Some Aspects of Performance and Role of Modern Small Scale Enterprises in India.

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CERITIFICATE

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INTRODUCTION:

The saga of the growth and development of the small-scale sector since the dawn of independence in India, reflects, to a great extent, the sagacity and wisdom of our policy - makers who were prudent enough to synthesize the big and the small for a balanced industrial development of free India. The Indian economy completely ravaged under the colonial rule was clamouring for a new look.

In this context, the formation of the National Planning Committee (1935) by the Congress Party aimed at providing the future outlines of Indian Industrial growth after independence. At the same time, two different shades of opinion surfaced on the issue of Big vs Small. Gandhiji, though not against big industries preferred the 'bottom-up' approach, whereas Pt. Nehru was in favour of 'what was in essence, a 'Top down' strategy of economic development.

After Independence, however, an attempt was made to bring about a proper synthesis between the two i.e. Big and Small. For, it was generally felt that without a proper share to the small, problems of unemployment and abject poverty could not be tackled. Hence, the Small was the need of the hour. However, this is not to suggest that the Small was accorded the primary place in

the developmental scheme. With hindsight the balance appears to have leaned in favour of the Big.

Immediately after Independence, when the Congress Party was at the helm of affairs, the concern for the small was promptly translated into implementation albeit with a diluted commitment. To clarify, although the Khadi, a symbol of the small, was given concessions and governmental support to thrive, it was not meant to have a pivotal role in the overall developmental strategy. The role assigned to this sector during the first decade appeared more to be a tribute to the Gandhian legacy than the result of any genuine concern of the policy makers.

It was only when the Second Five Year Plan was half-way through the policy makers realised that it would not be feasible to attain the employment and poverty alleviation target as well as the expected rate of economic growth without assigning a more positive role to the Small. Consequently the Second Plan strategy provided a plan rationale and macro-economic logic to this sector. A specific role for the Small was envisaged at the official level and a set of support measures were initiated

to invigorate the sector. However, these measures appeared to be inadequate partly because of the lack of faith of the policy makers in the potentialities of small enterprises and partly due to resource constraints. It was looked upon more as a 'stop-gap' arrangement than as a permanent solution to the economic problems. Perhaps the small was taken to be a passing phase in a particular line of production.

But, the results of almost four decades of planned economic development, particularly the last two, has given the Small a distinct identity and it has acquired a definite slot for itself in the over all developmental scheme. This is clearly reflected in the growing volumes of exports; output; and employment form in this sector. In the field of employment generation this small is second to none. It has also given an impetus to the exports and the output of the small sector enjoys a fairly good share in terms of total industrial production of the country.

Inspite of the small carving out a place for itself, reflecting its growth potentialities, doubts have been expressed about its viability. Precisely because some argue in terms of per unit investment, the Small is not as productive as the Big. This controversy

revolves around the efficiency issue. Those in favour of the Big argue that even if the employment generation capacity of the Small is greater than that of the Big, it is at the cost of greater capital investment. Meaning thereby, the cost of production per unit of output is more in the Small than in the Big. To them, the viability of the small has to be proved in terms of capital investment too.

Thus, the catchword is 'efficiency' for those in favour of the big industries. Advancing their arguments further they say that the consumers shall have to pay the price for the inefficiency of the Small. For, the prices paid for the goods produced by the small is bound to be higher. To them, big industries and efficiency are synonymous. They also argue that the viability of the small sector is further reduced due to the factor of profitability. They contend that the rate of profit in big industries per unit of capital invested is much more than the Small. But the facts are to the contrary.

As a matter of fact, 'the small' is as viable as 'the big' on both accounts - techno economic as well as allocative efficiency. Rather on allocative front,

it is generally accepted that the small's contribution in bringing about equality is greater than that of the big.

In this study, it is proposed to cover the entire debate centring around the issues discussed above. An attempt has been made to discuss these issues with reference to the experiences gained in the Indian context. The available literature on the subject has been covered upto a reasonable extent. Besides, additional evidence based on the latest and relevant data (albeit aggregated) have been incorporated to the maximum extent possible.

To make it convenient, the present study has been divided into four chapters, other than this introduction and the summary. The first chapter attempts to discuss the evolution of the concept of small scale industries and the governmental measures and policies towards its treatment. The second chapter deals with the relative efficiency of the small scale enterprises as compared to the larger ones. The third chapter deals with employment, wage, and labour productivity. The fourth chapter is an attempt to bring out the relationship of small scale units with big industries. At the end, the findings of this study have been incorporated in the conclusive chapter.

To sum up, the present study has been aimed at providing some kind of spade work. The intention being to extend this work further at a higher level of study more vigorously.

C H A P T E R II

SMALL ENTERPRISES AND GOVERNMENT POLICIES

CHAPTER II

SMALL ENTERPRISES AND GOVERNMENT POLICIES

The allround development of Indian economy was the prime concern of the policy makers right from the word go in 1947. The inception of the 2nd Five Year Plan made it quite clear wherein the heavy and big industries were looked upon as the major vehicles for increasing the pace of Indian development affecting all spheres of life. At the same time, it was not to drop hints at all that the small scale industries were not meaningful. Instead, the guiding philosophy of India's Industrial policy, a balance between modern and Gandhian outlook, has always accorded the small sector its due share. For, it was always felt that without proper nourishment to the small sector a balanced development may be an elusive goal. As a result, 'the small' is allowed and assigned to play a vital role in the upward journey of the Indian economy.

To define 'the small' in industrial sector is an ardous task. It may vary from industry to industry. A firm or enterprise (used here as they are synonyms) considered small within some industries may be regarded a large in others. But the system must have a precise definition of a small scale enterprise, otherwise vagueness in concept may lead to lack of direction. Moreover the

necessity to define 'the small' also arises from the policy of extending assistance to such units to ensure its survival and growth. In other words, if the small scale enterprises have to thrive, the system must have a precise definition of the same.

There are several criterion[1] which provide basis for defining the small. The West favoured two criterion to define 'the small' - the number of employees and the size of capital-invested. We will come to this later. The size and nature of the market (i.e. the geographical coverage of product-sale) and the 'type of technology (i.e. use of power, machine etc.) are also included in defining a small unit. In 1918, the Industrial Commission[2] defined 'small scale industries' as organised industries carried on in a workshop or factory having simple operation (type of technology) with a provincial character (size of market). No wonder all traditional industries are considered to be 'small'.

The fiscal Commission[3] (1949-50) defined a small-scale enterprise as one which were operated with hired labour of usually 10 to 50 hands. This definition highlights two points. First is the number of hands i.e. the size

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1. Bolton Committee Report (1971) counts 54 criterion.
2. Govt. of India. Report of the Industrial Commission 1918. P. 160.
3. Govt. of India. Report of the Fiscal Commission 1949-50, P. 49.

of employment. The other is the 'mode of production'. Apart from these, few more criterion viz. character of ownership and management, volume of turnover etc. are taken sometimes to demarcate 'the small' from the rest.

But as mentioned earlier, the two-size of employment and size of capital - criterion are more commonly used. This is to say, that size can be measured by total employment or by using the estimates of the capital-stock or both. Some experts favoured the first one i.e. the number of total employees (workers as well as supervising personnels) to determine the size of a small unit. To them the advantage of using labour force data as the primary indicator of firm size is that it permits more direct comparison with other studies of small scale enterprise. Also, it provides a more graphic indicator of firm size than value of capital or output. Further using the number of employees as a measuring-criterion of 'the small' saves it from the vagaries of price-fluctuations, which may create problems in estimating the value of capital.

On the other hand, some researchers reject the 'total number of employee-criterion on the basis that 'this did not rule out the possibility of sick or ailing large-scale units employing only a skelton staff or new

units undergoing teething trouble being classified in the small-size group. Mehta (1969) favours a classfication by capital-size. The official definition in India too, adopted capital-size estimates to demarcate 'the small' from larger units. Let us now have a look at the process of evolution of concept for 'the small' in India since Independence.

There was no comprehensive definition accepted centrally till the mid-fifties. The First Five Year Plan observed 'it is customary to refer to industries which are not required to be registered under the Factories Act as cottage and small scale industries. There is no accepted line of distinction... and different definitions are adopted according to the object in view.'

It is only in 1955 a working definition was given by the Small Scale Industries Board, an all India body established in 1954 for over all planning, co-ordination and promotion of small scale industries in India. According to this an industrial unit employing less than 50 persons if using power and less than 100 persons without use of power and with capital assets not exceeding Rs. 5 lakhs were considered as small-scale.[1] The original

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1. Development Commissioner, Small Scale Industries, Govt. of India Small Scale Industries in India, 1968. p. 53.

price paid for the purchase of fixed assets (whether new or second hand) like land, buildings, machinery and equipment was considered as capital investment for the purposes of this definition where a concern was situated in a rented or leased premises the annual rent payable was capitalised at 8% to arrive at the total value of block assets including land and building taken on rent or lease.

With a view to enable the labour intensive enterprises employing more than 50 in more than one shift to avail of the benefits of government assistance, the ceiling imposed upon the overall employment was reduced to one shift in 1959.[1]

In 1960, the ceiling on labour was completely withdrawn, retaining the ceiling on capital investment, thereby permitting of persons employed therein to avail of the benefits of the assistance-programme.[2] Also in the same year, on the recommendations of the Working Group of the Third Five Year Plan, an additional criteria for the small-scale sector was adopted which accommodated units supplying their products to large-scale manufacturers'. It was recommended that in this interest of "developing viable ancillary units, a relaxation of Rs. 5 lakhs limit in fixed capital may be made in respect

1. Ibid.
2. Ibid.

of such small scale units which are supplying parts and components to certain specified large scale industries. The Group felt that a limit of Rs. 10 lakhs should be adopted (and it was adopted) for this purpose. This additional Rs. 5 lakhs slab included both types (by size) of units - ancillaries, which are clubbed together with small-scale units and the non-ancillaries which were regarded as large units.

The need for introducing the latest technology, in small scale sector to improve its competitive strength and the growing increase in the cost of imported machinery necessitated a change in the definition of small-scale industries. A revised definition of small-scale industries was consequently adopted in 1966. According to this definition, an industrial unit with a capital investment of not more than Rs. 7.5 lakhs in plant and machinery is considered as a small scale unit. It should be noted here that the cost of land and buildings were excluded from the ceiling on capital-investment. In calculating this value of plant and machinery the original price-paid by the owner (whether new or second hand) is taken into account. For ancillaries, the maximum limit for investment in plant and machinery remained fixed at Rs. 10 lakhs.[1]

Again, on the recommendations of the Small-Scale Industries Board, in May 1971, the investment limit in plant and machinery was raised from Rs. 7.5 lakhs to Rs. 10 lakhs for small-scale units and from Rs. 10 lakhs to Rs. 15 lakhs for ancillaries.

In 1977, there was a change in the government at the Centre. A new concept was introduced within the definition of small scale units. The statement on Industrial Policy, 1977 divided the small sector into two parts. All small scale units having less than Rs. 1.00 lakh investment and located outside the metropolitan areas were defined as 'tiny units'.

Further, in August 80, the qualifying limits were raised all round. The investment limit for the tiny sector was raised from Rs. 1.00 lakh to Rs. 2.00 lakhs; for small scale units from Rs. 10 lakhs to Rs. 20 lakhs; and for ancillaries to Rs. 25 lakhs instead of Rs. 15 lakhs. Another revision took place in March 85. The Government revised investment limit from Rs. 20 lakhs to Rs. 25 lakhs and for ancillary units from Rs. 25 lakhs to Rs. 45 lakhs. Investment will imply investment in fixed assets in plant and machinery, whether held on ownership basis or on lease under big hire-purchase. This will, however, be subject to the condition that such an undertaking shall not be a subsidiary of or owned or controlled by any other undertaking.

The Case for Small Scale Industry:

Many arguments have been advanced in support of the small-scale sector which are in part idealistic, in part relief-oriented, and in part economic.

