or the "six-month creditor" in Southern India, who would sell articles of daily consumption on six months credit, with repayment at a specified rate in grain. Under the pressure of various social and cultural norms, villagers would buy goods at high prices and repay in grain, probably at lower than market prices.

The FFC report mentions that there were a few signs of modernisation of the distributive trade. Cooperative societies appeared generally to have failed, for a number of reasons amongst which the principal seems to have been that there were no active adherents to the cooperative movement; societies

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1. Government of India, Report of the Fact Finding Committee, (Handlooms and Mills) (Delhi, 1942) p.137.

were largely imposed from above without the preparatory work of obtaining the commitment of the weavers having been done. On the other hand auctions and clearance sales in the whole-sale trade, and cooperative retail depots and Government emporia in the retail trade had succeeded to a greater extent. However, although there were these few instances of advance towards organisation, the distributive system in the handloom industry continued to be a major source of concentration of merchant and usurer capital, with commodity production invariably linked to one or both of these forms of capital.

III.10(ii) Powerlooms

Although the FFC's main concern was with the mill and the handloom industry, and they gave little space to analysis of the powerloom industry, they have a concise definition of the powerloom unit:

> In this Report we have used the term "powerloom" as standing for the single unit or small scale powerloom factories, which are distinguished from the mills mainly by the fact that while the mills comprise several processes of manufacture, such as sizing, warping, winding and weaving, the powerlooms are generally confined to weaving mostly (sic), the other processes being the same, in most cases, as those followed in handloom weaving.

In the powerloom industry, the social forms of organisation appeared to be almost the same as in the handloom industry. There was the independent small commodity producer working with family assistance, the commodity producer tied to merchant capital, the powerloom karkhana, and some powerloom units run on a cooperative basis.

The small commodity producers were little different to those in the handloom industry, except that productivity (in terms of output per unit of time) was about four times as great. Preparatory processes were undertaken with the use of family labour, or some hired labour using the same primitive techniques common to the handloom industry.

The Textile Enquiry Committee[1] (on whose data these descriptive passages are based) found a predominance of medium sized powerloom units with between 6 and 20 looms, inspite of the fact that such units were subject to the factories act and the minimum wages legislation. In these cases, too, preparatory processes were undertaken by hand, using obsolete techniques, and at much higher costs in terms of wages and efficiency, than in the large scale units employing over 50 looms. This would appear to be typical instances where the high production costs of the smaller capitalist units prevented the generation of the surplus sufficient to enable them to expand to a size where major economies of scale were possible.

III.11 Conclusions

The eight separate surveys that we have discussed in this Chapter present data in a variety of formats, and for this reason the preceeding sections have necessarily had

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1. Government of India, Ministry of Commerce and Industry, Report of the Textile Enquiry Committee (New Delhi : 1954).

to be descriptive; no one survey provides complete information about the structure of small scale production. However, it is possible to see broad similarities in the conditions prevailing in these industries, and we will attempt to develop an overall picture.

The first feature is the predominance of domestic production i.e. of production in the homes of either the actual producers; or in those of the master worker in cases such as that of the carpet industry, where the major instrument of production, the loom, is owned by the master worker, who works actively alongside his hired workers.

The second feature is the presence of the dealer, or the exporter which in either case represent merchant capital, and which provide the link between the centre of production, and the market. In the cases we have considered, relatively large merchant capital appears to be involved for it mediates between the national or even the international market and the small scale producer. In some cases, the "putting out" system is in operation, where the producer is expected to be responsible for the entire range of processes required to produce the finished article, such as in the carpet industry; in other cases such as the brassware industry each separate establishment works on a single process, and this is passed on to successive establishments until the article is finished. In these cases much less freedom is given to the producer and these industries present a greater similarity to the functioning of industrial capital, employing wage workers, although these may still work in their own premises.

Another variant that must be mentioned (though it is relatively uncommon) is the combination of the "feeder" and the "financier" units found most prominently in the brassware and the firework units. Although these relationships are similar to the cases of the master worker and dealer relationship, it does appear as though in the feeder-financier relationship, both units represent industrial capital and it is the monopoly of access to the market held by the financier unit which forces the feeder units into a position of subordination. Here there is the possibility of competition between the feeder and financier units, while in the industries dominated by the dealer-master worker relationship, the dealers do not seem interested in setting up their own units and are content to rely on the master workers entirely.

The third feature of these industries is that they provide articles of common use, or of decorative value in the case of the artwork industries, which are generally accepted as appropriate to modern urban life. Although we have taken specific industries, the major point to be made is that there were such a group of small scale industries located mostly in urban areas, the demand for whose goods would have increased with the growth of national income and suitable import substitution policies.

In the next Chapter, which is the final one in the second part, we will continue our examination of the structure of industries and bring the threads of our understanding together in the concluding part of that chapter.

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CHAPTER IV

THE STRUCTURE OF SMALL SCALE INDUSTRIES

(ii) MERCHANTS' CAPITAL AND USURERS' CAPITAL IN SELECTED INDUSTRIES IN INDIA, 1954-1955

IV.1 Introduction

In the previous Chapter we have examined the stage of economic evolution of a number of essentially urban industries. Some of these, especially those requiring a high degree of expertise such as ivory carving and carpet making, although in early stages of development, had been integrated into the world market through the intermediary of large merchant capital. Thus, quite apart from the technique of production which would have resisted mechanisation to any great extent, the hold of merchant capital must itself have in these cases held back technical advance -- the high rates of profit obtained would have left little incentive for such advance.

Another set of industries which it is important to examine in the context of the growth of the lower forms of capitalism, is comprised of the traditional village producers catering to the needs of the peasantry.

IV.2 Village Craft Producers

The structure of such village producers was studied by the Programme Evaluation Organisation of the Planning Commission in late 1954, and the material collected, although based on a rather small sample size relative to the population provides very valuable data.[1]

401 households were surveyed in 7 Community Development Blocks all over the country. We have aggregated the data, for though there are regional variations, the general condition of small village producers is better demonstrated in this way.

Of the 401 households, 328 (82%) were occupied with 8 crafts, most households following ancestral or caste occupations as shown in Table IV.1.

Table IV.1

Craft	Number of Households (All Blocks)	Households following ancestral occupation	%
Carpentry	81	66	81.5
Bamboo & Cane work	45	40	88.9
Tailoring	35	13	37.1
Blacksmithy	35	34	97.1
Masonry	22	18	81.8
Weaving	49	47	95.9
Pottery	34	34	100.0
Cobblery	27	25	92.6
Others	73	-	-

1. Government of India, Planning Commission, Programme Evaluation Organisation, Study of Village Artisans (New Delhi, 1956)

All the 8 major crafts were found only in the blocks in Punjab and Madras, while carpentry was the only craft found in all blocks. It was noteworthy that crafts catering to essential, everyday, needs such as pottery, cobblery and weaving were absent in 3 of the 7 blocks.

In Table IV.2, we have attempted to classify the craft households into the stages of precapitalist production which we had discussed in Chapter I. There are some problems in converting the Reports' use of descriptive terms into these categories, but except for the "employee" households whose precise role remains unclear, we have been able to bring about a reasonable level of correspondence.

As can be seen from the Table, commodity production is little developed, except in the case of Bamboo and Canework. and Pottery. While in the case of Pottery, all households are commodity producers, in Bamboo and Canework this is true to the extent of 78% of the households. The last column shows that only 20% of the households undertaking artisan production (i.e. production to special order) in Bamboo and Canework do so on a customary payment basis, demonstrating in this way, the beginnings of production for the market (commodity production). In the case of blacksmithy, on the other hand, only 3 households undertake commodity production, while the 94% of households undertaking artisan production do so on a customary basis.

Table IV.2

RELATIONS OF PRODUCTION WITHIN CRAFTS

Craft	Number of households undertaking craft	Number of Craft households undertaking				% of Columns 3, 4, & 6 working on customary payment basis
		Work as employees	Artisan Production	Commodity Production	Mixture of Artisan and Commodity Production	
(1)	(2)	(3)[a]	(4)	(5)	(6)	(7)
Carpentry	81	10	52	2	17	62.0
Bamboo and Canework	45	-	2	35[b]	8	20.0
Tailoring	35	-	29	1	5	8.8
Blacksmithy	35	-	17	3	15	93.7
Masonry	22	16	6	-	-	-
Weaving	49	2	20	26[c]	1	-
Pottery	34	-	-	34[b]	-	-
Cobblery	27	2	15	5	5	31.8
All the Crafts in the survey	401	78	148	123	52	35.3

Notes: (a) 'Employees' have not been further defined in the Report except insofar as they are paid 'wages'.

(b) Inputs for these crafts are available locally.

(c) Includes 23 cases of domestic or own use production in Assam.

Table IV.3

DISPOSAL OF PRODUCE (175 COMMODITY PRODUCER HOUSEHOLDS)

	% of households disposing of produce			
	through Merchants	Directly to customers	Entirely in the village of residence	both in the village of residence and elsewhere
Carpentry	0	100	52.6[a]	36.9
Bamboo and Canework	12.2	87.8	34.9	65.1
Tailoring	0	100	16.7	83.3
Blacksmithy	0	100	66.7	33.3
Weaving	22.7	72.8[b]	25.9[c]	74.1
Pottery	2.8	97.2	58.8	41.2
Cobblery	0	100	50.0	50.0
All Crafts[d]	11.2	88.3	44.6	54.3

Notes: (a) 10.5% of carpentry households sell only outside the village of residence.

(b) 4.5% of weaving households sell through a Cooperative Society.

(c) Includes 7 cases of natural production (own use production) in Assam.

(d) 0.5% of all households sell through cooperative societies and 1.1% of all households sell goods entirely outside the village of residence.

We complete analysis of the reproduction cycle by examining the pattern of sales of the produce of the 175 households engaged in commodity production (columns (5) and (6) of Table IV.2).

As can be seen from the table, although commodity production is little developed, and disposal of produce is mostly directly to the "consumer", these are usually outside the producing household's village. Thus the concept of self sufficient village communities, if at all valid, would need to refer to independent village groups. In bamboo and canework, weaving and tailoring, the proportion of households disposing of their produce outside the village of residence is high. In the first two crafts, namely bamboo and canework, and weaving, this appears to be due to the mediation of merchant capital (12.2% and 22.7% of households respectively dispose of produce through merchants), while in the case of tailoring, even "extra village" disposal is done directly to customers. In this context it is necessary to recall that 28 of the 35 tailoring households undertake artisan production (or production to individual order). Clearly they are engaged in work on cloth owned by their customers, with 8.8% of them operating on a customary payment basis. If we recall that only 37.1% of tailoring households are following their ancestral occupation, it may be reasonable to conclude that some of the entrants to the tailoring profession may still be paid according to their original customary basis, inspite of a change in occupation.

Although, corresponding to the low level of development of commodity production, the hold of merchant capital does not appear to be strong, usury has gained a firm foothold as we shall see from Tables IV.4 and IV.5.

Table IV.4

DISTRIBUTION OF OUTSTANDING CREDIT BY SOURCE

Source	%	
Moneylenders (i) Agriculturist	19.5	79.8
(ii) Non agriculturist	60.3	
Cooperative Society	2.0	
Projects	1.3	
Miscellaneous[a]	16.9	

Note: (a) Revenue Department, relatives etc.

Table IV.5

INDEBTEDNESS OF CRAFT HOUSEHOLDS

Craft	% of households reporting indebtedness	Average Debt (Rs.)	% of debt for Production	% of debt for Consumption
Carpentry	54.0	345.0	14.3	85.7
Bamboo and Canework	58.0	127.6	12.8	87.2
Tailoring	34.3	198.0	35.4	64.6
Blacksmithy	54.0	372.0	22.0	78.0
Masonry	45.0	371.7	13.5	86.5
Weaving	49.5	280.0	54.3	45.7
Pottery	61.0	198.2	14.0	86.0
Cobblery	63.0	178.0	24.7	75.3
All Crafts in the survey	51.4	278.0	26.0	74.0

Table IV.6

PHYSICAL ASSETS OF CRAFT HOUSEHOLDS

Craft	% of households owning			Average value of implements (Rs.)
	Craft implements	Livestock	Transport equipment	
Carpentry	99.0	12.4	2.5	47.0
Bamboo and Canework	100.0	11.1	--	2.0
Tailoring	97.0	11.4	2.9	224.6
Blacksmithy	100.0	5.7	11.4	78.0
Masonry	100.0	9.1	18.2	12.0
Weaving	92.0	22.4	--	51.0
Pottery	97.0	32.4	2.9	12.0
Cobblery	100.0	3.7	3.7	27.0
All Crafts in the survey	93.7	12.7	3.5	52.0

Tables IV.5 and IV.6 when read together show that the average debt is many times the value of the owned craft implements, which are the most widely held physical assets. Even in the case of those households owning livestock, or transport equipment, the burden of the repayments must be very heavy, particularly when so few of the households produce for the market in general.

Finally, in Tables IV.7 and IV.8, we attempt to determine the position of craft households vis-a-vis the agrarian class structure. This, of course, is only possible in those cases where the households are engaged in some way with agricultural operations.

Firstly, in Table IV.7 we show the breakdown of the households undertaking each craft by the place this holds in their occupation structure. Except in the case of weaving, where the figures have been influenced by instances of natural or own-use production in Assam, and cobblery, all crafts are principal if not sole occupations of the households undertaking them.

Table IV.7

NUMBER OF HOUSEHOLDS UNDERTAKING CRAFT

Craft	In Total	As Sole Occupation	As Principal Occupation	As Subsidiary Occupation
Carpentry	81	34	27	20
Bamboo and Canework	45	9	25	11
Tailoring	35	25	4	6
Blacksmithy	35	13	16	6
Masonry	22	10	9	3
Weaving	49	10	12	27
Pottery	34	12	14	8
Cobblery	27	8	4	15
All Crafts covered by survey	401	154	145	102

Further information on the relationship between craft and non craft occupations is given in Table IV.8. In this Table, for each craft we give the number of households which undertake non craft occupations both on a subsidiary, and on a principal basis (obviously in the latter case it is the craft occupation which is subsidiary in nature). The Table immediately provides a possible reason for the high frequency (15 out of 27) of cobbler households undertaking this as a minor occupation. As can be seen, as many as 13 of the 15 households are principally agricultural labour households while the other two undertake peasant farming. Unfortunately as the size of the holding has not been specified in the survey, we cannot draw further conclusions about the nature of this peasant farming, through the predominant agricultural labour status of the cobbler households makes it likely that the peasants are poor peasants.

The results of this survey, therefore, describe industrial activities very different to those discussed in the previous chapter. In this case we have examples of activities at very early stages of commodity production and of capitalist simple cooperation. **Most households in this survey are linked to agricultural operations and these industries are in that sense** peasant industries.

Secondly, merchant capital appears to be little developed at least in so far as these craft activities are concerned. On the contrary, it is usury which is common and well developed.

Table IV.8

RELATIONSHIP BETWEEN CRAFT AND NON CRAFT OCCUPATIONS

Craft Occupation	Non Craft Occupation: Rentier		Peasant Farming		Agricultural Labour		Other Non-Craft Occupations		Craft: Row	Craft: Total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Carpentry	5	1	16	17	4	1	--	1	27 (a)	20
Bamboo and Canework	-	-	1	1	24	8	--	2	25	11
Tailoring	1	1	2	2	-	2	1	1	4	6
Blacksmithy	-	-	10	5	4	1	--	--	16 (a)	6
Masonry	-	-	3	3	6	-	--	--	9	3
Weaving	-	3	6	-	4	8	2	--	12	27 (b)
Pottery	-	-	3	6	8	2	3	--	14	8
Cobblery	-	-	-	2	4	13	--	--	4	15
Total of 8 crafts	6	5	41	36	54	35	6	4	111 (a)	96
All Types covered by Survey	6	6	61	48	61	39	12	9	145 (a)	102

Notes: (a) In two cases each of households undertaking carpentry and blacksmithy as a principal occupation, another craft is a subsidiary occupation. Row total in these cases will not be the sum of appropriate columns.

(b) There is a discrepancy in the figures for weaving households. It appears that the principal non craft occupation in the case of 16 households has not been specified. The row total will not for this reason be the sum of the columns.

(c) Odd numbered columns refer to subsidiary non craft activities, while even numbered columns refer to principal non craft activities.

IV.3(i) Rural Bengal

District wise surveys of small scale production were undertaken by the West Bengal Bureau of Economics and Statistics in the middle 1950s. We have been able to analyse data from seven districts; as we are concerned with the structure of small industries, and not with aggregate measures of their strength, the incomplete coverage is not a handicap.[1]

The surveys divided small scale production into 100 industry groups of which 63 correspond to those of the Census of India Manufacture (CMI); units within these industry groups were broken down into 4 classes depending on employment size and use of power. Thus the first two classes are concerned with power using units employing, respectively, less than 10 workers (family and wage workers combined), and 10 or more workers (thus classes 1 and 2). Classes 3 and 4 are concerned with manually operated units with a corresponding division by employment size.

Of the 100 industry groups, data have been analysed in some detail for 63. Industry groups which had a frequency of less than 21 units (as estimated by the surveys) in the district concerned were not examined individually. A further 4 industries were found by us to occur only in the Calcutta Industrial Area, and have been excluded by us.

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1. Government of West Bengal, State Statistical Bureau, Economic Survey of Small Industries, 1954. (Alipore, 1957). Reports on the districts of Murshidabad, Jalpaiguri, Midnapore, 24 Parganas, Birbhum, Burdwan and Howrah were analysed.

The CII classification used by the Survey Reports gives misleading indications of the size and the technology in use. For instance, industry group 29 is termed "General engineering and electrical engineering (excluding generation and transformation of electrical energy)", but the average size of a unit is 2.39 persons, the industry uses 66 per cent of family labour, and the average value of the assets of a unit is correspondingly small. To avoid confusion arising from the inappropriate terminology used by the survey reports, we will use the code numbers which have been adopted by the reports.

IV.3(ii) Technology and Size of Units within Industries

All units in 36 industry groups fell within the most common class of manual units employing less than 10 workers (class 3); a further 11 industries had units distributed between classes 3 and 4 (i.e. manually operated). There were thus only 12 industries where power was used, and these were dominated by units employing less than 10 workers. The small size of units in nearly all industries is highlighted by the following table.

Table IV.9

Average number of workers in units	Number of Industries
1.00 - 1.99	19
2.00 - 2.99	29
3.00 - 3.99	6
4.00 - and above	5

Only 3 industry groups, soap (10), bricks (35), and Jute pressing (54) employed an average of more than 5 workers and could provisionally, in the absence of data on family labour, be said to be capitalist according to our criterion. Industry groups 29 B (steel trunks) and 45 (painting), employed more than 4 workers on the average and may be said provisionally, again, to have reached the transition point from "family to capitalist cooperation".

Another method of examining the growth of capitalist forms of production is through the growth in the use of wage labour. Here the proportion of family labour to total labour may be taken as an index of the development of wage labour. The table below shows the distribution of the 59 industry groups in this respect.

Table IV.10

% of family labour	Number of Industries
100	6
99.9 - 90.0	20
89.9 - 80.0	9
79.9 - 70.0	9
69.9 - 60.0	2
59.9 - 50.0	7
49.9 - 0	6

The six industries where there is less than 50% of family labour include the 5 groups mentioned in terms of their comparatively large size; and industry group 46 ("webbing, narrow fabrics, embroidery and lace manufacturing, shawl repairing") where the average size of labour force per unit is 3.46. In fact this is also the highest figure for the work force after the 5 previously mentioned groups, except for industry group 53 C (Silk weaving) where an average size of 3.82 persons per unit is combined with a high figure for family labour of 89.1%. The technical processes in this industry are probably such that family labour can be used for the preparatory work.

Our results so far have shown that industries with units of comparatively large size are accompanied by high proportions of hired labour. There is also evidence in the survey reports that the number of family members "not seeking employment" appears to remain roughly the same irrespective of the size of the unit. Hired labour is therefore used to increase the size of the labour force -- clearly a capitalist practice -- and not merely to substitute for family labour used in other occupations.

Although our results have shown the definite growth of capitalist relations, most of the units use family labour and may therefore be termed "household" units. It is valuable for this reason that the surveys conceive of the economic operation of the households as entities, and provide data on the extent of income from agriculture, trade, professions and other occupations, and from unearned sources.

Agriculture, as might be expected, is the other major source of income; only in 4 industry groups is this source not tapped.

Table IV.11

% of income from Agriculture	Number of Industry Groups
Nil	4
0.1 - 9.9	15
10.0 - 19.9	24
20.0 - 39.9	11
40.0 - 100.0	5

Trade, on the other hand, although occuring equally frequently as a source of income, plays a much smaller role. Only in 13 industry groups does it contribute more than 10 per cent of family income.

Table IV.12

% of income from Trade	Number of Industry Groups
Nil	5
0.1 - 4.9	27
5.0 - 9.9	14
10.0 - 19.9	7
Above 20.0	6

The units may therefore be safely referred to as "peasant" units, for the surveys show that in addition to income from agriculture, they all own some land, however nominal the size.

That the income of the bulk of the households is less than required and that they are far from wealthy is shown by the presence of a consumption loan component in the income of households in most industries. Households in 6 industry groups are free from the bonds of usury: in other cases consumption loans accounts for, by and large, between 3 and 10% of current "income".

Table IV.13

% of "income" accounted for by consumption loans	Number of Industries
Nil	6
0.1 - 4.9	18
5.0 - 9.0	26
Above 10.0	9

The incomes of the households (from all sources) fall into 5 ranges depending on the associated industry group as follows:

Table IV.14

Income range of households (Rs. per annum)	Number of associated Industries
480 - 750	12
850 - 1250	19
1500 - 2100	20
2900 - 3300	5
Above 7000	3

IV.3(iii) Characteristics of Households as Entities

The overall income of households provides the third variable in a three way characterisation of the households presented in the chart (Chart IV.1). The other two variables are the percentage of income from industrial activities, and the proportion of family labour in the industry. In the industry group where more than one class of unit exists, we have taken only class 3 units (i.e. manually operated with less than 10 workers).

Each cell (percentage of income from industry x percentage of family labour) contains firstly the industry code and the total household income of the associated families in brackets. The chart brings together information which has been discussed separately in earlier pages, but also allows fresh conclusions to be drawn.

CHART IV.1

% of family labour	% of income from industry: 100-76	75-51	50-26	25-0
100-90	31(2918)	47(1766) 63G(852) 44(671) 43(1675) 14A(919)	53D(1007) 63P(674) 63F(1670) 18(1066) 41A(646) 8(1056) 19 (594) 63H(1202) 40A(592) 63 (657) 63E(716) 2A(596) 52 (667)	63Q(7964) 48(644) 63K(870) 16A(497) 53A(907) 21(1698)
90-80		290(1562) 29A(1176) 53C(1213) 30 (1070) 49 (997) 41 (1103)	63M(1148) 40(1642)	5(1135)
80-70		63A(1697) 63J(1189) 3A(1646)	63P(2073) 1(1114) 63T(1567) 29F(1833) 53B(1127) 50 (1634)	

contd...

% of family labour	% of income from industry						
	100-76		75-51	50-26			25-0
0-41	42(121799)	43A(1588)	22(1232)	63R(1799)		6 (1624)	11(1946)
		46 (1672)		63H(1931)			
		29 (1654)		3 (1877)			
0-0	10(3225)	29B(3023)		54(13698)	45(3210)		
		35 (3265)					

Firstly, we can see the all 12 industry groups in the income range Rs.480-750 make use of over 90% family labour (see row 1 of the chart). Of these 12, 9 obtain between a quarter and a half of their income from industry. The other general conclusion is that at the other end of the income scale, 5 of the 8 industry groups with incomes above Rs.2900 use less than 40% of family labour, and 5 also obtain more than 50% of their income from industry. This trend is confirmed in a general way by the increasing frequency found in cells from top right to bottom left <u>combined</u> with increasing incomes. Thus higher household incomes appear to be linked to a greater dependence on industry as a source of income, and greater reliance on wage labour within the industry. This shows a clear capitalist tendency; for greater reliance on industry for income <u>combined</u> with greater use of wage labour to achieve higher <u>total</u> incomes implies that family members who in households in other industries may be engaged in other occupations are in these industries merely supervising, at best; for it is unlikely that family members would work in occupations providing a comparatively small proportion of the total income (i.e. non-industrial), rather than participating, whether actively or passively, in the "leading activity".

There are, of course, exceptions to this pattern of which industries 63 0 (Sports Goods) and 11 (Tanning) are the most obvious. In the first case a very high income of Rs.7964 is earned with less than half contributed through industry, in which over 90% family labour is used -- thus some other activity is clearly highly developed; in the second case an income of Rs.1964 is earned with less than a quarter from industry, using 56% of family labour. It appears that income sources in this case are highly diversified.

In fact in these two cases-trade accounts for 44% and 31% of the total income, both of which are amongst the highest figures from this source. In the former case the high figure for trade is probably due to the fact that sports goods are unlikely to be in much demand in the rural areas and distribution of the product to urban areas is probably combined with manufacture (it may be mentioned here that only 2 units, both in rural Howrah District were found by the survey). In the second case social sanctions against "chamar" work may have led to leather dealers employing hired labour for curing.

We end the discussion of the nature of small scale production as a whole by giving below the distribution of assets in the industries. Unfortunately the surveys do not provide details of non industrial assets, and this is a serious distortion when industry is a primary source of income (in terms of contributing 50% and above) only in the case of 31 industries. In addition no breakdown of industrial assets by the 4 classes is available. We have therefore given details for those 47 industries which are entirely manually operated (classes 3 and 4).

Table IV.15

Value of assets (Rs.)	Number of Industries
Upto 100	7
101 - 200	7
201 - 500	10
501 - 1000	11
1001 - 5000	8
Above 5001	4

IV.4 Analysis of 7 Industry Groups in Maharashtra

The Bureau of Economics and Statistics of the Government of Bombay, later to become the Government of Maharashtra, had undertaken a series of surveys of various industries in the non factory sector in the middle 1950s.[1] Centres where production of the item predominated were selected, and a Census of units was conducted in these areas. The units chosen are therefore not in any scientific sense representative, nor of course, do the structures of the industry necessarily reflect the all India structure.

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1. "Report on the Census of Cottage and Small Scale Carpentry Industry in Selected Centres of the pre reorganised Bombay State", Quarterly Bulletin of Economics and Statistics (Bombay) I (1958), 4.

   "Report on the Census of Weaving Industry in Maharashtra State" Quarterly Bulletin of Economics and Statistics (Maharashtra) I (1960) 2.

   "Report on the Census of Selected Industries in the Reorganised Bombay State", Quarterly Bulletin of Economics and Statistics (Bombay) III (1960), 4.

However, given the uneven development of capitalism in general, and of industrial development in particular, analysis of the structure in a major centre like Bombay State provides an indication of the level of evolution of various industries.

Seven industries were covered in the surveys: Carpentry, Silver work, Metal (Brass, Copper and Bell metal) work, Brick making, Tile making, Other Pottery, and Weaving. Fortunately a relatively integrated approach has enabled us to present data on all the industry groups in a uniform manner. As the structure of an industry may be best evaluated in relation to the structure of others, this is of great value.

In Table IV.16 we give a broad picture of the industry groups surveyed. For our purposes the distinction made by the survey between "cottage" and "small scale units" is purely formal, and this classification is significant only in that it shows that in all industry groups except metal work, the proportion of small scale units (i.e. units having over Rs.6000 worth of tools and machinery) is lower than 1.5%. The metal industry is also significant in sharing with the weaving industry a relatively high proportion of units in the Cottage sector which use power (about 12% each).

The difference between these two industries is that this percentage of powered cottage units in the metal industry is matched by a relatively high percentage of small units (6.6%) while in the weaving industry, cottage units account for over 99% of the total.

Table IV.16

Industry(b), (c)	Number of Units	Cottage(a)		Small with		Total
		With power %	No Power %	Power %	No Power %	%
1. Carpentry	8128	3.5	95.3	1.1	0.1	100
2. Silver	6995	1.9	97.7	0.4		100
3. Metal (Brass, Copper, Bell)	2046	12.3	81.2	6.6		100
4. Brick	2651	-	99.7	-	0.3	100
5. Tile	931	-	98.7	-	1.3	100
6. Other Pottery	2942	-	99.9	-	0.1	100
7. Weaving	32250	12.8	86.7	0.5	0.1	100

Notes: (a) Cottage units are those with replacement value of tools and machinery less than Rs.6000; in the carpentry industry valuation is at "cost" price.

(b) Carpentry industry was surveyed in 1955 in Bombay State; Silver, Metal, Brick, Tile and other pottery industries in the reorganised Bombay State during 1957-58; and the Weaving industry in Maharashtra during 1957-58.

(c) In the Carpentry industry, units with between Rs.6000 and Rs.30000 invested in tools and machinery were classified as small scale; in Silver, Metal, Brick, tile, other pottery and weaving industries, units with investment over Rs.6000 were treated as small scale. In the weaving industry registered factories were excluded.

Table IV.17

STRUCTURE OF COTTAGE UNITS-1

Industry	Number of Units	Proportion of Units operating: Inde- pen dently	Ind-/ Wage basis	Wage basis	Master Basis	Cooperative: Affil.	Not Affil.
1. Carpentry	8031	-	-	-	-	3.8	96.3
2. Silver	6969	27.9	19.3	42.7	10.1	3.2	98.8
3. Metal	1912	28.7	14.4	45.8	13.0	5.8	94.2
4. Brick	2644	93.2	2.4	3.6	0.8	9.3	90.7
5. Tile	919	97.9	1.5	1.4	-	0.3	99.7
6. Pottery	2938	97.6	1.9	0.5	-	2.9	97.1
7. Weaving (Power)	4116	-	99.1	-	0.9	55.5	44.5
(Without Power)	27953	-	99.5	-	0.3	51.3	48.7

Notes: (a) 0.2% of non powered weaving units are cooperatives.

(b) Distribution of units affiliated to cooperatives in the weaving industry includes small scale units as defined in Note (c) to Table IV.16.

Table IV.17 displays the structural characteristics of the industries and is confined to the cottage sector. In the brick, tile and other pottery industries, small commodity production predominates (over 90% of the units in each case are "independent" as defined by the surveys). The independence may well be of a formal nature, for the low percentage of units which are affiliated to cooperatives (the brick industry is the best off in this respect, 10% of the units being affiliated) implies that marketing, if not raw material supply, is in the hands of representatives of merchant capital. In fact, it is not clear from the context of the reports whether "master" units refer to karkhanadars or to traders. If it refers to the former, then in the absence of "master" units capable of looking after raw material purchase and marketing in these three industries, the hold of merchant capital over production would be pervasive. In the metal industries, some form of capitalist production is more common; for in both the silver and the "other metal" industries, households operating wholly on a wage, or a combination of wage and independent basis, account for 60% of the units. If we add to this the 10% or so of master units, we find that 70% of the silver and "other metal" units form part of a structure of capitalist simple cooperation in these industries, the remaining 30% independent units probably undertaking job work for the master units, or selling through them.

The weaving industry is unique in that both in the handloom and powerloom industries, as many as 50% of the units are affiliated to cooperatives. In fact 0.2% of the handloom units, or 56 units, are cooperative production units. The reason for the high degree of affiliation to cooperative organisation is that yarn supplies to the handloom and powerloom sector had been channelled through cooperatives, and this may also account for the domination of units operating on a combination of "wages and independently" for this category would best describe the situation of the weavers.

Table IV.18

STRUCTURE OF COTTAGE UNITS-2

Industry		Number of Workers	% of House-hold Workers	% of Hired Workers	Distribution of esta-blishments by size of work force			
					1-3	3-5	5 and above	
1. Carpentry		12613	80.7	19.3	89.4	4.7	1.7	Est.
2. Silver	P	476	52.9	47.1	--	-	--	
	WP	12593	80.5	19.5	87.8 71.0	6.3 14.0	3.4 15.0	Est. Workers
3. Metal	P	1528	28.9	71.1	27.0 8.0	18.0 12.0	50.0 70.0	Est. Workers
	WP	4592	59.3	40.7	68.0 41.7	14.3 22.2	11.6 34.8	Est. Workers
4. Brick		14151	49.7	50.3	-	-	-	
5. Tiles		2713	89.2	10.8	-	-	-	
6. Pottery		6879	96.3	3.7	-	-	-	
7. Weaving	P	13028	57.8	42.2	-	-	-	
	WP	100523	74.4	25.6	48.5 30.0	20.4 24.0	10.6 46.1	Est. Worker

Notes: (a) In the carpentry industry, employment ranges are 1-3, 4-6 and above 6. 4.2% of the units are closed.

(b) In the Silver, Metal and Weaving industries (non power sectors) 2.5%, 6.2% and 11.6% of the units are closed.

(c) Est. refers to establishments. P refers to powered units, while WP refers to manual units.

Table IV.18 presents data on the structure from the point of view of family and wage labour, and the size of the establishments. Taking the ratio of family to wage labour as an index of the level of capitalist development of the industry as a whole, we find that enormous significance must be attached to whether the unit uses power or not. For the 3 industry groups for which this breakdown is available, silver, metal, and weaving, we find the following. In both the silver and metal industries, the porportion of household workers fall by 30% when we move to the powered sector. In the weaving industry the fall is about 17%. It is likely that this fall is due to a greater weightage of larger units in terms of employment, and this is confirmed by the fact that in the powered metal industry, units employing over 5 workers account for 50% of the units, and 70% of the workers. Unfortunately equivalent data are not available for the other industries which use power. The only other point of significance is the very high ratio of hired labour in the brick industry, in fact the second highest after the powered metal industry. As we have no figures for the distribution of units by size range of employment, it is difficult to explain this result. However the brick industry is clearly a very large employment generator.

