Capitalism in India and the Small Industries Policy

Tyabji, Nasir

October 1980

Capitalism in India and the Small Industries Policy

Nasir Tyabji

It is instructive to look at the genesis of what has come to be known as the small industries development policy and to see whether it was at all possible in the early 1950s, given the already existing strength of large industry, for any government to have appreciably increased the strength of cottage and other small industry — and thus to have provided the jobs which, it is claimed, the policy actually implemented did not.

For this purpose, we must examine the Congress's original views on the pattern of development it wished to see; the results of almost 20 years of debate following the 1929 Karachi resolution; and the opposition these views faced once Independence was a reality — both from large industrialists and from large landholders. Attempts were made by the large industrialists to bring about direct changes in policy, while the large landholders tried to preserve their economic and social interests through intervention largely at the more detailed policy-making stage and at the time of implementation. Though both types of obstruction had an impact on the final shape of the small industries policy, it is with the former that this paper is principally concerned.

I

FOLLOWING the formation of the Janata government at the Centre after the March 1977 general election, the debate centred on the Gandhi *vs* Nehru model of development has considerably sharpened. Attempts have been made to show that various disturbing features of the Indian economy, sharply visible in social manifestations such as unemployment, arc due to the misconceived economic development policies epitomised by the Second Five Year Plan.[1]

The anti-Nehru views would hold the visible strength of the large-scale factory sector at the present time, and its undoubted growth from the time of Independence, to be very largely the results of a conscious policy towards this end. They would see it to be an inherent, intended, result of the Congress party's commitment to 'Socialism — Nehru style'. They would like to see an increased emphasis on small-scale production, preferably in the cottage industry sector; and a general shift in terms of development priorities towards rural development. In the present context, this would presumably mean increased non-agricultural employment in the rural areas, and improved agriculture, in terms of technology.

The debate has been essentially political , for the obvious reason that a new political party had come into power; and changes in development strategy needed to be justified in terms of the need for such changes, which the all-too-apparent indicators, such as the continued existence of poverty and unemployment, demonstrate.

Such a strategy shift would be justified if it could be shown that there was a direct link between the type of development expected, in terms of the Five Year Plans, and the situation we are now in. In fact, the abandonment of planning from the mid-sixties onwards,[3] and the little change in terms of the negative fall-out from the 'Nehru Model' over the last 13 years, would show that the results we see today are a consequence of the inherent structure and workings of our socio-economic system. Put another way, we would argue that, if the level of poverty and unemployment and other social indicators of lack of performance during the Indira Gandhi years have not shown any decrease, it was not inherent in the Second Five Year Plan strategy that these problems are with us. Rather, their continued existence requires us to look deeper at the workings of the Indian economy.

Within this context, it is instructive to look at the genesis of what has come to be known as the small industries development policy and to see whether it was at all possible in the early 1950s, given the already existing strength of large industry, for any government to have appreciably increased the strength of cottage and other small industry — and thus to have provided the jobs which, it is claimed, the policy actually implemented did not

For this purpose, we must examine: the Congress's original views on the pattern of development it wished to see; the results of almost 20 years of debate following the 1929 Karachi resolution; and the opposition these views faced once Independence was a reality — both from large industrialists and from large landholders. Attempts were made by the large industrialists to bring about direct changes in policy, while the large landholders tried to preserve their economic and social interests through intervention largely at the more detailed policy-making .stage and at the time of implementation. Though both types of obstruction had an impact on the final shape of the small industries policy, it is with the former that we are principally concerned.

II

Gandhi's emphasis on individual hand spinning as a form of regeneration of human dignity must be seen as the original source of the Indian Small Industries Policy. Following his rise to ascendency within the nationalist movement after the 1919 Congress session, his ideas on the intrinsic meaning of Swaraj, were to gain a certain acceptance, however little in totality they may have fitted in with the philosophy of most of the other prominent Congressmen. However, with the practical requirements of the nationalist movement and the need to provide work to Congressmen during periods of comparative inaction, the initial purely moral basis for supporting khadi soon assumed important economic consequence. The All India Spinners Association was established in 1925. In the early 1930s support was successively extended to hand weaving, and to certain other types of small industry, even those employing workers on wages. This had been necessitated by the boycott of foreign cloth and of British goods, of all kinds, and the need to develop indigenous sources of these goods. While large-scale indigenous sources could not develop without State aid — which was unlikely at the time — Congress resources and

support could only help the development of small-scale production of these items; and this position was formalised by the inauguration of the All India Village Industries Association in 1934.

It was then natural that when the formation of the National Planning Committee was announced by the Congress President in 1938, with Nehru as Chairman, that there should have been a sub-committee on cottage and small-scale industries. Although the main Gandhian representative on the sub-committee resigned from the committee,[3] the Report was significant for integrating Gandhian concern for small-scale industry with Nehru's concern for clarification of the role of public sector, changes in agrarian relations, and other matters which had been stated in the 1931 Bombay Congress Session resolution.