The idealistic school pleads for the revival and promotion of cottage and small industries as a part of its general programmes of reorganising the entire socio-economic structure on a 'decentralised basis, more or less on the old "village community, ideal. Even before Independence in 1947, India's political leadership had begun to show concern for the decline of handicraft and the consequent plight of artisans in rural India. In 1902, the Indian National Congress identified the decline of indigenous arts and manufacturers as one of the reasons for the poverty of the people and resolved that "practical steps in the shape of state encouragement be taken for the revival and development of indigenous arts and manufacturers and for introduction of new industries.[1] The National Planning Committee[2](1945-49) resolved that, '.... manufacture of clothing, processing of food articles for the pursuit of which the people are equipped by long tradition, which engage large employment to much larger numbers should be organised and developed by the state, as cottage or rural industries'.

But the analysis of those days cannot be the basis of today's strategy. In fact, return to the past with

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1. Goyal, S.K., K.S. Chalpati Rao & Nagesh Kumar (1984): Small Scale Sector and Big Business, IIPA, New Delhi.

2. Ibid. P. 2

its minimum needs and low levels of living may well be held to be impossible when material expectations of the people are rising and demonstration effects from abroad are making their dent on levels of living and methods of production.

The case for 'the small' is advocated on additional grounds as well. These have been briefly summarised in the Industrial Policy Resolution of 1956. It states: 'they provide immediate large-scale employment, they offer a method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilisation of resources of capital and still which might otherwise remain unutilised. Some of the problems that unplanned urbanisation tends to create will be avoided by the establishment of small centres of industrial production all over the country."[1] The Industrial Policy Resolution therefore puts forth four arguments in favour of small enterprises of the employment argument, the equality argument, the latent resource argument and the decentralisation argument.

The employment argument is based upon the assumption that small enterprises are labour-intensive and this

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1. Govt. of India (1956) Industrial Policy Resolutions.

create more employment per unit of capital employed. Thus it is argued that barring capital goods industries and the building up of social and economic infrastructure where capital intensive projects are a necessity, in other spheres of production small enterprises which help to enlarge the volume of employment with scarce capital should be encouraged. This is perhaps the strongest argument advanced in favour of small-scale enterprises. We will discuss it in length in a separate chapter.

The equality argument suggests that the income generated in a large number of small enterprises is dispersed more widely in the community than income generated in a few large enterprises. In other words, the income benefit of small enterprises is derived by a large population while large enterprises encourage more concentration of economic power. In this way, small enterprises bring about greater equality of income distribution.

Another argument viz. the latent resource argument suggests that small enterprises are able to tap latent resources like hoarded wealth, entrepreneurial ability etc. In other words, it provides opportunities for generation of new entrepreneurs on the one hand and mobilise small capital resources on the other. It is assured that overall quantum of such resources is large, when seen in a national framework but are not adequate for the establishment of large Industrial units.

The fourth argument-the decentralisation argument impresses upon the necessity of regional dispersal of industries. Large enterprises are mostly concentrated in metropolitan cities. It is assumed that smaller enterprises are 'foot loose industries' and hence amenable to dispersal.

On the basis of these assumptions (arguments) a whole catelogue of objectives was listed[1]-

(a) to create immediate employment opportunities with relatively less investment;

b) to meet a substantial part of the increased and diversified demand for consumer goods and simple producer goods; size wise deconcentration; anti-monopoly

c) to facilitate mobilisation of resources of capital and skills which may otherwise remain unutilised;

d) to help raise levels of earnings and standards of living of a large number of artisans, craftsman and entrepreneurs;

e) to remove regional disparities through a deliberate policy and encourage industrial growth in villages and small towns. region-wise decone.

SSE and State : Policy, Plans and Measures:

To fulfil the objective of a balanced and sustained development in the small-sector the state adopted measures

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1. Vepa Ramakrishna : (1983) Small Industry Development Programme, IIPA, New Delhi.

as enunciated in the industrial policy resolutions and successive five year plans. Protection and promotion of small industry has all along been listed as a major objective in all of the industrial policy documents (see extracts from different Industrial Policy Resolutions/Statements in Appendix).

The policy-measures in support of small-sector can be broadly categorised under following heads:

Reservation of Industries:

Reservation of areas of priority for exclusive manufacture in the small-scale sector is one of the important protective measures of the Government to assist SSI-units. Entry of large-medium scale units is prohibited in reserved areas except on condition that the unit concerned would export a minimum of 75 percent of its total production. The reservation policy is kept under constant review and items are added (or deleted) from the list depending upon the emerging situation. For this purpose, the Government has constituted an Advisory Committee on Reservation under the Industries (Development and Regulation) Act, 1951. Initiated in 1967 with 47 items, as many as 863 items[1] are now reserved for the small sector.

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1. Economic Survey, 1987-88.

The consideration for reservation of an item is its suitability and feasibility for being made in the small-scale sector without compromising on quality aspects. The Advisory Committee takes into account as it claims the nature of article; the level of employment likely to be generated by its production; the possibility of encouraging and diffusing entrepreneurship in the industry; the prevention of concentration of economic power etc. There seems, however to be a large element of adhocism in the official policy. A scrutiny of the lists of items shows that there were no common technological, production or market characteristics among the items reserved. For instance, one finds 'table fans' as reserved item but not ceiling and other varieties of fans including railway carriage fans, seventy five per cent of whose requirements of the Government have to be purchased from the small-scale enterprises. The technologies involved for manufacture of different types of fans are not very different. Similarly, in case of bicycle, while parts are reserved for small-enterprises, the main item itself is not reserved. Also, one rationale for promotion of the small scale enterprises was that these would have no dependence on imported or other scarce resources, the reservation list could have included a good number of such industrial products.[1]

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1. Goyal S.K., et al. (1984), op.cit. p. 74.

Preferential Government Purchases:

It is made compulsory for various government departments and agencies to buy their requirements of a number of items from the constituents of the small scale sector. At the end of 1985, there were 409 items[1] for which purchases were to be made only from the small-scale sector. Besides 13 items have been reserved for purchase upto 75 percent and 28 items upto 50 percent of total requirements. In addition to that price preference to this extent of 15 percent is allowed to small scale enterprises in the case of items purchased both from the small and large scale enterprises. An additional price preference at varying rates by different states[2] is also given in respect of State Government purchases.

Fiscal Concessions:

"The Small" receives fiscal concessions in the form of complete or partial exemption from excise duties. For instance small scale enterprises producing seventy two items.[3] specified by the Central Government are exempted from excise duty on their first Rs. 5 lakhs of ex-factory

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1. DCSSI, SIDO - Annual Report.
2. See Tulsi S.K. (1980) : Incentives for Small Scale Industries: An Evaluation.
   U.P. - 5%; A.P.-5%; Orissa-3%, etc.,
3. Vide Notification No. 71/78 dated 1st March, 1978.

value of output provided that the total clearance in the previous financial year did not exceed the limit of Rs. 15 lakhs. In this case of the production is restricted to 80% of the exemption limit, the units are totally free from Central-excise licensing control.

Further, in the case of non-specified items the exemption is on first Rs. 15 lakhs of the ex-factory value of output if the total clearance in the previous financial year did not exceed Rs. 30 lakhs and on the rest Rs. 15 lakhs the duty is at a rate of 4 per cent.

Apart from this concession provided by the Central Government, different states have given several kind of duty exemption to the small., viz. Power subsidy, electricity duty exemption, sales tax subsidy, Octroi exemption, water concessions etc. At margin, it is found that the total incentives/subsidies that accrue to 'the small' has been quite substantial ranging from 70.3% of the ex-factory value of the output of cosmetics and toilet preprations to 32.5% in industrial gases. However the researcher[1] rightly warns that this percentage represents the maximum to which the industry is eligible; in practice the value of incentives availed of may be smaller.

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1. Tulsi, S.K., Incentives for Small Scale Industries - An Evaluation, Delhi, pp. 97-8.

Financial Assistance:

As a policy, public sector financial institutions and banks provide finance to 'the small' at concessional rates and that too on priority basis. State Financial Corporations (SFCs) are authorised to provide both risk capital and long, medium and short term loans on liberal terms. A quick run through down the time series data (howsoever defective) gives us an impression of growing financial assistance to small sector in real terms.

Assistance Sanctioned to Small-Scale Enterprises by SFCs.

Year	Total	SSEs	Percentage (Rs. in crores)
1980-81	370.5 (28915)	273.6 (28466)	73.8 (98.4)
1981-82	509.6 (32048)	409.3 (31461)	80.3 (98.2)
1982-83	611.6 (33425)	512.3 (32757)	83.8 (98.0)
1983-84	644.9 (30688)	517.7 (29480)	80.3 (96.1)
1984-85	743.1 (30716)	618.6 (28993)	83.2 (94.4)
1985-86	1008.8 (28570)	829.6 (27387)	82.2 (95.9)

Note: Figures in brackets relate to number of units assisted.

Table 2

Assistance sanctioned by IDBS to SSEs (1964-65 to 1985-86)

Year (ending June)	Total Assistance to SSEs by Refinance & Bills Rediscounting	Aggregate Assistance by IDBI*	Share of SSEs in total assistance by IDBI (%)	No. of SSEs assisted	Average per Unit Refinance Assistance to SSEs (number)
	Rs. Crores	Rs. Crores			
1964-65 to 1969-70	9.4	298.9	3.2	1012	92885
1970-71 to 1975-76	220.4	1150.3	19.2	19042	115744
1976-77 to 1981-82	2039.0	6300.0	32.4	225492	90424
1982-83 to 1985-86	3419.9	11715.1	29.19	283123	120792

* Comprising direct assistance, refinance of Industrial Loans and bills rediscounting assistance.

Source: Compiled from Table 3.3 Annual Report IDBI 1983-84 and Table 5.1 IDBI Annual Report 85-86.

Table 3

Supply of credit to Industrial Sector by Scheduled Commercial Banks (Rs. crores)

		June'80	June'81	June'82	June'83	June'84	June'85	March'86
1.	Total Bank Credit (including food credit)	21312	25888	29775	35489	42882	50,369	55211
2.	Total Outstanding bank credit to all Industries	10236 (48)	13389 (51.8)	15122 (50.79)	17880 (50.38)	20517 (47.85)	23339 (46.32)	26987 (48.88)
3.	Outstanding Credit to Medium and Large Industries	7702 (36.1)	9983 (38.6)	11213 (37.66)	13394 (37.74)	14767 (34.44)	16374 (32.51)	19179 (34.74)
4.	Outstanding Credit to SSEs.	2534 (11.9)	3406 (13.2)	3909 (13.13)	4486 (12.64)	5750 (13.41)	6956 (13.81)	7808 (14.14)

Note: Figures in brackets indicate percentage to total.

Source: FICCI Occasional Paper. August 26, 1987.

The State governments also provide interest subsidy on seed capital. Ten percent of the seed capital is made available by the Punjab government as soft loan at 8% of interest provided 80% of the loan is from commercial banks and 10% is promoter's capital.

Similarly, in Uttar Pradesh, such provision is applicable to engineering entrepreneurs trained under entreprenurship training scheme. The difference between the rate of 7% per annum and the normal rate of interest charged on the loans advanced by financial institutions is the quantum of subsidy provided, restricted to Rs. 20,000 per annum.

Infrastructural Facilities and Other Promotional Measures:

Several other steps viz. extension of technical services, management development and consultancy services etc. are undertaken to ensure that 'the small' acquires sufficient vitality to be self supporting.

In 1954, Small Industries Development Organisation (SIDO) was set up to function as an apex body concerned with planning the policy and co-ordinating the Institutional activities both at the Central and State levels for implementing programmes for development of small enterprises. The SIDO functions through a network of 25 Small Industries Service Institutes, 20 branch Institutes, 41 extension centres,

4 regional testing centres, one tool room and training centre, two training centres and five production centres.

Besides, it has five allied institutions, namely, the National Small Industries Corporation (NSSC), Central Institute of Tool Design (CITD), Tool Room and Training Centre, Institute for Design of Electrical, Measuring Instruments (IDEMI) and Small Industry Extension and Training Institute (SIETI).

To name few state level agencies one may mention Directorate of Industries, State Industries Development Corporations (SIDCs) and District Industries Centres (DICs). These organisations/agencies provide comprehensive range of extension services ranging from selection of suitable line of production to sale of the final products.