Finally, in Table IV.19, we give the structure of the industries in terms of the value of the implements of production. Except for the metal industry, over 70% of the units own implements of value less than Rs.200, and a negligible proportion of more than Rs.500. However, differentiation is clearly shown by the large divergence between these proportions, and the proportions of the total value owned by each group. In the carpentry industry 2.5% of the units in the range Rs.1001-6000, own over 50% by value, while in the tile industry, 0.2% of the units own 18% or 90 times their proportion in numbers. Not much more can be said about the table except that the distribution of units in the metal industry is relatively uniform over the size range. However this may merely be due to the fact that data for three processes (copper, brass and bell metal work) are subsumed under this heading, for we do not find an equivalent distribution in terms of the number of persons employed.

IV. 5 Conclusions

The industries that have been discussed in this chapter appear to be different in certain important respects to those in Chapter III. We will, for this reason, discuss them separately before attempting some general conclusions.

The system of production using family labour is a key characteristic of the units, or rather households, in these industries, and this is indicative of their low level of economic development. We have cases where commodity production is not universal, such as in some of the village craft industries, and even cases of domestic or own use production.

Table IV.19

STRUCTURE OF COTTAGE UNITS-3

Industry		Distribution of Units by value of tools(Rs.) 0	1-100	101-200	201-500	500-1000	1001-6000	Total (Rs.)
Carpentry	(a)	-	92.8		3.8	0.9	2.5	8031
	(b)	-	36.3		6.5	3.4	53.8	1446400
Silver	(a)	2.9	45.0	30.6	13.1	4.8	3.7	6835
	(b)	-	12.8	20.3	18.4	16.0	32.6	1354526
Metal	(a)	3.0	17.3	15.3	35.4	22.0	7.0	1631
	(b)	-	2.3	5.6	28.1	37.1	26.9	685000
Bricks	(a)	0.3	69.1	18.9	6.9	2.1	2.2	2644
	(b)	-	22.6	18.1	14.2	9.5	3.6	372110
Tiles	(a)	-	92.0	6.3	0.9	0.4	0.2	927
	(b)	-	58.0	14.4	4.0	5.1	18.3	54800
Pottery	(a)	1.7	93.1	3.7	1.0	0.4	0.1	2938
	(b)	-	74.5	7.4	7.0	6.6	4.2	123000
Weaving	(a)	36.1		37.2	22.9	3.4	0.4	23474
	(b)	-	-	-	-	-	-	419200

(a) Percentage of units

(b) Percentage of value of tools.

Note: Results for the weaving industry are confined to the Aurangabad and Nagpur Revenue Divisions of Maharashtra.

Commodity production takes place, apparently, with individual workers working in their own homes and selling their wares to either a dealer or master craftsmen who is often the actual controller of production. The controller of production also works from his own home, which may be a major reason why "cottage and village" industry is often set out as an undifferentiated stratum of independent producers as opposed to large scale mechanised industry.

However, in these industries, large merchant capital does not appear to be involved, and where the dealer does mediate between the producer and the market, the markets in question appear to be the local village markets or the inter village markets at the outside. The second distinguishing feature of these industries, linked to their low level of development, and the corresponding low incomes that they provide, is the presence of usury capital as an additional controlling and structural factor.

However, the third feature of these industries is the isolated development of capitalist manufacture (hand production with division of labour) where the capitalist is himself an individual who has risen from the ranks of the direct producers. In other words, we have here the evolution of "peasant" capitalist industrialists, in addition to the more frequently found cases of capitalist organisation with the producer subordinated to merchant capital.

On the basis of the description and analysis of the last two chapters we find, therefore, that the nature of the production relations in small scale units in the period proceeding the formulation of the Second Five Year Plan, predates industrial capitalism. The structure is that of large merchant capital controlling the distribution of the products of specific industries catering to an all India, or even the international market, and relatively small "urban" merchant capital controlling production in the urban areas and acting as feeders to the larger distribution network. In the rural areas, on the other hand, we have usurer capital dominating the rural producer, and isolated cases of capitalist manufacture evolved from the "peasant" units.

We are now in a position to understand the problems inherent in the Second Five Year Plan strategy, of depending on the "cottage and village and Small scale industries" for increasing the supply of basic wage goods supposedly manufactured in these traditional industries. We will be looking in more detail at some of these strategies in a later Chapter, but before we do this, it is necessary for us to understand the reasons for the prominence that this particular stratum of producers had achieved. We proceed to do this in Chapter V which follows.

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CHAPTER V

ON THE ROLE OF THE SMALL INDUSTRIES POLICY AS A COMPONENT OF THE INDIAN DEVELOPMENT PROCESS

A. IDEOLOGIES OF DEVELOPMENT

V.1 Introduction

For a policy for the encouragement of Small Scale Units to be effective, it must be integrated with a coherent plan of national economic development, so that the logic of that development does not in itself lead to the displacement of such units. In a capitalist economy, in particular, the development of small units implies two processes: the creation of a stratum of small capitalists, and of individual capitalist enterprises. These processes cannot be sustained in the normal course of events, for the processes of concentration and centralisation of capital lead, as we have seen, to the absorption of the smaller capitalist by the larger.

The plan of economic development presupposes the existence of an overall coordinating authority in the form of a State, which takes an appreciably greater part in directing economic activity, than would be required for an economy not subject to any direction beyond the continuity inherent in annual budget formulation exercises. The coordinating role would include direct intervention through public investment, in addition to the more traditional fiscal and financial measures.

In other words, formulation and implementation of a small industries policy, because of its requirement of an extended role for the State, depends on the resolution of the more general problem of the nature of public economic activity. Conversely, prior to the effective implementation of a small industries policy lies the requirement for a political consensus by all strata of society on the effective sphere of influence of the State.[1]

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1. It is clear, of course, that in a class society, such a consensus can only be a formalone. In fact it is precisely one of the purposes of the State to develop and sustain the illusion that the consensus arrived at has been achieved through the democratic process and the "free play of ideas". The fact that the dominant ideas of a society are the ideas of the dominant classes, is hidden effectively by means of ensuring the political representation of these dominant classes by relatively propertyless persons. There are many examples or the clear awareness of the Indian capitalist class of the importance of disguising their own class viewpoint, either by suggesting that others voice such viewpoints, or by attempting to show that this viewpoint was a universal one. See the article by Bipan Chandra: "Jawaharlal Nehru and the Capitalist Class, 1936", Economic and Political Weekly, X (1975), 33, 34, 35, pp. 1307-1324, and Aditya Mukherjee: "Indian Capitalist Class and the Public Sector 1930-1947", Economic and Political Weekly, XI (1976), 3, pp. 67 73

For advocates of any approach to the role of small scale production, it is thus essential that a sufficient role for the State is accepted in such a consensus; for without such agreement it is unlikely that such a policy could have a place.[1]

In this Chapter, therefore, the first of the three devoted to a discussion on the nature of evolution of the Indian Small Industries Policy, we will examine the development of the concepts underlying the proposed relationship between the State and the Private Industrial Sector.

In the following Chapter, we look both at the influence of Gandhian ideas regarding the role of peasant small producers; and at the specific employment creating programmes introduced by the British Indian Government for the urban educated unemployed, on the development of concepts regarding "small scale industry" in the pre-independence period.

Finally, in Chapter VII, we draw the threads together and show how the small industries policy became an integral part of the capitalist development strategy as envisaged and operationalised in the course of successive Five Year Plans.

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1. The failure of Gandhism to achieve wide popular acceptance, inspite of the reverence with which Gandhi himself was held, shows two characteristics of the bourgeois state. Firstly, the dominance of ideas and values favourable to large scale capitalism were never seriously in danger from Gandhian values, to the extent that these were at all objectively anti-capitalist. Secondly, the Gandhian assumption that society could be remoulded on the basis of changes in values on a mass scale, and that there was no need for a State machinery to make such changes was itself one aspect of the ideologies allowed by the State as an earnest of its democratic nature.

V. 2 Evolution of Competing Views on Planning

Historically, the relationship between the State and the Private Industrial Sector in the post independence period was clarified in the course of evolution of views on the proposed parameters defining the planning process, and the role to be given to the private sector in the strategy of development.

The evolution of views took place in the course of the nationalist movement, and we therefore propose in this section to examine the interaction between the movement and the shifts in views which took place.

The nationalist movement which brought independence to India in 1947, had been growing in strength over the previous 30 years, essentially from the time that Gandhi entered the movement. The growth of this movement from its beginnings in the late 19th century to the late 1940s, could be seen to be the process of increasingly wider participation by different social strata, as the objectives of the nationalist movement were clarified; and these strata were made aware of the link between their existing socio-economic status and the colonial situation on the one hand, and the opportunities that an independent India would offer on the other.[1]

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1. As an example, we might cite the mass participation of the peasantry in Congress sessions from 1918 at the invitation of Gandhi. G. Adhikari (Ed.) Documents of the history of the CPI, Volume 1 (Peoples Publishing House, Delhi:1971), p.324. Note also "... In this respect the problem of unemployment of the class under consideration (educated middle class) is that of the general economic development of the country". Report of the Government of Bengal Unemployment Enquiry Committee, (Calcutta, 1924), p. 21.

Analysis of the links between the country's subordinate position, and its poverty, was important in channelling individual discontent towards nationalist feeling; it also necessitated the converse process of requiring the elaboration of the measures which would be taken after independence had been achieved, to reverse processes leading to stagnation, and to initiate processes directed to growth. In this sense, the notion of directed change was inherent in criticism of the existing state of affairs, although the identification of what the content of both the directing mechanism, and the change meant, might differ between factions of the nationalist movement.

The two groups which were to play the predominant role in determining the strategy of development, and the pattern of ownership in the post independence industrial structure were the middle class sections within the Indian National Congress, and the Indian Capitalists as a class, individual representatives of which might have supported Congress political actions on an individual basis, but whose point of view on economic issues remained distinct from that of the Congress.

V. 3 The Congress and planning

Within the Congress itself, the middle class sections who dominated the organisation numerically, could themselves be divided into several groups. In the earlier period, the dominant group comprised the more prominent of the individuals who were now in the professions that the demands of colonial social and political development had generated. Generally these would be in the legal professions, although there were also men of independent means who had a liberal education, and saw the Congress as a vehicle for political careers within a liberal framework.

These individuals occupied positions generated by the type of legal and political structure suitable to the level of capitalist development in England at that time, and transported to India as they only "reasonable" structure for a "civilised" country to have. It is precisely for this reason that the early, forceful, analyses of the effects of English colonial rule were based on the belief that changes in policy by the colonial government would follow a reasonable exposition of these effects on the Indian economy.[1] However, in their opposition to the existing Colonial policies, these individuals could be seen to be leaders of a progressive movement.

The Russion Revolution, and the possibilities of a break from the classical, capitalist path of economic development, however, laid the objective basis for a right wing and a left wing to appear within the ranks of the middle class.[2] In this

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1. The most prominent of these is Ramesh Dutt, The Economic History of India, (Routledge & Kegan Paul, London: 1903) and Dadhabhai Naoroji, Poverty and Un British Rule in India (London : 1903).

2. See, for instance, E.N. Komorov, "Main Trends in Indian National Liberation Movement in Nineteenth and Early Twentieth Centuries", Mainstream (XIV) 1976, Nos. 33, 34.

section we are concerned with the views of the left wing group whose most forceful exponent was Jawaharlal Nehru, for it was this group that dominated discussion on economic policy until the achievement of independence.

By 1929, Nehru had become the Congress President, and at the Bombay meeting of the All India Congress Committee the relationship between economic imperialism, the colonial political system, and outdated socio-economic structure was explicitly recognised.

> In the opinion of this Committee, the great poverty and misery of the Indian People are due not only to foreign exploitation in India but also the economic structure of society, which the alien rulers support so that their exploitation may continue.[1]

Inherent in such an analysis is a view that goes beyond Dadhabhai Naoroji's and R.C. Dutt's analyses. For it implied that political independence and the opportunities for control over exchange rates, tariff rates, industrial development programmes and the like, would not be sufficient to overcome poverty. Basic structural changes in the socio-economic system would also be required. It would also follow that the class of Indian beneficiaries of colonialism would have to be fought politically if a climate for these structural changes were to be created. The fight would be through mass mobilisation, including that of the poor peasantry and the working class, and for this mobilisation, it was necessary to spell out the meaning of "Swaraj" to the "masses".[2]

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1. Indian National Congress, Resolutions on Economic Policy and Programme 1924-54, (AICC, New Delhi; 1954) p. 3.
2. Indian National Congress, Op. Cit., pp. 3-9.

This process was initiated at the Karachi session of the Congress in 1931, where the essential points to be safeguarded by an acceptable constitutional framework were outlined. Later the same year, the position was amplified at a meeting in Bombay. Three points were of special significance in clarifying the role of the State:

2.(a) The organisation of economic life must conform to the principle of justice to the end that it may secure a decent standard of living.

(b) The State shall safeguard the interests of industrial workers and shall secure for them, by suitable legislation and in other ways, a living wage, healthy conditions of work, limited hours of labour, suitable machinery for the settlement of disputes between employers and workmen, and protection against the economic consequences of old age, sickness and unemployment.

12. The State shall protect indigenous cloth and for this purpose pursue the policy of exclusion of foreign cloth and foreign yarn from the country and adopt such other measures as may be found necessary. The State shall also protect other indigenous industries, when necessary, against foreign competition.

15. The State shall own or control key industries and services, mineral resources, railways, waterways, shipping and other means of public transport.[1]

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1. It is significant that of the four points quoted, the most crucial in terms of the envisaged role of the State is the last, number 15. Probably still more significant is the implicit understanding that if a controversial clause were situated at the end of the programme, it had greater chances of its significance being overlooked. It might be said that the era of populism was introduced by clauses such as these, which were passed presumably on the understanding that their implementation could be opposed, if at all the question arose in practice.

These were statements of intention, of the shape of the role the State would play in the period after independence. There was no theory of development implicit within the points that were made. In other words it was a manifesto rather than a plan, or even the basis for a plan.[1]

However, by 1937, after the elections held on the basis of the 1935 Government of India Act, Congress Ministries were in power in seven provinces. Under the Act, responsibility for the development of industries was a provincial subject, and so both the responsibility and the opportunity arose to demonstrate the advantage of planned development.[2] Under instructions from the Working Committee, the Congress President convened a meeting of the Provincial Ministers of Industry where he laid down some of the tasks of development.

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1. It must be admitted that the state of orthodox economic theory was at that time inadequate for planning. Keynes published the influential <u>The General Theory of Employment, Interest and Money</u> in 1936. See E.M.S. Namboodiripad <u>Indian Planning in Crisis</u> (Chinttu Publishers, Trivandrum: 1974) pp. 12-26 for an analysis of the root causes of the new view of the State.

2. Problems of reconciling apparently contradictory Congress approaches to cottage and large scale industries were left to be decided by Nehru in his capacity as Chairman of the National Planning Committee. The contradiction was resolved by pointing out that while a 1934 resolution had specified that the Congress would devote its attention to cottage industries because large scale industries "can and do command State aid", with the formation of Congress Ministries, it was "to some extent identifying itself with the State" and "it cannot ignore the question of establishing and encouraging large scale industries". K T Shah (Ed) <u>Report of the National Planning Committee</u>, (Vora, Bombay: 1949) pp. 35-37.

Industrialisation was to him possibly

> ...an evil, but...a necessary evil, the ills of which it was upto us to mitigate but the march of the Revolution itself must be a forced one like in Russia.[1]

He also laid down the principles of a system of national planning which would aim for the following:

(1) National autonomy in the country's principal needs.

(2) Development of power supply, metal production, machines and tools manufacture, essential chemicals, transport and communication industries.

(3) Development of technical education and research.

(4) Economic surveys of existing industrial potential.

(5) Creation of a national research council.[2]

From these, he isolated the following problems and areas of action:

1. Economic surveys of the provinces.
2. Coordination between cottage and large industries.
3. Regional distribution of industry.
4. Training of technically qualified personnel.
5. Provisions for technical research.
6. Establishment of a committee to advise on the problems of industrialisation.

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1. P. Sitaramayya, <u>The History of the Indian National Congress, Volume II</u>, (Padma, Bombay: 1947), p. 96.

2. Sitaramayya, <u>Op. Cit</u>., p. 97.

At an earlier meeting of Provincial Chief Ministers, also convened by the Congress President, it had been agreed that a Committee of experts should be appointed to advise the Ministries on problems of Industrial Reconstruction, Power Resources and supply, as well as more general questions of coordination between activities in the various provinces.[1]

Nehru was chosen to head this Committee which had an original budget of Rs.50,000. The Committee had been asked to submit its report within 6 months, but this was later extended and, in fact, its work was brought to a halt by the start of the Civil Disobedience Movement in 1940.[2] The delay appears to have been caused by the substantially wider view of its terms of reference that the committee took, probably as a result of Nehru's view of the function of planning, than had earlier been expected.[3] 27 subcommittees were formed and a great amount of information was collected and plans for different sectors prepared. Although the final report was not published, the Committee marked an important milestone not only in terms of planning philosophy in the Indian context, but also for including policies for small industries within an overall pattern of economic development.[4]

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1. Sitaramayya, Op. cit. p. 96.
2. Sitaramayya, Op. cit. p. 86 and 97.
3. See Nehru's letter to Rajendra Prasad in 1939 explaining the scope of the Committee's work. Jawaharlal Nehru Memorial Fund, Selected Works of Jawaharlal Nehru Volume 10, (Orient Longman, Delhi : 1977), pp. 515-517.
4. K.T. Shah, Op. cit.

Civil disobedience, and the arrest of most of the prominent Congressmen in 1942, which followed the unilateral declaration by the Viceroy that India was a party to the World War, meant that little formal activity took place within the Congress concerning issues of Planning and the strategy of development during the early 1940s.[1]

In 1945, members of the Congress Working Committee were released from detention and began to prepare for the elections leading to the formation of the interim government which was installed in 1946.[2] The Election manifesto issued at the time showed a considerable advance in both its integration of objectives in various spheres, so defining for the first time, a strategy of development, and laying out in relatively specific terms the tasks which the Government would need to undertake. Recognising that the "...most vital and urgent of India's problems is how to remove the cur of poverty and raise the standard of the masses",[3] the manifesto pointed to the need to:

> ...plan and coordinate social advance in all its many fields, to prevent the concentration of wealth and power in the hands of individuals and groups, to prevent vested interests inimical to society from growing, and to have social control of the mineral resources, means of transport and the principal methods of production and distribution in land, industry and in other departments of national activity, so that free India may develop into a cooperative commonwealth.[4]

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1. P.Sitaramayya, Op. Cit.
2. P. Sitaramayya, Op. Cit., p. 662 and p. 800.
3. P. Sitaramayya, Op. Cit., Appendix p. iii.
4. P. Sitaramayya, Op. Cit.

Apart from delineating the areas of activity subject to social control whether in the Public or Cooperative Sector, the manifesto is significant for including for the first time a classification of industries - large scale, medium and small and including cottage industries as a part of the small sector. Discussion on the precise definition of cottage industry in the course of meetings of the National Planning Committee on the one hand, and the growth of small factories in response to wartime demands on the other, must have led to this clarification of concepts.[1]

The election manifesto appears to have been the last statement on development strategy and socio-economic policy in the pre-independence period.[2] Although with the formation

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1. See the discussion of the concepts used by the Subcommittee on Rural and Cottage Industries of the National Planning Committee, in Development Commissioner (Small Scale Industries), Ministry of Industrial Development, Small Scale Industries: Twenty Five Years of Progress, (GOI, New Delhi:1973).

   In the absence of data showing the growth of small factories (the 1934 Indian Factories Act provided only for the compulsory registration of units employing more than 20 workers and using power), it is difficult to estimate this growth. However it is generally accepted that demand for war goods gave a major boost to the emergence of the small capitalist with his factory. See, for instance, Report of the Fiscal Commission, 1949-50, (GOI, New Delhi : 1950), p. 112.

   D.K. Malhotra in his book Review of Fiscal Policy (published by the author, Lahore : 1943) says that as a result of encouragement of small industries, their contribution to the purchase made by the Government of India was expected to go up from Rs.5 crores in 1941-42 to Rs.10 crores in 1942-43, pp. 71-72.

2. The A.I.C.C. Economic Programmes Committee was appointed in November, 1947, "with a view to drawing up the economic programme for the Congress in accordance with....the election manifesto of the Congress dated December 19th, 1945...", Indian National Congress, Op. Cit., p. 17.

of the interim government, an advisory planning board was established, this was an official body and cannot be said to represent Congress policy in an undiluted form.[1]

After independence, the AICC appointed a Committee to prepare an economic programme, giving the following reason.

> Democracy in the modern age necessitates planned central direction as well as decentralisation of political and economic power in so far as this is compatible with the safety of the State, with efficient production and the cultural progress of the community as a whole.[2]

The Report of the Committee gave a clear indication of the developmental strategy favoured by the Congress.[3] It was envisaged that a system of peasant proprietors served by cooperatives for their inputs and marketing, and aided by State irrigation programmes would form the basis of the rural social structure. In Industry, the capital goods sector would be in the public sector, while consumer goods would be produced by the decentralised i.e. small private sector. If large scale units were required for production

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1. The Board, with K C Neogy as Chairman, published its report in 1947.

   The personnel of the interim government announced on 25th August, 1946, had, in addition to members of the Congress, representatives of various communities. This was adjusted when the Muslim League joined the Cabinet in October 1946. See Sitaramayya, Op. Cit., Appendix IV, p. ccxxxiii and p. cclxii.

2. Indian National Congress, Op. cit., p. 20.

3. Indian National Congress, Op. Cit., p.21.

of goods in monopoly markets, they would also be in the public sector. The transfer from private to public ownership would be undertaken over a period of 5 years. There were provisions for control of profits in the private sector, and for regulation of working conditions in the interests of the working class.[1]

Many of the members of the Congress leadership were from the middle classes, and were often instinctively anti-capital, whether this took the form of advocating the destruction of large scale industry altogether, or of its nationalisation. The measures suggested in the programme were, by and large, to be expected from such a group and the recommendations were not in themselves, notably more radical than those made earlier.[2] But a crucial difference between this report and all earlier ones was that this one had been authorised by prominent members of a Party which headed the Government; and so some of the recommendations

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1. Indian National Congress, Op. Cit., pp. 21-36.

2. The Committee, with Nehru as Chairman had two members of the Congress Socialist Party (J P Narain and Achyut Patwardhan), J C Kumarappa, the founder of the All India Village Industries Association, and G L Nanda amongst its 8 members. Indian National Congress, Op. Cit., p. 21.

at least, could well have threatened to become part of the Government's policy.[1]

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1. This may appear paradoxical when it is recalled, for instance, that the National Planning Committee included representatives of the capitalist class, Gandhians or what might be called the right wing of the petty bourgeois, and Nehru and K T Shah representing the left wing of that stratum. All Congress resolutions must also have been fully debated and so should have represented a consensus. But the uncertainty, which we have described above and which found clear expression at the 1947 Industrial Conference, convened by the Minister of Industry and Supplies shows that it was not a felt consensus. Even at the Conference, where unanimous resolutions were passed, Homi Mody seems to have got to the heart of the problem: "This morning when you found your resolution on nationalisation was unacceptable you very cleverly produced another draft, which was accepted by all of us with varying degrees of mental reservation. Naturally, we cannot do anything more and I have an idea that the mental reservations of the Government with regard to that draft is even more substantial than ours". Government of India, Ministry of Industry and Supply : Conference on Industrial Development in India, (New Delhi, 1947), p. 40.

   Part of the problem may have been that FICCI did genuinely believe "its pre-independence claim to speak for the public interest no less than the Congress (now the Government)". The more mature realisation that "In a system of Government by people's representatives elected under adult franchise after independence, it was inevitable that businessmen and their organisation should come to be looked upon as representing a sectional interest" was probably slow to dawn. Federation of Indian Chambers of Commerce and Industry, Golden Jubilee Special Supplement in the Times of India, New Delhi, 23rd April 1977, p. 1.

We have described in some detail the evolution of thinking about the role of state in the strategy of development as expressed in the Congress' analysis of the then existing socio-economic structure and the planks of its proposed plan of development. Although the capitalist class was represented in the Congress, and on the various subcommittees of the National Planning Committee, they had also developed their own organisations and their own plan.[1] In the following section we examine the development of this line of thinking.

V.4 The Indian Capitalist Class and Planning

It should be admitted at the outset that there are some problems associated with defining the concept of the Indian Capitalist Class' view of planning. There is sufficient evidence to show that individual groups within the capitalist class differed quite markedly on issues as important as the strategy of the nationalist movement;[2] and although it would not be correct to take these differences to be a direct

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1. The most prominent of the Congress capitalists was Jamnalal Bajaj, who for some years was its treasurer. Both Pushottamdas Thakurdas and A D Shroff, later signatories to the so called Bombay, or Tata Birla Plan of Economic Development, were members of the Committee. For a detailed account of the growth of FICCI, the apex organisation representing Indian Capital see S. Kochanek <u>Business and Politics in India</u>, (University of California Press, Berkeley: 1974).

2. See Bipan Chandra, <u>Op. Cit.</u>, where in a discussion of the attitudes of capitalists towards Jawaharlal Nehru, he has also described their differences with the strategy of the Nationalist movement, i.e. Congress Strategy.

reflection of their differing material interests, clearly, we can say on *a priori* grounds that there were such differences on policy.[1] And if there was such a difference, it was likely to express itself in other areas of social or ec economic life. In other words, it would appear to be more correct to distinguish between different factions even within the capitalist class in so far as their requirements of State intervention were qualitatively different.

However, recent historical research has shown that although there were differences in approach towards the political leadership of the Congress and the strategy pursued by it, in other words, on the most effective way of ensuring that the Congress operated in fact in a manner conduciv to the interests of the capitalist class, there was a marked degree of agreement as far as economic issues were concerned.[2] On questions of tariff protection, the role of Public Sector, and on the specific role of planning a very wide range of industrialists were of one mind. This is shown most clearly

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1. Thus, for instance, Tatas with interests in steel and engineering would be likely to view desirable Government economic activity differently to groups entirely in light industry.

2. See Aditya Mukherjee, "Indian Capitalist Class and Congress on Planning and Public Sector 1930-47", *Economic and Political Weekly*, (XIII, 35), pp. 1516-1525.

by the production of the Bombay plan in 1944/45 and the active projection of the aims of the plan by several of the capitalists who had signed it.[1]

The Bombay Plan envisaged an expenditure by the State of Rs.10 000 crores over a 15 year period starting in 1947. It foresaw the need for extensive State intervention and control, and accepted the need for Public ownership of utilities and heavy industry, and the consequent need for complementary control over credit and investment institutions. Such a degree of State control would have been considered unusual at the time, particularly when the proposals came from the industrialist class itself. However while the foresight of this class can be admired, in that they were not limited by their immediate interests, it has been convincingly argued that the intention was to create a State machinery which would safeguard their long term interests.[2]

If it is accepted that the Bombay Plan represented the considered views of the capitalists, then we have a clear divergence between the strategy of development implicit in the Plan, and the explicit strategy of the Congress Economic Programmes Committee.[3] The Bombay Plan required that State

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1. Purshottamdas Thakurdas, et. al., A Plan of Economic Development for India, Part I, 1944 and Part II, 1945. Mukherjee, "Indian Capitalist Class and Congress on Planning and the Public Sector, 1930-47".

2. Mukherjee, Op. Cit.

3. In many ways the Bombay Plan could be seen to be an extension of the work of the National Planning Committee for many of the coopted members of sub-committees of the NPC, were capitalists. Secondly, both J R D Tata and John Matthai, signatories of the Bombay Plan, were invited to the concluding sessions of the NPC. See K.T. Shah, Op. Cit.

economic activity would be confined to capital goods industries, utilities and to regulation of credit and trade. No structural changes in the economy were suggested, the State was supposed to fill the gaps that existed in the prevailing structure of production by additions and even those were in strictly specified areas. The Economic Programmes Committee, on the contrary, left little role for the large scale sector even in the short term, let alone the long term. The criterion used by the Committee to demarcate large units from small units was based on the market that the unit commanded. Any unit whose market extended beyond the boundaries of the province in which it was located was defined as a large scale unit and was consequently ripe for nationalisation. It was precisely such units that the large capitalists commanded, and they were clearly unwilling to accept a direct attack on their economic power.

However, the fears of the capitalist class seem to have been unfounded, for almost simultaneously with the presentation of the Congress report, the 1948 Industrial Policy Resolution was issued.[1] The resolution was based largely on the results of an Industrial Conference held in Delhi the previous December, where a number of prominent businessmen had been present. At

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1. The resolution of April 6th 1948 laid down that only arms and ammunition, atomic energy and the railways were to be the exclusive monopoly of the State. Although a further six industries where all <u>new</u> units would be promoted by the State were also mentioned, nationalisation of existing units was to be postponed for 10 years.

the conference it seems clear that the Government was anxious to obtain unanimous resolutions -- to get, so to speak, the maximum that the capitalist class was willing to concede in terms of the relative roles of public and private sectors, and small and large industry.[1] This was clearly a strategy of accepting the existence of large capitalists and striking some sort of bargain with them in public to ensure their continued cooperation;[2] and this strategy was continued when the AICC, while approving the Report of the Economic Programmes Committee, appointed another Committee also chaired by Nehru to work out the detailed implications flowing both from the Economic Programmes Committee Report and the Industrial Policy Resolution.[3] The process of reconciling "middle class radicalism" with the view point of the large capitalists was set in motion.[4]

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1. Conference on Industrial Development in India held on December 15th-18th, 1947, in New Delhi

2. See Homi Mody's remarks on the Ministry of Industry and Supplies' strategy as quoted on p.190. Gadgil seems to have felt that the unanimity achieved was due not only to reservations on both sides which were not voiced, but also to a lack of understanding (presumably by capitalists) of the implications of the resolutions they were a party to. Gadgil's comments are on p.68 of the proceedings of the Conference, Op. Cit.

3. Indian National Congress, Op. Cit., pp. 36-37.

4. D.R.Gadgil wrote in 1947: "The most important question that faces the government and the public in India today is the pattern of economic policy that will be adopted by the State in the immediate future. It is difficult to predict what that pattern will be because

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The predominance of direct capitalist interests in the formulation of industrial policy continued with their association in the processing of the Industrial Development and Regulation Act. The Bill to introduce the Act had been presented to Parliament and referred, after a debate, to a Select Committee in 1949.

However, although the Select Committee reported in early 1950, the Government did not appear to be keen to have a debate on its Report. Instead, after a silence of over a year, and after the draft of the First Five Year Plan had been announced, it appointed a new Select Committee in September 1951, whose report was discussed a month later.[1]

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there is yet little certainty about the composition of our ruling class and the quality of our rulers. The bulk of our political leaders have made a number of public pronouncements regarding economic policy among which a prominent place has been given to the objective of the raising of the standard of living of the mass of workers and peasants; but these pronouncements cannot easily be reconciled with other declarations of political leaders and especially with the actual development of administrative practice of Provincial Governments and the Central Government during the last year." "Wartime control and peace time ends" in <u>Problems of Indian Labour</u>, (GOI, Labour Bureau, 1947) p. 1. Seven years later, in 1954, A D Shroff as Chairman of the <u>Committee on Finance for the Private Sector</u> (RBI, Bombay: 1954) was still complaining about the effects of populist pronouncements about nationalisation on the level of investment in the private sector.

1. Parliament of India, <u>Parliamentary Debates, Part II, 4.9.1951</u>, Columns 1896-1897 and Parliament of India, <u>Parliamentary Debates Part II, 11.10.1951</u> Columns 4645-1742, 12.10.1951 columns 4744-4912.

The reason for the silence appears to be that from 1947 to late 1950, both the successive Finance and Industries Ministers appeared to be unsympathetic even to purposeful regulation of the private sector; and in this they had the support of the Deputy Prime Minister, Vallabbhai Patel.[1] While the selection of persons to form the first Select Committee naturally reflected their point of view, it seems clear that the resultant Report went too far to be acceptable to the Nehruites, however humbled they might have been.[2]

By early 1951, Patel had died. Though he had ensured a continuing voice for the private sector in policy formulation Nehru had now emerged supreme as far as long term economic strategy was concerned. All the Members of Parliament who took part in the debate on the Report of the Second Select Committee took it for granted that the Five Year Plan strategy was supreme and that the IDRA would have to fit in with this strategy.[3] Nehru might himself be very different to the

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1. The Industries and Finance Ministers from Independence to the time of their resignation in 19 April 1950 and August 1948 were S P Mookherjee and Shanmukham Chetty. Both of these, as is evident from a letter written by Nehru to Vallabbhai Patel, were Patel nominees in the Cabinet.

   For Nehru's letter see Durga Das (Ed.), Sardar Patel's Correspondence 1945-50, (Navjivan, Ahmedabad:1972) Volume 6, p. 536.

   They were replaced by Harekrishna Mahtab, a Gandhian, and John Matthai, a director of Tata Sons who himself resigned in June 1950. However Mehtab's inability to function effectively is shown by Patel's correspondence with him.

