

## Employment in Indian Small Scale Industry: Some Issues

<sup>1</sup>N. Thangavel and <sup>2</sup>R. Elangovan

<sup>1</sup>Jeppiaar College of Management, 600 119-Chennai, India

<sup>2</sup>Sathyabama University, 600 119-Chennai, India

**Abstract:** Employment generation in the Indian Small-Scale Industry has been the subject of controversy in the past and the controversy continues to this day. According to the Indian planners, the principle of self employment was considered as important to a successful democracy as that of self government. In the modern era of global competition, small scales industries try to become investment driven in addition to being labour intensive. This study presents the efficiency in Indian Small Scale Industry in terms of accomplishing the avowed objective of employment generation.

**Key words:** Small scale industry, employment, capital, production, labour, competition

### INTRODUCTION

Small Scale Industries (SSI) or Small Scale Enterprises in a Country like India are broadly divided into 2 main types. On one hand there are the traditional Industries located in rural areas and using traditional methods to produce 'Traditional products'. Their linkages are mainly on the local level itself. Family labour is more or less an important component in the industry. On the other hand, the modern small scale industries which have been in existence in the post independent India are mainly located in semi-urban and urban areas. Their linkages are varied and many of them have paid employees. Moreover, they utilize electric power driven machine and machinery in their production process. The small scale industry has gained popularity in the last 60 years by accomplishing to a great extent the socio-economic objectives like decentralization of industries, economic inclusiveness, simulation of entrepreneurs endowed with latent resources. Above all in a thickly populated country like India the small scale industry has been approached positively with the purpose of generating employment (Dutt, 2005). Small scale units are considered to be labour intensive, i.e.; using relatively more labour and less capital than large-scale enterprises. In a low income country like India, where capital was usually scarce and labour was abundant, this was a great advantage to the small scale enterprises. The recent Indian Statistics show that this small scale sector accounts for 95% of the total industrial units contributing about 40% value addition in the manufacturing sector, 80% of manufacturing employment and about 35% of exports (Gupta, 2001). More than 123

lakh units are spread all over the country producing over 7500 items. The small scale sector is the biggest employment provider next to agriculture offering jobs to over 300 Lakh people.

According to the Economic survey of India (2006-07), while employment has grown faster i.e; 2.89% than before (0.98% from the year 1993-2000) the labour force registered an annual growth of 2.93%. Consequently the unemployment rate went up marginally from 2.78-3.06% during the years 1999-2000 to 2004-2005 (Khan, 2006). The Survey attributes this to the slowing down of the growth of the agriculture economy. The share of agriculture to the national economy fell from over 60% Gross Domestic Product (GDP) in the year 1950 to an appallingly low figure of 19% in the year 2006-2007 (Papola, 2006).

In India the labour and work force in the year 2004-05 were estimated to be 496.06 and 457.82 million respectively (Rengarajan, 2007). Nearly 58% of 458 million strong citizens remain trapped in the unproductive farm sector. The growth in agriculture which was facilitated by irrigation earlier was labour intensive and has become capital intensive later and this was accompanied by reduced labour absorption. The pressure of Population on land is already high and increasing and the agriculture labourers who were rendered surplus have become Jobless. Unemployment leading to out migration of the assetless people was also growing. It was argued that industrial sector is the next alternative where additional employment in organized sectors can be created through larger investments. The story with organized sectors is altogether different. India's largest Tata Steel company at

Jamshedpur employed 85,000 workers to produce one million ton of steel worth \$800 Million in the year 1994. In 2004 it churned out 5 Million tons of steel worth \$4 billion employing only 44,000 people eliminating the rest either by voluntary retirement or by compulsory retirement schemes (Shrivasta, 2007). While, output multiplied five times, the net employment halved. Leaving aside the organized sectors, the informal sector can be made substantial and make up for the failure of the former. The real challenge therefore going forward has been to devise a growth strategy, which will ensure that enough labour-intensive activity in manufacturing is created for adequate absorption of workers from rural agriculture sectors; The latest survey of National Statistical Organization (NSSO) finds that employment in India stands at 42% (37% in urban and 44% in rural India) (Tushar, 2006) out of 1000 people who are employed in manufacturing alone 246 and 81 people are employed in urban and rural areas, respectively.

Thus the maximum employment generation criterion aims at developing less capital but labour intensive industries and small scale Industries fit into this qualification. However, few facts remain. For SSI, the per unit employment has decreased from 6.3-4.6 persons as per the reports of the second (1987-88) and third (1999-2000). All India Census reports for small scale industries.

The gradual reduction in the strength of the workforce was documented in the III Census report with a sketchy explanation. The SSI was encouraged through financial and fiscal incentives by the Government on the premise that they are capable of accommodating the unemployed citizens. Since, the SSI were taken for granted that they were labour intensive, it was expected to spawn as many new jobs as it could. The SSI sector, especially during the post economic reform periods in India, 1991. could not bear the heat of competition both at the domestic and international levels and as a consequence it has to resort to technology modernization, upgradation of machines, automation and development activities. In that process axing a considerable proportion of workforce has to be made mandatory.

