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**BUSINESS ORGANISATIONS IN
LEATHER INDUSTRIES
OF
CALCUTTA AND MADRAS**

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**CENTRE FOR STUDIES IN SOCIAL SCIENCES,
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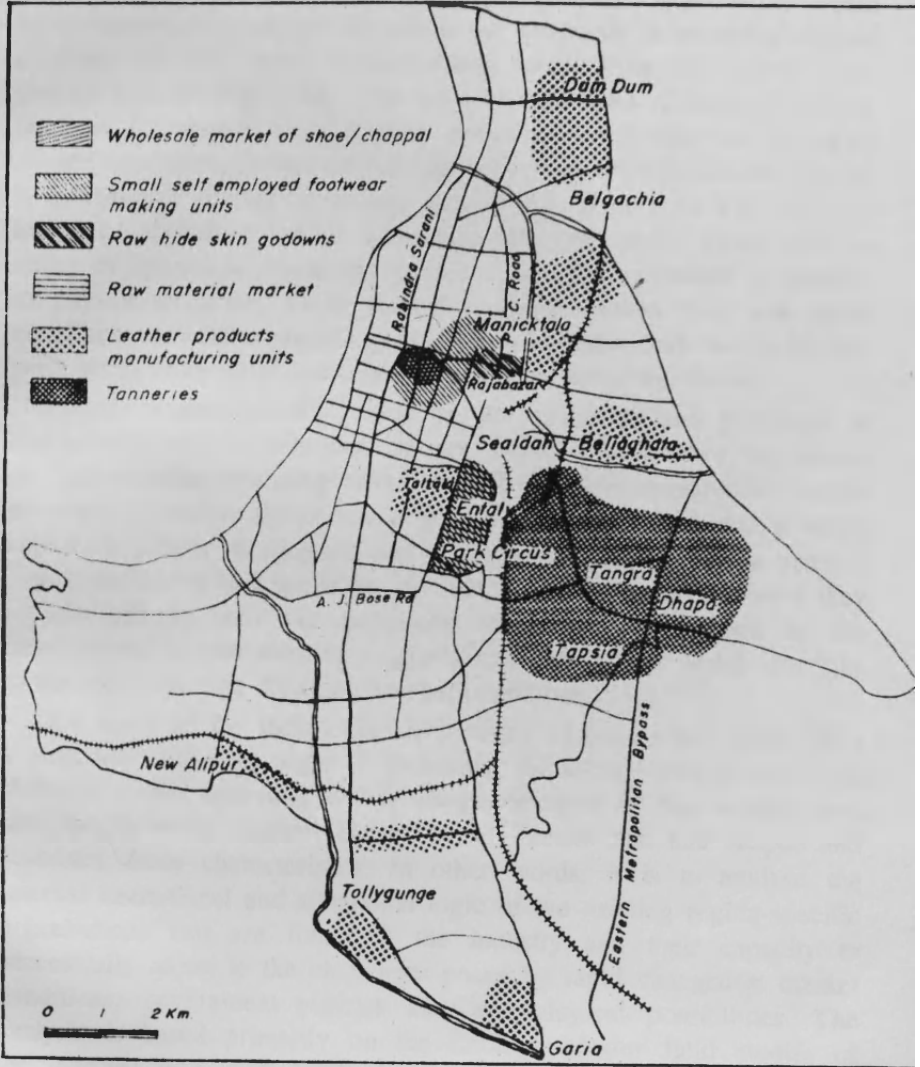
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SPREAD OF LEATHER INDUSTRY THE CALCUTTA CITY



BUSINESS ORGANISATIONS IN THE LEATHER INDUSTRIES OF CALCUTTA AND MADRAS

Within many of the industries with a long history of operation in India, there is often a wide array of organisational characteristics which to a cursory examination appear to be randomly determined. Within a given industry, there simultaneously exist firms of various sizes, technologies and organisations all of which, regardless of those differences, continue to operate over a long period and through fast changing market conditions. Groups of firms specialise in serving different segments of a common market in a way that cannot always be explained by locational advantages alone. Moreover, decisions about issues such as scales of operations, marketing practices or about questions of whether to buy or to make, when to borrow, from whom and how much are likely to differ significantly between firms and locations and particularly from those indicated by standard economic theory.

Industry studies usually focus on the prospects and problems of the industry as a whole and on the impact on them of the nature of organisations operating within it. Their recommendations include measures to remove the particular bottlenecks within the industry which apparently hinder its progress and to suggest some changes in external conditions which can speed up its overall performance. However they seldom enquire into the processes which had contributed to the development of the existing organisational setup and which continue to sustain it through changing market conditions.

This study of the Indian leather industry addresses the issues from a somewhat different angle. It examines the special characteristics of different agents operating within several sections of the industry and also the historical, cultural and economic factors that had shaped and sustained those characteristics. In other words, it is to analyse the internal institutional and situational logic of the existing region-specific organisations that are found in the industry and their capacity to successfully adjust to the challenges posed by rapid changes in market conditions, government policies and technological possibilities. The analysis is based primarily on the findings of our field studies of the industry in Calcutta and Madras; these have been supplemented by secondary material from earlier studies done by other experts¹.

II

Hypotheses and Design of the Study

The study examines three broad hypotheses. The first one is that firm level organisations in a given industry are the outcome not just of market conditions and technological choices but also of the characteristics of the agents involved in the industry. These characteristics are in each case historically determined and in the Indian context have their own regional and community based specificities. Through time they come to give a distinct shape to the institutions that serve the industry. In their turn, those institutions help to sustain and ensure the continued presence of the agents concerned. Although at one level it is possible to explain the actual organisational setup in terms of problems of market imperfections, asymmetric information, opportunism and uncertainties, at another level, these explanatory variables can themselves be shown to be related to the historically evolved characteristics of the agents and the institutions.

Secondly, the paper aims to show that the weight of these traditions creates an inertia in the industry which is hard to break down through changes in market conditions alone. The system as it exists is often not capable of responding positively to shifting market conditions: skills cannot always be internally upgraded. Financing practices prevailing in the industry do not accommodate sufficiently for changes in the nature and size of the firms' requirements of capital. It is difficult to quickly dismantle outmoded marketing practices. The problem is made all the more difficult because the agents who have long been associated with particular operations develop skills which are very specific to the industry in its traditional form. Faced with prospects of those skills and operations becoming obsolete, they offer a strong resistance which can be politically difficult to ignore.

Thirdly, fresh private capital which is newly attracted to the industry by favourable market conditions does not always initiate radical changes in the existing system. Instead, such firms often find it profitable to harness to their operations some of the earlier agents in the latter's traditional settings. Their much greater access to information and to markets is used by the modern firms to construct some new kinds of power relations with which to exploit the older firms.

Methodology and Design of the Study

While the Madras and the Calcutta studies were begun with the same objectives, conditions in the two locations were somewhat different and the field work in both locations was adjusted accordingly.

There is very little public information about the leather industry of Calcutta. Even the municipal records do not have an up-to-date list of the hazardous or polluting units which are currently in operation. In a recent interview, the West Bengal Minister for Industries mentioned that there were 560 working tanneries in the city which are to be moved to the proposed leather complex in eastern Calcutta : but he did not specify the source of this estimate. Among the operators in the industry one gets an estimate of about 360 working tanneries. Given this confusion, the study had to be by and large unstructured and unsystematic - depending mainly on interviews and discussions through personal contacts with several owners of manufacturing units and experts in leather. The leads provided by them were followed by the field worker who managed to produce the accompanying map (map 1) showing the extent and location of related activities within the city. He also interviewed middlemen, traders and mahajans/creditors connected with this business. This is not to claim that all possible links were explored. Nor was it usually possible to get exact figures of costs, investments, and returns from any of the owners.

In Madras, the industry is concentrated in one cluster in the Chromepet area. It was still not possible to get a complete listing of the units since many are not registered. However, with the information provided by the Pallavaram Tanners Association, the researcher was able to make case studies of several apparently typical units. She too was unable to get detailed and consistent set of financial data for the Madras firms. In the write-up that follows our chief concern is to bring out the more interesting problems affecting the industry and the more distinctive adaptations made by agents therein to deal with those without claiming statistical validity for the samples in either location.

The next section provides a description of the present state of the Indian leather industry and of the particular characteristics of its Calcutta and Madras sections. In the four sections after that, we discuss some of the more interesting aspects of the firm level organisations and decisions. These are :

1. The scales of operation and decisions regarding vertical and horizontal integration of operations.
2. Choices of products and markets.
3. Relations between different firms.
4. The credit arrangements in the industry.

The conclusion briefly draws out the salient policy issues vis-a-vis the industry. While the study discusses both the Calcutta and the Madras situations, it was found that the Calcutta case illustrates the problems of a traditional industry in a more vivid way. It is also the section of the industry which is in a deep crisis in the fast changing market conditions. So the study has concentrated more on the Calcutta institutions and firms and used the Madras ones mainly for comparison and for highlighting the region-specific dimensions.

III

The Background of the Industry

The leather industry appeared to be suitable for this study on several grounds. As one of the oldest manufacturing industries of India, it has a very complex structure which consists of a wide variety of production units. Under the traditional caste system, there were several castes who worked with very simple tools on various operations of skinning, flaying and curing leather and making leather footwear, bags, saddles etc. They are still to be found in vast numbers even in the cities of Calcutta and Madras. Many of them still work as independent artisans using traditional techniques of curing leather in bags with vegetable material. They also make and repair footwear and other traditional products as self-employed artisans. At the other end are the many modern units in the industry which have come up over this century. They include large multinationals like Bata who, around 60 years ago had started a vast, fully integrated unit to cure, tan and finish leather for making and selling footwear. In between these two extremes are many large, medium and small units run as independent businesses with their own marketed products, or job working units working on orders from others. One finds units which integrate all operations under one roof alongside others which specialise in only one or two operations in the long chain till the final product. In both Calcutta and Madras, there are wide variations in the sizes of different units, their purchasing

and marketing practices and their technologies even for a given operation like tanning. In the last few years, this variety has, if anything, increased with more large firms such as the firm of Ponds Inc. coming in solely as a marketing firm for the export market. This is specially true of Madras.