   Durga Das, Op. Cit., Volume 10, pp. 178-196.

2. Parliament of India, Op. Cit.

3. Parliament of India, Parliamentary Debates Part II, 4.9.1951 columns 1896-1924.

pre-independence fire-brand, but it was made clear that the private sector although allowed to both exist and expand substantially would have to accept a framework of operation laid down by the Government.[1]

V.5 The Problem of Achieving Consensus

Upto the achievement of independence in 1947, consensus between the left wing of the Congress and the right wing who objectively represented the interests of the capitalists within the Congress, appears to have been emphasised.[2] This seems logical in that the major battle had been seen by all strata of society, who were nationalist, to be against British imperialism.[3] However, once political independence had been

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1. See Nehru's speech introducing the motion on the draft First Five Year Plan.

   However, Shanmukhan Chetty, who had been "commanded" by Sardar Patel to a group of business leaders as "one of their own" had said as much at a meeting of the Indian Merchant's Chamber as early as September 1947. FICCI, Op. Cit., p. 1.

2. A foreword by Nehru to a book edited by Kaka Kalelkar, To A Gandhian Capitalist (Hind Kitabs, Bombay 1951) says the following: "In the common companionship of those who were associated with the national movement under Gandhiji's leadership, we [Jamnalal Bajaj and Nehru] met often and grew to know each other fairly intimately. We were very different from one another and it is possible that in other circumstances, there might have been no occasion for that intimacy to grow. But, I suppose, we recognised some worth in each other and the bond of mutual respect and affection grew progressively stronger".

3. In this context we mean, by imperialism, the role of foreign capital in its operation in India.

achieved the question of development strategy came to the forefront, and with it, the problem of the participation, growth or decline of various social strata.

For if the Private Sector was to have any role at all, and a substantial role was certain to be allocated in practice, because concentration of capital had already reached an advanced stage, then the operational policy of depending on the Public Sector, large scale private sector or the cottage industries sector had serious implications for the development of the capitalist class.[1] If the Government decided to depend more or less completely on the Public Sector and Cottage

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1. "It was not the financial allocation to those /village/ industries /in the Second Five Year Plan/ that seemed to be at the root of FICCI opposition, for that was not significantly large, but rather the policy implications that went with this allocation-restraint and control in the expansion of factory type consumer goods industry". B.R. Nayar, "Basic Attutudes towards Economic Planning in India". <u>Asian Survey</u>, XI (1977), 9, pp. 858-59.

   See also the anxiety implicit in this extract from the RBI Committee on Finance for the Private Sector: "Provided there is commensurate increase in both national output and national savings, the enlargement of public investment need not by itself reduce the investible resources available to the private sector. But if planned investment in the public sector exceeds the savings that would normally be available to it, and calls for additional measures of taxation, borrowing or deficit financing, there is inevitably a draft on savings available for investment in the other sectors of the economy". <u>Op. Cit.</u>, pp.9-10.

industries, as the left wing demanded, then the question of what the capitalists would do with the large accumulations at their disposal was bound to arise.[1] In fact, none of the proposals for emphasising either the Public Sector or cottage industries, and downgrading the large scale private sector appears anywhere to have considered this problem.

The reason for this is that the individuals who were in the forefront of thinking on economic issues were also those who took the least interest in organisational issues, even within the Congress. Not having had to formulate proposals, which with Party disciplinary measures could be enforced within the Congress, they were oblivious of the unreality of proposals which required the right wing elements in the Congress, and extremely powerful ones at that, to submit to proposals which would lead to their own political extinction, together with the extinction of the large capitalist class, whose interests they viewed with sympathy.

Although Nehru, for instance, appears to have been aware of the concept of the State, in its Leninist connotation, he does not seem to have grasped its implications; it is only his experience as head of the Government for two or three

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1. Out of a total paid up capital of all corporate bodies of Rs.570 crores in 1948, 69 Indian groups controlled Rs.210 crores while a further 52 groups controlled an additional Rs.140 crores. G.K.Shirokov, Industrialisation of India (Progress, Moscow:1973), p.49, and GOI, Reports on Working and Administration of the Companies Act, 1956.

years after independence that seems to have made him somewhat more aware of the limitations on government activity imposed by the economic structure of society and its corresponding legal institutions.[1] The process probably occurred through battling a constant series of objections raised by civil servants, and members of the Cabinet, to radical proposals on the grounds of their being impractical, or financially infeasible. These or the many other types of procedural problems that in totality form the structure of obstacles to radical reform, which may be seen to be one aspect of the State in a capitalist society, may in fact, also mark the gradual gain of confidence in the Nehru Government by the capitalist class.[2] In other words, the capitalist class

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1. See Bipin Chandra Op. Cit.

   See his speech introducing the motion on the First Five Year Plan. Parliament of India, Parliamentary Debates Part II, 15-10-1951, Columns 5039-5060.

   Opening the debate on the First Five Year Plan, Nehru mentioned three limiting factors which had conditioned the Plan approach. These were the constitution itself, the existing economic structure and the resources available to the Government--so it is possible to say that by late 1951 Nehru was becoming aware of the nature of the State. Parliament of India Op. Cit., Columns 5043-45.

2. Under an article proclaiming that "FICCI is voice of Indian Industry" written by the then President, M.V. Arunachalam, another article has the following to say about business and Government relations; "The immediate problem the Federation faced when India became free was one of its own style of functioning. How was private power placed in the new democracy. After groping for a few years initially, the business community began to understand the new power structure". Federation of Indian Chambers of Commerce and Industry (FICCI) Golden Jubilee Special Supplement in the Times of India, New Delhi, 23rd April 1977, p. 1.

also came to realise that the State structure effectively was their own and that they held State power through this structure.[1] There was then no need to fear what amounted to populist pronouncements of policy; in fact the shrewder of the capitalists began to welcome these as ensuring the cooperation of the petty bourgeoisie for a Government which could, at best, ensure the welfare of only a very small minority of this stratum.[2]

V.6 Conclusions

In this Chapter, we have described the process by which the first of the two prerequisites for a small industries policy was achieved: consensus on the future role of the Public Sector, and its obverse, the long term role for the Private Sector.

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1. "At a reception given to him by business leaders at New Delhi some months after independence, Sardar Patel commanded the Finance Minister, Mr.Shanmukham Chetty, to them as one of their own". FICCI, Op. Cit., p. 1.

2. "He /T.T.Krishnamachari, Minister for Commerce and Industry/ assured the /Federation/ Committee that the Government wanted to carry private enterprise with them. Nationalisation was only a 'scare' and that should not deter industrialists". FICCI, Op. Cit., p. 1.

   Replying to a former President of FICCI, R.G. Saraiya, the FICCI Secretariat reacted as follows to a suggestion by a 'Bombay Group' that Fabian economist W.A. Lewis should be invited to India to speak on behalf of private enterprise: "The rank and file of the political parties and the general mass of people of the country however juvenile or unreasonable their thinking may seem, are the most potent forces to be reckoned with. The people--have, we are convinced, sound common sense and a sense of right and wrong." FICCI, Op. Cit., p. II.

The political resolution of the conflict between the social groups was the basis for this consensus. These groups were the sections of the petty bourgeois or the middle class which were influenced by the Russian Revolution, i.e., the left wing of this class; and the Industrial Capitalists. While the left petty bourgeois operated within the Congress Party as its left wing, the Capitalists had their own organisations in addition to having their supporters amongst the right wing of the Congress.

In the pre-independence period, the Congress left wing dominated discussion on the proposals for planning and the role of the public sector; and the capitalists, although represented in a direct manner in some of these discussions, retained their own forums of debate. However, in the post independence phase, the capitalists largely operated through their supporters in the Congress. In fact, the political consensus on the role of planning and the public sector came about within the Congress Party itself.

We would argue that once this consensus had been achieved it became possible to determine other aspects of the role of the State. Questions of tariff policy, the relationship to the British Imperial Economy in the form of the Commonwealth Relationship, and specifically, the programmes for the encouragement of small scale production could all now be determined. Those were all matters which did not fundamentally affect the economic structure of society and which could therefore be accommodated within a general consensus.

However, it is one thing for the possibilities for promotion of small scale units to be possible. It is quite another that this stratum should actually be distinguished from the large scale private sector and its specific problems become the subject of official notice and action. We believe this happened in the Indian context because of the nature of the Gandhian influence over some sections of the right wing within the Congress. These sections became the supporters of the peasant industrial and agricultural producers, and championed the cause of village and cottage industries.

In the next Chapter we consider the manner in which this support to village and cottage industries became generalised to small scale production units, in the course of the exigencies faced during the nationalist movement.

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CHAPTER VI ✓

ON THE ROLE OF THE SMALL INDUSTRIES POLICY AS A COMPONENT OF THE INDIAN DEVELOPMENT PROCESS

B. GANDHIAN IDEOLOGY AND SMALL SCALE PRODUCTION

VI.1 Introduction

As we have seen in Chapter V, both the leadership of the Congress, and the Capitalists, shared an understanding of the imperatives of an interventionist State and some form of economic planning in their visions of Indian development. Of course, they differed substantially in their views on these matters, but the points on which agreement and a consensus were to be reached was clear to both. Even the most radical of the Congress leaders had become reconciled to the continued existence of large capitalists; and to the type of coordination that an economy at an advanced stage of centralisation and concentration of capital would require.[1] In this fundamental sense, therefore, they had accepted the objective reality of the bourgeois or capitalist State.

For Gandhi, and the Gandhians, on the other hand, economic planning in order to advance the socio-economic structure of society was not the way towards the desired goal of "Swaraj".

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1. See Nehru's remarks about the constraints within which the First Five Year Plan had been formulated. Parliament of India Parliamentary Debates Part II, 15-10-1951, Columns 5039-5060.

For Gandhi, Swaraj would only be obtained when there had been a mass change of character, and the large majority of people had accepted the values implicit in Swaraj as desirable values in practice. The Gandhians also differed in their understanding of the State.[1] It would appear from all of Gandhi's writings and actions that his main concern was precisely with the tyranny of the State that the logic of centralised control of the economy would require. In other words, the starting point of his reasoning appeared to be a moral objection to the State, and his views on the superiority of the decentralised village economy followed logically from this.

Gandhi's views have been analysed at length and it is not our present purpose to do so.[2] However, his advocacy of Khadi, as an integral part of Swaraj, and his later encouragement to village industries which were seen to be an integral part of the primeval village community, had a great deal of influence.[3] Firstly this produced a strong ideological

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1. Chidambara Kulkarni, "The Concept of State in Gandhian thought", Public Administrator (Maharashtra), January 1978, pp. 68-82.

2. See, for instance, R. Ulyanovsky, Socialism and the Newly Independent Nations, (Progress, Moscow: 1974), pp. 222-266.

3. It is, in fact, precisely the purpose of this section to show the continuity between Gandhi's thinking and contemporary support to village industries. An attempt by the Khadi and Village Industries Commission, in 1978, to introduce polyster khadi "in the context of need to cater for the fast varying tastes and trends in the consumer market" met with considerable opposition when a bill was introduced in the Lok Sabha. For an account of the proceedings, see The Times of India (New Delhi) 10 May, 1978, p. 11, Col. 3.

movement in favour of such industries, which was to continue long after independence; and secondly, it required Nehru to clarify his own position on "village and cottage" industries.[1]

For this reason, it is important to analyse the development of both Gandhian institutions, and of Gandhian ideas in support of village industries, for these were both plans of the most important non official (both in terms of non Congress and non State) ideology in currency.

VI.2 Gandhian Institutions

Gandhism has proved to be a difficult philosophy or ✓ concept to define, although there have been a large number of attempts to present a consistent picture of the world view it might encompass.[2] The problem seems to be that Gandhian philosophy was elaborated while confronting issues that arose in Gandhi's political life.[3]

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1. See his letter to Krishna Kripalani in Jawaharlal Nehru Memorial Fund Selected Works of Jawaharlal Nehru, Volume 10, (Orient Longman, New Delhi:1977). pp. 539-543.

2. See, for instance, Hiren Mukherji, Gandhi : A Study (National Book Agency, Calcutta:1958) and EMS Namboodiripad, The Mahatma and the ism (Peoples Publishing House, New Delhi : 1958).

3. Although every individual may have a consistency to the extent that it is the same individual facing various problems, this consistency is not likely to be reflected in written works or in the impressions of other persons. For while the consistency of an individual is accounted for by his individualness, the factors which he ignores, or the importance attached to the factors he considers will be determined by his own appreciation of the situation.

It is, in fact, the combination of the clear grasp of some aspects of reality combined with an underestimation or ignorance of others that makes the evaluation of Gandhi as a social and political leader so difficult.[1] His championship of concrete issues of importance to the peasantry and artisans, within a metaphysical context, had the effect of gaining their support while ensuring that their own realisation of their class position remained unaltered.

In this paper we are concerned with the objective results of Gandhian ideology and policies towards one particular section of the petty bourgeois --- the rural artisan. This is important because, precisely on account of the following Gandhi gained amongst the peasantry and artisans, and hence within the Congress, his ideology of Khadi and the institutions established in support of this ideology gained extreme prominence. Although this was a correct reflection of the strength of this stratum in terms of numbers, it was an anamolous situation in a country where economic development had brought about a class structure in which the peasantry and, in particular, the artisans were relatively powerless.[2] In other words while the Congress

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1. Ulyanovsky, Op. Cit.

2. By this we mean that the idealogues of the peasantry would have been in no position to implement policies which they might have felt would benefit this group, even if formal State power, i.e. the Government, had been in their hands. As a declining class under advancing capitalism, these ideologues could not have had views other than those which were objectively backward looking.

remained aloof from the State, peasant issues might predominate, but as soon as it became the ruling party, the State structure would ensure that big capitalist interests predominated.[1]

Although Gandhi had expressed his philosophy of an Independent India in "Hind Swaraj" it was the prominence he was able to win at the 1919 Congress Session in Amritsar which saw the first resolution and the first step towards enunciating artisan interests in a resolution on Swadeshi "recommending a revival of the ancient industry of hand spinning and hand weaving."[2]

It is unlikely that much importance was attached to this resolution together with companions on prohibition of export of cattle and bullocks and the grievances of third class and intermediate rail passengers.[3] For this was the same year as the Jallianwala Bagh firing and the introduction of the Montagu-Morley Reforms. However, even if the immediate operational significance of the resolution was small, it was the first expression of the Congress policy towards handspinnin

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1. In this sense it is true that only representatives of the working class can elaborate measures of benefit to the peasantry. Lenin had written extensively on the subject of the worker-peasant alliance. See, for instance, To the Rural Poor, Collected Works, Vol. 6.

   In a more general context, this tendency and thus the requirement of a revolutionary socialist party to "smash" the existing State structure has been discussed by Lenin in State and Revolution.

2. See the description of the 1919 Congress session at Amritsar in P. Sitaramayya, The History of the Indian National Congress, Volume 1 (Padma, Bombay: 1935) pp. 180-181.

3. P. Sitaramayya, Op. Cit., p. 181.

and weaving and therefore of its policy towards "cottage and village industry".

The 1919 resolution was in a nature of a moral exhortation which was probably the reason why it did not then attract much notice. However, in the following year, Khadi policy was made an integral part of the boycott of foreign cloth which was itself a part of the proposed non cooperation movement.

> And as much as non cooperation has been conceived as a measure of discipline and self sacrifice... this Congress advises adoption of Swadeshi in piece goods on a vast scale, and in as much as the existing mills of India with indigenous capital and control do not manufacture sufficient yarn and sufficient cloth..... this Congress advises immediate stimulation of further manufacture on a large scale by means of reviving handspinning in every house and hand weaving on the part of millions of weavers...[1]

Support to handloom weavers by the provision of sources of hand-spun yarn was in this way linked to the boycott of foreign cloth and yarn, and to the regenerating aspects of hand spinning for all sections of society.

Although the moral content of the non cooperation resolution had been criticised for seeking "to divert the energies of the Congress into directions of attaining soul force and moral excellence..." there was a remarkable response to the resolution on hand spinning.[2] Within a four month period

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1. P. Sitaramayya, Op. Cit., p. 203.

2. P. Sitaramayya, Op. Cit., p. 205.

almost 20 lakh charkhas had been introduced and about 50 lakh new Congress members were enrolled.[1] With all members advised to boycott foreign cloth, a very substantial market for Khadi and Indian mill products could develop.[2]

In fact, the acceptance that the Khadi movement gained is itself an index of the strength of Gandhi's ideas within the Congress. In effect, it froze the demand for mill cloth at the level prevailing and aimed to meet any increase in the demand through hand spinning and weaving. In other words, it was an attempt to shift the attention of the Congress away from the capitalist class (essentially mill owners) towards the quite definitely petty bourgeois spinners and weavers. As a matter of fact, Indian millowners might have benefited far more from the ban on foreign cloth, than spinners and weavers did from the Khadi movement, but this

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1. P. Sitaramayya, Op. Cit., p. 214.

2. This was, however, only potential demand. On the one hand, the 20 lakh charkhas had to be used to produce the yarn, and on the other, Congress members, let alone the public at large, had to be persuaded or if necessary disciplined into the use of Khadi. If the demand was created without supply of yarn increasing, the result would be profiteering by Indian mills which were the only other "authorised" source of textiles. On the other hand, the movement would quickly collapse if hand spun yarn and hand woven cloth found no demand, whether in households spinning because of the Congress requirement, or on a commercial basis.

did represent a positive achievement in turning the Congress into a multi class, or at least a multi strata organisation.[1]

Congress members were not easily persuaded to take to Khadi, however. Later in 1921, the Congress Working Committee had to admit the necessity of an organised band of volunteers to collect foreign cloth from individual homes. On the more positive side, 25 per cent of the funds collected for the Tilak Swaraj fund were to be set aside "to organise the spread of hand spinning, the collection of hand spun yarn and the weaving and distribution of Khaddar". Provincial Congress Committees which had not sent their required 25 per cent to the Working Committee were punished by the withholding of grants.[2] The battle continued with Gandhi's pre-eminence within the Congress helping to strengthen the Khadi movement. It was made a part of the constructive programme which was introduced when mass civil disobedience

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1. See the Report of the Fact Finding Committee (Handloom and Mills) Government of India, Delhi: 1942, p. 9.

   "It /The Congress/ represents no particular community, no particular class, no particular interest. It claims to represent all Indian interests and all classes.....Above all the Congress represents, in its essence the dumb semistarved millions... Every interest which, in the opinion of the Congress is worthy of protection, has to subserve this interest, and if there is a genuine real clash I have no hesitation is saying on behalf of the Congress that the Congress will sacrifice every interest for the sake of the interest of these dumb masses. It is, becoming so progressively... The all India spinners Association is finding work for nearly 50,000 women in 2000 villages..." Gandhi before the Federal Structure Committee during the Second Round Table Conference, quoted in Sitaramayya, Op. Cit., pp. 20-21.

2. Sitaramayya, Op. Cit., p. 216.

was replaced by a programme of individual civil disobedience in 1922,[1] and later that year Jamnalal Bajaj was put in charge of the department concerned with Khadi, and given a budget of Rs.5 lakhs.[2]

Although this form of concession to Khadi was admitted, Gandhi's attempts to make khadi the centrepiece of Congress activities and philosophy did not succeed. Initially, as part of the compromise reached between Gandhi, and leaders of the Swaraj Party, the 4 anna Congress membership fee was replaced by the requirement of 2000 yards of hand spun yarn every month.[3] However, the implementation of this measure was severely opposed, and Gandhi agreed in 1925 to its becoming an alternative to the membership fee.[4] The work of development of khadi was handed over to the All India Spinner's Association which was to form an integral part of the Congress.[5]

By this measure another significant change in the character of the Congress had taken place. Gandhi appears to have ceded ground to professionals in the Swaraj Party such as C.R.Das and Motilal Nehru.[6] In other words, while Gandhi

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1. Sitaramayya, Op. Cit., p. 236.
2. Sitaramayya, Op. Cit., p. 242.
3. Sitaramayya, Op. Cit., p. 278.
4. Sitaramayya, Op. Cit., pp. 284-285.
5. Sitaramayya, Op. Cit., pp. 288-289.
6. See Sitaramayya, Op. Cit., p. 276, where the author who as Gandhi's choice for Congress Presidentship in 1939, must be considered close to Gandhi personally, says that Gandhi "surrendered" to Motilal Nehru and C R Das just before the Belgaum session of the Congress in 1924.

remained within the Congress and assured it of continued peasant support, both through his presence and through the constructive programme, the formal leadership of the Congress was now in the hands of the urban middle class intelligentsia, as opposed to representatives of the peasantry, which would probably have occurred if Gandhi had had his way with the spinning franchise.[1] Clearly, the battle lay over the issue of whether Congressmen should identify themselves with artisans by undertaking spinning - in other words that through measures such as these they should make themselves intellectuals of the peasantry -- or whether they should voice demands, in the implementation of which only some of the peasantry would benefit, through the development of capitalist relations of production and the differentiation of the peasantry.[2]

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1. It is quite true that from 1885, the Congress had a large share of its leadership from the urban intelligentsia. But at that time it had not been a mass party. Now the situation was that Gandhi's presence ensured the mass character of the Congress, while the policies followed were only in a residual form the policies which Gandhi approved of. Sitaramayya comments: (*Op. Cit.*, p. 285)

   > The fact is that Swarajists /Das and Nehru/ on the one hand denounced the principles of Gandhi and on the other demanded his leadership.

2. Gramsci was of the view that "...it is to be noted that the mass of the peasantry, although it performs an essential function in the world of production, does not elaborate its own 'organic' intellectuals ..." Gandhi's purpose with the constructive programme and his later disappointment at his failure to bring about a change of heart within the Congress would seem to be an attempt to make the intelligentsia identify with the aspirations of the peasantry as *peasants*, while retaining their role as intellectuals. Gramsci's comments are in Quinton Hoare and Geoffrey Nowell Smith *Selections from the Prison Notebooks of Antonio Gramsci* (International Publishers, New York: 1971), p. 6.

Intensification of the boycott of foreign cloth which accompanied the civil disobedience movement at once showed up the inability of khadi to meet the demand for textiles.[1] Handloom cloth woven from yarn produced by "approved" Indian mills was considered the "next best commodity for patriotic citizens".[2] Although hand weaving had formed an integral part of the khadi movement, the support given to handloom, i.e. cloth woven by hand from mill spun yarn was a further extension to the support given to two major "cottage" industries. Support to the handloom industry was significant not only in that weavers were often of substantial social standing,[3] but also in that the handloom industry was in existence as a viable industry and could provide a link to the modern mill industry through the intermediate stage of powerlooms.[4] By contrast, the hand spinning industry was

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1. Gandhi was authorised by the AICC to start Civil disobedience at its Lucknow Session in September 1929. It was inaugurated by his march to the sea from Sabarmati Ashram in March 1930, to break the Salt law which retained the monopoly of salt production with the Government. See Sitaramayya, Op. Cit., p. 383.

2. Sitaramayya, Op. Cit., p. 406

3. See R.A. Frasca, "Weavers in Pre Modern South India", Economic and Political Weekly, X (1975), 30, pp. 1119-1122 for an account of the social importance of weavers in Tamil Nadu during the 1930s.

4. In fact the continued existence of the handloom industry in strength throughout the late nineteenth century and the first decade of the twentieth century may well be due to the direct conflict of interests between big British and big Indian interests in the textile industry; small Indian capitalists gained support in the interstices of this struggle.

contd...

dead and it was not likely that it would ever be viable to produce yarn for the market in this way, though its political importance was immense because of its association with

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Of course, after the swadeshi movement gained ground, the handloom industry also gained nationalist support, but the continued existence of this industry is in striking contrast to the decline of the hand-spinning industry in the nineteenth century.

The reason for this seems to be largely with the way in which the large scale cotton textile industry developed in India. Although the first mill had been established in 1851, and by 1900 there were 193 mills with nearly five million spindles for spinning yarn, there were only 40124 looms. The concentration of Indian mills on spinning rather than weaving left a way open for handloom weavers to adjust to mill spun as opposed to locally handspun yarn. In fact until the First World War, Indian mill spun yarn was either exported to China, or was supplied to the handloom industry for its use. The slow growth of the mill weaving industry appears to be on account of the 3½% counter-vailing excise duty which was levied in the industry to balance an equivalent import duty on foreign cloth from 1896 onwards. As there was no import duty on yarn, handlooms had the option of supplies of both Indian and foreign yarn.

It was not until the First World War, when supplies of foreign cloth were reduced, and the import duty raised to 7½% that handlooms and mills came into competition on the Indian cloth market. Probably due to pressure from the Indian mill industry and Japanese competition, tariff protection was successively increased to 11 per cent in 1921 and 15 per cent in 1930. In 1926 the excise duty on Indian cloth was removed. As far as the handloom industry was concerned, increasing competition from mill cloth was aggravated by the imposition of import duty on foreign yarn from 1922. This meant that decreasing supplies of mill spun yarn from Indian mills was combined with increasing costs of foreign yarn.

By the mid thirties the handloom industry was in great distress and the public notice that was taken of this led to the formation of the Fact Finding Committee on Handlooms and Mills in 1940, which was expected to provide data on which rational decisions about the future development of the textile industry could be based.

rural craft industry.[1]

In addition to the boycott of foreign cloth from all sources, civil disobedience led to a ban on specifically British goods of all kinds.[2] This was not merely an index of increasingly bitter anti British feelings. It was rather the realisation that except in the case of textiles, Indian Industry was unable to meet the demand produced by a ban on imports of goods from all foreign countries. In the circumstances, the choice of a selective ban fell on British goods, both on account of their preponderence and, of course, for political reasons directly connected with civil disobedience.[3] As a long term measure it was logical for Gandhians to apply the same principle of khadi as a substitute for mill cloth, both foreign and Indian, to other products. After the suspension of civil disobedience, this principle was stated for the first time by the Working Committee, in the course of clarifying the Congress stand on Swadeshi:

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1. Attempts to improve the technology of the charkha and thus the productivity and wages of workers through the ambar charkha programme failed to put hand spinning onto a viable basis. See the Report of the Khadi and Village Industries Committee (Government of India, Ministry of Commerce, New Delhi, 1968), pp. 21-25. For the efforts undertaken by Gandhi to reintroduce the moribund spinning wheel see his An Autobiography (Phoenix, London: 1949) pp. 407-412.

2. Sitaramayya, Op. Cit., p. 398.

3. Sitaramayya, Op. Cit., p. 363.

> The Working Committee is of opinion that the activities of Congress organisations relating to Swadeshi shall be restricted to useful articles manufactured in India through cottage and other small industries which are in need of popular education for their support, and which will accept the guidance of Congress organisations in regulating prices and in the matter of the wages and welfare of labour under their control.[1]

The statement is important not only for extending Congress support from hand spinning and weaving to other products, but also for including industries where wage labour was employed -- in other words to early capitalist forms of industry. This would appear to be the result of earlier support given to the handloom industry, even when handloom cloth was woven from mill spun yarn. Handlooms were operated not only by individuals with the help of family labour, but also by "master weavers" who employed wage labour and either already were, or were on the way towards becoming fully small capitalists.[2]

Whether industrial units using wage labour were prepared to accept Congress guidance or not, they were not the sort of units to meet with Gandhi's approval. This definition, the first to make use of Gandhian inspired sympathies for a quite different sort of industrial unit and social stratum, is probably an example of the way in which Gandhi began increasingly to feel that the Congress was paying solely lip service

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1. Sitaramayya, <u>Op. Cit.</u>, p. 576.

2. See the <u>Report of the Fact Finding Committee</u> (Handlooms and Mills) p. 71, 72, 76, 78 for social relationships within the Handloom industry.

to his ideals.[1] His withdrawal from formal positions of authority in the Congress was followed by the emergence of the All India Spinners Association in 1925. His resignation from even the primary membership of the Congress was followed by the institution of the All India Village Industries Association in 1934.[2]

The importance of both these institutions was not limited to the effect they had on developing a mass character within the Congress. They were to play an equally important part in bringing to the notice of orthodox economists and planners, that a sector existed which not only required planned help, but could in principle become an arm of the strategy of development. It is unlikely, for instance, that the National Planning Committee would have had a special subcommittee on Rural and Cottage Industries had it not been for the nearly 20 year advocacy, firstly of handspinning and later of other hand industry by the A.I.S.A. and A.I.V.I.A. From that point onwards it was recognised with varying degrees of sincerity, that the small commodity and early capitalist forms of industry would have not only to be protected through State action, but their contribution to employment and output in the economy increased on an absolute if not relative basis.

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1. See his statement made from Wardha in September 1939 reproduced in Sitaramayya, <u>Op. Cit.</u>, pp. 579-586.

2. Sitaramayya, <u>Op. Cit.</u>, p. 588.

VI.3 Government Initiatives

Gandhi's concern had been to integrate the peasantry with the Nationalist Movement by both emphasing hand spinning as a spare time occupation, and by involving the urban educated members of the Congress in spinning as a means of leading them to identify themselves with the peasant way of life.[1] In addition, during both the non cooperation movement and civil disobedience, calls had been made to all middle class sections, students and professionals in particular, to abandon their work and join the nationalist movement.

Students were a particularly crucial segment whose support was sought both by the Nationalist movement and by the Government, for they formed the pool from which representatives of the intelligentsia would emerge, and in a more general way, the representatives of the entire urban or semi-urban middle class. Compared to the appeals to the idealism and the spirit of camaraderie which were the main strengths of the Nationalist movement, the Government was able to provide the lure of jobs, though on a very limited scale. Thus the appeal in this case was directed towards individualism and the development of support for the Government based on an awareness of the privilege that had been given to the individual. The diametrically opposed nature of these appeals was in itself a reflection of the potentially antagonistic nature of the rival forces. In actual fact, however, although poor peasant

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1. Sitaramayya, Op. Cit., pp. 579-586.

and working class issues were frequently the subject of Congress discussions and resolutions, these issues were never formulated in such a way as to lead to clear cut decisions which were anti capitalist, or wholeheartedly anti-feudal in nature. Thus the mass character of the Congress was never clearly focussed in a socialistic direction, and the nationalist movement remained within the bounds of the capitalist framework.

Concern over the effects of urban educated unemployment arose as early as 1924 in Bengal.[1] This province had been in the forefront of the Swadeshi movement in the early years of the century, and fears of the effects of continued urban unemployment must have been particularly strong with memories of the "degeneration" of that movement into terrorism still strong.[2] The Committee appointed by the Bengal Legislature

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1. See, the Report of the Government of Bengal Unemployment Enquiry Committee (Calcutta: 1924).

2. For an account of the Swadeshi Movement in Bengal see Sumit Sarkar's book by that name (Peoples Publishing House, New Delhi: 1973). Some of the remarks Sarkar makes in tracing the degeneration of this movement from 1905 to 1908 are of importance in understanding Gandhi's later success:

> They [accounts of the Swadeshi movement] leave unanswered and even unasked the crucial question as to why 1905 was succeeded by 1908, why techniques of open mass struggle (meetings and demonstrations, boycott of foreign goods and schools, 'passive resistance' anticipating much of Gandhism, labour unions and strikes) had to give place so quickly to methods of individual terror.
>
> ...But Swaraj was never translated into concrete bread and butter terms for the masses, or integrated with any real peasant programme; nor could the Swadeshi leaders despite sincere efforts develop like Gandhi an idiom, or style of political activity which could effectively bridge the elite mass gap. p. 3.

pointed out that:

> ...We consider that the solution of the problem of unemployment depends to a large degree on the economic development of the country bringing with it better arrangements for sanitation and more modern methods of cultivation all of which will increase the demand for trained men capable of making and repairing simple machinery. It is obvious that the development of rural industries the application of modern labour saving machinery--- throughout Bengal would absorb a large number of men of the Bhadralok class equipped with a will to apply themselves to this object.[1]

Three years later the urgent political requirements of measures taken to increase employment opportunities were sharply defined:

> The existence of an increasing class of the community superior in education and intelligence to the masses, but without occupation and discontented, unemployed and as a result of idleness quickly to become unemployable, constitutes for the state an economic loss and political danger. Public opinion rightly attaches much importance to the question and demands action by the Government.[2]

Inspite of the strong language used in the report, it was clear that not much had been done by the mid 1930s.

> ...We are not prepared to admit that the problem of unemployment among the educated classes has been as seriously dealt with as it should have been, having regard not merely to economic considerations but also to the political reactions of unemployment upon the general situation in the country.[3]

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1. Government of Bengal Unemployment Enquiry Committee, p. 19.

2. Paragraph 15 of the United Provinces Committee on Educated Unemployed (1927) quoted in Report of the Unemployment Committee, United Provinces, 1935, (Allahabad : 1936), p. 19.

3. Report of the Unemployment Committee, United Provinces, 1935, p. 18.

The problem was that industrial development required not only the application of fiscal protection, but substantial investment by the State, and a common argument by the Government was the constraint of lack of resources.[1] Although it was implicitly recognised by the same official committees that the lack of resources was due to the imperial drain out of the country, clearly there were powerful forces operating in favour of the existing situation, and for these forces, the political consequences of educated unemployment were not a sufficient reason for changing the metropolitan-colony relationship.[2]

The balance of forces favouring no substantial change in industrial policy was reflected in the official priority given to the work of the Department of Industries.[3] A Central Department had been established in 1905, and had been followed by Provincial Departments in the United Provinces and Madras. Following the report of the Indian Industrial Commission, further organisations were instituted in other Provinces, and the new constitutional arrangement following the 1919

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1. The following paragraphs have drawn heavily from A.K. Bagchi, Private Investment in India, 1900-1939 (University Press, Cambridge : 1972).

