

# **Industrial Entrepreneurship in Small Scale Industries**

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# The Role of the Small Scale Sector in Employment Generation in India—A Note

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*A.R. Padoshi*

Poverty and unemployment are, perhaps, the most serious problems of the Indian economy. In spite of some difference of opinions, most economists in India, hold the view that poverty and unemployment are positively associated.<sup>1</sup> In most cases of poverty, there is the existence of unemployment and *vice versa*. Hence, the solution of the poverty problem lies in tackling successfully, the problem of unemployment in our country. Apart from keeping the person economically poor, unemployment destroys the person socially and psychologically as well. Unemployment is rightly compared by social thinkers with a time bomb which after it explodes, will have very serious consequences in the social, economic and political fields of India.

Rapid growth in employment opportunities has, therefore, always been an important objective of planned economic development in India. Because, "In any economy where fiscal devices to provide income supplements to the poor are unfeasible, provision of employment opportunities is the major instrument for tackling problems of poverty."<sup>2</sup> Employment provision, thus, holds the key to the solution of the major

problem of Indian economy. It is, therefore, obvious that the Eighth Five Year Plan (1990-95) places more emphasis as the rate of growth of employment opportunities and not on the rate of growth (of the GNP) as done in the previous plans. It is clear that the problem of unemployment in India has attracted the serious attention of the planners. On this background, it will be necessary for KS to understand, in proper perspective, the unemployment scenario in India, before working any specific suggestion to solve the problem.

### UNEMPLOYMENT SCENARIO IN INDIA

Unfortunately, despite keeping rapid generation of employment as an important objective of the planning process in India, a review of the past 40 years<sup>3</sup> of planning shows that we have not been successful in achieving this objective. It is only to be expected that with general economic growth, the employment opportunities also should grow commensurately in the economy. However, in the case of India, there are two difficulties in this context. Firstly, with the exception of the past few years, the Indian economy has been growing at a very slow rate of growth, the notorious 'Hindu rate of growth'. Indian economy has, thus, yet to achieve a breakthrough from the low rate of growth syndrome<sup>7</sup>. Naturally, one cannot expect a rapid generation of employment on the background of the sluggish economic growth. Secondly, as has been noted by the Planning Commission as well as by the economic survey 1989 90<sup>4</sup> that whatever growth that has taken place in India, has not been reflected in the growth of employment. The Planning Commission also observes that the gulf between the rate of growth of the economy and the rate of growth of employment has been widening during the past several years.<sup>6</sup> The rate of employment growth has not only not kept pace with the rate of output growth and with the rate of growth of labour force, but also it (*i.e.* the rate of employment growth) has been declining periodically during the past several years. Table 4.1 shows the decline in the rate of growth of employment in India. )

**Table 4.1**  
**Growth Rate of Employment in India**

((per cent per annum)

Period	Rural Emp.	Urban Emp.	Total Emp.
1972-73 to 1977-78	2.52	4.31	2.82
1977-78 to 1983	1.74	4.10	2.22
1983 to 1987-88	0.95	3.79	1.55
1972-73 to 1987-88	1.75	4.00	2.21

*Source:* Datta Ruddar, "Unemployment and Growth Process in India" in 'Financial Express' 30-8-1990.

Table 4.1 clearly shows the falling rate of growth of employment creation in the Indian economy. For an economy which is characterized by poverty, unemployment and over population, a continuous fall in the rate of employment generation is a very serious matter. The widening gulf between the rate of growth of the economy and the rate of employment generation as noted above and the falling rate of employment generation has created in the Indian economy, a massive size of unemployed labour who is seeking job. The massive size of unemployment is reflected in the growing size of backlog of unemployment in India. This creates an increase in the employment that must be generated. It also makes it clear that, in the near future we have to accelerate considerably the rate of growth of the economy to achieve the target of employment generation. The following example will make things sufficiently clear.

At the end of the Seventh Five Year Plan (*i.e.* in March 1990), the backlog of unemployed person has been estimated to be 28 million. It is estimated that during the period of the Eighth Five Year Plan (1990-95), there will be a net addition of 37 million to the labour force in India. Thus, it means that the Eighth Five Year Plan will have to create 65 million new jobs

(i.e. 28+37) to achieve full employment by 1995. This further means that, to achieve this, the rate of growth of employment, the rate of growth of the GNP will have to be 10.5 per cent per annum. It is very easy to see that this is going to be very difficult, almost impossible.