Another vital organ in the developmental programmes for small scale enterprises is establishment of Industrial Estates. The Industrial estates programme in India was started in 1955,[1] to encourage and support creation expansion and modernisation of small scale industries through provision of factory accommodation, common services facilities and assistance and servicing throughout all stages of establishment and operation. It is considered as an ideal tool for

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1. The first two industrial estates were established - one at Okhla (New Delhi) and other at Naini (Allahabad, U.P) - at the initiative of Central Government.

integrated development of industries as it facilitates better guidance to units; ensures healthy condition of work; provides opportunity to make use of each other's services etc. From financial angle, this programme has several advantages including economy in the use of land development, construction of sheds, provisions of water and power facilities. But it was found that on the whole, the industrial estates had not been great success. They had not achieved many of the objectives for which they are intended.[1] Such limited success (and for that matter partial failure) of Industrial estates in India can be attributed to several factors. They were not properly co-ordinated with the broader development programmes. The secondary growth-effects were not given their due considerations at the time of planning. At times, the techno-economic considerations were thoroughly neglected. The costs of construction were unduly high. Also the estates suffer from locational problem.

Thus we find that a wide variety of assistance-programmes have been launched to protect, promote and sustain 'the small sector' in India. In ensuing chapter we discuss the impact of these programmes in the context of comparing the efficiency and profitability aspects of 'the small vis-a-vis the large enterprises.'

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1. See. N. Somasekhara, (1975) The Efficacy of Industrial Estates in India, Delhi. Oommen, M.A. (1972), Small Industry in Indian Economic Growth - A Case Study of Kerala, Delhi. p. 190. Sanghi, R.L. (1979): Role of Industrial Estate in a Developing Economy, Bombay.

Appendix 1

Extracts from the Industrial Policy Resolutions/ Statements relating to Small and Cottage Industry.

1948 Resolution:

"Cottage and Small Scale Industries have a very important role in the national economy, offering as they do scope for individual, village or co-operative enterprise and means for the rehabilitation of displaced persons. These industries are particularly suited for the better utilisation of local resources and for the achievement of local self-sufficiency in respect of certain types of essential consumer goods like food, cloth and agricultural implements. The healthy expansion of cottage and small scale industries depends upon a number of factors like the provision of raw materials, cheap power, technical advice, organised marketing of their produce, and where necessary safeguards against intensive competition by large scale manufacture, as well as on the education of the worker in the use of the best available technique."

1956 Resolution:

"The Government of India would, in this context, stress the role of cottage and village and small-scale industries in the development of the national economy. In relation to some of the problems that need urgent

solutions, they offer some distinct advantages. They provide immediate large scale employment; they offer a method of ensuring a mere equitable distribution of the national income and they facilitate an effect mobilisation of resources of capital and skill which might otherwise remain unutilised. Some of the problems that unplanned urbanisation tends to create will be avoided by the establishment of small centres of industrial production all over the country.

The state has been following a policy of supporting cottage and village and small scale industries by restricting the volume of production in the large scale sector by differential taxation or by direct subsidies. While such measures will continue to be taken, whenever necessary, the aim of the state policy will be to ensure that the decentralised sector acquires sufficient vitality to be self-supporting and its development is integrated with that of large scale industry."

1977 Statement:

The importance of small-sector was further emphasised in the 1977 policy statement during Janta rule.

"The emphasis of industrial policy so far has been mainly on large industries neglecting cottage industries completely relegating small industries to a minor role. It is the firm policy of this Government to change this approach.

The main thrust of the new Industrial Policy will be on effective promotion of cottage and small-scale industries widely dispersed in rural areas and small towns. It is the policy of the Government that whatever can be produced by small and cottage industries must only be so produced."

1980 Statement:

"It will be government's endeavour to reverse the trends of the last three years towards creating artificial divisions between small and large scale industry under the misconception that these interests are essentially conflicting. While making all efforts towards integrated industrial development, it is proposed to promote the concept of economic federalism with the setting up of a few nucleus plants, in each district identified as industrially backward, to generate as many ancillaries and small and cottage units as possible.

A nucleus plant would concentrate on assembling the produce of the ancillary units falling within its orbit on producing the inputs needed by a large number of smaller units and making adequate marketing arrangements. .....The nucleus plants would also work for upgrading the technology of small units. Small is beautiful only if it is growing just as the phased manufacturing programme with a view to reducing reliance on imported

components and materials played an important role in diversifying our industrial structure, a carefully worked out time bound programme for greater ancillarisation in certain industries will contribute considerably towards dispersal of industry and growth of entrepreneurship.

The proposed nucleus plants in industrially backward districts would generate a spread-out network of small scale units or existing network of small scale units in an area would acquire a faster growth by the coming up of a nucleus plant in this area. Such a two-way traffic would create an ancillarisation effect in terms of larger employment, more equitable distribution of the benefits of such an industrialisation in the shape of higher per capita income for the larger number of people of area.

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C H A P T E R III

RELATIVE EFFICIENCY OF THE SMALL

CHAPTER III

RELATIVE EFFICIENCY OF THE SMALL

This chapter examines the efficiency aspect of small scale industries[1] in India. The first section presents a brief review of the earlier studies on the relative efficiency of small industries in India. Estimates on efficiency based on some recent data are presented in the next section and the results of analysis are discussed thereon. The main findings of this study are summarised in the last section.

Review of earlier Studies:

There has been a long debate in the country in regard to the role of and efficiency in the use of limited resources by the small scale enterprises in comparison to their large scale counterparts. A number of studies[2] on the relative efficiency and labour intensity of the large and small scale enterprises available.

Dhar and Lydall (1961) compared the output-capital ratios for a number of reasonably homogenous industry groups each depicting size variations. They concluded that "for factories which employ 20 or more

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1. Within factory sector, as entire discussion is based upon ASI-data.

2. Dhar and Lydall (1961), Sandesara(1966), Mehta(1969) Sandesara (1969), Pillai (1976), Nagraj (1985) Goldar (1985), IBRD (1985) etc.

persons, output-capital ratios increase with the size of the unit. Compared to unregistered small scale enterprises also, the relative position of modern small enterprises was noticed to be unfavourable. It was found that for enterprises employing less than 20 workers the capital-output ratio was generally more favourable than those immediate above them, but not necessarily more favourable than large enterprises. Thus Dhar and Lydall found small scale units, using modern machinery and hiring upto 50 workers to be the most capital intensive type of enterprises.

In contrast to Dhar and Lydall's study at a point of time, J.C. Sandesara studied the scale and efficiency correlates over time 1953-58 and covered more industries (28) and efficiency paramters. He examined the relationship between size and capital intensity (capital-labour ratio) and also between size and other economic characteristics like output/wages per worker and output/surplus per unit of capital. This revealed a lack of positive association between size and capital-intensity, but size and output capital ratio, size and surplus - capital ratio and size and wage rate were seen to be positively associated and this provided further evidence supporting the conclusions earlier reached by Dhar and Lydall.

In both the studies, size variations were measured by employment units. However, it was challenged by

by B.V. Mehta (1969), 'for this did not rule out the possibility of sick or ailing large-scale units employing only a skeleton staff, and new units undergoing teething troubles, being classified in the small size group'. Mehta examined capital labour, output-labor and output-capital ratios for three size classes (small-fixed capital upto Rs. 5 lakhs; medium over Rs. 5 lakh but not exceeding 25 lakhs; large : over Rs. 25 lakhs) covering 32 industries. He found that a in almost all industries, capital-labor ratio increased with size. Labour productivity was also generally found to increase with size but not in the same proportion as capital intensity and as a natural corollary, output capital ratio was noticed to decrease with size.

In reply, Sandesara (1969) compared for 1963 enterprises the sample sector with the small enterprises of the Census Sector of the Annual Survey of Industries (ASI). This is a comparison of factories with 10-49 employees with those with 50 plus (or over 100) with less than Rs. 5 lakhs of fixed capital. In 19 out of 30 industries the sample sector was more capital intensive. Capital productivity was lower for the sample sector than the small census sector in 24 out of 30 cases and lower than the medium census sector in 12 cases.

The conflict between the findings of Mehta and that of Dhar-Lydall and Sandesara is something baffling. This cannot be attributed to difference in the time period covered. The difference in findings may partly be explained by the fact that while Dhar and Lydall, and Sandesara used total productive capital (fixed plus working capital) for measuring capital input, Mehta used fixed capital alone. Since the ratio of working capital to fixed capital is high in small scale units, efficiency comparisons based on productive capital disfavour small scale units.[1]

But, still another question remains unresolved whether the two different criterions of size determination (i.e. employment and capital-investment) lead to conflicting results on scale and efficiency. Pillai[2] tried to resolve this conflict by comparing inter-scale efficiency by both definitions of size of units; one in terms of employment and other in terms of capital. He comes to the conclusion that where size is defined by employment, the output-capital ratio, as well as output labour ratios shows an increasing trend with size. And capital-labor ratio i.e. capital intensity decreases with size by employment. These results are in agreement with those of Dhar and Lydall.

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1. Goldar, B.N. (1985) : Relative Efficiency of Modern Small Scale Industries in India in K.B. Suri, op.cit.,

2. Pillai, P.P. (1978) Scale and Efficiency of Small Scale Industries in India, Asian Economic Review April 8.

On the other hand, where size variation is defined in terms of capital, one notices that as size of the unit increases, output-capital ratio decreases; whereas the output-labor ratio and the capital labor ratio increases. These conclusions compare well with those by Mehta (1969)., who defines the size variation on the basis of capital.

This confirms that criterion to define the size of a unit has a role, in scale - efficiency comparison. IBRD team (1985),[1] also endorses this view when it writes; 'A very clear lesson is that firms behave in the theoretically expected manner much better if they are arranged in order to capital size, than if they are arranged in order to employment size. We have already had a hint of this proposition in the case of Japan.'

On the basis of RBIs sample survey[2] of small scale industrial units conducted during 1976-77, Nagraj[3](1985) shows 'the firms be having in the theoretically expected manner'. According to this study the efficiency of use of capital is much higher in the small scale sector. The capital efficiency ratios, namely, value added in manufacture as percentage of net fixed assets and net sales as percentage

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1. Little, Majumdar and Page (1988) : Small Manufacturing Enterprises: A Comparative Study of India and other countries, New York, Oxford University Press.

2. Reserve Bank of India (1979 & 1980) : Survey of Small Scale Industrial Units, 1977, Vol. 1 & II.

3. Nagraj R. (1985) : Some Aspects of Small Scale Industries in India : Finding Based on Two All-India Sample Surveys, EPW, Oct.

of net fixed assets clearly shows that the smaller units use capital resources more efficiently. Further, the correlation between variation in productivity and fixed capital per worker is positive and significant (0.5). The other important finding is that the profitability of the small scale enterprises is much higher than that of corporate sector.

But the principal short coming of the sample survey upon which this study is based, is its coverage. It is confined only to those small enterprises assisted by the commercial banks. It leaves out two other categories of small units (i) registered small units not receiving bank credit, and (ii) the unregistered units. Therefore, one cannot generalise the results of the survey for all the small units in the country.

In another study, Goldar (1985) finds small scale enterprises relatively inefficient compared to large scale units. His estimates are drawn from the data of RBIs sample survey for small-scale industrial units. This survey was confined to small scale industrial units assisted by banks. Data on large scale industry have been drawn from census sector results of the ASI for 1976-77 which has the same reference period as the RBI survey. The efficiency comparisons are made here for thirty-seven three digit industries of the National Industrial Classification (NIC). It is seen that relative labour productivity

is less than unity i.e, labour productivity in small scale units is less than that in large scale units, in all industries but one. On the other hand, relative capital productivity in small-scale units exceeds than in the large scale units in twenty two industries (out of thirty seven) if gross invested capital is used and in fifteen industries if net invested capital is used. Also relative capital productivity exceeds relative labour productivity, i.e. capital per employee in large scale units is higher than that in small scale units, in almost all cases. It may be inferred from the estimates of relative productivities that while labour productivity and the capital-labour ratio are generally higher in large scale units, the same is not true about capital productivity. In a large number of industries capital productivity is higher in small scale units.