What we are suggesting is that the Reports of the National Planning Committee are important, in that, not only do they set out actual details of the type of initiative to be taken by the State and by private sources. Primarily, their significance lies in that the specific balance between State and private sector initiatives reflects the balance of power between the various strata of society which had combined within the Congress to work for Independence.

It was the Reports of the National Planning Committee which formed the basis for the Congress Economic Programmes Committee report which was published in early 1948 — the first statement of economic policy by the Congress party — now with the power of the State in its hands.

Although several large industrialists had been associated with the National Planning Committee, and had themselves taken the initiative towards advocating a substantial role for the State in planned economic development in the Bombay Plan, the reaction to the Report of the Economic Programmes Committee was hostile. A few months earlier, the Minister for Industry and Supplies had convened a conference on Industrial Development in Delhi. It is clear that the purpose of the conference was to obtain agreement on the type and extent of State intervention acceptable to the industrialists present. This indication of official (as opposed to Congress) thinking was formalised by the 1948 Industrial Policy Resolution (IPR), and then incorporated into Congress ideology by instructions given to a further Committee[4] to integrate the views of the IPR and those of the Congress Economic Programmes Committee, This step was probably decisive in bringing about some measure of agreement between the Nehru group and the large industrialists.

Regulation of the large-scale private sector, which was a compromise reached between those who advocated its nationalisation, and[1] those who wished to see the 'market given full play', was to be institutionalised through the Industrial Development and Regulation Act which went through two select Committees of the Lok Sabha, and finally emerged, in consistency with the development strategy formulated by the Planning Commission.[5]

III

The Indian strategy of economic development had been considerably clarified by the acceptance by the Lok Sabha of the First Five Pear Plan, and the passage of the Industrial Development and Regulation Act (IDRA),[6] The Five Year Plan suggested programmes of industrial development in addition to programmes in agriculture, social services, and health. The IDRA defined the type of industrial unit which would be subject to State control, and the methods of control to be exercised.

The Act laid down that all industrial undertakings coming within specific industry groups, and of a size larger than a specified minimum would need to register themselves by a particular date with an agency notified by the government. A proposal to establish a new undertaking within the 'scheduled' industry, to relocate an existing undertaking, or to undertake 'substantial' expansion plans would require the permission of the government in the form of an industrial licence. The role of the government *vis-a-vis* the private sector was made explicit in this form, and the Act is probably the most important key to understanding the logic of the Indian industrial development strategy. For, not only did it prescribe the type of industrial unit which came under its purview, it also defined by exclusion, a 'small-scale sector' of small capitalist factories which were free of the licensing regulations.

The Fiscal Commission made a major conceptual advance in distinguishing between cottage industries and small-scale industries on the wage labour criterion, and the relationship between proprietors and workers.[7]

> A cottage industry is thus one which is carried on wholly or primarily with the help of members of the family, either as a whole or a part-time occupation. A small-scale industry, on the other hand, is one which is operated mainly with hired labour, usually 10 to 50 hands.

Probably leading from this definition, the Industrial Development and Regulation Act exempted units employing less than 50 workers *with* power, and less than 100 workers *without* power, even from registration. As we shall see later, this exempted sector came to be known as the small-scale sector of factory units.[8]

Nehru's stress on the necessity of planning had led to the formation of the Planning Commission and to the Five Year Plan. Similarly, the general acceptance of the need for controlling the significant activities of the private sector had emerged in the form of IDRA. These two, as has keen mentioned, had defined an unregulated or small sector including capitalist units, and had defined plans for the development of this sector. A similar historical continuity existed as far as the actual content of the development agencies was concerned. A Cottage Industries Board had been established in 1947 to develop these types of industrial units.[9] In 1952, the board was split into three separate boards responsible for Khadi and Village Industries, Handicrafts, and Handlooms, The All India Spinners Association and the All India Village Industries Association were amalgamated and formed the Khadi Board. The Handloom Board was an outcome of the immediate post-war Handloom Board[10] and the standing Handloom Committee of the Cottage Industries Board.

Most units in these industrial groups represented very early stages of economic development. Artisan and small commodity production predominated, often subordinate to trading capital. With the hold of trading capital as strong as it was, and with Gandhians on the Khadi and Village Industries Board unwilling to accept any changes in technology, the road to development of these traditional industries was virtually closed; of course, this was precisely what the Gandhians wanted — the supply of consumer goods from Village and cottage' industries essentially using traditional technology and no wage labour.[11] However, the requirements of general economic development were quite opposed to this philosophy. In 1954, a Small-Scale Industries Board was established to encourage the growth of industrial units not covered by the existing boards, and free of IDRA regulations.

Although the Small-Scale Industries Board (SSIB) and related institutions were not totally new concepts,[12] their

formation at a time substantially later than the other Boards, and from the time the need for such a Board had first been voiced, requires some explanation, it seems that the need to provide specific measures to deal with the urban educated unemployed, which had been a matter of some concern,[13] coincided with the willingness of the Ford Foundation office in Delhi to provide the services of a team to examine, in concrete, the requirements of small capitalist and transitional-to-capitalist units.