The leather industry makes an interesting case also because of the rapid changes that have taken place in the parameters affecting it. At the global level, the turnover of the industry is expected to increase rapidly and India expects to raise its share in this turnover from the current 3.5 per cent to 10 per cent by the year 2000.² India's prospects for achieving this have brightened further with a recent shift in the policies of several developed nations; many of these countries so far used to import from India and other developing countries raw skins and hides or semi-processed leather which they then used to finish for making leather goods: they now find that their stringent anti-pollution laws and high labour costs have made this industry uneconomic for them. They are now seeking locations in the developing countries which can do this work more cheaply and export the products back to them.

Given its abundant supply of the raw materials, its skilled and cheap labour supply and its still very lax anti-pollution laws, India seems to be well set to reap the benefits of these changing policies of the developed nations.

The Indian industry did in fact grow very fast in the eighties. In the 7th plan period, between 1985-86 and 1990-91, its production grew from Rs.1670 crores to Rs.4000 crores. Most of this growth was in the export sector which grew in rupee terms by 42% per annum. The domestic production and sales grew comparatively slowly at about 16 per cent per annum (*Planning Co. 1990-95*).

A point to note about the industry is the change in its composition. Increasingly, more and more of the value of the output is being accounted for by processing and finishing of products: raw materials and crude semi-processed leather are losing their importance. This development is very marked on the export front. In 1972-73, finished leather constituted only 9.3 per cent and semi-finished leather 82.9 per cent of the exports. By 1992-93, exports of semi-finished leather were banned, finished leather accounted for not more than 22 per cent of the total export value and the rest was on account of exports of leather footwear,

footwear components and leather garments. (data supplied by Leather Export Council, Madras, January 1994).

In the domestic market too the demand for leather goods is likely to expand fast : over the last decade, the expenditure on non-food items by Indian consumers in rural and urban areas has shown a very fast rise and as the Murthy Committee has pointed out, (Murthy 1992), there is a distinct possibility that unless checked, the domestic demand would push up prices and eat into the prospects of exports of Indian goods.

At the government level, there have been continuous efforts to promote the industry mainly because of its potential to generate additional employment and value added with relatively low input of capital. The 8th Plan Working Group for the leather industry had estimated that at the end of the '80s of the 1.4 million workers in the industry only 60,000 were in the factory sector. In that sector too the industry had a lower capital intensity than the average for all India factory sector industries.

Table 1
FACTORY SECTOR - 1985-86

	Rs.000s	
	Leather Industry	All Industries
Productive capital per unit of labour	29	144
Value added per unit of productive capital	75	28

Source : H.L. Chandok *et.al.* *India Data Base*, 1990, Vol.I. Tables 7.3 and 7.3.34, pp.980-981 and 1014-1015.

While this position may have altered somewhat with modernisation of many units, modern machinery in the leather industry is relatively inexpensive and many units have been able to buy second hand machinery from abroad.

Over the last two decades, the government had set up as many

as four expert committees on the problems of the industry : some details about these committees are given in Appendix 1. Following on their recommendations for increasing the value added generated in the country, the government had earlier banned exports of raw hides and skins; it has lately also banned the exports of semi-processed leather. In the 1985-86 budget, an additional duty was levied on exports of finished leather as compared to those of leather products. This gave a fillip to the export of leather goods. The new trade policies have reduced duties on imports of capital goods and other inputs required by the industry. The country now imports large quantities of raw hides and skins from Europe, Australia and Africa.

This very traditional industry of India is thus being pressured from several angles to become a global player. The response of the industry, however, has not all been positive. In the years between '90-91 and '92-93, the production of leather and leather goods other than footwear remained more or less stagnant. (Govt. of India Economic Survey 1993-94, Table 1.32, p.39). Exports of finished leather and leather goods on the other hand grew by over 35 per cent in the same period (*ibid.*, Table 7.3, p.592). Footwear parts were one of the main export items. Clearly, the industry was undergoing some restructuring. Within this overall picture, there were wide differences between regions. Calcutta tanneries which used to export semi-finished leather to the USSR were badly hit by the collapse of that market. In spite of the buoyant markets elsewhere, a number of them were forced to close down. From Madras on the other hand, the Pallavaram Tanners' Association has reported that in these last three years, many new medium level unit have been set up to serve the export market. This study is to examine the possible reasons for these wide differences in the responses of different enterprises to the stimuli offered by the market.

The Industry in Calcutta and Madras

Next to jute and engineering, leather is perhaps the largest industry in the city of Calcutta and has a long history in this region. In 1901 there were around 15,000 leather workers in Calcutta city alone who formed about two per cent of the total workers of the city. Like the 1981 estimates which had counted only 30,000 workers in the industry, the 1901 figure is also likely to be an underestimate since it would not include the temporary and casual workers or the trader/dealers.

Industry level experts put the current figure at not less than 100 thousand workers working directly in it and another similar number working in related operations.

Because it is an old industry, one finds that its units, though highly polluting, are located right in the middle of some densely populated areas of this city. Those parts of the city have actually grown around the tanneries, leather warehouses and workers' slums. Besides these, there are several wholesale markets within the city which specialise in sales of hides and skins, tanned leather and footwear. (See Map 1).

The different sections of the industry have traditionally been identified with several different communities and over time, the role of each has changed relatively little. The Chinese own the bulk of the tannery business. They specialise in tanning cattle hides. There is also a long tradition in Calcutta of Chinese shoe makers and sellers but this business is rapidly shrinking. The rest of the tanning business as well as the trade, storage and warehousing of leather is in the hands of north Indian Muslims. The entire workforce in tasks upto tanning and finishing consists of persons of the Chamar community of UP and Bihar. They also are the self-employed who operate and work in the small household-based footwear producing units of central Calcutta. Besides these, people of several other communities have set up small and medium units for making diverse leather products.

In addition many Hindu Bengalis, Punjabis of Khattri community or Muslims from north India are engaged as creditors or creditor-cum-traders in the industry.

The concentration of the industry in Calcutta was due to the large supply from the city and its hinterland of both bovine hides and goat skins. The goat breed called the Kushtia breed of this region is particularly renowned for its skin quality. However, though the leather processing industry is concentrated within the city, sources of supply of the raw materials, i.e. of the hides and skins are widely scattered. Only about 7 per cent of the total supply comes from the city's slaughter houses. The rest is drawn from the whole of east India. Goat skins are almost always obtained from slaughtered animals. But the slaughtering takes place all over a wide area including West Bengal, Bihar and also the north-east Indian states. Bovine slaughter is banned outside West

Bengal and takes place only occasionally and clandestinely in distant villages. The rest of bovine hides are from dead animals once again from over a large hinterland. In Calcutta there are numerous agencies involved in one or two of the various stages before the chemical tanning process begins; they collect the hides and skins from scattered locations, clean them, transport them to Calcutta, and salt, store and sell them in local markets. Almost all these operations are still done by the castes and communities which were traditionally connected with them. The machinery for collecting, procuring and storing these widely scattered supplies remains very primitive. Often the skins reach the tanneries after a delay of a month or more. In the meanwhile, they are badly stored and get damaged. Tanneries can in principle, now correct these deficiencies through chemical processing but that is not always done by all tanneries.

Because leather is a large industry with several marketable products, it has always served multiple markets. Apart from semi-processed leather and finished leather, the more important leather products are footwear of several varieties and qualities and industrial gloves, belts harnesses etc. Increasingly producers are also making bags, wallets and leather garments. Both the tanneries and the leather products industry serve domestic as well as foreign markets. In 1993, Calcutta exported about Rs.400 crores worth of leather and leather goods. However, since there is no agency which has full information about all the tanning and manufacturing units in the Calcutta industry, it is not possible to estimate what percentage of the output had been exported.

Calcutta's leather industry is dominated by the multinational firm of Bata which has been in production for over 60 years. However, for this study we have left it out of consideration in order to concentrate on the serious organisational variations and problems faced by other types of units.

The Tamil Nadu leather industry too has a long history going back to the early decades of this century. Madras was the chief port for exports of raw hides and skins till those exports were banned in 1960. Chromepet was earlier a part of Pallavaram. One Mr. Ray Camber started the first chrome tanning factory there. Earlier, in 1880s, another tanning unit had been started in Pallavaram. But once chrome tanning became popular, all the tanneries around the area came to be concentrated

in one area which then became known as Chromepet. At the end of the 80s, Tamil Nadu housed over half of the registered units and employment for India as a whole. Comparable figures for West Bengal were around 21 to 23 per cent. In the case of Tamil Nadu the estimate of total employment of about 33,400 persons at the end of the 1980s was presumably an underestimate since it left out the large informal sector in the industry there. Nevertheless, the Tamil Nadu industry was considerably better regulated than the West Bengal one: serious attempts are being made to get the units registered with several official agencies including the local administration, the Anti-pollution Board, the Electricity Department and also the Inspector of Factories.

Unlike in West Bengal where almost all registered units are in the city of Calcutta, leather processing units in Tamil Nadu are spread over several districts of the state and each district is known to specialise in one or two of the long chain of operations. In each location, the units are located in a separate cluster; unlike in West Bengal they are not spread all over the region. The Chromepet cluster in Madras is situated about 15 km. outside the municipal limits but well within the area of the Madras Metropolitan Development Authority (MMDA). Though the Chromepet units were traditionally engaged in chrome tanning, recent rules of the Authority prohibit units inside the cluster from undertaking any of the polluting operations upto the stage of semi-finished leather. Nonetheless, about 40 per cent of the units in Chromepet are known to be traditional i.e. units which were set up before the MMDA regulations were first enforced. They are either still unregistered or registered for processes other than tanning though at least half do tanning work illicitly. A few still practise pit tanning: but most units in the cluster, many of which were set up very recently, use modern techniques and are known for the high quality of their work.

The Chromepet units all work for the export market either through direct sales to foreign customers or through sales to exporters; some also deal in the domestic market. Export deals are on the basis of orders from buyers specifying quantity, quality standards, designs etc. It is becoming a common practice for foreign manufacturers of leather goods to locate their own production units within the Chromepet area instead of buying finished leather for production in their own countries. Domestic sales of final products are usually through independent retailers.

Many large firms with retail outlets sell their own products along with products of smaller job working units.

