CHAPTER I.

INTRODUCTION.
Seldom have anywhere industries have made progress without the active help of the Government. The example of Japan in this connection is most striking. It has been remarked that "in Japan, modern industrialization had the State as its godfather." The initiative and the fostering care of the state were chiefly responsible for the development of industries in Germany also.

In India the East India Company encouraged the development of indigenous industries in its own interest. But the policy was later reversed for the benefit of the industries in Great Britain. Even after the passing of the Government of the country from the company to the Crown, the policy of laissez-faire was followed. It was not till 1904, during Lord Curzon's reign, that an Industries Department was set up by the Government of India. In Madras also an Industries Department was established which began to take active interest in the development of aluminium and leather tanning industries. The then Secretary of State, however, did not approve of the Government going to that extent. His attitude threw cold water on the enthusiasm of the Government.

**Policy During World War I:**

The next stage came with the outbreak of World War I. The British Government realised that an industrially developed India would have been far more helpful to them. Attention, therefore, began to be paid to the development of industries. The Indian Industrial Commission was appointed in 1916 to conduct a comprehensive survey of Indian resources and industrial possibilities. The Indian Munitions Board was also set up in 1917 to foster the development of foreign competition due to war, several new industries were started and the existing ones were extended.
Discriminating Protection Policy, 1923 and after

According to the Government of India Act of 1919 the Industries became a provincial subject. Moreover, a far-reaching change took place in respect of the fiscal policy of the Government. So far, it was the British Parliament which determined the fiscal policy for the country. In 1921, however, the "Fiscal Autonomy Convention" was adopted by the British Parliament, so that, henceforth India was free to follow an independent fiscal policy. Accordingly, the Indian Fiscal Commission was appointed in 1921 to recommend a suitable fiscal policy. On the recommendations of the commission, the Government adopted a policy of "Discriminating Protection." This was a great departure from the past and a great step forward. From now, instead of being a disinterested spectator, the State committed itself to helping industries by the grant of protection which had never been afforded before.

Provincial Governments also, in the meantime, took several measures to assist industries, particularly, the small-scale and cottage industries. They started several industrial schools to impart training in crafts, gave financial aid to the small industrialists, arranged industrial exhibitions, opened emporia and depots to push the sale of goods produced by the small-scale and cottage industries and set up sections for the collection and dissemination of industrial intelligence.

However, on the outbreak of World War II in 1939, considering the industrial progress made by other countries, India was found industrially as backward as at the time of World War I. No doubt, as a result of the policy of discriminating protection, a few consumers goods industries had been developed but the more important capital goods industries had not yet even been born.
WORLD WAR II

For the successful prosecution of the war, the Government had to liberalize its policy towards industries. Accordingly in 1940, the Board of Scientific and Industrial Research was created. Facilities of technical training in the country were also greatly extended. A large number of young men were sent abroad also to get advanced technical training. More important still, the Government came out with a clear assurance that the industries established during the war would not be left unprotected after the war. A Department of Planning and Reconstruction was also set up at the centre to accelerate the pace of industrialization on carefully planned lines. These measures did result in the development of several new industries and in the extension of the old ones.

AN ESTIMATE OF THE PRO-INDEPENDENCE POLICY

However, as has been seen above, the industrial policy of the state had been very halting and had not been sufficiently and positively helpful. Had it been more active, liberal and comprehensive, far greater industrial progress would have been achieved. Its Fiscal Policy had also been very lukewarm. The Government expenditure on industrial research, industrial education, marketing facilities, etc., was also negligible as compared to what was dictated by the requirements of the situation. The Government's store purchase policy too had not, for long, been that of preference for the home products.

Moreover, apart from the very insignificant amounts advanced by the provincial governments under the State Aid to Industries Acts, the State did not take any part in the financing of industries.
REALISATION OF THE ROLE OF SMALL-SCALE AND COTTAGE INDUSTRIES IN INDIA

In fact, the importance of the small-scale and cottage industries in India has since long been recognised. Even the author of the Bombay Plan were convinced of their usefulness. "It is, " they write, "an essential part of our plan for the organisation of industries that adequate scope should be provided for small-scale and cottage industries along with large scale industries. This is important not only as a means of affording employment but also of reducing the need for capital, particularly of external capital, in the early stages of the plan. It is difficult to define the considerations on which the choice between large and small-scale industries and cottage industries should be determined. The factors involved in the choice are numerous and often conflicting. But generally, it may be stated that while in basic industries there is little scope for small industrial units, they have an important and useful place in consumption goods industries where their function is in many cases complementary to that of large units."

The Indian National Congress has been a great champion of small-scale and cottage industries and the Congress Government accepts the principle of their development as a matter of creed. The National Planning Committee has thought it necessary to make a special study of the small scale and cottage industries. According to it, small-scale and cottage industry is one as distinguished from large scale industry equipped with power driven machinery and working for a large market, national or international. The committee has noticed the serious disadvantages of this obsolete form of production represented by handicrafts. It has recognised that they involve needless waste of labour, handicap the country in foreign trade and condemn the adult worker to needless toil for a limited gain, are for a permanently low standard of living. "But," the Committee reports, "the dangers of industrialism and the excessive concentration of new wealth produced by intensive industrialisation in the country, as experienced in Western countries, have persuaded the most socially inclined minds to accept this uneconomic ideal."
The committee has recommended a fusion of the large scale modern industries and cottage industries or handicrafts. The details of this coordination between the two were to be left to the planning commission. The Government has evolved the principle of co-operative production and co-operative marketing of products for the small scale and cottage industries with the financial, advisory and technical assistance of the Government.

Industrial Policy Resolution of the Government of India

For the first time after independence, the Government of India issued a comprehensive resolution on April 6, 1948 outlining their industrial policy. The resolution emphasized the importance to the economy of securing a continuous increase in production and its equitable distribution. With this end in view, it was pointed out that the state must play a progressively active role in the development of small-scale and cottage industries.

The role of cottage and small-scale industries in the development of the national economy has been stressed in the Industrial Policy Resolution of April 30, 1956. The relevant extract from the resolution is given below.

