CHAPTER II
PROBLEMS AND PROSPECTS OF SMALL-SCALE AND COTTAGE INDUSTRIES IN INDIA

In the previous chapter I have come to the conclusion that the widespread unemployment and under-employment associated with the problem of migratory labour in India can be met by the creation or extension of small-scale and cottage industries as a principal occupation for surplus farm population. These industries would not only contribute to raising per capita productivity but would also create new productive enterprises without entailing a large influx of population into already congested towns and thereby creating a disequilibrium between the supply of and demand for labour. It may be pointed out that small-scale and cottage industries offer a new procedure of industrialisation, better suited to the economic conditions of India. They are likely to avoid some of the ills caused by the industrial revolution in western countries, as well as the regimentation caused by Communist planning, whose brutalising impact on the economy of some countries is still in our memory. The
Main problems of small-scale and cottage industries appear to be technical and organisational. On the technical side, the main consideration should be the productivity and efficiency of such industries. On the organisational side, the principal requirements are the supply of finance, raw material, the provision of equipment and more particularly the organisation of marketing. Naturally, teething difficulties are inevitable in the technical and organisational affairs, but they can be overcome through State action and by organisations representative of small-scale and cottage industries themselves. Co-operative organisation appears to be the most suitable way of co-ordinating the activities of these small producers among themselves, protecting them from exploitation and assuring their integration with other parts of the economic system.

Before I proceed to examine the problems of these industries in detail, I may refer at this stage to their structure with a view to better understanding their problems and prospects. There is, of course, a good deal of controversy as to the definition of small-scale and cottage industries. All such industries are generally divided under the following categories:
(1) **Handicraft industries:**

These industries are the relics of the past. They are generally controlled by guilds. The individual producer works independently in his home and controls the entire process. He is in direct touch with the market and theoretically at least retains his economic independence. While this definition describes some of the elements of a handicraft industry it cannot obviously be regarded as being complete. It is difficult to make any clear-cut distinction between handicrafts and industry on the basis of number of workers engaged. For legal purposes, some attempts have been made to define handicrafts as enterprises employing not more than ten persons, or some other arbitrary figure. Those handicrafts which are carried on with the help of hired labour and with advances in cash or in raw material from capitalist middlemen are known as 'variant handicraft' industries.

Perhaps one of the distinctive features of handicrafts can be discerned in the technical nature of the work and the size of the market. The handicraftsman turns out a fully finished product with the help of tools and even machinery. He produces mainly for the local market. Even here the boundary is flexible because some artistic products
and some of a less artistic type, have foreign as well as home markets. For instance, rugs and carpets and certain handloom products have an international demand.

(11) **Small-Scale Industries**

These are in various social respects closely related to handicrafts, but in technical respects are nearer to large-scale industry. They are not necessarily more mechanised than handicrafts. "... it would be nearer the point to say that while handicrafts pay particular attention to the individual evolution of the product, small-scale industry in general aims at simplifying and standardising its production. ... small-scale industry works for a larger market, inside or outside the country. ... While handicrafts produce largely for stock, small-scale industry will, as it develops, tend to give work for orders an increasing place in its scheme."

In the Second Plan for India small-scale industries are characterised as being of varied types, but their common features are their urban and semi-urban location and use of machines, power and modern techniques. They are run by

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small entrepreneurs or self-supporting workers and sometimes by co-operatives. The working definition adopted by the Small-Scale Industries Board bring within the scope of the term 'small-scale industries' all units or establishments having a capital of less than Rs. 500,000 and employing less than 50 persons when using power. ¹

(iii) Cottage industry:

This combines in greater or smaller degree the characteristics of both handicrafts and small-scale industry. It has been defined as "one which is carried on wholly with the help of members of the family, either as a whole- or a part-time occupation."² Thus the principal feature of cottage industry is that it is carried on in the producer's home, while small-scale industry normally, and handicrafts not infrequently, are run on a workshop basis. This does not, however, preclude cottage industry from adopting the technical or organisational methods of handicrafts and small-scale industries. For the purpose of this thesis, therefore, cottage industry is treated by and large as synonymous with both these forms of enterprise.

2. This definition was adopted by the third session of E.C.A.F.E. held at Bangkok and the Fiscal Commission of India, 1949-50.
Small-scale and cottage industries are often classified as "rural" and "urban" respectively, although the types of goods produced by both classes are very often similar, and other methods of classification might be evolved in connection with a more widespread geographical distribution of industry. Cottage industries might be associated with agriculture as they provide whole-time occupation in rural areas, while small scale industries provide whole-time occupation in urban and suburban areas. No definition can, however, avoid overlapping as there is no clear line of demarcation between cottage and small-scale industries.