Ownershipwise, it is difficult to categorise the units as large, medium or small since many of the ostensibly small units belong to fairly large operators owning several similar units. The motivation for this kind of decentralisation is partly to avail of the special concessions given by the government to the small sector (e.g. reservation of some processes upto wet blue stage). Partly too this is because with expanding markets, the owners have been putting up additional capacity. Since there is often a shortage of raw hides and skins or of semi-finished leather in the region, many units import leather in the wet blue (semi-finished) stage from West Bengal or from abroad. Other inputs like chemicals are readily available in Madras.

A distinctive feature of the Chromepet area is the widespread practice of job work. Any firm with orders in excess of its capacity for some work can ask another unit to do it on its behalf on payment of a job specific rate. This arrangement is not continuous: it is only when a unit has spare capacity that it does work on behalf of others. Several units never take orders for a complete product but specialise in doing job work of a particular kind on behalf of other units. The job working units do not continuously depend on any one unit for getting work. Usually these have been set up by technicians with a lot of experience and contacts built through years of work in other units.

In the Chromepet area, both the Central Leather Institute and the Pallavaram Tanners' Association have close links with each individual unit. There is no parallel for this in the available arrangements in Calcutta.

IV

Organising Production : Scale, Technology and Integration

The leather industry falls into two broad sections which are not necessarily always separated. The tanning units are the more traditional and in Calcutta, they form the larger section of the industry. In Madras, most units work on finishing of leather but they are increasingly engaged in making leather products. We consider the organisation of units in the tanning and finishing industry in this section.

Almost all tanneries in Calcutta and Madras can be regarded as small or at most medium. The only large tannery in Calcutta was the National Tannery which is at present lying closed. In Chromepet too none of the units are large in the sense of being anything but price takers for both their inputs and outputs.

The Calcutta Tanneries

However within these small scale units, there are very wide differences between the Calcutta and the Madras scenes. In Calcutta, the tanneries fall into two broad groups. The majority undertakes processing of raw leather upto the stage of semi-tanned or wet blue leather. Almost all practise chemical drum tanning but for other operations of flaying, drying, stretching, slicing etc. they use primitive manual methods that continue to give uneven and indifferent results. This semi-processed leather is sold in the Calcutta markets either for a variety of uses by local processing units or to be sent off to Madras for further processing there.

There is a much smaller group of tanneries - not more than 10 per cent of the total—who undertake all stages of tanning from purchase of raw materials to semi-finishing and then finishing of the leather in an integrated plant; often, along with tanning operations, they also undertake making of leather goods. We found these few units busy updating their technologies for many of the operations for which they had installed new machines. Specially, the units working with hides had switched to imported machines some of which were computerised. These handful of units had only recently expanded their earlier tanning businesses into the later stages. There were however no instances of units making leather products expanding backwards into the tanning business. This is no doubt because tanning is considered unclean but work on leather products is not.

These modernising tanneries were engaged mainly in tanning of hides. One of the units we examined dealt in both goat skins and cattle hides: but it had installed modern automated machines only for operations on hides. For goat skin processing, the earlier manual machines were still in operation. Nonetheless these factories had been completely renovated to remove air and water pollution and they had discontinued the practice of sun drying of leather.

There was no great difference in the two groups of tanneries vis-a-vis their access to investible funds. The modernised units too had used only family funds or savings from the business for financing the changes. In any case at the present juncture, there were many foreign investors looking for opportunities to collaborate with local tanneries for modernising; but very few Calcutta tanneries appeared to be interested in those deals.

The Madras Tanneries

In Madras, on the other hand, while a few unlicensed units still did pit tanning, the overwhelming majority - over 85 per cent - were modern units which had rapidly updated their technologies. Here too, tannery units specialised in either hides or in goat skins. But both the groups of tanneries had been modernised. Madras specialises more in goat skin based products and for this, modern machines designed and produced in India are widely in use. Only units dealing in hides had imported their machinery.

In contrast with Calcutta, though the modern units of Madras specialise in one or two of the operations and get raw or semi-processed leather from outside Madras, there is no regular market for leather located in Madras. Nor are the leather processors there interested in building special or exclusive linkages with job working tanneries elsewhere to get inputs of stipulated quality. Instead they usually buy their requirements of semi-finished or finished leather from wholesalers under the latter's guarantee of quality. Not more than 20 per cent of the Madras units had any regular links with units located in other districts which produce their intermediate inputs. Another 10 per cent had some loose links with some tanneries through family connections.

That in Calcutta, the trend towards modernisation has been much slower can be attributed mainly to differences in the markets served. All the Madras units are geared to serve the fiercely quality conscious west European and north American markets: but the Calcutta tanneries had long specialised in exporting semi-finished leather to the USSR and other East European countries. In the command economies of those countries, the buyers had generally been indifferent to the

quality supplied by the Indian tanneries. And since for a long time that market seemed secure, there had been no incentive for the exporting tanneries in Calcutta to accumulate and invest in modernising their plants. The sudden collapse of the market left the majority of those tanneries totally unprepared for competing in other markets. As a result many tanneries have gone out of business. The remaining tanneries continue to find a somewhat less profitable but stable market for their products locally by catering to the domestic market.

The few tannery owners in Calcutta who had modernised their plants were the ones who had much earlier started supplying leather processed from hides to other international markets. One firm had begun to do so since 1972. Another claimed that the firm had done so since the previous generation. The incentive for moving to these other markets was their much greater profitability. Although exact figures were not available, the difference could have been of the order of 150 to 200 per cent. So why had only a few of the Calcutta firms availed of those opportunities?

Also, even if the earlier units might have failed to show sufficient enterprise to switch to new markets by modernising, it is still surprising that few new modern units have come up to process the semi-finished leather that is readily available in Calcutta.

Expertise as a Specific Asset

The major problem for Calcutta based units in seeking new markets is to ensure the required quality of the raw materials. As mentioned before, supplies of raw skins and hides to the Calcutta industry are totally non-standardised and chances of variations in the quality even within one lot are extremely high. A very large part of the supply of raw skins and hides comes from fallen animals and from faraway sources. And because of the primitive techniques of collection and preservation of the raw materials and the opportunistic attitudes of the traders and warehouse owners who supply the bulk of the inputs in the markets, the input quality remains highly variable.

Here only those entrepreneurs who have the expert knowledge both to correctly judge the quality of inputs at the stage of purchasing

and also to correct the deficiencies in those through appropriate chemical treatment at the processing stage can guarantee the required standardisation and quality control that is demanded by foreign buyers of finished leather and leather products. This expertise moreover is available among the tannery owners mainly through a long apprenticeship in families which have traditions of dealing in leather.

One can therefore argue that it is the availability of this specific human asset that separates the modernised tanneries from others. It is this asset that had created the potential among the few firms for moving to more profitable markets. This has in turn generated an incentive to accumulate and invest in technological upgrading of the plant in order to facilitate that switch.

To Make or to Buy

The main difference between Calcutta and Madras then lies in the fact that while in Calcutta only the units which have such in-house expertise can hope to compete in the high quality markets, in Madras any unit can do so because it can get inputs of guaranteed stipulated quality from established wholesalers. So, in Madras the expertise of judging the quality of supplies is a readily marketed service while in West Bengal it is very much a specific asset of some units. The cost of transporting materials between stages should be less of a consideration for the Calcutta firms in their decisions of whether to make or to buy as compared to their Madras counterparts because in Calcutta, firms in different operations are all located within a small area. It is only because the specificity of the asset viz. the expertise to judge leather quality is high that Calcutta firms have to resort to vertical integration (Williamson 1985, pp.86-91).

Since the Madras buyers all focus on the quality conscious export market, they are willing to pay a premium for ensuring quality. Therefore, there is a wide demand for the services of a wholesaler who can ensure the supply of the required inputs by bringing them in from many locations (including Calcutta), sort them by gradations of quality and deliver the required amounts according to the exact specifications to each processing unit at a price including charges for his own expertise of judging the leather quality.

The Madras example shows that there are no unambiguous technical reasons for inducing vertical integration of units in the leather industry.

But in Calcutta, it becomes essential for export oriented units because the expertise for judging the quality of leather supplies has to be generated internally by each unit.

Limits of Scale

This imperative to integrate all operations under one management/ownership creates its own problems for the Calcutta firms. Since the operation of purchases requires the specific skills of one or two persons(who usually are the owners) and cannot be delegated to others, it puts a ceiling on the size of the entire firm. It can only expand to the extent that the person in charge can personally check the inputs. If that person is the entrepreneur and has also to manage all the operations of supervision of production and exploration of markets then the ceiling becomes even more binding.

The Institutional Straitjacket

Both sectors of the Calcutta tanning industry are thus locked into their present suboptimal positions. The majority has opted out of modernisation and from entry into the more lucrative parts of the market. The small section of modernising units are unable to expand their businesses fully in response to the favourable demand conditions. The majority nonetheless continues to operate and survive because of several historical factors. Their products mainly are sold through the Birshul hat market to numerous makers of leather products for the domestic market. For goat skins specially, the footwear makers provide a ready demand for leather of a wide variety of qualities or even of mixed qualities because they produce a correspondingly wide variety of final products for sale over a broad price range. In general makers of leather products serve a vast multilayered market of which a major section is more sensitive to variations in prices than in quality (this issue is discussed later). Therefore between sellers i.e. tanneries producing leather in lots of varying and uncertain quality and buyers similarly seeking to buy cheaply leather of varied qualities, the market for leather is regularly cleared over a range of prices which the producers consider an adequate compensation for their indifferent efforts but not sufficient to induce them to try to upgrade their production.

The system in its turn is sustained by a large army of long established groups of agents each of whom deals with a few of the long chain

of operations in the process right from acquiring raw skins, primarily treating them, bringing them to Calcutta, storing them, selling these to the tanneries and taking off supplies of semi-finished or finished leather from them to sell to makers of leather products. And as mentioned before, these various operations have long been associated with several traditional ethnic groups - particularly the Chinese, the north Indian Muslims, and Chamars : these groups have carried on their operations for several decades without any recognition or assistance from any official agency. In return they have each developed a strong vested interest in the control of those particular operations which is difficult to break. These traditional agents dealing in the supply related operations not only do not always have the necessary expertise; but even if they do, the fierce competition amongst themselves forces them to cheat, i.e. not to reveal the exact quality of the supplies to the buyer. Since these agents continue to control the supply lines from the vast hinterland from where hides and skins are collected, it is difficult to bring about any changes in the existing organisation.

