

THE ROLE OF SMALL BUSINESS ENTERPRISES IN ACHIEVING ELUSIVE MACRO ECONOMIC GOALS IN INDIA

Aditya Aggarwal

Apeejay School Faridabad

DOI: 10.46609/IJSSER.2022.v07i10.019 URL: <https://doi.org/10.46609/IJSSER.2022.v07i10.019>

Received: 27 August 2022 / Accepted: 10 September 2022 / Published: 31 October 2022

ABSTRACT

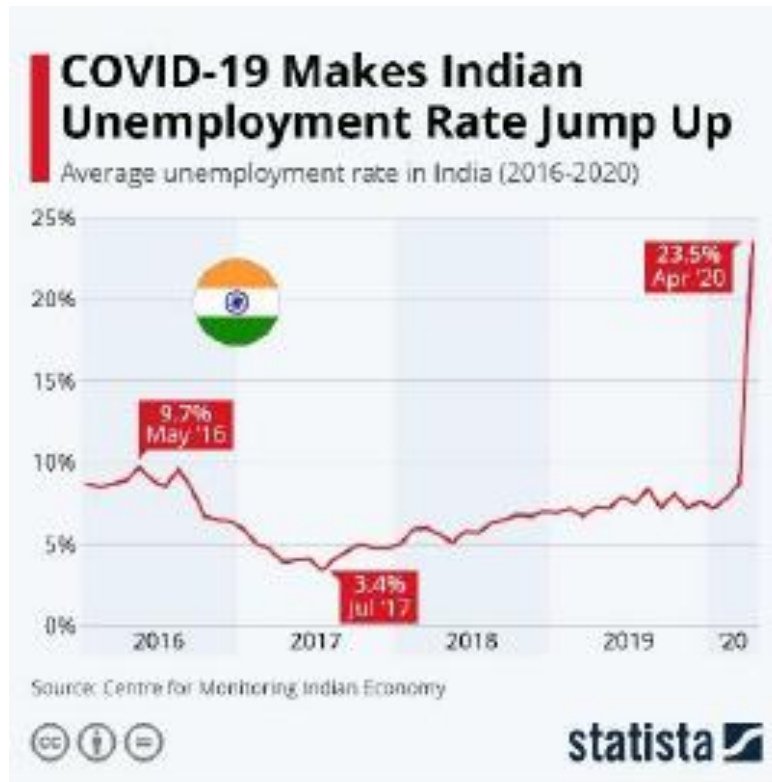
The study researches the synergy of achieving high Gross Domestic Product, through the encouragement of the manufacturing sector. Given the current labour laws as well as the lacuna in infrastructure facilities, and a huge pool of unemployed work force in India, the task becomes difficult. An attempt is made in this paper to reconcile all the above effectively and efficiently.

RESEARCH QUESTION: The paper would attempt to analyse the role of small business enterprises in achieving major macroeconomic goals, that the Indian economy is striving to reach namely that of reduction in employment. Along with this, the linkage effects of the above would be huge with respect to generation of savings and investment in the economy.

1. INTRODUCTION

Encouragement of small business enterprises in India would create job opportunities and help in driving the economy's Gross Domestic Product (GDP). This is more so for smaller geographical areas where large industrial conglomerates are either not interested or do not find it economically viable to set up base. These are competitive in nature, they provide gainful employment in rural areas, prevent excessive urbanization, and with it help in reducing the negative impact on environment.

Encouragement of such business enterprises will go a long way in achieving major macroeconomic goals of the economy. The pandemic has worsened the unemployment situation in India.

Figure 1: Increase of unemployment during covid.

