The Indian Cotton Mill Industry
— How It Can Be Saved

"Spectator"

The foremost achievement of swadeshi, into which has been poured the savings of millions, the product of much toil and nation wide sacrifice, our cotton mill industry is the second largest textile industry in the world. But it will soon be reduced into a heap of junk, unless something is done right now for its rehabilitation.

The causes of the periodic crisis through which the industry has been passing from time to time have been subjected to searching analysis and scrutiny in the following study. How the industry can be saved from a nemesis and set firmly on its feet has been set out in the concluding paragraphs.—Ed.

THE Congress, the principal party in the country, has recognised that our present miseries and low standard of living are due to economic malaise. Planners and economists are agreed that industrialization of the country is necessary to raise the standard of living of the people as industrialisation alone can give employment to the landless population who depend on the land for their support without contributing anything material towards agricultural production. While the Government plans to set up new industries and expand existing ones are commendable, it is also pertinent to enquire whether our established major industries are functioning in a manner which fulfils the objectives that the Government have in view. The cotton mill industry, the largest single industry in the country, is a case in point. The cotton mill industry comprising about 580 textile mills with an installed capacity of 11,000,000 spindles and 195,000 looms, is the second largest textile industry in the world. It has a fixed capital of nearly Rs 60 crores; it gives direct employment to about 800,000 workers and indirect employment to millions others engaged in the cloth and yarn business and in the machinery and millstores trade, to importers and exporters and, in particular, to 5 million handloom weavers. The first cotton mill was erected in the country in 1817, the second one in 1851 and since 1854 there has been a continuous growth of the industry in the Bombay Presidency, Later, this industry has spread out far and wide and today it is functioning in almost every State. The opposition which the founders of the mill industry had to face from British interests and particularly from the alien Government, the ups and downs it went through for the. first severity years of its existence are now matters 06 history. The cotton mill industry has grown not only out of the labours and pioneering efforts of its founders. It would not have attained its present; height had it not been for the sacrifice of the Indian people who, moved by a nationalistic spirit, strove hard to ensure that the cloth for their daily use should be from their home producers. In their infancy, when the cotton mills were selling more ' Kanji ' (starch) than cloth, it is the vow of ' swadeshi ' which made the Indian people purchase these crude products even though finer and better varieties of foreign cloth were available at relatively cheaper prices. The people of India can therefore legitimately claim that the industry which has been built with their toil and sacrifice, should be a real national asset, dedicated to their service. While the industry enjoyed boom conditions from 1941 to 1946, it has been passing through many vicissitudes since 1947 which seem to indicate that it has completely lost its balance. In recent years it has become our ' Problem Industry No. 1 ', which has gone through crises of one kind or the other. Thus, there was raw cotton crisis in 1948, '49 and *'50,* coupled with closures in 1950; export failure crisis in 1947-48 which led to the appointment of an Export Promotion Committee; shortage in domestic supplies in 1950 and earlier parts of 1951 which induced the Government to order suspension of export; and, curiously enough, a glut of cloth just shortly afterwards, which has compelled the Government to abandon a major part of their control measures and which now seems to be leading to closure of a number of mills. The object of this article is to present to the readers an analysis of the various factors which have contributed to this unhappy state of affairs and to suggest ways and means of pulling out the industry from the rut into which it has fallen.

2. Except for a short interlude of about six months in 1948, the industry has been under the control of the Government since 1945. Since the industry has been under control for nearly nine years, it is logical to assume that the various phases it has been passing through must have some relationship to the control policies which have been enforced by Government from time to time. The Textile Control Order was promulgated originally with a view to ensure that after providing a suitable quantity of yarn and cloth for the requirements of Armed Forces in India, Middle East and South East Asia, the rest of the cloth produced was equitably distributed to various Provinces and States and ultimately, to the consumers. While introducing the bill to continue, during a limited period, the powers to control production, supply and distribution of the trade and commerce in certain commodities (which included cotton textiles), Dr John Matthai stated in the late Legislative Assembly that this bill was considered necessary on account of the shortage of goods and productive capacity and to counter inflation, so that the high degree of purchasing power concentrated in the hands of a relatively small number of people may not cause the shortage of goods for the masses. This was, then, the object of controlling the Textile Industry and Trade, both by the Central and State Governments, and it is worth while to examine at this stage whether such control which has involved the Central and the State Governments in an expenditure of Rs .3½ crores annually, has been fruitful; how the mill agents and the trade have reacted to it; and, in what position has it left the industry in which the savings of millions of shareholders have been sunk.