The several minority population groups who sustain the system are themselves locked into their present occupations due to lack of knowledge of or access to possible alternatives. They are indeed working to maximise their own economic returns; but their rationality is bounded by their past experiences and established connections. This process is particularly marked in the business relating to goat skins. For hide tanning, there is a growing pressure to improve the quality of the tanned leather because the demand for use of the product for domestic consumption is relatively weak and the bulk of the produce is used by the large number of local units which make industrial gloves, belts, etc for foreign markets. That is why the tanneries we inspected had been compelled to modernise the technology for processing hides. These are also the units which were forced to vertically integrate operations because they could not rely on the market to get them the required inputs.

One alternative being used by the modern units is to resort to imports of hides and skins from slaughterhouses in other countries; we came across units which were importing directly from Africa and Australia. This however is a major leak from the foreign exchange earnings of the country and a waste of the country's readily available resources of animal population. This also means that the potential of the industry

for creating more viable rural employment through this very widespread rural industry of the country is being stunted. Reports indicate that so far the leather industry in India uses not more than 15-20 per cent of the indigenous supplies of hides and skins. And processes of removing the animal carcass and skinning, flaying and curing the skins are still deeply bound in the traditions of low castes and 'unclean' work.

The West Bengal government's proposal to set up a new leather park with modern infrastructure by itself may not be sufficient to break through this impasse. Even if this persuades the older tanneries to shift to the new site with modernised plants or encourages the establishment of entirely new units, the basic problem of ensuring for all of them quality control on the inputs would remain unsolved unless the existing entrenched institutions can be significantly altered.

What is needed is a plan to modernise these processes at the village level through new agencies created if necessary, with government support. The Khadi and Village Industries Corporation has made some half-hearted attempts at this: but at least in West Bengal they have been unable to challenge the hold of the established agents. The Central Leather Research Institute has launched a new scheme in two districts of West Bengal for establishing modern plants at rural locations for the preliminary treatment on felled or slaughtered animals in the surrounding villages. The scheme, however, is too new to gauge its success either in increasing the rate of usage of animal skins or in breaking the traditional stereotypes.

Limited Access to Markets

It is in principle still possible for the Calcutta firms to hire technically qualified experts exclusively to look after the crucial purchasing side. This would remove the constraint posed by limits to entrepreneurial capacity. However, to make it worthwhile for any firm to hire a full-time technologist, its scale of operations would have to be expanded several fold. Finding markets for a much larger output, however, should not be a problem because each firm is small in comparison with the size of the market.

Nevertheless we found that for several reasons, the firms had no such immediate plans for expansion. The most important was their problem of getting sufficient investible resources. All the firms we had interviewed in Calcutta talked about the near impossibility of getting

loans from the formal sector. The hiatus between public financial institutions and firms in the leather industry of Calcutta is indeed remarkable and cannot be explained just in terms of risk aversion on the part of the former. Even when the potential borrower firms have a good record of production and sales over the last 20 or more years, they had found it hard to get institutional credit without a lot of hassle. This problem is discussed in greater details in a later section relating to Borrowers and Lenders.

Moreover, though the market for leather goods is expanding to accommodate increasing supplies, individual firms are wary of banking on it. Currently, they face barriers in directly reaching the retail outlets specially in foreign markets: most have to deal through wholesale agents of buyers. This is partly because the producers so far do not have the experience, knowhow and confidence to go directly to foreign retailers. Their lack of education and sophistication may also be a contributing factor. The large buyers in western countries too still have reservations about the quality of the Calcutta supplies and prefer to deal through agents. This dependence on a chain of personal contacts may mean that the demand for the products of particular firms is sticky over a considerable period.

This problem of limited access to markets probably affects the Madras units as well. Otherwise it is difficult to explain why most Madras units producing consumer products work not as independent enterprises but on orders received from importers or from large exporting houses with international connections. There are remarkably few instances of manufacturing units building large steady markets for the products that they have designed and produced on their own steam in anticipation of demand. The implications of the existence of this long chain of intermediaries are further discussed in the section on Flexibility and Power Relations.

V

The Choice of Products and The 'Lemons' Effect

Yet another set of decisions made by firms relate to the kind of products they make and the markets they serve. In India the domestic market for leather products, particularly for footwear, consists of several layers or segments: demand in each segment exhibits somewhat different sensitivity to price and quality variations. However, the products sold

in the different segments are near substitutes; there are no barriers facing customers moving from one to another and often there are no apparent differences to mark the products of the different segments. The customers know that the quality of the product is variable but they have no *a priori* way of assessing the quality of the particular goods they buy.

Various producers of footwear are correspondingly grouped into several sets according to the quality of their products and the extent to which they are willing to give the customers a guarantee about that quality. In other words, as one goes down the scale of these different groups, not only does the quality of the products fall but there is also an increasing uncertainty or variability about that product. At one end are the makers of brand named products who provide a guarantee of a given standard of quality by incurring additional costs for maintenance of their standards. Their prices are therefore somewhat higher. At the other end are those producers who compete mainly by undercutting the prices of other producers but do not provide any assurance about the quality of the products. The first group presumably wants to build a steady clientele while the others are happy with transient deals with an ever changing group of customers. For products other than the brand named ones, there is thus an asymmetry in the available information about the nature of the goods between the buyer and the seller: the seller knows how good or bad is a particular pair; the buyer can only go by her own uninformed judgement. The customers then come to expect in each section a certain broad range of quality and also of the degree of variability in it and they are willing to pay for no more than the average expected quality in that group. This in turn discourages individual makers/sellers in that group from trying to raise their own standards beyond the average for the segment; and actually they are often tempted to further cheat on those standards. This scenario is particularly relevant to Calcutta because of the in-built high degree of uncertainty and variability regarding the quality of the leather available.

Akerlof who first raised the question of the impact of such uncertainty of the quality of supplies on the market (Akerlof 1984) had suggested several possible outcomes. One possibility is that there will be a continuous erosion of quality of goods in the market with bad items or 'lemons' driving out the good items; they in their turn are driven out by still

worse ones and so on. This may lead to a collapse of the market imposing a cost not only on the cheated buyers but also on all potentially honest businesses. This may be partially avoided by the intervention of middlemen who charge a fee to build up customer loyalties by guaranteeing a stipulated quality of the wares. Alternately, some institutions like a brand name come up to provide the customers a formal guarantee of the quality of the traded products. The branded goods are more expensive than the unbranded ones.

The Calcutta³ industry however has developed on somewhat unexpected lines. In spite of the tremendous uncertainty about the quality of the goods, the bulk of the industry has been thriving. There are no signs of an imminent collapse of the market. The Calcutta footwear making units can be divided into three broad categories; at one end are some flourishing producers of brand named goods. At the other are numerous small producers of goods of poor and indeterminate quality. Production and sales of these latter kind of goods too has been expanding very fast. The losers are the several sellers of long-standing local brands who form the remaining group. The industry is thus fast becoming bipolar.

Among this third group of local brand names are several Chinese firms of the old China Town in central Calcutta who both manufacture and sell leather shoes from their own premises around Lalbazar area. These are basically family businesses, which have often specialised in making custom built shoes.

The rest in this group consist of local firms such as Radu and Padukalaya which are owned mainly by Bengalis and who have their own sales outlets around the College Street market. These entrepreneurs have some expertise in judging leather quality and designing footwear: but they do not have their own manufacturing units. Instead the raw materials and designs are put out to outside workers who are paid by the job. This arrangement should in principle make the production work completely flexible with no overheads or fixed costs of production for the entrepreneur. However, because the brand name owners want to maintain an even quality in their products, they usually try to keep a core group of reliable and experienced workers continuously in their employment. This means that some part of the labour costs become fixed costs in the medium run. Also, since the entrepreneurs have

no way of training new workers themselves or of ensuring a steady supply of additional skilled workers whenever needed, the firms are reluctant to venture into uncertain markets. Instead they try to hold on to their traditional mainly middle class clientele. In the process, they have made no significant gains in the expanding domestic or foreign markets. Indeed it is doubtful whether any of them has a presence outside the city of Calcutta. Increasingly, they are in danger of losing their existing business as tastes change and more competitors surge into the market.

The Slum based Units

These local brand names are being challenged at both ends of the market - by the more modern all India brand names at the expensive end and more immediately by the fast burgeoning supplies of cheap look-alike products made by the self-employed chappal and sandal makers who constitute the second group of footwear makers. They too have been a part of the city's industry for a long time; but in recent years the business has changed in character and has expanded fast. At present it is estimated that there are over 2500 such small household units employing over 25,000 workers in various connected operations: these workers along with their production units are housed in some of the dirtiest and crowded slums of central Calcutta. The workforce is composed of male workers of the Chamar community from Bihar and U.P. who have a strong sense of community because of their common language, residence and their devotion to their own saint, Sant Ruidas.

In 1978, Timir Basu in a report in the *Economic and Political Weekly* on these Chamar workers had placed their numbers at around 10,000. At that time almost all of them worked as home-based workers for two or three big traders who used to engage them on behalf of four of the major all India brand names in footwear manufacture viz. Batas, Kamal, Chrome India and Khadims. The merchants then used to provide the workers with some credit as well as most of the inputs required including a part of the leather. Of these inputs a particular glue that was being imported at that time under a licence held by the merchants was crucial for making the chappals and sandals. It was through their control of this input that the merchants could keep the workers tied in at extremely low piece rates. Basu had described

how workers made a living chiefly by saving some of the inputs from the amounts given by the merchants in order to make one or two extra pairs for clandestine private sales.

In the years since then, the inputs have all come to be manufactured in India and are now freely available. This has broken the hold of the merchants and led to an entire reorganisation of the industry. The workers now work in units of three to eight workers under a master worker who can organise his business in any of two or three ways; he can buy his own materials from the wholesale market on cash or on credit and then design and make the items for direct sale in the wholesale market to any buyer. The usual amount consists of baskets of 2-3 dozen pairs which he takes daily or once in two days to the Yehudi market in College Street or to the Chitpur market near Nakhoda Masjid. The slightly larger units often take orders from traders supplying uncountrry retailers. The latter may provide credit, raw materials and designs to the master worker and then take off his output within 8-10 days. There are also some middlemen who buy the goods usually on credit, dispose them off by sales to local small retailers and then pay the manufacturer. The master worker can switch between all these contracts, depending on his skill and ability to get additional workers as required.