2. "Whenever the existing laws are such that an increase in the wealth produced in the country does not yield a corresponding increase in public revenues then we are emphatically of opinion that such laws should be amended immediately". Report of the Government of Bengal Enquiry Committee, p. 22.

3. Bagchi, Op. Cit., pp. 53-58.

reforms made Industry a Provincial subject, which should logically have brought greater purpose to the working of the Departments. However, although the technical staff, at least, recruited by the Departments appeared to be men of sincerity and drive, very little beyond the development of model schemes and industrial surveys appears to have emerged from the 20 years of work from 1919 to the outbreak of the Second World War in 1939.[1] The infrastructure for the Departments was created during this period but a complex of forces external to the Departments ensured that they could do little to initiate significant industrialisation.[2]

The Second World War brought about a change in the official attitudes towards encouraging the growth of industry, both large scale and small scale.[3] Within a year of the outbreak of the war, in October 1940, a conference of represen-

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1. Ibid. It is important, in terms of our argument in later chapters to note that according to the Fact Finding Committee (Handlooms and Mills), the hold of capital, whether merchant or industrial, appeared to have consolidated itself substantially in the Handloom industry in the period following the report of the Indian Industrial Commission in 1918.

2. 12 years after the Bengal Committee had reported, the U.P. Committee was sent details of 4 demonstration parties dealing with (a) jute weaving and wool weaving (b) umbrella making (c) brass and bell metal manufacture (d) cutlery manufacture (e) pottery manufacture (f) boot and shoe making (g) soap manufacture. Upto 1935 about 800 persons had been trained, of whom at least 150 had started small industrial units employing 3 or 4 persons.

   See Report of the Unemployment Committee, United Provinces, pp. 13-14.

3. See D K Malhotra, Review of Indian Fiscal Policy (Published by the Author; Lahore : 1943), pp. 63-64.

tatives of the countries of the British Empire "East of Suez" was held in Delhi to coordinate the procurement and supply of war required goods. The Eastern Group Supply Council which developed from these discussions was required to place orders on countries within the group according to availability of the item and strategic considerations. It was made clear by members of the Council that there would be no discrimination against goods made in India.[1]

In August 1942 a conference of State and Provincial representatives of the Departments of Industry was held in order specifically to consider measures for the development of small scale industries.[2] A list of items which could be produced by such units was drawn up and 25 per cent of orders were reserved for supplies from these sources. Specific agencies were set up in the Provinces and States to organise small industries for this purpose. By the closing stages of the war, small capitalists were a recognised and identifiable group for whom aid agencies had been developed.[3]

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1. Ibid.

2. D K Malhotra, Review of Indian Fiscal Policy, (Published by the Author; Lahore: 1943) pp. 71-72.

3. Ibid. See also the First and Second Reports on Reconstruction Planning (Government of India, Reconstruction Committee of Council, Delhi:1944).

Table VI.1

Growth of Small Enterprises in India, 1917 to 1947[a]

Year	Number of Enterprises			Number of Workers ('000)		
	All Enter-prises	Small Enter-prises	%	All Enter-prises	Small Enter-prises	%
1917[b]	4827	538	11.1	1238.4	12.9	1.0
1929	7729	1354	17.5	1647.0	34.2	2.1
1939	8973	1579	17.6	2086.9	50.8	2.4
1947[c]	11961	2990	25.0	2690.6	83.4	3.1

Notes:

a) Small enterprises are those that employ between 20 and 30 workers on an average.

Official data provides merely a listing of all registered enterprises with their average daily employment. A summary table provides figures for the total number of enterprises and of workers. To obtain the size distribution of enterprises, it is necessary to identify those units coming within a particular size range from the consolidated list of all registered enterprises. For the number of enterprises employing between 20 and 30 workers, we have therefore depended on Shirokov's work as a source.

The number of workers denotes the sum of the average daily employment in each enterprise which provides employment data. Data for the years 1917, 1929 and 1939 is collected on the basis of registrations under the Indian Factories Act of 1911. In 1929 and 1939, this Act as modified by Act II of 1922 was applicable. The 1947 figures are based on the Indian Factories Act of 1934. The changes in the Act are not likely to have any discernable effect as the major criterion by which enterprises became subject to the Act (use of power and employment of 20 or more workers on any working day) was common throughout this period.

While the Act covers enterprises employing 20 or more workers on any working day, the published figures provide average daily employment. From 1929 onwards, enterprises employing less than 20 workers on the average were excluded from the published figures. The figures for 1917 are, therefore, not strictly comparable with later data.

All figures include data from the princely Indian States depending "on the information that is available."

b) The 1917 data includes "establishments of sufficient industrial importance excluded from the Act to the extent that information is available." They exclude enterprises subject to the Indian Mines Act, electricity generating and transforming stations, indigo factories, and factories situated on and exclusively used for tea and coffee plantations. The figures for cotton gins refers in the published 1917 data to the 1918-19 period.

Similar details are not available for later years in the official publications.

The 1917 figures include enterprises within Burma. As a point of reference, in 1929 there were in all, 819 enterprises in Burma out of a total of 8548 (9.6%), and 95848 workers out of a total of 1742860 (5.5%).

c) The 1947 data refer to the post partition situation. The Table therefore, would be likely to underestimate the growth during the 1939-1947 period; and the figures for the relative proportions by numbers of small enterprises, and of workers in these enterprises, may also be affected.

Source:

Government of India, Department of Statistics, Large Industrial Establishments in India (Calcutta, 1920).

Government of India, Department of Commercial Intelligence and Statistics, Large Industrial Establishments in India 1929 (Calcutta, 1932).

Government of India, Ministry of Labour, Labour Bureau Large Industrial Establishments in India 1947 (Delhi, 1952).

G.K. Shirokov Industrialisation of India (Progress, Moscow : 1973), p.19.

Table VI.2

SHARE OF MANUFACTURING INCOME OF SMALL SCALE SECTOR[a]

(1938-1939 Prices)

Year	Total Manufacturing income (Rs. million)	Income from small scale sector (Rs. million)	Proportion %
1900-1901	1549	1251	80.7
1910-1911	2135	1565	73.3
1920-1921	2066	1337	64.7
1930-1931	3212	2233	69.5
1940-1941	3742	1963	52.5
1946-1947	4115	1942	47.2

Source: S. Sivasubramonian : "Income from the Secondary Sector in India, 1900-1947" Indian Economic and Social History Review (XIV, 4), 1977.

Notes: (a) Small scale sector in Table VI.2 refers to units which were exempt from the Factories Act, i.e. employed less than 20 workers with power, or did not use power. Unlike the larger units employing 20 to 30 workers which constituted the small units in Table VI.1, these appear to have lost ground.

The compromise between the urgent military needs for increased industrial diversification, and official hesitancy in encouraging industrial growth in basic industries, seems to have led, in fact, to official support measures for technologically simple small scale industries.[1] The

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1. Although Malhotra Op. cit. probably basing himself on official releases is optimistic about the wartime potential for Industrial growth, a survey, by Kate Mitchell, "India's Economic Potential" in Pacific Affairs (XV) (1942) 1, shows the extent of the untapped resources available in India for such growth. Similarly Andrew J Grajdanzev in "India's Wartime Economic Difficulties" in Pacific Affairs (XVI) (1943), 2, is sceptical of the terms on which wartime economic advance took place. Wadia and Merchant in Our Economic Problem (Vora, Bombay:1957) point out that the claim of the Secretary of State for India in a broadcast in 1940 about India soon being self sufficient in military supplies to the extent of 90 per cent of her requirements referred to "clothing, small ammunition, foodstuffs, tents and blankets" (p.430).

   The most obvious example of official (Government of India) concern about developing small scale industry as opposed to large scale industry lies in the formation of the Fact Finding Committee on Handlooms and Mills, in 1941. The preamble to the Resolution constituting the Committee mentions the need to reconcile the conflicting interests of the handloom and mill industries which had "been raised more than once at the Industries Conference". The final term of reference of the Committee is significant.

   > In particular, to investigate how far an enactment prohibiting the mills from using yarns of low counts would help the handloom industry in maintaining its production.

   It would seem strange that precisely under wartime conditions, with greatly increased demand for all types of cotton piece goods, the Government of India should become conscious of the need to protect handlooms against mills competition. It would seem a reasonable supposition, that with the experience of the rapid accumulation and growth in strengh of Indian industrial capitalism during the first world war, the Government was concerned about the growth of the Indian mill industry through the destruction of handloom production. "The two wars helped the mill industry in India to expand to its present size". Report of the Textile Enquiry Committee, p. 6.

accompanying tables provide some evidence of growth, and it is significant that from this period "small scale industries" operated on a capitalist basis, become a clear category of industries, and their owners a social group whose interests required protection.[1]

It is significant that Gandhian support to small commodity producers on the one hand, and legislative support to small capitalists on the other, were both motivated by the high level of unemployment though the nature of the unemployment was qualitatively different, of course. This was in essence, a reflection of the stage of world historical evolution in which India's economic development was taking place. The working class movement in particular, and ideas about the welfare state in general, were sufficiently powerful to ensure that the kind of destitution which accompanied industrialisation in Britain was not allowed to form a part of official, stated,

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1. The Fiscal Commission pointed out in 1950 that:

> In most of these /small scale7 industries, the proprietors, are middle class people who have had adequate practical training in the conduct of their business, and are familiar with the technical processes of the industries. As a source of employment to the middle class people the social importance of these industries is out of all proportion to their relative strength in the industrial sector, and we feel that the State should take special interest in their promotion and development.

> Report of the Fiscal Commission 1949-50, Volume 1, (Government of India, New Delhi: 1950) p. 112.

policy.[1] It was then necessary to include specific employment generation programmes in the general scheme of development, and given the existing inability of agriculture or the tertiary sectors to generate very many jobs, recourse had to be made to forms of industry other than large factories.

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1. B. R. Nayar in his article on "Basic Attitudes towards Economic Planning in India" Asian Survey, XI (1971), 9, points out that the attitude of FICCI towards cottage and Small Scale industries was the following:

   ...the FICCI strongly opposed the role allotted to Small Scale and cottage industries /in the Second Five Year Plan/ by the Government in the production of consumer goods. It refused to be persuaded by any sentiment on behalf of village industries and brought in history as witness for the inevitable elimination of village industries. If the elimination of village industries resulted in unemployment, the FICCI felt that such technological unemployment "is only a short term phenomenon".

   On the other hand Shanmukhan Chetty, the first Finance Minister after independence and who had been introduced to business leaders by Sardar Patel as "one of their own" pointed out in a statement to the Indian Merchants Chamber in 1947:

   > I will not be a party to any policy of taxation that will discourage private enterprise. Having stated in categorical terms my own faith in this matter, I would appeal to the so-called capitalists that while our policy will be so shaped as to give full scope for private enterprise and private investment, they must reconcile themselves to a regime of State control. The world has long passed that stage of free competitive economy in which the investor had an unrestricted and open field to do what he liked. The economy of the modern world is a controlled economy. You must therefore reconcile yourself to this fact that in the new economic set up of the world you cannot escape state control.

   See the article "Independence rings the changes" in FICCI, Golden Jubilee Special Supplement in the Times of India, New Delhi, 23-4-1977.

VI.4 Conclusions

In this Chapter, we have examined the way in which one important aspect of Gandhian ideology, of support to the village craftsmen, was transferred via the constructive programme, to the development strategy favoured by the Congress. Of course, in the process, the concept of the type of producer who deserved support changed, from that of traditional village craftsmen to a more amorphous village and small scale industry. However, if reference could now be made to urban small scale units, and even to that subclass of small units which used wage labour, it appeared from the context in which discussion took place that three facets of such units were presumed in discussion. Firstly, that though wage labour was used, it was used as a supplement to family labour and the units were therefore household units in the sense of the Indian Census definition which we have made use of in Chapter I, and discuss again in Chapter VIII. Secondly, that the small units made use of simple technology to make products of everyday use, even if these products were not the traditional ones made by the indigenous village producer. And thirdly, following from the point of the simple technology in use in such units, it was presumed that each small unit was operated by a "small person" with limited means. This presumption appeared valid for there did not appear to be any reason to suppose that large scale industrialists would be interested in investing in units with low levels of technology, when more profitable areas were open to them.

The point then is that while the more orthodox of the Gandhians might have disagreed with the interpretation given by the Congress, at least after the National Planning Committee's deliberations, to small and village industry, it retained the spirit of Gandhian concern for the less powerful and poorer sections of society. We would, in fact, argue that the dilution of the original focus of Gandhian concern, was necessary if it was to fit in with the essentially capitalist welfare state approach of the National Planning Committee documents taken as a whole. It is in the Chapter that follows, in which we examine the content of Small Industries Policy in the post independence period that we find that the spirit of Gandhism is forgotten, largely due to the compulsions of a capitalist development strategy.

We have also, in this Chapter, described the growth of official institutions in the sphere of industrial development, and the growth of consciousness about small industry within the official administrative machinery. The impetus for this, of course, did not come from Gandhian thinking, but from the political compulsions stemming from the demands of the educated unemployed. As we have described in this Chapter, larger economic and political forces did not allow effective work to be done in this area; but certainly it is true that through these influences, the independent Government of India was presented with a set of institutions suitable to a greater or lesser extent to its developmental purposes.

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CHAPTER VII

THE SMALL SCALE INDUSTRIES POLICY AND THE STRATEGY OF CAPITALIST DEVELOPMENT

VII. 1 Introduction

In the study of the process of development of official policy towards "small scale industry", the case of the cotton textile industry is particularly valuable. As we have seen in Chapter III, the textile industry included alomost every form of capitalist social organisation, from the most advanced large scale factory, to the system of simple cooperation of individual producers under the aegis of the capitalist. In fact, Chapter IV had shown that it also retained examples of small commodity producers, and even of domestic or natural production for household use; that is to say, of pre-capitalist production relations.

This multistructural nature of the textile industry was accentuated by the relatively greater economic and social prominence of the less advanced, or lower structures as compared to the case of other industries. For this reason, all major political interests, whether in control of State power or not, were required to elaborate their position on the role to be played by each distinct structure in the course of capitalist economic development. Thus we would argue that the approach of the Congress, both as the leader of the nationalist movement, and later as controller of the political levers of

State power, was to integrate the economic interests of various capitalist strata and the petty bourgeois engaged in the textile industry into the proposed plans of economic development; and that attempts after independence to retain the support of the strata of commodity producers, and owners of manually operated capitalist enterprises in general, can be examined most easily in the example of the textile industry.

What makes the exercise important for our purpose, of course, is the extension of the support given by way, for example, of reservation of items for production in handloom and small powerloom establishments within the textile industry. to "small scale" units in other industries. This took place even in cases where small units may not have been in existence in that industry to any appreciable extent. Further, support for the modernisation of obsolete forms of capitalist and precapitalist structures in the textile industry led to the introduction of similar measures for modernisation and capitalist development in other industries.

In Chapter VI, we have dealt with the development of this principle within the Nationalist movement -- the extension of support from the defunct hand spinning industry, to the decaying village crafts in general; and had pointed out that due to the exigencies of the independence struggle, support had been extended to capitalist units in the handloom industry, and hence to units using wage labour in other industries.

In this Chapter, we wish to examine the way in which the set of measures for the modernisation of small scale units -- the Small Industries Policy -- became an integral component of the national effort towards capitalist development. This took place, we believe, by the process of interaction between the specific perspective laid out for the textile industry, which served as a concrete example, and the combination of rather nebulous factors which we have discussed in Chapter V and VI.

We will therefore start by describing the perspective set out for the textile industry, where an official committee had made the logic of the measures they proposed quite clear. We will then move on to the consideration of the end results of the interaction of forces identified in Chapters V and VI: the creation of a category of small enterprises which were defined in a negative way by their exclusion from regulatory measures; and the institution of a series of promotional agencies to encourage the growth of these enterprises through a series of promotional programmes.

We will show that the new conception of small enterprises defined in this administrative manner, rather than by the inclusion of specific industries which had been the earlier practice, had an operational validity. This lay in the fact of the social and economic bonds between the actual producers in traditional industries, and the merchants and usurers who formed the "middlemen". For while these bonds prevented the development of the producers into capitalist industrialists. A combination of circumstances also prevented the large scale conversion of the merchants and usurers to modern industrial capitalists. Traditional manufacturing activity could not in general, therefore, serve as a source for modern capitalist enterprises, and it became necessary to define the target group for promotional programmes in a more general manner.

In the final part of the Chapter, we analyse the logic of the objectives of small scale unit development, as set out both in the Second and Third Five Year Plans, and in the 1956 Industrial Policy Resolution. We show that by the early 1960s the policy towards small scale units in general was closely parallel with the policy towards the smaller units in the textile industry which had been elaborated almost ten years previously. This amounted to protection to small factories vis-a-vis large factory production, and implicit acceptance of the destruction of precapitalist production in the course of capitalist development. Our position is, therefore, that by the end of the Third Five Year Plan, official policy was quite clear about the objective of small scale unit promotion.

These deeper, and implicit, objectives were the creation of a class of small capitalists, and the extension of the home market for Indian industry, by the development of the "backward" areas. Both these objectives can be quantified in terms of the concepts we developed in Chapters I and II, and in the Chapters that follow we will provide data to measure the success of the policy.

VII. 2 The Perspective for the Textile Industry

State policy towards strata represented by different structures in the textile industry had begun in 1951. This included a differentiated series of measures to protect the handloom and powerloom sectors from competition by the organised mill industry. Effectively, the State recognised the following distinct structures:

Table VII.1

STRUCTURE OF TEXTILE INDUSTRY IN 1953

	Workers Employed (1953)	Production (Million yards)
1. Handloom and power-loom units with upto 5 looms	15,00,000	1,400
2. Powerloom units with more than 5 looms	50,000	200
3. Spinning and composite mills	7,50,000	4,800

Source: Report of the Textile Enquiry Committee, 1954.

While certain items were reserved for exclusive production in the handlooms and smaller powerloom sector, other items were reserved for the powerloom sector as a whole. In addition, both the handloom and the powerloom sector was free of excise duty and from price and distribution control. On the other hand, there were measures to control the growth of new powerloom units.

The data we have given above is from the Report of the Textile Enquiry Committee. The Committee was set up in 1953 and was asked to undertake

> ...a comprehensive enquiry....with a view to securing orderly development of all the three sectors in the general interests of the community as a whole.[1]

On the basis of the surveys undertaken by it, and the data collected, the Committee laid out a perspective of development. Essentially this lay in a phased improvement of the handlooms on the one hand, and advances in the large scale powerloom units using more than 50 looms on the other so that

> ...there will ultimately be only two sectors, namely the handloom-cum-improved handloom-cum domestic-cum-small scale powerloom industry and the large scale powerloom-cum-organised mill industry.[2]

In this vision there is the beginnings of a more general approach to the development of capitalist production. The two sectors are essentially those of all forms of precapitalist production as well as capitalist production in manufactories and small factories on the one hand; and large scale factory production on the other. The assumption was that the former category would in the course of time emerge as a homogeneous body consisting solely of small factories, the other hetrogeneous forms either evolving to factory production, or being destroyed by competition from other units within the same category.

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1. Government of India, Ministry of Commerce and Industry, Report of the Textile Enquiry Committee, (Delhi : 1954).

2. Ibid, p. 9.

In other words, it was assumed that if competition between large and small scale factory production could be prevented through demarcation and reservation of items of production, the natural and spontaneous laws of capitalist competition and development would lead to the dissolution of lower forms of production, and the steady growth of small factory production.

It is the purpose of the sections that follow in this Chapter to show the process by which this perspective, explicitly set out in the case of the textile industry, was reached by a slow path, and implicitly accepted, for the small scale sector as a whole.

VII.3 The Consolidation of the Concept of Small Scale Units

The Indian strategy of economic development had been considerably clarified by the acceptance by the Lok Sabha of the First Five Year Plan, and the passage of the Industrial Development and Regulation Act (IDRA).[1] The Five Year Plan suggested programmes of industrial development in addition to programmes in agriculture, social services and health, while IDRA defined the type of industrial unit which would be subject to State control, and the methods of control to be exercised.

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1. We define the elements of an economic strategy as follows: identification of existing structures in which manufacturing activity is taking place (public, large scale private capitalist, small capitalist, and the various precapitalist sectors); identification of commodity composition of industrial output at a specified future date; and measures to ensure that the structures respond in ways to be in a position to meet the required demand for the commodities.

The Act laid down that all industrial undertakings coming within specific industry groups, and with a labour force larger than a specified minimum would need, by a particular date, to register themselves with an agency notified by the Government. A proposal to establish a new undertaking within the "scheduled" industry, to relocate an existing undertaking, or to undertake "substantial" expansion plans would require the permission of the Government in the form of an industrial license. The role of the Government vis-a-vis the private sector was in this form made explicit, and the Act is probably the most important key to understanding the logic of the Indian industrial development strategy; for not only did it prescribe the type of industrial unit which came under its purview, but also defined by exclusion, a "small scale sector" -- including small capitalist factories by our definition -- which were free of the licensing regulations.

The Fiscal Commission had made a major conceptual advance in distinguishing between cottage industries and small scale units on the wage labour criterion, and the relationship between proprietor and workers:

> A cottage industry is thus one which is carried on wholly or primarily with the help of members of the family, either as a whole or a part-time occupation. A small scale industry, on the other hand, is one which is operated mainly with hired labour, usually 10 to 50 hands.[1]

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1. Government of India, Report of the Fiscal Commission, (New Delhi, 1950), pp. 99-100.

Probably leading from this definition, the Industrial Development and Regulation Act exempted units employing less than 50 workers with power, and less than 100 workers without power, even from registration. As we shall see later, this exempted sector came to be known as the small scale sector of factory units.[1]

Rapid capital accumulation required coordinated action by the State and this, combined with the general acceptance of planning, had led to the formation of the Planning Commission and to the Five Year Plan. Similarly, the general acceptance of the need for controlling significant activities of the Private Sector had emerged in the form of IDRA. These two, as has been mentioned, had defined an unregulated or small sector including capitalist units, and had defined plans for the development of this sector. A similar historical continuity existed as far as the actual content of the development agencies was concerned. A Cottage Industries Board had been established in 1947 to develop cottage industrial units.[2] In 1952 the board was split into 3 separate boards

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1. From the proceedings of the debate in the Lok Sabha on IDRA, it is clear that the "exempted sector" was established not because parliament contained representatives of a small capitalist class who were arguing for freedom of operation for their constituents. Rather the plea came on the basis of the administrative infeasibility of regulating small units - in other words this was another example of the small capitalists gaining support on the basis of the disagreement between the left wing of the petty bourgeois who wanted strict regulation, if not nationalisation, of the private sector; and the right wing, largely representing large capitalist interests. See the reports of the debate in Parliament of India, Parliamentary Debates, Part II, 12-10-1951, Column 4767.

2. The Cottage Industries Board was established on the basis of the recommendations of the Industrial Conference held in December 1947 in New Delhi.

responsible for Khadi and Village Industries, Handicrafts, and Handlooms. The All India Spinners Association, and the All India Village Industries Association were amalgamated and formed the Khadi Board; while the Handloom Board was an outcome of the immediate post war Handloom board and the standing Handloom Committee of the Cottage Industries Board.[1]

VII. 4 The Problems Inherent to Capitalist Development of Traditional Industry

The strategy of economic development implicit in the Five Year Plan was clearly based on a capitalist development model. This implied not only the strengthening of the large scale private sector, but also the development of capitalist relations of production within activities involving the large mass of the people. In the case of the handloom industry, the Textile Enquiry Committee had, as we have seen, made this point quite clearly. Handicrafts, on the other hand, were specialised crafts, and policies were formulated by the Handicrafts Board to ensure that the expertise available among craftsmen was retained. As we have seen from the analysis of Chapter III, a growth in the demand for handicrafts would most probably have strengthened the accumulations of merchant capital, without necessarily leading to the growth of capitalist production in these handicrafts. However, in

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1. The Fact Finding Committee (Handlooms and Mills) reporting in 1942 had suggested the formation of such a permanent board.

the case of both the handloom industry, and of handicrafts. the problems of both increasing the output of the industry, and of ensuring reasonable incomes for the producers were not insuperable.

With the more day to day village industries, it was altogether a different matter. Most units in the industrial groups under the purview of the Khadi and Village Industries Board represented very early stages of economic development. Artisan and small commodity production predominated, usually subordinate to both usurer and merchant capital. With the hold of such forms of capital as strong as it was, the road to capitalist evolution of these traditional producers was closed. Of course capitalist development was not in any case what the Gandhians wanted -- they wanted the supply of consumer goods to come principally from "village and cottage" industries, essentially using traditional technology and no wage labour.[1]

Even leaving aside for the moment questions such as whether the composition of the output of the traditional village industries was likely to match the demands generated by a "modernising" capitalist order, there were other problems in the development of village industries. For if the income

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1. The philosophic basis of the Gandhians' support to village craftsmen in the post independence period is best illustrated by the report of the Karve Committee. See Government of India, Planning Commission, Report of the Village and Small Scale Industries (Second Five Year Plan) Committee. (New Delhi, 1955).

from these traditional occupations was to be a reasonable one, the producers would have had to work to the demands of the market, or in other words, evolve from specialised community workers to commodity producers. Marketing of the commodities would need to take place through cooperative outlets which, in turn, would have placed the village producers as a group in a position of opposition to the merchant and usurer elite.[1]

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1. To support our contention, we may examine the results of a National Sample Survey conducted during 1968-1969 (about 10 years later) on establishments which were both smaller than registered factories and not operated on a proprietorship or partnership basis. The survey showed that this essentially cooperative sector existed in very rare cases. In rural areas 9 cases per 100 villages were found while in urban areas there were 19 cases per 100 blocks (an even smaller number). It should be noted that these figures refer to manufacture, trade and transport, and the frequency of manufacturing establishments alone would be still lower.

   In fact, in a total of nearly 17,000 villages and over 10,000 urban blocks in the survey, only 864 sample units in all could be found, out of which 466 or over 50 per cent were textile based units; in the rural areas 401 out of 659 (over 60%) of the units were textile based. Government of India, National Sample Survey Organisation, Tables with notes on non-household small scale manufacture: NSS No. 236, (Delhi: 1977).

What was also clearly controversial was the methods by which demand for these rural units was to increase. For this to happen, a specific share of the market would have had to be reserved for such units, and methods devised by which the goods could be transported and marketed in areas where substantial demand arose. These marketing channels would, again, presumably have been cooperative in nature and would not have been viable in a capitalist economy unless they were assured of secure outlets.

Both these measures involved a clear attack on the other dominating economic and social interest -- that of large industrialists. For a common production programme i.e. reservation of items for cottage industry production, if effective, would have eaten into the growing mass market which was precisely the major attraction of political independence and economic growth for the large industrialists in the country.

The point crucial to the further development of our argument, however, is that while a common production programme could in principle be introduced through executive action, and defended by executive interests which saw this defence as their purpose, the cooperative movement was a political movement and could not be projected by officials. Although T T Krishnamachari, the Minister for Commerce and Industry appeared to be against the formation of an extension service, which would have been necessary for any official attempt at the growth of the cooperative movement, on the grounds of the resources this would require, he was probably well aware of the political dimensions of the problem.[1]

Under the circumstances, the problem for the capitalist state was to prise effective control of the development of small scale production away from the Gandhians, whose position on self employment and cooperatives was proving far more embarassing to the State than their apparent opposition to modernisation of techniques. A further advantage of the organisational disjuncture between "cottage and village" and small scale "industries" was that the Gandhians could be left to do whatever they were able to do through voluntary agencies and would have no further reason to demand of the Government that it reorient its entire development strategy around the class of industries under their control. That is to say, while executive support for small capitalist units, which would ensure that the small capitalist social stratum represented by these units had their point of view considered in policy formulation, was feasible, for these industries were "ancillary" to the growth of capitalism; the cottage industries had inevitably to die in any long term view of the economy, and their proponents could not logically have a voice in executive decision making.[2] Thus, both the requirements of general

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1. Parliament of India, Op. Cit., Columns 5250-5252.
2. As we pointed out earlier, Gandhians as the representatives of a declining stratum would have been obliged to argue in favour of policies which ran contrary to these implicit in a state whose momentum was geared towards advancing social and economic differentiation through the development of capitalism.

capitalist development and practical considerations of State were opposed to a philosophy emphasising self employment in cottage industries and in 1954, a Small Scale Industries Board was established to encourage the growth of industrial units not covered by the existing boards, and free of IDRA regulations.

Although the Small Scale Industries Board (SSIB), and related institutions were not totally new concepts, their formation at a time substantially later than the other Boards, and from the time the need for such a Board had first ✓been voiced, requires some explanation.[1] It seems that the old established need to provide specific measures to deal with the urban educated unemployed, which had been a matter of some concern, coincided with the willingness of the Ford Foundation office in Delhi to provide the services of a team to examine in concrete the requirements of small capitalist and 'transitional" units.[2]

T T Krishnamachari, who was the Minister for Commerce and Industry when the team submitted its report, expressed the Government's view of the problem arising from explicit emergence of unemployment in a speech to the Lok Sabha.[3]

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1. See the <u>Report of the Fiscal Commission</u>, pp. 104-113.

2. Government of India, Planning Commission, <u>Outline Report of the Study Group on Educated Unemployed</u>, (New Delhi, 1956), pp. 8-9.

3. Parliament of India, Parliamentary Debates, Part II, 15-4-1955 Columns 5247-5251.

He pointed out that the traditional Indian social structure based itself on the joint or undivided family, and that in such families, unemployment or underemployment was not readily apparent. It was when industrialisation, and the demands of urban life that this gave rise to, led to the dissolution of the joint family, that unemployment became apparent.

Therefore, he implied, unemployment was not increasing. Rather it was becoming obvious and the process that was making it obvious, industrialisation, was also the only process that could remove underemployment, whether hidden or obvious. However, as the process of construction of large factories would necessarily be slow, it was important to protect traditional manufacturing activities from further decay.

This would appear both a reasonable analysis of the situation and a good rationale for the policies adopted by the Government of India. It was also an unexceptionable proposition that existing units in rural areas would need to improve their techniques of production, if increased demand for the goods produced by these units was to lead to higher incomes for those employed in them.

VII.5 The Ford Foundation Team's Report

The International Team sponsored by the Ford Foundation arrived in India in late 1953.[1] The Government of India provided a liaison officer of the rank of Joint Secretary, and the team presented its report after a three month tour of the country in early 1954.[2]

The team consisted of five members, of which two, including the Chairman, were Swedish, while the remaining came from the United States. The occupations of the members of the team are of interest:

1. Chairman (Sweden)	Vice Principal and acting Principal of the Swedish Institute for Higher Education in Trades and Handicrafts.
2. Member (Sweden)	Managing Director of the Swedish Federation of Small Industries and Crafts.
3. Member (USA)	Consultant in development of handicrafts and specialised Small Industry.
4. Member (USA)	Specialist on Cooperatives.
5. Member (USA)	Industrial Engineer.

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1. Government of India, Ministry of Commerce and Industry, Report on Small Industries in India, (New Delhi, 1955).

2. The inclusion of a relatively senior official implied that the Government of India was committed to the success of the team's visit and in turn, it ensured that the official would himself have an interest in ensuring that the recommendations were seriously considered.

As can be seen from the list, the team had experience and expertise in specific technical and managerial areas. It is thus not surprising that they tended to identify only those problems that their knowledge enabled them to recognise; and this segmented approach is apparent in their report which consisted of seven chapters on the following subjects:

1. Multipurpose Institutes of Technology for Small Industries.
2. Design and Methods of Supply for Quality Products in Handicrafts, Artcrafts, and a Specialised Sector of Small Industries.
3. Credit and Finance.
4. Trade Associations.
5. Cooperatives.
6. The Industrial Process -- Its Implementation.
7. Marketing and Distribution.

The assumptions underlying the choice of both the members of the team and the subjects covered by the report was that the major problem affecting the growth of small units was a lack of systematic planning within the unit itself. If standardisation in the quality of products could be ensured through the provision of credit, and marketing channels, then small scale units could be moved from the position of "uncompetitive units" within an essentially neo-classical, perfectly competitive, view of the economy to that of thriving "growth points" in such an economy.

✓ It is significant that the team did not consider the question of entrepreneurship. The report is concerned mainly about the problems of existing enterprising small units and not with developing new units by persons without a background in trade or industry.[1] The world view implicit in the Report assumed that the basic problem of State aid to industries was to separate the grain -- those units which could be made viable through aid of this type, from the chaff -- where no amount of aid would succeed in making the unit viable. The very different factors which might distinguish the grain from the chaff such as the level of indebtedness, the ease of access to raw materials, the ability to manipulate regulatory measures and so on were, in this view, bundled into the last factor -- risk taking ability -- mentioned. Coming as they did from advanced industrialised societies, members of the team could not conceive of a socio-economic and cultural milieu that was different to their own, and for them, any hardworking systematic entrepreneur was bound to succeed.

The Team had been asked to exclude from its consideration small units -- here taken to mean non factory units -- which were already covered by the KVIB. Although they did examine some problems of handicrafts, they were concerned essentially with mechanised small units, both from the point of view of their own expertise and concern and the strong feelings the KVIB had about industries in its own care.