Goldar advances his argument further by calculating the relative efficiency index[1] and found it less than unity in almost all cases. In series A, based on gross invested capital, the index is less than unity in thirty four (out of thirty seven) industries and less than 0.8 in twenty six. In series B, based on net invested capital the Index is less than unity in thirty five industries and less than 0.8 in twenty-seven. On the basis of these,

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1. See Goldar (1985) : Op.cit., p. 104. The relative efficiency index (a ratio of total factor productivities in small and large scale units) is computed as a weighted average of relative labour and capital productivities. Let LP denote labour producitivity, KP capital productivity, and 'a' and 'b' the income shares of labor and capital. Also let L and S be the subscripts for large and small scale respectively. Then the index of relative efficiency, denoted by E may be computed as

   $\log E = a \log (LPs/LPl) + b \log (KPs/KPl)$

   where $a = 1/2 (a_L + a_S)$ $b = 1/2 (b_L + b_S)$

   and $a + b = 1$

estimates of relative efficiency it may be inferred that small scale units are relatively inefficient in a fairly large part of the industries covered here, if not in most of them.[1] Further comparing material productivity between large and small scale units, he finds that small scale units are less efficient in the use of materials in almost all (thirty five out of thirty-seven) industries.

But the analysis is plagued with several limitations, Goldar himself counted them.[2] The most severe limitation of the analysis is related with a crucial assumption. That the relative efficiency index is based upon the assumption of competitive equilibrium which is not tenable in Indian factor market conditions.

Another such study was taken up by an IBRD Team.[3] It is based on field survey of four industries (not randomly selected) - shoe manufacturing, soap manufacturing machine tool manufacturing and metal casting, industry. But this is more about factor-intensity aspect and we will discuss it in the ensuing chapter.

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1. Ibid. p. 109.
2. Ibid. P. 109.
3. Little, Goldar and Page (1988), op.cit.

Present Study:

The present study is based on the ASI data. On the basis of the latest available data for factory sector (census plus samples) for twelve years period i.e from 1973-74 to 1984-85, an attempt has been made to compare the relative efficiency of small scale enterprises with their larger counterparts.

The ASI-summary results for factory sector include one table which presents the principal characteristics at the All-India - all Industries level of factories.[1] in different capital[2] ranges and helps in segregating the data relating to small scale factories. This table, however, includes several factories as 'unspecified'. Information on the gross value of plant and machinery is not available in these cases as the factory has either not provided the information or has no plant and machinery. Although the average investment in fixed assets on this category is seem to be in few thousands (i.e. quite low), we did not club them along with 'the small' because this by itself cannot lead one to the conclusion that all of them may be small units.

We separated 'the small' from the rest as per the official definitions. However the frequent changes in

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1. Registered factory is one which is registered under sections 2m(i) and 2m(ii) of the Factories Act 1948. This includes all manufacturing units where more than 10 workers (with power) or more than 20 workers (without power) are working.

2. Capital means gross value of plant and machinery.

definition (see chapter two) make the temporal comparison difficult to interpret. We, therefore, divided the entire twelve years period into four sub-periods. Sub-period I includes two years i.e. 1973-74 and 1974-75, here the capital size ceiling is Rs. 7.5 lakhs. The second sub-periods covers four ensuing years i.e. 1975-76, to 1978-79, here the definitional limit is Rs. 10 lakhs. Sub-periods III includes two years 1979-80 and 1980-81 as per definitional limit of Rs. 20 lakhs. In the last sub-period-IV the next four years 1981-82 to 1984-85 are covered. Here for the first time, it would be possible to cover ancillaries too, upto Rs. 25 lakhs investment ceiling in fixed-assets. Because of this there is some marginal overlap between the two categories (small and large) but this should pose no serious problem in efficiency comparison. We could not include all ancillaries into 'the small' in earlier three sub-periods as the ASI-size classification does not allow us to do so.

The statistical data contained in the tables appended to this chapter relate to a few major heads of information namely fixed capital, employment, output, value added etc. besides the distribution of factories. We compared the efficiency levels of small-scale and large-scale enterprises through the inter-relationship between capital, labour, output and value added. As far as the concept of efficiency is concerned we confine ourselves to 'static relative efficiency comparsions in terms of the observed (scale specific) productivity indices.

Before proceeding further, it is necessary to stress upon the limitations of the analysis to be presented. We are quite aware of the limitations which our data-base and/or methodology adopted here suffers from.

The first limitation is that ASI covers only factory sector registered under factories Act 1948. It leaves a sizeable portion of the modern small scale sector outside the perview of this study. Also the factories that employ less than 50 persons with power or less than 100 without power are not enumerated on census basis.

Further, geographical coverage of the ASI also changed from time to time. But this is not likely to affect this study much as it is primarily based on the trend in relative ratios. The numerator and denominator are likely to be affected in the same direction by the exclusion or inclusion of particular areas.

The frequent changes in definition of 'the small' makes the temporal as well as inter- temporal comparisons difficult to interpret. Due to periodical enhancement of capital size ceiling, the factories which were not included earlier under small sector became eligible suddenly.

Moreover, there is every possibility of under reporting of various variables. The accuracy of figures

varies according to the type of data considered.[1] As a rough rule of thumb, those figures are less likely to be accurate which are not easily cross-checked by banks or Income tax officers during book inspection. For example, industries with considerable casual employment are more likely to under-report labour payments, than those with regular employment patterns-because it is hard to check their recorded pay rolls. Small scale units are particularly likely to have casual employment patterns.

Similarly, raw materials, inputs and miscellaneous services are the area in which the grossest mis-representations are likely in connection with the fictitious manipulation of stock. They may be mis-reported for reasons of tax avoidance.

Further, plant and equipment values present problems not because of misreporting but because of the distorted way tax considerations force their recording. To be precise, Timberg writes, the replacement values of machinery in a world of rising machinery prices may be far above the book-value. The book value will be depreciated every year at the maximum the Income-tax authorities allow. Further the nominal purchase price of real property is likely to be a variable fraction of the actual and rent controlled property's real value to the renter includes an informal equity - usually covered by a black premium or

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1. Thomas T. 1977 Small Scale Industry - Survey Data; A Note EPW P. 1478.

pagri when it is vacated. Neither of these values is likely to be recorded in the books, but both are important real elements in the firm's capital structure.

Thus, Timberg shows several complexities in date collection related particularly to a small scale unit.

Table A-I and Table A-2 provide the base of this study. As mentioned earlier the size of 'the small' is taken as per the official definition. All factories below the definitional capital-size ceiling for 'the small' are added to give us the size of the small sector. Rest excluding unspecified are considered as 'the large'.

Table 3-1 shows that more than 80% of the factories are small scale (for sub-period-IV) but in aggregate these factories own around 6% of the fixed capital of all factories combined, employ about 32% of the total employees produces 21% of gross output and contribute even lesser percentage, 16.35% to be precise, to value added by manufacture. In contrast large-scale factories own together around 93% of the fixed capital of the manufacturing sector, employing about 64% of the factory workers, producing 76% of the total factory output and contributing even a larger percentage - almost 82% - in terms of value added by manufacture.

The relative importance of the size of the factories can be seen from Table 3-2. It shows a fairly close association between the asset size on the one hand and employment and output on the other. The larger the factory

in terms of fixed assets, the more workers it employes, the more output (in money terms) it produces and adds more in terms of value added. But this cannot be interpreted to indicate that a large size factory essentially is more efficient. For instance, in sub-period IV, the average large scale factory takes 167 times as much capital as a small scale factory but employs only 19 times more persons to produce 36 times more output and 48 times more value-added compared to a small scale factory. We find similar type of result for the earlier three sub-periods. For example, in sub. period I, the average large scale factory requires 119 times more capital and employs only 16 times more labour force to produce around 26 times more output and to add 42 times more value added. Similar trend continues to be observed for the sub-period II and III also. If we assume that the price-rise affected fixed assets, output and value added in the same direction and proportion, then an inference can be drawn that the gap between large and small as far as capital-requirement is concerned is far more greater than that (i.e. gap) on production (output) side.

To examine the efficiency in the use of capital and labour one can recast the data in Table A-1 in terms of output per worker and output per lakh rupees worth of

capital for the two types of factories. Table 3-3 shows capital, output and value added per employee and Table 3-4 gives figures on employment, output and value added per lakh rupees worth of fixed capital. Table 3-3 shows that in sub-period IV an average worker in a large scale factory worked with fixed capital worth Rs. 101210 or more than nine times those available to a worker in a small factory, and contributed Rs. 33640 to value added (a rough measure of labour productivity) or more than twice (to be precise 2.47 times) that of a small factory employee. Clearly, the average worker in the large factory needed nine times as much fixed capital to be only two and a half times as productive as his counterpart in 'the small'.

In sub-period I (i.e. 1973-74 and 1974-75) the average worker in the large factory needed seven times as much capital to be only 2.7 times as productive as an average employee in the small factory.

This trend is maintained with little fluctuations in the next two sub periods (i.e. II and III) where an average employee of the large-factory works with respectively 9 and 7 times more capital to contribute only 3 and 2.38 times more in value-added as compared to a an average employee in the small-scale factory.

On the basis of these estimates it may be inferred that large-size units is using scarce capital resources less efficiently as it requires much more capital-investment to make the average-employee more productive upto certain stipulated degree.

Further Table 3-4, after recasting the data from Table A.I provides us average labour-capital ratio (a rough measure of the factor intensity) and, output and value added per lakh rupees worth of fixed capital. It shows, taking up the sub period IV at first, that the small-size factory combines larger number of employees, around 8.61 persons with one lakh rupees worth of fixed capital. The table gives us an idea about capital productivity also. That one lakh rupee's worth of fixed capital produces almost 4.7 times an output in small factories compared to large ones. Similarly, it also indicates that the value added by one lakh rupee's worth of capital in small factories is almost three times as large as that for a large factory.

This implies that capital is more productive in small-scale unit than its larger counterpart. In other three sub-periods also the high productivity level of capital in small factory vis-a-vis a large - one is maintained. On the basis of above analysis it may be inferred that capital is more efficient when it is commissioned in a small factory.

As far as the profitability[1] is concerned the small-scale factories are distinctly in a favourable position vis-a-vis large factories. The rate of profit in a typical large size factory works out around 13% in sub-period-IV, while the corresponding rate in 'the small' is more than twice i.e. slightly over 28%. For earlier three sub-periods too, 'the small' remained more profitable vis-a-vis large factory. The configurations go as 26: 14:5 for sub-period-1, 28.5: 13.25 for sub-periods II and 29: 12.5 for sub-period III.

The over all findings of the above analysis may be summarised as follows: (a) that the small sized factories are more labour intensive; (b) that the capital is more efficient and productive in a typical small-sized factory; and (c) that the rate of profit in a small-sized factory is more as compared to a larger one. These results are quite striking. But caution[2] must be exercised in jumping to any conclusion from such analysis. For such a conlusion disregards important factors which can explain the results in a way more meaningful for policy that suggested by mere comparison of the ratios.

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1. Calculated as $\pi = \frac{\text{Value added - total emoluments}}{\text{Productive Capital}}$
Profitability is gross of interest for which suitable figures are not available. It might perhaps be better described as the rate of surplus.

2. Asher, Ramsinh 1978. 'Small Scale and Cottage Industries in India : in J.S. Uppal (ed.) India's Economic Problems, An Analytical Approach.

Also the underlying assumption in such analysis is homogenous capital and labour which may not stand the test of a deeper scrutiny. The hetrogenity of capital in terms of age, quality and type is ignored in the process of aggregation. Similarly labour may not be homogenous (as assumed here) for all types of industries and factories due to age, sex and skill variation. Further, it would have been better if studies were conducted by identifying the homogenous product lines where scale economics appear to exist.[1] In other words, a reasonable disaggregation on product lines would have given a better and more penetrating results.[2]

Despite all these limitations the findings of the such analysis are quite instructive as it covers a fairly long period and is based upon the latest available data.

Two plausible reaons could be advanced to explain higher profitability and high capital efficiency in small-scale factories. One is financial subsidies and concessions to small-scale factories and other is the lower wage costs due to use of family labour in smaller units and/or greater exploitability of labour as the sizes decrease. (This part we will discuss in the ensuing chapter).

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1. Staley, E. and Morse, R.: (1965) Modern Small Industry For Developing Countries, McGraw Hill Book Co, New York.

