State Aid to Industry: Madras 1921-37

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The State Aid to Industries Act passed in 1923 seemed to epitomise the spirit of the Indian Industrial Commission that active promotion of industry was a legitimate function of the government. But 12 years later the Public Accounts Committee of the Madras legislature held that the act had not served its purpose. The contest around the nature of the rules and the definition of enterprises eligible for state aid was the form in which the real contest between rising capitalist interests in India and the colonial administration was conducted.

THE State Aid to Industries Act was passed by the Madras legislative council in 1923. The act governed all forms of aid to private enterprise. At the time of its passage, it seemed to epitomise the spirit of the Indian Industrial Commission, that active promotion of industry was a legitimate function of the government. However, in a review of the act it was noted that active promotion of industry was the form in which the real contest between rising capitalist interests in India and the colonial administration was conducted. The contest around the nature of the rules and the definition of enterprises eligible for state aid was the form in which the real contest between rising capitalist interests in India and the colonial administration was conducted.

The political system of dyarchy was in force between 1921 and 1937 as a result of the Montagu-Chelmsford reforms of 1919. It was superseded by the new political structure embodied in the 1935 Government of India Act, which came fully into operation in April 1937. Dyarchy therefore represented a definite stage in the political evolution of India. On the one hand it was the result of the prevailing balance of forces between the imperial system and the nationalist forces in India in the period leading to the end of the First World War. On the other hand it provided a specific form of ‘political space’ in which a section of Indian opinion, which was in favour of working in the reformed structure, could attempt industrial development with the limited degree of administrative power which lay in its hands.

Quite apart from the limitations imposed by the administrative system that existed, let alone the problems inherent in initiating development by administrative means alone, these forces had to operate within a number of larger constraints. Politically these included the negotiation through the opposition of the other half of dyarchy. The officials who controlled most of the important departments and who remained responsible to the governor of the province and ultimately, through the Viceroy, to the British parliament were opposed to any thoroughgoing steps for industrialisation. Conversely, there was also the need for both the groups—Indians in the ministries formed under dyarchy and officials—to preserve the legitimacy of dyarchy in the face of the Gandhian-led mainstream of the nationalist movement which was determined to demonstrate its unworkability. There was the limitation of the social character of the ministerial personnel themselves which was crucial when it came to problems of economic development. This lay in the fact that they and their supporters retained strong links with landed property of the traditional landlord kind.

This link with landlordism and the hostility it implied to the development of any trends tending to the co-op. On the other hand it placed a major handicap in the path of the realisation of any plans they may have had for thoroughgoing industrial development. For one of the major problems that sustained industrial development posed was that of the creation of a large and growing internal market—and this could not be created without steps to relieve the land ownership concentration that prevailed and the poverty that went with it.

The major economic factor that hindered any substantial industrial development effort in India lay in the nature of the political system in which dyarchy operated. The relationship of the government of India to the government of the provinces had also been defined by the 1919 reform proposals. This relationship was political, financial and administrative in nature. More specifically in the context of the concerns of this paper, tariff, essential protection for any new industrialisation attempt was conceived of as purely a revenue measure and its control remained with the government of India. Formal responsibility for industrial development, however, lay now with the provincial governments.

Bagchi has shown that although there was undoubted hostility on the part of manufacturing interests in Britain and their agents in India to any concerted effort for industrial development, the real handicap lay in the system of imperial finances. The need for a balance in the financial system which would permit the smooth transfer of resources from India to Britain by the traditional sources of land revenue and ‘home charges’ played a paramount role in determining Expenditures of the order necessary for industrial stimulation would have seriously jeopardised the prevailing system of balance. Funds allocated for the encouragement of industrial development were, therefore, meagre and tightly controlled.

The encouragement of industrial development implied that resources would have to be found from amongst the finances of the presidency. Significantly, following dyarchy, a new Finance Secretariat had been established to provide uninterrupted scrutiny of expenditure proposals, also leaving the Chief Secretary free to attend to the political tasks of supervising the public department. As under dyarchy, the secretariat remained responsible to the governor and, ultimately, to the Secretary of State for India, the financial expenditures sanctioned had also to be in line with imperial interests. Proposals for active government intervention which involved major financial commitments were likely to be opposed not only by existing ‘commercial’ interests, but also by the state administrative agencies which tended to operate on the same principles.

Dyarchy in the Madras presidency was signified by the establishment of a new secretariat department, development, which had the field departments of industries, agriculture, cooperation and veterinary services responsible to it. It is with the activities of the industries department, and the evolution of the provisions of the State Aid to Industries Act in Madras during dyarchy, that this paper is concerned.
II
Impact of Industrial Commission’s Report on Policy

The department of industries, and administrative support to industrialisation, had started in Madras in the early part of the century. After fairly substantial progress had been made in demonstrating the possibility of manufacture of a range of articles, the department was abruptly asked to close down. This order by the Secretary of State for India followed protest by British manufacturing interests under the argument that the government was thus going beyond its natural functions. The Madras government was allowed to restart the department under very specific conditions in 1914, and during the First World War an effort was made to encourage simple industrial activities, particularly for the war effort.\(^9\)

As far as industrial development is concerned, the formation of the Indian Industrial Commission (IIC) of 1916-18, and the recommendations its report advocated, are as important as the 1919 reforms. For the recommendations of the commission provided the terrain of permissible experiments in industrial development activities. This was because the report itself represented the prevailing consensus between British officials and constitutionally-minded Indian leaders, the forerunners of the stream which took part in the elections under dyarchy and were represented in the legislative council or even became members of the governor's council, either as ministers or nominated councillors.

Of the recommendations of the Industrial Commission, there were two which were to have particular operational significance for the policies pursued in the Madras presidency.\(^8\) These were the recommendations about the kinds of enterprise which would be eligible for state aid, and about industrial finance as a prerequisite for rapid industrialisation. Both of these led to initiatives in the direction of supplying state sponsored aid; and although the later development of these measures were subject to vagaries of different kinds, which are in fact to be discussed in this paper, their origin in the industrial commission’s report itself provides evidence for the importance of the report as a legitimate source of ideas.

III
Policy as Reflection of Contending Interests: Factory-based Industrialisation

The report of the Indian Industrial Commission covered the basic of industrial policy under the decentralised system of dyarchy. The co-ordination of policy amongst the provinces was achieved by conferences of the directors of industry, meeting under the aegis of the central department of industries. Four conferences were held in the period 1920-22, following which no conference took place until 1933, when the prospects of political change under the Government of India Act 1935 made it necessary to have a new basis for co-ordination.\(^11\)

At the meeting held in Kanpur in November 1920, the question of industrial banks was considered.\(^12\) This had been suggested by the IIC which had noted that the banks should be established by the government and later handed over to the private sector when their viability had been proven. In 1919, the government of India had considered the suggestion of appointing an expert committee but had postponed a decision on the grounds of the undefined nature of the positions of the central and provincial governments, under the new constitution in respect of the development of industries and the extension of financial assistance. The next meeting of Directors of Industry was held at Simla in May 1921, when the officials were expected to accompany the newly appointed ministers in charge of industries because by then “the whole subject had been classified as provincial and transferred. It was now for provincial governments to determine the course of action for establishing facilities for industrial banking.”\(^13\)

Although the officials of the development department in Madras were sceptical about the feasibility of an industrial bank in the province, it seems that at this stage an active role for the government was envisaged.\(^14\) Initially, in response to the minister’s suggestion that the agenda for the May 1921 conference could include the question of the feasibility of an official to study the various possible forms of state aid, the Director of Industries said that the previous ten years experience of Directors of Industry had disagreed. The Secretary of the department disagreed. Pointing out that these were abnormal periods of war, he felt that the experiences of Japan and Germany in their early stages of development would be more appropriate. The implication of this was clearly that extensive measures of state aid were suitable for industrialisation could, in principle, be considered if not actually implemented.\(^15\)