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1. In this important respect, the report serves as an index of direct State support to the existing small industrialist, rather than locating the problem at the level of general industrial and economic development. It did not therefore, really meet the requirements of suggesting measures to alleviate unemployment.

The most important recommendations of the Team were the establishment of a number of Regional Institutes of Technology to be administered by an officer responsible to the Government of India, and a Small Industries Corporation which was to help small scale units to tender to Government for contracts. With the acceptance of the Government of these two proposals, a stage had been reached where persons in ownership of small production units had an institutional mechanism, as a group, by which their interests could be communicated to the Government.[1]

In other words, the Team, probably helped by some official nudging, performed the useful task of leap frogging over the complex and probably insuperable problems of developing traditional village industry. The perspective they laid out, of the development of modern capitalist small enterprises fitted neatly into the requirements of Capitalist development strategy as a whole. For such capitalist development both required and implied the growth of the home market i.e. the growth of the demand for the means of production and the articles of consumption which would be produced in the expanding large scale sector. While this grew at a reasonable pace, the large scale industrialists were prepared in turn to concede the role of the modern small

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1. This mechanism ensured that in questions of licensing, tariff policy, overseas trade contracts, the small industrialists' point of view did not go entirely unheard.

scale sector in the production of relatively simple products; particularly when it was made clear by important Government officials that the small scale sector did not imply that only "small scale persons" would be permitted to enter this sector.[1]

The final stage in the integration of small scale units into a component of the structure envisaged as intrinsic to the Indian economic development strategy came with the Second Five Year Plan. The Mahalanobis Model, which formed the basis of investment decisions in this plan laid down that the supply of consumer goods which would be required to meet the increased demand for wage goods would be largely supplied by cottage and small scale production units. By relying on these types of units, several social and political objectives could also be met and the Plan document was eloquent in describing the advantages of small scale "industries".

It is in fact, this role of small "industries" as providers of consumer goods that gives importance to the study of the origin of the small industries policy. For it is the reliance on this group of units combined with the emphasis on investments in Department 1 industries (those producing the means of production) which serve as the delineating factors of the Indian economic development effort upto at least the end of the 3rd Five Year Plan. It is for this

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1. See the remarks by Nityanand Kanungo, Union Minister for Commerce and Industries, in an article in the Statesman Second Five Year Plan Supplement, June 2?, 1956.

reason that in the next section we elaborate the logic of the aims laid out for small "industries" promotion, and consider the extent to which these units could, in the absence of complementary measures, expect to contribute to the achievement of these aims.[1]

VII. 6 The Role of Small Scale and Cottage Units in the Second Five Year Plan

The 1956 Industrial Policy Resolution, in establishing a case for the promotion of small "industries" had made the following points in their favour:

> They provide immediate large scale employment, they offer a method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilisation of resources of capital and skill which might otherwise remain unutilised. Some of the problems that unplanned urbanisation tends to create will be avoided by the establishment of small centres of industrial production all over the country.[2]

Development of small scale industry was thus seen as a way of serving the following objectives:

1. Employment generation.
2. An equitable distribution of national income.
3. Mobilisation of capital.
4. Mobilisation of entrepreneurial skills.
5. Regional industrial dispersal.

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1. It is difficult to avoid the feeling, while reading official documents, that economic logic was often forgotten in the urge to meet physical targets in terms of creation of small scale units.

2. The quotation is, in fact, from the 1956 Industrial Policy Resolution. See the Second Five Year Plan, p. 47.

It is possible to regroup these five objectives into a group of 3 as follows:

A) An equitable distribution of national income
   Mobilisation of capital
   Mobilisation of entrepreneurial skill

B) Employment generation

C) Regional Industrial dispersal.

Measures to bring about a reasonably equitable distribution of national income are a normal practice followed by "welfare" states and the Indian Constitution is clear about the desirability of such measures. The most efficient method is obviously to increase public welfare measures, financed by suitable fiscal means, and provide a wide range of goods and services in the form of public services. However, in the Indian context, the existence of a highly skewed income and wealth distribution at the time of independence implied that substantial redistribution would involve very steeply progressive taxation on a very narrow base. This would lead both to tax avoidance and to disincentives, within the context of a capitalist economy, to savings and investment. Under these circumstances, a prior task would then be to generate a number of small centres of capital accumulation through providing both opportunities for the development of industrial capitalism, and suitable support measures.

The most widespread source of industrial capital would be found, as we have shown theoretically in Chapter I, and empirically in the Indian economy in Chapters III and IV, amongst the representatives of merchant capital, or the "dealers". The other major source would be the existing industrialists, the smaller karkhanedars, who though not fully capitalist had already become differentiated from the mass of the producers, and who employed some wage labour.

We had argued in Chapter IV that a major reason for the continuance of merchant capital as a controlling influence over the industries we had examined was the uncertainty in market conditions. Under these conditions, the form of operation of merchant capital served as a flexible method of surplus appropriation, for the burden of fluctuations in demand could be passed on to the producers, and the rigours of labour and factory legislation bypassed. For the conversion of merchant to industrial capital, therefore, the assurance by the State of markets which were growing and reliable was an essential. Added to this was the need for technical support to help in the conversion to industrial operation.

Karkhanedars, on the other hand, would require help in the augmentation of their instruments of production, and loans to enable them to invest proportionately in raw materials and in labour power.

The first of the regrouped objectives of the Second Five Year Plan could then be seen as the development of small industrial capitals, the material content of whose output would be both consumer goods and simple capital goods. The reservation of items for production in small scale units would provide a relatively sheltered market, while the supply of machinery on a hire purchase basis and the provision of money capital would help the operation on a larger scale, and encourage modernisation.

✓ The second objective to be achieved by encouraging small scale units, as set out in the Second Five Year Plan, was to take advantage of the fact that they provided "immediate large scale employment". This objective would appear to make sense only on the assumption that the units were such that when in response to increased demand, output rose, employment also increased substantially. It also needed to be assumed that there was a large measure of unutilised capacity in small scale units, or that they could be established in a short period of time.

In general, these assumptions would hold true of units in any industry where there was a low organic composition of capital, or in what are known as light industry. The employment creating capacity of small scale units could only be logically held as an advantage if there was prior acceptance of the first objective, that of encouraging the growth of numerous small industrial capitals.[1] Only in that context

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1. From a reading of the official documents of the period, it would appear that the desire to encourage the development of small capitals somewhat overrode consideration of technical efficiency of the size of plant that such capitals might embody. From discussions with officials, it seemed that an individual who came forward with a proposal was helped if there were reasons to believe that the unit would be viable.

could it be argued *a priori* that the manufacture of an item should be spread over a number of units rather than concentrated in a single large unit.

In other words, even though the demands of the urban educated unemployed may have been the immediate cause of increased concern for small scale units, the response of the State appears logical only if one sees in it further evidence of its concern to develop a small capitalist class. The Government of India, therefore, at least during this period, appears more interested in "capitalist creation" rather than employment creation.

The third objective, of regional dispersal of industrial activity, is perhaps the most significant in terms of providing a positive economic role to small scale units in the strategy of capitalist development. Although the regional dispersal policies were advanced in the Industrial Policy Resolution as antidotes to growing urban congestion, essentially they implied the need for special measures for the development of industrial capital in "backward" areas. In other words, the policy was oriented towards the extension of the home market; and given the avenues of investment that the Industrial Policy Resolution had left open to the private sector, such development of the market was obviously in the interests of the large industrialists.

The development of backward areas poses several complex problems because even though commodity circulation may prevail in these areas, commodity production is generally not widespread. It is in these areas that petty merchant and usurer capital holds relatively greater sway, for in the absence of the production of wage goods on the one hand, and the wage income generated by such productive activities on the other, the bulk of the population is forced to depend on representatives of merchant capital for the supply of the goods they require; and with low and unstable incomes, on usurers (not necessarily individually distinct from merchants) for the money resources to buy these requirements.[1]

Under these conditions the State may approach the problem of advancing the level of capitalist development of the economic activities involving the population in backward areas in a number of ways. The first is the induction of large capitalist units of production, specifically in the "heavy" industries in such areas. The reasoning being that, as embodiments of industrial capital, the relations of production inherent in them will enable them to serve as a centre for the outward radiation of industrial capitalism. This process, similar to the initial induction of large scale factory industry into the economy in the mid 19th century, might be successful if "down-stream" units were to develop proportionately, leading to a

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1. For an interesting analysis of the functions of the trader-middlemen within the village, see B.M. Michie, "Baniyas in the Indian Agrarian Economy : A Case of Stagnant Entrepreneurship", Journal of Asian Studies, 37 (1978), 4.

sufficient concentration of population to justify the provision of goods and services in an organised manner, thus undermining the role of pre-existing petty merchant and usurer capital.[1] Various complementary measures in terms of the development of means of communication and of freight rates at a level sufficient to induce private investment in the geographic proximity of such areas would be necessary for such a policy to succeed.

The second approach is through the independent development of "light" industries, on the assumption that markets for the realisation of the value of the commodities produced already existed, or could be developed through the generation of wage incomes.[2] It is in this context that the controversy over "large" or "small" scale units developed; whether it was the former or the latter which could act as the "leading" element in the inplantation of industry in areas dominated by petty merchant and usurer capital.[3] The discussion on this point was conducted at a superficial level; so that first objective

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1. Large scale Public Sector investment was undertaken during the Second and Third Five Year Plans precisely to develop "backward regions".

2. Although the logic of the argument was never clearly stated, the first attempt to suggest that small scale units could be a means of developing backward areas was made by the Committee on dispersal of Industries of the Small Scale Industries Board in 1960.

3. The case for small scale units was most forcefully argued in the Administrative Reforms Commission's Report on the Small Scale Sector.

of encouraging small scale units -- as a means to mobilising existing stocks of money capital -- led logically to the proposition that as there were unlikely to be large concentrations of money capital in backward areas, small scale production would be the most that individuals living in the area in question could aspire to. Thus the argument in favour of the growth of 'local capitalists' led logically to the position of extolling the virtues of small scale units as a means of developing industrial capital. This view completely overlooked the inclinations and social values of the representatives of petty merchant and usurer's capital, let alone whether the provision of infrastructure, subsidies and so on would create the socio-economic conditions in favour of the transformation of merchants and money lenders into industrialists.[1]

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1. It is clear from the Report and the remarks of the Fact Finding Committee (Handlooms and Mills) about the "purely financial interests" of the "middlemen" in the handloom industry that they did not think that there was much chance of representatives of merchant capital (the trader or sowcar weaver engaged in domestic or the putting out systems of production) transforming this system of production to industrial forms of capitalist production.

   The Fact Finding Committee (Handlooms and Mills) has an interesting discussion of the financial and economic implications of the change from "merchant to industrialist". It points out that in the manufactory, while possibilities of division of labour are still limited, economies are possible in the bulk purchase of raw materials, and in the lower overhead costs "per unit" (presumably per handloom). On the other hand, fixed capital requirements increase due to the need for land, buildings and equipment, while the wages of workers involved in the preparatory processes, which would be undertaken by unpaid female labour under the domestic system, are proportionately greater.

contd...

By the end of the Second Five Year Plan period, it was clear that not only had small units not developed appreciably outside the large urban centres, but that there appeared to have been no substantial State support to encourage such dispersal.[1] The principal reason at the official, policy making level for this lay in the fact that during the Second Plan:

> The aim, according to this /Karve/ Committee was to build up... a pyramidal structure of industry broad based on a progressive rural economy and

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The specific instances of Marwari merchants in Bhagalpur in Bihar, who retraced their steps to the commission agency form of operation, after attempting the operation of "karkhanas" requires some explanation. The FFC report pointed out that contrary to this experience in Bihar, the karkhana system was still thriving in Cannanore and Calicut, and was able to pay reasonable wages. This would imply that we have evidence that the conditions for manufactory based production existed in one part of the country, as evidenced by the Malabar coast experience; we also have evidence for the readiness of the mahajans in Bihar to invest in such production units. The reason for the failure of the units in Bihar must therefore be traced to the unwillingness of the workforce to work in "factory conditions", except perhaps at comparatively high wages which would have made the operation uneconomical. It is of significance that on the Malabar coast, the traditional weaving castes were not prepared to work in workshops, and the bulk of the labour force came from "agriculturists" which would probably mean the poor and marginal peasantry. The Malabar units which were established by missionaries probably used Christian converts for whom work under organised conditions must have been an advance both socially and economically.

1. See Estimates Committee (3rd Lok Sabha), <u>107th Report on the Organisation of the Development Commissioner, Small Scale Industries -- Rural Industrialisation</u> (New Delhi, 1966).

the growth of small industrial units coupled with necessary services among the big villages and small towns all over the country.[1]

The basis for the lack of support for encouraging the growth of small scale units in rural areas lay then in the fact that the Karve Committee, which had been set up specifically to plan the development of "village and cottage and small scale units" was dominated by Gandhians. Obviously the Committee was a strong supporter of the continuing role of small commodity production which, in the form of village crafts, was very largely dispersed in any case. As a corollary, they would have seen no reason to suggest specific measures for the decentralisation of modern small units. For these employed wage labour, and for the Gandhians were therefore no different to large scale units, in the sense that neither promoted self employment.[2]

The Karve Committee Report may be seen to be the last attempt by representatives of small commodity producers, (together with the resolution on Cooperative Farming passed at the Congress session in 1959) to establish policies of development on the assumption that the State primarily subserved the interests of these strata of producers. In other words, regional dispersal policies during the Second Plan period were the prime victims of the clash between representatives of small commodity and small capitalist producers which took place at the administrative level.

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1. Government of India, Ministry of Commerce and Industry, Report of the Working Group on Programme of Work for the Third Five Year Plan (Small Scale Industries), (New Delhi, 1959), p. 120.

2. For the Karve Committee, decentralisation and self employment were synonimous.

VII.7 Rural Industrialisation

It was therefore not until the early 1960s that any operational steps were taken towards the regional planning approach to industrial development. At the political level, Jaya Prakash Narain took the initiative by writing a note to the Planning Commission. In the note he pointed out that the benefits of the policy to encourage small scale units during the first two Plans had been concentrated generally in the urban and the more developed parts of the country. In suggesting an alternative approach which was designed to encourage industrial development in the more backward parts of the country, he took the significant step of disassociating himself from the more orthodox Gandhians. He did this by specifying that in his concern for the regional planning of industrial units, he did not exclude those units which used both power and wage labour : his "small units" were therefore not exclusively composed of the traditional village industry.[1]

At the official level, the Third Plan Working Group on small Scale Industries suggested the use of industrial estates as a tool for regional industrial planning.[2] Separate units

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1. See his letter reproduced in Government of India, Planning Commission, Rural Industries Planning Committee, Projects for intensive development of small industries in rural areas, (New Delhi, 1962).

2. Report of the Working Group on Programme of Work for the Third Five Year Plan (Small Scale industries), p. 69.

on the estate were expected to feed into one another, and the estate was seen to function as a complete production cycle. If the location of the estate was planned with sufficient regard for the demands of economic feasibility, it was felt that this cycle of production could be integrated into the surrounding mix of economic activity, and the production relations in the area could be expected to develop in parallel with the capitalistically advanced "centre".

Primarily in response to the note by J.P. Narain, the Planning Commission constituted a Rural Industries Planning Committee in 1961 which in turn initiated a project for the development of small units in backward areas. In significant contrast to the earlier schemes whose intention was focussed on village industry -- the Pilot Projects for Village and Small Industry based in Community blocks, and the Intensive Areas Scheme of the Khadi and Village Industries Commission -- the Rural Industries Project (RIP) based itself on an area with a population of 3 to 5 lakhs, and thus implicitly assumed the existence and growth of fairly substantial commodity markets.[1]

Equally, if not more significantly, the R.I.P. laid its greatest stress on the initiation of new small industrial units in each project area. In fact, though verbal emphasis was laid

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1. Government of India, Ministry of Community Development and Cooperation, Report of the Study Team on Industrial Pilot Projects, (New Delhi, 1959).

   Khadi and Village Industries Commission, Evaluation Report of the Intensive Area Scheme, (Bombay, 1965).

on the need to develop cooperatives for encouraging "traditional village industry", reference to the "limited development possibilities" of these industries shows that their mention had become a ritual. The fact that operationally there was a marked change in approach was shown by the difference in attitude to competition between large scale units and small scale units on the one hand; and small scale units and traditional industry on the other. While the Project Report specifically mentioned the need to protect small scale units from the competition of large units, the possible rivalry between the small units themselves, and traditional village industry, was not mentioned.

It appears as if the approach to the development of small scale units was by this time analogous to the strategy laid down for the cotton textile industry almost ten years previously. As we have described at the beginning of this Chapter, the strategy consisted precisely of protecting the small capitalist sector from the large scale sector; and the hope, never clearly stated except in terms of "modernisation", that all the precapitalist structures would either evolve to factory production, or die in an unobstrusive manner, without causing political repercussions.

VII. 8 Conclusions

This Chapter, which concludes the Part on the evolution of policy towards small scale units, has a dual purpose. The first, which it shares with the other Chapters in this Part, is to show the way in which the accepted approach to small units was initially elaborated, and subsequently influenced in its development, by the operation of the representatives of various socio-economic interests. These interests consisted of elements such as the British capitalists; and big and small capitalists, the middle class and rural craftsmen in India.

The representatives of these interests varied in their nature very greatly, from the more straightforward case of the Gandhians in the case of rural craftsmen, to the very complex case of the small capitalist stratum. Here it was the interaction between other interests, such as that between the Indian and British big capitalists during the Second World War, or the educated middle class and Indian big capitalists after independence, that provided the representation of the interests of this stratum.

In this Chapter, in particular, we have shown the interaction between the interests of the small capitalist stratum, and the rural craftsmen, and have concluded at the stage where the former had secured a recognised position within the economic development strategy. In fact, not only had they done this, but they had also become, implicitly perhaps, the model of organisation to which the rural craftsmen were to evolve. In other words, the approach to small scale units by the end of the period of our consideration, had become that of support to small capitalist units, and a general acceptance that the traditional rural craftsmen would have to fend for themselves. Although financial assistance and marketing support continued to be extended to the traditional producer, these amounted to social welfare measures rather than being steps towards the development of production in these industries.

These considerations bring us to the second purpose of this Chapter, which has been to analyse the logic of the measures to promote small capitalist units. The analysis is based on the objectives laid out in the 1956 Industrial Policy Resolution, and takes place within the framework of the structure of production existing within the industries we had examined in Chapters III and IV. Taking this structure into account, it would appear as though the measures that were proposed were indifferent to the actual state of evolution of small industries; in other words, although the measures were relevant to the requirements of converting merchant capital to industrial capital, and helping the evolution of the smaller "karkhanedars" to capitalist industrialists, they were not specifically designed for this purpose alone. It appeared as if the state was unconcerned about the source of the capital embodied in the industrial unit, whether it came from the transformation of money capital, or from precapitalist accumulation or finally, from the surpluses generated in other capitalist enterprises.

This indifference to the source of the capital, and the emphasis that was placed in the initiation of new industrial units leads us to the major conclusion of this Chapter: that the objective of the creation of small scale units was the extension of the home market in modern machinery, raw materials and of course, in factory made wage goods. It is precisely this objective, which underlies the stated objectives mentioned in the Industrial Policy Resolution, which provides the link between the development of capitalist production in general, and the encouragement of small capitalists units.

It is with the understanding that we have gained in this Chapter about the operational logic of the small industries policy -- positive support and protection to small capitalist enterprise and benign neglect of the pre-capitalist structures -- that we examine the data on this subject in Chapter VIII and IX.

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APPENDIX TO CHAPTER VII

THE SIGNIFICANCE OF THE CHARAN SINGH CRITIQUE OF SMALL INDUSTRIES POLICY

In Chapter VII, we had mentioned in passing that the dominance of Gandhian thinking over the Karve Committee had led to a perspective favouring the traditional village producer during the Second Plan Period; and that this was one of the last instances where Gandhian thinking had played a role in influencing the direction of industrial development policy.

In fact, this is not absolutely true, for after the 1977 General Elections, the Janata Party came into power with an avowedly Gandhian programme of development. One of the more prominent of the leaders of the Janata Party was Charan Singh, who headed the BLD or, broadly speaking, the rich peasant faction of the party; and it was Charan Singh who, in his book "India's Economic Policy : The Gandhian Blueprint" made the most outspoken attack on the strategy of development initiated by the Congress Party in accordance with the Nehruvian version of "democratic socialism".[1]

Charan Singh's general point was that unemployment and poverty, or what amounted to the social manifestations of disturbing features of the Indian economy, were due to the misconceived nature of the economic policies followed during

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1. Charan Singh, India's Economic Policy, (Vikas, New Delhi : 1978).

the Nehru and Indira Gandhi periods. These policies, which were epitomised by the Second Five Year Plan, were due to departures from Gandhian thought:

> In agreement with orthodox or traditional economists, however, in the post-independence era, Nehru thought that heavy capital intensive industry led to higher output and, therefore, to higher national income or Gross National Product (GNP) and that poverty and unemployment will /sic/ take care of themselves once we took care of GNP.[1]
>
> With a view to achieving faster growth capital was subsidised and administrative controls used to accelerate large scale capital-intensive investment. Employment was relegated to the backseat as by product of the overall growth. Whereas, in our circumstances, it is employment that should have been made the aim or target, and overall growth considered as its by-product.[2]

In effect, the anti Nehru view amounted to a plea for the planning efforts to be changed from that of an emphasis on the growth of output, to that of growth of employment opportunities.

In our context, what was particularly significant was the distinction made for the first time, in a manner which implied a contradiction between the two, of cottage units and small scale units:

> The real choice in our country is not so much between large and small-scale industry, as between power driven industry (large and small) on the one hand and cottage industry on the other. Only the latter can provide gainful employment to the millions in the villages who

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1. Charan Singh, <u>Op. Cit.</u>, pp. 83-84.

2. Charan Singh, <u>Op. Cit.</u>, p. 85.

> are busy during the sowing and harvesting seasons, but are idle for the rest of the year. The 'colonial' relationship which has developed between towns and villages will disappear only when consumer goods ranging from soap to cloth, are both produced and sold in villages.
>
> A demarcating line will, therefore, have to be drawn between cottage and small scale industries too, the latter being curbed or regulated in the interests of the former.[1]
>
> For there will be no hired workers in cottage industry and only a few of them in small scale industry.[2]

The distinction between cottage and small scale units was therefore emphasised by proposing that priority be given to the cottage units, over small scale units in official promotion programmes. It was argued that whatever items could be produced in cottage industry should be prohibited from manufacture both by small and large scale units; secondly what could not be made by cottage units but was possible to manufacture in small units should be reserved for the latter; and finally, only those large scale units, which manufactured items which for technical reasons had to be made in this manner, should be licensed. The assumption here was that the cottage, small and large scale sectors represented a hierarchy of increasing "capital intensity"; and that previous Congress policy makers, in intentionally encouraging large units, and probably unintentionally confusing cottage and small scale units, had not fully utilised the employment generating capacity of cottage units.

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1. Charan Singh, Op. Cit., p. 110.
2. Charan Singh, Op. Cit., p. 109.

The fact that cottage units have a lower "capital intensity" than small scale units is, of course, an important point in a line of reasoning such as Charan Singh's, which emphasises a development strategy based on the maximisation of employment opportunities in a "capital scarce" economy. However, what is of great significance to us is that Charan Singh himself actually distinguishes between cottage and small scale units, on the basis of the use of solely family labour and manual processes in the former type of unit. In arguing for support to cottage units therefore, he was arguing for protection to the traditional precapitalist producer against the competition of both large and small scale capitalist units. It was a clearcut initiative in favour of the small commodity producers, and therefore a radical move against the prevailing logic of small industries policy that we have described in Chapter VII.

Of course, in distinguishing between cottage and small scale units on the basis of the use of family labour and manual processes in cottage units, Charan Singh appeared to be repeating the point made by the Fiscal Commission in 1950. As we have shown in Chapter VII, they referred to "household" rather than "cottage" units, but defined the former in a very similar way to Charan Singh. What made Charan Singh's initiative in this regard of importance was clearly his position within the Janata Party hierarchy; and expectations were aroused that changes in economic policy would take place along the lines he had laid out.

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CHAPTER VIII

CHANGES IN THE STRUCTURE OF INDUSTRY

A. THE TRADITIONAL PRECAPITALIST INDUSTRIES

VIII. 1 Introduction

In Chapter VII, we had reached the conclusion that the objectives of small industries policy could be interpreted to be two-fold. These were creation of a stratum of small capitalists, and the extension of the home market by the encouragement of modern small scale units, essentially capitalist in social organisation. From both these objectives followed the logical conclusion that traditional precapitalist enterprises, under the pressure of capitalist competition, had either to "modernise" or to face extinction.

In this Chapter, we are concerned with the effects of this policy on the precapitalist sector as a whole. For this purpose, it will be recalled that our discussion in Chapter I had led us to the conclusion that the process of development of capitalist relations of production in an industry was accompanied by the growing use of hired workers in the industry; and, correspondingly, of a growing use of hired workers within distinct production units in the industry. This process, in turn, implied the decline of the household sector within the industry and the growth of the non-household sector, for these sectors were defined in relation to the predominant use by the units in each sector, of family workers and hired workers respectively. We had in Chapter I, therefore, identified the precapitalist sector with the household sector, and we propose to do the same in this Chapter.

It is unfortunately not possible to have a breakdown of the precapitalist structures into components such as artisan and small commodity production. The reason for this is that no surveys, comparable to the ones on which our analysis of Chapters III and IV is based, have been undertaken at a later period. However, in the Appendix to this Chapter, we provide an analysis of the economic structure of rural craftsmen on the basis of the Third All India Debt and Investment Survey conducted by the Reserve Bank of India in 1971.

From the analysis of Chapter I, we had determined that the transition to dominance by units using a majority of hired labour, and therefore the transition to dominance by capitalist units, had occurred as we would expect, at a varying level of the total number of workers employed. This had ranged from 5 to 10 workers depending on the specific industry and the type of technology in use. If, therefore, we take the upper limit as the conservative dividing line between capitalist and non capitalist units, then it would seem that the concept of unregistered units, defined by their exclusion from Factory Act regulation, would serve as an even safer distinguishing principle. For the Factories Act is applicable to units which employ more than 10 workers with power, and more than 20 workers without power; and units registered under the Factories Act would clearly be capitalist.

Equally clearly, the household or precapitalist sector would be a subset of the set of unregistered enterprises, and the question may be asked as to why we are examining the unregistered enterprises as a whole, rather than the household component of this. The reason for this is simply that official data is largely collected and classified according to administrative requirements, and the closest official category to our conception of the precapitalist sector is the unregistered sector.

For the unorganised or unregistered manufacturing sector, exempt from the provisions of the 1948 Indian Factories Act, there are two sources of information which are possible bases for the construction of time series data. The first is the National Sample Survey (NSS) studies, which have been conducted at periodic intervals; and the second is based on the tables computed on the data of the 1961 and 1971 Population Census, conducted by the Census Commissioner of India.

VIII. 2 National Sample Survey Data

The NSS studies are, as the name suggests, sample surveys of the unregistered establishments which lie in what is referred to as the household sector. In this specific context, the term household refers to establishments which are operated on a proprietory or partnership basis, and therefore exclude cooperative enterprises and those run on the basis of joint stock companies.

The problem with the NSS studies, as far as our purpose is concerned, is that they appear to be oriented essentially towards estimating the contribution of the unregistered sector towards national income. All the data are presented in a form from which estimates of these kinds can be made; and in fact, the report of one of the studies mentions specifically that the preceeding surveys should be treated as successive approximations towards obtaining reliable estimates of the economic level of activity of this sector. Thus, for example, while the crucial distinction between family workers and hired workers has been recognised at the data collection stage, the tables in the surveys provide merely the average number of both types of workers per enterprise. This may be of value in estimating the total number of family and hired workers in the unorganised sector as a whole, but provides no indication, for instance, of the spread of the total number of family workers, across enterprises of different size ranges. It is for this kind of reason that we have been able to make only limited use of the NSS studies on the basis of the Table discussed below.

In Table VIII.1 we give the numbers of households engaged in manufacturing activity (either on a principal or a subsidiary basis) over the twenty year period of our concern. It appears from this Table that there was a very sharp drop in the number of households engaged in manufacture between the 14th and 23rd rounds, that is, from 1958 to 1968. We should mention in this connection that the definition of manufacturing household changed during this period, from at least one day's participation in such activity over the previous year to at least 30 days (not necessarily consecutive) participation, relaxed in the case of seasonal industries to at least fifteen days participation.

TABLE VIII.1

DEVELOPMENT OF THE UNREGISTERED MANUFACTURING SECTOR 1953-1974

NSS Round Number	Period of Survey	Number of Manufacturing households (lakhs)	Number of workers (lakhs)	Average Number of workers per household
7th	Oct. 53 to March 54	98.86	126.42	1.28
8th	July 54 to April 55	108.10	142.02	1.31
9th	May 55 to Nov. 55	121.62	160.86	1.32
10th	Dec. 55 to May 56	123.57	202.01	1.63
14th	July 58 to June 59	134.56	173.18	1.29
23rd	July 68 to June 69	85.51	139.16	1.63
29th (a)	July 74 to June 76	88.00	N.A.	N.A.

Note: (a) Figure refers to the number of enterprises rather than households. The number of households will clearly be less than this figure.

Source: 1. National Sample Survey Reports Numbers 43, 94, 205.

2. *Sarvekshana*, I (1977).

However, the large decrease does not appear to be explicable purely in terms of the definitional change. Some evidence for the view that this represents an actual decline in industrial economic activities is provided by the 1968 report itself. This shows that almost 64 per cent of the households even in the rural areas had worked for atleast 15 days in the previous month alone, and that the sample rural households as a whole had worked for almost 17 days on the average during the previous month. In other words, it would not appear to be likely that the decline in the number of manufacturing households could be explained by arguing that units, which by the previous definition could be said to be "active", had now become "passive". On the contrary, it seems that if a unit was not completely defunct, then it operated for a fair number of days in the year, and the definitional change, therefore, would not have had operational consequences.

Table VIII.1 also suggests that although there is analogous fall in employment between 1958 and 1968, it still remains higher in 1968 than at the beginning of our reference period, 1954. This higher level of employment compared with the fall in the number of households would suggest that the average size of the enterprise operated by each household would have increased over this period, and this is also shown in Table VIII.1, where we can see that the number of workers per household has increased from 1.28 in 1953 to 1.63 in 1968.

Unfortunately, we have had to exclude the figures for 1974 which are probably biased, and reduced, by the inclusion in the survey results of figures for households in trade, transport and other non agricultural activities, which employ not more than 5 workers.

In conclusion, we can say that the 20 year period under study showed a marked decline in the number of households undertaking manufacturing activities. The figures for employment also showed a sharp decline from the late 1950s peak period, but did not fall below the level in 1954; thus there was an increase in the average number of workers per household.

We will attempt to provide further evidence for these trends in the next section where we examine the data from the decennial population census which, as the term implies, is the only source of information on the unregistered sector that is available on a census basis.

VIII. 3 Indian Census Data

The Census has been held every ten years in India from 1881, and is therefore a major source of data on long term economic, demographic and social trends. As far as the economic data are concerned, these have been considerably refined conceptually, particularly in the period following independence. However, we have not found the 1951 Census of use because in this exercise, the population was not classified from the point of view of the economic system as a whole, but rather on the basis of the individual. Thus each individual was placed in the category of a self supporting person, an earning dependent or a non-earning dependent. While a self supporting person was one whose income was at least sufficient to cover his or her own needs, an earning dependent required supplementation of his income in order to survive, while a non-earning dependent was entirely the responsibility of the group of self supporting persons.

The second kind of classification in the 1951 census was that between employers, employees, and single or independent workers. As the terms imply, an employer required one or more employees in order to undertake the work in hand (as opposed to the relationship between householders and domestic servants, where the relationship was not essential to the activity in question); while an independent worker neither worked on another person's account, nor did he employ anyone, except possibly on a very casual basis.

Unfortunately, neither of these classifications is useful for our purpose, and the value of the data is further vitiated by the complete change in concepts which took place in the 1961 Census, and which has fortunately been followed in a substantial measure in the 1971 Census.

In 1961, the population was divided into two basic classes, of workers and non workers. In the case of regular or "organised" employment, the criterion for classification as a worker was employment on at least one day in the fortnight previous to the enumeration day; while in the case of "unorganised" and seasonal occupations, the individual needed to have had some regular work of more than one hour a day throughout the greater part of the working season, in order to be classified as a worker. It should be noted in this context that supervision and direction of other persons' work was also treated as "work". Only those persons who were not involved in any economic activity as defined here were treated as non workers.

In the 1961 classification, therefore, the non-working population was treated essentially as a residual category consisting of pensioners, land holders, the very old and the very young, and inmates of hospitals, mental institutions and so on. In 1971, the two concepts of worker and non worker were considerably refined and placed, so to speak on a par. While the definition of a worker remained almost the same, except that the reference period was reduced in the case of regular work in the organised sector from a fortnight to a week prior to enumeration, persons such as students, housewives and so on were now classified as non workers. In the cases where such persons helped, in household enterprises, retail trade and agricultural operations in addition to their normal "non economic" activity, this was recorded as their secondary activity through a separate question in the census form.

