CHAPTER 1
INTRODUCTION

1.1 Introduction

In the recent Development Discourse creation of ‘Sustainable Livelihood’ has gained a central stage as it assumes a high correlation in the instrumental process of overcoming poverty, reducing inequality and in creating a healthy society. Many theories of ‘Development’, whether they are Classical, Marxian, Keynesian, Schumpeterian, or Rostow’s ‘Stages of Economic Growth’, Lewis ‘Theory of Unlimited Supply of Labour’ and other ‘Dualistic theories’ are in a way systematically talking about the development process of engaging all the factors of productions in an efficient way to quicken the process of achieving a high Economic Growth and Development within a country. Leaving out the Classical Economists for the sake of brevity, here in the introduction we briefly and critically look at the views of some prominent economists, right from the beginning of the twentieth century, in order to understand the processes causing underdevelopment witnessed in the Less Developed Countries and its implication on creation of sustainable livelihood for multitude of surplus labour. Sustainable livelihood can be understood as, a livelihood which can cope with and recover from stress and shocks, maintain or enhance its capabilities and assets, and provide sustainable opportunities for the next generation (Chambers and Conway, 1992). Further, we concentrate on some of the concepts or theories which have been well articulated in the literature of Development studies to deal with the problem of surplus labour existing in Asian Less Developed Countries like; Evolution and significance of ‘Technological Dualism’ as propounded by Prof. Higgins; The ‘Backwash and Spread Effects’ highlighted by Prof. Myrdal; And the concept of using ‘Intermediate or Appropriate technology’ as propounded by Prof. Schumacher. Since India, being a part of South Asian region is the focus of our study, this understanding would narrow down the comprehension of various issues which would be dealt in the subsequent chapters.

1.2 A Brief Review Of Development Theories Related To Full-Employment

First we look at the contributions of Keyne's and Kalecki's of the early nineteen thirties followed by other eminent theories on development. Keyne’s remedies of unemployment concentrated on measures to keep the level of effective demand sufficiently high so that the economic machines do not slacken the production
of goods and services. His contribution to economic thought was manifold. He attributed unemployment, as against the classical view of demand and supply disequilibrium, to the deficiency of aggregate demand and as the cause of unemployment. He demolished the Say's law, existence of unemployment in the industrially developed economies and established that classical theory had no explanation.

Keyne’s demonstrated that the classical economic theory prescription that a downward shift in wage rates would restore equilibrium was wrong, because such a shift in wage rates would reduce incomes, thereby reducing demand, in turn, reducing profits. Thirdly, Keyne’s elaborated and developed the ‘multiplier effect’, that is any Government outlay had a multiplier effect on the economy, and the direct impact of investment would be to increase incomes. If increased incomes would be largely spent, creating further incomes it would thereby have a ‘multiplier’ effect on total income and consumption and therefore output. Using the above mentioned concepts he developed the concept of 'Government investment' / outlays or imbalance budget, as a source for increasing effective demand and thereby achieve full employment (Gosh, 1996).

However, most of the Keynesian economics was found to be typically applicable to the already Developed Countries (DCs) with advanced socio-politico-economic institutions that had the ability to assimilate the said theories. Whereas in case of Less Developed Countries (LDCs) it was found tough to implement the Keynesian theory, as the pre-condition of an appropriate socio-politico-economic structure was still in its infancy. Comparable to Keynes another economist, Kalecki independently developed similar concepts, but made them equally applicable to a capitalist as well as a socialist economy. Arun Ghosh (1996) feels that, Kelecki’s perception still remains valid for most developing countries even today. Kalecki's focus on employment / labour intensive production techniques, on the build up of production of essential consumer goods, the taxation of the well-to-do section of society for raising resources for investment and build up of social and economic infrastructure within a frame-work of macroeconomic balance are prescriptions that cannot be challenged.

Post-Second World War economic history saw the emergence of many new nations along with changing equations of political power. The enormous affluence of the Developed Nations had a strong influence on the newly born nation’s mind. This lead to the adoption of various strategies by less developed nations aimed at achieving
a 'Developed Nation' status. In fact, this strive towards Developed Nation status led to the emergence of a new field of economic enquiry called ‘Development Economics’, which aims at understanding and evolving strategies to strengthen and progress a nation towards some fixed developmental targets. Apart from various other political reasons, development became a central issue as world also started getting integrated on the International Trade basis, especially after the formation of the International Monetary Fund (IMF) and World Bank after the Second World War.

Colin Clark (1940) in his work 'conditions of economic progress' argued that, there is a close relationship between development and change in occupational structure from Agriculture to Industry and from industry to Service sector. A.G.B Fisher (1945) also reached the same conclusion that: we may say that in every progressive economy there has been a steady shift of employment and investment from the essentially primary sector to the secondary sector activities and to a still greater extent in the tertiary sector. Based on such empirical premises many models were developed to make the ‘Transition’ of the LDCs from a pre capitalist mode of production to an advanced capitalistic mode of production.

From early 1950 onwards many Development theorists like Lewis, Kuznets, Hirschman, Nurkse, Fei-Ranis etc. developed and introduced models with industrial sector as the prime-mover of developmental process. Lewis and some other economists believed that, the cities with their modern industries would act as dynamic centers from which the static character of the rural order, characterised by stagnating agriculture with very low labour productivity can be overcome. Further, some economists working on the topic of development have looked only into the causal effect of implementing the development plan models through the use of incremental capital output ratios (ICOR). Like for instance in India, plan models were based on the theory that ‘incremental investment’ in the Industrial sector would consequently 'trickle down' to the other sectors affecting the entire economy. But this did not materialize due to various limitations.