If we keep the perspective of 1990-2000, it has been estimated that the net addition to labour force during 1995-2000, is going to be around 41 million. It will, thus, mean that during 1900-2000, we will have to create around 106 million new jobs. And, for this, the GNP will have to grow at a rate of 8 per cent per annum during 1900-2000. (The required rate of the growth of GNP has been estimated on the basis of the past relationship between rate of growth of GNP and the resultant growth of employment. It has been observed that, in India, 1 per cent growth in the GNP leads to 0.38 per cent growth in employment). It is also very easy to see, that 8 per cent per annum rate of growth in the GNP is going to be in the realm of impossibility in India.<sup>6</sup> Thus, it is not advisable for us to defined exclusively on the rate of growth of the GNP, for the solution of our unemployment problem.

We now examine another aspect of the problem of unemployment and that is the sectoral distribution of the labour force and the contribution by the main sectors of the Indian economy to employment generation. It is rightly expected, that with economic development, more and more employment should be created in the secondary sector of the economy and the dependence of the economy as the agricultural sector, for provision of employment should be progressively reduced. Labour shift, out of the primary sector, should take place with growing rapidity. Table 4.2 shows the percentage distribution of labour among the main sectors of Indian economy.

Table 4.2 clearly shows that the expectation of labour shift has not been fulfilled in India to an appreciable extent. Indian economy, by and large, has remained agrarian at least in the matter of employment. The share of the secondary sector. In the labour force, has not increased to any significant extent.

**Table 4.2**  
**Sectoral Distribution of Labour Force in India**  
**(Percentage)**

Sector	1971	1982
Agricultural sector	69.70	66.50
Unorganized non Agricultural Sector	20.62	23.22
Organized non Agricultural Sector	9.68	10.28

*Source* : Dandekar V.M. "Agriculture, Employment and Poverty" in "Economic and Political Weekly" September 1986.

The hope that the secondary sector, especially the manufacturing sector, will progressively generate more and more employment has not materialized in India. The result is the overcrowding in agriculture, which is not in a position to offer employment to the huge labour force. "There is evidence to suggest that crop cultivation has exhausted its capacity to accommodate the increasing labour force."<sup>7</sup> Clearly, agriculture cannot be expected to generate any more employment. As regards the organized non agricultural sector, a study by the confederation of Engineering Industries<sup>8</sup> observes that the employment generation has been very slow in this sector. And, more still, the Economic Survey 1988-89<sup>9</sup>, observes that the employment in the private corporate sector has actually decreased in absolute terms. There is, thus, not much hope from agriculture and organized industries about the solution of the problem of unemployment. The foregoing analysis makes the following points clear to us :—

- (i) Owing to the difficulties in stepping up the rate of growth of GNP, it cannot be relied upon to solve the problem of unemployment in India.
- (ii) Agriculture and the organized industrial sectors also have not been able to contribute subsequently in the generation of employment. (It must be noted here that the main reason of slow, or even negative, employment generation in the industrial sector has been the increasing capital

intensity of the techniques used by these industries). We are, thus, led to the logical conclusion, that, for the solution of the problem of unemployment, we have to look for such a field which will not only offer adequate employment opportunities, but also will not have increasing capital intensity. That field is the field of the "Small Scale Industries".

### Small Scale Industries

We examine, in this section, the importance of the small scale industries in the matter of employment generation, in particular. However, a few words about the importance of the Small Scale Industries (SSI) in other matters would not be out of place here. Apart from providing more employment, the SI account for more than one third of the total exports of India. They also result in wider dispersal of industrial and economic activities and ensure maximum utilization of local resources, human and material.<sup>10</sup> Other advantages of the SSI, that can be easily mentioned are that they are 'Skill light' and 'import light', in the sense that they require neither a very high degree of skills nor do they require the imported component to any considerable extent. Thus, the SSI are eminently suitable for an economy like Indian economy.

The SSI are more advantageous from the view point of employment generation because of their being labour intensive. The factor *viz.* labour intensity is especially important in view of our observations above that large industries being less labour intensive, are not in a position to contribute handsomely towards employment generation. The labour intensity of the SSI enables them to provide employment to the millions. As we have noted earlier, the rate of growth of GNP cannot be relied upon for generation of adequate Employment. In such a situation SSI seems to be a very useful sector to maximise employment opportunities in India.

It is because of this that the "Economic Advisory Committee" in its report "Towards Evolving an employment Oriented Strategy for Development in 1990's, also notes that the growth in

GDP is not sufficient to solve the unemployment problem in India". The EAC assign high importance to SSI in employment promotion. According to the EAC, it is desirable to encourage the growth of the small scale industries since this sector can play a crucial role in generating employment and achieving a wider dispersal of industries and so these units (SSI) should be encouraged to become more efficient to achieve our objective of employment generation.<sup>12</sup>

There certain fields of production like artistic goods, products of craftsmanship which cannot be produced in the large scale units. The field of SSI is ideally suited for such production.

The SSI can be made more efficient by appropriate changes in the licensing rules, by a proper structure of taxes, grants and subsidies. A healthy sector of the SSI will go a long way in generating adequate employment in our country. )

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