"The state has been following a policy of supporting cottage and village and small-scale industries by restricting the volume of production in the large scale sector, by differential taxation, or by direct subsidies. While such measures will continue to be taken, whenever necessary the aim of the state policy will be to ensure that the decentralised sector acquires sufficient vitality to be self-supporting and its development is integrated with that of large-scale industry. The state will therefore, concentrate on measures designed to improve the competitive strength of the small-scale production should be constantly improved and modernised, the pace of transformation being regulated so as to avoid, so far as possible, technological unemployment......... Many of the activities relating to small-scale production will be greatly helped by the organisation of industrial " Co-operatives. "
Small scale and cottage industries have played a prominent part in the economy of this country in the pre-British days. In fact, they were the backbone of the economic life in the country. However, during the British regime they drifted into the background. The break-up of the village self-sufficient economy, the invasion of the cheap machine-made goods, the vicissitudes of tastes, the indifferent and apathetic attitude of the state, all combined together to crush the once prosperous cottage industries in India. Many of the cottage industries were strangled to death, while the rest were reduced to mere skeleton of bones. However, in spite of the "direct action" launched against them, the cottage industries managed to survive the previous injuries inflicted upon them. Even today, notwithstanding the series of odds and handicaps, they occupy an important position in the economy of the country. The number of workers engaged in them is more than five times the number engaged in large-scale industries.

What place can they hold in the future economic structure of the country? To this question the only sensible answer could be that they are bound to occupy a very significant place in the economy of our country. This is due to a variety of reasons. Firstly, unemployment, both rural and urban, is by far the most important problem facing the country today. Without providing employment to the working part of the population, we can not ensure decent standards of living to the tens of millions of the people of this country. The problem of raising the standard of living is a question of eradicating the "giant idleness" from this country. This necessarily implies the adoption of the policy of full employment.
Notwithstanding the advancements recorded in the sphere of industrialisation, India still remains an agricultural country par excellence. Nearly 80 percent of India's population are depended upon agriculture for their livelihood. But here in India agriculture is a seasonal industry giving rise to the serious problem of seasonal unemployment. The phenomenon of seasonal unemployment in the country is large enough to depress the standard of living on the one hand and to intensify the deadlock between agriculture and the industry on the other. Thus that some work must be provided during the period of seasonal unemployment can not be questioned. Can cottage industries do something to relieve the problem of seasonal unemployment? Cottage industries can successfully fight this giant problem by providing subsidiary type of work during slack season to the agriculturists. Cottage industries will give employment at the very doors of agriculturists without disturbing in any manner his main occupation - agriculture. Thus the best solution for tackling the knotty problem of seasonal unemployment is to be found in the planned development of some carefully selected cottage industries. This will not only solve the problem of seasonal unemployment, but will also act as a second string to the bow in as much as agriculture is an uncertain industry in this country.

Secondly, cottage and small-scale industries will also solve or at least partially reduce the problem of inequalities in the distribution of the national income in this country. Large scale industrialisation which has helped in expanding production, has at the same time brought many serious socio-economic evils in its wake. Gone are the days when the rich and the poor had an eye of sympathy and a kind heart for each other. Today, the phenomenon of wide income disparities has crossed all possible limits.
To use keynesian phrase the phenomenon of "poverty amidst potential plenty" is a living fact. The grinding poverty of the many and the superabundant wealth of the few is a striking feature of the present society. Many of the economic resources of the country have remained unharnessed up to the present day because of this evil. The gulf between the "haves" and "have nots" is on the increase. The development of small scale industries, since at any rate there is less scope for exploitation, fraud and speculation, will promote equitable distribution of wealth and will thereby ensure a stable peace and progress in the country.

Thirdly, a planned development policy in regard to the cottage and small-scale industries will help reduce the magnitude of the problem of industrially "over congested" and "depressed" areas in the country. Industrial activity in this country has in main concentrated only in few big cities (Calcutta, Bombay, Ahmedabad and Kanpur etc.) depending upon the whims of the few big industrial nominates. The rest of the country, specially the rural areas—the home of India—have so far remained shunned off from any industrial activity resulting in their remaining as merely "hewers of wood and drawers of water." These disparities in the industrial development as between regions in a country give rise to serious social evils. Thus the industrial concentration in few big cities in India has resulted in awful housing conditions. The evil effects of such excessive congestion on the health and character of the nation can only be imagined. An estimate of the total loss to society resulting from the ill health and consequent loss of efficiency caused through over crowding, smoke and noise, would certainly run in several hundred crores of rupees.

There is thus an emergent need to decentralise and redistribute the present ill-devised pattern of the industrial activity in the country. There should be a balanced regional development which will remove the unhappy distinction
between backward villages and congested industrial centres. There is a case for the dispersal of industrial activity in the country and cottage and small-scale industries would be the most apt instrument to implement the scheme of decentralisation of industrial activity in India.

Fourthly, even from the ethical point of view there is a positive case for the planned development of small scale and cottage industries in the country. Small scale and cottage industries provide an extremely wonderful contribution as a strong counter to the modern materialism. Machinery has enslaved man, destroyed human skill and individuality. By encroaching upon the privacy of home it has disturbed the morals of the family. It has annihilated time distance and has brought nearer the countries of the world, but has thrown apart the nations one from the other. It has brought together the bodies but not the hearts and souls of the people—worst of all it has narrowed down the vision of Christianity and made it a hand-made of imperialism. The machine-age has created a spirit of individualism, rendering the rich richer and poor still poorer. It has given rise to a state of perpetual war between nations.

Very unlike it small-scale and cottage industries provide ample outlet for self-expression and initiative. They lead to the development of those basic qualities in the people which are very essential for a healthy development of a nation. Since raw materials are rendered into finished products in the worker's own home the very fact of creation stirs the soul work of the artisan. Culture and refinement come to him through his work and in the midst of his dear and near ones. There develops a real feeling of mutual trust and confidence, love and affection duty and reverence among the artisans. Such a Co-operation will not only augment production but will as well foster a spirit of devotion and sacrifice in the people a spirit of which the country today is in dire necessity.
"With such a change in outlook and constant association with the creation of things of use and beauty, a sense of spiritual gratitude can not fail to revive. Might not this progress provide conflicting India with comforts and peace. We all so much desire?"