It may be concluded from the above that no definition can be exact when there is a large variety of industries carried on in an unorganised manner. There is bound to be some degree of overlapping. One thing these industries have in common is that they lack any well-knit organisation. They require more skilled organisation and planning. The producer is mainly his own judge of the quality and value of his wares. He sells his output with little or no idea as to its actual market worth or without any assurance of obtaining the price he considers reasonable. The various industries grew in a haphazard manner through individual initiative and some of them have become caste industries,
e.g. the handloom in industry is in the hands of weavers, the leather industry is mostly run by 'chamars' etc., etc. For the success of these industries it is necessary that permanent relations be set up and maintained with the market, standard working techniques evolved, quality levels determined and rates of remuneration carefully calculated. Very often the individual producer is not in a position to fulfil all these functions, with the result that he has to submit to an intermediary who drags him into a complicated net-work of indebtedness and eventually subjects him to economic exploitation. The following are some of the handicaps and difficulties under which these industries are suffering:

(a) Raw Material:

Taking small-scale and cottage industries as a whole, various Industrial Survey Committees of India have pointed out that due to competition from the larger producers and the lack of financial resources, these industries do not get raw materials of good quality and in some cases they do not get enough supplies even of the inferior quality of raw material. Another difficulty which these industries

1. Village tanners.
experience is the comparatively high price they have to pay for the raw materials. Even shore supplies of raw materials are locally available, the artisan finds difficulty in obtaining his requirements because they are mostly purchased by the large industries in advance. Where raw materials have got to be obtained from cities, they are generally purchased through a middleman, due to the cost of transport and other inconvenience of making direct purchases from the cities in small bulk. The grabbing middleman, as pointed out above, is more a money-lender than a businessman. He exploits the ignorance and indebtedness of the artisan. He not only charges high prices for the material, but also adopts fraudulent practices by mixing material of inferior quality with that of superior quality. This high cost of raw material increases the prime cost of production and reduces the artisan's earnings and his ability to compete with large-scale industries.

(b) Technique of Manufacture:

An equally great handicap from which the artisan suffers, is the persistence of methods of manufacture with out-moded

1. Competition between the middlemen in industrial countries forces them to offer the market value of goods and makes the continued exploitation of the seller's ignorance quite exceptional. But in India the number of persons with sufficient capital to enter trade as middlemen is very small, and hence they tend to enjoy local monopolies. See Bombay Economic and Industrial Survey Committee report 1938-40, and Report of the survey of Cottage Industries in the Madras Presidency, 1929. These reports have pointed out that in account of the shortage of local capital and lack of artisans' co-operative, Banks, the middlemen enjoys monopoly powers. See also page 261 below.
implements. For example, the throw-shuttle persists in many weaving centres and improvements such as the use of beam warp, dobbies and other up-to-date implements used in cottage weaving in industrial countries are rarely employed. Similarly in tanning, pottery, brick-making, embroidery, etc., the same old methods of manufacture are employed, with the result that the technical inefficiency of these industries is increasing the cost of production and is rendering them unfit to compete with the large industries. Improvement of productive technique is essential in small industries to meet the competition from large-scale industries and to keep pace with the changing demand for consumer goods. Improved tools and simple machinery are becoming more and more necessary to enhance the competitive efficiency of small industries.

(c) Marketing:

The existing methods for the marketing of the products of small-scale and cottage industries are defective. Types and areas of consumption are shifting, but only a few producers try to follow them. There are no sound channels of communication between the small manufacturer and the ultimate consumer. In many cases the artisans do not know in what part of the country their goods are used, or who buys them. In western countries, the valuable help given to the business community by market research has been recognised for some time. Under the stress of economic /
conditions, businessmen have learnt that it is not enough to produce technically perfect goods, but that it is in the market place that their fate is decided. In a seller's market, the need to ascertain the wishes and preferences of the buying public may not have been considered urgent. But when the buyer becomes supreme, more and more market research is needed to keep pace with production and a reliable system of distribution takes the centre of the stage.

Market research is equally important in the case of small industries, because their articles are tailored to suit individual or group tastes, habits, and uses. The change of tastes on the part of an Indian consumer is an important explanation for the fall in demand for Indian handicrafts. Due to the lack of market surveys and the absence of organised efforts very little re-adjustment has taken place in the form of the commodities turned out by cottage workers. The market researcher must study the consumers' habits which affect the sale of cottage products. Studies to detect changes of fashion should be made in relation to specialised classes of consumers, such as occupational groups, people belonging to certain religions, living in certain geographical areas, and age
groups. Analysis of seasonal variations in sales, which show the reasons for slump during certain periods of the year also come within the scope of consumer surveys. Many prejudices exist in India regarding the use of the products of cottage industries, and it is the function of market surveys to reveal them so that production can be directed to meet the change of taste of the consumers. Possession of superior factual knowledge of the ultimate buyer will provide one of the strongest competitive weapons to the small-scale and cottage industries of India.