T T Krishnamachari, who was the Minister for Commerce and Industry when the team submitted its report, expressed the government's view of the problem arising from the explicit emergence of unemployment in a speech to the Lok Sabha.[14]

He pointed out that the traditional Indian social structure based itself on the joint or undivided family, and that in such families unemployment or underemployment was not readily apparent. It was when industrialisation — and the demands of urban life that this gave rise to — led to the dissolution of the joint family, that unemployment became apparent.

Therefore, he implied, unemployment was not increasing. Rather, it was becoming obvious and the process that was making it obvious, *viz,* industrialisation, was also the only process that could remove underemployment, whether hidden or obvious. However, as the process of construction of large factories would necessarily be slow, it was important to protect traditional manufacturing activities from decay.

This would appear both a reasonable analysis of the situation and a good rationale for the policies adopted by the Government of India. It was also an unexceptionable proposition that existing units in rural areas would need to improve their techniques of production, if increased demand for the goods produced by these units was to lead to higher incomes for those working in them.[15] However, what was clearly controversial was the methods by which the demand for these rural units was to increase. For this to happen, a specific share of the market would have to be reserved for such units and methods would have to be devised whereby the goods could be transported and marketed in areas where substantial demand arose.

Both these measures involved a clear attack on dominating economic and social interests in urban and rural areas. For, a common production programme, if effective, would have eaten into the growing mass market, which was precisely the major attraction of political independence and economic growth for the industrialists in the country. Moreover methods of bringing rural units into contact with urban markets (these being the quickest growing and most concentrated) or even the informal rural markets, would require the development of co-operatives. In all the talk of the 'evil of the middleman', there was no trace of awareness that these middlemen were part of the elite, relative to the producer, and that co-operatives, in signifying an initiative in favour of the producer by the State, were simultaneously oriented against the economic and social interests of the elite.[16]

The point was that, while a common production programme could be introduced through executive action, and defended by executive interests which saw this defence as their purpose, the co-operative movement was a political movement and could not be projected by officials. Although T T Krishnamachari appeared to be against the formation of an extension service, which would have been necessary for any official attempt at the growth of the co-operative movement, on the grounds of the resources this would require, he was probably well aware of the political dimensions of the problem.[17]

In the circumstances, the problem was to prise effective control of the development of small-scale production away from the Gandhians, whose position on self-employment and co-operatives was proving far more embarrassing than their apparent opposition to modernisation of techniques. A further advantage of the organisational disjuncture between 'cottage and village' and '.small-scale industries' was that the Gandhians could be left to do whatever they could, through voluntary agencies. They would have no further reason to demand of the government that it reorientate its entire development strategy around the class of industries under their control. That is to say, executive support for small-scale industries, which would ensure that the social stratum represented by these industries had their point of view considered in policy formulation, was feasible for those industries which were 'ancillary' to the growth of capitalism; the cottage industries inevitably had to die in any long-term view of the economy and their proponents could not have any voice in executive decision-making.[16]

IV

The International Team sponsored by the Ford Foundation arrived in India in late 1953. The Government of India provided a liaison officer of the rank of Joint Secretary, and the team presented its report after a three-month tour of the country in early 1954.[19]

The team consisted of five members, of which two, including the chairman, were Swedish, while the remainder were from the United States. The occupations of the members of the team are of interest:[20]

Chairman (Sweden) ... Vice principal and acting principal of the Swedish Institute for Higher Education in Trades and Handicrafts.
Member (Sweden)... Managing Director of the Swedish Federation of Small Industries and Crafts.
Member (USA)... Consultant in development of handicrafts and specialised small -industry.
Member (USA),.. Specialist on co-operatives.
Member (USA) ... Industrial engineer.

As can be seen from the list, the team had experience and expertise in specific technical and managerial areas. It is thus not surprising that they tended to identify only those problems that their knowledge enabled them to recognise. The report consisted of seven chapters on the following subjects:

(1) Multipurpose Institutes of Technology for Small Industries,
(2) Design and Methods of Supply for Quality Products in Handicrafts, Artcrafts, and a Specialised Sector of Small Industries.
(3) Credit and Finance.
(4) Trade Associations.
(5) Co-operatives.
(6) The Industrial Process — Its Implementation.
(7) Marketing and Distribution.

The assumptions underlying the choice of both the members of the team and the subjects covered by the report was that the major problem affecting the growth of small units was a lack of systematic planning within the unit itself. If standardisation in the quality of products could be ensured through the provision of credit and marketing channels, then small-scale units could be moved from the position of 'uncompetitive units' within an essentially neo-classical, perfectly competitive, economy to that of thriving 'growth points' in the economy.