But most of the theories mentioned above were systematically talking about the process of development - but in abstract terms and from outside. Most of these models had the limitation that, they didn't take into consideration the deeper intricacies of local socio-politico-economic conditions that go into making a country less developed. It was only after 1950’s that economists have realised that there are some special and unique features of the Asian countries, which contribute to the slow pace of development. After a substantial amount of research it was found that not only
the peculiar characteristics of 'Dualism' in various sectors but also the predominance of ‘Backwash Effects’ over the ‘Spread Effects’ were some of the major causes of underdevelopment in the Asian Countries. Next we briefly look at those theories to gain some insights into the understanding of the Asian countries.

1.3 Dualistic And Other Theories

In 1953, J.H.Boeke published his theory of ‘Social Dualism’ based on his study of Indonesia. He defined ‘Dual Society’ as characterised by the existence of an advanced imported western system and an ‘indigenous pre-capitalist agriculture system’ (Meier, 1975). The constant clashing of an imported social system with an indigenous social system of another style was found to be one of the major reasons for keeping the country less developed. Most frequently the imported social system is high capitalism. But it may be socialism or communism just as well, or a blending of them.

According to him, the peculiar characteristics of the Asian Countries such as stratified caste and class system, predominance of agriculture, undivided family structure, absence of profit-seeking behaviour through speculation, lack of business qualities of taking risk, organising large business and of discipline, make the western development models inapplicable.

Thus he concludes that since ‘Eastern’ villages are more pre-capitalistic in nature therefore western theory of capitalism is not applicable. Furthermore, since ‘Eastern’ society is highly stratified, a single policy trying to influence the process of development may not be applicable to all and what is beneficial for one section may be detrimental for other. But, his theory was criticised on the ground that it was more a descriptive narration, a theory that can be found true even in African and Latin American countries in a more or less similar form. And most importantly it doesn’t provide any solution to the problem of unemployment.

As an alternative to Boeke’s Social Dualism, Prof. Higgins in 1968 has developed the theory of ‘Technological Dualism’ which was found to be much more robust in explaining the under development witnessed in the Asian LDCs (Meier, 1975). ‘Technological Dualism’ arises due to different technological structures in the pre-capitalist agricultural sector and the capitalist industrial sector. It is a situation in which productive employment opportunities are limited not due to resource constraints but due to different technologies applied in different sectors.

The modern capitalist sector is assumed to be based on fixed technical
coefficients of capital and labour. Any increase in the labour employed entails a proportionate increase of capital. Thus employment creation in the industrial sector depends on the growth of capital formation and the upgradation of the skill to handle the ever-changing techniques. Thus fixed capital labour coefficient and high skill formation restricts the employment creation in the industrial sector.

The agriculture sector consists of traditional handicrafts, small-scale production, traditional/pre-capitalist agriculture production. Due to labour abundance in this sector, the technique of production is mostly labour intensive.

In the agriculture sector, as population keeps rising only bringing more land under cultivation can absorb the additional labour force. This leads to the optimal utilisation of labour and capital as output increases. Eventually, good land becomes scarce. Ultimately, all available land is cultivated by highly labour intensive techniques and the marginal productivity of labour declines to zero or even below zero. Thus with continuing growth of population, disguised unemployment begins to appear. Under these circumstances, farmers have no incentive either to invest more capital or to introduce labour saving techniques.

Thus it is believed that in the long run, technological progress does not help in removing disguised unemployment. Rather, it tends to augment it. Based on the above premise, he argues that Lewis model of shift of labour from the Agriculture sector to the Industry and subsequently to the Tertiary sector never happens due to structural rigidities inherent in the employment creation of the two sectors. Therefore progress in some Asian countries was very slow.

Further enquiry into the understanding of Asian countries by Prof. Gunnar Myrdal (1968), after long years of intense research observes that: economic development results in a circular causation process whereby the rich are awarded more favour and the efforts of those who lag behind are thwarted. He uses the twin concept of 'Backwash Effect' and 'Spread Effect' to explain the Theory of underdevelopment in Asian countries. The Backwash Effects predominate and the Spread Effects are dampened. This tends cumulatively to accentuate international inequalities and also leads to regional inequalities within the underdeveloped countries. The Backwash Effect includes all adverse changes of economic expansion in a locality caused outside the locality like migration, capital movement and trade. Where as the Spread Effects are centrifugal, i.e. expansionary momentums from the centres of economic expansion to other regions. The Spread Effects flowing from a centre of industrial expansion to other localities and regions, operating through
increased demands for their products and in many other ways, weave themselves into the cumulating social process of circular causation.

In his thesis, he mentions that the regional inequality arises due to interplay of the market forces. If things are left to market forces unhindered then industrial production, banking, commerce, insurance, shipping in addition with art, science, literature, education and high culture would cluster in certain localities and regions, leaving the rest of the country more or less in a backwater. The localities and regions where economic activity is expanding will attract young and active people from the other parts of the country. Similarly, capital movement unregulated results in getting concentrated in developed regions. He further feels that industries usually work under conditions of increasing returns; this may result in the thwarting of even the handicrafts and industries existing earlier in the other regions.

Therefore he suggests that proper intervention of the Government to adopt egalitarian policies to weaken the Backwash Effects and strengthen the Spread Effect in order to bridge regional inequalities and to strengthen the continuous economic progress is deemed necessary. He elaborates this point by referring to the example that, inequalities are lesser in Developed Countries and much wider in poorer countries. This is because Spread Effect overcomes the Backwash Effect, as Govt. intervention to remove the inequalities is much higher in developed countries. Moreover, there is a high correlation between development and decreasing inequalities which reinforce each other to expand and have an impact on the overall expansion i.e. Spread Effect overcomes the Backwash Effect. Whereas for the LDCs the case is simply the reverse of it.