3. It should be noted that ever since their inception, Government's control measures have been negative in character, i.e. all the regulations have told the mills " what they should not do ". It follows that such a system of control can work only as long as supplies fall far short of demand. But once supplies equal demand or outstrip it, it becomes almost impossible to enforce this sort of control since it runs counter to the economic realities.

The average consumption of cloth in undivided India in the pre-war period amounted to 16 yds. per capita. The quantities available in 1950 and 1951 were 11.5 and 13 yds. respective-

ly. The Post-War Planning Committee planned for the production in undivided India on the basis of a per capita requirement of 18 yds. All these figures are admittedly substantially lower than the cloth consumption in many of the European or even in some of the Middle Eastern countries. But it has to be admitted that the consumption of a given per capita quota can be attained only if the consumers have the capacity to pay for so much of cloth at the ruling prices, after providing for more essential needs like food and housing. The Government, however, deny that there has been recently any over-production, as their line of thought seems to be that there can be over-production only after everybody in city, town and even remote village has secured 16 yds. of cloth apiece. This is rather an unrealistic attitude to take, since requirement is an elastic concept, depending upon the willingness and the ability of the consumer to buy at ruling prices, and so far as current prices are concerned, it seems that consumers' demand has been reasonably satisfied. What, then, about bringing down the prices, since prices of Indian cotton have fallen lately? The Government have arbitrarily reduced cloth prices for May on the basis of Indian cotton prices ruling in April 1952. This reduction would have been justified, had the mills the means of hedging their purchases of cotton, but since Government have suspended the hedge market and made it obligatory on the mills to buy specified quantities of cotton at their prescribed prices, this facility has been denied to mills. Further, Government have ignored the fact that out of an allocation of about 32,00,000 bales of Indian cotton, more than two-thirds was purchased by the mills at ceiling prices pursuant to their own directive. Thus, it is Government's own action which has prevented the mills from gaining from the fall in the price of cotton, and it is hardly possible for them to pass on an equivalent benefit to the consumers, A more unfair feature is that while reducing prices. Government did not simultaneously sanction an increase in manufacturing costs due to rise in wages, and in costs of stores and fuel, which they themselves specified in their Resolution on the Tariff Board report. The Government have now admitted the injustice by asking the industry to give facts and figures relating to the rise in costs.

Even if a suitable adjustment is made in prices, will it meet the consumers' need? It must be understood that the value of cloth does not wholly depend on an arithmetical formula, such as that of the counts of yarn in the warp and weft, reed, pick and the weight of cloth. Besides these, there are several other characteristics of cloth which the consumer judges from his own experience and which determine for him the value of the cloth in question. Some of these characteristics are the uniform and flawless quality of yarn, regular flawless weaving, finish, get up and packing, and, above all, the reputation of the Trade Mark of the particular mill, which has produced the cloth. The system of pricing based on an arithmetical formula which may have been proper during conditions of scarcity has now become outmoded under the present conditions of cloth sufficiency. The continuation of the same pricing formula under changed conditions is a deterrent to normal adjustments. It provides an opportunity to inefficient mill agents to manipulate their cloth constructions to secure high prices for their products, although under normal conditions their products will not fetch these high prices. Ultimately, such a system of price fixation becomes instrumental in depressing prices of some good quality cloth manufactured by reputed mills which command a good market, and tends to inflate artificially the prices of inferior materials. The inevitable result is that consumers are now able to dictate what prices they will pay for specified varieties of cloth, and we hear of certain varieties produced by some mills being sold at substantial discounts, whereas certain other varieties command a premium. Left to itself, the market would have adjusted prices, guided by the consumers' choice and capacity to pay. With Government giving up control over distribution and consumers dictating prices, control over production has lost significance and is today a deterrent to the manufacture of popular varieties.