It is significant that the team did not consider the question of entrepreneurship. The report is concerned mainly with the problems of existing enterprising small industry, and not with developing new units by persons without a background in trade or industry.[21] The world view implicit in the Report assumed that the basic problem of State aid to industries was to separate the grain — those units which could be made viable through aid of this

type, from the chaff — where no amount of aid would succeed in making the unit viable. The very different factors which might distinguish the grain from the chaff — such as the level of indebtedness, the access to raw materials, the ability to manipulate regulatory measures, and so on — were in this view to be included within the last factor — *viz,* risk-taking ability. Coming as they did from advanced industrialised societies, members of the team could not conceive of a socio-economic and cultural milieu different from their own. For them, any hard-working systematic entrepreneur was bound to succeed.

The team had been asked to exclude from its consideration 'small industry' — here taken to mean non-factory units — which were already covered by the KVIB. Although they did examine some problems of handicrafts, they were concerned essentially with mechanised small industry. both from the point of view of their own expertise and concern, and the strong. feelings the KVIB had about industries in its own care.

The most important recommendations of the team were the establishment of a number of Regional Institutes of Technology to be administered by an officer responsible to the Government of India, and a Small Industries Corporation which was to help small-scale units to tender to Government for contracts, With the acceptance by the government of these two proposals, a stage was reached where persons in ownership of small production units had an institutional mechanism by which their interests as a group could be communicated to the government.[22]

The final stage in the integration of small-scale industries, as a component of the structure envisaged as intrinsic to the Indian economic development strategy, came with the Second Five Year Plan. The Mahalanobis Model, which formed the basis of investment decisions in this plan, laid down that the supply of consumer goods which would be required to meet the increased demand for wage goods would be largely supplied by small-scale production units. By relying on these types of units, several social and political objectives could also be met, and the Plan document was eloquent in describing the advantages of small-scale industries.

It is in fact, this role of small industries as providers of consumer goods that gives importance to the study of the origin of the small industries policy. For it is the reliance on this group of units, and the emphasis on investments in Department 1 industries, which serves as the delineating feature of Indian economic development up to at least the end of the Third Five Year Plan. It is for this reason that, in the next section, we elaborate the logic of the aims laid out for the promotion of small industries and consider the extent to which these units could, in the absence of complementary measures, expect to contribute to the achievement of these aims.[23]

V

The Second Five Year Plan, in establishing a case for the promotion of small industries had made the following points in their favour:[24]

> They provide immediate large-scale employment, they offer a method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilisation of resources of capital and skill which might otherwise remain unutilised. Some of the problems that unplanned urbanisation tends to create will be avoided by the establishment of small centres of industrial production all over the country.

Development of small-scale industry was thus seen as a way of serving the following objectives:

(1) Employment generation.
(2) An equitable distribution of national income.
(3) Mobilisation of capital.
(4) Mobilisation of entrepreneurial skill.
(5) Regional industrial dispersal.

It is possible to regroup these five objectives into a group of three as follows:

(A) An equitable distribution of national income, mobilisation of capital, mobilisation of entrepreneurial skill.
(B) Employment generation.
(C) Regional industrial dispersal.

Measures to bring about a reasonably equitable distribution of national income are a normal practice followed by 'welfare' states, and the Indian Constitution is clear about the desirability of such measures. The most efficient method is obviously to increase public welfare measures, financed by suitable fiscal means, to provide a wide range of goods and services in the form of public services. However, in the Indian context, the existence of a highly skewed income and wealth distribution at the time of Independence implied that substantial redistribution would involve very steeply progressive taxation on a very narrow base, leading both to tax avoidance and to disincentives, within the context of a capitalist economy, to savings and investment. A second approach would be to generate a large number of small centres of capital accumulation, through providing both opportunities for the development of industrial capitalism, and the support measures required by the two most prominent sources of such capital — the representatives of merchant capital, and those of early forms of capitalist and small commodity production. While the former would require the assurance of markets sufficient to lead to expanded reproduction, and of technical support to help in the conversion to operation as industrial capitalists, the latter would require augmentation — taking into account both the value and the material content — of their instruments of production, and of loans provided by the State to enable them to invest proportionately in raw materials and labour power.

The first objective, then, could be seen to be the development of small industrial capitals which would be integrated into the general scheme of extended reproduction of capital, by ensuring the realisation of the values of the commodities they produced in exchange for variable capital, part of the surplus used for personal consumption by capitalists in Departments I and II ("production of consumer goods"), and part of constant capital in Department II ("production of simple capital goods"). The conversion of merchant capital to industrial capital — the more painful form of transition to capitalist production as Marx noted — by the supply of machinery on a hire-purchase basis, and the supply of money capital in the form of loans to small commodity producers to hasten their process of pre-capitalist accumulation, were the methods to be used.