Analysing the Labour issues, he raises two important questions i.e most of Asian Economies have considered production gains only in terms of employment generation and largely ignored the other two components of the labour utilisation viz.

- How long (i.e. work duration or question of sustainable employment on a non-seasonal basis) and;
- How well (i.e. work efficiency and higher earnings through more skilled work).

Since Asian countries are based on the dualism with limited opportunities in industrial sector, over crowded agriculture sector and large set of traditional based industries. He further observed that for a long time Asian countries will have two distinct economic sectors.

- Small and gradually growing industrial and small-scale sector.
- Vast Agriculture sector and traditional based industries.
He cautions us that to accept the idea that, letting agriculture and crafts and small-scale sector industries remain technologically backward and confine planning efforts to the building of modern enclaves of industrialised sector is to invite failure on a grand scale. Therefore he believed that the primary function of the small-scale industries is not only to provide employment but also to expand their operation and thus speed up industrialisation. We find that Prof. Gunnar Myrdal's observations seem to be so true even today.

Further works on, ‘Development at what cost’ like Schumacher (1977) inquiries into the notion of ‘Technological Miracle’ and how far it had been successful in solving some of the most prominent questions of food, employment and decent livelihood. The study strongly highlights the ‘costs’ incurred to achieve the kind of development that we are experiencing today? These questions become even more prominent in the light of global warming created due to excesses of technology.

Referring about the unemployment problem in the Developing Countries Schumacher introduces the concept of 'Intermediate Technology' to solve the problem of surplus labour. The approach is to start with existing techniques in traditional industries and to utilize knowledge of advanced techniques to transform them suitably. Transformation implies retaining some elements in existing equipment, skills and procedures. This process of improvement of traditional technology is extremely important, particularly for avoiding technological unemployment. He further emphasizes that involvement of scientist and technician in large-scale research is a necessary pre-condition compounded with the involvement of super-national agencies for its success. This introduction of less capital and machinery based industries would result in not only solving the problem of employment but also it would have less impact on nature.

After briefly browsing through the theories related to development and employment generation we find that not only the peculiar characteristics of 'Dualism' in various sectors but also the predominance of 'Backwash Effects' over the ‘Spread Effects’ were some of the major causes of underdevelopment in the Asian Countries. However, another challenging task to any developing nation especially in the 21st century is to provide sustainable employment opportunities to the ever-growing workforce and at the same time withstand the onslaught of competition brought by Globalisation. In this kind of a prickly situation there seems to be very few options left to deal with. Among many suggestions made by Development Economists mentioned earlier, the suggestion of policies to weaken the Backwash Effects and
strengthen the Spread Effect in order strengthen the continuous economic progress by Prof. Myrdal and using ‘Intermediate or Appropriate technology’ as pointed out by Prof. Schumacher to solve the problem of surplus labour, seems to be more convincing to deal with the drawbacks of Dualism. After these few observations next we move onto exploring the Indian experience of creating employment opportunities to its teeming labour-force as it is the focus of our study.

1.4 Creating Employment Opportunities: The Indian Experience

To solve the problems of unemployment and poverty in rural areas after Independence, India adopted the policies of creating employment opportunities; through supporting the cause of small-scale industries in the rural areas and by creating institutions like Khadi and Village Industries Commission (KVIC) etc. In addition to that Govt. of India (GOI) gave other incentives like fiscal and protective policy of reserving production of certain commodities exclusively by small-scale and traditional industries. Looking at the sectoral distribution of employment it has been observed that, over the entire period, 1901-1961, the occupational distribution of the workforce in India was characterised by a high share in agriculture, around (70-75 percent), and a low share in manufacturing about (9-10 percent), and a moderate share in services around (16-20 percent) (Krishna Murthy, 1970). The predominance of agricultural employment was attributed to two factors, firstly, the weak linkages between the agriculture and non-agriculture sector and secondly, the lack of resilience on the part of village industries to meet the demands of the more affluent sections of the peasantry. This demand, therefore, gets diverted towards the capital-intensive industries in urban areas ♦ (Vyas and Mathai, 1978). Further, Papola (1986) remarks that, industrial activity in different states has continued to exist as a part of tradition without necessarily being differentiated on the basis of linkages and integration with the local resources and changing demand patterns ∗. Nonetheless, there has been a shift of workforce towards non-agriculture sector from the early seventies onwards in rural and urban areas (Visaria et al, 1994). But most of the employment is

♦ For example, manufacturing of inputs such as fertilizers, tractors and pesticides etc.
∗ For example (i) Weaving and spinning of textiles are less important in Gujjarat, Maharashatra and Karnataka (major cotton producing states) than in Tamil Nadu, Andhra Pradesh and Orissa; (ii) Food processing activity was higher in West Bengal and Tamil Nadu than in Punjab and Haryana (major rice producers); (iii) In the states of Andhra Pradesh, Gujarath and Tamil Nadu enterprises producing edible oil constitute a small proportion in rural industries inspite of a high share in the production of oil seeds.
concentrated in the unorganised/informal non-farm sector therefore we next explore the broad structure of the unorganised sector in India and then look at the technological dualism as a frame-work to understand the status of household based industries and within that the Khadi industry which is the focus of our study.

The size of the informal economy in India is large: according to the criterion of legislation for social protection, up to 92% of the total work force is engaged in the informal economy. In the urban areas this figure is close to 65-70%. Not all of these workers are poor or destitute, but crude estimates suggest that close to half this number is in dire need of occupational up scaling. The truly dynamic segments, it is believed, may not constitute more than a quarter of the total size of the informal economy (ILO, 2000).