Source: Statista

2. DEFINITION

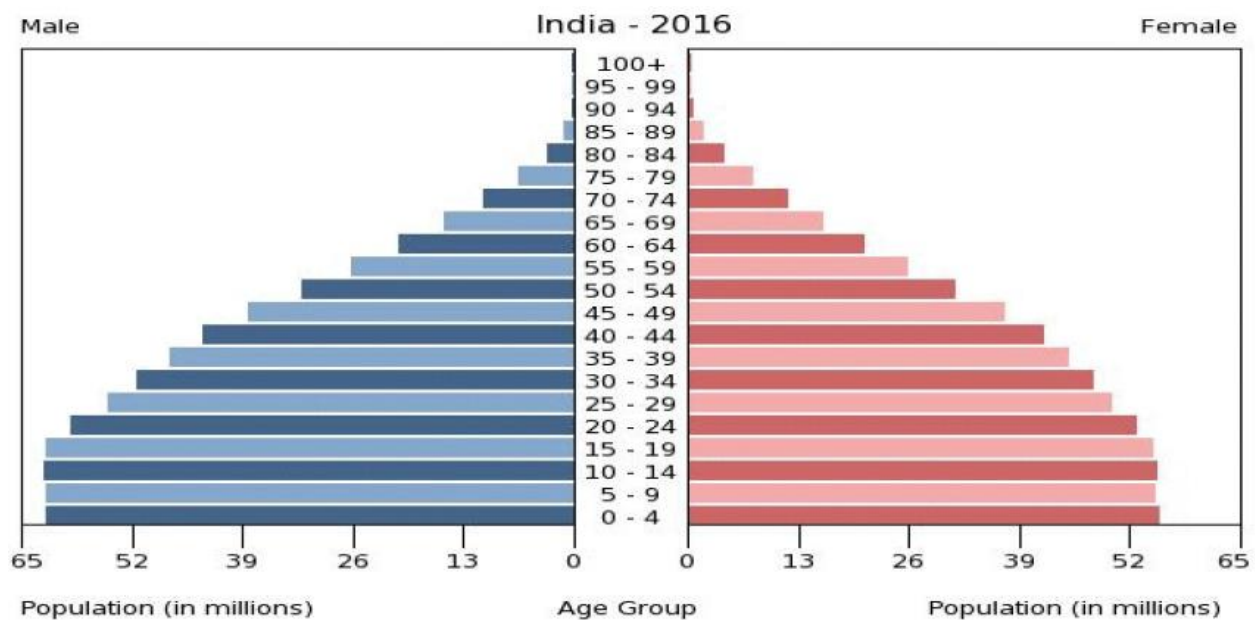
As per the Ministry of Micro, Small and Business Enterprises in India, any service sector unit with an investment of not more than Rs 2 crores is classified as a small business. In the manufacturing sector on the other hand, any unit with an investment in plant and machinery of less than Rs 5 crores is classified as small business.

These set ups could be retail operations like grocery stores, medical stores, bakeries, and other such small manufacturing units. They normally are of the category, where they work with little capital, less workforce and little or no machinery. According to various government of India definitions, these setups could be defined by the total amount of investment, or the amount spent on infrastructure, or also according to the amount of labour employed, or even further whether they use power or not. These definitions give a widespread leeway for a small enterprise to be considered under the umbrella of a government of India's definition of a small business enterprise.

3. IMPACT ON MACRO ECONOMIC INDICATORS

Since the time that India gained her Independence, the economy has been battling with the major economic/social/political issue of gainfully employing its independent workforce. Independent workforce are those citizens of India who fall in the age group 15 years to 59 years. These are considered independent and can fend for themselves. While those in the category of below 15 years and above 59 years come under the category of dependent citizens. They basically consist of the category of children and the aged and would be dependent on the independent workforce.

Figure 2: Population Pyramid of India



Source: Google image.

- India's population has always been increasing, in fact in the years following our independence the rate of growth of population reached levels of 2.4% per annum. India was the second largest populous country as compared to China. In a few years from now India would be overtaking China in this respect. High growth of population brings in its wake a whole host of issues to be grappled with by the government. Some of them are listed below:
- Gainful Employment, for all those who are willing to work
- Provision of basic education to all.

- Health facilities, policy measures with respect to children and the aged.
- Adequate growth of GDP
- Equitable distribution
- Reduction in poverty levels
- Increasing savings and investment.

An economy which is grappling with all the above issues since the time of independence, requires a focused policy measure to find a workable solution. At the time of Independence, the economy was in the second stage of demographic transition i.e high birth rate and low death rate, implying a phenomenal rate of growth of population. Till the late 1990's the economy was at this stage.

The working age or the independent workforce is from the age group 15-59 years. The dependent population is from 0-14 years and from 59 years and above. It was the responsibility of the independent population to take care of the children and the aged. At times the pyramid had a heavy bottom which meant that the number of children were much more than the adults which was depicted by the peak of a triangle in the figures below. This also gave an indication to the government on the type of policies that it should initiate. In this case the emphasis would be on schools, reduction in infant mortality rates, mid-day meals for all children, the encouragement of ASHA workers, as well as anganwadi workers, all to help the poor marginalized women both in the rural and urban space.