The second objective, that of employment creation, has two aspects differentiated by the social origin of the unemployed. The first group — the educated unemployed — must have come largely from the propertied classes during that period;[25] and the flow of unemployed can largely be related to demographic distortions — in the sense that the section of society depending on the surplus extracted from the production process appeared unable to match the rate of human reproduction to the surplus available. Or, to put it another way, they were inhibited at the subjective level by social conventions from transferring surplus from the consumption to the accumulation fund,[26] The second group of unemployed who suffered as much from the deficiency of capital accumulation came, by and large, from the petty bourgeois sec-

tions, the smaller peasantry, and the urban 'informal sector'. These were largely uneducated, and would under normal capitalist development and differentiation of the peasantry, have formed the working class. Small-scale industrial production provided an avenue of employment closed otherwise ' to them, both because of the slow rate of growth of the large capitalist sector and the large amounts of capital investment which were required to generate a job in the large-scale sector (particularly in the Department I industries where the priorities of the development plait had dictated that the bulk of public investment would lie).

The third objective, of regional dispersal of industrial activity is, in many ways, the most interesting. Regional dispersal policies in advanced capitalist countries are ways of reducing urban congestion. In India, although the same reasoning was used, essentially the policy would have had to develop capitalism in areas where commodity circulation rather than commodity production prevailed. In other words, industrial capitalism in India was unevenly spread both across the capitalist class (i e, concentration of capital had taken place without there being much-of a base in terms of numerous small capitals), and geographically, across the country. Thus attempts in the 1960s to identify 'backward' areas in terms of indices of infrastructural development are to be seen essentially as methods of locating areas where industrial capitalism (both in the sphere of production and circulation) had been unable to make any substantial advance.[27] It would be in these areas that merchant and usurer capital would hold relatively greater sway. For, in the absence of the production of wage goods on the one hand, and the wage income generated by such productive activities on the other, the bulk of the population woulcj be forced to depend on representatives of merchant capital for the wage goods they required; and with low and unstable incomes, on usurers (not necessarily individually distinct from merchants) for the money resources to buy these requirements on the other.[28] Thus backward areas are *backward* in the scientific sense in terms of the low development of industrial capitalism, of which indices of infrastructure development are the physical indications.

Under these conditions, the State may approach the problem of integrating the economic activities involving the population in backward areas into the national scheme of extended reproduction in a number of ways. The first is the induction of capitalist units of production in such areas, specifically in the Department I industries, on the reasonnig that their technical integration into the national reproduction scheme, will of itself enable them to serve as a centre for the outward radiation of industrial capitalism.[29] This process, similar to the initial induction,;. of large-scale factory industry into the economy in the mid-19th century, might be successful if 'downstream' units were to develop proportionately, leading to a sufficient concentration of population to justify the provision of goods and services in an organised manner, thus undermining the role of merchant and usurer capital Various complementary measures in terms of the development of means of communication, and of freight rates at a level sufficient to induce private investment in the geographic proximity of such areas, would be necessary for such a policy to succeed.

The second approach is through the independent development of industries in Department II, on the assumption that markets for the realisation of the value of the commodities existed, or could be developed through the generation of wage incomes. It is in this context that the controversy over large' or 'small' industry developed; whether it was the former or the latter which could act as the 'leading' element in the inplantation of industry in areas dominated by antique forms of capital.[30] The discussion appeared to be carried on at an abstract level. And the asserted role of small-scale units as a means of mobilising existing stocks of money capital, led to the view that as there were unlikely to be large concentrations of money capital in these backward areas, small-scale production would be the most that individuals living in the area in question could aspire to. Thus the argument for the growth of 'local 'capitalists' led logically to the position of extolling the virtues of small-scale units as a means of developing industrial capital — thus completely overlooking the outmoded social consciousness of the representatives of merchant and usurer's capital, even in cases where the objective conditions were in favour of capitalist development.[81] The failure to olrtain a response in many cases to the measures for development of small-scale production led to increasing emphasis being laid on subsidies in the form of tax and excise relief, infrastructure development at subsidised charges, and so on.[32] The mistake, if it can be called that, lay in assuming that incentives of a developed industrial capitalist type could induce the flow *from* earlier forms *to* industrial capitalist activity, of capital accumulated through trade or money-lending. Iri the absence of such change, it would be capitalists from outside who would come to take advantage of the subsidies offered.

The Second Plan document had also assumed that existing small industry would be protected from inroads into their markets of the products of developing large industry — specifically that range of small industry which lay outside the bigger towns. This would logically have required measures reserving items of production for small-scale production, and freezing of existing capacity of large units which were at that time located mostly in metropolitan areas.[33]

VI

By the end of the Second Five Year Plan period, it was clear that not only had small industry not developed appreciably outside the large urban centres, but that there appeared to have been no substantial State support for measures to encourage such dispersal.[34] The principal subjective reason for this lay, according to the Report of the Working Group on Small-Scale Industries, reporting on the programme of work for the Third Five Year Plan that during the Second Plan:*[5]

> The aim, according to this (Karve) Committee was to build up... a pyramidal structure of industry broad based on a progressive rural economy and the growth of small industrial units coupled with necessary services among the big villages and small towns all over the country...