Fifthly, the development of the small-scale and cottage industries in the country is in keeping with the similar developments in other countries of the world. In France about 90% of the industrial establishments employ less than 100 workers each and again even of these more than 50% employ less than 50 workers each. In Germany, proudly called the 'industrial workshop of Europe,' before the war more than 17% of the total population depended upon cottage industries. In Japan 'the industrial hub of the eastern world' cottage industries occupy a conspicuous place in industrial sphere. In China industrial co-operative (Induscos) are not only the nation's impregnable lines of defence against foreign aggression, but also have sustained the Chinese nation when the entire economic structure was bombed to pieces. In the Five year plans of U.S.S.R. cottage industries have been assigned an important place. The 'Owner-producer's co-operative' in Russia have made remarkable progress. Even in U.S.A. and U.K. serious efforts are being made in the direction of decentralisation through comparatively small sized industries.

In the light of the above, none can dispute the extra-special place of small-scale and cottage industries in our national economy. The social, economic and geographical conditions in this country are most suitable for the development of cottage and small-scale industries.
The arguments for assisting small-scale and cottage industries are obvious and many.

1. The preponderance of agriculture in the Indian economy necessitates the development of subsidiary industries to keep the agriculturists busy during his spare time. Much of the cultivator's time is now spent in idle gossip or in quarrels or litigations can be much more profitably employed in gainful occupations. To the landless agricultural labourer, it may as well be his chief means of livelihood.

2. The population pressure on land in the country is so great that even a many-fold increase in large scale industries and transport and other services is not likely to do much. The only effective solution is the development of cottage and small-scale industries.

3. Such industries do not create the problems of modern large-scale production. Every modern scheme of industrialization insists on industrial depression and regionalism. The peculiar importance of this fact in India lies due to the reason that here the economically advanced and backward states exist side by side. Their development is also likely to reduce the preponderance of agriculture.

4. In the country of Mahatma Gandhi where the emphasis is on peace, non-violence and the dignity of labour such industries assume a particular importance. They are expected to keep the cultural, social and moral fabric of the society in tact.

5. Historically also, their development is justified. Much of the fame that India acquired in the past was due to them. They have, therefore, every claim for rehabilitation more so because their downfall was the result of a deliberate and calculated policy of India's foreign masters.
It will be unjust to discard them simply on the basis of their being outmoded or on the ground that they show a higher cost of production monetarily. It is often argued that the cost of production is so high that the small-scale and cottage industries can never compete with the large scale industries. They can only be maintained in a closed economy. It may, however, be said in this connection that nobody recommends a wholesale programme of having only the small-scale and cottage industries. All that is recommended is that they should be developed as supplement to the large scale industries. The question of high cost should be considered in other lights. We must remember that it is only the money cost which is high, usually the social cost in respect of them is comparatively low. Small scale and cottage industries do not give rise to most of the evils of large-scale industrialisation. In the second place, it is often wrong to suppose that even the money costs are necessarily high in them. With the use of power and small machinery the money cost can be substantially reduced. This is confirmed by the experiences of China and Japan where their cost is competitive with the large scale industries.

The argument that the presence of the small-scale and cottage industries indicates backwardness has lost much of its force in the modern world. Even the most advanced countries have found it difficult to completely dispense with them. In particular, in the rural areas their presence is regarded as a healthy sign for increasing employment. In the countries of the east their importance at any rate, must remain for a considerably long time. The over-populated countries of the world will have to retain them however interesting they may be in large scale industrialisation. In India, there is sufficient indigenous skill available for the purpose. There will be no need to import foreign technicians and to provide extensive training to the domestic artisans in their case.
For the purpose of definition, a small scale industry is one which is carried on on a small-scale in the sense that the number of workers employed in it is such that the manager can keep a direct personal contact individually with each one of the workers under him. Such an industry may or may not use power. The difference between the large and small-scale industry is rather fine and sometimes it becomes difficult to draw an exact line of division. Cottage industries are small-scale industries using mainly human labour and simple tools and carried on within the premises or the house of the artisan. In most cases the labour for a cottage industry is provided by the artisan and his family though it may not be uncommon to find artisans working for others. In an industrial country production methods of cottage industry are considered obsolete and out-of-date. But in agricultural countries they are often retained or even encouraged because the nature of employment in agriculture is often seasonal. The cottage industries are important source of subsidiary employment.

However, small scale and cottage industries have been defined differently by different committees and enquiry bodies from time to time.

The Indian Industrial Commission of 1917 defined cottage industries as, "Industries carried on in the houses of workers, which we have designated as cottage industries. In these the scale of operation is small and there is but little organisation so that they are, as a rule, capable of supplying only local needs." (1)

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The Indian Fiscal Commission, 1949-50 gave this definition: "A cottage industry is thus one which is carried on wholly or primarily with the help of the 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 the hired labour usually 10 to 50 hands." The report further observe that, "the distinction between cottage and a small scale industry rests mainly on the size of the unit and the related fact of the contractual relationship between the proprietor and the workers. In practice, however, while cottage industries are generally associated with agriculture in rural areas and provide whole time occupation only in urban areas, small-scale industries generally provide whole time occupation to their workers and are located in urban or sub-urban areas."  

The Indian Central Banking Enquiry Committee defined cottage industries as, "Those found in rural areas which can be named as village and domestic industries providing subsidiary occupations to agriculturists."

The cottage industry as defined by the U.P. Industrial Finance Committee is "one which is carried on by the artisan at his own home, either on his own account or under the direction of a karkhandar."

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The Bombay Economic and Industrial Survey Committee, 1938-40, defined the small-scale industries as "industries where power is used and the number of workers employed does not exceed fifty and capital invested is less than 30,000 rupees. Small-scale industries will also be taken to include industries where no power is employed, provided the manufacture is carried on in Karkhanas and number employed exceeds nine." The committee also defined cottage industries as, "industries where no power is used and the manufacture is carried on, generally speaking, in the home of the artisan himself and occasionally in Karkhanas where not more than nine workers are employed."