Implementation of industrial policy was not, however, merely a matter of sifting accumulated knowledge and introducing relevant procedures. For industrialisation meant the growth of new capitalist interests, and though the IIC had somewhat unwittingly stated that “there should be no limitation on government aid to a new enterprise, on the ground of its competing with an established external trade”, opposition to such aid was bound to be vocal.\(^16\) At an industrial conference in Madras prior to the Simla meeting, the Chairman of the Chamber of Commerce and the representative of Gorden Woodroffe and Company argued against any government assistance to industrial banks. P Theagaraja Chetty, a major figure in the handloom industry disagreed with this and claimed that opposition to the proposal came from “commercial” as opposed to “industrial” interests.\(^17\)

The convening of this conference by the minister for development is itself an indication of the contentious nature of the matter. For the board of industries, established on the basis of a recommendation by the IIC, and consisting almost exclusively of non-officials, had earlier resolved categorically that bank finance to industries was not sufficient and that the government should have the power to give advances to new industrial enterprises along the lines of the Mysore Princely State.\(^18\)

Industrial finance was certainly an important new function for the department of industries. Upto that time a slow and rather haphazard initiation of activities had led to six main functions of the department.\(^19\)

(i) General assistance to trade and industries including collection of statistics, industrial and commercial information, sources of and markets for various articles.
(ii) Experiments and inquiries with the objective of starting of new industrial enterprise, by the private sector or by the government either in entirely new or in existing industries or in improving their processes.
(iii) Management by the government of manufacturing concerns which had passed the experimental stage.
(iv) Assistance for those engaged in agriculture through the boring of wells.
(vi) Industrial education including arts and crafts and scholarships.

In the controversy over the form that the State Aid to Industries Act of 1923 would take, taking an Evident contradicion between established and potential industrial interests was to be expected. This act, which attempted to give a statutory form to some of the recommendations made by the IIC on industrial finance, also flowed out of the proceedings of the Conference of Directors of Industry held in April 1920. There, it had been suggested that the government should prepare schemes looking only to their own situation. The implications of this were to become clear later.

The Minister of Development himself drafted an act to provide State Aid to In-
industries which underwent major modifications before it reached the stage of a bill to be introduced in the Madras Legislative Council. In the original version the kinds of enterprise which would be eligible for State Aid was left undefined, the merits of each assessment of the finance secretariat.21

If no restrictions are intended I regard the bill with the greatest apprehension on both financial and political grounds. The sphere of our potential commitments will be immensely extended, we shall be brought into incessant conflict with established interests and the administration of the act will tend inevitably to be dominated by political interests and influences.

In response to this expression of opinion the bill was modified by the addition of clauses above which defined the kind of industrial enterprise which would get state aid. (1) Enterprises in ‘new or nascent’ industries (2) Enterprises to be introduced into areas where the industry was undeveloped (3) cottage industries. The degree of controversy over the act was indicated by the fact that ten clauses of the act were introduced along with the delegation of sanctioning loans up to Rs 10,000 to the first two classes of industry, it was silent on the delegation of loans to the third, cottage industry, surely not an obvious source of contention. On the other hand nationalist opinion as expressed in the Swadeshmitra and the Dravidian newspapers demanded that representatives of organisations connected with cottage industries be appointed to the Board of Industries to whom, presumably, delegation would be made, and the existing Board of Industries did also point to the anomaly.22

The Madras Chamber of Commerce which, as noted above, had been specific in its desire of industrial banks, in effect, also opposed the introduction of the act. For they argued that “though an industry may not hitherto have been established in a particular area, such area may constitute one of the sources of supply of raw material to the industry established elsewhere or a buying market for the finished product of such established industry”.23 The “incessant conflict with established interests” forecast in the finance department’s noting was clearly close to the real situation.

However the bill, introduced in the legislative council in November 1922 and referred to a select committee was passed and the act established in December 1922. A committee formed to frame rules for the administration of the act reported, in turn, in February 1923, and a specific application form was prescribed later that year.24

Although the rules for administering the act involved a cumbersome procedure even as late as the end of 1925, it was felt that as “...doubts have arisen as to what classes of industries should receive aid...[it was]...too early to sanction delegation...”.25 This echoed the views of the department of industries which felt that section 5 of the act which defined the kinds of industries in which enterprises could be helped gave rise to considerable difference of opinion. It was felt that the industries which were to be helped should be more clearly defined.26 Already by that time, although only a year or so had passed since the act came into force, the director of industries noted that “...I am coming round to the view that the section is unnecessarily restrictive and might prevent aid being given to promising enterprises...”27 In other words, clause 5 which had been introduced to limit financial profligacy was both restrictive and controversial.

A year after the introduction between the approach of the forces in the industries department and the Minister for Development favouring a liberal approach to industrial finance, and the finance department, was resolved by a new set of guidelines to interpret clause 5. These were evolved after the active intervention of the Governor of the presidency who sided quite clearly with the conservative finance view.28 Thus the meaning of “a nascent industry” was to be considered with reference to the conditions of the industry in the presidency as a whole. In the case of enterprises newly introduced into an area, the conditions of the specific industry such as the availability of raw material, workers, capital and markets was to be examined. Cottage industries were also defined in a specific manner, to be discussed later in this paper.29

None of these clarifications was likely to increase the number of firms actually seeking, let alone being granted aid.30 The report of the department of industries for 1925-26 noted:31

The period during which the act has been in force is so short that it is difficult to express a definite opinion as to the extent to which it is likely to further industrial development although it can hardly be claimed that the results so far have fulfilled expectations.

Apart from the definition which precluded many firms from getting aid, there was also the problem that new enterprises, currently without assets, were not eligible for aid, for the security for the loan was based on the existence of such assets.32 A system of hire purchase, which would have overcome this problem had been ruled out as a possibility at the time of discussion of the bill introducing the act. The minister for development had then argued that the hire purchase system offered no advantage to the borrower. In fact, he said, the twenty percent down payment required in hire purchase would be a positive disincentive for prospective industrialists.33

During this entire period the department of industries continued to press for a more expansionist industrial policy in which they were cautiously supported by the development secretariat.34 In the annual reports on the administration of the State Aid Act, which was not published, the Director of Industries was more forthright:35

That the restrictive character of section 5 of the act does limit the number of applications for assistance... is beyond doubt and there appears to be a feeling in some quarters that the act should be liberalised to admit of the grant of assistance to established industries, or even to set up additional mills and factories, e.g., cotton mills in Madura, even though they may not be new or nascent industries.

After pointing out that there were also arguments to the contrary, i.e., the danger of supplying credit to one firm at the expense of another thus exposing the “government to the criticism that they were interfering with private enterprise” he concluded by saying that in south India, state administrative support for industrial development was desirable. This was a ‘large’ policy issue but unless reasonably sound enterprises which were unable to tap private sources of capital could obtain government support, the act would not have served its purpose.36

Apart from the advocacy of an advanced industrial policy by the department of industries, there were also attempts made by non-official persons, usually Indians, to press on the government on to take decisive action.37 The government in some cases was unable to withhold the ‘previous’ sanction required by the Governor for privately sponsored legislation, for amending the State Aid Act in particular, but it was always able with its official majority in the legislative council to defeat any resolutions it disagreed with.38

The result was that by the middle of 1928, seven years of dyarchy had led to a situation where the assistant secretary in the development secretariat could note:39

During the last ten years, the only work of any industrial importance that can be laid to the credit of the department is soap making and perhaps also ink manufacture. Experiments with glue and fruit preservation were a failure. There is no doubt a general feeling that the department has not brought into existence or materially assisted in improving any major industry in the presidency.