3.1 Employment

A large population in a country requires that the economy should focus on technology which is labour intensive. As the economy starts developing which India did after the major economic reforms of 1991. There was a greater emphasis on the manufacturing sector and the services sector. This means that the contribution to GDP by the three sectors had moved from the emphasis being on agriculture to services and manufacturing. But what was also occurring at the same time was the workforce dependency. Close to 50% of the workforce was dependent on the agricultural sector for employment.

Employment became a very important pressing issue which had to be tackled at the earliest. Unemployed citizens would result in a huge drain of resources for the government, which would take the form of providing

- necessities,

- basic housing,
- basic healthcare,
- basic education.

These are just some of the necessities that would have to be provided by the Government. A logical answer would be in providing employment in those sectors which are growing and adding to the country's GDP. Some of the issues that prevented the gainful employment in these sectors were:

- Labour laws and Technology
- Skilling of workers
- Encouraging women to enter the Workforce.

3.1.1 LABOUR LAWS

Several studies have studied the system of labour laws in the country, and their impediment to labour employment by firms despite India being labour populous economy, most of the firms operating in the manufacturing and the services sector use sophisticated technology i.e., they use capital intensive technology. The reasons given by most firms is that the labyrinth of labour laws instead of promoting and encouraging employment, has in fact acted as a deterrent to labour employment. The central government has stated that there are over 100 state and 40 central laws in force. These regulate various aspects of labour such as resolution of industrial disputes, working conditions, social security, and wages.

Looking at just the manufacturing industry, there are some laws in force which are over 100 years old and are in fact of little practical use in the modern world. The government did realise the importance of using labour in the manufacturing sector. It accordingly made slabs according to which the labour laws were applicable. If the number of workers employed increases from 6 to 7, then the Trade Union Act would apply, if the number of employees increase from 9 to 10, then it would come under the purview of the Factories Act. If the number of employees increase from 19 to 20, 49 to 50, and 99 to 100, there would be a new set of laws that would be applicable.

According to some researchers, it is the rigid labour laws which have in fact prevented the manufacturing sector from employing labour intensive technology. The main drawback is the inability of the owner to adopt and use the 'hire and fire' policy. This means that irrespective of whether the manufacturing unit is making a profit or loss, it would not be able to reduce its labour force.

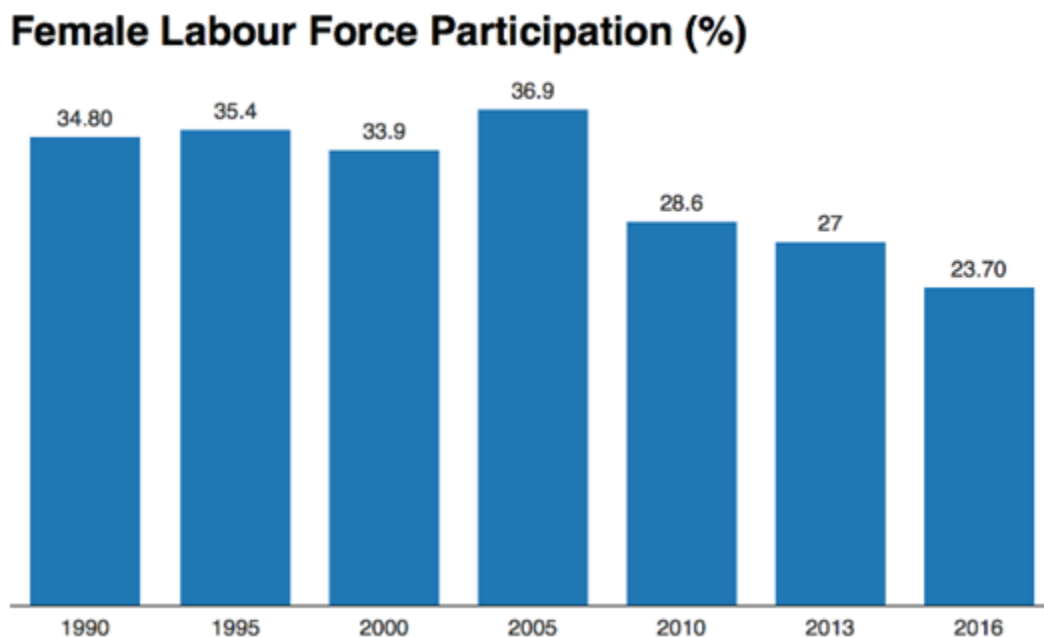
There are various labour courts and tribunals which make it impossible for an employer to fire his employee. Most of these courts generally pronounce judgement in favour of the employee. Even if one considers that labour cost is cheap, the litigation costs involved in fighting such cases leads to increasing expenditure for the manufacturers. Eventually it turns out cheaper to move to capital intensive technology. Even when labour is required for large scale manufacturing units, they have found a way out of employing permanent labourers; by hiring contractual labour. This system is the out of the purview of labour laws. These studies have concluded that to move towards labour intensive technology, the government would have to get rid of archaic laws, and institute new ones that would be industry friendly. In the process of safeguarding the rights of the labour class, the present laws are in fact heavily against them.