2. Little, Mazumdar & Page (1988) Op.cit.

Theoretically the direct subsidies and price-preference advanced to small sized factory may enhance its capital efficiency as well as profitability. The government agencies provide capital subsidy at a rate of 15% of the fixed capital to the small. Also 'the small' is entitled to get and it does enjoy 15% price preference in government purchases. Due to 'capital subsidy' the entry under the fixed capital head is less than the actual cost. And the denominator in output/capital ratio is reduced to result in higher productivity of capital. Similarly, the price-preference given to 'the small' affects at least in principle, the profitability favourably.

But a recent study[1] does not approve this positive association of capital efficiency and profitability with financial assistance. Sandesara conducted a survey of 246 small units distributed over 18 industries in four big cities - Bombay, Bangalore, Hyderabad and Jaipur Data relating to assisted and non-assisted units were collected and their efficiency and profitability was compared at length to check the 'efficacy of incentives for small industries'. Sandesara came to conclusion that 'control (non-assisted) units had higher profitability higher capital productivity, higher surplus per unit of capital and lower capital - intensity than sample (asisted)

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1. Sandesara, J.C. 1982. Efficacy of Incentives for a Small Industries, IDBI, Bombay.

units in a majority of industries." He further investigated the reserved vis-a-vis other industries and found that 'the performance of reserve industries does not outshine that of others.' In a way it is quite a revealing result that financial assistance of different kinds do not enhance the capital efficiency (at least directly) or profitability of a typical small scale factory. The reason for better capital efficiency or profitability may be traced somewhere else in the very structural mode of operation of 'the small'. One such spot to be scrutinised is the labour exploitability in small sector which is the principal theme of the ensuing chapter.

Table -A -1

Small - Scale Sector

Year	Factories (number)	Fixed Capital (Rs. lakhs)	Productive Capital (Rs. lakhs)	Invested Capital (Rs. lakhs)	Workers (number)	Employees (number)	Wages to Workers (Rs. lakhs)	Total Emoluments (Rs. lakhs)	Total Input (Rs. lakhs)	Total Output (Rs. lakhs)	Deprecia-tion (Rs. lakhs)	Value added (Rs. lakhs)
1	2	3	4	5	6	7	8	9	10	11	12	13 = 11-(10+12)
1973-74	53246	90728	161930			1941885		42304		499150		90172
1974-75	50370	68706	150780			1853882		43850		571043		88780
1975-76	54374	91640	190807			2036549		53598		682293		102666
1976-77	58852	102441	205773			2227286		60949	665235	799789		124432
1977-78	61908	124307	245847			2361600		71218	739536	916030		143793
1978-79	62040	113621	236918			2326975		69934	-	954770		138234
1979-80	66823	137267	294467		1812757	2311315	53594	78968	934370	1110172	13288	162514
1980-81	69165	198553	395593	459661	2089828	2539350	73729	112638	1298597	1533244	20120	214527
1981-82	77956	255102	480036	573915	2256041	2756559	87069	129541	1592486	1878533	26521	259524
1982-83	77195	275736	518914	608353	2288890	2777129	99829	153720	1762372	2076695	29245	285077
1983-84	79068	327779	607221	665204	2078958	2529272	105556	156046	1612275	2003605	35932	345396
1984-85	81410	292207	564208	676799	2062552	2515341	114059	167067	1789438	2177067	44954	341676

Large Scale Sector

Year	Factories (number)	Fixed Capital (Rs. lakhs)	Productive Capital (Rs. lakhs)	Invested Capital (Rs. lakhs)	Workers (number)	Employees (number)	Wages to Workers (Rs. lakhs)	Total Emoluments (Rs. lakhs)	Total Input (Rs. lakhs)	Total Output (Rs. lakhs)	Deprecia-tion (Rs. lakhs)	Value added (Rs. lakhs)
1973-74	6225	984814	1374961			3798588		206485		1451314		381730
1974-75	6882	1115081	1629747			4017423		257828		2003138		513549
1975-76	6149	1264444	1796411			3991343		281903		2210528		505752
1976-77	6826	1513489	2114076			4251090		299964	1881898	2580481		601889
1977-78	7558	1819160	2438778			4511976		344372	2157510	2927446		661589
1978-79	8184	2173414	2898763			4694454		385987	-	3439075		810545
1979-80	9088	2538938	3480178		3815296	4988645	290525	449773	2993262	4059160	154097	911801
1980-81	6398	2787480	3905317	4215974	3622256	4815495	313756	488689	3377944	9515552	171266	966342
1981-82	5527	3210073	4483011	4809796	3490690	4636537	344013	537890	4052468	5424163	189932	1181767
1982-83	6149	3816198	5196433	5669016	3636313	4817738	404838	630149	4877306	6458983	217026	1364655
1983-84	7807	4509947	5068855	6522350	3669076	4877718	473183	748022	5309414	7239993	299072	1631496
1984-85	9622	5162928	7103965	7318379	3801204	5101174	551606	[illegible]	5162782	[illegible]	356729	1716071

Source: [illegible]

1612275
35932
1648207
345396
1993603

Table - A 2

Unspecified

Year	Factories (number)	Fixed Capital (Rs. lakhs)	Productive Capital (Rs. lakhs)	Invested Capital (Rs. lakhs)	Workers (number)	Employees (number)	Wages to Workers (Rs. lakhs)	Total Emoluments (Rs. lakhs)	Total Input (Rs. lakhs)	Total Output (Rs. lakhs)	Depreciation (Rs. lakhs)	Value added (Rs. lakhs)
1	2	3	4	5	6	7	8	9	10	11	12	13
1973-74	4662	315	614			79538		1085		6337		1384
1974-75	6965	8453	12696			181499		3489		35720		5724
1975-76	11182	46826	55974			352853		10795		93824		30250
1976-77	15597	1117	4212			170874		2757	23930	26795		4749
1977-78	15458	2924	7295			219806		4041	35059	42556		7212
1978-79	17853	1558	5638			226680		5251	-	41534		6617
1979-80	19215	6758	14214		334235	378311	6897	8449	43980	56453	338	12135
1980-81	20940	4014	11146	12468	334508	359834	6985	8324	47292	59607	307	12008
1981-82	21554	5084	12698	15414	358891	384872	8327	10321	49945	64550	437	14169
1982-83	9821	8665	17231	21825	387470	414925	10560	20740	69973	88092	483	17636
1983-84	9831	22828	34879	41871	410203	417131	13347	17756	80002	110144	3328	26815
1984-85	6915	29076	48359	55004	227653	255197	10065	14343	110216	133949	3766	29967
Total (SSI + LSI + Unspecified)												
1973-74	64133	1075857	1537505			5820011		249874		1956801		463286
1974-75	64217	1192240	1793223			6052804		305167		2609901		608103
1975-76	71705	1402910	2043192			6380745		346296		2986645		639668
1976-77	81277	1617050	2324061			6649250		363670	2571063	3409065		731070
1977-78	84924	1946391	2691920			7093382		419631	2952105	3886033		812594
1978-79	88077	2288593	3141319			7248109		461172	-	4434379		955396
1979-80	95126	2682963	3788859		5962288	7678271	351016	537190	3971612	5225785	167723	1086450
1980-81	96503	2990038	4312056	4688103	6046592	7714679	394470	609651	4723833	6108403	191693	1192977
1981-82	105037	3470259	4975747	5399127	6105622	7777868	439417	677753	5694900	7367247	216889	1455457
1982-83	93166	4100600	5732578	6299198	6312673	8009792	514827	804609	6709650	8623765	246754	1667368
1983-84	96706	4860554	6710955	7249434	6158837	7821121	592078	920825	7001692	9353741	338331	2013719
1984-85	96947	5484211	7716533	[illegible]	6091409	7571712	675730	1088022	[illegible]	[illegible]	405448	[illegible]

Table 3.1

Trace shares of SSEs, LSEs and Unspecified factories in Number of Factories, Fixed Capital, Employment, Gross Output and Value added.

		1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
No. of Factories	SSE	83.02	78.43	75.82	72.40	70.28	70.43	69.73	71.67	71.67	82.85	81.76	83.96
	LSE	9.70	10.71	8.57	8.40	8.89	9.29	9.55	6.62	5.26	6.60	8.07	8.89
	Unspecified	7.28	10.86	15.61	19.20	20.83	20.43	20.72	21.71	23.07	10.55	10.17	7.15
		100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Fixed Capital	SSE	8.43	5.76	3.87	6.33	5.43	4.96	5.11	6.64	7.35	6.72	6.74	5.32
	LSE	91.15	93.52	90.13	90.23	93.34	94.96	94.63	93.22	92.50	93.06	92.78	94.14
	Unspecified	0.42	0.72	6.00	3.44	1.23	0.08	0.26	0.14	0.15	0.22	0.48	0.54
		100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Employment	SSE	33.36	30.6	31.91	33.49	33.29	32.10	30.10	32.91	35.44	34.67	32.32	31.95
	LSE	65.26	66.37	62.55	63.93	63.36	64.97	64.49	62.41	59.61	60.14	62.34	64.80
	Unspecified	1.38	3.03	5.54	2.58	3.35	2.93	5.41	4.68	4.95	5.19	5.34	3.25
		100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Gross Output	SSE	25.50	21.87	22.84	23.46	23.57	21.53	21.24	25.10	24.49	24.08	21.42	20.62
	LSE	74.16	76.75	74.01	75.69	75.33	77.53	77.67	73.92	73.62	74.89	77.40	78.01
	Unspecified	0.34	1.38	3.15	0.85	1.10	0.94	1.09	0.98	1.89	1.03	1.18	1.37
		100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Value added	SSE	17.30	14.59	16.07	17.02	17.69	14.46	14.95	17.98	17.83	17.09	17.15	16.35
	LSE	82.39	84.45	79.18	82.32	81.41	84.48	83.92	81.00	81.19	81.84	81.01	82.15
	Unspecified	0.31	0.96	4.75	0.66	0.90	1.06	1.13	1.02	0.98	1.07	1.84	1.50
		100.00	100.00	100.00	100.00	100.00	100.000	100.00	100.00	100.00	100.00	100.00	100.00

Source: Table A-1 and A-2.

Table 3.2

Fixed Capital, Persons employed, Gross Output and Value Added each per factory

Year	Fixed Capital/ No. of Factories		Persons employed/ No. of factories		Gross Output/ No. of factories		Value added/ No. of factories	
	SSE	LSE	SSE	LSE	SSE	LSE	SSE	LSE
1973-74	1.70	158.20	36.47	610.21	9.37	233.14	1.50	61.32
1974-74	1.36	162.02	36.80	583.75	11.33	291.06	1.76	74.62
1975-76	1.68	205.63	37.45	649.10	12.54	359.49	1.89	82.24
1976-77	1.74	221.65	37.84	622.59	13.58	377.92	2.11	89.15
1977-78	2.00	240.69	38.14	596.98	14.79	387.33	2.32	87.53
1978-79	1.83	265.56	37.50	573.61	15.38	420.09	2.22	99.04
1979-80	2.05	279.37	34.58	548.92	16.16	446.65	2.43	100.33
1980-81	2.87	435.67	36.71	752.65	22.16	705.77	3.10	151.03
1981-82	3.27	580.79	35.36	838.08	24.09	981.39	3.32	213.81
1982-83	3.57	620.62	35.97	783.49	26.90	1050.41	3.69	221.93
1983-84	4.14	577.67	31.98	624.78	25.34	927.37	4.36	208.97
1984-85	3.58	598.80	30.89	591.64	26.74	955.18	4.19	199.03

Source: Table A-1.