A cottage or small scale industry has been defined by the National Planning Committee they "................. an enterprise or series of operations carried on by a workman skilled in the craft on his own responsibility, the finished product of which he markets himself. He works in his own home with his own tools and materials and provides his own labour and at most the labour of such members of his family as are able to assist. These workers work mostly by hand labour as personal skill, with little or no aid from modern power-driven machinery, and in accordance with traditional technique. Such supplementary energy as is provided by animal power may add to the economy and efficiency of the industry. He works, finally, for a market in the immediate neighbourhood, that is to say, in response to known demand with reference to quality as well as quantity. "2"

"Working Party on Industry and Trade—SCI. " has also suggested the following definition and classification:

"A cottage industry is one, the products of which require skill and craftsmanship in the manufacture and which is carried on wholly or primarily with the help of members of the family either as a whole or part time occupation. A small

scale industry is one which is operated mainly with hired labour, usually not exceeding 50 workers in any establishment or unit not using any motive power in any operation or 20 workers in an establishment or unit using such power. "1

According to the State Aid to Industries Act (Madras), a "cottage industry means any industry carried on by a worker in his own home." 2

Here is another definition of small scale industries cited by the Karve Committee, 1953. "It includes all industries which have a capital investment of less than Rs. 5 lakhs of rupees and employ less than 50 persons when using power and less than 100 persons when not using power." 3

"Society for Social and Economic Studies" has also defined the small scale industries as follows.

"As a working formula, the Central Government has defined a small scale industrial concern as a unit having capital invested up to Rs. 5 five lakhs and employing not more than fifty persons with the use of power, and 100 persons without the use of power." 4

The Industries (Development and Regulation) Act, 1951 amended in 1953 and 1957 also adopted the same criteria of the number of workers employed as 50 when using power and 100 when not using power, in demarcating large scale and industrial units from small to which only the act is applicable. 5

3. Report of the Village and small-Scale Industries (Second Five Year Plan) Committee, 1955, P.61 (Hereafter referred to as Karve Committee.)
According to International Planning Team's report the village and small-scale industries can be divided into two major groups, with only minor overlapping as follows:

(I) "Traditional village craftsmen (carpenters, blacksmiths, potters, etc.) working mainly for the needs of their neighbours within the village itself and occasionally for the nearby village and small town markets."

(II) "Small industries aiming at larger markets, selling or trying to sell their products throughout the country and abroad." (This group includes the traditional artistic crafts.

Dr. J.C. Kumarappa has defined cottage industries as "whole time occupations that do not require factory building with elaborate or special plant and equipment but can be engaged by the workers in their own cottages."

According to Dr. V.K. N. Rao, "small scale industries means where power is used and the number of workers employed does not exceed fifty and the capital invested is less than Rs. thirty thousand." Small scale industries will also be taken to include industries where no power is employed provided the manufacture is carried on in Karkhanas and the number employed exceeds nine."

"Cottage industries are those industries where no power is used and the manufacture is carried on, generally speaking, in the home of the artisan himself and occasionally in small karkhanas where not more than nine workers are employed."

According to Mr. Vishwanathan Jekumalla, "Cottage industries are industries where artisans not exceeding 9 per industrial unit, find employment in urban or rural areas either as independent worker or apprentices as assistants in or at their own or their employer's homes or as wage-earners in small karkhanas and work with capital, limited in practice but not in theory, adopting at times a simple and harmless division of labour and employing such hand or power driven machinery as does not interfere with the utility and art value of the products, whose market is by no means merely local."
Another definition is from the Second Five Year Plan. According to it, "the working definition adopted by the small scale industries Board brings within the scope of the term small scale industries all units or establishments having a capital investment of less than Rs. 5 lakhs and employing less than 50 persons when using power." Further, the common features of small-scale industries are urban and semi-urban location, use of machines, power and modern techniques. ¹

Here is another similar definition cited by the Bulletin of Small Industries. "A small-scale industry is a unit employing less than 50 workers, if working with power, and having a capital not more than Rs. 5 lakhs."²

According to the Late Sir M. Visvesvaraya, "heavy or large scale industries will be those enterprises which require say, a capital outlay of Rs. 30 lakhs or more each, medium scale industries between Rs. 1 lakh and Rs. 30 lakhs and minor or cottage industries Rs. 1 lakh or less."³

Hair splitting of theoretical definitions does not serve any useful purpose, which industry should be regarded as small scale one, is a problem which could be solved only by adopting a working definition by some competent authority.

In 1953-54, the Ministry of Commerce and Industry invited an International Planning Team through the courtesy of the Ford Foundation to report on measures that could be adopted to develop small-scale industries. The Government accepting the recommendations of the Team, set up the Central Small Industries Organization and the Small Scale Industries Board in 1954-55. The latter was an advisory body.

While realizing the need for providing governmental assistance to develop small scale industries, the Board was initially beset with the evolution of a definition of small scale industry for administering the various programmes.

3. Sir M. Visvesvaraya: Planned Economy for India, 1934 Page 64.
The Small Scale Industries Board, in its first meeting held on 6th & 6th January, 1965, adopted the first working definition of a small scale industrial unit as: A unit employing less than 50 persons if using power and less than 100 persons without use of power, and with capital assets not exceeding Rs. 0.5 million. This definition was by no means rigid and had to be applied with a certain amount of flexibility. This definition was evolved by a process of elimination. The industries covered by other boards and the factories registered under the Industries Development & Regulating Act, 1951 were excluded. Further, the ceiling of Rs. 0.5 million for capital investment in a small scale industry accorded with the minimum limit laid down for licences issued by the Controller of Capital Issues.

This definition was evolved to administer the Government Programmes for the development of the small scale industries including financial assistance and extension facilities, viz. supply of machinery on hire purchase, marketing assistance, technical assistance and provision of factory accommodation in the Industrial Estates.

In a short period, it was felt that the working definition did not serve the purpose particularly from the point of view of maximum utilisation of the equipment and capital outlay. The question was discussed in the 19th Meeting of the Small Scale Industries Board in September, 1957 and a revision of the definition was recommended. Accordingly the Ministry of Commerce & Industry under their letter No.12-381(4)(136)/57, dated 18th March, 1959 modified the definition so as to cover undertakings which employed less than 50 persons when using power and less than 100 persons when not using power, per shift. Thus, the scope of assistance was enlarged to cover the units working on bigger production programme on multiple shift basis.