The subjective basis for the lack of positive support lay then in the fact that the Karve Committee was dominated by Candhians, supporters of the continuing existence of small commodity production, which in the forms of village craft activities, was very largely dispersed in any case. They saw no reason to suggest specific measures for the decentralisation of 'modern' small industry. These they would probably have considered not deserving of special attention; for, like large industry, these employed wage labour, and were not in this specific sense 'decentralised*.[3]*

The Karve Committee Report may be seen to be the last attempt by representatives of small commodity producers (together with the resolution on Co-operative Farming passed at the Congress session in 1956), to establish

policies of development on the assumption that the State *primarily* subserved the interests of these strata of producers. In other words, regional dispersal policies during the Second Plan period were the prime victims of the clash at the administrative level between representatives of small commodity and small capitalist producers,

The beginning of the 1960s saw a new initiative for regional development of industrial capital. At the political level, Jayaprakash Narain, carefully dissociating himself from the supporters of small commodity economy, emphasised in a note to the Planning Commission that the benefits of the policy for the development of a small capitalist class had been concentrated during the earlier plan periods on the urban, and more developed, parts of the country;[37] he clarified that his suggested approach did not mean that the use of power and of wage labour precluded from attention industries requiring these by any agency concerned with regional industrial development.

At the official level, the Third Plan Working Group had suggested that the industrial estate could be used as a tool of regional planning, as long as the estates were planned with sufficient regard for their economic feasibility,[38] Thus estates were seen as a method of implanting a more or less complete cycle of reproduction of capital, in areas where it was likely that the objective conditions were favourable to the integration of this cycle into the surrounding production relations, and the development of these relations in parallel with the capitalistically advanced 'centre'.

Industrial estates had been developed in England, as a means of reducing urban congestion through the planned relocation of industrial units outside urban centres, although close to them. In other words, they were a means of bringing about the superstructural coincidence, in terms of zonal town planning, of the development of industrial capitalism with a clear division of labour between the sphere of production and of circulation. In this they succeeded, for the objective conditions had been correctly assessed; but the chances of their succeeding in achieving very different objectives in the Indian context depended on the industrial units which were set up on the estates serving sufficiently complementary functions so that, as we have mentioned above, an almost complete cycle of reproduction existed. In the absence of this, estates could function only where- the market for the realisation of the values produced existed in geographic proximity (either larger urban centres, or in the case of an ancillary estate, large-scale industry).

Primarily in response to the note by J P Narain, the Planning Commission constituted a Rural Industries Planning Committee in 1961, and developed a scheme for the development of small industries in backward areas. In significant contrast to earlier schemes whose intention was to develop village level small industry—-the Pilot Projects for village and small industry based in community blocks[3]* — and the Intensive Areas Scheme of the Khadi and Village Industries Commission[40] — the Rural Industries Scheme based itself on a population of 3 to 5 lakhs and thus implicitly assumed the growth of fairly substantial commodity markets. Although emphasis was laid on the development of co-operatives for 'traditional village industry* it seemed clear that these were holding operations, the greatest stress being laid on the initiation of new small industrial units. It is significant in this context that the Report on the schemes refers to the 'limited' development possible in the case of traditional village industry.*[1] In addition, while it specifically mentions the need to avoid competition from the products of large-scale industry *vis-a-vis* small industry, the possibilities of competition between small commodity production is not mentioned. It appears that the approach was now to allow the natural forces of capitalist development, at the lower ends, to operate to destroy small commodity production, although it is probably true that in areas where there were substantial pockets of small commodity production, capitalist competition was prohibited.

VII

Three specific attempts were made by official agencies in the late 1950s and early 1960s to develop small industry in rural areas. The purpose of these projects was to experiment with the possible methods of institutional support to small-scale units, in terms of administrative procedures and arrangements, in addition to the actual development of small-scale units.

The first of these attempts were the Pilot Projects Schemes of the Ministry of Community Development and Co-operation. This consisted essentially of organisational arrangements for co-ordinating developmental work already under way through the state government Department of Industries, and the All India Boards for Small-Scale Industries, Handlooms and 50 on. The evaluation committee for this scheme pointed to two major defects in their design. First, there were no specific funds sanctioned for the schemes, which had in the circumstances to suffer from the rigidity built into the schemes in existence which had been sanctioned by the All India Boards. Secondly, no attempt appears to have been made to translate the broad objectives of the scheme into a series of concrete practical steps which could be followed by administrators at the field level to achieve these objectives.

Both of these failings are essentially those of an organisation new to the task of active intervention in the economic decision making of private individuals. However, a more serious drawback was the lack of any insistance on the regional planning element. As the Perspective Planning Team of the Ford Foundation said *in* 1963 about an agenda item for the forthcoming meeting of the Small Scale Industries Board:

> A requirement that half of the total allocation for small-scale industries and industrial estates be spent in villages with less than 5000 population would, if enforced, be likely to lead to waste, misdirected effort, and frustration. Not only does the setting of expenditure targets in thus way encourage ill considered projects, but, even more fundamental, the attempt to implant modern industry on an extensive scale directly into villages of 5000 people or less is unsound development policy.

