Nature of Small Enterprise Development: Political Aims and Socio-Economic Reality

Nasir, Tyabji

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Political Aims and Socio-Economic Reality

Nasir Tyabji

This political aim of the Government of India's small industries policy—the creation of a class of small capitalist entrepreneurs—required two measures to ensure its fulfilment.

Firstly, the demarcating line between small and big capital had to be defined in a way that was both administratively easy to handle and 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 ineligible persons or conglomerates to the special provisions of the the development schemes.

This paper assesses the success of the Government's efforts in these directions.

I
Introduction

ON the basis of the policy analysis in an earlier paper 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.[1]

In the earlier paper, 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 Gandhian's 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 craftsman 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 producer 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 capital 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 requirements 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'.

II
Definitional Changes

We had described in an earlier paper 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.[2] 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.[3] 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 lakh 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 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.[4]

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 lakh registered small scale units only about 1500 small scale units may be on the verge of crossing the investment limit of Rs. 7.5 lakh. 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.[5]

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 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 Govenment 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.[6]

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.[7] 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 one in which the gross value of fixed assets was less than Rs 5 lakh. In addition, small scale ancillary units with investment upto Rs 10 lakh were permissible, initially in eight selected industries.[8] 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 lakh, now to include the value of plant and machinery only.[9] In 1975, three years after a strong expression of views by an official committee we have already cited, the limit of investment in plan and machinery was raised to Rs 10 lakh and Rs 15 lakh for 'normal' and ancillary units respectively.[10] Finally, in 1980, the limit was raised to Rs 20 lakh, and Rs 25 lakh, respectively.[11]

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 lakh' 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 fixed capital investment per worker to Rs 4,000, and the annual turn over to Rs 5 lakh 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.[12] 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 lakh.[13]

The case for the increase in the investment limit has, of course, been based on the continuously rising prices of plant and machinery.[14] If we take the definition of small 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. In spite 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.[15]

The genuine administrative problems of an appropriate definition have been well expressed by a commentator who has held several positions enabling him to understand 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 make a unit large quickly so that the programme itself can help another unit.[16]

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.[17]

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 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.[18]

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 apper 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 diversify 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 [*sic*] 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 ineligible for some of the special concessions and facilities, after a particular period.[9]

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. 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.

III

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 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.[20] 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.[21] 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.

In our discussion of big business groups 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.[22] 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.[23] 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'.[24]

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 occurrances 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.[25]

IV

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 the advantage of political independence lay for them precisely in the opportunities opened for them for profitable new investment.[26] 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.[27] 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

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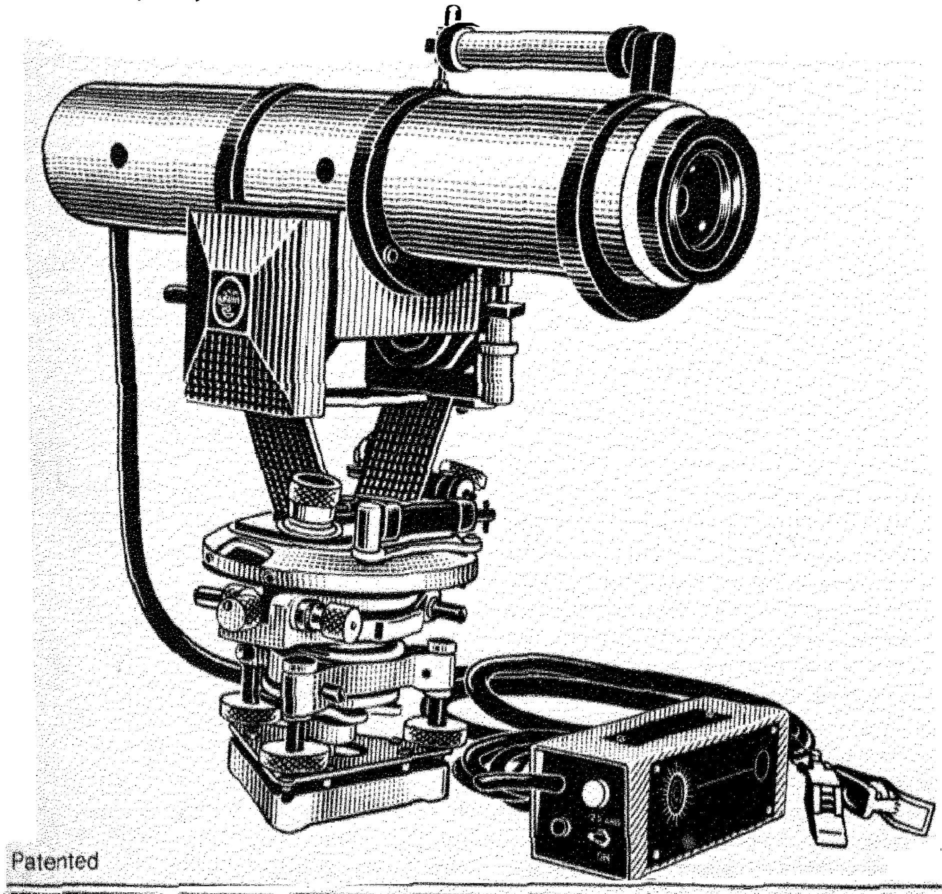

