Chapter 1 Introduction

1.1 Stagnation of the Indian jute industry: demand and supply-side hypotheses.

There exists an extensive literature which has provided different hypotheses to explain the stagnation of the Indian jute industry. They may be classified, for analytical convenience, into demand-side and supply-side hypotheses.

In the demand-side hypotheses, stagnation of the jute industry in India is explained by the decline in demand, particularly in the export market. The decline in Indian jute exports was due (a) not to the fall in the global demand for jute goods as such, but to India's failure to retain her share in the world market, (b) to the rising home demand for jute products coupled with its slowly increasing production that reduced its exportable surplus, and (c) to the shortages of raw jute, thereby limiting the production of jute goods in certain periods. It is important to note that the first factor operates abroad to affect the demand-side of the export market directly, while the other two factors operate at home to affect the supply of exports.

One may argue that these factors seem to be unrelated with each other. But it is possible to link the factors listed above, if we discuss them in the context of a

'market'. In a market, be it domestic or foreign, any uncertainty in the supply of the product may lead its users to turn to alternative sources of supply. There is, therefore, a decline in its demand. In the case of jute manufactures, there are evidences on the instability in its supply to the export market. For example, during the second world war many importing countries were forced to restrict the use of jute goods because of non-availability of shipping space and/or restricted supply of these products. As a result, they had to fall back upon paper bags as a packaging material (Singh, 1964). This was largely responsible for a subsequent decline in the demand for jute goods in these countries. Again, in 1947 because of the partition of undivided India, the jute industry in India received a great blow. The jute industry was localised near Calcutta, while 71 percent of the total area under jute in 1945-'46 in the undivided India went to Pakistan. Consequently, India had to face an inadequate supply of raw jute for her jute mills in Calcutta. Thus India was unable to meet fully the entire foreign demand for jute manufactures. This, in turn, accelerated the search for substitutes of jute goods in these importing countries, thereby reducing the long-term export demand for Indian jute goods in these countries.

The supply-side hypotheses explaining the long-run stagnation of Indian jute exports, include not merely periodic shortages of raw jute, but also deliberate monopolistic restriction of production by the jute industrialists for short-term gains - an important issue according to Rai(1978) and Sarkar(1986).

It thus appears that the major focus of these hypotheses is on identifying the supply-side causes of the decline in the demand for Indian jute products as a factor responsible for the stagnation of the Indian jute industry. They attribute this fall to the emergence of synthetic substitutes and/or to the international competition among the jute producing countries in the world market for jute manufactures.

In the existing literature, it has been pointed out that although the demand for jute goods which are traditionally used as packaging materials, confront an increasingly contracting market (Singh, 1964: Nayyar, 1976; Dhindsa, 1981), this in no way indicates that there is no possibility of further growth for the industry. There is still immense scope for growth, if the industry could make use of significant results of different jute-research institutions in the country in the production of new jute goods, which are expected to be commercially viable. But these possibilities have, so far, not been exploited to a

large extent by the jute industrialists in India, and there is not much discussion on their inability to respond to such opportunities in the existing literature.

Therefore, an alternative approach is to study the stagnation of the jute industry in India by focusing mainly on supply-side difficulties and to examine the question of how far the industry has responded or can respond to such supply-side difficulties and new technological opportunities in a situation where the demand for the industry's traditional products has, over the years, been declining or stagnant.

1.2 An (alternative) analytical framework

In exploring the supply-side difficulties and opportunities, the emphasis in the existing literature is on the constraints relating to the supply of raw jute, the 'aggressiveness' of organised jute labour and some restrictive practices followed by the jute industrialists. However,the organisational aspects of the jute firms and the industry which are more crucial for analysing supply-side responses, have not been so far adequately analysed. In our analytical framework for the study, we would incorporate this new dimension.

On the basis of the distinction made by Lazonick(1993), there are two different types of firms: (a) innovative firms who make developmental investments to

produce new or superior products at competitive cost (product innovation) or an existing product at a lower cost (process innovation) or both; and (b) adaptive firms who abstain from such investments.

The adaptive firms are usually risk-avoiders and invest only in those technologies for which the outcomes of various input-mixes and the returns from the sale of the output are known apriori. Their sole objective is to maximise current income which goes to the owners to maintain their expensive life-styles. Hence, growth is not a primary objective of these owners. This type of tendency has been observed in case of personally managed firms (Teece, 1993). Further, in a country dominated by personally managed firms, the possibility of switching from one industry to another is, irrespective of the health of the present unit, often likely to be determined not by his personal ability, but by his family-nexus. Consequently, this type of firms shows little interest for innovation. They leave the industry when they find that the market for their products begins to decline. This is why, they rely mostly on variable costs (Lazonick, 1993).