This was written during the relatively better years before the depression of 1929-33. During the depression, the condition of the people, both peasants and workers came under scrutiny of the Royal Commissions on labour, on agriculture, the Provincial and Central Banking Enquiry Committees, and the Economic Depression Enquiry Committee. Each of these had recommendations as to how industrial development, which were examined in the Madras Presidency; but as they all involved increased expenditure while the depressed conditions were leading actually to measures of retrenchment, none of them had any noticeable effect on the industrial development measures, such as they were

The development of the Mettur area and the possibilities of providing electricity at a concessional rate raised the question of a more “forward” industrial policy. As far as government enterprises were concerned the policy laid down in 1925 had, in fact, mov-
ed in a more conservative direction. Earlier, there had been two stages through which a public enterprise evolved, the demonstration and the pioneer. Demonstration referred to technological feasibility, and pioneer to commercial feasibility. After the successful achievement of pioneer status, the enterprise was to be sold to private enterprise (or closed down if not found viable). However, in 1925, the government decided that with the enactment of the Factories Act, the experimental stage of the department of industries was to be confined to laboratory tests while manufacture on a commercial scale was to be given “mainly, if not entirely, to private enterprise.”

As far as more general help in the industrial development of the Mettur area was concerned, the department of industries rationalised that the size and compact nature of Mysore—with whose industrial policy the Mettur policy had been unfavourably compared—allowed easier development of its resources; while the financial commitments flowing from direct assistance to industries was less than that required for Madras. In any event it was stated, as things stood in Madras, the State Aid Act determined the nature and form of aid which it was possible to give. Here the very nature of the act, as opposed to some of its clauses was being held responsible for the lack of effective government support to industrialisation and this was confirmed by a development secretariat noting.

Also of some significance were the earlier proposals to establish coordinating agencies necessary for industrial programming. As early as 1921, the government of India had asked for reactions to its proposal for an industrial census which had been opposed by most provinces on financial grounds. Under these circumstances the publication Large Industrial Establishments in India which was a list of enterprises coming under the Factories Act had to serve as the most reliable data series available. In 1922, a modification in the Factories Act allowed provincial governments to “notify” industries in which enterprises employing more than 10 workers, with or without power, would be treated as factories (normally only enterprises with more than 20 workers and using power came under the Factories Act). However, the situation regarding data was such that when in 1929, a legislative council question asked for the capital employed in industry in the province, the only information available was said to be in the published reports of the department of industries or the Companies Act.

A list of all enterprises which were not registered under the Factories Act was compiled for the Royal Commission on Labour in 1930. A follow-up by the government of India to persuade provincial governments to undertake an economic census also met with a lukewarm response. Neither did the suggestion to form a Provincial Board of Economic Enquiry find favour. Even a development board where the heads of all the development departments would meet to discuss common problems was opposed by some department heads, and the proposal dropped.

The period from the late 1920s to the end of dyarchy did signify growing uneasiness in the development secretariat about the lack of encouragement to large-scale industry. In considering the report of the Madras Provincial Banking Enquiry Committee, a secretariat note acknowledged that in principle the State Aid Act had not been useful in encouraging such industry. For this, it was stated, “it was not until 1936, when under the new political system the governor’s power to act independently of the council of ministers was substantially reduced and the secretariat was made responsible to ministers that modifications were made in the State Aid to Industries Act.” These modifications were made in the State Aid to Industries Act. These modifications were made in the State Aid to Industries Act. These allowed the government to give loans to new enterprises in existing industries. It was now possible in principle to obtain aid for new textile or sugar mills, areas in which the risks were less than in industries totally new to the presidency.

IV

Policy as Reflection of Contending Interests: Cottage Industry

“Cottage industries” were the third of the specific category of industries to which State Aid could be given under the act. Their importance to the industrialisation process lay in the fact that the majority of small industrial producers working in their homes had been effectively subordinated to merchant capital. The corollary to this was the fact that concentrations of capital in money form already existed and could be used to further industrial development, if the general economic conditions and state administrative policy were conducive.

Foremost amongst such industries, of course, was handweaving which employed the largest number of persons of any occupation after agriculture. However, the great bulk of production outside of manufactories took place under the aegis of a merchant-middleman who provided the link between small producers and the large-scale market. Capitalist industrial development obviously required the recognition of this arrangement and the development secretariat’s measures to increase production simultaneously with structural changes such as the concentration of small home producers in larger workshops with uniform working conditions. In accordance, if not in conscious recognition of this fact the department of industries modified the definition of cottage industries suggested by the IIC to one more closely fitting the existing situation. The IIC had suggested the definition “cottage industries are carried on in the homes of workers in which the scale of operation is small and there is but little organisation so that they are, as a rule, capable of supplying only local needs”. The department of industries, with the support of the Board of Industries suggested “industries carried on in the homes of the workers as distinct from those carried on in factories.”

However, as is clear from the extract quoted below this approach was not acceptable to the Finance Member of the governor’s council:

We are asked to give a loan to a firm of sowing-cars which supplies loans and yarn to hired labourers working in their own homes, men who have no property either in the looms or the yarn or the finished products, who remain hired labourers throughout and are not in the least assisted to own their own business. If they worked in a shed presumably even development [department] would not suggest that the act covered such a loan to the sowing-cars. Is it suggested that because these hired labourers work at home the whole character of the business is transformed and brought within the purview of the act? In Great Britain the question raised would be whether this was a cottage industry but whether it was a sweated trade. I must ask development department again to consider what a cottage industry is...
given to a cottage industry carried out under these
conditions, surely the assistance would merely
grant to benefit the employers and not the
employees: this seems to me contrary to the
type of assistance.

The government, therefore, defined cot-
tage industries as "industries carried on ex-
clusively for the benefit of, and by, workers
in their own homes and not industries car-
ried on for the benefit of middlemen though
the workers happen to work not in factories
but in their own cottages."66 This definition
was to remain in force for ten years in spite
of attempts within the legislative council and
by the department of industries itself to ex-
tract a definition which would enable small
capital controlling home producers to receive
State Aid.

The government was not overtly opposed
to helping small capitalists.67 In fact the
Finance Secretary, at the time of drafting the
State Aid to Industries Act, had derided the
gentility of the IIC's term "middle class in-
dustrialist" and suggested that they be refer-
red to as small capitalists.68 However, the
government was apparently not actively in-
terested in helping small capital particular-
ly in the home industries.69 Even the favoured
small industrial capitalist, after all, have under section 5 of the act to
initiate a new or nascent industry or in-
troduce an industry unknown earlier in an area. Given the level of technological
development, the chances of a small enter-
prise being established in such industries was
low. The net result was likely to be a dearth of
eligible applications for aid from small
capitalists, unless the term 'cottage industry'
was suitably interpreted.

It was to this end that the department of
industries made the first of the efforts to
modify the definition of cottage industry.
In a reference to the advocate general it was
pointed out that the existing definition made assistance to the handloom industry im-
possible for in this
...the greatest proportion of workers are
dependent on middlemen capitalists who ad-
vance them yarn or money and sell their
finished product. These middlemen are in
many cases small local business... capital
is required which the weaver cannot supply
for himself and it is immaterial whether it
is supplied in the form of a loan or advance
of yarn or money to individual weavers or
whether the weaver working in his home or
in a factory works for wages paid by the
capitalist middlemen.70

Confronted with what was essentially a
problem in political economy, to which he
was required to respond through legal
arguments, the Advocate General was forced
into a comic line of legal reasoning ending
with the point that if the government wish-
ed to help "employer-industrialists", the definition of cottage industry would need to
be changed.71

However, the government was not
agreeable to the suggestion that they aid
"employer-industrialists" under the rubric of
cottage industry and ordered that co-
operatives must be formed irrespective of the
legal interpretations possible of the term cot-
tage industry.72

In the reports on the State Aid Act which
were not published, the department of in-
dustries continued to argue that the defini-
tion precluded assistance to the handloom
sector. Notwithstanding the government's
criticism of the government, the secretary of the
development department ordered that similar
comments, if found in the report of
the industries department for the year,
should be removed before publication.73

In response to the criticism by the depart-
ment of industries the definition and the
problems it faced in helping cottage industry,
the Minister for Development suggested that
concrete amendments be drafted. The
Secretary (responsible under dyarchy to the Governor rather than the Minister it
should be recalled), preferred the existing and guber-
nerially approved option of the formation of
co-operatives and aid under the act as it
existed. When therefore, the Director of In-
dustries responded to the suggestion by ask-
ing for the delegation of powers to grant
loans below Rs 10,000 to him in consulta-
tion with the Board of Industries, this was
predictably refused. It was stated that "disposal of applications even for small
amounts involves sometimes important
questions of policy the decision of which
cannot be left to the director."