The second innovation of the 1961 census, also carried over to 1971, was the distinction made between workers in household enterprises, and those in non-household enterprises. For the Census, a household enterprise (and it is important to bear in mind the difference between this definition and the FSS definition given earlier) was defined separately for the urban and the rural areas. In both areas, a household enterprise was one in which the head of the household and/or other family members were actively engaged, with marginal contribution from hired workers. However, while in the rural areas, the enterprise could be located anywhere in the village in question, in the urban areas the enterprise had, in order to be classified as a household one, to lie in the same "census house" as that occupied by the "census household" in question.

It is made clear in the accompanying notes to the Census table, that the locational criterion was basically an identification mechanism to help the census enumerators to identify and distinguish a household enterprise. For it was felt that while in the rural areas, active involvement of family workers could take place even if the enterprise was not adjacent to the living quarters of the family, this was a requirement in the urban areas, if family members were to attend to both household and industrial duties.

Before considering the relevant data on this subject, it is necessary to refer to several controversies regarding the observed decline in participation rates and in the number of workers between the census.[1] Female participation rates fell particularly drastically over this period; and for this reason we intend to confine our attention to the male work force. Here, too, we shall find a decline in the participation rates, and we shall discuss the relative relevance of statistical and economic reasons for these declines.

TABLE VIII. 2

MALE WORKERS IN HOUSEHOLD ENTERPRISES IN INDIA

1961 - 1971

	Total Number of Workers	% of Workers who are	
		Employees	Others
1961	58,64,222	9.72	90.28
1971	50,21,251	8.22	91.78

Source: (1) Census of India, 1961, Volume 1, Part II-B(i) General Economic Tables, Table B-IV Part A. (Registrar General, New Delhi : 1965).

(2) Census of India, 1971, Series 1, Part II-B(iii) General Economic Tables, Table B-IV Part B (Registrar General, New Delhi:1977).

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1. Report on resurvey on Economic Questions - Some results, Census of India 1971, Series 1, Miscellaneous Studies, Paper 1 of 1974. (Registrar General, New Delhi:1974).

From Table VIII.2, we can see that there was a very large fall in the number of male workers in HHE between 1961 and 1971. The figure fell from 58.64 lakhs to 50.21 lakhs, or almost 8.5 lakhs over the ten year period. Almost the entire loss of workers is accounted for by the loss of family workers and "employers", which together constitute the category of "other workers", in the rural areas, though we have not included this detail in the Table.

It does not seem likely that this loss could be due entirely, or even principally, to definitional changes in the concept of the worker. For in 1971, the notion of the "non worker", whose subsidiary occupation consisted of work in household enterprises, should have captured most of the persons included within the looser 1961 definition. However, we find relatively few persons in this category, which implies that there has been an actual destruction of work opportunities in HHE.

Official evidence also tends to support this line of reasoning. Immediately after the 1971 Census results were tabulated, it was decided to undertake a small sample survey of households in order to determine the extent to which the conceptual change in the definition of a worker had been responsible both for the decline in participation ratios, and in the absolute number of workers.[1] For our purpose, it is

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1. Report on Resurvey on Economic Questions - Some results.

sufficient to note that the adjusted figures, with the 1971 concept taken as the more satisfactory one, showed a decline of about 14 lakhs in the "other worker" category of the male rural workforce. The "other worker" category consisted of all workers other than those engaged in cultivation and in agricultural labour. If we now examine the unadjusted figures for the workforce included within the "other worker" category, we find that these unadjusted figures show an increase between 1961 and 1971 in all sectors of economic activity except household industry, "other services", and the combined sectors of livestock, forestry, fishing, hunting etc., and mining and quarrying. While the figure for "other services" falls by about 16.5 lakhs on a 1961 base of 85 lakhs, or about 20 per cent, that for household industry falls by 8.75 lakhs on a 1961 base of 46.4 lakhs, amounting to a decline of 19 per cent. Finally, in the livestock, and mining and quarrying group there is a decline of 13.5 lakhs on a base of 49 lakhs or almost 28 per cent. These orders of unadjusted decline are not likely to be reversed by the adjustments, and we may therefore take it that the decline in the adjusted figures referred to a little earlier is due to actual decrease in the workforce both in household industries and in the other sectors mentioned. On balance, therefore, we would conclude that there has been a real and very substantial fall in household employment.

Returning in this manner to household industry and to Table VIII.2 we would also point out that the decline in family labour is matched by an equal fall in hired labour, so that the percentages of each kind of labour remain almost the same. (Family labour accounts for 91.78 per cent of the total compared to 90.28 per cent in the earlier period). As the decline in the number of "employees" cannot be due to definitional change (because they were assumed in both census to be full time) we must assume that this proportionate decline in both family and hired workers in the household sector provides further evidence of an actual destruction of the operations of some of these units.

VIII. 4 Conclusions

The major conclusions about the effects of the Small Industries Policy must wait for the discussion, in Chapter IX, of the developments in the capitalist or non household sector. However, the significance of the data presented in this Chapter for our ongoing argument is self evident. Whether the fall in the male employment in the household sector is exactly 8 lakhs between 1961 and 1971, and whether the number of households involved in unregistered manufacturing activity fell by precisely 10 lakhs between 1954 and 1974 is not really important. What is important are the orders of magnitude of these declines in economic activity in household or pre-capitalist manufacture.

Of course, the purpose of the policy makers as we see it was not the senseless destruction of household enterprises, but rather the encouragement of capitalist enterprises, or at least of those that used up to date manufacturing techniques. It is in this connection that the data specifically mentioned at the end of Section VIII.3 are of relevance. This showed that the proportion of family labour in HHE increased marginally over the 1961-1971 decade by 1.5 per cent. The reinforcement of the "household" nature of this category of enterprises could be due to one or both of two economic processes. The first is that of the initially "more capitalist" of these enterprises advancing, and being transferred, to the fully capitalist and non household category; and the second is the injection of new types of household enterprise into the economy.

We would argue that the statistical data that we have discussed shows both these processes at work; and it is the analysis of Chapter IX which will provide some evidence for this hypothesis.

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APPENDIX TO CHAPTER VIII

ASSETS AND LIABILITIES OF RURAL CRAFT HOUSEHOLDS, 1971-72

Although the household manufacturing sector had declined substantially by the early 1970s, it was still a large emplo in absolute terms. It is therefore a pity that no analytical studies are available of this sector which would allow us to examine the developments taking place as a consequence of the capitalist development strategy. The survey that comes closest to meeting our requirements in this respect is the Third All India Debt and Investment Survey conducted by the Reserve Bank of India in 1971-72. Even here the purposes for which the survey was conducted make the data as presented rather thin in terms of our concern for structural analysis.

The 1971-72 Survey was also the first of the series to provide some data on rural craft households as a category distinct to the other rural non cultivator households. The category of rural craft households was defined as those households which had less than 0.005 acres of operational land holdings, and derived the major portion of their income from crafts.

The Survey estimated the total number of rural households at 770 lakhs of which non cultivator households numbered 212.65 lakhs. Rural craft households numbered 18.68 lakhs, or 2.4 per cent of all rural households.

TABLE VIII.3

DISTRIBUTION OF RURAL HOUSEHOLDS BY SIZE OF ASSETS

Asset Group (Rs.)	Cultivators		Agricultural Labourers		Craftsmen		Others		All Households	
	% of households	% of assets	% of households	% of assets	% of households	% of assets	% of households	% of assets	% of households	% of assets
Upto 500	2.0	-	44.2	8.9	23.3	2.5	26.3	1.1	11.3	0.2
500 - 1000	3.7	0.2	24.7	15.2	18.5	5.8	15.5	2.3	8.4	0.5
1000 - 2500	12.8	1.5	21.1	28.3	30.7	20.2	23.1	7.9	15.5	2.3
2500 - 5000	18.2	4.6	6.9	20.7	16.3	23.7	14.9	11.3	16.1	5.2
5000 - 10000	23.1	11.4	2.3	13.7	8.1	22.9	9.9	14.7	18.3	11.7
Above 10000	40.2	82.3	0.8	13.3	3.1	24.8	10.3	62.7	30.4	80.1
Total of all asset groups	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: All India Debt and Investment Survey (1971-72), Assets of Rural Households as on June 30, 1971, (RBI, Bombay : 1976).

TABLE VIII. 4

ASSET HOLDINGS OF CRAFTSMEN

Asset		Asset Groups (Rs.) Upto 500	500-1000	1000-2500	2500-5000	5000-10000	10000 and above	Total of all asset group
Land	A	0.4	1.1	6.2	12.2	17.1	34.4	6.6
	B	-	3	43	253	577	3613	215
	C	0.2	0.4	2.7	7.3	18.6	19.2	9.0
Implements & Machinery	A	69.0	78.3	81.7	85.9	91.8	99.7	80.2
	B	43	83	143	218	455	1671	194
	C	16.4	11.1	9.1	6.3	6.8	3.9	8.2
All Assets	A	98.9	100.0	100.0	100.0	100.0	100.0	98.8
	B	260	747	1569	3477	6692	13801	2381

Note: (a) Total assets refer to the value of vacant house sites, buildings, livestock, durable household goods, financial assets and dues receivable, in addition to the two stated items.

(b) A - Percentage of households reporting ownership of assets.

B - Average value per household in Rupees

C - Proportion of the value of this asset to the value of all assets owned by the group.

Source: Table 3.8 in All-India Debt and Investment Survey (1971-72), Assets of Rural Households as on June 30, 1971, (RBI, Bombay:1976)

Table VIII.3 shows the distribution of asset holdings amongst different groups of rural households. As can be seen, the craft households lay, broadly speaking, between agricultural labourers on the one hand, and cultivators on the other. In terms of numbers, the distribution of craft households over the asset ranges has the same proportions as the "other" non cultivator group.

Table VIII.4 gives the breakdown of assets of craft households with different ranges of total assets. We have given details of the distribution of two types of physical assets, namely, land and machinery and implements. It must be said that the use of the word "machinery" is clearly inappropriate in a context where even the wealthiest of craftsmen, with total assets of value greater than Rs.10000 own implements and "machinery" of average value of Rs.1671. We may therefore take it that the instruments of production in those households take the form of hand tools.

The proportion of households owning tools rises from 69 per cent among the poorest, to almost 100 per cent amongst the richest. On the other hand, almost 20 per cent of the households do not own any implements at all. If, therefore, the bulk of their income still comes from craftwork, they must be working with tools owned by other households. In other words some concentration of ownership of the instruments of production, or of differentiation of the craftsmen has taken place.

However, what is interesting is that the wealthier craft households are not wealthier because they are in ownership of a greater mass of implements, but because they own substantially more land. The value of tools as a proportion of total assets falls from 16.4 per cent amongst the poorest, to 6.3 per cent amongst the Rs.2500-5000 groups, rising again to 8.9 per cent amongst the richest. This is a slightly greater proportion than the average for all craft households, of 8.2 per cent. On the contrary, the proportionate value of the land owned rises sharply and continuously, and for the group as a whole accounts for 9.0 per cent of the assets.

Thus the craft households are differentiated far more sharply on the basis of the land that they own, rather than on the value of the instruments of production. This conclusion is also supported by the data on land ownership amongst the non cultivator households considered as a group as shown in Table VIII.5.

TABLE VIII.5

DISTRIBUTION OF NON CULTIVATOR HOUSEHOLDS BY SIZE OF OWNED LAND

	Size of land owned in acres				
	Nil	0.01 - 0.50	0.50 - 2.50	2.50 - 5.00	Above 5.00
Percentage of households	28.3	62.7	4.7	1.9	2.4

Source: Table 1.4 in All India Debt and Investment Survey (1971-72) Assets of Rural Households as on June 30, 1971, (RBI, Bombay:1971).

Table VIII.5 shows that 91.0 per cent of the non cultivator households owned less than half an acre: and only 19 lakh households, or 9.0 per cent, owned more than half an acre. Although the Table does not show it, of this 19 lakh non cultivator households which owned more than half an acre, only 1 lakh were craft households. In other words, of the total of 18.68 lakh craft households in the rural areas as a whole, 17.68 lakhs owned less than half an acre.

Further light is thrown on the processes at work in craft households by the data of Table VIII.6, which gives the breakdown of the cash debts incurred by the households. Cash debts themselves accounted for 98.3 per cent of the aggregate debt of Rs.53.60 crores, and so we are justified in ignoring the kind component.

Although the bulk of the cash debt is incurred on household expenditure (64 per cent), showing that the current income of craft households as a group is insufficient to meet this expenditure, it is of great importance to note that almost 23 per cent of the debt is for production purposes. 12.9 per cent of the production expenditure is on capital expenditure on "non farm" business or amounts to investment, while only 1.4 per cent consists of capital expenditure on "farm business".

In other words, we can conclude that while some craft households lease out land (by definition they have less than 0.005 acres of <u>operational holding</u>), and therefore are rentier households, whatever investment does take place is in the sphere of non farm activity. Whether this represents investment in manufacture, or in the other spheres of non farm activity is unfortunately not clear from the survey; but what is important is that although some households undertaking crafts may be agricultural rentiers, they do not appear to invest still further in land.

TABLE VIII.6

BREAKDOWN OF CASH DEBTS INCURRED BY CRAFT HOUSEHOLDS

Purpose	Percentage of total	
1. Capital and current expenditure on farm business	2.8	
2. Capital and current expenditure on non farm business	19.9	
		22.7
3. Household expenditure	64.0	
Total Consumption expenditure		77.3
Grand Total		100.00

Source: All India Debt and Investment Survey (1971-72), Indebtedness of Rural Households as on June 30, 1971, and Availability of Institutional Finance, (RBI, Bombay : 1977), p. 77.

From the survey we may therefore conclude that during the early 1970s there were roughly 18½ lakhs rural craft households, the bulk of whom owned negligible land. Differentiation had taken place among the households to the extent that 20 per cent of them were no longer in ownership of even simple instruments of production; and presumably these households worked in some form of capitalist enterprise run by other households.

Differentiation on the basis of both the area, and the value, of the land owned was even more marked than on the basis of the instruments of production owned by the craft households. However, it appeared as if even the minority of households who owned more than half an acre of land, leased this out, and invested any surplus they might have generated into "non farm" activities.

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CHAPTER IX

CHANGES IN THE STRUCTURE OF INDUSTRY

B. THE GROWTH OF CAPITALIST ENTERPRISES

IX.1 Introduction

In Chapter VIII, we had shown that there had been a marked decline in the figures of male employment in the household or pre-capitalist sector during the 1961 to 1971 decade. While we had taken this decline to be an index of the decline in economic activity of this sector, we had pointed out that official policy was not directed, in our view, at the destruction of the household sector. Its concern, as we had analysed in some detail in Chapter VII, was rather with the encouragement of what amounted to the capitalist or non household sector of small scale units, and the extension of the home market by the encouragement of the use of modern means of production in small scale units as a whole.

In this Chapter, we shall look at the data that are available with reference to these major concerns of small industries policy. The next three sections are concerned with evaluating the growth of small capitalist enterprises. We shall start by examining, in the first section, the growth of the capitalist sector as a whole by making use of census data on the non household sector. In the next section, we shall break down this capitalist or non household sector into the registered factor sector, and the unregistered sector, and see how these two components of the capitalist sector have develop over the 1961 to 1971 decade.

In the fourth section, we will confine our attention to the registered factory sector of capitalist enterprises; and shall make use of the categories of small, medium and big capitalist strata developed in Chapter II, to analyse the changes in proportions of these strata over the twenty year period from 1954 to 1974.

Finally, in the fifth section, we will provide some data again based on the population census, on the use of different energy sources in the unregistered sector as a whole. Our purpose in ignoring the distinction between capitalist and pre-capitalist enterprises in this section is precisely because our understanding of the small industries policy in this respect is that its concern was for the encouragement of "modernity" in small scale units as a whole.

IX.2 The Growth of Non Household Enterprises

In Table IX.1, we give the total number of male workers in non household (n HHE) enterprises, broken down by the employer, employee, and single worker classification which had been introduced in the 1951 Census. In both 1961 and 1971, a further subdivision into family workers was made, in parallel with the distinction between household and non household enterprises, and the table also gives the relevant figures for this class of workers.

TABLE IX.1

GROWTH OF MALE WORKERS IN THE NON HOUSEHOLD SECTOR

		Total number of workers	% of workers who are Employers	Employees	Single workers	Family Workers
All India	1961	71,84,857	4.96	69.46	21.05	4.53
	1971	98,51,735	4.31	70.15	21.66	3.89

Source: Census of India 1961 Volume I Part II (B) General Economic Tables

Table B-IV Part A and B-IV Part B (Registrar General New Delhi : 1965)

Census of India 1971 Series 1 Part II (iii) General Economic Tables. Tables B-IV Parts A and B (Registrar General, New Delhi : 197[illegible])

We find a very large increase in the number of workers from the Table, numbering 27 lakhs. What is interesting here is that inspite of this large increase in the number of workers, the proportions of the different kinds of workers has changed little. The changes that have occurred can most probably be explained to be the results of the processes we had discussed in Chapters I and II. the creation of capitalist enterprises, and with it, the growth of "employers" on the one hand; and the processes of concentration and centralisation of capital leading to a decline in the proportion of employers and an increase in the proportion of employees, on the other.

It is not, unfortunately, possible on the basis of Table IX.1 alone to go any further in isolating the processes at work within the capitalist sector as a whole. Disaggregation of the capitalist sector into the strata we had postulated in Chapter II is also made difficult by the fact that the data in terms of economic indices such as fixed capital and output are available for the registered factory sector alone. It is for this reason that in Section IX.3 which follows, we briefly consider the changing proportions of workers in the unregistered and registered factory sectors of non household or capitalist enterprise, and then proceed in Section IX.4 to analyse the registered factory sector.

IX.3 Growth of the Unregistered Non Household Enterprises

Within the capitalist sector itself, measuring economic activity of different groups of enterprise in terms of the share of workers is clearly unsatisfactory. Within capitalist enterprises the organic composition of capital will obviously vary greatly; and the level of economic activity of an enterprise can even increase at the same time that the variable capital fund decreases in absolute terms. In other words, the number of workers may fall even though the output of the enterprise is rising.

Having made this proviso, there is still some interest in examining the ways in which the share of the work force between the registered and unregistered components of capitalist enterprise has changed. Such a comparison, for instance, gives us

TABLE IX.2

WORKERS IN THE REGISTERED AND UNREGISTERED COMPONENTS OF NON HOUSEHOLD OR CAPITALIST ENTERPRISE

		1961	1971
1.	All workers in non household enterprises	79,75,394	1,07,16,838
2.	Workers in registered factories	39,18,095	50,82,964
3.	Workers in unregistered sector	40,57,299	56,33,874
4.	Workers in the unregistered sector to all workers in non household enterprises (%)	50.87	52.57

Source: (1) Government of India, Ministry of Labour, Employment and Rehabilitation, Labour Bureau, Statistics of Factories 1960 and 1961 (Simla, 1965), Table 5.1(b).

(2) Government of India, Ministry of Labour, Labour Bureau, Statistics of Factories 1971 and 1972, (Chandigarh, 1978), Table 2.1(a).

(3) Census of India 1961, Volume I Part II-B(i) General Economic Tables, Table B-IV Part C, (Registrar General, New Delhi : 1965).

(4) Census of India 1971, Series 1 Part II-B(iii) General Economic Tables, Appendix to Table B-IV Part A, (Registrar General, New Delhi : 1977).

an idea of the distribution of the variable capital fund across the two sectors; and in the absence of actual data on this point, a comparison of the proportions of the work force is of value.

Table IX.2 shows that the unregistered sector has not only increased in its number of workers (male and female) in absolute terms, but also its relative share of workers in the capitalist sector as a whole. Given that the distinction between registered and unregistered enterprises is made on the basis of the work force; and that the unregistered units are smaller in these terms by definition, this would imply a faster rate of growth of the unregistered sector as compared to the registered sector.

However, although the proportion of workers in the unregistered sector as a whole increases over the decade in question, there could be expected to be variations between individual industries. As Table IX.3 shows, there have been marked variations in the proportion in different industries.

In Table IX.3, we give the proportions of workers in the unregistered sector to the total non household sector in 37 industry groups at the three digit level of classification. These 37 groups were chosen on the basis that there was strict comparability between the industry as defined in the two census; and also between the 1961 Census and the Labour Bureau classification, for during this period the Labour Bureau used its own industrial classification.

TABLE IX.3

CHANGES IN THE PROPORTIONS OF WORKERS IN THE UNREGISTERED NON HOUSEHOLD SECTOR TO ALL WORKERS IN THE NON HOUSEHOLD SECTOR

1961 Industry Group	% 1961	% 1971	1971 Industry Group
200	64.53	51.45	204
201	30.60	21.74	206
202	64.33	27.20	207
204	96.84	91.38	(200 (203
205	84.71	80.28	205
206	80.03	72.12	201
207	30.31	29.72	211
208	12.43	22.02	210
209) 216)	98.73	44.10	(209 (214 (219
215	53.31	79.20	215
218	23.18	24.07	213
220	76.45	91.70	226
221) 222)	59.28	34.49	227
240	70.69	58.12	250
250	32.07	0.00	240
273) 278)	96.96	95.78	(264 (265

1961 Industry Group	% 1961	% 1971	1971 Industry Group
277	80.81	96.17	268
280	76.09	54.08	271
281	90.33	93.52	276
310	60.07	64.15	290
311	94.75	88.11	291
320	67.99	40.84	300
331	57.37	45.74	312
334	39.31	46.47	317
338	53.59	33.27	208
340	80.10	72.49	320
360	68.07	12.84	(330 (331
372	28.34	63.08	357
382) 383)	74.59	18.30	(374 (375
384	29.36	51.27	392
385	95.95	25.33	376
388	99.07	100.00	394
390	44.14	21.02	381
392) 393)	98.69	97.11	(382 (383 (393
394	100.00	100.00	386
395	73.37	47.00	387
396	81.99	82.16	385

<u>Sources</u>: 1. Census of India 1961, <u>Volume 1 Part II-B(i) General Economic Tables, Table B-IV Part C</u>, (Registrar General, New Delhi : 1965).

2. Census of India 1971, Series 1 Part II-B(iii) General Economic Tables, Appendix to Table B-IV Part A, (Registrar General, New Delhi, 1977).

3. Government of India, Ministry of Labour and Employment, Labour Bureau, Indian Labour Statistics, 1964 (Simla, 1964).

4. Government of India, Ministry of Labour, Labour Bureau, Indian Labour Statistics 1975, (Chandigarh, 1975).

Out of the 37 industry groups, 25 show a decline in the proportion of workers in the unregistered sector, while 12 show an increase. If we divide the industry groups into a number of classes, each representing a range of percentage point increase or decrease of the unregistered non household component, then some further analysis of the broad processes underway may be done.

In Table IX.4 we have divided the industry groups into two segments, depending on whether there was an increase or decrease in the unregistered non household component. These segments are then further broken down into sub-segments, based on ranges of the actual percentage point change of this component. The sub-segments cover changes of upto 4,5 to 9, 10 to 19, and 20 and above, percentage points. As can be seen, the distribution of industry groups across these sub-segments is different in the case of increases or decreases in the unregistered non household component.

While three industry groups out of 12 have seen an increase of over 20 percentage points in this component, as many as 13 out of 25 have seen an equivalent, if not greater decrease.

Correspondingly, the proportion of industry groups showing a moderate to small increase is much less than the proportion showing a moderate to small decrease.

In terms of our discussion in the latter half of Chapter I, it is possible to identify three broad processes which could, in combination, lead to the results we have obtained in the Table. The first of these consists of changes in the dominant forms of the social organisation of production i.e., changes from commodity production to capitalist cooperation, manufacture and factory production. The second comprise changes in the techniques used; the use of hand tools, of hand operated machinery, and of power driven machinery. Included in this would also be the changes in the number of manufacturing processes taking place within one manufacturing unit i.e., the process of increasing specialisation in specific parts of the overall manufacturing system ("ancillarisation").[1] The third process, which is not organic to capitalist development, is the response of the owners of the manufacturing units to legislation governing their operation.[2] Central to this are

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1. Cf. Frances Stewart Technology and Underdevelopment (Macmillan, London: 1977), pp. 3-10, and S J Prais The Evolution of Giant Firms in Britain (University Press, Cambridge: 1976), especially Chapter 3.

2. It could, of course, be argued that legislation and government policies in general are aspects of the operation of the State, and that they evolve out of the specific requirements engendered by socio-economic and political development during any given historical period. In this sense, policies can be seen grow organically from the processes of capitalist development, and so do the responses of capitalists.

TABLE IX.4

National Industrial Classification Code	Name of Industry
Industries showing an increase in the non-household unregistered component	
20 percentage points and above	
215	Manufacture of Ice
357	Manufacture of Machine Tools, their parts and accessories
392	Repairs of motor vehicles and motor cycles
10-19 percentage points	
210	Manufacture of Hydrogenated oils, vanaspati, Ghee etc.
268	Manufacture of coir and coir products
226	Manufacture of bidi
5-9 percentage points	
317	Manufacture of matches
1-4 percentage points	
213	Coffee curing, roasting and grinding
276	Manufacture of wooden furniture and fixtures
290	Tanning, currying, finishing, embossing and japanning of leather.
385	Manufacture of sports and athletic goods
394	Repair of bicycles and cycle-rickshaws

National Industrial Classification Code	Name of Industry

Industries showing a decrease in the non-household unregistered component

20 percentage points and above

National Industrial Classification Code	Name of Industry
207	Production of indigenous sugar, boora, khandsari, guretc, from sugar cane, palm juice.
209/14/19	Manufacture of cocoa, chocolate and sugar confectionary, cashew net processing like drying, shelling, roasting etc.
227	Manufacture of cigar, cigarettes, cheroots and cigarette tobacco.
240	Wool cleaning, baling and pressing.
271	Sawing and planing of wood (other than plywood)
300	Tyre and Tube industries
208	Production of common salt
330/31	Iron an[illegible]el industries/foundries for cas[illegible]ng and forging iron and steel
374/75	Manufacture of motor vehicles and parts/manufacture of motor cycles and scooters
376	Manufacture of bicycles, cycle rickshaws and parts
381	Manufacture of photographic and optical goods (excluding photo-chemicals, sensitised paper and film)
382/83/93	Manufacture of watches and clocks/ manufacture of jewellery and related articles/repairs of watch, clock and jewellery.
387	Manufacture of stationery articles like fountain pens, pencils, pens, pin cushions, tags etc.

National Industrial Classification Code	Name of Industry
10-19 percentage points	
204	Grain mill products
250	Jute and mesta pressing and baling
312	Manufacture of paints, varnishes and lacquers
5-9 percentage points	
206	Manufacture and refining of sugar (vacuum pan sugar factories)
200/03	Slaughtering, preparation and preservation of meat/canning preserving and processing of fish, crustacean and similar foods.
201	Manufacture of dairy products
291	Manufacture of footwear (excluding repair) except vulcanised or moulded rubber or plastic footwear.
320	Manufacture of structural clay products
1-4 percentage points	
205	Manufacture of bakery products
211	Manufacture of other edible oils and fats e.g. mustard oil, groundnut oil, til oil.
264/65	Manufacture of all types of textiles garments including wearing appearel
386	Manufacture of musical instruments

the effects of the Factories Act, applicable to any unit whose employment size put it in the "registered" sector; the criterion defining a "small scale unit" which was operational at any given time; and laws affecting taxation and other financial aspects of the profitability of the unit.[1] Generally, the effects of legislative measures, or rather, of attempts to evade legislation, would be to keep the "visible" size of a unit below the relevant threshold at which the legislation becomes operative.

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1. As we had demonstrated in Chapter II, the State appears to recognise the distinction between medium small and medium large business in terms of the separate formulation of the Indian Partnerships Act, and the Indian Companies Act. However, no dynamic view of the problems of conversion from a partnership to a private limited company appears to be taken. Although beyond a certain scale of turnover, there are substantial advantages in terms of income tax liabilities in favour of conversion, the wealth tax implications are often prohibitive.

   Indeed, this legal hurdle is perhaps one of the reasons for the formation of groups of relatively small firms and companies. Medium small capital in the form of a partnership floats a private limited company which is run in parallel with the partnership. Each unit, under these circumstances, may be of a size smaller than a registered factory.

   See, Government of India, Ministry of Industrial Development, Report of the Committee on Taxation of Small Scale Industries (mimeographed), (1972).

Based on our analysis of the evolution of an industrial capital, discussed in Chapter I, we can conclude that the social organisation of production could be generally expected to evolve, with increasing division of labour, and the replacement of hand tools by machinery. However, it was possible to have the same social organisation at two or more levels of technology (used in the narrow sense of the non-human components of the production process). Small commodity production and capitalist cooperation in the handloom and powerloom industry provide examples of this phenomena. Hence, it is not generally true that technological advance will lead to increasing sizes of work force in the enterprise.

While therefore, we could expect that both evolution in the social form of organisation, and technological change, might lead to increase in the work force, "ancillarisation" processes and the responses to legislative measures might lead to reverse results.[1] To explain the increase or decrease of the unregistered non household component we would need, therefore, to examine the specific "combination of processes" at work in each industry.[2] Unfortunately, there are only a very

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1. We have, of course, assumed that the demand for the commodities produced by an industry is likely to show a secular rise. In the case of those commodities which face a secular decline in demand we should add the process of intensified competition within the industry. In this process, the units with less power, - in terms of access to credit, to raw materials and to marketing outlets i.e., the smaller units, are likely to succumb first.

2. This question is further complicated by the "commercial orientation" of most of the units in the unregistered sector. Most small industrialists tend to expend considerable effort on the purchasing and marketing aspects of their contd..

few studies, and these of a limited range of industries, which does not allow us to unravel the strands of the processes at work and provide an explanation, at a statisfactory level of concreteness, of these trends.[1]

Thus, it appears plausible that "Manufacture of ice" (215), "Manufacture of Machine Tools, their parts and accessories" (357), and "Repair of Motor Vehicles and Motorcycles" (392) should all show a high percentage point increase in terms of the processes described above. However it is unclear why, with a large ancillary component, "Manufacture of Motor Vehicles and Parts" and "Manufacture of Motorcycles and Scooters" (330/331), should show a sharp decline on the same index.[2] Similarly, while it is understandable that the coir (268) and bidi (226) industries should grow proportionately in the unregistered non-household sector, it is difficult

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> enterprises and tend to expend negligible effort on the production aspects of their enterprises. Rather than applying their energies to reducing the costs of production, they apply their energies to reducing trade margins on purchased inputs and to gaining control of the marketing channels for their products.

J H Van der Veen "A Study of Small Industries in Gujarat State, India" Occasional Paper No.65, Employment and Income Distribution Project, Department of Agricultural Economics, Cornell University, 1973, p.38.

1. As Van der Veen points out, most studies concerning small enterprises consider the "commercial orientation" of the industrialists to be inappropriate. They concentrate, therefore, on questions of capital/labour ratios, capacity utilisation, and returns to investment, even though there may be sound economic reasons for the industrialist to adopt the commercial orientation.

   See, Van der Veen Op. Cit., pp 37-52.

2. See "Automobile Industry: Position and Prospects" State Bank of India Monthly Review XX(1981), 9 and 10.

to understand why "Sawing and Planing of Wood" (271) and 'Wool cleaning, baling and pressing' (240) should have declined.[1] As we have mentioned, statisfactory explanations for these results would require detailed surveys and analysis of the structural features of each industry at the relevant points of time, and these are generally not available.[2]

We can now turn to a consideration of the registered factory sector of capitalist enterprise.

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1. See K P Kannan 'Coir Industry: Implications of Technological Change", *Economic and Political Weekly* XI (1976), 40, and "Coir Industry", *Samachar Backgrounders* I (1976), 14.

   Also M Mohandas "Beedi Workers of Kerala: Conditions of Life and Work" *Economic and Political Weekly* XV (1980), 36.

2. Studies which provide some valuable structural data include:

   (i) "Leather Industry: Position and Prospects" *State Bank of India Monthly Review* XX(1981) 3 and 4.

   (ii) K T Achaya "Tackling the Edible Oil Famine" *Economic and Political Weekly* X(1975), 19.

   (iii) S Chandrasekharan and K T Achaya "Profile of Indian Vegetable Oil Industry "*Economic and Political Weekly*, XV (1980), 8 and 9.

   (iv) "Report of the Study Group on Financing of Cashew Industry", *Reserve Bank of India Bulletin* XXVII (1973), 5.

   (v) "Gur and Khandsari" *Commerce* LXXV (1972), 3215.

   (vi) U Kalpagam "Labour in Small Industry: Case of Export Garment Industry in Madras "*Economic and Political Weekly* XVI (1981), 48.

IX.4 The Growth of Capitalist Strata in the Registered Sector

On the basis of the reasoning set out in the first two Chapters, we are in a position in which the concept of the small industrial capitalist can be rigorously defined. The definition, which takes into account the dynamics of the growth process within the capitalist economy, bases itself on Marx's concept of the individual industrial capital; and on the processes within the economy which, on the one hand generate such capitals, and those to which it is subject consequent to its formation, on the other.

We were, in this way, able to demonstrate that the growth of proprietorships employing more than 5 workers would be an index of the growth (both absolute and relative to other strata) of the small capitalist; and also to suggest that partnerships and private limited companies represented the mode of operation of two substrata of the medium capitalist -- the medium small and medium big.

It now remains to estimate the strength of these strata, and their growth or decline relative to each other over the period of planned economic development. For this purpose we need suitably aggregated data, broken down by ownership/organisational type, of fixed and working capital, employment, output, value added and so on.