They avoid incurring the burden of fixed costs[1] inherent in innovotional investment strategy. The result is that they care little for transforming available facilities into sustainable competitive advantages for new products and for new markets.

Innovative firms, on the other hand, invest with a long-run vision to bring technological change in the form of the production of new products and/or lowering costs of existing products, and concomitant changes in organisational and marketing strategies. They themselves are, therefore, not passive agents. They happen to be the central actors in creating opportunities for themselves and converting them into sustainable competitive advantages in the market. For, their basic goal appears to have been long-term profit and growth (Teece, 1993). One important organisational distinction is that they depend on professional managers. Since these managers are not the owners of the firms and since their survival, promotion in professional management hierarchy and movement to better jobs depend on their ability to sustain their firm's competitive advantages, they respond adequately to market opportunities hidden in technological or organisational changes.

[1] The fixed costs undertaken by a business enterprise is burden-some, since the production and sale of the enterprise's output occur neither instantaneously nor certainly.

Therefore, it appears that one important factor that is responsible for enabling a firm to dominate over others is the development of an effective organisation supported by professional management. This is why, firms which are innovative with respect to technology also develop organisational capabilities. On the other hand, the owner-managed firms lack this kind of organisation and fail to maintain competitive advantages through innovations. Rather, these firms pursue, in the face of competition, the adaptive strategy, thereby making adjustments within the limits of a given technology and organisational set-up. That is why, they confront decline when faced with competition from the innovative organisations.

1.3 An outline of the issues covered under the present study

Available evidence indicates that most jute firms in India are family-managed (Rai, 1978). In these firms, owners and managers belong to the same set of individuals. The inability to separate ownership from control over the managements of the firms prevents these jute firms to develop an organisation based on professional management. In this family-based nature of control over the managements of the firms, the firm-owners prefer consumption over saving and investment. Consequently,

they distribute a major part of the firm's profits as dividends, and this eats into the reserves and capital of the firms (Bagchi, 1981). This is why, these owner-managers are left with little funds for product and process innovations to sustain their competitive advantages in the market. The result is the slowing down of the long-term growth of these business enterprises.

Besides, whatever investible funds they have are not available to the jute industry for its technological innovation. They go to other industries (Government Of India, Report of the Committee on Controls and Subsidies, Ministry of Finance, May, 1979). India's industrial policies may provide certain clues in this respect. This sets the context for giving an outline of India's total industrial scenario.

There was a growing realisation in the early years of Indian planning that the traditional exports of India did not offer any promise of rapid expansion and that non-traditional manufactures which constitued a tiny portion of the country's exports at that time, should be developed if the country were to achieve further progress of industrialisation (Government of India, Planning Commission, Second Five Year Plan, 1956). Consequently,

rapid industrialisation formed the core of Indian Planning.

Towards this end, a strategy of import-substituting industrialisation was formulated with reliance on the development of basic and capital goods industries. Import substitution which the Indian economy witnessed in the case of basic and intermediate goods like steel, cement, paper and ordinary consumer goods and cotton textiles in the phase lasting upto the middle of the First Five Year plan and in the context of basic and capital goods industries from around 1953-'54, implies only the substitution of the foreign source of supply by domestic source of supply (Bagchi, 1977). Consequently, the domestic capitalists were not only guaranteed existing home markets but were also ensured a future so long as the excess demand attributable to import restriction would continue to provide markets. This, in its turn, attracted the domestic industrialists to invest in industries where they were able to sell their products in captive home markets, to import risk-free technology for manufacturing the products (and therefore, there was no long-term investment in developing indigenous technology for their own products) and to obtain government loans with relatively easy repayment conditions, since all these

opportunities ensured them a quick and good return on their investment.

But this is quite unlikely for the jute industry. The market for traditional items of jute is shrinking due to threat from its substitutes. Since most items of the Indian jute industry are standardised and hence, in the end phase of the 'Product life cycle', as pointed out by the Product life cycle hypothesis (Hirsch, 1967), and since input-mix for the production of the product changes, as mentioned in the product life cycle hypothesis, in favour of unskilled labour whose price is lower in the less developed countries(LDCs) relative to that of the developed countries(DCs), the developed countries have, therefore, lost their comparative cost advantage in the production of the standard jute goods to the less developed countries. Hence, the developed countries are unlikely to show interest in updating technology for jute manufacturing. It becomes the ultimate task of the less developed countries to develop its technology. In fact, there is a considerable scope for technological upgradation even in the production of the existing products. This may be in the form of changing the product-specifications of the traditional bags which may be produced using either union fabrics or lighter 100 percent jute fabrics. With such change, raw