A concrete result of the amendments sug-
gested by the director was the introduction
of a new category called small-scale enter-
prises which were defined by their having
more than Rs 1,000 in assets. Such enterprises,
together with cottage industries were exemp-
ted from section 9 of the act which required
any aided enterprise to have assets of twice
the value of the loan given. They were also
exempted from section 11 which required the
maintenance of detailed accounts and
periodical audit.74

The overall thrust of the modifications
suggested by the department of industries
was such that a secretariat noting correctly
remarked that what it required was not more
liberal rules but a more liberal act in its en-
tirety. Agreeing with the advocate director point-
ting to the anomaly that while section 5 did
not allow help to be given to an already ex-
sisting enterprise, section 9 required the enter-
prise to have assets of twice the amount
loaned, which a new enterprise obviously
could not have.75

Opposition to the limiting nature of the
act came also from the legislative council.
Although the definition of cottage industry
had not been made known even to members
of the council, those who were members of
the Board of Industries had come to know of
it. It was first raised by an MLC who was
later to attempt to introduce a private bill
for the modification of the act.76

In connection with cottage industries it
was clear that the Board of Industries was
itself precluded from evaluation of some
problems because of the definition, and had
this been more 'elastic' these might have been
accepted and aid granted. The result of this
was that even by January 1929 not a single
loan had been granted to cottage industry.78

The department's position was also laid
down with reference to the Viceroy's remarks
at a Conference of Ministers at Simla in 1926:
"...the Indian agriculturist is the founda-
tion upon which the whole economic pro-
spertly of India rests, and upon which the
structure of her social and political future
must in the main be built. No system of ad-
ministration could be justified which did not
aim at making an improvement in his stan-
dard of life, and his equipment to take a pro-
per share in her future "first and chief
concern"...79

Thus it was laid down that the task was
to improve the condition of the agricultural
population by increasing its earning
capacity—presumably, by finding work for
it to do, and organising a market for the pro-
ducts of its industry. The difficulty, of
its first and chiej

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mation of industrial co-operatives which would convert and work up this produce into a manufactured or semi-manufactured state would be appropriate. By this means, agriculturists would obtain a greater share of the value added in terms of a better price for their produce. The point was that even in the case section 5 of the act required the industries to be aided to be new, nascent or newly introduced into the area. By this provision the possibilities of aid were severely restricted but the Director of Industries hoped to make inquiries of areas where there was scope for the establishment of industrial co-operatives. Under the circumstances the view was that such organisations would be encouraged to apply for loans under the act provided they could show that they were eligible.

Similarly the government was extremely unwilling to concede any role for handspinning. With the Congress' support to handspinning growing in the early 1920s, there was a persistent current in the legislative council enquiring about the government's position on the matter. While admitting that production of hand spun yarn had increased in the recent past, the government in 1921 held that this was merely a temporary phase due to the price of mill spun yarn. It saw no reason to encourage hand spinning. However, the question was repeated in early 1922, following a non-official resolution stating that "this council recommends to the government that early steps be taken to introduce improved patterns of spinning wheels and to encourage and stimulate hand spinning and hand weaving as cottage industries". The government opposed the resolution which was lost by a large number of votes. Its position was broadly as follows:

1. Public funds and officials' time should not be spent on an activity that earned one or two annas for eight hours work.
2. The government accepted the fundamental proposition that uneconomical activities would not succeed in an industrial world and that the spinning wheel, whatever its other virtues, was economically unsound.
3. It could not be found work for existing co-operatives, exist as lace making or hosiery. Hand spin yarn alone was not in any case suitable for weaving—it could be used for the wet but not the warp.
4. Support for hand spinning continued to come in the form of representations to the industries department and also in the form of legislative council questions, in spite of the earlier resolution.
5. In the case of the handloom industry the government was able to develop a more coherent case for its approach to cottage industry. It proposed, in 1926, to depute a co-operative inspector to the department of industries on the basis that the textile wing had been developing new designs of handloom and said that while it was true that the weavers could not by themselves successfully run co-operatives, it was possible to find individuals apart from the middlemen who could provide the requisite leadership. The co-operative department's approach was not merely different in terms of the co-operative philosophy it embodied; the question was more of whether small merchant capitalists or small commodity producers should be supported and the co-operative department's approach seemed to be more in line with the government's view, as evidenced by their definition of cottage industry and the often expressed support for individual home producers.
6. Pressure in the legislative council had persuaded the government to set up a committee to examine the cottage industry surveys and reports. During the months that this committee took to prepare its report there were further attempts to overcome the impasse created by the cottage industry definition. While a private bill to amend the State Aid Act was introduced the department of industries proposed a new initiative in organising co-operatives.

It was argued that both on the results of the surveys as well as on personal observation, co-operative societies were required in several industries. Advances for raw material and for renewal of implements were essential to keep the industries alive. As the State Aid Act could not do this because its procedures were too cumbersome for the average handloom co-operatives which could provide a ready loan where necessary. For the formation of these co-operatives it was suggested that an Assistant Registrar of Co-operative Societies should be deputed to the industries department. Following a heated affirmation of the co-operative department's jurisdiction over all co-operative development activities, the proposal was dropped with the government's acquiescence.

Whatever may have been their jurisdictional quarrels over the development of co-operatives, both the industries and co-operative department shared a common perception of the home worker. It was a view in terms of which the moral question of aiding a 'sweated trade' was transformed into a practical one of acceptance of the realities of the situation.

There were three components to this perception of reality: that of the social psychology of the home producers, that of their existing and seemingly permanent state of indebtedness, and that of the characteristics and role of the merchant-middlemen. For the co-operative department the home producers were unsteady in character. For the industries department they were "psychologically improvident" and "never thought of the morrow". What the Registrar of Co-operative Societies said about weavers would seem to hold for their perception of all home producers:

...one fact stands out and that is that there is practically no impulse from within to improve. There are educated and enlightened men among them but it must be recognised that the rank and file... whatever they may have been in the past, do not enjoy an envious reputation today... a necessary precurser to attempts to improve them economically is a temperance campaign among them... there is no doubt that drunkenness is a common vice. It is not usual to find members of the community to be ill-nourished, drunken and inert as well as being uneducated. Poverty is accompanied by drunkenness and whichever is cause and which effect, the absence of any ambition is marked. This general supineness and incapacity for sustained effort must be taken into consideration.

Thus, the home workers were viewed as unsteady, improvident, dishonest, given to drunkenness, inert, supine and without ambition. To this formidable list of negative psychological and behavioural characteristics were added those of poverty and indebtedness.

Often the masters—the loom owners in the handloom industry and their equivalents elsewhere—were only relatively better off, it was stated, than the home workers themselves. Thus both the Palmyra grove owners and the climbers at Nazareth, Srivaitumam, Nunguneri in Tirunelveli were drawn into an industry by which apprentices were drawn from February to June and boarded in jaggery, was sold to middlemen, in return for an advance, at the lowest possible price. Amongst the Markapur slate dealers the competition amongst the slate dealers, let alone among those who quarried, was so intense that it threatened the industry's viability.