The vast size of the unorganised sector is also co-terminus with its diversity. It is therefore more meaningful to use the phrase the informal economy to characterize activities outside the narrow band of organized sector activities (typically referred to as the formal sector). The informal economy has several segments in it; some possess dynamic linkages that permit healthy growth while others are in subsistence, low productivity propositions. Of course the categorization is not as discrete as to permit a two or three way typology to describe the whole economy, since there are numerous segments in it.

The topological scaling of unorganised sector in quadrant form is given below (see Figure 1.1). The four quadrants are:
1. The dynamic sub-sectors ready to be linked to the international markets with a little effort,
2. Those that have the potential but seriously lack infrastructure, capital and other support
3. The dying out activities that have not much of demand.
4. Those, which are competitive only because they rely on cheap labour

**1.4.1 Quadrant I**
Type of Industry: Economically viable and Upward mobile to be linked to international market with some effort.
Example: Leather industry, IT, tourism, fisheries
Wages Paid: At higher level of production process wages paid are remunerative enough to bring people above the poverty line.
1.4.2 Quadrant II
Type of Industry: Economically unviable but surviving with the support of the state
Example: like Khadi and some household based industries. Most of these industries are located in rural areas.
Wages paid: Theoretically speaking wages are supposed to be remunerative enough to keep the workers slightly above the poverty line. This can be confirmed only after a thorough enquiry. This will form one of the objectives of the study. Implications are, to retain the industry’s employment at the same time bring in some changes to make it competitive in the market economy.

Figure 1.1: Topological Scaling Of Unorganised Sector.

| (Y- Wages) |
|---|---|
| Quadrant II | Quadrant I |
| Economically unviable | Economically viable |
| Wages might be slightly above poverty line | Wages are above poverty line |

| (X -Eco Viability) |
|---|---|
| Quadrant III | Quadrant IV |
| Economically unviable | Economically viable, labour is highly exploited |
| Wages are below poverty line | Wages below the labour Productivity |

1.4.3 Quadrant III:
Type of Industry: It is economically unviable. Basically surviving because there are...
no alternate employment opportunities. In other words, work based on ‘push factors’ or surplus labour led employment.
Example: Services of weight measuring, some forms of child labour like rag picking, etc.
Wages Paid: Mostly below the poverty line based wages. Implications are to bring people out of the poverty line by shifting them to economically remunerative employment.

1.4.4 Quadrant IV:
Type of Industry: It is economically viable
Example: hotels, food-processing units (Bakery, Confectioners) etc.
Wages Paid: are slightly above poverty line but, labourers in these activities are highly exploited through low wages and bad working conditions. Further, migrant labour from rural areas is one characteristic, which makes the exploitation perpetuate. In other words, the labour is not paid according to their productive capacity. Moreover in this industry it is the labour alone that gives more value addition than any other factors in the production process. In other words, this industry survives purely on labour exploitation. Policy implications are to make the minimum wage laws applicable strictly.

1.5 Current Issues Concerning Our Study And Frame-Work Of The Study

Despite considerable efforts made through the five year plans, in India we still find some of the most pertinent problems like Poverty, Open Unemployment, Underemployment, Disguised Unemployment, Distress based Migration coexisting with high economic growth performance. When we look at the sectors where the employment opportunities are getting opened-up in the Post-Liberalisation era from early 1990’s onwards. We find that the unorganised sector is the only sector which is able to absorb around 92 percent of the total employment in India. Further, the growth rate of this sector is also on a rise as the avenues for getting a formal/organised employment is on decline due to privatization.

Coming to the household traditional enterprises, which is the focus of our study, in India millions of people possessing traditional skills and knowledge of traditional techniques still make a living by producing handicraft goods. Some refer to traditional enterprises as ‘handicrafts’, or to ‘cottage industries’ or household industries’ inter changeable. Some limit the definition of ‘craft’ to those items
possessing clear artistic value, or to those with demonstrated export success. Others include any occupation that involves manual labour. This lack of clarity makes it difficult to compile or compare data from different sources. The ministry which is concerned with handicrafts is Development Commissioner of Handicrafts, in 1989, the department provided a simple and workable definition of handicraft as ‘…items made by hand often with the use of simple tools, and …generally artistic and/ or traditional in nature. They include objects of utility and objects of decoration’ (Liebl and Tirthankar, 2003, p.5366-5367). Khadi is a part of Traditional Industry according to the above classification with a similar separate definition prepared by Khadi and Village Industries Commission (KVIC) which we will be referring to when we are discussing the details of Khadi Industry.

Further, Household industry is defined as ‘an industry conducted by the head of the household himself/herself and or by the members of household at home or within the village in rural areas and only within the precincts of the house where the household lives in urban areas. The large proportion of the workers in a household industry should consist of members of the household including the head, his/her main activity as engaged in some production, processing, service or repair articles or goods such as handloom, weaving, dyeing, carpentry, bidi rolling, pottery, manufacture bicycle or repairing etc’ (Census of India, 1991).

Moreover, studies on work force in India have shown that a large part of the household based enterprises are on a decline from early 1960’s onwards and gradually some of them have even disappeared or are just surviving (see Bhalla, 1996; Basant and Kumar, 1994; Visaria, 1995). This has unleashed a great amount of casual labour in the already overcrowded agriculture labour market or into the unorganised non-farm sectors. From our understanding of the theory, apart from many other reasons, the decline in household based industries (see Quadrant II for status of household based industry) can be attributed to some extent to the existence of Technological Dualism.