The master worker usually gets the leather from the wholesale leather market at Birshul hat. The technology used by these units is extremely crude with manual cutting, stitching, pressing etc. In rare cases, the unit boasts of the use of a sewing machine. However, the long association of the workers with the designs and fashions sold by the large brand name owning producers and their continuous exposure to new orders and designs from various traders means that the units can produce any item and give them the same appearance as the expensive products of the big brands. At the same time, since all sales and deals are independent and neither the producer nor the trader nor the small retailer/hawker is committed to building a steady business, none of them feels any necessity to pay particular attention to the quality of the products.

Rather, opportunism is a way of life for all the agents involved including not just the footwear manufacturers and traders. The existence of this flourishing demand for leather makes it possible also for the

leather dealers, the tanneries and their input suppliers to cheat at every stage on the quality of their supplies.

It is worth noting here that although most of the Chamar workers have connections with this business in Calcutta which go back to several generations, they still regard themselves as outsiders in the city. In the tanneries where workers are from this same group, trade union leaders note that these workers are interested in higher piece rates but not in getting permanent regular jobs. (Samaddar forthcoming). They insist on visiting their native villages every year for several months in the sowing season. Both the tannery workers and the footwear makers put their savings in land and agriculture in their own villages. The footwear makers specially keep their families back at home and refuse to invest either in upgrading their manufacturing businesses or their residences in the city.

The Bad Driving Out the Good

The availability of this large supply of look-alike but cheap footwear confuses the buyer and makes her deeply suspicious of the quality of all goods on sale. In the absence of any definite information, she opts for the cheaper supplies. In that deal too she is likely to be cheated of adequate satisfaction from the purchases because all the agents involved continuously misrepresent the quality of the goods. But on the other hand, if she is offered similar looking items by an honest dealer at a higher price who tries to assure her of the quality of his products, she has no reason to believe him; so she either tries to beat down his prices or refuses to buy from him.

This is precisely how the smaller traditional local brands of Calcutta are being squeezed out of the market. In the absence of sufficient publicity through brand advertising on their part, most buyers have no way of getting symmetrical access to the information about the sellers' honesty and quality consciousness. There is also the further problem that because those sellers do not have their own manufacturing works, they are sometimes landed with inferior goods when their subcontractors cheat on quality. So a customer may have had the experience of landing with poor items after paying the relatively higher prices of these sellers. In that case, even if the seller is now convinced of the higher quality of his products, the buyers' assessment of the probability that this is so always remains lower than that of the seller.

The latter, therefore, cannot persuade the former to pay his prices including the extra cost for maintenance of quality. The cheaper goods made by the self-employed units then drive out the better quality local brand name products in yet another modified version of Greshams' Law.

Another possible outcome of the existence of this uncertainty in quality would be to drive the buyers more towards the big brand names which guarantee quality. This is in fact a reality; there is now an increasing range of new well-advertised all India brand names in the footwear market whose organisation of business is discussed in the next section. But the new or the older big brand names have as yet not posed a serious challenge for the makers of the cheap goods. This is because of the high price elasticity of the demand of a significant section of the footwear consumers. As is the case in Madras, for one group of consumers footwear of synthetic material is a close substitute for leather goods and it is only the cheap prices of the Calcutta goods that still makes them saleable.

Similarly, another section of buyers who are mostly young urbanites are looking for fashionware rather than durability or comfort. They would rather opt for several pairs of cheap good looking but poor quality footwear than a costly durable single pair. Here too the bargaining point is the low price and good appearance provided by the cheaper producers. It is worth noting that because of this shift in tastes Bata, who earlier used to sell cheap footwear in non-metropolitan areas through their other brand name BSC have withdrawn from that market and now concentrate on exports and high quality, high priced section of the domestic market. The market in other words is getting sharply polarised - between the very cheap goods sold by hawkers from the pavements and expensive quality goods made by a range of newer brand names. In the next section, we examine this third group of sellers.

VI

Efficiency, Flexibility and Power Relations

The third kind of business organisations in the footwear industry is perhaps the most typical of the forthcoming responses of Indian

industry to the challenges of globalised markets.

Particularly in the consumer goods industries the recent policies of globalisation are likely to bring in increasing competition from near substitutes supplied by producers from any of a large number of countries. Given these vastly increased choices of goods and services the consumers too would tend to become more quality conscious and also volatile in their tastes and preferences.

There are several well established responses of industrial organisations to such challenges posed by increasingly competitive and uncertain markets. One strategy used mainly by multinational firms particularly in the decades of '70s and '80s was to farm out work on various operations within an overall production process to locations in different countries with a view to exploit the relative cost advantages that were available there for that particular operation. Depending on the nature of the farmed out operations, the technologies used in them could sometimes be fairly primitive and labour intensive, with little use of modern machines; they often used low paid female labour in developing countries. In other cases the same firms were found using very streamlined assembly-line kind of production organisations which were located in countries where there was disciplined labour but no labour laws for the protection of the workers (Lauridsen 1995). For several reasons India was not a part of this international division of labour to any significant extent. Nor are Indian producers by and large as yet in a position to undertake such multinational ventures.

Large Japanese firms had developed this system of subcontracting of specific operations to smaller units to a very high degree. Here the inter-firm relations were apparently highly paternalistic with the larger firms providing their subcontractors with R and D inputs, investible funds and steady orders. It is usually claimed that the Japanese pattern is more of a process of vertical segregation of consecutive operations in a production process in the interest of utilizing the potential economies of scale at each stage. In operations where such economies existed, the subcontracting firm could expand the scale of production, sell the extra output to other users and reduce costs all round. However, in reality, the Japanese pattern too gives considerable flexibility to the operations of the large firm and allows it to pass on some of the risks of uncertain markets to the economically weaker smaller firms

(Standing 1990, Tauille 1995).

The other much discussed strategy originated in what has come to be called the Third Italy. Here large numbers of artisan type small producers are linked with a 'net-work' firm through the practice of 'flexible specialisation'. The firm of Benetton is one of the most famous instances of this kind of network firms of Italy. (Piore and Sabel 1984, Beluzzi 1992). Here the central firm or agent gets its production done through a number of independent producers who design and manufacture their own products for sales by Benetton. The latter has built up a world-wide network of direct sales outlets which continuously feed back to the former information regarding consumer responses to the designs, styles etc. produced by the various manufacturers. The firm can then immediately get the original manufacturer(s) to supply the items in demand in the required quantities. In this way the seller firm can efficiently and quickly respond to changes in any section of the market without having to build up its own production machinery of any size or quality. The entire production remains flexible and responsive to changes in both the size and content of the demand.

These latter models of course are very much contingent on all the involved firms having access to computerised transmission of information as well as computer aided facilities for operations like designing, inventory controls etc. Indian firms and their agents are still not in the same league. Nonetheless, faced with the same challenges they have devised what appears to be their own different model of organisation for operating in high priced globalised quality conscious markets. This strategy is based not on information technology but on some power relations which are inherent in the Indian economy. On the one hand are several large firms building up strong brand name-based images and their own high profile marketing organisations. In the process most of them have withdrawn from the actual production work; this is now left to a string of small manufacturers who are the other party to this arrangement. It is these small firms which make and sell at wholesale level the readymade finished manufactures which are retailed or exported by the former. While the relations between these two kinds of firms are supposed to be strictly through the market with neither being beholden to the other, we want to argue that such an arrangement is effective even in fiercely competitive and quality conscious markets because

relations between the two sets of firms are of a hierarchical nature. The larger firms enjoy some advantages over the set of smaller ones which make it possible for them to control and mould the operations of the smaller ones to their own advantage.

In economic literature, discussions on power relations in business organisations usually focus on those between the capitalist employer and the labour he employs (Marglin 1974, Williamson 1985 ch.9). The hierarchy and the power used in deals between large firms and small firms in India, though less discussed in this context, is still very much a part of the industrial organisational strategy. And its origin and uses are very specific to the institutional framework under which the Indian industry of today is operating. Within the leather products industry, this is a common phenomenon extending to all products like industrial gloves, safety belts etc. We have considered only the footwear industry to illustrate the issue.

The Organisational Setup

For this study we covered seven small or medium units in Calcutta and seven in Madras. Of these, only one in Calcutta had a direct export business. Another sold shoes through its own local shop but its steady business was on behalf of Bata. The rest sold their products to exporters or local brand name owners. In Madras, of the seven, only two firms had their own business of exports to a foreign agent; the rest did job work for large firms. It is worth noting that the direct sellers to the export market were firms of longer standing. New firms were all geared to producing goods for disposal to the marketing firms.

The Madras firms did job work which meant that they had orders for a definite quantity of a product of given design and quality: for this they used their own funds to get the inputs, hired workers and carried out the production in their own factories. Although they had standing orders, they bore the risks of their production being rejected on completion if they failed to meet the required standards. There was also the risk of not finding continuous orders for work.

The Calcutta footwear-making firms mostly produced goods for the domestic market and were in general in a more vulnerable position. Most did not have standing orders for the work they did. Usually they initiated production with their own fixed and working capital and also devised their own designs according to their assessment of

the demand. This production was then offered to various large firms who bought it for retailing under their brand name provided it met their requirements. In several cases, the small units had been supplying the same firm for a long time. But this did not imply any continuity of the business relations nor any relief from the risks of the designs or quality being rejected. The small firms, therefore, had to have their in-house expertise for gauging the quality of leather and to design the products according to the market trends.

The large firms included some very well-known brands like Bata who have long been in the business. They also included a number of multinationals like Ponds and Hindustan Lever who have newly entered the export business for footwear as marketing firms. In Calcutta, there are many new brand names - Shree Leather, Corona, Leatherware etc. who had initially begun as manufacturers of their own goods but who now buy off supplies from the small enterprises to sell under their brand names in the all India markets.