As the tempo of development of Small-Scale Industries gathered momentum under the aegis of the Central Small Industries Organisation, a need was again felt to modify the definition further. This time the employment limitation was found to stand in the way of small industry promotion programmes. The Small-Scale Industries Board had kept in mind the necessity for maintaining a certain amount of flexibility in its interpre-
The Board welcomed the Govt.'s decision to revise the definition. The new definition as per Ministry of Commerce and Industry letter No. 12.3SI(A)(138).57, dated 4th January 1960 was as follows:

"Small scale industries will include all industrial units with a capital investment of not more than Rs. 0.5 million irrespective of the number of persons employed."

The capital investment for the purpose of the definition meant investment in fixed assets like land, building, machinery and equipment. When units functioned in rented premises, the capital valuation of such building was to be taken into account in assessing the prescribed limit of Rs. 0.5 million but worker's housing and welfare amenities were excluded from the capital estimate for this purpose. The original price paid by the owner irrespective of whether it was new machinery and equipment or second hand was taken into consideration while calculating the value of machinery and equipment.

This change in definition marked an important turning point in the programmes of development of small-scale industries, as after the revision a number of small scale units could employ a large number of workers and undertake a greater volume of production with the same resources and equipment and capital outlay. The revised definition also made it possible to cover labour intensive establishments of larger size under the programmes.

Since industries engaged in the production of ancillary items and components required by the large industries needed higher forms of mechanisation and use of costlier machinery and equipment, it was felt that in several cases, capital investment of much higher order than the limit of Rs. 0.5 million was required. It was, therefore, decided that to begin with, relaxation in capital ceiling up to Rs. 1 million may be allowed in respect of small industrial units manufacturing components in the following industries:
1. Industrial and agricultural machinery.
3. Electrical machinery and equipment.
4. Radios.
5. Electrical and mechanical instruments.
6. Transport industry including automobiles
   Railways and Shipping.
7. Steel, Iron foundry and forge-shops.
8. Re-rolling and wire drawing industry.

The following special facilities were extended to
small ancillary industries falling under the above categories.

(a) Technical assistance through the small Industries
   Service Institutes.
(b) Supply of machinery under Hire Purchase Scheme of
   the National Small Industries Corporation.
(c) Allotment of factories in Industrial Estates.

Capital investment for the purpose of this
definition meant investment in fixed capital, land and
buildings, machinery and equipment. It was felt that small
scale industries could play their role in the national
economy effectively only if they adopted themselves to the
changed conditions of modernisation and rationalisation of
techniques of production and business management practices.
Another revision of definition had, therefore, to be carried
out to enlarge the scope of governmental assistance and
to accommodate further not only marginal cases but all ready
and promising enterprises. This dynamic approach was an
essential ingredient of the development programmes.

However, to make the definition as simple as
possible for operational purpose, the Small-Scale Industries
Board, appointed a Sub-Committee (1962) to review the definition
of small scale industries and make recommendations on the
following questions:

To what extent present definition of ₹ 5 million
for general and ₹ 1 million for ancillary industries should
be modified? The committee should consider, if the present
difference in definition between ancillary...
and non-ancillary industries should be abolished, making one definition applicable to all. The Committee may also consider whether certain facilities, like credit and hire-purchase, could be reserved only for units with lower capital investment if the capital ceiling is to be increased from $0.5 million."

The Sub-Committee recommended the enlargement of the definition to cover small units with capital assets ranging from $0.5 million to $1 million for the following reasons:

(a) The differentiation between ancillary and non-ancillary industries presented considerable administrative problems.

(b) Units with capital investment up to $1 million had already been exempted from obtaining licences, under the Industries Development and Regulating Act.

(c) While quality requirements for export markets required adoption of modern technical processes, there had been a steady increase in the cost of machinery and other capital assets.

The Committee, however, felt that as a result of the revision of the definition as proposed by them, there would be some strain on the already limited resources available and, therefore, recommended imposition of certain restrictions on the various categories of facilities to be made available to small scale industries with comparatively large capital.

The report of the Sub-committee was considered by the Small Scale Industries Board at its 26th meeting held in October, 1962. The team was in general agreement with the Sub-committee and desired that the recommendations of the Sub-committee should be further considered by the Government. The recommendations were examined by the Government of India and it was decided not to implement the same immediately in
the context of the then national emergency as it would have further aggravated the strain on raw material supply and also necessitated administrative adjustments which might have created some difficulties in the smooth operation of the industry.

The criterion for ancillary industries has subsequently been revised to exclude units which were set up primarily to manufacture parts and components for replacement market.

The latest and the current definition of small-scale industries recommended by the Small Scale Industries Board in their 24th meeting held on 8th, 9th July 1966 and as per Ministry of Industry letter no.3:011(a)18(5)/66, dated 31st October, 1966 is as follows:

"Small Scale Industries will include all industrial Units with a capital investment of not more than Rs. 0.75 million irrespective of the number of persons employed. Capital investment for this purpose will mean investment in plant and machinery only."

In calculating the value of plant and machinery the original price paid by the owner, irrespective of whether the plant and machinery are new or second-hand, will be taken into account.

Ancillary industries under the definition have been defined as under:

"A unit which produces parts, components, sub-assemblies and tooling for supply against known or anticipated demand of one or more large units manufacturing/assembling complete products and which is not a subsidiary to or controlled by any large unit in regard to the negotiation of contracts for supply of its goods to any large unit. This shall not, however, preclude an ancillary unit from entering into an agreement with a large unit giving it..."
the first option to take the farmer's output."

This change has been necessitated partly to off-set the higher cost of machinery due to rising prices and also to offer greater opportunities to small scale enterprises in the ancillary sector.

**DISTINCTION BETWEEN SMALL - SCALE AND COTTAGE INDUSTRIES.**

Cottage industries may be distinguished from small scale industries in that the former are generally associated with agriculture and provide subsidiary employment in rural areas to the cultivators side by side with their main industry during spare time and serve as another string to the bow such as dairy-farming, pottery, bee-keeping, rope-twisting, ornaments making, oil crushing, etc. while the latter are mainly located in urban centres as separate establishments. They may further be distinguished in that the former involve operations mostly by hand and are carried on primarily with the help of the members of the family, while the latter produce goods with partially or wholly mechanised equipment employing outside labour also.