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role of large capitalist interests in the Small Scale Sector. Thus, notwithstanding the Planning Commission's Strategy for the Second Five Year Plan, the Minister for Consumer Industry had made it clear in an article in *The Statesman*, that the Small Scale Sector was not closed to large industrialists.[28] In fact, he chided their apparent reluctance to enter this field, and 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.[29]

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".[30]

In spite 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.[31]

Academic commentators have, in the recent past, agreed with these views.[32] 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.[33] 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.[34]

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.[35] 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 Etimates Committee of the Second Lok Sabha, in its enquiries into the working of the Central Small Industries Organisation, nowhere mentions ancillaries, the Reports of the Third Lok Sabha Estimates Committee take up the ancillary development programme as a major item. But 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.[36]

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 lakh [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.[37]

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.

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.[38]

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 judgment 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 judgment of a very very grave magnitude and is of very serious implicatin 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.[39]

The point 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 preferable to manufacturing the component in-house.[40] However, it seems that there is no requirement at the stage of granting a licence 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.[41]

The Secretary emphasised that the question of ancillarisation was left entirely to the promoter's 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.[42]

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 unsurpris-

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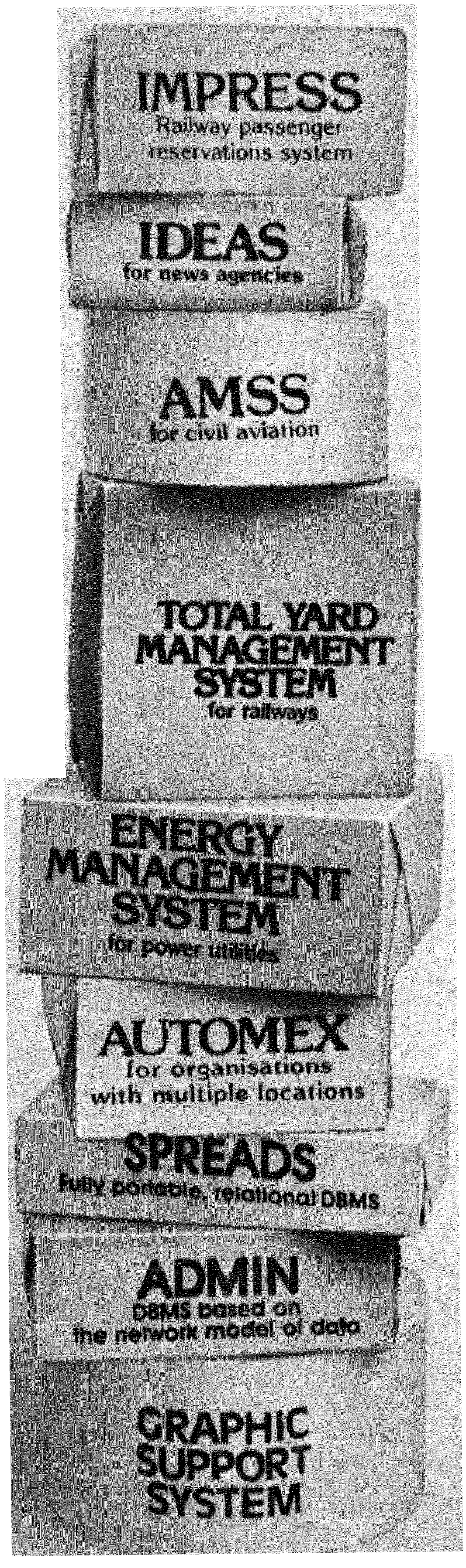

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ing that there should be a feeling among a wide range of observers that the ancillary provisions have been used by big capital to develop captive units which have been making use of the facilities extended by government to sub-contractors.[43] These 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 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 *imposed* 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, econonmic 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.[44]

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 possibly even stronger compulsion to allow big capital to expand through the development of ancillaries captive to their large units.[45] This compulsion would have been the greatest 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.[46]

V

Conclusions

In this paper, 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 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 ineligible 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 the target of pressure 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 sourrounding official policy statements. As we have argued in an earlier paper, and in the present paper the aims of small industries policy were twofold; in such a case the problem of encouraging the development of small scale *units* and small scale *persons* through the same programme would require a certain looseness in the definition.[47] 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 pre-emption of the ancillary market may mount.