The large firms therefore appear to concentrate on building up their marketing abilities rather than their production work. In other words, the strategic core (Rive 1990, pp.139-142) around which the firms are organised has come to consist mainly of managerial skills for getting information about markets, for creating a bright and saleable market image and for contacting and winning buyers in ever new markets. It does not include skills for production. In the case of export oriented firms and a firm like Bata which has always played up its designing ability, the strategic core probably also includes skills for designing footwear. But in many new firms in Calcutta, even these have been left out. More important, all these firms have passed on the responsibility to find all the necessary expertise to the smaller units. Particularly for the Calcutta small units this is a serious consideration to which we shall return later.

Structures of Firms

The strategic core of a firm is supposed to be time- and situation specific to each firm and its requirements determine the efficient boundaries of the firm: i.e. those operations that a firm must undertake and those it can farm out are not fixed but can change with the situation of the firm. And it is the characteristics of the clients and the market that determine what should be the strategic core skills

for that firm. (Reve *ibid.*, pp.142-146). The firm will keep close control of those operations which contribute most to the qualities that their particular clients value. Thus for the Indian firms seeking export markets, marketing as well as designing skills are of strategic value while for those serving the domestic market, marketing and building of presentable sales outlets is the core strategy more so than designing which can often be left out. It is possible that in time, these brand name oriented firms will find it possible to decentralise their sales operations. This might happen when their brand names are sufficiently well-known in the footwear market (like the K shoes of Britain) to be sold through retailer anywhere at a stipulated price. On the other hand, they may in time have to internalise the production operations when they can no longer rely on the availability of the services of small producers as and when required.

Efficiency

By standard economic criteria, this two sided organisation would not be considered efficient. It leads to extra transportation costs as each small firm gets its inputs in small lots and then has to deliver the output to the seller firm. Secondly, since the small firms are not sure of the timings of orders and sales they have to carry inventories of both the inputs and the output. This is particularly true in case of the Calcutta firms where uncertainties of input supplies and output disposal are even greater. The large firms too, have to keep more inventories of finished products in order to ensure their smooth flow into the markets. Even with job working arrangements as in Madras it is unlikely that they can plan the chain of inventories as efficiently as they can in case of their own production. In a small unit, unforeseen personal problems of the one or two persons critical for the production can cripple the entire production chain. Also, even with dealers to supply the inputs, each job working units cannot plan and order ahead its requirements because it is not sure of getting continuous orders.

Moreover in case where designing and planning of production are left to numerous small units, the overall quality of the expertise in these activities in the industry will be poorer than if these activities were undertaken by the big firms themselves. No small firms can individually pay for as high a quality of these services as could have been done by one large firm pooling that work.

Flexibility

In spite of these inherent inefficiencies, this form of organisation has spread fast obviously because of the tremendous premium put on flexibility by the marketing firms. They are unsure of their markets because they have entered the global scene and also because the competition even in the domestic markets is very keen. In case of a well established firm like Bata, uncertainty was perhaps not the main consideration. Production of chappals and sandals had earlier been officially reserved for the small sector. That is how Bata had come to put out this work to artisans in Agra area. The system had proved itself to be convenient; so it has been continued and also extended to new kinds of consumers (export market) and to new units in Madras area.

However, the flexibility provided to large firms by this practice is not the same as that in the textile industry of Prado, Italy. There the numerous artisan producers produce different varieties according to their own initiative for sales through their federated efforts under an 'impannatore'. The latter's job is of coordinating as their agent the efforts of these artisans - advise them on fashions, input purchases etc. (Piore and Sabel 1984, p.215). Here neither the various job workers of Madras nor the small entrepreneurs of Calcutta have any co-operative connections between themselves. Though they often all prepare goods which would be identical (part of a large export order) they remain rivals of each other for the orders of the big firms and act independently in both the input and output markets. In other words, flexibility does bring in more variety and local initiatives in the case of the Calcutta system but unlike in the Prado industry there is no feedback from the market except in retrospect; so the units tend to opt for the status quo rather than for innovation.

Power Relations

The arrangement is actually meant not so much to encourage local initiative and diversified small initiatives as to avoid any long term commitment by way of investment in plant, machinery and labour on the part of the large firms. Their stake extends merely to the creation of some fairly liquid assets like shopping sites. It is the small units who invest in the fixed plant and machinery and build up skills of labour. These small units remain in constant competition with each

other for orders of and sales to big firms, so their prices include a very small margin of profits or mixed incomes of the self-employed.

The small firms accept these highly unequal terms because their assets are very limited and highly specific to these operations. In Madras, in most of the units the technicians/skilled workers and also the owners belong to particular (mostly scheduled) castes and communities who have long been associated with this work: their skills and identities are tied to this industry. They have similar problems as the tanners of Calcutta in acquiring confidence and credibility for negotiating with outsiders for getting export orders or setting up sales outlets. Although banks in principle are much more willing in Madras to lend to these job working units, the owners have difficulty fulfilling the norms of bankers for getting adequate loans for expanding the business further. Competition among the smaller units in the business is increasing : older firms do not have the skills and the knowledge to switch to other work. New entrants who are usually local skilled workers find it easy to enter the business since the machines can be acquired in small stages. This means that the order giving large firms are in a position to beat down the prices by switching between suppliers.

In the case of Calcutta the situation is even worse. Madras units have the advantage of being in a cluster where learning skills and getting information/contacts with order givers are easier. The comparable Calcutta units are scattered all over the city: they have often been initiated by middle class youths who have no skills in the business. Many of these entrepreneurs had come into this business chiefly through some family connection with Bata. They had some vague acquaintance with the leather business and also with some skilled retired Bata workers who had come to work for them. It was the expertise of those workers which had given the entrepreneurs a foothold in the industry. In fact this faint acquaintance with the leather industry was the only asset they had in the high unemployment economy of Calcutta. So they had used family savings, built the units on family premises and were trying desperately but not very successfully to make the units viable. In one unit, after four years of operation the four partners who had ventured into the business with their own capital were still unable to pay themselves even Rs.1000 per month.

Needless to say, these Calcutta entrepreneurs did not have the skills,

the connections or the capital to expand the business, to directly contact the export markets or to open their retail sales outlets. Some had tried to do so locally but without much success.

The high asset specificities of all these small producers give the brand name owners the power to control the formers' performance. They ensure the quality of the work by holding out the threat of denial of future orders and perhaps even blacklisting the small producers if they fail to meet the date and quality requirements of any of the order givers. The Calcutta entrepreneurs specially have to initiate production on their own and then sell the goods on any terms that they are offered. So far, there has been no recognition of these businesses by any official agency: the small units too avoid being in the limelight for fear of tax laws, pollution control etc. This means that they remain highly exploitable by the big league names.

In Madras, the cluster arrangements and the existence of bodies like the Tanners' Association or the Export Promotion Council has generated some support for the small units in the Chromepet cluster. However, since increasing exports is the main aim of all official and semi-official agencies, the actual producers are unlikely to get support against the firms which bring the export orders. As against this, in the Italian case small units had acquired strength because official agencies had given such 'artisan' units several special concessions of taxation etc. Also, their status was accepted by banks and financial institutions as a special case. Municipal and local authorities had throughout acted as their promoters by providing technical education facilities, specially well designed cheap production sites, technical advice etc. All these facilities had been combined to give the Italian small businesses both the flexibility and the strength to enter new markets and to deal with them confidently with prior knowledge of their requirements. (Piore and Sabel *op. cit.* pp.220-229)

The Madras units on the other hand have been complaining about the numerous official constraints and requirements that they are expected to adhere to in the name of pollution control, licensing, registration etc. If all of these were to be fulfilled it would make their operations impossible. So it is they who run the risks of working outside the legal requirements in order to ensure that the exporters get their stipulated supplies on time.

The only redeeming feature in this power game is the fact that in recent years, orders have been plentiful. If this continues, the Madras units may get to form their own organisations and build their defenses.

VII

Lenders and Borrowers

As in other operations in the leather industry, there is a considerable variety in the lending and borrowing arrangements used by the various agents. Particularly in Calcutta, this issue has brought forth some interesting leads which have both theoretical and policy implications. For Madras, sufficient information regarding this aspect was not available: but it is possible that the issues involved were similar.

There are three broad types of lenders linked with this industry. There are firstly the commercial banks and other formal sector financial institutions who are supposed to provide both short and long term credit for industrial activities. Secondly, short term credit is provided by most traders to their bulk buyers. And lastly there is a large presence of informal sector creditors in this as in most other Indian industries. The first group which consists of banks and other official lenders are supposed to lend at relatively low rates of interest. In some cases there are provisions for concessional lending to small units and/or exporting units. On the other hand, these agencies stipulate their own measures to screen the borrowers : they have to be registered units — i.e. units which have an official recognition as functioning units and which fulfil the requirements of several official agencies regarding provisions such as pollution control. The latter also insist on the borrower providing a collateral for the loan and the size of the loan is usually contingent on the value of the collateral. The collateral provision is waived in the case of the Madras units if the latter are registered with the Tanners' Association in Chromepet. There is also a Reserve Bank directive in respect of small and tiny manufacturing units to the effect that if the projects for which the units are borrowing are themselves worthwhile, the banks can waive the requirement for a collateral. However for this the banks have to make a thorough appraisal of the project.

In Calcutta, of the fifty or so agents manufacturing or trading in leather and leather goods whom we had interviewed, very few had ever raised a loan from banks or other official financial institutions. Two or three persons who had got such loans did not intend to raise

fresh loans after repaying the earlier ones. In Madras, with the guarantee of the Pallavaran Tanners' Association many small units which were their members had got loans from formal sector financing institutions. However, enquiries showed that the number of those who were constrained to borrow from informal lenders was much larger.

In other words, even among registered units, a significant section remained alienated from the official credit giving machinery. The units contacted complained that the bank procedures were lengthy : specially in Calcutta, it appeared that there were many formalities to be completed with multiple agencies before banks released funds - and entrepreneurs and agents of small units did not have the time or the contacts to do so. Specially, the Chinese and the Muslim entrepreneurs felt that officers of the lending institutions could not relate to them and treated their applications unsympathetically.