As mentioned above by Prof. Higgins ‘Technological Dualism’ arises due to different technological structures in the pre-capitalist agricultural sector and the capitalist industrial sector. It is a situation in which productive employment opportunities are limited not due to resource constraints but due to different technologies applied in different sectors. Thus it is believed that in the long-run, technological progress does not help in removing disguised unemployment. Rather, it tends to augment it. Based on the above premise, he argues that Lewis model of shift
of labour from the Agriculture sector to the Industry and subsequently to the Tertiary sector never happens due to structural rigidities inherent in the employment creation of the two sectors.

Looking at this dimension of the Technological Dualism, as per the course of development envisaged in India from the second five-year plan onwards (1956-61), the excess labour from the agriculture sector should have been absorbed in the expanding organized industrial and service sectors, however this did not materialise. Because the Modern industrial sector had the constraint of maintaining fixed capital and labour coefficients in the production process, therefore creating any additional employment would mean a heavy investment in capital goods and many of the entrepreneurs in India lacked such heavy investment. Further, working in the technologically advanced industries requires high skill formation which cannot be learnt overnight by the illiterate labour displaced from the household based sectors.

This problem is further accentuated by the fact that there has been stagnation of employment generation capacity by the Modern Industry sector over the years. As a result only agriculture and unorganised non-farm and service sectors have expanded to accommodate the growing labour force. The study of Nagaraj (2000) reveals that trends in the employment generation measured through employment elasticity of output have shown a decline from 0.61 between 1972-73 and 1977-78 to 0.47 between 1987-88 and 1993-94 in the entire economy. The fall is more pronounced in the secondary and the tertiary sectors. Although there has been a modest decline in the proportion of population in agriculture since 1970s, and there has been some diversification of rural workforce into non-farm activities in the 1980s, there is no evidence of a sustained reduction in Unemployment levels, however measured (see Nagaraj, 2000 p.2835). He further elaborates that the recent trends in decline of organised wage-employment, increasing casualisation of labour, compounded with rise in open unemployment and contrasted with higher growth rate in GDP (around 6%) has led to a consensus among many economists that there seems to be an increased polarisation taking place in the Indian economy.

Stretching a bit further in the frame-work of Technological dualism, we hypothesise that, i.e. co-existence of divergent technologies at same point of time leads to predominance of slightly technologically advanced industries over existing traditional industries. Eventually the technologically superior quality industrial goods might even take over the ‘Market Share’ of the hitherto traditional household based goods leading to slow deceleration of the latter industries. Further the process of
deceleration could have been accelerated especially after adopting the *Liberalisation* Policy in India (post 1990).

It is very difficult to study all the traditional industries in a very short span of time, but we can draw some broad consensus emerging from studying a selected industry in detail. Within the traditional Industries Khadi and Village Industries Commission (KVIC) has been employing around 5 million people across the country (Government of India, 2000). But within the KVIC it is the Khadi industry that has been facing enormous problems to survive the competitive environment under freer markets after 1990 (Government of India, 2000). Therefore the study focuses on exploring the Khadi industry in its multi-dimensional facets to get a wholistic picture about what was envisaged of the industry visa-a-vie what is its current position today and what efforts are imperative to strengthen it to survive in the competitive market conditions. Study of such industries is also essential as a large section of population is employed in those industries. However, as regarding the ‘quality’ of the employment generated in those industries and whether it confirms to the standards of *decent labour* or not needs to be validated by further detailed studies. Further such studies would not only help in ameliorating the status of those industries but also would make them more adaptable to the changing market conditions. Next we look at the structure and composition of Khadi industry and identify the broad objectives under which it can be studied.

### 1.6 Introduction To Khadi Industry

Self-sufficiency was the hallmark of the Indian Villages prior to the advent of British. This characteristic was subsequently destroyed by the British policy of annihilating the traditional industries and handicrafts to find an outlet for their own products in the Indian market. It was Mahatma Gandhi, who pioneered to revive the age-old self-sufficiency (Gram Swavalamban) mechanism through decentralized economic growth in the rural areas and had made it a part of the constructive program during the Independence movement. His views for reviving Khadi are concretised in the following quotes,

> ‘I feel convinced that the revival of hand spinning and hand weaving will make the largest contribution to the economic and moral regeneration of India. Spinning was the cottage industry years ago, and if the millions are to be saved from starvation, they must be enabled to reintroduce spinning in their homes and every village must repossess its own weaver’ (Gandhi, 1955, Khadi Why & How, pg.1).
The disease of the masses is not want of money so much as it is want of work. Labour is money. He who provides dignified labour for the millions in their cottages, provides food and clothing, or which is the same thing, money. The charkha provides such labour. Till a better substitute is found, it must, therefore hold the field (Gandhi, 1955, Khadi Why & How, pg.5).

According to Gandhiji introduction of Khadi contained economic and psychological factors like self-reliance of villages and labour dignity. He visualised Khadi as a social value, that if hand spinning were carried on by all, it would establish a bond of unity between the classes and masses, and between the castes and creeds. Moreover, he believed that industrialism, with its need for raw materials and markets, led to Imperialism, international strife and War. Khadi, on the other hand was an attempt to revive the old self-sufficient economy, where production would be restricted primarily to the needs of the village. In this case, there would be no incentive to grab other countries for raw materials and markets. Without rooting out thus the cause of international friction in the economic sphere, achievement of world peace seemed to him an idle dream. Thus we find that introduction of Khadi by Gandhiji had a multifaceted dimensions. After the Independence, however, Govt. of India took up the responsibility of bringing Khadi and village Industries within the over all frame-work of the national Five Year Plans as a part of employment generating programs in the rural areas. Subsequently, Khadi and Village Industries Commission (KVIC) came into existence in 1956 by an Act of Parliament.