**DISTINCTION BETWEEN COTTAGE AND SMALL SCALE INDUSTRIES AND THE LARGE SCALE INDUSTRIES.**

In their transformation from an agriculture to the present manufacturing and commercial stage industries have had to pass through the handicraft stage. Before the alien rule in India, cottage and small scale industries were extensively practiced in India. The opening of the new means of communication and easy transportation of Indian goods to the foreign countries had led to the disappearance of our older industries such as iron, steel and salt. But the good fortune of India, the disappeared industries are getting their birth in the shape of large-scale industries.
As we have seen that cottage and small scale industries are mostly rural in character. They are carried out on a small-scale basis having very little capital not more than Rs. 0.75 lakhs. A simple or without power or with little power machinery is used. Either very little or no outside labour is employed.

With large-scale industries are those enterprises which require a capital outlay of Rs. 30 lakhs or more each. These industries are very important because, generally speaking, they include basic industries, require the use of developed machinery and technique, help mass production of staple commodities and represent the highest form of industrial enterprise. The following are the industries of this type:

Mining, Iron and Steel, Engineering Industries, manufacturing locomotives etc. Arms and ammunition and military goods, automobiles and aircrafts, ship and boat building etc.

These large scale industries require large sums and expert direction to establish and manage which cottage and small-scale industries do not require. The large scale industries employ a large number of outside labour both skilled and unskilled having no direct supervision of the master or owner while cottage and small-scale industries require either no outside labour or very limited in number, and skilled one. The master-craftsman has his direct supervision over the workers.

**Classification of Small-Scale and Cottage Industries.**

Small-scale and cottage industries have been classified differently by different authorities on the subject. Thus Dr. Radhakomal Mukherjee has classified them into:

2. Radha Kamal Mukherjee: Economic Problems of India - Vol. II.
Peasants' arts and crafts carried on as subsidiary occupation for their own needs and sometimes for external markets;

Village subsistence industries, e.g., village carpenter, potter or the blacksmith etc.;

Village art industries, e.g. carpet making, silk-weaving, paper-making and clay-modelling etc., and

Urban arts and handicrafts, e.g., silk industry of Benaras.

Dr. V.K.R.V. Rao has classified them into seven heads:

1. Those industries which are auxiliary to large scale industries such as roller skins, pickets and motor cushions, etc.,

2. Those industries which are engaged in the supply of repair services;

3. Those industries which are engaged in the supply of finished goods;

4. Leather industry;

5. Connected with earth and sand-pottery and tiles;

6. Those connected with food, e.g. sweet-meat making, canning etc.,

7. Industries like bangles, paper, cigar, cigarette and bidi making.

Taking raw material as the basis of classification, these can be classified into industries:

1. relating to cotton, wool or silk, e.g., handloom weaving, nivar making, wool shearing, carding and spinning, blanket making, woolen carpets, woolen knitted goods like socks, vests etc.,

2. relating to wood, e.g., toy making, wood engraving, furniture making, etc.,

3. relating to metal, e.g., brasswares, copper wares, lock and scissors making etc.;
Relating to leather, e.g. suitcases, handbags, brief cases and shoemaking;

relating to clay and sand, e.g. earthenware, stone-ware, china-ware;

relating to food, e.g. flour grinding, oil pressing, biscuit making, etc.;

Miscellaneous industries, e.g., paper making, bidi making, wire drawing and book-binding etc.;

From the stand-point of occupation provided, they may be broadly classified as:

industries providing supplementary occupation to agriculturists, e.g., hand weaving, sericulture, basket making, bidi making, repemaking, flour-grinding etc.,

industries consisting mostly of village-crafts and providing wholetime occupation, e.g., carpentry, pottery, oil crushing by ghannis, boat making, blacksmithy, village tanning industries, etc.;

urban industries providing part or wholetime occupation, e.g., wood and ivory carving, toy making, calico printing and dyeing, gold and silver thread; and

urban seasonal industries like pottery, brick-making, etc.,

According to structure and organisation, the cottage industries may be classified as:

those in which the artisan deals with the consumers and works with his own capital, e.g., bidi making, rope making, hand weaving, carpentry, pottery, blacksmithy, etc.

those in which although the artisan deals directly with the consumer yet the raw material is provided by the later, e.g., furniture making wood work etc.,

those in which both cash and raw materials are provided by the middlemen such as cloth and silk weaving carpet etc.
(iv) those in which the artisan works in his home but gets the raw materials from the karkhanas, e.g., bidi making, carpentry, metal work, etc;
(v) those in which the artisans work in karkhanas under the guidance of Karkhadars or master artisans, e.g., iron and copper utensils, carpet weaving, gold and silver wire making, shoe-making etc.;

From the technological point of view cottage industries may be divided into:

(i) Those where there is no competition between large-scale, small-scale and cottage industries, e.g., gur making, sari making, bee-keeping etc.,

(ii) Those in which small-scale and cottage industries are concerned either with the manufacturing of certain parts or with certain stages of production in a manufacturing process in which predominant role is that of large scale industries.

(iii) Those in which there is competition between large scale and small scale industries, e.g., sugar, cloth, leather goods, etc.

From the stand-point of survival, cottage industries may be classified into:

(i) Those which have succumbed to the competition of the factory industry, e.g., cotton spinning;

(ii) Those whose products are competing with the machine-made goods and which are in a state of suspended animation, e.g., hand made paper;

(iii) Those which are persistent because of their connection with agriculture or because artisans have been able to adapt themselves to new conditions, and

(iv) Village and urban industries producing artistic products which do not lend to their production by machines and which do not compete with factory products, e.g. gur-making, bee-keeping, etc.
From the stand-point of products, the cottage industries may also be put under four heads.

(i)  Industries subsidiary to agriculture which are usually carried on in off-time of the farmers, e.g., gur-making, basket making, bee-keeping, rope making, rice-pounding, etc.,

(ii) Village subsistence industries carried on by potters, village carpenters, the tanner, blacksmiths, etc.,

(iii) Village art industries, which are carried on by handicraftsmen and which show a high standard of art and craftsmanship and cater for national as well as international markets, e.g., paper making, glass bangle manufacture, pearl and cotton manufacture, bone comb, etc.; and

(iv) Urban arts and handicrafts, which represent a higher standard of artistic excellence, craftsmanship and organisation, e.g., silk industry of Benaras, locks and scissor making of Aligarh, Chicken Industry of Lucknow, etc.