Credit Rationing

From one angle this may appear as a case of 'pure credit rationing' (Stiglitz and Weiss 1981) where among apparently similar borrowers some are given credit at the going rate while others are not even if they are willing to offer a higher interest rate. This is mainly because official financial institutions are not allowed to vary interest rates between borrowers except by official directives. More important, it is possible that financial institutions are concerned with keeping down their 'costs of monitoring' - i.e. costs incurred by them in case of default on repayments by the borrowers. Even if the borrower does offer a collateral, to realise the outstanding amount by liquidating the asset is not costless to the lender; the realisation of the value of the collateral may be delayed, difficult or even prove to be inadequate. Since these monitoring costs from the point of view of the lenders are likely to vary from borrower to borrower over a considerable range, the financial institutions would be willing to lend only to those borrowers in whose case the expected monitoring costs do not exceed a predetermined level. (Williamson 1987).

It is to be noted that in case of these institutions it is not the supply of credit that is the constraint but their agreed level of expected monitoring costs: these in turn depend on their expectation of default by borrowers. This is where the biases of the lending agents get a full play. In Calcutta, there is a general impression among small

manufacturers that agents of the formal sector lenders do not take the trouble to correctly appraise the borrowers' projects or to check on the past records of their business practices. They take decisions on the basis of arbitrary criteria such as the community, education or social standing of the borrower.

Even if these hurdles were overcome, the formal financial institutions enforce a ceiling on the amount of loan that they advance to the units and this is related to the value of the collateral offered by the borrowers. In case of the Madras units too loans given under the guarantee extended by the Tanners' Association are subject to a similar upper limit. These limits to the amount of credit are again not because loanable funds are scarce but because of the lenders' low assessment of the value of the collateral or of the personal riskworthiness of the borrower.

Asymmetry in Valuation

In Calcutta we found that most of the borrowers had only one asset - their residential/cum business premises. For the financial institutions, these assets could be assessed only at their market value in their present state, use and with their current encumbrances. However, since the housing market in the city is highly imperfect, the borrower is likely to value his residential property much higher in terms of its near irreplaceability in his own and his family's perspective. Therefore, the value put on the premise by the financial institution and the loans extended on that basis are likely to fall far short of the borrowers' own assessment of those assets. Several of the persons interviewed expressed the view that the risk of losing that property in the business for the sake of the amount of loan that they could get against it was totally unacceptable for them.

There is a similar asymmetry between the two parties' valuation of the human capital or embodied skills of the entrepreneurs. As discussed earlier, in this highly uncertain and unstructured industry, these assets are of crucial importance for building up the businesses. But the formal sector institutions rarely take account of those personal qualities except perhaps of the kind of high level formal educational qualifications which entrepreneurs in the leather industry rarely possess.

Assessing the credit worthiness of a business on the basis of its existing assets rather than its potential in the market reduces the risks of defaults for the lenders : but for the borrower, it puts an arbitrary limit on his efforts to develop the business. This can be particularly crippling if there are indivisibilities to the project cost. Financial institutions are also very rigid about the time schedule for collecting their dues which further reduces the flexibility of the business operations.

Since small businesses cannot resort to the equity market for raising investible resources. This limitation on the size of the loans they can get slows down their growth prospects. They are forced to wait till their own savings from the business or some other source are sufficient for undertaking the project.

We found that in the tanning business, several enterprising units in Calcutta had been able to raise funds from foreign collaborators for modernising the plant. However, there were many small units engaged in manufacturing footwear or other leather products particularly industrial gloves, belts etc. who had remained dependent on other larger business in the kind of power relations we discussed in the earlier section.

The Informal Credit Market

This does not, however, mean that the industry is starved of all capital resources. In fact, there is a very well-established, elaborate and multi-layered credit market attached to the industry which practises at least two broad forms of lending. The first one of these is trade credit: at all levels of the business, starting from dealers in raw hides and skins to retailers of footwear and bags on the footpaths of Calcutta, the agents taking off the saleable items are allowed a few days' credit from the sellers. Among regular dealers, these deals are not charged any interest. But in the leather product wholesale markets, there are some middlemen who form the link between the producers and the retailers. If the deals at either level are in cash, the margin between buyers' and sellers' prices is five per cent. If on credit, the margin is doubled to ten per cent.

The third and the most important group of lenders in this industry is of moneylenders *per se* i.e. lenders who are in no way involved

in production or trade of these items. The bigger ones were not available for interview; but the smaller ones who are spread over all locations of the industry readily provided the following information. In most deals the interest rates vary between 4 to 8 per cent per month. If a loan is repaid within a month, then a 4 per cent rate is applied. If later, then a rate of 8 per cent is applied. The lenders demand no collateral : but if any borrower is a consistent defaulter then a word is put out and his sources of credit in all markets dry up completely. In other words, the cost of default is being driven out of whatever part of the business the borrower had been operating.

A remarkable feature of this entire credit market is that no agent or borrower however small has to go without credit for want of a collateral. After a brief introduction by another, equally assetless borrower, he too can get credit on almost identical terms. Obviously, the supply of credit to this market has been remarkably elastic since the numbers of slum footwear makers and small retail sellers in the business have been visibly expanding fast in Calcutta of recent years. In Madras too, there are a large number of units which have not registered with the official agencies because they cannot fulfil the latter's many requirements : they too have had little difficulty in getting credit from similar moneylenders in the informal credit market.

The other feature of this credit market is that there are clear limits to how much an agent can borrow for how long and from whom. The big ones deal with the middle level ones and they in turn give smaller amounts to the next layer and so on. At each level there is a tacit understanding about the limits to borrowing. In other words, though the interest rates in this market can be high, there is no attempt to clear the market for loanable funds by raising them further as demand rises. Instead at each level, there is a rationing of credit with interest rates remaining steady.

Moral Hazard

This particular kind of problem is seldom discussed in the standard literature on credit rationing (Jaffee and Stiglitz 1990) which usually talks of limits on the number of borrowers rather than on the size of the loans given to a fairly open ended number of borrowers. The

emergence of this particular arrangement in the Indian business world may be the outcome of two sets of circumstances. On the one hand, the lenders and loanable funds in the market are a part of a continuum of the enormously large lending operations going on in the informal market serving the entire gamut of trade and small businesses in India. We have not explored this market at all but one can say that lenders here cannot arbitrarily raise interest rates beyond the generally available range of 4 to 8 per cent: if they did, they are likely to be undercut by competition from fresh lenders. These loans with their quick turnover and highly liquid character would be very attractive to new lenders. Also, the amounts involved in one centre for one group of borrowers are very small compared to the large size of loanable funds in this market. That is precisely why loans are readily available without any kind of security.

On the other hand, that there are limits on the sizes of the loans is largely due to the uncertainty about the credit worthiness and reliability of the borrowers. Although the market is multilayered so that the total potential borrowers are divided into smaller groups and each is dealt with by a different lender who is somewhat familiar with the characteristics of that particular group and business, there is still the uncertainty about the plans of each individual within the group. In other words, there is a possibility of a 'moral hazard' and adverse selection of projects in case large loans are given under such arrangements (Jaffee and Russell 1976).

In the absence of a tangible asset to act as a collateral, the only cost that the lender can impose on the borrower is to drive the latter out of business. This is a fixed cost and its ceiling is the expected value of the life time returns on the business to the latter. If the amount of loan is sufficiently large, then some of the borrowers may prefer to leave the business, default on the loan and go away. Or they may go in for more riskier projects than they had contemplated (a bigger business or a business with which they are unfamiliar) because the bigger loan is available. Both these effects - the moral hazard of default - or the incentive for adverse selection - to choose riskier projects - are very possible in this market because the borrowers have very little stake in the business by way of fixed investment. Firstly,

the business at hand in the view of the borrower himself may not have very good prospects in the long run. Or, in the case of the Chamars, they have an alternative living in rural areas or in other cities. If default on a loan which is sufficiently large can only be punished by being driven out of that business, a Chamar borrower, for example, would have every incentive to default on it and use the capital to upgrade his alternative living in the native place. Since the lender cannot *ex ante* know who is likely to be innately honest or what the life time prospects of each are, his best policy is to ration credit within a strict fairly low limit and spread the amount over a large number of borrowers. That way he keeps the borrowers within their traditional limits and types of businesses.

Obviously, the outcome which is crucial for the industry as a whole is that, there is neither any possibility of the borrowers being able to invest in fixed capital for upgrading technology or to reach an efficient scale of any of the operations. In every part of the business, there is a proliferation of tiny units. This has probably helped to create considerable employment in the industry : but it has meant that none of the operations can be modernised. Also, since entry in any part of the business is easy, there is a constant downward pressure on the returns from the employment. This too means that the self employed workers cannot build up their personal savings for investing in the business. In Madras on the other hand, where some small units had got formal sector credit on reasonable terms, the owners have been able to invest in new machines for changing the nature of their business.

VIII

Conclusion

This study has highlighted some of the crucial problems that can inhibit the potential for growth of a traditional industry. Even when market conditions and government policies come to favour its rapid expansion, the agents who had been historically associated with it do not always have the capacity to alter their production organisations, technologies or marketing practices in the required direction. And, since there are no alternative opportunities for work available for them in the economy, they try hard to hold on to their existing niche in that

industry. The combined strength of the resistance offered by these various agencies can act as a major hindrance in the realisation of what are otherwise bright prospects for development of a given industry.

The leather industry of India is a classic case for illustrating this problem. It has had a continued presence in the Indian economy throughout the latter's long history. In the process, it has come to develop a huge network of institutions which have meshed into a fairly smooth running machinery to reach widely scattered sources of inputs and ever new markets. Along with this have grown several groups of deeply entrenched vested interests linked with the industry; these interests have continually tried to adjust to changing market conditions but they have always resisted any possibility of modernisation which can make them redundant. The outcome of a confrontation between these traditional forces and fast changing market conditions can at best be uncertain and inefficient. Several of the issues emerging from the analysis which have some policy implications are summed up below.

Labour and Enterprise

In both Madras and Calcutta, operators working on the early stages of processing of hides and skins still continue to be identified with some of the lowest rungs of the caste hierarchy. In Calcutta, side by side, there has grown a tradition by which enterprise in the industry also belongs to the minority communities of Muslims and the Chinese. By some additional historical accidents, all these agents— both workers and entrepreneurs— in Calcutta are not Bengali speaking; they hail from the neighbouring Hindi speaking states of Bihar and Uttar Pradesh. The Chinese too strictly adhere to their locality and community identities. In Madras on the other hand, except for a sprinkling of Muslims from North India among the entrepreneurs, most people in the industry are Tamil speaking local people.