The emphasis that the Team 5 Report placed on the geographical aspect of the suitability of a population agglomeration for industrial development, and the fact that they recognised that small factory based industry was not in itself, the most suitable vehicle for regional industrial development, indicates that they were aware of the objective constraints on the process of developing industrial capitalism. They suggested that regional planning should be an integral part of the national planning process and that programmes for development of small industry in less developed areas could succeed only within such a framework,

However, neither the major conclusions of the Community Development Project, nor the thinking infusing the Ford Foundation Team's Report, appears to have influenced the other major official effort, the Planning Commission's Rural Industries Projects. The problem appears to have been that the state governments were unwilling to undertake measures of the kind required for effective regional planning, and the short-term political benefits from unexpected expenditure in the so-called backward

areas seem to have won over any urge towards serious efforts at the development of industrial capitalism. The evaluation report of the Rural Industries Project, unfortunately is less perceptive in locating the reason for the projects' failure in any meaningful sense, than the earlier report, but it can reasonably be concluded that both on account of subjective failings, and the narrow spread of these special efforts, industrial capitalism developed in the period from 1961 to 1971 due to normal processes, unaided by State action to any extent, at least as far as small capitalist production was concerned.

VIII

A major failing in enunciating official policy was the lack of clarity over whether the small industries programme was primarily a vehicle for developing small capitalists, or on increasing industrial production in the aggregate from small units. The distinction is important for if small capitalists were the major focus, then there should have been clearer efforts to increase the number of individuals starting small units; on the other hand, if the purpose was to increase production, the focus would have been to increase the number and size of units irrespective of whether two or more units were owned by the same individual or family group.

In actual fact, inability to obtain a Tegular flow of individuals from the originally specified target group — the educated unemployed — together with the need to show that the number of small units was increasing in tandem with their share in national output, meant that emphasis was laid on proven performers. These were businessmen already in industry, or their sons, or those who could ensure both marketing facilities and some 'pull' by allying themselves to a large industrial unit. The point is that individual administrative units involved in implementing schemes for the development of small industry cannot be blamed for this. For, they operated within the confines of a political lack of clarity which appears to have been a result of attempts to patch over the divergent economic interests of different strata of industrialists.

We have attempted to show in this paper that alterations and adjustments to the small industries policy since Independence can be seen to be very largely the results of adjustments to economic realities expressed in terms of the 'punch' which different social strata hold in our society. The fact that Nehru may have held views which differed in emphasis from those of his critics is to be seen as an indication of his clear vision of the possibilities open to any government which wished to move forward on some points even if this might not be wholly in tune with his preferred overall path of advance. Criticising Nehru's policies for the present ilk of our society is thus a diversion from the *major sources* of these ills, unless the critic is able to show how a new alignment of economic interests may be brought about within the contours of today's socio-economic system.

Notes

1 The most clearcut exposition of this view is by Charan Singh: see his "India's Economic Policy: The Gandhian Blueprint" (Vikas, New Delhi: 1978).

2 This statement requires some clarification. We would argue that there was a qualitative difference between the Second Five Year Plan, and all later Plans which claimed to continue efforts to develop Indian societv. The Second Plan was the result of a definite vision, while the later Plans were either a patchwork effort or so much at odds with society as it actually existed, as to be incapable of being realised,

3 J C Kumarappa, the organiser of the All India Village Industries Association was originally a member of the subcommittee.

4 At its meeting in Bombay, on April 24th 1948, The All India Congress Committee appointed a Standing Committee which was to make recommendations, to the Working Committee, "in regard to more detailed suggestions made in the [Economic Programmes Committee] Report and in view of the Industrial Policy announced by the Government of India".

5 See the speech of Harekrishna Mahtab. Minister for Commerce and Industry, introducing the motion to appoint the Second Select Committee in the Indian Parliament. Parliament of India, *Parliamentary Debates,* Part II. 1951, (XV, 4) Columns 1895-1897.

6 We define the elements of an economic strategy as follows; identification of existing structures in which manufacturing activity is taking place (public, large-scale private capitalist, small capitalist, and the various pre-capitalist sectors); identification of commodity composition of industrial output at a specified future date; and measures to ensure that the structures respond in wavs *to* be in a position to meet the required demand for the commodities.

7 Government of India, *Report of the Fiscal Commission* (New Delhi, 1950) pp 99-100.

8 From the proceedings of the debate in the Lok Snbha on IDRA, it is clear that the 'exempted sector' Was established not because parliament contained representatives of a small capitalist class who were arguing for freedom of operation for their constituents. Rather, the plea came on the basis of the administrattive infeasibility of regulating small units. In other words this was another example of the small capitalists gaining support on the basis of the disagreement between the Left-wing of the petty bourgeoisie who wanted strict regulation if not nationalisation of the private sector on the one hand and the Right-wing largely representing large capitalist interests. Sec the reports of the debate in Parliament of India, *Parliamentary Debates,* Part II, October 12, 1961, Column 4767.