In the case of the metal based industries,... the workmen are completely under the clutches of the master-workmen and the merchants... The workmen have taken advances from the master-workmen who in turn have received advances from the dealers. The debt is carried on from year to year. As in the case of weavers the debts of these men ranges from Rs 50 to Rs 200 or Rs 300... Similarly the master-workmen are under obligation to work for the dealers.

In connection with the handloom industry, the Director of Industries noted that the weavers ordinarily were unable to buy the yarn necessary for even one day's work. In the carpet industry of Elllore and Wallsabah, while the weavers themselves were...
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digent, the boys whom they, in turn, employed were in an even worse situation: they were then paid a couple of annas a day. Here too, the master or proprietor was “not above want”.102

The co-operative department noted that from the beginning of the movement in 1905 the “small men were under the clutches of the big men and the latter were unwilling to give the former equal treatment”.103 While observing that there were still weavers who worked to the specific orders of the peasant (artisan work), and those who bought yarn and sold the cloth independently (commodity producers), there were also those who took yarn and an advance wage against the return of the cloth. The latter were said to be seriously in debt while those working on yarn on credit were a little better off, though neither was in a position to sell when they thought fit. It was argued that this indebtedness could not possibly be paid off with the help of co-operative credits, and that “no escape from the system [for] a large number who are indebted to their masters save through migration or the bankruptcy court”. The conclusion was that while those weavers received a ‘cooly’ wage, it was inconceivable that co-operative organisations could afford them the remainder paid to the master.104 So too, with the silk cocoon weavers of Hosur in Dharmapuri, “very indigent ryots who cultivate lands on varam”.105

Given this perception—of the behavioural and socio-economic situation of the home producers and of some of the smaller masters—of the nature and characteristics of merchant-middlemen is perhaps to be expected to be justificatory of their methods of operation. Given that the masters could not be induced to form co-operative societies either for themselves or in conjunction with the home producers, the skills required for running a co-operative organisation were to be found only amongst some of the dealers (more farsighted than most) or ‘respectable’ members of the locality, unconnected but knowledgeable about the industry.106 In more general terms it was felt that in many industries it was only through the intervention of the merchant that these could be saved from decaying. Even in co-operative societies, given the poverty of the home producers and their inability to contribute to share capital, recourse to middlemen or others with resources was a necessity, it was urged. The department of industries elaborated on the theme. Middlemen frequently intervened on behalf of home producers facing extinction of their trade and in this they were “not actuated solely with the object of earning interest on their capital”. Pointing out that there was an undue tendency to view middlemen only with reference to their concern with return on their capital, it was asserted that they also had a “redeeming side of helping an industry with their capital”. In addition, it was asserted, the middlemen performed a public service by ensuring the quality of the goods by maintaining a rigid standard. Driven by the urge to get their return, the middlemen would have an interest in maintaining the reputation of their goods. Businessmen would not be expected to be philanthropists, it was argued, and if producers were to save their time by concentrating on production rather than on selling, they should not grudge a part of the sales proceeds going to the middlemen. The latter should have “the margin to cover his capital and the [home producers] the money to keep the hearth burning”. This was specially true of the silkworm rearers of Hosur who required consumption loans while their worms were rearing.107 In some cases the master or karkhanad creditor, provided the design of the work and the advance to the home producers, who would, it was argued, be unable to find work for themselves.

It is clear that it was this conception of the small capitalist—either the master worker/dealer, usually of the same caste as the home producer—for one of the trading communities which was foremost in the efforts of the department of industries to liberalise the definition of cottage industries. When, for instance, it was suggested that an appropriate upper limit could be incorporated in the definition of small-scale industries (less than Rs 1,000 in assets) if the cottage industries definition was found restrictive, the Director of Industries said that the size of the capital depended on the capacity of the employer, his ability to canvass orders and superintend the manufacture. It was therefore difficult to suggest any upper limit of capital size to define a small enterprise appropriately.108 The dilemma was evidently that of defining small merchant capital where the size of fixed investment was of no consequence or relevance. More revealingly, it was also a product of focusing on the individual rather than the industrial or even commercial enterprise per se.

The second of the attempts to liberalise the definition of cottage industry came with the discussion of the survey of cottage industries undertaken in 1929. The origins of this survey are complex and here it is only necessary to note the substantial degree of interest taken in the survey by members of the legislative council.109 A committee consisting of some members of the council with the Director of Industries as Chairperson examined the reports of the survey and made several recommendations.110 One of these was the liberalisation of the definition of cottage industries. While the committee suggested the definition prepared by the Board of Industries five years earlier, the Director of Industries went much further. Arguing, in effect, that cottage industries referred to the traditional industries undertaken by hand and without substantial division of labour, he pressed for a definition which would include workers in karkhanas or workshops and not only in their own homes.111 This is an interesting case of the department’s support to small capital in the traditional industries but the government had no sympathy for this view. In spite of the fact that no loans had been given to cottage industry as defined by it, and the poor record in organising co-operative societies, these latter were still held to be the appropriate recipients of State Aid. After a magisterial statement by the Finance Member, the finance department was able to ignore the industries department’s substantial new evidence on the worthiness of the role of the merchant middlemen, described earlier. The Director of Industries had not “shown how placing of Government Funds in the hands of intermediaries would benefit employees and not perpetuate ‘sweating’”.112

The Cottage Industries Committee made several other recommendations concerning the more important of the industries in the presidency. However, with the depression and tight control over finances, the government was able to present a case, irrespective of the mounting distress of the home producers as of the bulk of the people, that funds were not available for most of the schemes suggested by the committee. It was only the recommendations which involved “direct financial assistance” of merchant organisational changes—which were implemented.113

Although concessions were made on the basis of the Cottage Industries Committee’s report relieving cottage industries of some of the formalities required under the State Aid Act, this was not the solution to the problem of industrial evolution of these industries. The department of industries itself stated that while these concessions would help enterprises which had got aid or were about to do so, this would not meet the requirements of the situation which were that more enterprises should be made eligible to get this aid for the first time.114 It was not until the end of the period under review, the middle 1930s, that the situation began to change.115

The specific tariff provisions provided to the cotton textile industry required adequate safeguards for the hand weaving sector if it was to retain its position and here it is only necessary to note the substantial degree of interest taken in the survey by members of the legislative council.109 A committee consisting of some members of the council with the Director of Industries as Chairperson examined the reports of the survey and made several recommendations.110 One of these was the liberalisation of the definition of cottage industries. While the committee suggested the definition prepared by the Board of Industries five years earlier, the Director of Industries went much further. Arguing, in effect, that cottage industries referred to the traditional industries undertaken by hand and without substantial division of labour, he pressed for a definition which would include workers in karkhanas or workshops and not only in their own homes.111 This is an interesting case of the department’s support to small capital in the traditional industries but the government had no sympathy for this view. In spite of the fact that no loans had been given to cottage industry as defined by it, and the poor record in organising co-operative societies, these latter were still held to be the appropriate recipients of State Aid. After a magisterial statement by the Finance Member, the finance department was able to ignore the industries department’s substantial new evidence on the worthiness of the role of the merchant middlemen, described earlier. The Director of Industries had not “shown how placing of Government Funds in the hands of intermediaries would benefit employees and not perpetuate ‘sweating’”.112

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This improvement of the atmosphere was less due to industrial policy than to the general upwinding after the depression. In fact the empirical evidence of new industrial undertakings being established while there was a paucity of applications for State Aid led to the Public Accounts Committee paying more attention to more liberal aid policy. This committee while commenting on the performance of the industries department noted that the State Aid to Industries Act had failed to achieve its purpose and suggested that the government should modify it. This provided the signal to the department to introduce the changes long advocated by it. A noting by the development secretariat which made the case for modifying the definition of cottage industries is interesting for its use of the terminology of economics in an argument which had been stated several times before.