3.1.2 SKILLING OF WORKER

There are other studies which have indicated that labour employment has not increased due to lack of skilled labour force. The need of the hour is to emphasize on skilling them instead of just blaming the labour laws for lack of employment. The result of this would be to increase employment opportunities in the manufacturing sector.

3.1.4 ENCOURAGING WOMEN TO JOIN THE WORKFORCE

Figure 3: Female Labour Force Participation



Source: ILO via World Bank, Government of India Ministry of Labour and Employment

This is one of the most important aspects which must be addressed. In most economies of the world both developing and developed, the women's labour force adds close to a 1.5% increase in GDP. India is one of those emerging market economies that employs women labourers which is even less than economies like Bangladesh. It is extremely important that the government addresses this issue on an urgent basis.

3.2. SAVINGS

It is only when both the male and female independent workforce is gainfully employed that the GDP of the economy can increase. This would lead to higher investment further leading to a GDP increase. There is a direct relationship between saving, investment and GDP increasing of an economy. This is the only route that will lead to prosperity and pave the way to achieving most of the macroeconomic goals which have been stated at the beginning of this paper.

3.3. INVESTMENT

Investment, savings, and GDP growth rate are all interrelated. If savings and investment start increasing the impact will be felt on the GDP. Aims of most economies are to achieve a sustainable high growth rate. This would require a widening and broadening of monetary policy, so that it encompasses all the people both in the rural and urban areas. There is last mile connectivity as far as access to the banking system is concerned. Besides this, the number of instruments that are available for the investor are wide. These encompass every timeline possible. The central bank would be facilitators in ensuring stability in the financial markets, and by and large they would not interfere in the market processes, whether it is with respect to interest rates, or foreign exchange. All policy measures would be transparent and known well in time. This would ensure a stable business environment that would attract Foreign Development Investment, that would expand the manufacturing sector thus increasing the job potential as well as employment opportunities.

4. SELF EMPLOYMENT AS AN ALTERNATIVE EMPLOYMENT AVENUE TO ACHIEVE INDIAS MACRO ECONOMIC GOALS

Self-employment in India. in most cases, is not entirely due to the entrepreneurial genes prevalent in Indians but more so that since the poor cannot afford to be unemployed the only alternative is being self-employed. This self-employment could be both in the

- a). The formal sector
- b). The informal sector

The small businesses that come under the formal sector are those privately owned corporation,

partnership, or sole proprietorships that has fewer employees and less annual revenue. These are either services or retail operations like grocery stores, medical stores, trades people, bakeries, and small manufacturing units. According to the Indian government notification are those whose financial commitment towards such as building and equipment does not increase Rs 1 crore.

The informal sector are those unincorporated enterprises that produce at least partly for the market and are not registered. The formal sector files their returns, pays taxes, has permanent employees on their roles. They must provide social security for them and must follow all rules and regulations that have been clearly, spelt out in various Acts by both the state and central government. As stated earlier if the labour laws are too stringent than these companies have managed to move around it by employing contract labour.

Informal sector does not come under any such rule. They may be businesses that employ less than ten or even just the owner. These are not able to avail any loans or come under any schemes which the government might initiate to increase the reach of this sector. The government tries to protect the small business formal sector, as this is an alternative in providing gainful employment.