The daily lives of the people of India, the things they eat, wear and enjoy as well as the methods by which they obtain them, should be studied by marketing and distribution research to indicate the consumers' behaviour in relation to small industries' products. Management thinking in these industries should therefore begin with the demand side of the economic equation, and production in accordance with a carefully measured demand will provide a much sounder and more efficient economic structure. Comparison with existing products as to performance, style, quality, size and price can be invaluable in determining the competitive position of small industries. It should be the concern of market research
how articles should be designed, made and finished in order to be acceptable. The setting up of a reliable organisation that will test and certify the products of small-scale and cottage industries, will materially enhance the market value of their products.

**Organisation in Marketing:**

There is a lack of organisation in the marketing of Indian cottage products. At present the foreign markets are neglected in India and even home markets are not properly fed. Only big cities have Government Cottage Industries Emporia where the products of their industries are displayed and sold, but they are not publicised by any effective media of advertisement. The Arts and Crafts Emporium at Lucknow and the 'Swadeshi' Stores in Bombay form a good example of a successful agency for internal distribution of cottage industries' products.

The industrial development of small-scale and cottage industries depends upon marketing organisations, as is evident from the examples of Germany and Japan. The toy industry of Germany and the cottage industries of Japan owed their success to the existence of the business organisation which took over the products of the industry and disposed of them within the country as well as abroad.
In India the question of marketing was considered at the Sixth Industries Conference of 1934, and co-operative marketing was introduced by several of the Provincial Governments. In Bombay, eight Co-operative Industrial District Associations were formed at eight important centres. Each association had a shop of its own, which accepted the products of hand-loom weavers on consignment account against partial advances, and sold them on a commission basis. They supplied the weavers with raw materials at market rates and also modernised the industry through improved appliances sold on the hire purchase system.

Such Industrial District Associations should be organised all over the country, and they should start centrally supervised chain stores as distribution outlets of Indian small-scale and cottage industries. The management service given to these industries should include: selection of a promising site, provision of a standard store and supervision of store lay-out, along with the planning of the financial programme. These associations can formulate plans and policies of production. Many cottage industries in India are producing with the aid of some sort of rough observation, without the benefit of accurate measurement and objective guidance.
d) **Lack of Statistical Data:**

Lack of adequate statistical and trade information about small industries is admittedly a standing difficulty in their development. In the absence of reliable statistics regarding production, costs, labour, wages, prices, extent of markets, etc., it is difficult to assess their latent economic potentialities. To fill this gap in industrial data, a well-equipped statistical section should be attached to the Department of Industries in each State of the country. Proper publicity should be given to the data collected through bulletins on specific industries giving detailed information about their economic potentialities.

In the matter of pooling information and analysing the potentiality of small industries, non-official organisations have an important part to play. In the western countries, local planning committees, the co-operatives, trade associations and study groups are generally encouraged by the State to study the problems of small industries. Such organisations are also essential for the development of India's small-scale and cottage industries. Co-operative societies in India have mostly confined their activities to the supply of rural credit and other needs of the cultivator. The work of co-operatives for small-scale and cottage
industries should be undertaken by the Industries and Co-operative Departments in the States. Some progress has been made in this direction. The number of industrial co-operatives in the States rose from 3,758 in 1949 to 5,035 in 1950, and according to the schemes of various states the number of Marketing and Processing societies will further be increased under the Second Plan by 1,800 societies, which will cover co-operative sugar factories, co-operative cotton gins and other co-operative processing societies. However, these co-operatives are not concerned with many other important handicrafts. More attention should be devoted to introducing industrial societies which would help to organise the small-scale and cottage workers. The Government of India is paying due attention to the technical and organisational difficulties of these industries. They have established four Regional Institutes of Technology, a Marketing Service Corporation and a Small Industries Corporation, to overcome deficiencies of production, finance and distribution. Their main concern

1. First Five-year Plan, page 328.
2. Second Five-year Plan (Summary), page 85.
3. These institutions were recommended by the Ford Foundation International Planning Team which visited India in 1953.
is to rationalise these industries and to accelerate their evolutionary growth.