Table 3.3

Fixed Capital, Gross Output and Value Added each per employee

Year	Fixed Capital/ Employees		Gross Output/ Employees		Value Added/ Employees	
	SSE	LSE	SSE	LSE	SSE	LSE
1973-74	4672	25925	2570	3820	4128	10049
1974-75	3706	27756	3080	4986	4788	12783
1975-76	4499	31679	3350	5538	5041	12671
1976-77	4599	35602	3590	6070	5586	14158
1977-78	5263	40318	3878	6488	6046	14662
1978-79	4882	46297	4103	7323	6940	17266
1979-80	5939	50894	4803	8136	7031	18277
1980-81	7819	57885	6037	9377	8448	20067
1981-82	9254	69234	6814	11698	9414	25488
1982-83	9928	79211	7477	13406	10265	28325
1983-84	12959	92460	7921	14842	13655	33447
1984-85	11617	101210	8655	16144	13583	38640

Source: Table A.1

Table 3.4

Persons employed, Gross Output and Valu added per unit of capital (Rs. lakhs)

Year	Employee/ Fixed Capital		Gross Output/ Fixed Capital		Value Added/ Fixed Capital	
	SSE	LSE	SSE	LSE	SSE	LSE
1973-74	21.40	2.76	5.50	1.47	0.89	0.39
1974-75	26.98	3.60	8.31	1.80	1.29	0.46
1975-76	22.22	3.16	7.44	1.75	1.12	0.40
1976-77	21.74	2.81	7.80	1.70	1.21	0.40
1977-78	18.99	2.48	7.37	1.60	1.16	0.36
1978-79	20.48	2.15	8.40	1.58	1.22	0.37
1979-80	16.83	1.96	8.09	1.60	1.18	0.36
1980-81	12.78	1.73	7.72	1.62	1.08	0.35
1981-82	10.80	1.44	7.36	1.69	1.02	0.37
1982-83	10.07	1.26	7.53	1.69	1.03	0.35
1983-84	7.72	1.08	6.11	1.61	1.05	0.36
1984-85	8.61	0.99	7.45	1.60	1.17	0.33

Source: Table A.1

Table 3.5

Year	Rate of Profit*	
	Small	Large
1973-74	.23	.13
1974-75	.29	.16
1975-76	.26	.12
1976-77	.30	.14
1977-78	.29	.13
1978-79	.28	.14
1979-80	.28	.13
1980-81	.26	.12
1981-82	.27	.14
1982-83	.25	.14
1983-84	.31	.14
1984-85	.31	.11

Source: Table A-1.

* Rate of Profit = $\frac{\text{Value added - total emoluments}}{\text{Productive Capital}}$

APPENDIX

Fixed Capital represents the depreciated value of fixed assets owned by the factory as on the closing day of the accounting year. Fixed assets are those which have normal productive life of more than one year.

Physical Working Capital is defined to include all physical inventories owned, held or controlled by the factory as on the closing day of the accounting year such as the materials, feuls and lubricants, store etc. that enter into products manufactured by the factory itself or supplied by the factory, to other for processing.

Working Capital is the sum total of the physical working capital as already defined above and the cash deposits in hand and at bank and the net balance of accounts receivable over amounts payable at the end of the accounting year.

Productive capital is the total of fixed capital and working capital as defined above.

Investe d Capital is the total of fixed capital and physical working capital as defined above.

Depreciation is consumption of fixed capital by the factory due to wear and tear and obsclence during the accounting year and is taken provided by the factory owner or is estimated on the basis of cost of installation and working life of the fixed assets.

Workers are defined to include all persons employed directly or through any agency whether for wages or not and engaged in any manufacturing process or in cleaning any part of the machinery or premises used for manufacturing process or any other kind of work incidental to or connected with the manufacturing process or the subject of the manufacturing process.

Employees includes all worker defined above and persons receiving wages and holding supervisory or managerial positions engaged in administrative office, store keeping section and welfare section, watch and ward staff, sales department as also those engaged in purchase of raw materials etc. or production of fixed assets for the factory.

Total Inputs comprises gross value of fuels, materials etc. consummed and also other inputs viz. (a) cost of non-industrial services received from other (b) cost of materials consumed for repair and maintenance of factory's fixed assets including

cost of work done by others to the factory's fixed assets (c) cost of contract and commission work done by others on materials supplied by the factory (d) cost of office supplies and product reported for sale during last year and used for further manufacture during the accounting year and (e) purchase value of goods sold in the same condition as purchased.

Gross output is defined to include the ex-factory value of products and by products manufactured during the accounting year.

Net Value added is the increment to the value of goods and services that is contributed by the factory and is obtained by deducting the value of total inputs and depreciation from value of output.

C H A P T E R IV

WAGES AND EMPLOYMENT IN SMALL-SCALE ENTERPRISES

CHAPTER IV

WAGES AND EMPLOYMENT IN SMALL-SCALE ENTERPRISES

As discussed in the previous chapter, the prevalence of low level wage rate is considered to be one of the explaining factors of high profitability in small-scale enterprises. In this chapter, this issue will be dealt upon at length. Also the reasons for low-level wage rate will be discussed tentatively. In this context we will take up the issue of labor productivity along with some other factors affecting the industrial wage rate.

Further, employment (and the greater equality that a higher demand for labour may be expected to promote) has been the major argument for promoting small enterprises. The employment generating capacity (or labour absorbing, capacity, in other words) of small factories with relatively less investment is often emphasised and there is almost consensus upon this issue. It is proposed therefore to attempt a study of the employment characteristics of the small scale enterprises. In this regard, the points taken up for discussion are the general trend in employment generation; share of 'the small' in total industrial employment; and labor productivity and its trend.

To maintain continuity in argument, the latter aspect has been taken up first for discussion.

Employment in Small-Scale Sector:

Table 4.1 shows that 'the small' has fairly maintained a higher share as far as the total industrial employment[1] is concerned. But Table 4.1 also shows that in recent years there is a fall in total employment in the small scale sector. Comparing the data for the sub-period IV (i.e. 1981-85)[2] the employment figures are found to be sliding downwards from 27.56 lakhs (in 1981-82) to 25.15 lakhs (i.e. 1984-85). And that too, when number of small factories as well as fixed capital investment therein, is showing an upward trend. The number of small factories during the sub-period increased by more than 3000 units i.e. from 77956 in 1981-82 to 81410 in 1984-85, alongwith an increase by Rs. 3709.99 lakhs in fixed capital (see Table A-1). During same sub-period, a fall of more than 2 lakhs on muster roll in small sector is observed. Combining these facts together, an inferrence may be drawn that labour absorbing capacity of small factories has gone down in recent years and this needs explanation.

One possible explanation for this declining trend may be the inclusion of previously unspecified factories

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1. The factory sector.

2. There is no change in definition or coverage during this sub-period.

into specified (large as well as small) category.[1] And these factories (i.e. unspecified factories which are now included into specified category) might have lesser employment potentialities. Further, it may also be possible that 'more labor-intensive-old' small units had either phased out or moved upward into large factory category.[2] and new entrants to small sector (either establishing a fresh unit or due to upward revision in capital-investment limit) are coming with less labor-absorbing techniques. This tendency for the proportion of small scale enterprises employment to decline as economic growth takes place and manufacturing increases, is associated with what Hollis Chenery has called growth elasticities of supply.[3] And these are generally greater for industries which hitherto displayed supposed greater economies of scale. The process of modernisation due to liberalised import policy might also have pushed up this trend. Same is the experience in Sri Lanka.[4]

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1. As one may observe that during the period in consideration the absolute number of unspecified factories as well as the percentage in total has decreased.

2. The possibility of such upward movement is however, quite unlikely due to obvious reasons.

3. Bottomley, Anthony : Small Scale Industries in Final Outputs, Intermediate Activities and Primary Inputs, IEJ, 30, 2.

4. Osmani, S.R. : The impact of economic liberalisation on the Small Scale and Rural Industries of Sri Lanka in Islam, Rizwanul (ed.) 1986, Rural Industrialisation and Employment in Asia.

Labour-Productivity:Trend:

As far as labour productivity is concerned, as expected, it is lower in small units as compared to that of larger ones (see Table 4.3). But during four years (i.e. subperiod -IV), the labour productivity multiplied 1.44 times in small sector (13583 ÷ 9414) which is marginally better than the corresponding figure (1.32) for large scale factories. This shows that despite several odds the small is in favourable position vis-a-vis the large sector as far as the rate of growth in labour productivity is concerned. A part of this trend can be attributed to the government measures, particularly technical services extended to small units.

Wage Rate in Small-Sector.

On wage-front, smaller units continue to be low payment enterprises. For sub-period-IV annual average wage in small-units (average of four years) comes around Rs. 5761 i.e. Rs. 480 per month or Rs. 16 per day (if all 30 days of a month is considered as working days). This is slightly better than upper limit prescribed minimum wage-rate for agricultural labourers, which is around Rs. 10 per day.[1] If we make inter-size comparison of wage-rates (per capita earnings), it is less for small scale

1. Datt Ruddar (1984) : Minimum wages Act and Farm Labour : Mainstream 22 (30), March 24, 1984. pp. 23-25. The variations (in minimum wages) in 1983 range from Rs. 6 to 10.

units than that for larger ones. (Annual average over four years comes around Rs. 14339 for larger units). In other words an average employee in large factory gets 2.48 times more than its counter parts in small-factory. (see Table 4.2). At constant prices (base year 1960 = 100) during the sub-period IV per capita annual average earning multiplies 1.31 times i.e. from Rs. 1042 to Rs. 1141 in small scale factories whereas in large factories it multiplies 1.37 times i.e. from Rs. 2572 to Rs. 2979. This gives us a hint that in the gap between the earnings of the two sizes has widened over the period.

The result is quite in conformity with other studies viz. Shetty (1963)[1] Strefkerk (1981)[2];

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1. Shetty, M.C. (1963), Small-Scale and Household Industries in a Developing Economy.

   "Among the small scale industries, only the furniture making industry paid on a daily basis while the rest of the industries paid their skilled workers on a monthly basis. The daily wage-rate of Rs. 3.25, when worked out on a monthly basis (assuming 26 working days per month) roughly gives a monthly wage of Rs. 85, which figure compares favourably with those paid by the rest of the small-scale industries under survey."

2. Strefkerk, Hein (1981) : Two little to live on, Too much to Die on : Employment in Small Scale Industries in Rural South Gujrat Part I, EPW, April :

   "The wages that the majority of workers in light industry receive are among the <u>lowest</u> paid in South-Gujarat for unskilled labour. According to this survey this is true of the Rs. 4 per day or less which nearly half of those interviewed earned in 1974. This is just a bit higher than wages paid in the same year to agricultural workers and to those who performed casual labour" - ' wages of the workers in light industry are in general considerably lower than wages paid to unskilled workers in larger industries such as Atul-Atic, the huge chemical plant on the sub-district's border. Wages are also substantially lower than those paid for similar work in

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Nagraj (1985)[3] and Banerjee (1985)[4].

Now the explanation of this earning-differential between two size-groups (small as well as large) is very complex problem. There may be many factors which influence the earning-rate prevailing in different size groups of factories. They are differences in productivity, trade union's strength, character of management and ownership composition of labour and growth of skill and government

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F.No. 2 cont'd from pre-page

municipal and federal governmental sectors, although this does not mean that labour conditions in these sectors are ideal.". P.667.

3. Nagraj R (1985) : Some Aspects of Small Scale Industries in India : Finding based on Two All India Sample - Surveys (Part I) EPW, Oct 12 : "The average annual earnings per worker in the sample industries is Rs. 2119. The yearly earnings of an unskilled worker is averaged at Rs. 1791..wages in the small-scale sector are generally low". P. 1742.

4. Banerji Nirmala (1985) : Small and Large Units : Symbiosis or Matsyanyaya in Suri K.B. (ed.) 1988 Small scale Enterprises in Industrial Development, The Indian Experience...."average wage rate of the large unit (Electrical Fan Industry) at Rs. 32 is about 3.55 times the average wage rate of about Rs. 9 prevailing in the small unit.

protection and incentive rules and regulations.

In Indian literature, productivity changes and degree of trade-unionism have been found more important in the 'determination and changes of wages'.[1] A close relation between productivity growth and rise in earnings is expected. Our study too, shows that labour productivity is higher in the large size-group of factories and so is the annual average earning per employee (See Table 4.3) And there seems to be a positive association between these two. But a closer look to the figures (after recasting the data) does not substantiate the 'positive association' notion in full. Table 4.3 shows that during first two sub-periods, the rate of labour productivity growth[2] is higher and so is the rate of earning growth in the large size factory-group. In sub-period III, it is the turn of the small-size group, where productivity growth-rate is higher and so is the average earnings growth-rate. Meaning thereby, the productivity growth rate shows a positive-association with average annual earning growth-rate.

But in the sub-period IV i.e. 1981-82 - 1984-85) this positive association between the productivity growth-rate

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1. Sinha, J.N. and Sawhney, 1970. Wages and Productivity in Selected Industries, Vikas Publication, Delhi.