For the earlier period, two series of data are available, the Census of Indian Manufactures (CMI), and the Sample Survey of Manufacturing Industry (SSMI). The CMI series runs from 1946 to 1958, while SSMI started in 1949 in response to the data requirements of the National Income Committee, and also concluded in 1958; both series were amalgamated and renamed the Annual Survey of Industries (ASI) from 1959, and this series continues to the present day.

Data for the CMI was collected under the Collection of Statistics Act of 1942, and concerned itself with units registered under section 2j of the 1934 Indian Factories Act, that is, those units using power which employed 20 or more workers on any working day. The geographic coverage of CMI also varied a great deal in the earlier period, and seems to have stabilised only by the end of the First Five Year Plan. On the other hand, while the 1949 and 1950 surveys under SSMI were confined to units registered under section 2 j of the 1934 Act, from 1951, the coverage was wider and included units under both section 2 m (i) and 2 m (ii) of the 1948 Factories Act. These Sections referred respectively to units with power employing more than 10 workers, and without power employing more than 20 workers on any working day.

While the coverage of SSMI is much wider than of CMI, the former restricts its attention to broad aggregates of data and does not provide breakdowns of these aggregates by ownership/organisational type, which the latter does from

1954 onwards. 1954 is also a convenient base date for the reason that data for the non powered organised sector (Section 2 m (ii) units), which are not available at all in the CMI series, is available on an upto data basis in the SSMI survey for that year. As it is convenient to examine these two types of units separately, we shall do so in the paragraphs below.

2 m (ii) units "Manufactories"

Although SSMI provides figures for these units separately from those of 2 m (i) units, there is no breakdown by organisational/ownership type. However, on the basis of our understanding of the compulsions leading to centralisation of capitals, we had hypothesised that there would be very few cases of what is essentially hand tool based production requiring capital investment of a size necessitating the joint stock company form of organisation (either private or public limited company). In other words, our hypothesis was that all 2 m (ii) units could be taken to be operating either as proprietorships, partnerships or cooperatives.

To test this hypothesis, we examined data for Madras state in 1954. Madras had a large proportion of the total units of this type in the country (1386 units out of 4227 and 60720 workers out of a total of 268513). On examination we found a negligable number of 37 units (25 limited companies and 12 cooperatives) employing a total of 1153 workers, which were run on the basis of a limited company. We have therefore accepted the hypothesis that data for 2 m (ii) units may be taken to represent data for proprietorships and partnerships, i.e. for small and medium small capitalists; we have, unfortunately, not been able to determine a method for a further breakdown of these data, and have for all further work considered partnerships and proprietorships together.

2 m (i) units "Factories"

Data for units employing more than 20 workers are available with breakdowns for ownership type, in the 1954 CMI. Unfortunately, the data are available only for the 29 industry groups which CMI surveyed. We have therefore had to make two important assumptions. Firstly that the percentage distribution between the various organisational forms as given in CMI data may be applied to SSMI data for 2 m (i) section which covers, it may be recalled, units employing more than 10 workers. The result of this assumption is that the proportion of proprietorships/partnerships may be understated; for it is reasonable to assume that there would have been a much higher proportion of these in the 10-19 employment size class, which CMI data ignores, than the corporate form of organisation. Secondly, we assume that the distribution of organisational types across the 29 CMI industry groups will also be true across SSMI's 63 industry groups. Unfortunately it is not possible to assess even the direction of the bias introduced by this assumption for the SSMI's own analysis of the discrepancies between its own, and the CMI figures, does not allow for any exercise of this type.[1]

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1. Government of India, Cabinet Secretariat, National Sample Survey, No.28, (Delhi, 1960), p. 9.

An approximation we have had to make is to take the fixed capital as in 1955; the reason for this was that the published SSMI report for 1954 does not mention figures for fixed capital.

On the basis of these assumptions we have estimated the strength of the various strata in terms of fixed capital, output, value added, and workers employed, for 1954, for the organised sector registered under the Factories Act.

For the current period, the exercise presents no difficulty. The ASI has been producing consolidated estimates (for the census and sample sectors) with a breakdown by organisational type and we have merely reproduced the data. On the basis of data for 1954 and the current period, several conclusions may be drawn about the fortunes of different strata according to examination of different indices as given in Table IX.5.

The proportion of fixed capital accounted for by big capitalists (SC) has gone up by 6 percentage points, that of small and medium small capitalists (SMSC) marginally by 0.7 percentage points, the decline being accounted for by a sharp fall in medium big (MBC) Capitalists of 6.7 percentage points.

However, in terms of output, while the SMSC group has remained about the same (increase of 1 percentage point) the MBC group has grown by 2.5 and the BC declined by 3.5 percentage points. In other words, while for SMSC, a 0.7 percentage

TABLE IX.5

CHANGES IN THE STRENGTH OF CAPITALIST STRATA 1954-1974

Stratum	Fixed Capital		Output		Value added		Workers	
	Percentage of							
	1954	1974	1954	1974	1954	1974	1954	1974
1. Small and medium small	8.9	9.6	21.0	22.0	10.4	12.7	19.8	29.8
2. Medium big	18.5	11.7	13.7	16.2	11.3	15.0	9.3	18.2
3. Big	72.6	78.6	65.3	61.8	78.4	72.3	71.0	51.9
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note: (a) 1974 figures for workers refers to all employees.

(b) The concepts of Fixed capital, output and value added are defined in the relevant CMI and ASI reports.

point increase in share of fixed capital is accompanied by a 1 percentage point increase in share of output, for BC, a 6 percentage point rise in share of fixed capital is accompanied by a 3.5 percentage point fall in the share of output. Turning to employment, we see that the share of workers employed by the BC group decreased by 20 percentage points, while that of the SMSC increased by 10 percentage points. Thus the marginal 1 percentage point increase in output in the SMSC sector was brought about by a 10 percentage point increase in the work force, while in the BC class the 3.5 percentage point fall in share of output accompanied a very substantial fall percentage pointwise of workers employed. Some further indication of these processes is given by the proportions of value added. As can be seen the 10 percentage point increase in workforce employed by SMSC paralleled a 2.3 percentage point increase in share of value added; the growth of share of wages which form a component of value added must have been still less. On the other hand the 20 percentage point decline in share of workers employed by BC had been accompanied by only a quarter of this decline in terms of value added.

The general conclusion we may draw is that while in terms of fixed capital, output or value added, the proportions between the three strata have not changed much, there has been a major shift in terms of the work force, with fully half of the manufacturing employment now located in units operated by the SMSC and MBC strata. It is also worth emphasising that inspite of the very substantial investment in the public sector "heavy" industries, the share of fixed capital has not changed appreciably in favour of the MBC or BC strata. This would imply that the absolute strength of the SMSC stratum has increased by the same proportion as the two larger strata, which is certainly an impressive increase in fixed capital, output and value added.

IX.5 The Growth of Modern Small Scale Units

As we had pointed out in the introduction to this Chapter, our concern in this Section is with the growth of modern small scale units as a whole. For we believe that as far as the aim of generating the market for modern means of production was concerned, there was no specific emphasis on encouraging capitalist enterprises.

However, it is obviously of interest to see the effects that this aim had both on the precapitalist enterprises, and on the small and medium small capitalist enterprises defined in terms of the categories of Chapters I and II, For this purpose, we shall look at another set of data, the Census establishment tables. However, before we begin discussion of the data, it is necessary to be clear about the limitations of the establishment tables, and for this purpose we will first describe the context of the data collection exercise.

The Indian Census is a two stage operation, with the identification and numbering of "Census houses" taking place about a year before the actual population count. Traditionally, the register of census houses has served the administrative task of ensuring complete enumeration of the population without the danger of double counting, and for this reason, the definition of a census house was left to be decided by the various State Superintendents of Census Operations. This was felt necessary because the variations in census houses over the country was felt to be so great as to make a uniform definition impossible in meaningful terms.

It was therefore another innovation of the 1961 Census, that a uniform "houselist" was prepared on an all India basis, and data collected specifically on enterprises engaged in manufacture. The data were concerned with the number of persons employed, the type of fuel or motive mechanism in use, and the two digit industry group into which the enterprise fell.

In the 1971 establishment tables, the distinction between household and non-household enterprise worker, which had been introduced in the 1961 Census, was extended to the establishments themselves. It was on the basis of this set of tables that we had, in fact, developed the criterion for capitalist enterprises in Chapter I, and we shall use the data from the 1971 tables in this Section.

Inter-temporal comparisons between 1961 and 1971 are however not possible on the basis of the establishment tables. In 1971, provision was made for the inclusion of seasonal enterprises even if they had not been in operation during the week previous to enumeration (this period was common to both census) by the extension of the reference period to the "last working season" in such cases. Unfortunately, this provision appears to have become a loophole leading to the enumeration of many defunct units whose "last working season" was in the distant past.

However, for our present purposes the 1971 data are of some use for we are interested in knowing the extent to which modern units have become part of the structure of potential demand for modern means of production. We are, therefore, not primarily concerned with the question of capacity utilisation in the active units, or whether the units were active at all. Of course, we admit that even for this purpose the number of workers in units using different motive mechanisms is not the most significant index, but there is no other direct index for units employing less than 10 workers.

The reason for taking an upper limit of 10 workers is to encompass both precapitalist enterprises, and the smaller capitalist enterprises. In fact, in terms of legal organisational forms, partnerships and proprietorships representing small and medium small capital, dominate in the below 20 employment size class.

Table IX.6 shows the number of workers in all enterprises employing less than 10 workers, broken down by the energy source used in the unit. It seems that even in such small units there are a large number of workers in units using the more modern energy sources, electricity and liquid fuel though, of course, in terms of employment, the manual units dominate.

TABLE IX.6

NUMBER OF WORKERS IN ENTERPRISES EMPLOYING LESS THAN 10 WORKERS BY SOURCE OF MOTIVE ENERGY, 1971

Number of workers in units whose motive mechanisms make use of				
Electricity	Liquid Fuels	Solid Fuels	Other Sources of Power	Manual labour
8,58,731	1,82,085	9,61,911	1,54,853	45,44,534

Notes: a) Solid fuel refers to Coal, wood, and bagasse

b) 'Other' sources of power refer to wind - and water mills, bullock power, and so on.

Source: 1. Census of India 1971, Series 1 Part III-B(i) Establishment Tables, Table E II Part C (Registrar General, New Delhi, 1976).

2. Census of India 1971, Series 1 Part III-B(ii), Establishment Tables, Table E II Part B (Registrar General, New Delhi, 1978)

We conclude this Chapter by considering the point as to whether the twin processes of the decline of the pre-capitalist sector, and the rise of the capitalist sector, had been taking place within the more backward parts of the country. This is an important point, for as we had pointed out in Chapter VII, there had been concern about developing industry in these backward areas, and the effects of both official attempts towards industrial development, and of the normal processes of capitalist development, are worthy of study in this respect.

The official approach, which had stabilised by the late 1960s, advocated the development of new small scale units in the designated backward areas. Now the point about new small scale units is that they generally make use of relatively upto-date technology, and modern kinds of energy sources; and as Table IX.7 shows, even in the case of units employing less than 10 workers, the units which make use of modern energy sources seem much more closely associated with non household or capitalist forms of social organisation.

TABLE IX.7

PERCENTAGE OF WORKERS IN NON HOUSEHOLD ENTERPRISES TO WORKERS IN ALL ENTERPRISES

Size of the Enterprise	Enterprises whose motive mechanisms make use of				
	Electricity	Liquid Fuels	Solid Fuels	Other sources of power	Manual Processes
1 person	80.90	46.13	29.24	15.71	30.75
2-4 persons	86.42	73.49	39.14	20.67	33.45
5-9 persons	93.45	87.65	72.60	58.09	44.29
All Enterprises with less than 10 workers	88.77	88.03	44.11	20.84	35.65

Notes: a) Solid fuel refers to coal, wood and bagasse. "Other" sources of power include wind - and water-mills.

Sources: 1. Census of India 1971, Series 1 Part III-B (i) Establishment Tables, Table E II, Part C, (Registrar General, New Delhi : 1976)

2. Census of India 1971, Series 1 Part III-B (ii) Establishment Tables, Table E II Part B (Registrar General, New Delhi : 1978).

The results of these processes can be examined on the basis of Tables IX.8 and IX.9. We confine ourselves for the purpose of these tables to the rural areas, as defined by the Census, and show the changes in Table IX.8 in the proportions of household and non household enterprises using different energy sources in various size classes of employment.

TABLE IX.8

STRUCTURE OF MANUFACTURING UNITS - 1971 RURAL

	% of Units using					
	Electricity	Liquid Fuel	Solid Fuel	Other Fuel	Manual	Total
1 Person						
HH Units	1.3	2.9	14.5	7.5	73.8	100.0
NHH Units	11.9	8.3	12.1	4.5	63.2	100.0
2-4 persons						
HH Units	1.8	1.7	15.7	2.8	78.0	100.0
NHH Units	19.3	13.2	14.3	1.4	51.9	100.0
5-9 persons						
HH Units	2.8	1.0	16.2	1.4	78.5	100.0
NHH Units	18.4	5.5	32.8	1.1	42.2	100.0
10-19 Persons						
HH Units(a)	--	--	--	--	100.0	100.0
NHH Units	21.1	4.8	32.1	1.0	40.9	100.0

Source: Census of India 1971 Series I
Part III-B(i) Table E-II Part C
Part III-B(ii) Table E-II Part B
Establishment Tables (Registrar General, Delhi: 1976).

Notes (a) Units employing 10 or more workers and using power are liable for registration under the Factories Act. The Census has treated all such units, by definition, as NHH units.

In Table IX.9, we have chosen only those industry groups where the 1961 and 1971 industrial classification was strictly comparable. The 43 industry groups which are considered were prepared by amalgamating the relevant figures for 70 groups, which accounted for 90 per cent of household enterprise employment in 1961, while the 1971 figures required the consolidation of 60 groups, and also accounted for nearly 90 per cent of household employment. In fact, all 3 digit industry groups which had more than 10 000 workers in either census, and which were comparable, were considered.

The results of the calculations show that in the overwhelming number of industries, the decline in household employment is matched by an increase in non household employment. We emphasise that these proportions are taken of workers in the industry as a whole, and the results are not therefore an automatic result of the absolute decline of household enterprise workers seen in Chapter VIII. In other words, capitalist enterprises are coming up in the rural areas, even though they may not match the rate of decline in precapitalist enterprises; and rural manufacturing employment as a whole may be declining.

What greatly adds to the significance of these figures is that the Census transfers areas from the "rural" to the "urban" category if the level of male non agricultural employment rate exceeds a set proportion. Thus many of the more advanced "rural" areas, as defined in the 1961 Census, might have become urban by 1971, leaving the remaining "rural" areas even more depleted of non agricultural employment. If in spite of this definitional change, capitalist enterprises are increasing in strength, then even the more backward of the rural areas must be "developing" to a certain extent.

TABLE IX.9

CHANGES IN THE PROPORTIONS OF MALE WORKERS IN HOUSEHOLD ENTERPRISES TO ALL WORKERS IN SPECIFIC INDUSTRIES

1961 Industry Group	% of household workers to total		% of rural household workers to total		% of rural non household to total		1971 Industry Group
	1961	1971	1961	1971	1961	1971	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
200	33.12	23.97	29.50	19.48	29.69	34.48	204
202	68.68	39.98	65.32	38.47	24.07	49.79	207
207	65.85	42.50	50.39	36.60	9.06	19.05	211
220	51.49	43.55	38.96	34.93	21.13	26.40	226
231	73.27	65.96	56.45	46.28	8.94	12.24	233
235	90.71	79.16	61.96	50.05	3.60	8.64	235
260) 262) 263) 264)	55.45	50.00	20.91	13.12	8.01	[illegible].61	245
273) 278)	45.81	44.76	3[illegible].89	31.43	15.71	18.76	(264 (265
281	40.58	42.56	31.40	31.46	17.71	21.79	276
282	55.74	58.68	50.82	51.17	17.22	19.90	273
283	85.08	68.31	83.09	65.18	9.62	15.12	274
284) 289)	59.96	53.19	57.66	43.52	15.97	14.70	279
310	56.83	42.80	57.51	35.94	10.42	20.23	290
311	77.25	61.01	61.77	46.82	5.11	12.90	291
340	19.63	16.03	15.76	13.01	52.06	56.58	320
350	93.44	87.41	81.37	77.70	3.26	8.71	322
369	56.89	51.46	51.01	42.76	12.07	11.58	(343 (345 (349
205	20.48	14.87	7.32	6.44	14.61	17.71	205
206	64.80	22.34	50.45	14.85	13.67	34.64	201

contd...

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
233) 237)	50.67	26.03	31.72	14.81	7.37	8.94	232
234	22.38	12.90	11.93	3.67	15.56	20.47	236
253) 254) 255)	89.80	87.94	80.21	81.62	4.43	8.89	242
256) 272)	46.81	33.58	19.85	10.47	6.86	7.70	262
270	70.47	58.55	57.96	44.01	14.34	21.30	263
277	64.22	35.31	58.99	30.95	23.64	47.66	268
280	16.72	12.28	13.21	9.75	39.13	39.13	271
351) 352)	4.66	38.07	2.52	37.17	42.23	13.68	323
343) 344) 345)	20.79	15.02	17.64	12.78	45.92	51.36	326
364) 365) 366) 367)	29.44	11.41	17.26	6.21	10.63	11.50	(340 (342
368	17.12	14.09	9.51	7.05	15.54	17.54	344
392) 393)	59.18	42.62	43.75	27.06	8.75	17.04	(382 (383 (393
388	17.08	16.08	11.56	10.61	18.89	24.28	394
399	18.10	34.14	11.92	26.24	17.70	13.60	(389 (399 (391
236	79.34	62.48	70.80	53.28	12.25	23.05	234
209) 216)	52.89	38.99	37.97	27.42	10.46	18.96	(209 (214 (219
211) 212)	15.27	23.67	14.00	22.49	79.67	70.47	223

contd...

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
230	24.92	23.85	20.13	20.55	25.97	24.17	230
238) 239) 244) 266) 274)	59.85	21.28	60.45	18.10	8.69	11.21	(253 (259 (261 (266
271	26.71	9.21	19.34	5.91	21.74	12.92	260
313	59.49	33.68	50.85	27.10	16.79	19.16	(293 (296 (299
314) 315)	45.45	38.14	36.56	23.32	11.98	19.79	390
341) 342) 346) 347) 359)	15.04	3.54	11.84	7.10	36.66	41.44	(328 (329
360	12.45	2.60	10.11	2.17	14.17	19.96	(330 (331

Source: 1. Census of India 1961, <u>Volume I Part II-B (i), General Economic Tables, Table B-IV Part A</u> (Registrar General, New Delhi : 1965).

2. Census of India 1971, <u>Series 1 Part II-B (iii) General Economic Tables, Table B-IV Part A,</u> Appendix (Registrar General, New Delhi : 1977).

IX. 6 Conclusions

The previous Chapter had shown that household enterprises, as measured by the number of workers employed in this sector, had declined during the 1961 to 1971 decade. In this Chapter, we had looked at a number of aspects of the obverse process, the growth of the non household or capitalist sector.

We saw, firstly, that the level of economic activity, as measured by the number of male workers, had increased in the capitalist sector as a whole by a large margin of 27 lakh workers. The process of the development of the capitalist enterprises on the one hand, and the absorbtion or destruction of the small enterprise by the bigger on the other, had led to a small fall in the proportion of employers, a rise in the proportion of "employees", and a decline in family workers.

Breaking the capitalist sector into the unregistered sector and the registered factory sector, we saw in Section IX.3 that the unregistered sector as a whole had increased its share of the employment in the capitalist sector as a whole. However, in the majority of individual industries that we examined, the small unregistered component had declined relative to the larger "factories" in the same industry.

Turning to the registered sector, we found that the small and medium small capitalist stratum, defined in terms of the concepts of Chapter II, had managed to retain their position in the industrial structure in terms of the share of fixed capital, output and value added. The share of total employment within this stratum had increased substantially.

Finally, we saw that by 1971 a large part of the work force in enterprises which used some kind of power, were using modern sources of energy such as electricity and liquid fuel.

Further, we found that many of the modern enterprises were capitalist in social organisation. Measures to develop the "backward" areas of the country by encouraging the growth of modern small units would be associated with the strengthening of capitalist relations of production in these areas. This tendency was illustrated by data which showed that the strength of capitalist enterprises had uniformly increased in the rural areas over the 1961 to 1971 decade.

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APPENDIX TO CHAPTER IX

National Industrial Classification (N.I.C., 1970)

(Three digit level of classification)

Major Group	Minor Group	Description
Division 2 & 3--Manufacturing and Repair		
20-21		Manufacture of Food Products
	200	Slaughtering, preparation and preservation of meat.
	201	Manufacture of dairy products.
	203	Canning, preserving and processing of fish, crustacea and similar foods.
	204	Grain mill products
	205	Manufacture of bakery products
	206	Manufacture and refining of sugar (vacuum pan sugar factories)
	207	Production of indigenous sugar boora, khandsari, gur, etc. from sugar-cane, palm juice.
	208	Production of common salt.
	209	Manufacture of cocoa, chocolate and sugar confectionery (including sweetmeats)
	210	Manufacture of hydrogenated oils, Vanaspati, ghee, etc.
	211	Manufacture of other edible oils and fats, e.g. mustard oil, groundnut oil, til oil, etc. (Inedible oils shown under 315).
	213	Coffee curing, roasting and grinding.
	214	Cashewnut processing like drying, shelling, roasting, salting, etc.
	215	Manufacture of ice.
	219	Manufacture of food products not elsewhere classified.

Major Group	Minor Group	Description
22		<u>Manufacture of Beverages, Tobacco and Tobacco Products</u>
	223	Production of country liquor and toddy.
	226	Manufacture of bidi.
	227	Manufacture of cigars, cigarettes, cheroots and cigarette tobacco.
23		<u>Manufacture of Cotton Textiles</u>
	230	Cotton ginning, cleaning and baling
	232	Printing, dyeing and bleaching of cotton textiles.
	233	Cotton spinning other than in mills (charkha).
	234	Production of khadi.
	235	Weaving and finishing of cotton textiles in handlooms, other than khadi.
	236	Weaving and finishing of cotton textiles in powerlooms.
24		<u>Manufacture of Wool, Silk and Synthetic Fibre Textiles</u>
	240	Wool cleaning, baling and pressing.
	242	Wool spinning and weaving (other than in mills).
	245	Spinning, weaving and finishing of silk textiles.
25		<u>Manufacture of Jute, Hemp and Mesta Textiles</u>
	250	Jute and Mesta pressing and baling
	253	Preparing, spinning, weaving and finishing of hemp and other coarse fibres.
	259	Manufacture of jute bags and other jute textiles not elsewhere classified.

Major Group	Minor Group	Description
26		Manufacture of Textile Products (including Wearing Apparel other than Footwear)
	260	Knitting mills.
	261	Manufacture of all types of threads, cordage, ropes, twines, nets, etc.
	262	Embroidery and making of crapes, laces and fringes.
	263	Weaving carpets, rugs and other similar textile products.
	264	Manufacture of all types of textiles, garments including wearing apparel.
	265	Manufacture of rain coats, hats, etc.
	266	Manufacture of made up textile goods (except garments) such as curtains, mosquito nets etc.
	268	Manufacture of coir and coir products.
27		Manufacture of Wood and Wood products, Furniture and Fixtures
	271	Sawing and planing of wood (other than plywood)
	273	Manufacture of structural wooden goods (including treated timber) such as beams, posts, doors and windows (excluding hewing and rough shaping of poles, bolts and other wood material which is classified under logging).
	274	Manufacture of wooden industrial goods, such as bobbins, blocks, handles, saddling and similar equipment and fixtures.
	276	Manufacture of wooden furniture and fixtures.
	279	Manufacture of wood and reed, bamboo and cane products not elsewhere classified.
29		Manufacture of Leather and Leather and Fur Products
	290	Tanning, currying, finishing, embossing and japanning of leather.
	291	Manufacture of footwear (excluding repair) except vulcanized or moulded rubber or plastic footwear.

Major Group	Minor Group	Description
29	293	Manufacture of Leather Consumer Goods (other than apparel and footwear).
	296	Manufacture of fur and skin rugs and other articles.
	299	Manufacture of Leather and Fur Products not elsewhere classified.
30		Manufacture of Rubber, Plastic, Petroleum and Coal Products
	300	Tyre and tube industries.
31		Manufacture of Chemicals and Chemical Products (except Products of Petroleum and Coal)
	312	Manufacture of paints, varnishes and lacquers.
	317	Manufacture of matches.
32		Manufacture of Non-Metallic Mineral Products
	320	Manufacture of structural clay products.
	322	Manufacture of earthen-ware and earthen pottery.
	323	Manufacture of china-ware and porcelain-ware.
	326	Manufacture of structural stone goods, stone dressing and stone crushing, stoneware.
	328	Manufacture of asbestos, cement and other cement products.
	329	Manufacture of miscellaneous non-metallic mineral products such as slate products, abrasives, graphite products, mineral wool, silica products and other non-metallic mineral products not elsewhere classified.
33		Basic Metal and Alloy Industries
	330	Iron and Steel industries
	331	Foundries for casting and forging iron and steel.

Major Group	Minor Group	Description
34		Manufacture of Metal Products and Parts except Machinery and Transport Equipment
	340	Manufacture of fabricated metal products such as metal cans from tin-plate, terne plate or enamelled sheet metal, metal shipping containers, barrels, drums, kegs, pails, safes, vaults, enamelled sanitary and all other fabricated metal products not elsewhere classified.
	342	Manufacture of furniture and fixtures primarily of metal.
	343	Manufacture of hand tools and general hardware.
	344	Enamelling, japanning, lacquering, galvanishing plating and polishing of metal products.
	345	Manufacture of metal utensils, cutlery and kitchenware.
	349	Manufacture of metal products except machinery and transport equipment not elsewhere classified, like type founding.
35		Manufacture of Machinery, Machine tools and Parts except Electrical Machinery
	357	Manufacture of Machine Tools, their parts and accessories.
37		Manufacture of Transport Equipment and Parts
	374	Manufacture of motor vehicles and parts.
	375	Manufacture of motor-cycles and scooters and parts.
	376	Manufacture of bicycles, cycle-rickshaws and parts.
38		Other Manufacturing Industries
	381	Manufacture of photographic and optical goods (excluding photo chemicals, sensitised paper and film).

Major Group	Minor Group	Description
38	382	Manufacture of watches and clocks.
	383	Manufacture of jewellery and related articles.
	385	Manufacture of sports and athletic goods.
	386	Manufacture of musical instruments.
	387	Manufacture of stationery articles like fountain pens, pencils, pens, pin cushions, tags, etc., not elsewhere classified.
	389	Manufacture of miscellaneous products not elsewhere classified such as costume jewellery, costume novelties, feather, plumes, artificial flowers, brooms, brushes, lamp shades, tobacco pipes, cigarette holders, ivory goods, badges, wigs and similar articles.
39	Repair	
	390	Repair of footwear and other leather goods.
	391	Electrical repair shops.
	392	Repair of motor vehicles and motor-cycles.
	393	Repair of watch, clock and jewellery.
	394	Repair of bicycles and cycle rickshaws.
	399	Repair of enterprises not elsewhere classified.

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CHAPTER X ✓

THE NATURE OF SMALL ENTERPRISE DEVELOPMENT : POLITICAL AIMS AND SOCIO-ECONOMIC REALITY

X.1 Introduction

On the basis of the policy analysis in Chapter VII, we had reached the conclusion that the two aims (basically inter-related) of the Indian Small Industries Policy were to develop the home market, through the expansion in breadth and depth, of capitalism in industry; and the creation of a class of small capitalist or proto-capitalist entrepreneurs. In Chapters VIII and IX, we attempted an examination of the empirical material available, in order to see whether the policy had shown signs of success.

In Chapter VII, we had concentrated on the measures developed by the Government of India to encourage the emergence of capitalist relations of production in the rural areas in general, and in the designated backward areas in particular. It seemed to us that this was justified in that the major economic aim of the small industries policy was expressed in these measures. However, the more clearly political aim -- the creation of a class of small capitalist entrepreneurs, who would broaden the political and social basis of support to the Government -- would inevitably be the subject of more organised subversion from established industrial interests. It is necessary, therefore, that some of the concrete issues faced by policy makers be discussed, and a broad assessment be made of their success in this venture i.e. programmes for the development of "independent" capitalist entrepreneurs.

Essentially the point is the following. In our view, although a capitalist state does represent certain economic interests, this must not be interpreted in a mechanical manner. Thus, in the Indian context, policy makers had not only to face opposition from the Gandhians, who disagreed with the capitalist strategy of development, but also from the large industrial interests who saw their short or even medium term interests attacked by the State's policy of encouraging the rise of new capitalist interests.

It will be recalled that the Gandhian opposition had been neutralised by the Constitution of the Khadi and Village Industries Commission. This institution, delinked from the normal administrative structure, had solved the problem of reconciling the Gandhians' view of industrial extension work, with the imperatives of the capitalist development strategy. This action, of delinking extension and promotion effort for modern, capitalist or proto-capitalist, enterprises from that for the rural and urban traditional craftsmen had effectively reduced the latter measures to social welfare, easing the inevitable decline of the bulk of such producers to paupers. It had also allowed for an approach most clearly implied, if not stated, in the perspective for the textile industry. Restated, this lay in the assumption that if the small capitalist enterprises could be protected from competition of the large integrated textile mills, this stratum would either absorb, or destroy, the precapitalist textile producers. In both cases, the objective of accelerating the differentiation of the producers the growth of capitalism, and of the home market would be achieved.

In the case of the textile industry, it was relatively easy to demarcate the small capitalist enterprise from the large factory. In an industry where the machinery took the form of the hand-or the power operated loom, it was possible to demarcate the small unit from the large, quite simply, in terms of the number of looms employed. However, the extension of the principle of a demarcating line dividing small capitali units from the large, to a very wide range of industries was quite another matter.

This was so for two reasons. Firstly, there was the administrative problem of working out a demarcating line which would capture the essence of the difference between the "small" and the "large" across a wide range of industries It was considered necessary to have a simple demarcating line so that the lower levels of the administrative agencies were not overtaxed by the complexities of the criterion. On the other hand, differences in technology, and in rates of technical change could be expected to affect the operation of the principles of economies of scale, and thereby the size of the optimum production unit. Thus while administrative requir ments demanded simplicity, economic and technological considerations required a sophisticated approach.

In addition to these problems, arising from the essentially arbitrary nature of any general criterion applied to any specific industry, lay the crucial issue of defending the small industries development programme from wholesale encroachment by large industrial interests. In the sections that follow, we examine the problems of definition, and later, the politically more intractable ones of "gate keeping".

X.2 Definitional Changes

We had described in Chapter VII how the small scale sector came to be defined in terms of an unregulated sector, free from the provisions of the Industrial Development and Regulation Act. This had excluded units employing less than 50 workers with power, and 100 workers without power, from its purview. To this criterion was added the further proviso that the fixed capital investment should not exceed Rupees five lakhs.[1] The reason for this limit appears to be that under the Capital Issues (continuance of control) Act of 1947, capital issues of less than Rs.5 lakhs were exempt from control, and it was felt that the small scale sector should not be bound by this Act, either.

Although, by this method, a small firm or enterprise had been defined, the problem with a definition of this kind is that it is continually the target of pressure for

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1. Ram K. Vepa, Small Industry in the Seventies (Vikas, Delhi : 1971) p. 179.

change. For example, an official committee reporting in 1972 had this to say:

> There has been, of late, a persistent demand for upward revision of the capital limit... the argument advanced in support of this upward revision is that the cost of machinery has gone up .... Further it would not be possible for small enterprises that were started 5 to 10 years ago to modernise their production machinery by replacing obsolete machinery unless they cross the investment limit fixed for small enterprise.[1]

It was clearly the owners of the larger amongst the small scale units which would use their influence for an upward revision of the criterion, and this fact was well recognised by the same Committee:

> It may be pointed out that out of 2.81 lakhs registered small scale units only about 1500 small scale units may be on the verge of crossing the investment limit of Rs.7.5 lakhs. It is the "larger" among small units that have been able to absorb the maximum share of developmental assistance provided by the Government for the growth of the small scale sector as a whole.[2]

The pressures for upward revisions increased as the development programmes consolidated, and the criterion was applied more strictly. Initially the defining characteristics were to be used in a "flexible manner". Upto the last quarter of the Second Five Year Plan period, for instance it was not clear whether the value of fixed assets was to be

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1. Government of India, Ministry of Industrial Development, Development Commissioner (Small Scale Industries), Interim Report of Task Force Committee on Small Scale Industries: Programme for Development of Small Scale Industries during Fifth Five Year Plan (mimeo), 1972, p.6.

2. Ibid, p.7.

the gross value, or the depreciated book value. In 1960, the Estimates Committee suggested that the gross value should be used. This was accepted by the Government of India, and from the financial year 1960-61, the value of machinery was taken to be the original price paid by the owner, irrespective of whether it was new or second hand.[1]

By 1959, already, there was some evidence that the definition of small scale unit was being consolidated by reference to various aspects of legislation. In that year, the employment criterion was relaxed to include units which employed less than 50 workers with power or 100 units without power per shift. Although the connection is difficult to establish directly, it is perhaps of significance that in 1957, the income tax laws had been modified to allow for a higher rate of depreciation allowance for multishift operation. This was at the rate of a 50 per cent increase for two shift operation, and 100 per cent increase for three shift working.[2] Clearly there would now be advantages in both remaining a small scale unit and undertaking multiple shift operations.