It is now generally recognised that in certain industries the middleman or entrepreneur plays a very important part. Distribution is an important aspect of modern trade and requires special skills and has to be paid for according to the law of supply and demand. The State has, therefore, to look upon an industry as an entity of interdependent factors of production, one of which may be the middlemen. In certain cottage industries, such as handloom weaving and Ellore carpets, the middleman is not a middleman per se, but is also a sort of factory owner or manager—an industrialist. The only difference is that his workers work in their own homes and not in a building belonging to the owner or manager. If these industries are to be aided, the middleman-manager-owner has got to benefit to the extent at least to which an industrialist who was given aid would benefit.

There is here a categorical assertion that State Aid is to be given to industries in which the middleman dominates because these industries perform functions at least as important as the other factors of production. It is the culmination of the view of the problem described in some detail earlier where an extremely negative evaluation of the psychological traits of the home producers was combined with a relatively more objective understanding of their socio-economic position.

In 1936, in fact, there was a clearer enunciation of industrial policy. The report of the department of industries for 1935-36 noted:

Although there is no doubt much to be said for the view that small-scale industries offer, so far as India is concerned, the best solution of some of the difficulties generally inherent in the development of industries, it must be recognised that the establishment of industries of basic and fundamental importance would render possible and greatly facilitate the establishment of new medium- or small-scale industries, the finished products of the former functioning as raw materials in the processes employed by the medium- or small-scale industries. For this reason, and also on general economic grounds, it is not advisable to rule out the establishment of large-scale industries and, to concentrate wholly on minor industries coming under handicrafts and cottage industries. The advent of electricity will, however, permit of industrial development being spread over a wider area of the presidency instead of being concentrated in large urban areas.

V

These views on the relationship between large- and small-scale industry on the one hand, and the role of the merchant-middlemen on the other, are significant. They embody a conception of the industrialisation process which would allow both for modernisation of the industrial structure and for the further growth of capitalist relations in the traditional industries. Simultaneously with this view, the committee gave the State Aid Act the earlier position that only enterprises in entirely new industries, or in industries which were relatively undeveloped in the presidency, should benefit was restrictive. It underestimated the risks involved in establishing new enterprises, when finance from the stock market, let alone tariff protection could not be ensured. Similarly, the view that independent home producers could be brought within co-operatives while their erstwhile merchant patrons looked on unconcerned was unrealistic. Development of industries in which home producers predominated required either political mobilisation (even on the apparently managerial task of forming co-operatives), or an acceptance of the domination by the merchants. If mobilisation was not feasible (this would be difficult in any official effort) then it was only logical to think of help to the middlemen, if industrial evolution was at all seriously considered.

This paper has followed the controversy on both points in dispute—that of new enterprises in existing industries, and that of aid to the merchant. It has, particularly in the second case, given the arguments of both sides on this essentially economic issue, although the arguments were posed in social, political and cultural terms. The resolution of these questions was in terms more favourable to Indian industrialisation.

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Notes

All references to Government Orders (GOs) refer, except where expressly stated otherwise, to records of the department of Industries, for the meeting on 30.3.1936 in GO (Ms) No 1138 of 17.8.1935 and GO No 1133 (Ms) of 20.8.1935.

1 See Note for the Board of Industries.

2 Legislative required steps to be taken which were not always conducive to industrialisation, as will be seen. However, the understanding supporting the analysis of this paper is that the responses occasioned by the legitimisation requirements withdrew themselves the channels through which nationalistic-movement aspirations reflected themselves in official policy, to howsoever small a degree. In other words, steps towards industrial development were largely a result of the response to the impact of the national movement.

3 During most of the period under consideration, the ministries were formed from members of the Justice Party. The social composition of this party is by now well-known. See, for instance, the following works by authors who disagree violently except on the social base of the Justice Party. P Ramamurti The Freedom Struggle and the Dravidian Movement (Orient Longman, Madras: 1987); E F Irshick Politics and Social Conflict in South India: The Non-Brahmin Movement and Tamil Separatism (University Press, Berkeley: 1969) and Tamil Revivalism in the 1920s (Clio, A Madras: 1986).


A K Bagchi 'Needed Political Economy of South India' Review Article, Social Scientist 7 (1978).


A Z M Iftikhar-ul-Awwal's The Industrial Development of Bengal, 1900-1939 (Vikas, New Delhi: 1982) is a useful case study of the developments in Bengal. However, he does not appear to note that problems of industrial growth were due not only to the problems of finance, but also to the directions in which expenditure would be approved by the finance secretariat.


Revenue (Special) GO No 374 (Ms) of 13.9.1918 for the steps taken to start industries for the war effort.
10 GO No 1279-80 of 13.7.1921 has information on the follow-up to the Industrial Commission's recommendations.

11 GO No 1453 of 8.8.1921 for the May 1921 Industrial Conference at Simla. GO No 724 of 20.5.1922 for the 1922 Conference at Calcutta. GO No 895 (Ms) of 28.4.1930 on request by Director of Industries to continue Conferences.

12 GO No 1363 of 21.7.1921 discusses the proposal for an Industrial Bank in Madras Presidency.

13 Prefatory note number 11 prepared for May 1921 Industrial Conference in Simla in GO No 1453 of 8.8.1921, p 27.

14 The sceptical note is to be found in GO No 1363 of 23.7.1921.

15 Notings leading up to Development Secretary's noting dated 19.3.1921 in GO No 1453 of 8.8.1921.


17 The Industrial Conference was held at Madras on 16.5.1921. Details in GO No 1453 of 8.8.1921.

18 The Board of Industries met on 1.3.1921. GO No 1453 of 8.8.1921.

19 Review of the annual report of the Department of Industries for 1920-21 in GO No 2355 (Ms) of 21.12.1921.

20 Letter from Director of Industries to Secretary Development, number 393A/21 /1/1921.

21 Ibid. See also the report of the department of industries, Madras for the year ended March 31, 1926 (Superintendent, Government Press: 1926) 8.

22 In the year 1924-25, out of Rs 8 lakh allocated for loans Rs 4.60 lakh were disbursed. In 1925-26 the allocation was reduced to Rs 4 lakh. However, the disbursement was only Rs 53,600. 1926-27 was still a gloomy year. Of the Rs 4 lakh allocated, Rs 29,000 was disbursed. These figures were provided in the answer to a Legislative Council question and are available in GO No 615 of 30.4.1927. GO No 767 (Mis) of 23.5.1925. The Select Committee on State Aid loans for 1924-25, GO No 85 (Press) of 20.1.1927 defines the terms "cost of machinery" and "cost of research".

23 Report of the department of industries... March 31, 1926, p 10, GO No 1687 of 27.11.1926.

24 Report of the department of industries... March 31, 1927 (Madras, Superintendent, Government Press: 1927) p 8, GO No 1472 (Press) of 16.9.1927. There was also a Legislative Council question on the subject in GO No 274 (Mis) of 26.2.1927.

25 Proceedings of the Legislative Council debate on the State Aid to Industries Bill GO No 412 of 19.3.1927. The question was to arise again in 1934 but, partly because the Department of Industries did not establish the characteristic of the system of hire purchase—the fact that the assets bought with the advance provided the security—the proposal was again rejected by the government. GO No 1403 (Ms) of 3.10.1914.

26 Report of the department of industries... March 31, 1925, p 10, report of the department of industries... March 31, 1926, p 10; report of the department of industries... March 31, 1927, p 8. In the notings for a response to a legislative council question on whether the government intended to do anything if the State Aid Act was found defective, it was stated that "the views already held by government" (GO No 274 (Mis) of 26.2.1927).