2. Average annual growth rates in different sub-periods are calculated in a very crude-fashion i.e. simply by taking into account the corresponding figures of opening and closing years of each sub-period.

and earning growth rate seemsto be breaking down. What we observe that rate of growth of labour productivity is more in small size group, while the rate of growth of annual average earning is faster in 'the large'. The latest sub-period data cast a doubt over productivity wage relationship.

Another study[1] on the organised manufacturing sector have examined the determinants of inter-industry wage structure in India and its findings suggest that wages are not paid strictly according to the marginal productivity of labour. Rather it has been established that 'the expected ability to pay wages on the part of the employer is an important determinant of the inter-industry wage-structure and that the differing level of technology of different industries is likely to be a significant factor influencing the inter industry -wage structure." Dholokia concludes that "technological factors implied by capital intensity and the 'degree of enterprise' seem to be the most important factors explaining the inter-industry wage-structure in the small scale sector in India". He measures the 'degree of enterprise' in a given factory with proportion of self-employed in the total employees'.[2] The wages of

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1. Dholakia, Ravindra H : (1979) Inter Industry wage Structure in Small-Scale Sector in India, Indian Journal of Labour Economics, Vol. XXI, No. 4(II) January, pp. 20-23.

2. Dholakia, R.H. Op.cit. p.24.

the employees should be larger, greater the degree of enterprise in a factory, he says. His crucial finding regarding degree of enterprise and its positive correlation with wage-rate level, however needs further clarification and a critical assessment. The question which comes to mind instantly is that in a large-factory the 'degree of enterprise' is low (according to Dholakia's definition) while wages are quite high in comparison to that of smaller unit.

But his 'expected ability to pay' concept deserves some favourable comment. As it is often observed, that larger firms has more financial space to accommodate skilled and high-priced labourers. Further the life-expectency of larger firms are greater than smaller ones, therefore they go for a more stable work force with a higher payment. Also the dismantling cost (if it occurs) of a larger -factory is much more than a smaller firm, which is a crucial psychological force and it results in readiness to pay more.

In another study[1] alongwith other things, impact of skill growth on the growth of earning has been analysed. In this study skill growth is observed to influence earnings

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1. See Sen Swapan Kumar (1985) : Inter-Industry Differences in Growth of Real Earnings. Some Implication for Wage Policy, EPW, March 30, pp. 560-61.
Skill growth is measured by rate of growth in the proportion of non-production workers to total employment.P560.

growth substantially. Earning growth has been higher in industries where substitution of production workers by non-production employees has taken place. It must be noted here that number of 'non-production workers' does not represent skilled work force of a factory in true sense, as there are many non-production workers e.g. security guards, sweepers, cleaners etc. who may not be skilled at all. Similarly a good many skilled personnels may be placed into 'production-worker' category. Anyway we have checked up our data from this angle also. Table 4.3 shows that both skill ratio (as defined by Sen) and annual average earning per employee are lower for the small units. But a positive association between two growth rates could not be established. The skill growth rate for small factories is found to be negative and stagnant for the sub-period.III and sub-period IV respectively, whereas the earnings growth rates for these two sub-periods are significantly positive. It is, therefore, difficult to derive any definite inferrence about the impact or influence of skill growth rate over earning growth rate as such.

In order to explain earnings differential Majumdar[1] suggests a hypothesis which comprises (i) supply price is higher for permanent than temporary migrants and the former, being more stable, are preferred in the larger factories while the latter find employment mostly in small factories;

1. Mazumdar, Dipak (1988) : Labour and Product Markets in Suri K.B. (ed.) : Small Scale Enterprises in Industrial Development : The Indian Experience.

(ii) the wage-efficiency relationship perceived in the larger factories results in a preference for a firm-specific stable work force which belongs to the set of permanent migrants. Mazumdar's hypothesis is based upon assumption that rural urban migrants form an important part of the entrants to the labour-force for the manufacturing sector, that family migrants are more stable than lone migrants and more stable than lone migrants and the former have a higher supply price and that stable migrants are stable workers.

Although these assumptions need to be empirically verified this is not denying the fact that rural -urban migrants form an important part of the entrants to the labor force for all-type of economic activities including manufacturing. Also the supply-price of family migrants are bound to be higher in comparison to lone-migrants, as the stakes for existence are more for those who come with their entire family folk than those who still have some links to rural-past through their family connections. The supplementary income which many such workers get or expect to get from a rural-sector certainly has a negative effect on earning-levels.

On worker's part a question does remain unresolved, why they accept such lower-rate of wage in small sector. Here few observations are in order.

Firstly, there is an almost complete lack of legal protection for workers in small-scale enterprises. Anytime they can be removed from their jobs. The easy availability of a vast army of unemployed standing in reserve hangs over them like a 'Sword of Damocles'.

Secondly, they (workers) come from rural areas with their inhibitions and rigid notions about caste and sub-castes. Their ranks are divided as they belong to socially and sometimes economically[1] hetrogenous category.

Further due to some other considerations labour - union leadership tends to increase this divisiveness rather than promote solidarity. This makes their (workers) collective bargaining power too weak.

Thus we see that both the factors - techno economic reasons as well as institutional distortions - could be held responsible for the low-level wage rate in the small scale industries.

Whatsoever be the reason, it is found that the annual average earning is significantly lower in the small as compared to big units. And this explains, at least in part, the high profitability in the former.

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1. Streefkerk Hein (1981) Op.cit. (Part II) A large portion of these workers, however are simultaneously owners of small plots of land, EPW, April 18, p. 722.

Given such a wide differential in the profitabilities of the two sectors one could expect, quite naturally, a relative shift in the proportion of total production in favour of small-scale sector in certain branches of production. However such a shift could depend considerably on several factors namely, the nature of the input markets, availability of suitable technologies, and the size and characteristics of the market for the product. The other development could be that certain industries in the large sector farm out manufacturing of technologically simple components to the small scale sector to take advantage of the latter's relatively, higher profitability.[1] This relationship between small-scale sector and 'the big business' is the central theme of discussion in the next chapter.

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1. Nagraj, R. op.cit., p. 1744.

Table 4.1

Persons Employed Per Factory

Year	SSE	LSE
1973-74	36.47	610.21
1974-75	36.80	583.75
1975-76	37.45	649.10
1976-77	37.84	622.59
1977-78	38.14	596.98
1978-79	37.50	573.61
1979-80	34.58	548.92
1980-81	36.71	752.65
1981-82	35.36	838.88
1982-83	35.97	783.49
1983-84	31.98	624.78
1984-85	30.89	591.64

Source: Table 3.2

Table 4.2

Year	Number of Workers		Number of Employees		Average earning per employee (at current prices In Rs.)		Average earning per employee (at constant price 1960-100, in Rs.)		Rate of Profit	
	SSE	LSE	SSE	LSE	SSE	LSE	SSE	LSE	SSE	LSE
1973-74			1941885	3798588	2178	5435	871	2174	23	13
1974-75			1853882	4017423	2365	6417	746	1939	29	16
1975-76			2036549	3991343	2631	7062	841	2256	26	12
1976-77			2227286	4251090	2736	7056	909	2344	30	14
1977-78			2361600	4511976	3015	7632	931	2356	29	13
1978-79			2326975	4994454	3005	8222	908	2484	28	14
1979-80	1812757	3815296	2311315	4988645	3416	9016	949	2504	28	13
1980-81	2089828	3622256	2539350	4815495	4435	10148	1106	2530	26	12
1981-82	2256041	3490690	2756559	4636537	4699	11601	1042	2572	27	14
1982-83	2288890	3636313	2777129	4817738	5535	13079	1139	2691	25	14
1983-84	2078956	3669076	2529272	4877718	6169	15335	1128	2803	31	14
1984-85	2062552	3801204	2515341	5101174	6641	17341	1141	2979	31	11

Source: Table A-1 and Economic Survey 1987-88.

Table 4.3

Year	Labour Prodctivity* SSE (Rs.)	LSE	Growth rate SSE (average of % change over the period)	LSE	Skill Ratio** SSE	LSE	Growth Rate SSE (average of % change over the period)	LSE	Average earning SSE (at current prices in Rs.)	LSE	Growth Rate SSE (average of % change over the period)	LSE
1973-74	4128	10049	15.99	27.21					2178	5435		
1974-75	4786	12783							2365	6417	8.58	18.07
1975-76	5041	12671							2631	7062		
1976-77	5586	14158							2736	7056		
1977-78	6046	14662	4.45	9.07					3015	7632	3.55	4.11
1978-79	5940	17266							3005	8222		
1979-80	7031	18277			.22	.24@			3416	9016		
1980-81	8448	20067	16.77	9.71	.18	.25	-.18	4.16	4435	10148	29.83	12.56
1981-82	9414	25488			.18	.25			4699	11601		
1982.83	10265	28325			.18	.25	0.00	0.00	5535	13079	10.33	12.37
1983-84	13653	33447	11.07	7.99	.18	.25			6169	15335		
1984-85	13583	33640			.18	.25			6641	17341		

Source: ASI

* Value Added/employees.

** Skill Ratio = $\frac{\text{number of total employees - number of production workers}}{\text{number of total employees}}$

@ ASI - data on workers is available since 1979-80 onwards only.

5.9450
5.4305

C H A P T E R V

SMALL SECTOR AND BIG BUSINESS

CHAPTER V

SMALL SECTOR AND BIG BUSINESS

The relationship between small-scale units and big business is a very peculiar one. There exists some sort of 'opposition and interdependence' kind of relationship. In some cases 'the small' gives and faces quite a tough competition vis-a-vis large scale enterprises. In other, they play a docile or sub-ordinative role to larger firms.

We generally observe in the field of final consumable items, small units show a good standing[1] vis-a-vis large enterprises. It is another matter, that even in these fields larger units have an upper-hand. As Suri[2] notes in laundry-soap industry - this power sector firms i.e. large factories and the larger manually operated units have a monopolistic hold over the market by artificially differentiating their products through brand names and intensive publicity campaigns. In Suri's words "In addition to the variations in quality, artificial differentiation of the product is introduced by using brand names and attractive packaging.... The brand war is fuelled by intensive publicity campaigns, particularly

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1. e.g. Textile Industry.

2. Suri, K.B. : Technology, Firm Size and Product Quality A Study of Laundary Soap in India, in Suri K.B. (ed.) (1988) Small Scale Enterprises in Industrial Development : The Indian Experience. P. 217.

by power sector firms and the larger non-power firms".

He further records, "The product market is also spatially segregated. ...The large manually operated firms and the power - sector firms with a strong resource base spread their marketing network widely in search of safe though distant markets where competition from local-non-power firms is not so acute. Almost every such firm attempts to carve out for itself an exclusive market in prosperous, middle-income or hilly regions where it caters to the demand of special socio-economic and cultural groups."[1]

Despite that, the extent of stubborness on the part of smaller units is surprising. The existence of competing small firms before the big giants in a particular industry is really very surprising given the all-embracing character of monopolistic tendency of the latter. Although reservation policy and other state regulations play an important role in this regard few more explanations are warranted.

One reason in this context is that in an expanding or a big market a few bigs can't cope up with the growing demand of a particular product that too of different quality

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1. Suri, K.B. Op.cit., Pp. 217-8.

and variety. In other words, the co-existence of small and large firms can be also due to product market differentiation within the same industry. To illustrate this point, we may take example of laundary soap industry.[1] The large mechanised firms produce qualitatively better products. The cost per unit of output, if measured in tons or measured in physical units, is much higher in these mechanised units. But because of the higher quality of the product and a better marketing network, it can be sold at higher price. And on the receiving end, it is the high-income group who purchases these costly products. Because, small and large compete indfferent parts of the market, they co-exist with different price levels.

But one question remains still unresolved. Why do the larger mechanised units not enter the mass market for the lower quality soap? This question may be answered in two ways from two different angles.

Firstly, it is likely that there are economies of scale in the highly mechanised firms - in production as well as sales. In a monopolistically competitive market in which large firms would typically operate, it may not have exhausted the scale of economics at its point of profit

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1. Little, Mazumdar and Page. (1988)

maximisation.[1] If market conditions change with either the demand increase or the decrease in cost, marginal profitability will be higher in expanding the high income market compared to the alternative of producing lower quality products even though the average return to capital might be the same in the two markets.