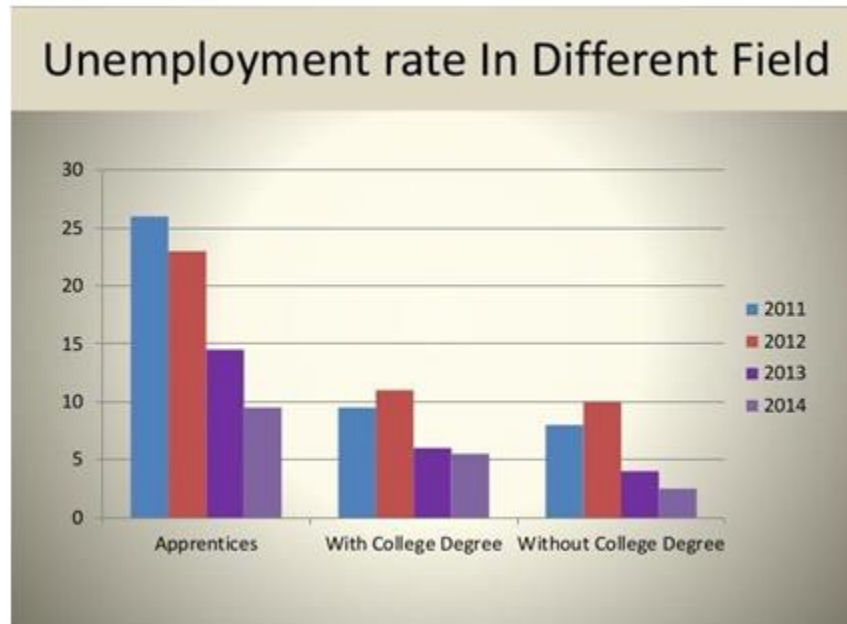
A major section of the Indian population is in the informal sector. According to the data released for the years 2000-2010, employment recorded data out of the 6.4 million new employment opportunities recorded, 79% were in the informal sector. These sectors are deemed to have low production value. An IMF policy paper has indicated that the share of India's informal economy in the Gross Value Added was at 53.9% in 2011-2012. According to National Sample Survey of 2014, around 93% of the workforce earned their livelihoods as informal workers.

According to some estimates post 2016, several schemes that have been initiated by the government, namely digitalization, have in fact led to higher formalization of the economy.

CONCLUSION

Self-employment, small businesses, are the key factors that can go a long way in trying to reduce the unemployment situation in India. Along with open unemployment of the independent workforce, a disturbing trend is the higher education qualification of the people seeking jobs. These people educate themselves in the hope that education will be a gate way out of poverty. This has resulted in highly qualified workforce applying for jobs that require lower qualification. In this situation the Government must devise policy measures that would encourage small businesses. To protect the labour they should ideally be in the formal sector.

Figure 4: Unemployment rate in different field



Source: Google image.

Recent studies have indicated that several states in India have adopted major changes in Labour reforms which have in fact increased the employment in the formal sector, as well as encouraged small businesses to develop. Rajasthan, Andhra Pradesh, and Maharashtra initiated these reforms in 2014-15.

The impact of these reforms was uneven across states. Rajasthan felt the impact in 2017, while Jharkand who initiated the reforms in 2017, felt it in the same year itself. This indicates that besides just labour reforms what is equally important is to address other issues like, skilling, basic infrastructure like water, power, electricity etc.

Equally important is to hand hold the small business sector especially during the pandemic. This sector was the worst hit during this time. Besides grappling with demonetization, Good and Service Tax, as well as the pandemic. This sector has started picking up in 2022, but they are facing acute financial issues.

The most important factor contributing to their financial health is delayed payments by the public and the private sector. This needs to be addressed immediately to avoid further stress to the sector which is the solution to the massive pool of unemployed labour resources.

The emphasis and encouragement on self-employment, small businesses, as well as the trickle-

down effect of a higher GDP growth is the solution to India's unemployment problem as well as reduction in poverty and reduction in inequality of incomes.

BIBLIOGRAPHY

1. Bloom. D, Demographic Dividend. Population Matters Rand. ISBN-13: 978-0833029263
2. Ehrlich. P, Ehrlich. A. The Population Bomb. Sierra Club/Ballantine Books. 1968. ISBN-1-56849-587-0
3. Nikhila. C, Project Report On Small Scale Industries. Niti Aayog. India.
4. Dun & BradStreet. Impact of Covid 19 Of Small Businesses in India and The Way Ahead. Dun& Bradstreet 2020.
5. Vinzuda. V, Rajput. J S, Design For Small Businesses In India-Helping The Real Entrepreneurs. April 2021. Springer Link.
6. Woetzal. J, Gupta. S, Madgavkar. A, India's Labour Market. A New Emphasis On Gainful Employment. Mckensey Global Institute 2017.
7. Mitra. A, The Indian Labour Market: An Overview. ILO. 20 August 2008
8. Padhi. B, Molkuri. V, Labour Force And Employment Growth In India. <https://epw.in>. 20 November 2021.
9. Sharma. N, Female Entrepreneurs May Hold The Key To Alleviating India's Unemployment Problem. EY Parthenon. February 19 2020
10. Rodgers Labour And Employment In India: A 50 Year Perspective. <https://link.springer.com>. 24 February 2020.