There is no active workers' union in Madras and there is little evidence of antagonism between workers and employers in recent years. Workers are not formally permanently attached to any unit and are paid by piece rates; this way the employers ensure the flexibility they need in work geared to fulfilling orders from other agents; but most workers do find continuous employment usually with the same employer.

And according to available reports, none of them earns less than Rs.3000/- per month. So far changes in technology and machinery have been facilitated by new workers being brought in at the technical level; but older workers are retained as their helpers. They are then trained in operating the new machines over the next six months or so. Most employees are eager to acquire technical training for new skills and appreciate the opportunities given for doing so on the job. Many of them are increasingly investing in giving formal technical training to their children. Workers are amenable to these flexible arrangements also because they all enjoy facilities of a provident fund, employees' health insurance and a dearness allowance. The arrangements seem to be working well because there are instances of workers saving enough to start new units of their own.

In Calcutta on the other hand, relations between workers and employers have been highly antagonistic and workers' efforts to raise wage rates (or piece rates) have led several employers to resort to increased mechanisation. Workers of the Chamar community have shown little inclination for acquiring training for working with modern machinery. Nor is there any evidence of children of the community being given better education or formal skills. Employers in the few modernising units have taken steps to train a few of their workers to operate the new machines: one employer we met had sent his senior-most worker to Italy to familiarise him with the new computerised machines that were being installed. But in general employers have shown little initiative in this matter mainly because they do not find any need for it. Same is true of the workers in self-employment who are in no state to contemplate modernising of their own units or skills.

There is no doubt that the active interest taken by local institutions like the Tanners' Association has helped to create a sense of security and mutual trust between the workers and the employers in Chromepet. (It was the Association which organised measures for workers' security and insurance.) It is perhaps also not unwarranted to say that the fact that many employers had themselves started as workers has helped to ease the relations. Their common Tamil identity too has probably been a positive factor contributing to more constructive relations between different groups of agents within the Madras industry. In Calcutta on

the other hand, as we saw earlier, the workers have developed no local links and stick closely to their caste/language alliances. At another level, the small entrepreneurs too feel alienated from the local power groups particularly in the world of formal and informal finance. Decision makers and agents in the formal sector of the world of finance are mostly educated Bengali speaking people; they in their turn are ignorant and incurious about the workings of an industry which is predominantly in the hands of people whom they consider as 'outsiders' even though generations of the latter have lived and worked in Calcutta. Their apathy to this industry of 'aliens' is so pervasive that the few local entrepreneurs who have been trying to break into the leather products business have also found little sympathy for their efforts from official channels.

Surprisingly, even in Madras, the community or language based closeness felt by the different groups has not led them to develop any initiative for some cooperative efforts for strengthening their bargaining position vis-a-vis more powerful agents. It is quite remarkable that the job working units there remain under the hegemony of the order giving firms and have not tried to use the leverage of their close proximity or community feelings to form a common front. By some cooperative efforts they could have got a better deal for all; or they could have altogether eliminated the latter and dealt directly with the final customers.

In an earlier paper on the fan industry of Calcutta (Banerjee 1988) a similar situation among the small job working units had been accounted for by the severe overall shortage of orders for that work. Since this is not the case in the Madras Industry during the last few years, the situation is rather puzzling.

The Credit Problem

This leads to the other apparently intractable problem of the industry in Calcutta. There are practically no sources which the small and medium units can tap for long term investible funds. At the same time for any potential borrower, short term credit is readily available from the informal market. This has triggered off a particularly vicious chain of events in the Calcutta industry. There is a growing proliferation

of tiny, crudely equipped units making poor quality leather products of which the main selling point in an extremely volatile and price elastic market is their low price. The units compete fiercely amongst themselves driving down the margins accruing to the labour, the enterprise and the trade involved in the operations. Therefore, though a very large number of people are making some kind of a living from the industry, few of them are ever likely to be in a position to accumulate any funds for upgrading their own living or their production units. In its turn the growing demand for cheap leather to be used in these low quality products keeps the existing crude tanneries in operation. They too have neither the resources nor the incentive to streamline and upgrade their production organisations.

The Calcutta leather industry then is somewhat like a house of cards where several equally fragile and outmoded segments are found propping up each other. Any major change like the imminent enforcement of antipollution laws on the tanneries can blow down this entire structure. If tanneries are forced to take antipollution measures and/or to move to a new site, the older ones will probably find it difficult to raise the necessary resources. Many of them may be forced to close down. The new tanneries that may come up in the proposed leather park on the eastern fringes of the city will have a higher cost structure if only because of the antipollution equipment required at that site.

If the costs of the tanneries and consequently the prices of the leather they supply go up, the self-employed workers making cheap leather products out of those supplies are likely to be driven out of the market for leather products. As in Madras, the competition from products of synthetic materials is a standing threat for them. How this collapse of the industry in its existing form will affect the very large numbers of traders, creditors and retailers who have been linked with it is also fraught with grave uncertainty.

Emergence of a New Industry

Even if this end of the market does collapse, the leather industry will still have bright prospects given the growing demand from foreign and domestic higher price markets. The availability of raw materials from this vast area of eastern India will no doubt attract big capital

of Indian or foreign origin to the region; and, provided the West Bengal Government can provide all the necessary infrastructural services at an early date, the proposed site for a leather park on Calcutta's fringes is likely to prove attractive to them because water, one of the most important input in tanning, is more easily available here than in many other parts of India.

The question is, will the resurrected industry provide employment to local people in significant numbers? The leather industry has often been lauded for its potential to create viable employment for rural people of low social status. And the Madras example shows that in urban areas too, it can support many small initiatives specially in the leather products business. For the realisation of both these possibilities, however, the state has to play a strong supportive role. In the rural areas, there must be effort made to start local collection and processing of hides and skins on a well-organised scientific basis. If left to the private sector, such decentralised organisation might be very slow in coming up. They would find it difficult to make the necessary contacts and arrangements at the grassroots level. And since they are now permitted to import raw hides and skins they have little incentive to undertake building such an elaborate organisation. The state Government on the other hand can utilise local agencies like the Panchayets to take up this work provided it can find the finances for equipping the local bodies with vehicles for speedy transport of the felled animals and machinery for the preliminary processing. The region does have an immense potential for such programmes which should not be allowed to go waste.

The West Bengal Government should also revive the National Tannery which at one time was very well equipped. It is now under the ownership of the former but has been lying closed for over a decade.

For urban small units making leather products, there are constraints of finding both financial capital and the necessary training for skills for treating leather and designing products. Here too public initiative to develop several institutions for providing these services cheaply and readily is of crucial importance. In Madras, the Tanners' Association as well as the offices of Export Promotion Council and Central Leather Research Institute there have provided crucial help to the industry

by locating markets, designing machines and advising entrepreneurs on technological development. The small producers in Calcutta too require such supporting institutions specially for greater provision of training facilities at several levels and for establishing channels for disseminating information about ongoing developments in the industry.

The state Industries department must try to activate the existing servicing institutions or create new ones to get this process working. Particularly, public agencies must break the barriers that exist between small entrepreneurs and formal sector credit giving institutions. Unless investible resources are made readily available for the modernisation and expansion of the capital equipment of small units, they cannot hope to operate in the kind of markets that are now emerging.

Free and unfettered operation of markets is supposed to facilitate the optimal utilization of available resources in each economy. This paper has tried to demonstrate how this can only happen when the stranglehold of many traditional institutions is broken. And for that to happen it is essential for the state to intervene in a big way at some crucial points.

Notes

1. A recent paper by Timo Nicholas Salminen, a UNIDO Consultant had dealt with one of the firm level characteristics in the leather industry particularly of the North Arcot district in Tamil Nadu.
2. The Chairman of the Council for Leather gave the following figures of the global turnover. In 1980, it was \$ 20 billion. In 1994, it had risen to \$45 billion and was expected to go up to \$ 75 billion by the end of the century. (*Statesman* 16/6/94).
3. The Madras units mostly work on orders from export houses or on job work for several large brand names like Bata making expensive quality goods. These units are organised to work within rigidly fixed time schedules and with modern machines specially for finishing their wares. The new traditional makers of cheap chappals are fast being absorbed as workers in the modern industry and the cheap end of the market that they have been serving is being taken over by footwear of synthetic materials. This section therefore has considered only the Calcutta case.

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Appendix 1

Major recommendations of various committees set up by Govt. of India

COMMITTEE	RECOMMENATIONS ACCEPTED	OBJECTIVES	REMARKS
1. The Seetharamiah Committee (1973)	<ul style="list-style-type: none"> i) A ban on export of raw hides and skins ii) Quota restrictions on export of semi-finished leather; iii) A simultaneous increase in finished leather manufacturing capacity; and iv) Comprehensive incentives for increasing finished leather exports. v) Cash Compensatory Scheme, Duty drawbacks and Import Replenishment license are the incentives given to promote exports 	<ul style="list-style-type: none"> i) To increase the employment potential for leather industry ii) To make the industry earn foreign exchange 	
2. The Kaul Committee (1979)	<ul style="list-style-type: none"> i) In order to strengthen the industry's production base, the Committee's major thrust was to encourage liberal capital goods imports; ii) It recommended the reduction of import duty to a uniform rate of 25 per cent on all tanning, finishing and leather goods machinery which were placed on OGL list. 	<p style="text-align: center;">Mechanisation of industry</p>	

3. The Pande Committee (1985)

- i) Increased raw material availability to enable the manufacture of high quality and high value added leather products;
- ii) upgrade skills and modernise technology;
- iii) make footwear the most important single item of export;

4. The Murthy Committee (1992)

- i) Dereservation and delicensing;
- ii) Promotion of joint venture in India and abroad;
- iii) Targeted investment promotion campaigns to attract fresh capital;
- iv) Creation of technical training modernisation fund;
- v) Establishing a technical education authority;
- vi) Limit import duty on capital goods; consumables and materials to 15 per cent.

To increase the share of Indian leather industry in the global market from 4 per cent to 10 per cent

The report of the Committee has been plain in its view that an enhanced share of the global market can be achieved only by intentionally curbing domestic off-take.

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