A year later, in 1960, the employment criterion was removed altogether, and the small scale unit was defined as

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1. See, Estimates Committee (2nd Lok Sabha) Seventy Seventh Report on the Ministry of Commerce and Industry, Small Scale Industries Part I: Organisation of Development Commissioner, Small Scale Industries (New Delhi:1960), p. 9, and National Small Industries Corporation Schemes and Progress 1960-61 (New Delhi:1961), p.8.

2. For the notification of the new criterion see Government of India, Ministry of Commerce and Industry, Development Commissioner (Small Scale Industries) Small Scale Industries: Procedure for Registration and Assistance (New Delhi:1959), p.1.

one in which the gross value of fixed assets was less than Rs.5 lakhs. In addition, small scale ancillary units with investment upto Rs.10 lakhs were permissible, intially in eight selected industries.[1] Further changes in the definition took place in 1966, 1975 and, most recently, in 1980. In 1966, the limit of investment was raised to Rs.7.5 lakhs, now to include the value of plant and machinery only.[2] In 1975, three years after a strong expression of views by an official committee we have already cited, the limit of investment in pla and machinery was raised to Rs.10 lakhs and Rs.15 lakhs for "normal" and ancillary units respectively.[3] Finally, in 1980, the limit was raised to Rs.20 lakhs, and Rs.25 lakhs, respectively.[4]

A view that the small scale sector should be defined by units with a fixed capital investment of "not more than Rs. one or one and a half lakhs" had been expressed in evidence to the Estimates Committee in early 1960. The concept of the "tiny" unit with fixed capital investment restricted to Rs.1 lakh

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1. National Small Industries Corporation <u>Schemes and Progress 1960-61</u> (New Delhi: 1961) pp. 8-9

2. Ministry of Industrial Development and Internal Trade, Development Commissioner (Small Scale Industries), <u>Use your opportunities for starting a Small Industry</u> (New Delhi:1970).

3. See, for instance, G.D.Sharma, <u>How to Start your own Small Industry</u> (Press and Publications Agency, Delhi:1976) p.9.

4. See, for instance, Estimates Committee (7th Lok Sabha), <u>Fourteenth Report on the Ministry of Industry (Department of Industrial Development) Small Scale Industries - Raw Materials and Marketing</u> (New Delhi:1981), p.1.

fixed capital investment per worker to Rs.4000, and the annual turn over to Rs.5 lakhs per annum was suggested by an official committee in 1972. In 1977, based on the understanding that over ninety per cent of the **existing** small scale units had an investment in plant and machinery of less than Rs.1 lakh, a "tiny" sector which included units with less than this value in plant and machinery, and located in towns with less than a population of 50 000 (according to the 1971 Census) was created.[1] The political support provided by the Janata Party Government's interest in rural decentralised economic activity probably provided the impetus for this step. However, by 1980, the limit was raised to Rs.2 lakhs.[2]

The case for the increase in the investment limit has, of course, been based on the continuously rising prices of plant and machinery.[3] If we take the definition of small

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1. See, Estimates Committee (2nd Lok Sabha) Op.Cit. pp.8-9; Government of India, Ministry of Industrial Development, Report of the Committee for drafting legislation for Small Scale Industries (Mimeo), 1972, p.35; Government of India, Ministry of Industry, Development Commissioner (Small Scale Industries) "Working Group on Development of Village and Small Industry in VI Five Year Plan - Interim Report" SEDME III (1977), 3. For the text of the 1977 Industrial Policy Statement see, for instance, Commerce CXXXV (1977), 3474, pp.1287-1291.

2. This was announced in the 1980 Industrial Policy Statement. See, for instance, Commerce CXXXXI (1980), 3606, pp. 226-229.

3. See Estimates Committee (2nd Lok Sabha) Op.Cit p.8. Estimates Committee (3rd Lok Sabha) Hundred and Fifth Report on the Ministry of Industry (Organisation of the Development Commissioner, Small Scale Industries); Part I (New Delhi:1966), Interim Report of the Task Force Committee on Small Scale Industries: Programme of Development of Small Scale Industries during Fifth Five Year Plan, p.6.

scale unit to circumscribe the units to whom official policy support measures are applicable, then the rationality of the liberalisation must, in terms of our analysis, be measured against the objectives that we have outlined above. This was the protection of the small capitalist unit from the large, and encouragement of the growth of pre-and proto-capitalist units to small capitalist units.

Analysis of the effects of changes in the definition of small scale units is, however, made difficult without a detailed analysis of price rises in a wide range of machinery occasioned by the diverse technology involved. However, as a very broad guide, it may be mentioned that the official price index for non-electrical machinery with base year 1970-71, stood at 175.2 in 1975-76, and 246.0 in 1980-81. In addition, the problem is compounded by the fact that with the liberalisation of the upper limit defining a small unit, different criteria were applicable to separate sections of development schemes. Thus, in 1959, while the "per shift" employment criterion was adopted, the National Small Industries Corporation continued to use the old criterion for the Government Stores Purchase Scheme. Similarly, the interest rate on loans advanced under the State Aid to Industries Act varied depending on the size of capital invested in the unit. Inspite of the efforts of a special committee to ensure that the criteria suggested by them should have overriding, statutory, authority the proposed legislation was not implemented.[1]

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1. <u>Report of the Committee for Drafting legislation for Small Scale Industries</u>, Op.Cit.

The genuine administrative problems of an appropriate definition have been well expressed by a commentator who has held several positions enabling him to understand the compulsions of official policy making:

> ...any development policy for the small industry must ultimately help it to grow; such a policy should accelerate, not hinder growth... Hence a policy for small industries must be pragmatic and, in fact, encourage the small units to grow and become bigger units to whom assistance can be tapered off instead of being cut off sharply..... To put it somewhat facetiously, the small industries development programme is most successful when it makes a unit large quickly so that the programme itself can help another unit.[1]

Yet, a page later, he goes on to say:

> The definition of small industry varies from country to country : within the same country it changes periodically, which is a healthy symptom of growth.... India in the course of the last 10 years has changed the definition almost three times -- which is a good sign of the rapid growth of her small sector.[2]

Apparently, there is a contradiction between the former statement which implies that the defining characteristic of a small scale unit should remain constant vis-a-vis that unit and the latter, which sees the liberalisation of the criteria in general as itself the sign of success of the policy. However, the author does hold the view that it is a sign of the sophistication of policy makers if they can devise steps by which individual units grow out of the fold of the small sector, thus making way for other small units. The point he wishes to convey is probably that skill and pragmatism is required to

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1. Ram K.Vepa Small Industry in the Seventies (Vikas, Delhi: 1971) p. 178. /emphasis in original/.

2. Ibid p.179.

achieve this goal. The problem has, of course, been made more complex by the policy of reserving items for production in the Small Scale Sector, and also for exclusive purchase by official stores purchase programmes. The policy of reserving items for production in the Small Scale Sector taken as a whole had begun with the reservation of dhotis and sarees of specific kinds for handloom units in the early nineteen fifties. In the case of those industry groups which lay within the purview of the Central Small Industries Organisation, reservation had been made by 1967, for 46 items. By 1977, this had increased to 504 items. In 1980, the number was apparently increased to a total of 807, but closer scrutiny shows that in the majority of cases, the existing items had been more carefully defined at the level of eight and nine digit national industrial classification codes.

As far as the stores purchase reservation is concerned, the policy began in 1955. It was, in fact, the original rationale for the National Small Industries Corporation which was established as a result of the Ford Foundation Committee's Report. By 1980, there were 382 items reserved. Proportional representation at the level of 75 per cent of purchases, and 50 per cent of purchases existed for a further 11 and 15 items respectively.

It appears from a reading of official statements, such as the Ministers' statements to Parliament at the time of the 1977 and 1980 Industrial Policy Resolutions, that the criteria for reservation is the technological capability of Small Scale units to produce these items. The Government does not appear to be primarily concerned with the question of the efficiency of production at different scales. It would appear that even in the early 1980s, this aspect of small industry promotion is socially and politically oriented towards the encouragement of small units run on a capitalist basis.

A natural concomitant of the concept of reservation has been the problem of dealing with units, manufacturing a reserved item, which are approaching the definitional ceiling. Either such a unit must split if the firm is to continue expansion of production of the same item, or it must diversity into other items. Clearly policies emanating from a consideration of these processes must have had their impact on the changes in the definition, though it is a complex task to trace the precise outlines of these "political" processes in specific cases.

Somewhat at variance with the earlier expressed view in his assessment of the success of the policy in India, the Development Commissioner (Small Scale Industries) in 1975 confirmed the view that a small number of units had monopolised the benefits of developmental aid:

> Dr. Alexander felt there was immediate need for limiting the concessions and facilities for a period of 10 to 15 years would go /sic7 a long way in breaking the trend of "once a small industry always a small industry".

> He deplored the tendency of some small scale units to remain small perpetually and said that if such industries had to remain small always on account of technological or economic reasons, they should, at least be prepared to be considered ineligable for some of the special concessions and facilities, after a particular period.[1]

While the first set of quotations given above therefore deal with the principles of an effective small industries policy, the second brings out the problem of "gate keeping" in an effective manner. Dr.Alexander appears to be referring to the problem of multiple ownership of units, each individually within the small unit criterion. This point brings us to the politically substantive issue of the subversion of the aims of the small industries policy.

X.3 Problems of Multiple ownership

With the decision of the Government of India to concentrate on the encouragement of the development of capitalist relations of production in the small scale sector, there arose inevitably the possible distinction between the small unit and the domestic household of small means. It is inherent in the pre-or proto-capitalist unit that the "unit" is coterminus with such a household. As soon, however, as production

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1. Keynote Address to III Business Session on "Problems and Prospects of Small Scale and Ancillary Industries" 35th Annual Conference of All India Manufacturers Organisation held on 12.5.1975, reported in Industrial India XXVI (1975), 6, p.15.

activities are separated from domestic activities in the household, in other words as soon as wage labour replaces family labour, there is no organic reason for the identity of unit and household.[1] Thus a single unit may be owned by more than one household (though this would no longer represent a small capital by our criterion), or conversely an individual or group of individuals may own more than one unit. An external agency such as a capitalist State which might wish to ensure the identity of unit and household would, therefore, have to take upon itself the task of guarding against lapses. When put into words, this task shows immediately that it is one impossible to fulfill through any administrative body.

Further, with the separation of unit and domestic household, there is no reason why the controlling interest need be domestic households at all. They can very well be organisations with large financial support, eager to utilise the benefits of the small industries development policy. To recapitulate, then, once the nexus between production unit and household labour is destroyed, there is no necessity for a one-to-one association between a unit and household-based ownership and control. Not only, in these cases, need the individuals be, in the aggregate of the capital at their command, "small persons"; in fact, large and medium capitals may also own or control what would otherwise be seen to be units representing small capitals.

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1. Cf Werner Sombart "Medieval and Modern Commercial Enterprise" in Frederick C. Lane and Jelle C. Riemersma (Eds). Enterprise and Secular Change (Allen and Unwin, London:1953).

In our discussion of big business groups at the end of Chapter II, we had, in fact, pointed out that both the proprietorship and the partnership could be a vehicle for big capitals operating in the form of industrial groups. In the reminder of this section, we shall consider the problem of multiple ownership, or of "splitting"; in the next section the inroads of large financial interests through the medium of the ancillary development programme will be discussed.

The problem of multiple ownership seemed to be assuming major proportions by the time of the Fourth Five Year Plan. In fact, the Chairman, the Member-Secretary, and two other members of an 11 member committee, entrusted with the task of formulating legislation to support small unit development, had to write a minute of dissent on this issue.[1] They argued that the practice of splitting units so as to ensure that the Small Scale investment ceiling was not passed, could only be stopped by relating the capital investment in all units owned by a nuclear family to the defining capital investment criterion. It is significant that the two members of the Committee who agreed with the Chairman and Member-Secretary were both connected with small scale units. Furthermore, they represented private limited companies (medium big capitals by our criterion) which made their support for the "ownership" criterion even more significant, for it would presumably be this stratum which could be expected to be in favour of "splitting".

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1. See the Report of the Committee for Drafting Legislation for Small Scale Industries, pp.ii, 36-39, 109-112.

It may be added that the majority of the committee, who did not sign the minute of dissent were either civil servants or professionals, in most cases not directly concerned with the small industries development programme. Perhaps for this reason, they rejected the contentions of the minority on the grounds of the infeasibility of monitoring an ownership based criterion of small units.

In the absence of any method of determining the extent of control across multiple small units on a reliable enough basis, it is difficult to gauge the extent of the phenomenon. However, regular advertisements in the press purportedly in honour of the father figure for, and owner of, a group of apparently small units provides impressionistic evidence for a relatively widespread occurrence of this phenomenon. These advertisements usually appear on an "auspicious" day for the original promoter or his heir. We have confirmed in a few cases, where the names of the firms are provided, that some of the firms are registered small scale units.

X.4 The problem of "gate keeping"

While the big capitalist class might as a whole have been prepared for a distinction between big and small to be made in the textile industry, the extension of this concept to other industries would be clearly unacceptable. As we had pointed out in Chapter VII, the advantage of political independence lay for them precisely in the opportunities opened for them for profitable new investment. State policy implicit in the Second Five Year Plan Strategy, which required the consumer goods sector to lie within the purview of the new small capitalist class, and the public sector to have almost a monopoly of the capital goods sector, required them either to remain where they were in terms of industrial assets, or to subvert the strategy, by making inroads into the sphere either of the public sector or of the small scale sector. The Report of the Industrial Licensing Policy Inquiry Committee has shown that they did both.[1] Often the most profitable part of the large scale production cycle was licensed to the Private Sector; their inroads into the Small Scale Sector is directly the subject of this section.

The inroads were made both through the ancillary development programme and the regular small industries development schemes. It is important to remember in this context that, at least in the early stages of the programme, the Government of India appeared to have conflicting opinions on the role of large capitalist interests in the Small Scale Sector. Thus, notwithstanding the Planning Commission's Strategy for the Second Five Year Plan, the Minister for Consumer Industry had made it clear in an article in the "Statesman", that the Small Scale Sector was not closed to large industrialists.[2] In fact, he chided their apparent reluctance to enter this field, and

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1. Report of the Industrial Licensing Policy Inquiry Committee. Op. cit.

2. Statesman Second Five Year Plan Supplement June 27th 1956.

pointed out that in the then current debate on the roles of the public and private sectors, the point that the Small Scale Sector lay squarely in the latter should be remembered. It is therefore not very clear whether this was merely to deflect the opposition of the big industrialists to the Second Five Year Plan Strategy, then particularly vocal, as is apparent from the Minister's style of expression. It may be that the ancillary development programme arose as a way out of the conflict between the State's expressed desire to encourage small scale units, and the opposition of the established industrialists to measures, especially industrial licensing, barring them from easy expansion. We shall consider the general problem of "gate keeping" first, and then conclude with a discussion of the ancillary programme.

It seems that administrative measures had been taken by the time of the Fourth Five Year Plan to exclude large units from the Small Scale Sector development programmes. An official of the Small Scale Industries Development Organisation pointed out that the following kinds of units, even if they fell within the investment criterion defining a small unit, would not be eligible for the Government's aid programmes:

(a) If the unit is a subsidiary or an associate of a company which does not lie within the definition of a small scale unit.

(b) When a sizeable portion of the capital invested in the unit is held by one or more firms that are not small scale units.

(c) When the unit's financial statements reveal considerable interlocking of capital and loan funds between concerns under the same management, and where the loans finance only these transactions, but not production.

(d) When the unit is the recipient of advances guaranteed by big industrial units or persons of large means.[1]

Again, after the definition of a small unit had been liberalised in the 1980 Industrial Policy Statement, a clarification was issued by the Ministry of Industry shortly afterwards. This stated that under the Industrial Development and Regulation Act, Small Scale units falling within the enhanced limits would be exempt from licensing regulations as long as they were not "a subsidiary of or owned and controlled by any other undertaking".[2]

Inspite of these measures, both official and unofficial commentators have little or no doubt that large capitalist interests have definitely taken advantage of the concessions given to small units. In 1975, the Development Commissioner for Small Scale Industries was forthright:

> Dr Alexander regretted that some people with adequate financial and other resources had started small industries and have also availed themselves of the various concessions and facilities under the small industries programme. Unfortunately such malpractices could not entirely be curbed by purely legal provisions.[3]

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1. K.K.Mehan <u>Small Industry Procedures Handbook</u> (Productivity Services International, Bombay: 1971) p.3.
2. See, for instance, <u>The Hindu</u> (Hyderabad) 4.8.1980, p.1, column 2.
3. <u>Industrial India</u> XXXVI (1975), 6 p.15.

Academic commentators have, in the recent past, agreed with these views.[1] It should also be mentioned that in the course of its investigations, the Dutt Committee on Industrial Licensing came across several cases of unincorporated units within the fold of even the biggest business houses.[2] Although no financial data for such units is provided in the Report, these might well have been within the orbit of the small industries development programme.

The development of small scale units ancillary to large scale units has been a stated objective of the small industries policy, particularly emphasised from the time of the Third Five Year Plan.[3] There seems, however, to have been little progress made, atleast as far as officially recognised activity in this area is concerned. Partly, this may be the result of the emphasis varying widely at different times. Thus while the Estimates Committee of the Second Lok Sabha, in its enquiries into the working of the Central Small Industries

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1. H K Paranjpe "New Statement on Industrial Policy: A Rat out of a Mountain's Labour" Economic and Political Weekly XV (1980), 38.

   B Datta 'Small is Big: A Critique of the Industrial Policy Statement" Economic and Political Weekly XIII (1978), 3.

   C T Kurien "Small Sector in New Industrial Policy" Economic and Political Weekly, XIII (1978), 9.

2. See Ministry of Industrial Development, Internal Trade and Company Affairs, Report of the Industrial Licensing Policy Inquiry Committee. (New Delhi:1969) Appendix, Volume 2.

3. See Ministry of Commerce and Industry, Report of the Working Group on Small Scale Industries : Programme of Work for the Third Five Year Plan (New Delhi:1960).

Organisation, nowhere mentions ancillaries, the Reports of the Third Lok Sabha Estimates Committee take up the ancillary development programme as a major item. By the time of the Fifth Lok Sabha, there is again no specific mention of the programme, though it returns to the centre of attention during the Seventh Lok Sabha.[1]

The problem also lies in the fact that the "official" ancillary unit has a pronouncedly anti-big capital character:

> A unit having a capital investment not exceeding 10 lakhs /in 1966/ which produces parts, component, sub-assemblies and tooling for supply against known or anticipated demand, of one or more large units manufacturing/assembling complete products and which is not a subsidiary to or controlled by any large units in regard to the negotiations of contracts for supply of its goods to any large unit. This shall not, however, preclude an agreement with a large unit giving it the first option to take the former's output.[2]

An ancillary unit could be expected to obtain firm orders only when it is conceived as a part of the overall production process at the time that the large scale investment decision is made. It is extremely unlikely, on the other hand, that at such a time the promoters of the large unit would promote the development of ancillary units which were neither subsidiaries nor controlled by it.

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1. Estimates Committee (2nd Lok Sabha) (Op.cit), (3rd Lok Sabha) (Op.cit), (7th Lok Sabha) (Op.cit.).
   The reference to the report during the 5th Lok Sabha is: Estimates Committee (5th Lok Sabha) Thirty Fifth Report on the Ministry of Industrial Development (Department of Industrial Development): Small Scale Industries (New Delhi: 1973).

2. Estimates Committee (3rd Lok Sabha) Op. Cit, p.18.

In evidence to the Estimates Committee of the Seventh Lok Sabha, the Secretary to Government of India, Ministry of Industrial Development stated:

> It is a fact that, though it cannot be quantified the ancillary development programme has not progressed to the extent we had hoped for due to structural factors.[1]

What the structural factors could be was developed by the Secretary when he explained the implications of forcing unwanted suppliers onto large scale units at the time of licensing a project:

> In terms of policy, it is a matter of very grave judgement whether or not you are going to make investment in a large industry conditional on the ancillaries. I would say that this is a policy judgement of a very very grave magnitude and is of very serious implication that it will be /sic/ impertinent on my part to submit to the Committee any view on this because this is a matter where unless the Government has taken a decision, I cannot express a view. There are many aspects to it. Apart from that we have to see the effect it may produce on investment itself.[2]

The points appears to be that only in the case of prior existence of well established ancillary units with spare capacity might a large unit consider "buying out" to be

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1. Estimates Committee (7th Lok Sabha) (Op. Cit), p.93.

2. Estimates Committee (7th Lok Sabha) (Op.Cit), p.93.

preferable to manufacturing the component in-house.[1] However, it seems that there is no requirement at the stage of granting a license under the Industrial Development and Regulation Act, that the promoters consider the possibility of subcontracting.

> When specifically asked about the efforts made by Government and the attitude of Government in the matter of ancillarisation, Secretary Industry stated that whenever a project was brought before the Ministry, the investment portion was scrutinised. However he clarified that ancillarisation had not been made a condition.[2]

The Secretary emphasised that the question of ancillarisation was left entirely to the promoters' appreciation of the situation.

> He added that the standard bought out items were procured by large establishments as they could not afford to manufacture them in their factories. The specific components which were required by the large industries were allotted to the ancillary industries so that they could manufacture them.[3]

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1. The following which, although a little old, are among the very few of the more analytical studies of ancillaries, bring out this point in a general manner.

   S K Basu et al <u>Problems and Possibilities of Ancillary Industries in a Developing Economy</u> (World Press, Calcutta:1965).

   J Macdougall <u>Ancillary Industries in Asansol-Durgapur</u> (Asia, Bombay:1965).

   T K Lakshman <u>Problems and Prospects of Ancillary Industries in a Growing Economy</u> (Rekha, Bangalore: 1970).

2. Estimates Committee (7th Lok Sabha) <u>Op.cit</u>., p.94.

3. Estimates Committee (7th Lok Sabha) <u>Op.cit</u>., p.94.

With the apparent lack of official interest in developing ways of overcoming the obstacles to ancillary development, and the natural reluctance of big industrialists to encourage independent suppliers, it is not surprising that the "official" programme should be seen to have failed. It is equally unsurprising that there should be a feeling among a wide range of observers that the ancillary provisions have been used by big capital to develop captive units which have been making use of the facilities extended by Government to sub-contractors.[1] These two apparently contradictory facts may well represent little more than different perceptions. Official cognisance of the progress of the ancillary programme is presumably based on official statistics. A unit must register as an ancillary before it enters the domain of these statistics. On the part of the large unit, there is every reason, on the contrary, to avoid registration of a particular unit which is ancillary to it, for it would then lose the advantages of having a supplier which was, to official eyes, an independent small unit. Thus while the programme, intended to develop independent ancillary units, might be seen to have failed, large units may be having many ancillaries which are not registered as such.

After an extensive survey of the literature on small scale enterprises in India published upto the end of the

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1. See, for example, the works cited in fn.1 of page 360.

Third Five Year Plan, Douglas Fisher has the following to say:

> Since it cannot be established that the development of ancillaries would be vital to Indian progress, it must be presumed that such efforts are <u>imposed</u> on the economy in the nature of a constraint. In addition specific comments indicate that results in other countries (for example, Japan), where ancillaries are important, are cited as suggesting an emphasis... in India. The irrelevance of the arguments is overwhelming as is often the case when one attempts to justify a constraint. There are, of course, economic arguments in favour of ancillaries: that they are, for instance, more efficient due to lower overhead costs or that they help eliminate the wastes of competition... and that they improve the quality of research and of the product itself. It is evident that these are spurious arguments for no evidence on their behalf is given in these respects; furthermore, it must be established in this connection that all of these ends will be better served by ancillaries than by complete large units as well as independent small units.[1]

Our impression is that Fisher is correct in identifying the ancillary development programme as a response to a constraint. This was the need, in our view, on the one hand to develop markets for increasing numbers of small scale units once the gap created by the import restrictions of late nineteen fifties had been filled. On the other hand, there was the possibly even stronger compulsion to allow big capital to expand through the development of ancillaries captive to their large units.[2] This compulsion would have been the greatest

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1. Douglas Fisher "A Survey of the Literature on Small Sized Industrial Undertakings in India" in B.F.Hoselitz (Ed) <u>The Role of Small Industry in the Process of Economic Growth</u> (Mouton, The Hague and Paris:1968), p.140, /Emphasis in original/.

2. See also S.Watanabe "Reflections on Current policies for promoting small enterprises and subcontracting" <u>International Labour Review</u> LX (1977), 5.

during the period of the Second Five Year Plan when for all the lapses, the licensing system was operated in a far tighter way than in later periods.[1]

X.5 Conclusions

In this Chapter, we have argued that the political aim of the small industries policy -- the creation of a class of small capitalist entrepreneurs -- required two measures to ensure its fulfillment. Firstly, the demarcating line between small and big capital had to be defined in a way that was both administratively easy to handle, and which captured in an acceptable manner, the essential difference between "small" and "large" across a wide range of industries. Secondly, ways had to be devised to ensure against the entry of ineligable persons or conglomerates to the special provisions of the development schemes.

As far as the first measure is concerned -- that of an appropriate demarcating line -- the Government of India took the approach of defining small enterprises in terms of the concept of the unregulated sector. Thus the original definition was bounded by the provisions of the industrial Development and Regulation Act, and apparently, by the Capital Control Act. However, once the definition had been in force for some time and had consolidated itself, it became

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1. See the Report of the Industrial Licensing Policy Inquiry Committee.

the target of pressures for change. We have found that though there may be scientific reasons for the changes, in terms of the rising prices of plant and machinery, it is difficult to determine the validity of the changes. The reason for this is that different criteria have been applicable to various segments of the aid programme.

Evaluating the validity of the definition has also been made a complex task by the apparent confusion surrounding official policy statements. As we have argued in Chapter VII and in the present chapter, the aims of small industries policy were two fold; in such a case the problem of encouraging the development of small scale <u>units</u> and small scale <u>persons</u> through the same programme would require a certain looseness in the definition. In defence of the definitional changes it could be argued, for instance, that these changes were based on changes in conception of the resources expected to be available to a small scale person at given points of time.

It is, of course, difficult to determine the detailed considerations at work in the policy making process, in the absence of sufficient officials with personal acquaintance of the policy formulation process. The reason for this is that official documents, or even official files, are unlikely to record fully the events which would enable a detailed understanding to be gained.

What is relatively easier to document, for it is the subject of closer scrutiny, is the effectiveness of the gate keeping procedures that have been developed. It appears that although some procedures were laid down to ensure that ineligible interests did not benefit from the assistance programmes, they were not applied, at least in the majority of cases. We have argued that this was inevitable. It would require investigative activities perhaps out of proportion to the severity of the lapse in each individual case to guard against gate crashing. The fact that in the aggregate, on the other hand, lapses have assumed proportions so as to lead to questions about the very efficacy of the programmes, is a matter of some importance to political economy.

Our impression is that effective measures against large scale gate crashing in this sphere are difficult to achieve in an economy characterised by large concentrations of industrial capital. It is for the same reason that we feel that the contradiction between official estimates of the success of the ancillaries development programme, and the general recognition of the existence of a large number of "captive" ancillary units may be resolved. Large capitalist interests will choose, for obvious reasons, to decline registering captive ancillaries as such. Officials, in the absence of legislative backing (which has itself been mooted some time ago) will be reluctant to probe beyond a point. Under these conditions, while officially recognised progress based on official statistics may be slow, unofficial evidence for large scale preemption of the ancillary market may mount.

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CHAPTER XI

CONCLUSIONS

Charan Singh's critique of the strategy of economic development which we have described in the Appendix to Chapter VII, is principally of use to us because of the clue it provides that the developments in the industrial structure described in Chapters VIII and IX, have evoked protest based on socio political arguments. This protest was on the premise that mechanised units (both large and small scale), which were distinct to cottage units in terms of their capitalist social organisation, had been the principal targets of developmental activity.

This premise of official emphasis on the modern capitalist small sector we consider to be valid on the basis of the <u>policy</u> analysis of Chapter VII. However, the important point in an <u>economic</u> analysis is that the difference between the hand tools used in the cottage units, and the machinery used in small or large scale units, and the difference in the case of most industry groups between the raw materials used in these two sectors implies that commodity exchange of the means of production between these sectors would be virtually non existent. The output of cottage industry would therefore have no role in providing the means of production for the mechanised sector, and even in the production of wage goods it would have a negligable role.

This line of reasoning suggests that there was a degree of detachment between the production cycles in the mechanised and the cottage industry sector, for which we have some evidence in Chapter IV. In the "intermediate" sector such as the handloom industry, there would of course be commodity exchange of elements of the raw materials used by this sector, and the output would form a part of the consumer goods sold both in the modern urban sector, and as we have seen in Chapter III, in the traditional rural sector.

The crucial point of this discussion is that it is clear that with the modern sector dominating the economy, it would be the modern reproduction cycle that would expand; or in other words, the development of capitalism in industry would take place through the process of expanded reproduction within the modern sector.

It is then to be expected that the development of capitalist production, or the growth of the home market, which takes place principally on account of the growth of the means of production, would lead inevitably to the growth of modern enterprises, whether large or small, and this process would bypass, so to speak, some of the traditional units whether these were operated on a capitalist basis or not.

We had argued at the beginning of Chapter III that industrial capital could take concrete shape at varying levels of technology or at varying levels of the organic composition of capital. We would find, for example, a capitalist handloom establishment alongside capitalist powerloom units, and the textile mills. Each of these capitalist structures could, in principle, have their corresponding establishments operating on a precapitalist basis; and we found examples of owner-workers in both the handloom, and the powerloom units. In fact the textile industry proved a useful case study precisely because of this feature.

The concept of the growth of capitalist relations of production implying the evergrowing role of the modern reproduction cycle over all kinds of economic activity is therefore the means by which the threads of the argument in previous chapters may be brought together. For if concentration of capital had reached substantial proportions at the time of independence, than it would clearly be the demands of this sector of large scale units which would dominate in the decisions about the production of the means of production. The industries in the capital goods sector which would be initiated to produce these means of production would clearly need expanding markets for their outputs in the future. Thus the shift in favour of the ideology of the modernisers of small scale production which we saw to be taking place in Chapter VII, can also be seen to be inevitable. Under conditions in which the overall purpose was capitalist development, the only question that remained was whether the capital goods to be used in the consumer goods industry were to be allocated to large or small scale units. The cottage sector became irrelevant to the issues of development, and this was mirrored by the process by which Gandhian institutions were bypassed and left to play essentially supportive roles until the advent of the Janata Party Government in 1977.

As we now know, the Janata Government, and the subsequent coalition Government led by Charan Singh collapsed quite quickly, and the initiative in favour of precapitalist producers was destroyed before it could take root. Although the reasons for the rise and collapse of these two non Congress Governments are complex and clearly beyond the scope of enquiry of this work, it is of relevance to consider the implications of both the initiative, and its swift decline.

We would hypothesise that there were two aspects of the growth process of the Indian economy that led to the initiative. The first was the kind of development experienced in the sphere of agricultural production under the aegis of the "Green Revolution", and the second was the growth of the Indian consumer goods industry which took place in response to the import substitution policies from the Second Five Year Plan onwards.

The development of capitalism in agriculture which had in pockets destroyed the traditional agricultural production system, had also led by the middle 1970s to the growth of a rich and middle peasant stratum. This group had a relatively coherent political representation, at least in North India, in the form of the BKD Party, later to be known as the BLD.

On the other hand, import substitution policies had provided the basis for substantial demand for consumer goods which was largely met by urban mechanised industry. This had also expanded its market by destroying the traditional rural producers, in this case of nonagricultural commodities. In fact, this is precisely the point to which Chapters VII, VIII and IX were leading. Charan Singh's initiative represented, in our view, an attempt by representatives of the big and middle peasantry to widen their support base by including the traditional village producers. This was done by attacking the support given by previous Governments to the largely urban located consumer goods units, in the manner we have described.

Turning to the collapse of the initiative, we feel that although the reasons for the decline of the two non Indira Gandhi Congress Governments are complex, we can draw one definite conclusion. This is that not only will any attempt to protect the interests of the precapitalist producer fail at the economic level, for the reasons we had set out in Chapter VII, based on our analyses of Chapters III and IV, but that a political movement in their favour will also be repulsed. This has been shown again and again in this work. We have the example of Gandhi's retreat from the spinning franchise in the 1920s, Kumarappa's resignation from the National Planning Committee in the 1930s, the use of the Ford Foundation Team to divert attention from the industries under the purview of the Khadi and Village Industries Board in the 1950s, and the collapse of the Charan Singh movement in the 1970s. When the political movement took a relatively gentle form, it was sidetracked by the formation of the "independent" All India Spinners Association, All India Village Industries Association, and the Khadi and Village Industries Commission. When it took an aggressive form such as under Charan Singh, the movement itself was reduced to a lobby, under the logic of the political and economic processes inherent in a society where large concentrations of capital coexist with millions of small and marginal property holders.

In other words, the collapse of the Charan Singh initiative seems to have shown, once and for all, that policies favouring the precapitalist producer cannot form the basis of developmental activities within the Indian Economy.

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