A BRIEF HISTORY OF SMALL-SCALE AND COTTAGE INDUSTRIES IN INDIA.

What is to-day termed a small-scale on cottage industry has indeed a rich past. It can trace back its origin to immemorial past. In the matter of cottage industries the present compares most unfavourably with the past.

"At a time when the rest of Europe, the birthplace of modern industrial system, was inhabited by uncivilised tribes, India was famous for the wealth, rulers and for the high artistic skill of her craftsmen." 1 The skill of the Indian craftsman was high enough to send even the most conservative and reactionary European into a sort of reverie. Even as late as the 16th century when the European merchant and adventurers made their first appearance on the soil of this country, the industrial development of this country, though considerably deteriorated, was in no way inferior to that of the more industriously advanced nations of the West. In this context the

praise of Prof. Wever for the high skill of Indian craftsman is noteworthy. He records: "The skill of the Indians in the production of delicate woven fabrics, in the mixing of colours, the working of metals and precious stones the preparation of essences and in all manner of technical arts, has from early times enjoyed a world-wide celebrity. " There is evidence that Babylon traded with India in 3,000 B.C., Mummies in Egyptian towns, dating from 2,000 B.C. have been found wrapped in Indian muslins of the finest quality. "1 That the Indian made goods were in great demand in early Rome is confirmed by the complaint on record of Alder Pliny that vast sums of money were year after year absorbed by trade and commerce with India. The once world-renowned "Dacca muslin" was in very great demand among the Greeks. "A piece of the finest muslin 20 yards long and one yard wide could be made to pass through a finger ring and required six months to manufacture."2.

That the arts of cotton-spinning and weaving had attained a very high degree of efficiency and perfection during the Hindu period is confirmed by many other sources of information as well. Our holy Vedas indicate that there was a custom of bride clothing the bridegroom in cloth woven out of yarn spun by herself. Is it not a sufficient proof of high order of sense of estheticism among our ancients? The Hindu epics viz. Ramayana and Mahabharata make references to the Indian economics, R.C. Dutta has therefore rightly commented that "weaving was the national industry of the people and spinning was the pursuit of millions of women."

Similar instance is of the production of iron and steel in India. It is an art born in our own country. The writing of no less responsible a person than Prof. Wilson3.

2. Vide T.N. Mukherjee: A Hand-Book of Indian Products: (1883)
testify that the "Casting iron is an art that is practised in this manufacturing country (England) only within a few years. The Hindus have the art of smelting iron, of welding it, and of making steel and have had these arts from times immemorial." Our iron, a product of cottage industries, won world-wide celebrity and Mr. Ranade\(^1\) wrote in 1892 "The iron industry not only supplied local wants but it also enabled India to export its finished products to foreign countries. The quality of the material turned out had also a world-wide fame. The famous iron pillar near Delhi which is at least 1,500 years old, indicates an amount of skill in the manufacture of wrought iron which has been a marvel to all who have seen it. "The iron industry was developed to an extent that enabled the country to export its finished products to other countries. Production of iron iron was carried on at the time of Akbar in "Bengal, Allahabad, Agra, Jerar, Gujrat, Delhi and Kashmir. The quality of the output was frequently high, and in the south at least, the artisans had a method of making steel.\(^2\)

Thus we find that there is a chorus of praises of our ancient products and Marco Polo, the Italian, who came to India, in the 13th century, has gone to the extent of saying about Indian fabrics that "In soothing they look like tissues of spider's web. There is no king or queen in the world but might be glad to wear them, and Sains thought that these muslins might be "the work of fairies or of insects rather than of men."

Thus writing about the towns, the Indian Industrial commission puts, "From an industrial point of view, the most interesting section of this population (i.e. the population of towns) was the class of artisans who were engaged in producing not only arms and leather, accountrements, but rich textile fabrics, carved stone, wood and ivory, wrought metal, jwellery and other articles of luxury, often of exquisite workmanship and high artistic value. Even today the famous centres for production of Indian Arts wares are the old capital towns."\(^3\)

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2. Morel and W.K, India at the Death of Akbar (1920)P.150.
Alexander who invaded India in 327 B.C. could not help admiring the high excellence of the country's handicrafts. In his "Artha-Shastra" Chanakya has made a vivid description of many industries that flourished under the kind patronage of the Mauryan kings who had evolved the most modern method of encouraging the industries by setting up a separate department for the purpose.

Notwithstanding the frequent invasions of Ahmad Shabzi which occasionally gave a set-back to the economy of this country, the cottage industries continued to maintain their pace of progress during Sultan period. This is confirmed from the authentic writings of various historians, e.g., according to Shams-e-afif, the Sultans of Delhi extended their patronage to the indigenous industries by maintaining a great many numbers of artisans and karkhanas. During the golden days of Moghuls, particularly on account of the high artistic tastes of Jahangir and the Queen Consort Noor Jahan, and Shahjahan the artisans were the recipients of unbound encouragement and favours by the state. Jahangir was always mad after beautiful things artistically made and so was Shahjahan. Bernier who visited India during the reign of Shahjahan, gave a glowing tribute of India's artistic genius while writing about the "incredible quality of manufactured goods, embroierys streaked silks, tufts of gold threads, silver and gold cloth, brocades and net work of gold, etc." During this period cottage industries had become almost localised. This Kashmir was famous for its shawls and other woolen goods, Mulda, Rajshahi (now in Bangla desh), Manipur, Bangalore, etc. were famous for silk products while many other towns such as Agra, Mirzapur, Multan and Lahore etc. were known for their best carpets. Thus localisation, which we to-day see in the case of the large scale industries had also been the privilege of cottage industries in the past.

To cite more examples of the high place enjoyed by industries in India in the past is neither necessary nor is it possible to incorporate all of them in this short space. It is
time that we take a lesson from the past so that our industrial heritage and culture is revived once again.