Other problems which are relevant to these industries, such as capital formation, occupational mobility, research, entrepreneurial ability and business administration, etc., are studied in the last chapter. It has been maintained that the bottlenecks which impede the development of new opportunities and the flow of labour to small industries can be overcome through state action.

In conclusion it may be pointed out that the case for small industries in the industrial programme of India is not chiefly one of protecting uneconomic and inefficient industrial units. It is one of developing their latent economic possibilities by introducing up-to-date improvements in the technique of production and organisation. The problem of re-organisation is to be viewed from the following angles:

1. Reduction in the Cost of Production:
   This can be achieved through the extensive use of improved time- and labour-saving mechanical appliances. It has been pointed out that in all the handicrafts, the processes are crude and involve a disproportionate length of time which reflects adversely on the wage-earning
capacity of cottage workers. In the modernisation of small industries there lies a wide scope for new and untried industries. Efforts should, therefore, be made to overcome the conservatism of the artisan and induce him through technical training to take to the manufacture of some of the wide range of goods which he can remuneratively produce. The cost of improvement should not be very high. The innovations must be of the cheapest kind which will be readily available even for the small artisan.

(ii) Provision of Cheap Supply of Raw Material and Finance

The second method of reducing cost is to secure a cheaper supply of raw material and finance in the centres of production. This can be done by means of better transport facilities and the introduction of co-operative societies, as well as by the abolition of the octroi duties on raw materials. Money lent should be supervised carefully by the co-operatives and they should have power to require borrowers to make changes in managerial practice as a condition of granting loans.

(iii) Market Research

A thorough study of demand, both internal and foreign, should be undertaken, so that production may be in accordance with demand and losses through seasonal changes and
changes in fashion, etc., may be avoided.

(iv) Other forms of Governmental Assistance:

Other forms of Governmental assistance which would help small industries to be organised on sound lines are the grant of temporary customs concessions on imports of raw material for handicrafts and exemption from export duties and local taxes, the purchase of patent rights from foreign countries for manufacturing processes, the issue of periodicals and the dissemination of technical information, the provision of an inspection service, the grant of scholarships for technical training, the setting-up of emporia within and outside the country, and finally the purchase of the products of the small industries for Government use. All these measures would provide incentives to small industries and encourage workers to enhance their professional skills. The workers who through training will be able to do a better job and produce greater results will move ahead to more responsible work and greater financial reward. In this way small-scale and cottage industries will offer a new procedure of industrialisation and provide better opportunities for labour in India.

The chief claim for the development of these industries in India is that they are labour intensive and need little
capital for their development. In the face of huge employment and the growing population of the country, which is increasing roughly at the rate of 1.125 per cent per annum, the only effective way in which this additional labour force can be absorbed is by industrial development through small industries. The development of large-scale industries on an adequate scale is going to be an extremely difficult and slow process on account of the inadequacy of capital resources and technical know-how. If, therefore, the additional manpower is to be absorbed, at its present rate of growth, India must develop industries which, for a given amount of capital investment, can provide greater employment opportunities, at any rate where this policy does not conflict with the need for the expansion of output. This is illustrated by the following table relating to the manufacture of textile fabrics in India by four different methods of production.
Methods of Production | Capital-intensity (or Capital investment per head of worker) | Output - (net value added) per head | Ratio | Amount of Labour employed per unit of capital
---|---|---|---|---
1. Modern mill (large-scale industry) | Rs. 1200 | Rs. 650 | 1.9 | 1
2. Power-loom (small-scale industry) | Rs. 300 | Rs. 200 | 1.5 | 3
3. Automatic loom (cottage industry) | Rs. 90 | Rs. 80 | 1.1 | 15
4. Handloom (cottage industry) | Rs. 35 | Rs. 45 | 0.8 | 25

Source: The Eastern Economist, New Delhi, July 23, 1943.

It is clear that lower capital intensity has the advantage of larger employment of labour per unit of capital. As these industries will make progress, cruder technology will be replaced by more and more advanced technological methods, but the change over from crude methods to highly mechanised methods will be slow in the initial stages of industrialisation. This is due to the fact that capital is a much scarcer factor of production than labour. It is
depressing to realise how little India can afford to invest capital in her resources on account of her poverty. "India has only one-thirtieth as much to invest per head as most developed western countries, perhaps only one-fiftieth as much as the United States. If India invested the whole of her national income, it would be investing not much more than half as much per head as the United Kingdom does." 1

If, therefore, the transition from the existing underdeveloped economy to an industrialised economy is to take place without regimentation, the most effective course would be

(a) to revitalise the cottage industries and
(b) to have a chain of small industrial establishments acting as feeders to large-scale industry.