Notes

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1 Nasir Tyabji, "Capitalism in India and the Small Industries Policy", *Economic and Political Weekly,* XV (1980), 41,42,43.
2 Nasir Tyabji, *op cit.*
3 Ram K Vepa, "Small Industry in the Seventies", (Vikas, Delhi: 1971) p 179.
4 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.
5 *Ibid,* p 7.
6 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, "Scheme and Progress 1960-61" (New Delhi: 1961), p 8.

7 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.

8 National Small Industries Corporation, "Schemes and Progress 1960-61" (New Delhi: 1961) pp 8-9

9 Ministry of Industrial Development and Internal Trade, Development Commissioner (Small Scale Industries), "Use Your Opportunities for Starting a Small Industry" (New Delhi: 1970).

10 See, for instance, G D Sharma, "How to Start Your Own Small Industry" (Press and Publications Agency, Delhi: 1976) p 9.

11 See, for instance, Estimates Committee (7th Lok Sabha), Fourteenth Report on the Ministry of Industry (Department of Industrial Development) Small Scale Industries—Raw Materials and Marketing (New Delhi: 1981), p 1.

12 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.

13 This was announced in the 1980 Industrial Policy Statement. See, for instance, *Commerce* CXXXXI (1980), 3606, pp 226-229.

14 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.

15 Report of the Committee for Drafting Legislation for Small Scale Industries. *op cit*.

16 Ram K Vepa "Small Industry in the Seventies", (Vikas, Delhi: 1971) p 178. (emphasis in original).

17 *Ibid* p 179.

18 For a detailed discussion of the Manufacturing and Stores Purchase Reservation Policy, see S K Goyal, K S Chalapati Rao and Nagesh Kumar, "Studies in National Development: Small Scale Sector and Big Business" (Corporate Studies, Group, IIPA, New Delhi, 1984).

19 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.

20 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).

21 For a discussion of these issues see Nasir Tyabji "Stratification of Indian Business" in Amiya Bagchi and Nirmala Banerjee (eds) "Change and Choice in Indian Industry" (K P Bagchi and Co, Calcutta: 1981).

22 Nasir Tyabji, "Stratification of Indian Business", *op cit*.

23 See the Report of the Committee for Drafting Legislation for Small Scale Industries, pp ii, 36-39, 109-112.

24 Nasir Tyabji, "Statification of Indian Business" *op cit*, for the connection between private limited companies and medium big capitals.

25 See S K Goyal *et al*, *op cit*, for further confirmation.

26 See Nasir Tyabji, "Capitalism in India and the Small Industries Policy, *op cit*.

27 Report of the Industrial Licensing Policy Inquiry Committee, *op cit*.

28 *The Statesman*, Second Five Year Plan Supplement, June 27, 1956.

29 K K Mehan, "Small Industry Procedures Handbook" (Productivity Services International, Bombay: 1971) p 3.

30 See, for instance, *The Hindu* (Hyderabad), 4-8-1980, p 1, column 2.

31 *Industrial India*, XXXVI (1975), 6, p 15.

32 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.

33 See Ministry of Industrial Development, Internal Trade and Company Affairs, Report of the Industrial Licensing Policy Inquiry Committee (New Delhi: 1969) Appendix, Volume 2.

34 This is in fact confirmed by the recent IIPA Study. See S K Goyal *et al*, *op cit*.

35 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).

36 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).

37 Estimates Committee (3rd Lok Sabha), *op cit*, p 18.

38 Estimates Committee (7th Lok Sabha) (*op cit*), p 93.

39 Estimates Committee (7th Lok Sabha) (*op cit*), p 93.

40 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*, "Problems and Possibilities of Ancillary Industries in a Developing Economy" (World Press, Calcutta: 1965).
J Macdougall "Ancillary Industries in Asansol Durgapur" (Asia, Bombay: 1965).
T K Lakshman "Problems and Prospects of Ancillary Industries in a Growing Economy" (Rekha, Bangalore: 1970).

41 Estimates Committee (7th Lok Sabha) *op cit*, p 94.,

42 Estimates Committee (7th Lok Sabha) *op cit*, p 94.

43 See, for example, the works by H K Paranjpe, B Datta and C T Kurien cited earlier. See also Nirmala Banerjee, "Is Small Beautiful?" in Amiya Bagchi and Nirmala Banerjee (eds), *op cit*.

44 Douglas 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), p 140, (emphasis in original).

45 See also S Watanabe 'Reflections on Current Policies for Promoting Small Enteprises and Subcontracting', *International Labour Review*, LX (1977), 5.

46 See the Report of the Industrial Licensing Policy Inquiry Committee.

47 See Nasir Tyabji, "Capitalism in India and the Small Industries Policy", *op cit*.