Apart from this 'speciality of demand and supply' characteristics the above question of competitive co-existence can be looked upon from different angle too. The number of small factories in a particular industry may be large but their collective weight may not be proportionate. Dobb explains this phenomenon in following words: "Two considerations may qualify our surprise at the extent and the stubborness of the survival of small firms today in view of the fact that quintessence of monopoly is its all embracing character. First, what is important here is not mere numbers of business units, but economic weight that concentration of production (in the sense of control over output) will tend always to be much greater than a survey of the mere number of economic units suggests and that it is control over 'key' spheres of industry and 'key' lines of production that are of principal significance. Secondly there are various ways in which a large concern, even

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1. The equilibrium for monopolistically competitive firm is related at a point on the falling part of the average cost curve.

if it does not control a major part of output of an industry may in fact exercise industrial leadership or dominance over the numberous small-scale independents that survive in apparent competition with it."[1] We will discuss this aspect later.

As far as Dobb's first argument is concerned he rightly observes that it is the 'economic weight' which matters most. He clarifies that the facts of industrial concentration in the modern world are almost too familiar to need much emphasis here.' Although he was writing about the condition prevailing during First and Second World War in Britain and other European countries, his statement is very much valid for several industries in India. Even our data endorses this argument, although in a crude manner due to aggregation. We have seen in earlier chapter that share of 'the small' in number of factories is around 80% but its share in production is limited to 23% For illustration we may take example of TV industry.[2] It shows that 12 largest firms (out of 40 in operation or 71 licensed) are producing 69.01% of total production. We can take another case i.e. Paper industry. The 23 largest paper mills (capacity 20,000 tonnes per annum or above) account for 56.98% of the total output while the

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1. Dobb, M., (1974) Studies in the Development of Capitalism, New York, P. 342.

2. Kumar Prem: Television Industry in India : Market Structure, Conduct and Performance, New Delhi, P. 54.

small mills numbered 228 (capaicty below 20,000 tonnes per annum) are collectively sharing 43.02% of total output.

Although reservation policy and other government regulations blunt the sharpness of such dominance in certain industries, 'the large' often succeeds in manoeuvring things according to its own liking. Certain items are de-reserved to maintain the balance in 'economic weight', Few good examples[1] in this regard are worth mentioning. Confectionary as a general category was on the reserved list for the small scale sector since 1977. In August 1981 a reduction in the coverage of 'confectionary' was made by exclusion of chocolates and chocolate preparations. A few months later another change was affected to exclude all varieties of chocolates from the reserved item 'confectionary'. It is an open secret that chocolates production is a near monopoly of a couple of large-scale and influential producers in India.

Similarly, 'fibreglass reinforced plastic products' have been on the reserved list for some time now. However since December 23, 1981, because of the changes in nomenclature in respect of fibreglass reinforced plastic products',

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1. Both the examples are taken out from Goyal, S.K., Chalpati Rao and Kumar Nagesh : (1984) Small Scale Sector and Big Business Pp. 90-1.

the following four items have got de-reserved. There are (i) SMC and DMC and its mouldings, (ii) Continuous filament winding (Paper 600 mm. diameter) (iii) pultruded products and (iv) FRP sheets by continuous process. Some likely beneficiaries of the changes in nomenclature resulting in partial de-reservation are (i) Indian Gum Industries (a FERA Company) and (ii) Hindustan Gum and Chemicals (FERA/Birla).

The two examples are just to illustrate, how the matter is manipulated by 'the large'. Even official policy of reservation for the small units cannot be implemented in the case of products where the large units have technical and/or marketing advantages (read interest)'.[1]

Another type of relationship between the two sizes are that of input-output relationship. That is to say several small-scale units depends upon big-business for the supply of their inputs viz. intermediate goods or semi processed raw materials. Similarly, they supply their outputs (final products as well as intermediates) to large scale factories. A look at the list of industries at present reserved for 'the small' shows that a good number of them are metal, chemical and electrical industries taking their inputs from the large-scale factories and

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1. Kurien C.T. (1978) : Small Sector in New Industrial Policy, EPW, March 4, P. 460.

and supplying their inputs (the bulk of them intermediary products) to the large scale sector. There are some final products in the reserved list (water meters, domestic utensils, oil stoves, village stabilisers etc.) which too are linked with the large scale sector in terms of inputs. The close links and extreme dependence of 'the small' particularly of modern small scale enterprises on 'the large' make their position quite weak, though apparently such relationship is meant for providing them some stability and strength at least in the field of marketing. Usually what is observed is that the large obligopolistic factories purchase their raw materials, intermediate and their goods at undervalued prices from large number of small-scale units, while at the same time they sell their goods at over-valued prices. To illustrate this point we can take the case of PVC rasins.[1] The scarcity of PVC rasins leads to continued price hike by Indian producers on an almost month to month basis. The few sources of import have also started exploiting virtually Indian market monopoly by limiting increasing prices."

Similar kind of unequal relationship exists in the process

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1. FICCI (1988) Workshop on Sickness in Small Scale Industry : Background Paper, New Delhi. Feb 16, P. 16.

of ancilliarisation[1] and putting out system. The large parent enterprises find that in house manufacture of all the parts and components that go into different industrial goods makes operation very bulky and manageable and requires enormous capital investment. As the scale of operation of unit expands, overhead cost begin to rise and inhouse manufacturs of all the parts and components becomes uneconomical. By farming out the manufacture of parts and components, parent units benefit in that they free themselves from manufacturing parts and components. At the same time, they do not have to lock up their capital in plant, building and machinery.

Banerjee[2] on the basis of her field-study in electric fan industry comes to similar conclusion. She writes 'large firms are producing basic bulk of supply, but supplementing it as and when necessary by putting out orders to small units because (i) it saves locking up

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1. Ancillaries are defined by Govt. of India as :
   An undertaking having investment in plant and machinery whether held on ownership basis or by lease or by hire-purchase not exceeding Rs. 45 lakhs (earlier it was Rs. 25 lakhs) and engaged in(a) the manufacture of parts, components, sub-assemblies, toolings or intermediates; or (b) the rendering of services and supplying or rendering or proposing to supply or render 50% of their production or the total services as the case may be to other units for production of other articles.

2. Banerjee Nirmala, (1985) Small and large Units. Symbiosis or Matsyanyaya i.e. ed. Suri, K.B. (1988).

capital in capacity likely to be under utilised (ii) it utilises marketing and sales overheads of large-firms more efficiently, (iii) it overcomes the large mechanised units, problems of matching the capacities of different machines meant for different stages of production of a given product, and (iv) it passes on the problems created by uncertainty of demand entirely on the small units.... When orders expand, new small units come up or the existing units hire extra workers. When orders are scarce, they dismissed workers / or seek orders from other industries for similar processes.

Thus we find the nature of relationship between ancillaries and their principals is a complex one. It appears that a number of ancillary units are indeed promoted by persons closely connected with large umbrella units. The contracts for supply of materials and components and other business dealings between ancillary units and the large parent units tend to leave little scope for an ancillary unit to operate as an independent small-scale unit.

But the most intriguing relation between small units and big business is in the form of ownership connections. As the official definition of small units, until 1980, did not take into account the 'ownership and control' aspect, several small units are under the control of monopoly capital directly or indirectly. In other words,

a number of units belonging to the national monopoly houses and transnational corporations could directly operate in the small scale sector.

In a recent study[1] (Goyal et al.) around three hundred (to be precise 292) small enterprises are found to be controlled by big-business (sometimes even by TNCs) at one or other point of time. It has been observed that "since the small scale sector has been defined only in terms of the size of the assets of an operational unit without relating it to ownership and control characteristics, it would be no surprise if large Houses and TNCs were also able to have the patronage which was intended for the entrepreneurs with small and limited means. There was no restriction for 'big' entrepreneurs to avail of the facilities. It was indeed felt in the case of some smaller companies belonging to the Tatas and Birla Houses that a good number of the companies of the two Houses qualify for being awarded concessions under small and medium industries."

Before 1980, there were too many examples of small units managed or owned by big entrepreneurs. But even after 1980, while the change in the definitions of a small scale

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1. Goyal, et.al., (1984)op.cit.

units incorporating the ownership aspect was announced the requisite measures to operationalise those changes were not taken. As a result, a number of subsidiaries of large companeis claimed regulatory exemptions and financial concessions on the plea of being in the small sector.[1]

Another way to back door entry (i.e. gate crashing) in the small sector by the big is to take over an existing small unit, for there is no restriction in this regard. Many a 'taken over' small firms' which have now become a division or subsidiary to the large, enjoy fiscal and other regulatory concessions on the pretex that they are small.

Thus, we find a very complex relationship between the small-scale enterprises and their larger counterparts. On the one hand they seem to be interlocked in fierce competition in certain industries. On the other they are interdependent upon each other. But in ultimate, we observe that is the big business which dominates and the gain (actual or potential) accruing in the form of surplus in production process in the small sector is partly lost to the Big in the field of exchange.

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1. Goyal et al. (1984) : Ewer Alloys Ltd - a subsidiary of Larson & Toubro Ltd., The Indian National Diesel Co. Ltd. a subsidiary of Mahindra & Mahindra; J.K. Helen Curtis Ltd. a subsidiary of Raymonds Woollen Mills Ltd. (J.K. Singhania). Rousse1 Pharmaceuticals Limited (a FERA Company) and so on.

SUMMARY AND CONCLUSION

Summary and Conclusion:

India is one of the developing countries where 'the small' has been considered important for attaining the required pace and pattern of industrial development. The concern for 'the small' was evident enough even well before independence through various deliberations and debates during the freedom movement. The political leadership was almost convinced that without the active support of 'the small' the developmental dynamics would be rendered meaningless.

It was this concern which found its way into the developmental strategy after independence. Several policy-measures were initiated to invigorate the small sector in order to arrest the process of growing unemployment and poverty. These measures include, among others, reservation of certain areas of production exclusively for the small; regulatory and fiscal concessions of different kinds; financial assistance in terms of subsides and soft loans; and some other sort of infrastructural facilities. Although the outcome and impact of these measures are difficult to assess, some reservations have been ventilated on their proper implementation.

On the issue of efficiency the findings of this study nowhere seem to suggest that scarce capital resources are being wasted. On the contrary, it suggests that the investment in the small sector, on aggregation, is relatively more efficient than its larger counterpart. The capital-output ratio is positively associated with size. This shows that the capital is more productive in the small than the bigger ones.

Further, the rate of profit per unit of productive capital in the Small is far greater than that in a larger unit. Our analysis is that rate is more than two times greater in the Small as compared to the large enterprises. This is perhaps, one of the most striking of the findings emerging from the data anlysed. This greater profitability in the small sector can be attributed to the somewhat frozen wage-rate at a lower (or sometimes at the lowest) level and that too in a significant manner. That is the rate of wages allowed by 'the small' is significantly low as compared to the larger enterprise. This may be one plausible explanation for the higher profitability in the small sector. The role of 'direct subsidies' offered by the government cannot also be denied in this regard. However, this may not be taken as a general rule, as it is applicable only in the cases of 'assisted' small units.

The prevalence of a lower wage-rate in the small scale enterprises can be attributed to a number of factors. The important among them are low levels of labour-productivity (proxy of ability to pay aspect), the composition of the labour employed (which affects the degree of trade unionism) its skill-growth; and absence of any concrete legal protection to the workers of the small-scale sector.

Further so far the most important argument putforth in favour of the small scale sector was the generation of employment. This has definitely got an element of truth in it that 'the small' absorbs more labour than the larger one. But one of the findings of this study, which may be called striking is that the labour absorbing capacity of the small sector has shown a declining a trend in recent years.

Another finding which comes up in the course of discussion is the problem of encorachment by 'the big' into the areas reserved for exclusive production (or expansion) for small sector. Lastly, it can be shown that through various channels, it is big business which appropriates a significant share of surplus generated in the production process in small sector. That is to say, that gain (actual or potential) in the process of

production in the small sector is partly lost to 'big' in the field of exchange and ancillary relationships. This has important implications to the 'income distributing potentialities' of the small sector. A priori it can't be said that expanion of the small sector by itself will ensure greater income distribution as its relationships with 'the big' restrict it capabilities to do so.

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