Khadi is defined as: 'Any clothe woven in handloom in India from cotton silk or woolen yarn handspun in India or from a mixture of any two or all of such yarns'. KVIC is based primarily on actualization of the Gandhian Philosophy of Gram Swaraj (Village freedom) and Gram Swavalamban (Village self-sufficiency).

The basic objectives for setting up of the KVIC are:

- **Social Objective**-To create employment opportunities in the non-farm sector in the rural areas at wages/earnings which are, at least, comparable to the prevailing levels of wages in the farm sector during the non-peak season.
- **Economic Objective**-To produce saleable articles to provide services for which there is effective demand.
- **Wider Objective**-To support rural development in its widest sense and to improve the quality of life.

It has been playing a key role in generating employment opportunities in the unorganised rural non-farm sector through its twin program of Khadi and Village
Industries. When we mention about the unorganised sector of the Khadi Industry it refers to the artisans engaged in the spinning and weaving activities and some workers in the pre and post-processing of the Khadi clothe.

These KVI programs are being implemented through various Institutional units of production (henceforth referred as institutions), which act as the nodal agencies. The institutions are certified by a Central Certification Committee to maintain the quality of the product and to make the institutions adhere to the principles and guidelines prescribed for running the program. Govt. provides subsidies to these programs in the form of Interest subsidy on bank loans and rebate, apart from the grants and loans to create infrastructure and marketing outlets for the institutions.

This leads to think what kind of a commodity is Khadi? When we look within economic terminology, historically it has emerged more like a 'merit good'. It was never visualized as a commercialized commodity. It has survived with state support because it stood to symbolize something much greater than its commercial value, like a symbol of independence, as an instrument for rural development and as a leverage for the upliftment of the marginalised sections of society and women. Thus we see that Khadi is not just a pure commercial commodity, but it is symbolic and claimed to be supporting around 14-lakh employment. Therefore, we have to look at Khadi not purely from economics point of view, which is just one side of the coin. But also to look at its contribution to employment generation for social cause, as it is claimed. Thus to judge the survival of Khadi we have to examine both, its economic and social dimensions. Now we look at the structure of Khadi industry supported by various other departments and their role in promoting Khadi.

**Table 1.1 Number of Institutions implementing Khadi Programme.**

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<td>Major</td>
<td>153</td>
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<tr>
<td>Medium</td>
<td>178</td>
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<tr>
<td>Small</td>
<td>893</td>
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<tr>
<td>Problematic</td>
<td>61</td>
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<td>Total</td>
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1.7 KVIC Support Activities

- Marketing
- HRD
- S & T
- Publicity
- Information Technology
- Finance and Budget
- Cost-chart

Marketing Aspect of KVIC includes establishing and maintaining departmental bhavans numbering 16, 15,441 sales outlets and 11 bhavans in hill and border areas.

Human Resources included training facilities of new techniques and Technical and Managerial training to potential entrepreneur's etc.

Publicity includes issuing pamphlets, folders, KVIC dairy, press notes on important events etc.

The Science And Technology (S&T) of Khadi consists of R&D units run by institutions, Khadi Gramodyog Prayog Samiti, Ahmedabad, Departmental dyeing and printing laboratory at Mumbai.

Information Technology consists of programme for upgrading the entire KVIC system through computerization.

Coming to the most important of all is the Finance & Budget of the entire programme. It includes two sources.

1. Budgetary source consisting of
   - Khadi loan
   - Khadi grant
   - Khadi grant (S&T)

2. Institutional Finance includes
   - Interest subsidy eligibility scheme (ISEC)
   - CBC schemes upto 1996-97

Budgetary source: The Khadi loan given through budgetary source is used for

a) Loan for capital expenditure: for construction of Godowns, purchase of implements, renovation of looms, charakas etc.

b) Loans for working capital, which comes to around 138%-145% for various types of clothes.
Khadi grant is mainly used for Khadi rebate and interest subsidy on the loans drawn by institutions/boards from bank. The Khadi grant for Science and technology is to support the S&T institutions mentioned earlier.

The Khadi Institutional Finance: Interest Subsidy Eligibility Scheme (ISEC). The KVIC/KVIB (KVIB is specific ‘state level’ Khadi and Village Industry Board) after assessing the requirement of funds during budget discussion gives the interest subsidy eligibility scheme certificate. Through that the institution can generate loans form nationalized banks at a subsidised rate of 4.5%.

The CBC loan (Consortium Bank Credit) consisting of Rs. 1000 crores earmarked for KVIC under the Union budget for the year 1995-96 on central Govt. guarantee. CBC was a term loan repayable in 8 years, to be utilised for increasing the production in KVIC sector for enhancing the employment opportunities It is a part of implementation of the High Power Committee (Government of India, 1994) recommendation of doubling the Khadi production to generate an additional employment of 2.47 lakhs in the sector by end of the 8th plan (HPC, 1994, 4.8). We will be referring to this recommendation and its impact on Khadi industry in the following chapters.

1.8 Production Process And Cost-Chart

To understand the entire process of production of Khadi, Cost-Chart gives a vivid description right from raw material purchase to the retail sale of the product. A brief review of all these items would be very relevant here to further our understanding of Khadi. Cost-chart is meant for maintaining the cost and quality of Khadi. The components of cost-chart differ marginally from state to state. Cost-chart also ensures that the artisans get their wages, according to their productive capacity, fairly. The wages of artisans are supposed to be upgraded regularly along with inflation through cost-chart.