Another aspect of the price angle is the Government's loading on the cloth prices in the shape of excise duty, and import duty on foreign cotton. The Government have so far cashed in on the profits accruing to the industry and made money on every yard of cloth sold. But, now when a stage has been reached when consumers are not able to pay the prices fixed by Government and millowners have been forced to reduce the prices, Government seem reluctant to reduce their share of earnings. It is true that a few days back Government altered the excise duty on fine and superfine cloth from ad valorem to a fixed amount, but even so, the level of the duty has been kept pretty high. If the Government desire that the consumer should get cloth at reduced prices, they must reduce, abolish or give rebate on some of the import and excuse duties which they levy on cotton and cotton cloth, until mills are in a position to move their stocks and can resume full and profitable working. With the cost of cotton fixed, with a rigid wage structure and the prospect of even heavier " welfare obligations " to the workers, mills are justified in asking the Government to moderate some of their fiscal demands, if the consumers are to obtain cheaper cloth.

4. I now endeavour to summarise briefly the main phases the industry underwent during the last five years of control.

(a) Due to cotton shortage consequent on the partition of the country, mills had to depend increasingly on imported cotton. Thus, against the normal consumption of about six lakh bales of foreign cotton, the industry has progressively increased its foreign cotton consumption until the latter stood at about 11 lakh bales in 1951. It is only in 1952 that we have the prospect of growing more Indian cotton, but even then, foreign cotton consumption this year is likely to surpass that of 1951 due to imports of very large quantities of American cotton. If the drive for growing more Indian cotton is sustained, we may sec from 1953 the beginning of a change whereby more indigenous cotton will be made available to the mills to enable them to produce cheaper cloth.

(b) The artificial pricing formula has encouraged many mill agents to manufacture cloth which would yield them the maximum profit, without any consideration of the requirements of the bulk of consumers and their capacity to pay. This could work so long as there was scarcity and consumers would pay any price to get their requirements of cloth. The ad *valorem* excise duty still further inflated the high prices of cloth, so much so that in the beginning of this year, the excise duty alone on a pair of superfine sarees amounted to the price of a piece of medium saree!

(c) From the time controls were re imposed in 1948, there has been a noticeable eagerness on the part of the Central and State Governments to make as much money as possible on the sale of cloth. The Central Government had imposed a duty of *2* annas per lb on imported cotton. For 1952, the programme of imports is 1.6 million bales and, assuming that about 1.4 million bules are actually imported, the import duty alone will yeild the Government Rs 6 crores, The excise duty at the previous rate of 5 per cent on the value of fine goods and 20 per cent on the value of superfine goods was designed to yield the Government another Rs 12 crores. The export duty at 25 per cent ad valorem on coarse and medium cloth is estimated to yield a further Rs 4 crores. Thus, the Central Government would be earning through the import of cotton, sales of cloth in the domestic market, and export of cloth to overseas, round about Rs 22 crores per annum. The State Governments have not lagged behind and have seized the opportunity of making money out of domestic cloth sales. In many States there is a practice of extracting 2 to 3 per cent as administrative charges from the margin between the ex-mill ceiling prices and the retail prices. This yields huge revenues which far *cxcevd* the actual administrative charges incurred by the State Governments. The sales tax is another additional source of gain to them.

(d) The State Governments appoint their own nominees or agents to lift cloth from the main producing centres and to distribute it to the various districts or " talukas ". Many of these nominees have had no previous experience of cloth or yarn trade and have been given patronage for obvious reasons. Co-operative societies winch have had no previous experience of the cloth trade have also been employed to undertake distribution. These nominees or agents operate only so long as profits arc assured but once the market goes in their disfavour, they arc reluctant to take the risk which a trader or businessman normally assumes. This is what has been happening from the beginning of this year. Most of the State nominees refused to accept allocations made by the 'Textile Commissioner, as a result of which Government have had to progressively' lift control over distribution until today it covers only 13 per cent of the entire production.

(e) The main problem of raising productivity and meeting high wages has never been squarely faced. Labour welfare legislation concentrates on granting privileges and social amenities without doing anything at the same time to raise the standard of efficiency and the output per man hour. Through their one-sided ideology of labour welfare. Government have produced a textile worker today who is underpaid according to Western standards but is overpaid on his poor performance. There has thus been a sectional gain of one section of the community at the cost of the. rest for it is the consumer or the general public who pay for it in the end.