27 Under dyarchy, in the case of any difference of opinion between a Minister and the Finance Member, the matter was to be referred to the Governor. The Finance Member's department was entitled to object to any expenditure on financial grounds. A note on this matter extracted from the Bulletin of Indian Industries and Labour is in GO No 1047 (Ms) of 14.6.1921. Details of the controversy and its resolution are in the notes to GO No 178 (Press) of 3.2.1926.

28 The details are in the Second GO mentioned in note 27. See also the report of the department of industries, Madras for the year ended March 31, 1926 (Madras, Superintendent, Government Press: 1926) 8.

29 The details are in the Second GO mentioned in note 27. See also the report of the department of industries, Madras for the year ended March 31, 1926 (Madras, Superintendent, Government Press: 1926) 8.

30 Apart from questions in the legislative council question on the details of the provision transgressed the competence of provincial governments or (b) its discussion was likely to affect the public interest. Law (Legislative) GO No 46 of 27.1.1928. Under the circumstances it was the Governor's Council that had directly to bear the opprobrium of withholding sanction on the grounds that some provisions entail increased expenditure. Cf GO No 2270 (Mis) of 20.12.1929.

31 A private bill to amend the State Aid Act was also introduced by which enterprises in industries already established could get aid. GO No 2270 (Mis) of 20.12.1929.

32 With the increase in the number of Congress MLCs in the late 1920s, the possibilities of non-official bills being introduced became greater. The government of India informed the Madras Government that the Viceroy would withhold sanction for introducing a private bill only if (a) its provisions transgressed the competence of provincial governments or (b) its discussion was likely to affect the public interest. Law (Legislative) GO No 46 of 27.1.1928. Under the circumstances it was the Governor's Council that had directly to bear the opprobrium of withholding sanction on the grounds that some provisions entail increased expenditure. Cf GO No 2270 (Mis) of 20.12.1929.

33 Noting dated 27.4.1928 in GO No 1220 of 27.7.1928. It is significant that the Development Secretary signed without comment, a practice usually associated with the unwillingness to either agree or disagree with a potentially controversial statement.

34 Recommendations of the Madras Provincial Banking Enquiry Committee are examined in GO No 208 of 3.11.1930. The Economic Depression Enquiry Committee's proposals are in GO No 1691 (P) of 27.11.1931. The Indian Central Banking Enquiry Committee's views are in GO No 1369 (Ms) of 16.9.1931.

35 The discussion is in GO No 699 (Ms) of 12.6.1933.

36 This position was laid down in response to a request from the Retrenchment Committee. GO No 231 of 8.2.1924. This position was reiterated as the policy in GO No 1253 (Ms) of 10.7.1924. In the specific case of the toy industry, the Development Department said that the views of the Retrenchment Committee on the need for caution in undertaking new pioneer factories "entirely in accordance with the views already held by government" GO No 346 (Ms) of 21.2.1924. The government had also to face criticism on the grounds that its soap factory was competing with private enterprise, thus raising again the question of indefinite working of a pioneer factory GO No 2156 (Mis) of 19.12.1924.

37 This position was laid down while reviewing the work of the Department of Industrial Education to the Development Minister, who took no action on it GO No 1220 (Ms) of 27.7.1928. A legislative council question on the details of the capital employed in the Presidency in industrial establishments met with the response that no data other than those already available in the report of the department of industries and the reports on the Companies Act were available. The intention of the question was clearly to argue in favour of greater effort on the part of the government. GO No 709 (Ms) of 15.4.1929.

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The Director of Industries had suggested the need for an industrial bank while considering the proposals of the Indian Central Bank, Economic Enquiry which would have been set out in GO No 3169 (Ms) of 4.10.1935.

This was recorded in the view of the Department of Industries for 1934-35 in GO No 1276 of 16.9.1935, paragraph 4. Ibid.


The revised rules of business under the Government of India Act of 1935 regarding new legislation, the previous sanction of the Governor, and so on are in Public GO No 1458 (P) of 29.8.1936. The process of change in the State Aid Act are available in GO No 595 (Ms) of 15.4.1936 and GO No 2272 of 14.12.1936.

The report on the Survey of Cottage Industries published in 1929 bring out this point quite clearly. Reports for individual districts and a consolidated report for the entire presidency were published by the government.

The theoretical position on the change from merchant to industrial capital which this process involves is in Karl Marx Capital Volume III (Progress, Moscow: 1959) Chapter 25, especially pp 334-35.

Capital Volume I (Progress, Moscow: 1954) Chapter 25 deals with the development of manufacture and factory production. For India, see VI Pavlov Historical Premises for India's Transition to Capitalism (Nauka, Moscow: 1970), pp 4-31.

At the practical policy level, evidence of knowledge of the need for this transformation is available in several places. As early as 1908, at a conference held in connection with an All India Weaving Competition, several persons spoke in favour of the manufacture form of organisation. The joint stock company form was also suggested. Other speakers praised the discipline which work in manufactories inculcated amongst workers. Report of the Proceedings of the Conference held in connection with the All India Weaving Competition held at the School of Arts, Madras on 2nd and 3rd March 1908 (Srinivasa Varadachari and Co, Madras: 1908) available in GO No 5 (Ms) of 6.1.1925. In response to an article in New India, calling for the development of small weaving manufactories, the Minister for Development advised action on the article and suggested that merchants who invested in landed property should take to the 'mill industry' instead. The practicality of small factories (in the absence of suitable economic measures such as standardising demand and wages) was raised by the government's Textile Expert and action was deferred. GO No 1588 (Ms) of 29.8.1921. A paper presented at the All India Economic Conference at Patna in 1922 argued that the middlemen or sowcar must become the focus of attention of the Department of Industries, and induced to change the form of organisation of production in cottage industries. K S Narayana Murthy The Position of the Middlemen in Village Industries. (Chinthamani Printing Works, Rajahmundry: nd) in Tamil Nadu Archives Library.

The case is made out in GO No 178 (Press) of 3.1.1926. Also relevant are GO No 763 of 22.5.1925 and GO No 77 (Mis) of 18.1.1926.

Noting by the Finance Member on the 17.10.1925 in GO No 77 (Mis) of 18.1.1926.

Noting on 5.1.1926 in GO No 178 (Press) of 3.2.1926.


In response to a legislative council question on the policy of the government towards loans for small as opposed to large enterprises, the government stated that the State Aid Act did not preclude small enterprises from applying for aid, GO No 379 (Mis) of 18.3.1926.

In response to a question in the legislative council about what the government was doing to encourage cottage industry, the response was that the handloom industry was the most important of such industries and that details of promotional work could be found in the annual reports of the Department of Industries. It was presumably the most important in terms of the numbers employed and as these were subordinated to merchant capital, it was illogical for the government to specify that they would aid only the minute number of self-employed handloom weavers, GO No 1907 (Mis) of 12.10.1921.

Further information on help to cottage industries taken from annual reports is in GO No 113 (Mis) of 23.1.1925.

The Advocate General's opinion was obtained in GO No 958 (Mis) of 5.7.1926.

This is to be found in the same GO mentioned in note 69. Interestingly the file noting sent to the Assistant Secretary says that there is no information on the conditions under which cottage enterprises function.

The Review of the State Aid Act for 1925-26 is in GO No 1358-60 of 16.9.1926. Despite this, the complaint was voiced again the following year in GO No 1074 of 15.7.1927.

The decision is in the Development Secretary's noting of 20.6.1927 in GO No 1129 of 26.8.1927.

The Director of Industries made these proposals in GO No 1730 of 27.10.1927. They were brought into operation by an amending bill.

The argument is in GO No 1730 of 27.10.1927.