It has been emphasised that if cottage industries are to survive, they must conform to consumer demand and be able to produce at cheaper cost. In the sphere of small-scale industries, additional employment opportunities can arise on an appreciable scale if India follows the example of Japan, where there is a 'linked system' of industries. By this system Japan has demarcated different spheres for the operation of

the two types of industries, and thus avoided competition among them. This planning of Japan gave her the industrial supremacy of the East. In Japan, the factory census of 1909, when the industrialisation of the country had reached its peak, showed that factories employing between five and a hundred operatives accounted for 96.5 per cent of the total. This indicates the importance of small-scale industries in the economic life of that country. In India also it is possible to demarcate different spheres for the operation of the two types of industries and at the same time to avoid uneconomic competition. There are certain industries which may supplement each other's operations. For example, small-scale industries may make standardised parts of metal toys, machine tools, bicycles, etc., which may be assembled in large factories. Cottage workers may prepare keys and parts of locks and final assembly be made in factories. Similarly, tea chests and tea garden implements for the tea industry, nuts and bolts for various kinds of machinery can be made on a small scale.

The above would, however, need a considerable degree of planning and organisation by the State. If these

operations are successfully planned, there would be a network of dispersed, labour intensive and small-scale industries.

There are other considerations of vital importance which favour small-scale industries distributed over the countryside. The heavy concentration of industries in a few cities or areas of the country is not desirable from the point of view of equitable regional distribution of the industries. It is beneficial to distribute them all over the country to escape aerial attacks which might destroy the basic industries and thus cripple the fighting capacity of the nation. A survey of the present position of small industries in various countries would lead to the conclusion that they form an integral part and have a place in the economic structure of every industrialised country. For instance, in England industries like tailoring, shoe-making and silk weaving are partly carried on under small masters in the homes of workers or in small workshops. Cutlery in Sheffield, lace making and hosiery in Nottingham, straw plaiting in Bedford, the glove industry in Worcester are the examples of small-scale industries running successfully in the midst of factory-ridden environment. Similarly in France, Switzerland and Germany small industries and petty
trades are the major source of employment for labour. The over-all importance of large sized units in India is likely to decline with new advances in techniques of decentralisation in the fields of power, material, machinery and transportation. In rural areas the amenities required are fewer and under-employed labour can be used to produce goods at small financial cost.

A part of the problem of increasing the efficiency of labour is to change attitudes and cause people to work harder, longer or better. These incentives can be provided by the role of the State. The State can complete its role, not through compulsion and hardships, but through incentives which should be widely used to encourage workers to enhance their professional skills. The incentives may be of a moral or a material nature, and might include: the consideration of diplomas or certificates in granting promotion; a payment of tuition fees, travelling expenses, etc.; and the granting of cash rewards for the passing of examinations. The workers who through training would be able to produce greater results at greater financial reward would provide further incentives to others for increasing their professional ability. This will produce a multiplier effect on the all-round development of labour efficiency in small industries.
The State, therefore, has a vital role to play in the development of small-scale and cottage industries. If incentives are provided, in the manner indicated above, these less capital-intensive decentralised industries will provide better work opportunities for the huge mass of the unemployed and under-employed population of India. They will spread the increase of income more widely and will be more in conformity with the socio-economic requirements of the country. In addition they will strengthen the motive to invest savings in rural areas. The State, instead of imposing continued austerity and deferred consumption upon the majority can solve the problem of unemployment through small-scale and cottage industries.

To review the main conclusions of this chapter, the following points may be noted:

Small-scale and cottage industries offer a new procedure of industrialisation better suited to the economic conditions of India, where capital and technical know-how are scarce and labour is plentiful. These industries need little capital for their development and are labour intensive. At present they are unorganised and are worked by primitive methods of production. Their main problems are technical and organisational. On the technical side the main
consideration should be to increase productivity and efficiency. On the organisational side the principal requirements are the supply of finance, raw material, the provision of equipment and more particularly the organisation of marketing. The bottlenecks which impede the development of small-scale and cottage industries and the flow of labour into them can be widened through State action and the action of organisations representative of these industries themselves. The co-operative movement as a promotional agency provides an invaluable instrument for the implementation of Government policy and will enable the producers jointly to control the organisational machinery themselves.

The case for small-scale and cottage industries in the industrial programme of India is not a case for protecting uneconomic and inefficient industrial units, but for developing their economic possibilities by introducing up-to-date improvements in their technique of production and organisation. This would, however, require intensive planning and much vigilance on the part of the State. Small-scale and cottage industries, if organised on the lines indicated, would not only provide better opportunities for labour in India, but would also spread the increase of income more widely. In addition they will strengthen the investment motive in rural areas.