

Cannibals and Missionaries

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MUCH comment on SSE units sees them as forming a critical, but transient portion of the industrial structure of developing countries.¹ In the earliest stage, small units prevail. Later they are displaced by larger ones. This has been so both in earlier industrialisation, as of the present industrialised countries, as well as the Newly Industrialised Countries (NICs such as Korea, Taiwan, Singapore, etc). Logically, increasing volumes of production enable scale economics, upward pressure and wages, cause the substitution of more capital intensive techniques, etc. Of course, even in the final stage, some small manufacturing units survive, for craft or luxury goods, or dealing in highly specialised items as well as in the forefront of new industries or industrial trends.² Jane Jacobs, in some recent articles, has emphasised the role of these sectors in retaining an economy's resiliency.³

To the extent that size transformation does not occur, observers worry that a pathology is present. For example, that markets are so protected that inefficient firms are not subject to competitive pressure. Or that the economy is static and experiencing little growth and transformation. Large scale firms, when they are successful, institutionalise continuous change within themselves — small scale ones change typically in response to market pressures. Large scale firms, too, of course respond to market pressures. Change in small scale sectors more usually occurs with the entry of new firms, rather than through the transformation of existing ones. For these reasons, small scale sectors are often seen to be more conservative, less capable of change, though it is arguable whether this is the case, particularly where change as in engineering and machine tools can be kept within the same broad industrial paradigm¹.

It may be the case that the smaller units are in fact the more efficient ones in a given industry and for this reason continue to predominate. In a number of labour surplus countries of South Asia this seems to be the case. In some cases, decentralised small scale units have actually displaced large scale ones because of their superior efficiency or at least superior profitability. In these cases of 'canibalisation', nibbling away, large scale cotton textile mills are being displaced by decentralised powerloom units in India, sugar mills by khandasari and gur workshops in Bangladesh, as in the past integrated bicycle manufacturers were undercut by small Ludhiana based workshops. Somewhat in the same frame, the small steel re-rolling units in Bangladesh, basing themselves on scrap steel have been able to outcompete the large Chitragong Steel Mill. In other industries, larger units feel the pressure of typically small, low quality, low price producers — and commen-

tators, the 'missionaries' of our piece, lament the results in terms of the 'technological degradation' of products.

One must be careful to refrain from over emphasising the phenomenon, since it is unusual for large and small units to co-exist in an identical product category. Rather large and small units typically make different categories of product, especially in India where 807 sectors are legally reserved for the small scale sector, but even in Bangladesh where handlooms manufacture lower and powered units higher categories of cloth. The pressure exist in the possibilities for substitution of one product for another.

Missionaries certainly have some points, particularly as against cannibals. They think cannibalisation is a bad thing, because.

(1) The workers in the newly cannibalised industries are paid less and have worse working conditions, even though there are now more of them. There is some equity compensation in the fact that cheaper varieties of cotton cloth, etc, are now available. This is undoubtedly one advantage cannibal industries have in the market. More generally they evade much of the regulatory net which ensnares the larger units. If the actual physical production processes are more efficient, whatever the financial picture, and disregarding the impact of taxes, the gains of profit makers, wage earners, and consumers collectively should be greater in total than their losses. Taxes cannot be disregarded — and the shifts between profit and wage earners might be significant. (Though for true comparison one should note that much supervisory work which is salaried in a large mill context would be rewarded in profits in the decentralised units.) If a comparison is to be done, perhaps most supervisory and even skilled work should be clubbed with profits when calculating the large mill situation.

(2) The capital generating capacity of the cannibalised industries is less, not because profits are lower, but because they are diverted to more parasitic and less frugal people, who do not save.

(3) The decentralised, cost minimising units lack technological dynamism and qual-

ity consciousness. Over time this cuts the industry out of high value added markets at home and abroad. Several studies have been conducted, I understand by the ICICI, showing that rising quality consciousness in export markets for irrigation pumps, for example, is already having this effect on Indian exports.

Of course, the treatment of these characteristics of cannibal industries could take various forms, depending on how saveable the cannibal units are presumed to be. Schemes for regulation and technical upgradation as distinguished from simple slaughter are always feasible. I do have to say that the second objection seems a little weak — and the first, as I indicated, has to involve some careful weighing of countervailing trends. I think some of the objections may really be political — to the fact that a concentrated proletarian mass is easier to organise and mobilise, than a decentralised one. The third objection is one that is likely to find itself handled over time, by the market and regulation.

There are two other objections which seem to have some weight with commentators, but which I think are largely illegitimate:

(1) The cannibal industries undoubtedly cause some disruption in the lives of many involved in the industries. This is typically the major impetus to political action, though the disruption is generally far less than in other forms of industrial progress.

(2) There is much concern at the 'waste' of the capital equipment contained in the mills. A first principle of investment choice is to ignore sunk cost. So this objection can be disallowed out of hand. If even counting their start up costs, the small units can out-compete the mills this is certainly something in their favour.

What is required in a total expousal of neither the cannibal nor the missionary position, but a via media where the merits are weighted on an industry by industry basis and remedies selected accordingly.

Notes

- 1 Anderson, Dennis, "Small Industry in Developing Countries: A Discussion of Issues". *World Development* 10, pp 913-948, 1982.
- 2 US Statistical Abstract, 1979, GPO, Washington, DC, pp 41-49
- 3 Jacobs, Jane, "Why T V A Failed", *New York Review of Books*, May 10, 1984.

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