**Small Scale and Cottage Industries in Madhya Pradesh**

Small scale and cottage industries have played an important role in the socio-economic structure of Madhya Pradesh from times immemorial. The state is rich in minerals, has abundant supply of forest products and grows a variety of agricultural crops. Thus the state has the advantage of supply of raw materials for industries. In the State of Central Provinces Cotton Textiles were a flourishing small scale industry. Nagpur, Umarer, and Paoni were famous for their textiles with silk borders. Silk manufactures were made in Nimar, Nagpur, and Shandara. Tussar silk was manufactured in Chanda and the Chatragarn region. Gold embroidery work was also carried out in Surhanpur. Thus the textiles occupied an important position amongst the industries of the state. The Imperial Gazetteer of India Central Provinces 1908 tells us that the textile industry in Madhya Pradesh provided employment to about 4 lakh people in the state in 1904. Of this nearly 23,000 were employed in silk manufacturing.

The other important industries that existed in the state even in the first decade of this century were textile dyeing and printing, wool manufacturing, leather goods, carpentry, bamboo work, potteries, etc. The leather industry alone provided employment to 96,000 persons in the state in 1907. Shoes and slippers with ornamental design were made in Chanda. In a nutshell at the end of the 19th century the state had fairly well developed small industries whose products enjoyed patronage and reputation all over the country.

In 1938 the first congress ministry assumed power in the Central Provinces under the Government of India Act, 1935. The Congress party was already committed to propagation of Khadi and uplift of village industries. Gandhi ji regarded village as the economic unit which according to him had to be
developed to acquire self-sufficiency. The Swadeshi Movement started by Congress also required the development of indigenous industries.

For the reasons stated above it was but natural that the Congress Ministry should devote itself to the uplift and revival of cottage and small scale industries. A temporary post of an organiser for village uplift work (including the development of cottage and small scale industries) was created in February, 1939. It was the function of this organiser to arrange demonstrations in cottage industries such as repemaking, bamboo work, niwar-weaving, utilisation of forest products, bee-keeping, fruit canning and perfumery manufacturing. However, the Congress Ministry in the State resigned after the out-break of Second World War and the work started by them could be taken up again when after the War the Second Congress Government was formed about an year before independence.

PROCESS OF DECAY BEGINS.

But this enviable position that India had build up was not destined to last for ever. A number of factors conspired to demolish this proud structure of ours. The most important reasons for the decay and the downfall of the cottage industries in India can be summarised as below:

1. With the expansion of the British rule in India, the native courts began to disappear and with them disappeared also their fostering care. The cottage industries not only lost valuable customers but also patrons and financiers.

2. The new aristocracy educated on the western lines developed by the British had developed new tastes and fashions. As Vera Anstey has pointed out, "The richer classes in India began to adopt western fashions and either purchased western goods or were content with cheaper indigenous goods sold to Europeans that previously, they would have scorned." The demand for the products of Indian cottage industries, of the high artistic and skilled articles in particular, received a major set-back.
3. The hostile attitude of the British Government at home and their callous behaviour in India dealt a major blow to our industries. In their desire to develop their own industries and to assure markets for the products of their own industries, the British Government prohibited the import of dyed calicoes into Britain and levied almost prohibitive duties of 30% to 80% on other articles from India during 1700 and 1929. The arm of political injustice thus strangled and finally crushed them.

4. The competition by the machine-made goods from Europe which had considerably increased due to the development of transport services in the country was another important factor responsible for the downfall of the cottage industries.

5. The policy of the British Government was to make India the producer of raw materials to feed her own industries and to sell the products of their own industries in the Indian markets. This naturally, went against the interests of the cottage industries.

6. The ignorance, the conservatism, and the lack of adaptability of the artisans was also responsible for the downfall of many of the cottage industries. The Indian artisans refused to change with the times. The result was that their products became out of time with the change tastes and fashions.

7. There was lack of co-operation between the artisans. Financial shortage was quite prominent. The lack of co-operative organisations coupled with the individualistic and traditional pride of the artisans made it impossible for such industries to survive.

**Causes of the Survival of the Small-Scale and Cottage Industries, India**

Despite the heavy odds against them, some of the industries have managed to linger on. This is not the peculiarity of India alone. Even in the most highly industrialised countries of the world certain types of cottage industries still continue
to flourish. This is primarily due to the fact, that some branches of production are more amenable to small-scale production. In particular, industries which cater to personal tastes or to comparatively smaller demand are more profitably operated on a small-scale. In India there have also been certain additional factors responsible for the survival of small-scale and cottage industries. They are as follows:

1. The caste system in India has saved many of the industries even when such industries were not economically paying. Some of the occupations are reserved for certain classes of people who have to take to them under the pressure of social and religious circumstances.

2. Despite the tremendous development of modern means of transport and communications the economic isolation and self-sufficiency of the Indian villager has not been completely broken. Many of the places still remain free from the competition of machine-made goods in respect of many commodities. In addition, the demand for some of the products is so local, figurative or limited in quantity that it does not lend itself to mechanised production.

3. The preponderance of agricultural industry in the country is also responsible for the survival of many rural and cottage industries. By its very nature, agriculture can only offer seasonal employment and that too not for the whole day during the slack seasons. This has been responsible for the continuance of hereditary occupations in the absence of lack of alternative avenues of employment.

4. In many cases, an industry has been continued because of the long and honourable traditions behind it and because of the immobility and inertia of the workers.

5. Some of the Zamindars and native states continued to provide patronage to some of the industries. They were good customers and also provided finances in times of need.

6. The Indian artisans have also, in some cases, shown great adaptability. They have changed the form and quality of their products alongwith the changing tastes and fashions.
7. The Swadeshi Movement after World War I, was a very important factor for the continuance and in many cases of the revival of Indian handicrafts.

8. In many cases, the Central and State Governments in the recent past have made substantial grants towards the uplift of small-scale and cottage industries.

One of the factors which determine the exact position of a particular cottage industry in the new set-up of things has been the degree of competition from the machine-made goods. In general, the greater has been the degree of such competition, the lesser have been the possibilities of survival. At the same time, the active hostility or the indifference of the Government to a very great extent determined the extent of decay and downfall which a particular industry had to undergo. All the industries have not suffered equally during the course of time. Some industries have completely died down, some of them are in a half-living condition and there are some which have been as healthy and vigorous as ever.

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