The raw cotton is purchased by the RCPCs (Regional Cotton Purchasing Committees) in every state. The processing of raw material is done by,

1) Institutions own Sliver plants (which are second hand machines purchased from the mills sector) or
2) KVIC newly established Sliver plants at different places in India.

The processed raw material is made into spindles (to be used for spinning in the charaka) from the Sliver plants. Spinners use different types of charakas, ranging from
single spindle or takli charaka to the 12 spindle charakas to prepare the 'thread' (hanks). Further, the thread (hanks) prepared by spinners is used in warping to do the weaving. As we can see the wage component of spinning and weaving consists of around 32% to which 10% and 8.33% of wage is added to artisans welfare funds and as incentive respectively by the Institutions themselves. Thus just raw material and wages plus incentives constitute around 75% of the prime cost.

After the weaving is done the cloth is further processed like dyeing, tailoring, designing into different garments, transporting to different Bhandars. The other major components include establishment margin and bank interest contributing to the rest of the cost. Interestingly the publicity expenditure/cost is just around 0.5% of the entire cost. From this we get a broad picture of the various components, which contribute, to the cost of Khadi.

The labour working in the KVIC industry, i.e the artisans engaged in the spinning and weaving activities and some workers in the pre and post-processing of the Khadi clothe, belong to the unorganized sector it is imperative to look at Khadi with in the unorganized sector too. Further, KVIC claims to be playing a crucial role in generating employment opportunities in the unorganised rural non-farm sector and especially during the non-agricultural season, which cannot be easily ignored. Since Khadi industry is also a part of the traditional industry sector, a study on Khadi would also have implications for the other traditional industries sector as they face more or less similar situation. Therefore even this dimension cannot be missed out.

1.9 Performance Of Khadi In 1990’s

After looking at various aspects of Khadi as envisaged by the commission. We further analyse the performance of Khadi industry in the past few years for a quick review of the industry, followed by formulation of our basic research questions and defining the major objectives of the study.

One of the distinctive features of the Indian textile sector is the co-existence of a wide spectrum of techniques of clothe production: from the high speed automated equipment on the one hand, to the essentially pre industrialized, hand–operated (Khadi) on the other. Such Technological Dualism is not uncommon characteristic of developing economies. But what seems to be the disturbing trend is that the traditional sector (Khadi, sericulture, coir, handicrafts etc.) is being pushed to a corner as far as its share in output is concerned; in 1996-97, it had to contend with a mere 8.36 per cent share in output against as high as a 60.36 percent share in employment. Khadi
itself accommodated nearly 3 percent of the persons employed in the VSI (village small-scale industries) sector. But Khadi’s share in total production of fabrics declined from 0.47 percent share in 1991-92 to 0.28 percent only in 1997-98 (Chadha, 2000).

Moreover, the Khadi program is largely supported through subsidies in the form of rebate, bank interest subsidy, grants for infrastructure development, etc. It is therefore interesting and imperative to look at how this traditional based industry is able to cope up with the changing environment of Liberalisation, Privitisation and Globalisation, where even the Govt. of India is forced to with draw its support from the loss making/inefficient public sector undertakings.

To Judge whether Khadi is economically viable or not, we have to look at various aspects of Khadi to get a fair understanding of the working of the entire industry, like adequate funds availability and utilization, infrastructure facilities, Research and Development (R&D), innovations, marketing strategies, linkages of the Khadi implementing Institutions with KVIC/KVIBs, issues of wages and working conditions of the artisans, their social-economic mobility etc. Understanding the above components would give us a much deeper insights and a stronger reasoning to analyse the viability of Khadi programme. Therefore the study’s research questions focus on understanding the traditional sector like Khadi in its multi-faceted aspects to get a wholistic picture about what was envisaged of the industry and what is its current position today and what efforts are imperative to strengthen it. The methodology adopted is largely an explorative one combining, not only the political philosophy but also the socio-economic dimensions of the industry.

Based on the above premises we define specific objectives of our study as follows.

1.10 OBJECTIVES OF THE STUDY
1. A brief historical review of emergence of ‘Khadi ideology’ and how it acquired the central stage of 'all round development' strategy in Gandhian philosophy. It aims at exploring the emergence of Philosophy of Village Industry and Swaraj as expounded by Gandhiji, followed by examining his unique philosophy of Education ‘Nai Taleem’ and the adoption of non-violent Trusteeship principle to promote the overall Village Development. Further, it looks at the current status of the above ideologies.
2. Exploring the position of Khadi Industry within the overall traditional
industries and other technologically advanced textile sectors in India.

3. To analyse the Secondary data on Khadi to cover aspects like production (quantity and value), sales, stock, employment, working capital, interest subsidy and rebate from the time of its inception.

4. To understand the organisational structure of KVIC, role of support organizations like certification committee, standing finance committee, cotton purchase advisory committee, training committee, marketing committee etc. Further, aspects of flow of information regarding decisions taken, how effective are different institutions in carrying out the decisions and the limitations experienced by the Khadi implementing institutions while executing the programme.

5. To analyse fund flow and utilisation efficiency of the Institutions through balance sheets analysis and financial analysis of ratios measuring of liquidity, turnover and profitability of the Khadi programme implementing Institutions.

6. To look at the status of technology in Khadi, in terms of allocation of funds for innovations and R&D activities of both KVIC and institutions and the information dissemination of innovations about the new technologies by the supporting organisations like Prayoga Samithi and the institutions implementing the programme. Further, exploration regarding how introduction of new technology in Khadi, has an impact on productivity, earnings, sales, employment etc. is also undertaken by analysing a case study of the introduction of New Modal Charka as an innovation in Khadi production from early 1970’s and its impact on various aspects of the industry.