jute requirement will be 30 percent less to produce the same number of bags (Sivaraman, 1986). Now, if the price of raw jute remains the same, this means lower cost of production of existing jute bags. But this at the same time requires the installation of relatively modern machines. Besides, product diversification requires the installation of new machines. Thus, for both product and process innovations, the jute industrialists have to invest a considerable amount. These technologies cannot be borrowed from the West and applied here as in the case of many newer industries. Hence the necessary innovations have to be indigeneous. But the jute industrialists are not certain about the market for their products. This is one reason why they do not get much incentive to invest on the development of the jute industry. Profits when made are syphoned elsewhere.

Apart from this, there is another consideration which is related to the issue of labour resistance. The installation of new machines results in a more economic man-machine ratio. Obviously this raises the productivity of labour and brings down the cost of production of the jute products. But this also requires fewer number of labour per unit of output produced. Labour unions are likely to accept such things only in an otherwise growing

market situation, for, the expansion in the industry is likely to absorb an increasing number of workers in the future years. Hence, the surplus labour due to modernisation, may be reemployed in the jute industry but this may not be true for the jute industry, for, there is little scope for significant revival of the market for the industry's products. This is not all. The retrenched workers having skills only in particular jobs, have little scope for reemployment in a similar industry like the cotton textile industry because of continuing ill-health of the country's traditional units of cotton-textile industry. Hence, all these considerations tend to suggest that the problem of surplus labour and technological unemployment would be serious in the jute industry after modernisation, This obviously invites labour unions' resistance against such labour rationalisation. This, in turn, halts the technological development of the jute industry. This means that the possibilities for the industry's revival are remote.

It, therefore, appears that the domestic jute industrialists confront two situations: (a). the opportunity of earning profits in some import-competing domestic industries (i.e., engineering, chemical and cement) because of their large and flourishing domestic demand and the

stringent import restrictions since 1957 (Singh, 1964). This tendency continued in the 1970s also (Table 1.1),

Table 1.1 Gross profits as percentage of total net assets(including intangible and miscellaneous non-current assets) in some selected industries of India.

Year / Industry	1970-'71	1971-'72	1972-'73	1973-'74	1974-'75
Tea	11.6	10.0	9.4	10.1	18.8
Cotton	8.5	7.2	9.8	15.1	10.7
Iron	7.4	5.6	1.9	5.4	9.3
Engineering	11.0	11.8	16.5	13.1	22.8
Chemicals	13.5	14.7	14.8	15.0	18.1
Cement	9.7	9.5	6.3	2.8	3.2
Rubber	13.1	12.0	11.7	10.4	13.1
Jute Manufactures	5.7	10.6	4.6	0.8	9.7

Source: Reserve Bank Of India :*Financial Companies Of Joint-Stock Companies*(1970-'71 to 1974-'75).

and (b).relatively stagnating demand for the jute industry's products. Being profit maximisers, they are,thus likely, under these circumstances, to shift their interest

from jute to non-jute industries.This is why, an important section of the jute mill owners led by such giants like Birla, Jalan, Bangur, Bajoria and others had shown their strong preference for other industries and began to shift to industries like cement, chemicals, steel and synthetic substitutes etc, and have little stake in their own jute industry(Government of India, Seminar on Rehabilitation and Modernisation of jute Industry, 1986). They, therefore, allow the erosion of the capital base of the jute industry by encouraging the flight of capital from this industry (Government of India, Report of the Committee on Controls and Subsidies, Ministry of Finance, May, 1979). Hence, new investment and modernisation of the capital stock in the industry has almost ceased, The jute millowners try to maximise only their quasi-rental income from existing highly depreciated capital assets.

1.4 Plan of the study

The present study has been organised as follows: in the introductory chapter, we have already outlined the issues to be discussed in the present study. Chapter 2 analyses the changes in the global consumption of jute manufactures over time. Chapter 3 illustrates the rivalry between India and Pakistan during 1955-'71 and between India and Bangladesh during 1971-'90 in the world export

India and Bangladesh during 1971-'90 in the world export market for jute goods. Chapter 4 discusses the supply-side responses of the Indian jute industrialists to the stagnating demand for the industry's products. It appears that they acted with a particularly short-run perspective. Chapter 5 provides arguments explaining why the industry acted primarily on the basis of a short-run perspective. In Chapter 6, we summarise our main observations and conclusions.