9 The Cottage Industries Board was established on the basis of the recommendations of the . Industrial Conference held in December 1947.

10 The Fact Finding Committee (Handlooms and Mills) reporting in 1942 had suggested the formation of such a permanent board.

11 The philosophic basis of the Gandhians' support to village craftsmen in the post-Independence period is best illustrated by the report of the Karve Committee, See Government of India. Planning Commission: Report of the Village and Small Scale Industries (Second Five Year Plan) Committee (New Delhi. 1955).

12 See the Report of the Fiscal Commission pp 104-113.

13 Government of India, Planning Commission: Outline Report of the Study Group on Educated Unemnlovod (New Delhi, 1956) pp 8-9.

14 Parliament of India, *Parliamentary Debates,* Part II. April 15, 1955, columns 5250-5252.

15 Increasing productivity would, however, mean some division of labour, leading inevitably to differentiation between 'co-ordinators' and workers, if not capitalists and workers. Thus, except at the very abstract level, the apparent compliance of the Gandhians with measures to improve techniques also implied *de facto* recognition of socio-economic differentiation.

16 However, official action showed keen awareness of this issue. The National Small Industries Corporation had closed its wholesale lock depot in Aligarh on the the advice of the traders-middlemen* shortly after its establishment,

17 Parliament of India, *op cit,* columns 5247-5251.

18 As we pointed out in footnote 11, Gandhians. as representatives of a declining .stratum, would have been obliged to argue in favour of policies which ran contrary to these implicit in a State whose momentum was geared to advancing social differentiation through capitalism.

19 The inclusion of a relatively senior official implied that the Government of India was committed to the success of the team's visit and in turn, it ensured that the official would himself have an interest In ensuring that the recommendations were seriously considered.

20 Government of India, Ministry of Commerce and Industry, Report on Small Industries in India (New Delhi, 1955).

21 In this important respect, the report serves as an index of direct State support to the existing small industrialist, rather than locating the problem at the level of general industrial and economic development. It did not, therefore, really suggest measures to alleviate unemployment.

22 This mechanism ensured that in questions of licensing, tariff policy, overseas trade contracts, the small industrialists' point of view did not go entirely unheard.

23 It is difficult to avoid the feeling, while reading official documents, that economic logic was often forgotton in the urge to meet physical targets in terms of creation of small-scale units.

24 The quotation is, in fact, from the 1956 Industrial Policy Resolution, See the Second Five Year Plan p 47.

25 See, for example, Punjab, Board of Economic Inquiry, "Work and Idleness among educated village Youths of the Punjab" (Lahore, 1942).

26 See the introduction to V Pavlov "Historical Premises for India's Transition to Capitalism (Nanka, Moscow, 1978).

27 Government of India, Planning Commision, Report of the Working Group on Identification of Backward Areas (New Delhi, 1969).

28 For an interesting analysis of the functions of the trader-middlemen within the village see B H Michic, 'Baniyas in the Indian Agrarian Economy: A Case of Stagnant Entrepreneurship', *Journal of Asian* Studies (37,4) 1978.

29 Large-scale public sector investment was undertaken during the Second and Third Five Year Plans, precisely to develop 'backward regions'.

30 Although the logic of the argument was never clearly stated, the first attempt to suggest that small-scale units could he a means of developing backward areas was made by the *Committee on dispersal of Industries* of the Small-Scale Industries Board in 1960.

31 The case for small-scale units was most forcefully argued in the Administrative Reforms Commission's Report on the Small-Scale Sector.

32 Government of India, Planning Commission, Report of the Working Group on Fiscal and Financial Incentives for Starting Industries in Backward Areas (New Delhi, 1969).

33 Although common production programmes, and reservation of items for production in the small-scale sector have been in operation for some time, it *is* nuclear how seriously they were administered. In addition with successive liberalising measures for the licensing regulations it was difficult to control competition form the large-scale sector.

34 See Estimates Committee (Third Lok Sabha), 107th Report on the Organisation of the Development Commissioner, Small-Scale Industries — Rural Industrialisation (New Delhi, 1966).

35 Government of India, Ministry of Commerce and Industry, Report of the Working Group on Programme of Work for the Third Five Year Plan (Small-Scale Industries) (New Delhi, 1959) p 120.

36 For the Karve Committee, decentralisation and self employment were synonimous.

37 See his letter reproduced in Government of India, Planning Commission, Rural Industries Planning Committee, "Projects for Intensive Development of Small Industries in Rural Areas" (New Delhi, 1962).

38 Report of the Working Group on Programme of Work for the Third Five Year Plan (Small-Scale Industries), p 69,

39 Government of India, Ministry of Community Development and Co-operation, Report of the Study Team on Industrial Pilot Projects, (New Delhi, 1959).

40 Khadi and Village Industries Commission, Evaluation Report of the Intensive Area Scheme (Bombay, 1965).

41 Government of India, Planning Commission, Report on Evaluation of Rural Industries Projects (New Delhi, 1968).