(f) Government have never been able to balance exports with production and domestic requirements. They have been erratic in imposing export duty on cloth which has done great harm to our export trade. In 1947 an export duty was imposed which made Indian cloth non-competitive during 1947 and 1948. It was reamoved in 1949. Soon after, when India devalued her currency in line with sterling and an unprecedented overseas demand sprang up, the Government of India reimposed the export duty on coarse and medium varieties, at 10 per cent in the beginning and subsequently raised it in June 1951 to 25 per cent. The imposition of export duty without any regard to its repercussions on the competitive position of Indian textiles in overseas markets was bad enough. But preventing exporters from supplying goods to overseas customers even after Government had issued export licences for the same was ;' great deal worse. It brought on the Indian exporters in foreign markets the stigma of being "unreliable". Now, one cannot get away with a thing like that. And swift upon sin has come retribution. As soon as a recession of textile prices began in other textile producing countries like Japan, the Continent and Lancashire, Indian cloth ceased to find favour in foreign markets. This is evident from the fact that while the Government of India aimed at exporting 430 million yards of cloth in the first six months of 1952, hardly 150 million yards of actual exports are likely to materialise during the period. Even coarse and medium cloth hitherto the backbone of India's textile exports, has ceased to attract foreign buyers with the present duty of 25 per cent on it. As against 175 million yards of medium and coarse varieties which Governments have licensed for export during the first six months of 1952, only 40 million yards have been actually exported in the last 3½ months. There is little likelihood of India being able to recapture her export markets in the near future, because of overstocking by principal consuming countries and the worldwide slump in the piecegoods trade. The slump has forced Japan and Lancashire to curtail almost $0 per cent of their production and it has also hit the Continental countries equally severely. Even the textile industries in USA and Canada have curtailed their production, with the result that in USA alone, the consumption of cotton during the current cotton year is likely to be a million bales lower than in the previous year;

(g) It would be safe to say that during 1950 and till about the end of 1951, not even half the consumers secured cloth at stamped prices. - There has been large-scale black marketing, which neither the Centre nor the States have been able to prevent. It is only when consumers turned their back and refused to buy cloth . at the prevailing high prices that prices began to register a sharp decline.

5. What is presented above is no doubt a dismal picture but nevertheless, it is a fair account of what has been going on till about the beginning of this year. There is, however, another problem facing the textile industry which is even more serious than all the others discussed above and which must be given due thought, if the future of the industry is to be ensured. This is the problem of rehabilitation. The formula devised by the Tariff Board and followed by the 'Textile Commissioner for fixing the prices of cloth and yarn did not leave sufficient scope to the industry to accumulate funds to replace its plant and machinery, about 80 per cent of which is now more than 20 to 25 years old and needs urgent replacement. It was estimated some time ago that the mill industry in Bombay city alone will require approximately Rs 80 crores to renovate its worn-out plant and machinery. This does not include the cost of machinery required for the purpose of balancing and expansion. Out of these Rs 80 crores, only about Rs 30 crores are available to the industry in the shape of reserves. The Bombay mill industry will, therefore, have to find Rs 50 crores during the next 10 to 15 years, if it is to meet competition from foreign manufacturers. As already stated, present prices do not leave sufficient margin for building up reserves, and, as the recession deepens and the down drift of prices sets in in right earnest, the industry will be even less able to save. On the basis of funds required by the Bombay mill industry, it may be estimated that the cotton mill industry of India will require something like Rs. 1. 50 crores for rehabilitation. The question, therefore, is to find some means of raising this amount if the industry is to function efficiently in the future and compete with foreign manufacturers, both in the domestic and export markets. If rehabilitation is not carried out, in the next 10 or 15 years the products of the Indian industry will be so costly that not only will India lose export markets but the industry will be a burden on

domestic consumers as imported cloth will be obtainable at cheaper prices,

6. What, then, is the remedy for this state of affairs and what does the future hold for the industry? The future is extremely gloomy and does not brook complacency. It calls for immediate and bold action on the part of the Government, miliowners and labour, if matters arc to be set right and the industry reorganised on sound lines. It has to be realised that unlike the textile industries in other countries, the Indian textile industry has had a haphazard growth, as a result of which it has not been able to rationalise its production. The different dress habits of the people in different parts of the country create a demand for such wide and heterogeneous varieties that it is difficult to rationalise production unless peoples' clothing habits are them selves rationalised to some extent. Against this, the highly concentrated textile industry in Japan, Lancashire, Germany, France and Italy, supportcd by machinery locally produced, enjoy definite advantages. The present form of control exercised by the Government is absolutely outmoded and unsuitable to the altered circumstances of the day. It has become static and Government are always too late in coming to a decision. At the same time, it would be improper to think of withdrawing all forms of supervision over the industry and allowing the mill agents to do whatever they like, it is common knowledge that an appreciable section of mill agents have been so overcome with the hist for profits, which they have been able to earn during the war period, that they cannot now think of anything except in those terms. Some of their malpractices and " clever manipulations " in cotton, mill-stores, etc., arc by now common knowledge.