The first legislative council question is in GO No 1450 (Mis) of 14.9.1927 while the second is in GO No 1567 (Mis) of 30.9.1927.

In response to the MLC's question the government admitted that up to the end of August 1927 (about three years after the act came into operation) no loans had been given to cottage industry. In response to a further question as to whether the act had any defects, the initial noting in the file stated that 'Section 5 [defining enterprises eligible for aid] as it stands at present is not defective though it is suscepti-
ble of being interpreted in different ways by different persons". In the actual answer given in the legislative council this was replaced by the statement that section 5 was "somewhat restrictive in character".

78 This was noted by the Director of Industries in GO No 391 (Ms) of 5.3.1929. It is interesting in this context to note that the districtwise surveys of cottage industry, undertaken by the Department of Industries in 1929 which will be discussed later, adopted the looser definition advocated by the department. Presumably it was felt that information should be gathered about the state of the industries in which home producers prevailed, even if aid could not be given to them as things stood. The Special Officer appointed to undertake the survey even mentioned in his report that the government's definition was too narrow. An alert MLC asked in a supplementary question on the issue of progress on action on the survey what the government proposed to do with this comment. However, the President of the Council closed the matter by observing that "The trouble is, it does not arise", GO No 1549 of 11.9.1929.

79 The extract is quoted in the review of the report of the Department of Industries for 1924-25 in GO No 1432 of 1.10.1926.

80 Ibid.

81 The help to co-operative societies by the government proposed to do with this committee. Noting paragraph 7.2.1927 in GO No 250 of 21.2.1927.

82 The attempts are described later in this section. Details of the very few co-operative societies functioning in cottage industries are available in GO No 1702 (Ms) of 6.9.1930.

83 At a practical level this is described by the Registrar of Co-operative Societies in his letter C 357/30 dated 19.7.1930 to the Development Secretary in GO No 1317 of 3.9.1931, p 36.

84 The Retrenchment Committee's remarks and the government's comments are in GO No 1138 of 21.6.1924.

85 Paragraph 259 of the Retrenchment Committee's Report discussed also in GO No 318 of 3.3.1926.

86 Here then is the apparent expression of interest in the welfare of the weaver and indifference to productivity increases which would facilitate the accumulation of capital by the merchant-middlemen.

87 In GO No 1138 of 21.6.1924. And it was also in response to this criticism that the government ordered a survey of cottage industries in the Presidency.

88 Paragraph 16 of the Report in GO No 1074 of 15.7.1927.

89 Response to legislative council question in GO No 1597 of 31.8.1921.

90 A question in early 1922 was asked about the increase in the number of spinning wheels, handlooms and output of hand spun yarn. It was recognised in the Development Secretariat that this was a response to the Congress Khadi Programme. And it was obviously another question was asked about government support to hand spinning. GO Nos 137 and 138 (Mis) of 27.1.1922. The resolution (Number 174) was moved by Vellingiri Gounder and got 24 votes in favour and 59 against it. The debate in the council took place on December 14 and 15, 1921. GO No 177 (Mis) of 3.2.1922.

91 The Department of Industries' textile specialist undertook a detailed examination of hand and mill spun yarn economics in response to a note sent to the Development Minister advocating hand spinning. GO No 798 (Mis) of 15.6.1922.

92 In 1923, another question on hand spinning met with the response that the government's position had been set out in the Development Minister's speech in the debate on the resolution moved in December 1921, GO No 9 (Mis) of 3.1.1923.

93 The objection to helping hand spinning—usually undertaken by women from the poorer peasantry—may have been because the concern lay with a particular section of the peasantry, and not with 'agriculturists' as a whole. The remarks of the Director of Agriculture to the questionnaire prepared for the cottage industry survey are interesting:

It is important to ascertain just how much spare time the people have to devote to cottage industries. It will be noted that evidence given before the Royal Commission [on Agriculture] differs very much in this important point. It seems to be usually assumed that the riyot is 'idle' and has a lot of spare time on his hands, but I do not agree that this is usually the case. The dry land riyot may have a good deal of spare time, but the wet land riyot has much less and the man with second crop lands has probably none.

This is a curious noting given that the concern ostensibly lay with the bulk of the peasantry. Clearly, most of them would be cultivating dry lands and therefore the statement that it is not 'usually the case' that the peasants had a lot of spare time is incorrect. The tone of the passage is as if the concern was solely with the richer peasants with irrigated if not double crop-lands and therefore the impression that the upper sections of the peasantry were the objects of attention, and the peasantry were the objects of indifference to productivity increases which would facilitate the accumulation of capital.

94 Letter from Registrar, Co-operative Societies to Development Secretary No C 357/30 dated 19.7.1930 in GO No 1317 of 3.9.1931, p 36.

95 The Cottage Industry Survey itself was a result of the criticism by the Retrenchment Committee of the work of the industries department. GO No 1138 of 2.6.1924 and GO 318 of 3.3.1926. The orders for the survey are in GO No 1432 (Press) of 11.10.1926 while GO No 167 (Mis) of 3.2.1927 sanctioned a special officer and staff for the survey.

96 The history of the bill, introduced in a truncated form with the deletion of most of the operative clauses and finally voted down when moved in the assembly is in GO No 2270 (Ms) of 20.12.1929. The bill itself is detailed in GO No 846 of 15.4.1930.

97 The proposal is in the letters from the Director of Industries to the Development Secretary number 978 A/29 of 11.10.1929 and 13.12.1929 in GO No 38 (Ms) of 7.1.1930.

98 Letter from Director of Industries to Development Secretary Number 136 A/30 of 4.8.1930 and from Registrar of Co-operative Societies to Development Secretary Number C 357/30 of 19.7.1930 in GO No 1317 of 3.9.1931, p 7 and p 36 respectively.

99 Professional dishonesty was "ingrained" in them. Thus "the upper folding of the cloth or the borders will always be closely woven and smooth, the middle portion will be stung, rough and loosely woven." If the intervention of the middleman was removed from the pile carpet or cotton jamkhanas industry "the weavers would use chunam wool or tannery wool for cut wool, and cheap fugitive dyes for reliable fast dyes...".

100 Note on Weaving Societies paragraph 12, page 8 in GO No 667 (Ms) of 5.5.1931.


102 Letter from Registrar of Co-operative
The origins are in the references of note 94. Legislative Council questions on follow-up action to the surveys are in GO No 386 of 5.3.1929 and GO No 1549 (Ms) of 11.9.1929. Another question on the role of hand-spinning is in GO No 2029 (Ms) of 18.11.1929, to which the answer was that the Cottage Industries Committee would examine the problem. A textile conference was also held as a result of pressure in the council GO No 509 (Press) of 22.3.1929. Another question was asked about the production of yarn and cloth in each district. The response was that no information was available. When the minister was asked about the All India Spinners’ Association, he admitted knowledge of it but said they had not been approached.

The committee’s establishment is followed in GO No 1694 (Ms) of 7.10.1929. Its report is in GO No 864 (P) of 21.4.1930.

The Assistant Secretary in the development department had supported the viewpoint of the Department of Industries, noting of 22.5.1930, p 65. The Finance Member’s statement of 12.2.1936. Much more significant was the government of India for an account of progresses in industrial development GO No 514-5 (Ms) of 16.4.1934. Schemes for rural reconstruction were asked for by the Madras government from the field agencies of the development department. GO No 1014 of 22.7.1935.

An indication of this was a request from the government of India for an account of separation in cottage industries GO No 312 of 1.3.1932 and GO No 307 (Ms) of 27.2.1935.

Report of the department of industries... March 31, 1932, p 5.


The difference here was that a mere demonstration of “independence” was adequate, while the need for a more thorough examination of the middleman’s role was replaced by the location of this role within an economic theory of distribution, giving it thereby greater apparent authenticity.