7. To examine the ‘current status’ of employment as against the original employment status envisaged by Gandhiji when he started the Khadi programme. This is achieved through analysis of current socio-economic conditions like adequacy of artisan’s wages and family income, issues of drudgery in spinning and weaving, artisan's social mobility through occupational mobility etc. Further, questions of child labour, social security and possibility of organising this unorganised sector are also examined.

8. To look at the existing marketing strategies in Khadi industry and analyse data of customers surveyed and identify the major shortcomings and limitations of the current marketing strategies of selling Khadi. It also examines the current alternate marketing strategies available for similar products in the corporate world to enhance the saleability of products.
9. Summary the major observations and conclusions emerging from the above chapters.

1.10.1 Sources Of Data And Methodology Of Data Analysis

The secondary data sources include Annual Reports and Statistical Abstracts available with the KVIC and KVIBs and reports of the various committees appointed by the banks, Govt. of India, by outside agents and KVIC. Other survey reports and studies available with the ECR (Economic Research) directorate of KVIC are also included. The details of data used are mentioned in the beginning of each chapter. The timeframe of the analysis for secondary data analysis is right from the inception of the KVIC program in 1956. For primary data analysis data collected from the field work in year 1998-99 is utilized. We use extensively the data (primary and secondary) collected from an earlier report of ‘Evaluation of Khadi’ sponsored by Ministry of Industry, Department of SSI and ARI, Co-authored by Prof. Datta, Dr. Vikas Pandey, Mr.P.Gopinath, Ms.Kukadea and Mr. Aithal in 2000.

In primary data we have attempted to look at Khadi industry from both objective (quantitative data) and subjective (qualitative data) dimensions. Therefore the Primary data includes both qualitative and quantitative analysis at the all India level. The study extensively concentrates on the data generated from some of the major states like Uttar Pradesh, Tamil nadu, Gujrat, West Bengal, Rajasthan, Kerala, Himachal Pradesh, Punjab, Haryana, Chandigarh, Maharashtra and Delhi, where around 90 percent of the Khadi work is carried out. Regarding the qualitative aspects of the primary data, Opinions regarding the 'current status of Khadi' and its 'future' have been collected through interviews and group discussions of officials of KVIC, KVIBs, experts on Khadi industry and people working in the field like development officers, marketing officials etc. For studying the financial aspects of the industry, balance sheets for the past four to five years have been analysed.

As regarding the primary data analysis, data collected from the three sets of questionnaires i.e Khadi programme implementing institutions, artisans and customers purchasing Khadi have been utilised for the analysis. Field based primary data consists of three questionnaires, first at the institutional level, second at the artisans level and finally at the customer level to get an idea of existing conditions and various perspectives of the entire sector. The production centres, artisans and customers have been chosen on random sampling basis. The sample size included 52 institutions, around 360 artisans (both home based and shed based more or less evenly
The first questionnaire is of the Institutions, which have been selected randomly from the list of Institutions from each state provided by KVIC during field visits. The questionnaire consists of data related to the institution’s infrastructure like the number of spinning and weaving sheds, sales outlets and yarn dyeing centers. Further, information on the raw material procurement procedures, details of current stock, loan and working capital availability have been covered. Qualitative questions like implementing institution's opinion of provision of sustainable employment, R & D and other design innovation undertaken by the institutions, efforts in marketing, questions of rebate less Khadi and can Khadi become competitive in today's market conditions have been covered. All the above questions try to analyze various aspects of Khadi from the implementing agencies point of view. The questionnaire of Artisans i.e. both spinners and weavers was drawn randomly from various institutions selected for the study during field visits. The artisan’s questionnaire contains data of socio-economic profile of the family, the occupation of parents, days worked, wages working conditions etc. Data regarding wages and number of hours worked is crosschecked by the respondent's passbook entry provided by the institutions. Data on other work place benefits like medical insurance, incentive, pension, provident fund etc. are covered in the questionnaire. The most pertinent question of various other job opportunities available if the industry closes down is also collected. The questionnaire had been finalized after a pilot trip to Gujarat.

The customer’s questionnaire consists of data on occupation, education and approximate income profile of the respondents. Questions regarding quality of Khadi vis-à-vis other clothes, the appropriateness of pricing of Khadi, the type of Khadi clothes preferred by the customer and suggestions by the customer to make Khadi more popular are covered. The customers interviewed were selected randomly from various sales outlets or Bhandars of Khadi institutions visited during field work. As regarding the methodology of the study, it is an explorative study combining political philosophy and socio-economic dimensions of the industry to get a wider understanding and wholositic picture of the issues involved in it. The study extensively uses growth rates, percentages, graphs, etc as a part of the data analysis. Analysis through correlation is also undertaken for analysis of secondary data. Moreover, Financial or structural ratio is used to judge the liquidity, turnover and profitability of the institutions implementing the programme. Photography was also used.
1.10.2 Chapterisation Scheme

Chapter 2 reviews the khadi ideology and its current status. Chapter 3 explores the position of Khadi within traditional industry and modern textile industry in India. Secondary data analysis of Khadi Industry covering aspects of production, sales, employment, subsidies etc. is carried out in chapter 4. Chapter 5 analyses the organisation structure of KVIC and its coordination with the programme implementing institutions. The availability of funds from different sources to the institutions and its utilisation is undertaken in chapter 6 whereas chapter 7 explores the status of technology in Khadi industry. Chapter 8 examines the ‘current employment status’ of the Khadi artisans against the original employment status envisaged by Gandhiji. Chapter 9 looks at the marketing aspects of Khadi and summary of the chapters and broad conclusions relevant for the traditional industries are presented in Chapter 10.