As a result of Government's taxation policy which has taken out the bulk of the profits in the shape of taxes and the policy of many of the mill agents of " sucking the mills dry ", the industry is now left in an unenviable plight. Even after a boom which lasted for several years, it does not possess the necessary funds to rehabilitate its worn out plant and to re equip itself to meet world competition. If things go on in this manner, the " second largest textile industry in the world" will be reduced gradually to junk. While, thefcforc, there is an unanswerable case for withdrawing the present infructuous control, there is an equally strong case for introducing at the same time a more co-ordinated form of supervision, the principal aim of which will be to assist the industry to get back on its own feet, re-equip itself, and create a labour force which, while paid higher wages, will give a full return in higher efficiency and output. In short, all these efforts should be co-ordinated under the single aim of producing cheaper cloth consistent with consumers' require-, ments for both the internal and export markets.

This could best be achieved through a statutory body which might be called " The Cotton Board ". This Board, besides having Government representatives, should have representatives of miliowners, labour, cotton and trade interests, economists and representatives of consumers and experts conversant with the Companies Law and Accounting. The Board may have an official or a non- official Chairman, but it must be free from Government interference in its day to day administration. The Board should be vested with statutory-powers to enquire into and direct the affairs of mill companies. 'Hie Board should have a nucleus of efficient administrative and technical person nel, competent to give necessary guidance to mills in all important spheres.

Funds necessary to defray the expenses of the Board could be raised by imposing a cess of, say, 8 as. per bale of cotton consumed in the cotton nulls. This would be less than 1/10th of a pie per yard of cloth, and hence will not affect the prices of cloth and yarn. On the other hand, the cess will yield Rs 20 lakhs per annum, which would be sufficient to defray the expenses of the Board. The- mam functions of the Board would be

(a) To supervise the general management of mills and to sug gest ways and means of improvement;
(b) To keep a continuous check on costs incurred by mills in providing cotton, stores, etc., which should come under the purview of the Board, who should also ascertain the costs of production of representative units and suggest ways and means for reducing them.
(c) To lay down broad policy of rationalisation and increase of labour output, in conjunction with representatives of labour; so that while the earnings of individual labourers arc improved, the consumers may benefit from a reduction in working costs.
(d) To determine the machinery requirements of the industry and the extent to which these should be met by imports from abroad and the balance made up by indigenous supplies.
(e) To assist the industry to re' habilitate itself which should be by far the most important function of the Board.

As has been pointed out, Government arc making something like Rs 12 crores per. annum out of excise duties. It is time that Government should hand over to the industry the benefit either of the excise duty or of a similar imposition with a view to accumulating funds to rehabilitate itself. So far the consumers arc concerned, the amount of imposition will not exceed what they are at present paying for then cloth.. On the other hand, any imposition, which they may have to bear for a fixed period, say 10 years, will be in the nature of an insurance towards the future availability of cloth to them at reasonable prices. Broadly speaking, the industry should be allowed to collect some form of a duty, surcharge or levy, which will bring roughly Rs 100 crores in ten years. The amount so collected by each mill will be deposited with the Reserve Bank of India in the name of the particular mill for which a separate account will be opened. Mills should be allowed to utilise these funds for payment for new machinery only, and the Reserve Bank should release funds on approval by the Board, who should go into the bona fides of the machinery requirements. At the end of each year, the amount: so accumulated to the credit of a mill should be debited with an amount equivalent to that set aside by the mill for depreciation which should be paid into general revenues. Thus, Government will not lose all the benefits derived from the excise duty, since they will have at their disposal interest free funds so long as the mills do not require them for purchase of new machinery as also an amount equal to the depreciation earned by each mill. As new machinery flows into the industry. Government's share would progressively increase,

Another advantage of a central co-ordinated organisation would be that it could be employed to take over the management of any mill unit, should it become necessary to do so in the national interest. It is well known that Government have been for sometime threatening such action, but nothing concrete has been done so far. It is true that some of the functions envisaged for the Board are being assigned to various Committees or

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