Further in the economic development in India over the last few decades, the most striking feature of the structural change in the Indian economy has been the pre-eminence of service sector as the major contributor of growth, raising its share sharply in the national output. Industry, particularly manufacturing which has been observed historically to be the main contributor of growth atleast in the initial years of economic development, has stagnated since, 1990-91 (Papola, 2006). The pattern of structural changes is as shown in Table 1.

Table 1: The pattern of structural changes

Year	Agriculture (%)	Industry (%)	Services
1950	60	13	27
2004	24	25	51
2007	19	26	55

Table2: Performance of SSI sector

Year	Capital fixed Investment (Rs. Crore)	Employment (Million)	Production (at 1993-94 prices, Rs. Crore)	Exports (\$billion)
1990-9	193555	15.83	84,728	5.29
1991-92	NA	16.608	7,355	5.63
1992-93	109623	17.48	92,246	6.14
1993-94	115795	18.26	98,796	8.07
1994-95	123790	19.14	1,08,774	9.26
1995-96	125750	19.79	1,21,175	10.90
1996-97	130560	20.59	1,34,892	11.06
1997-98	133242	21.32	1,46,263	11.96
1998-99	135482	2.06	1,57,525	11.64
1999-00	139982	22.91	1,70,379	12.51
2000-01	147348	23.87	1,84,401	15.28
2001-02	154349	24.93	1,94,613	14.94
2002-03	162533	26.02	2,10,636	17.77
2003-04	170726	27.14	2,28,730	21.25
2004-05	NA	28.26	2,51,511	NA

Source: Ministry of Small Scale Industries, Govt of India (Extract from 'Business World Jan' 2007)

Table 3: Co-efficient of Correlation of SSI parameters

	Production	Employment	Capital	Export
Production	-----	0.9947	0.9754	0.9749
Employment-	-----	-----	0.9928	0.9793
Capital	-----	-----	-----	0.9787

The swift transition of the Indian economy directly from agriculture to the service by-passing industrial development has done damages to the industry in general and the small Industry in particular. Semi-literate, school dropouts and school-finished youth were lured into the services more easily than being absorbed in blue-collared jobs in manufacturing industry sector.

The crux of the present issue is whether SSI continue to be dominated by labour strength alone. If so, to what extent?

The Government of India has been implementing 5 year plans during the last 5decades with the fervent hope that growth in Small Scale Industry would automatically generate employment.

The objective of this study is to examines the efficiency of the SSI sector in terms of fulfilling this said objectives of growth and employment generation. An analytical study is conducted by bringing out the interrelation ship between the employment and production and between the investment (by way of machine and machinery) and production of SSI. The study is carried out based on the secondary information provided by the III All India Census data (2001-2002) and the publications of the Ministry of Small Scale Industries of the Government of India.

Table 4: Growth rates of SSI in India: 1990-2005 (in Percent)

Employment	4.08
Capital (Investment)	4.11
Production	8.42

Table 5: Regression estimates for SSI Industry Period: 1990-2005

Size effect of production on employment:	R <sup>2</sup> = 0.94
Equation 1: Log E = -1.215 + 0.493 log P*	
Size effect of production on Capital:	R <sup>2</sup> = 0.94
Equation 2: Log C = 2.5997 + 0.489 log P	
E = Employment; P = Production; C = Capital	

Table 6: Percent Distribution by Employment

No. of Employees	Percent of no of units in regd SSI Sector	Percent of no of units in the unregistered sector
1	22.23	43.13
2-7	66.62	55.31
8~ and above	11.15	1.56

Table 7: Type of small scale units

Details	II Census(%)	III Census(%)
No. of SSI	96	65.7
No. of small scale and business service units	4	34.3

Table 8: Fixed Investment

Details	II Census	III Census
Per unit fixed Investment	1.6 lakh	7.11 lakh

**SSI parameters and their study of interrelationship:** The figures in respect of employment, fixed investment, production and exports from the year 1990-91-2004-05 of the Indian SSI are tabulated. The study period is 15 years. The performance of the Indian SSI Sector is studied with reference to the statistics of the Government of India in Table 2.

If the time series analysis is carried out with respect to each indicator, they show almost a linearly rising trend. All the four parameters indicated in the above table are found to be closely related. The co-efficient of correlation estimated between the variables is more than 0.9 as shown in Table 3.

The growth rates estimated from Table 2 in respect of the three parameters Viz., Employment, capital and production are shown in Table 4. It is seen that the growth rates of employment and capital are almost the same.

In Industrial employment Size effect and Substitution effect come into play. Size effect means the larger the Industrial output the larger will be the employment. Substitution effect implies that the larger the substitution of labour by capital (investment) the larger will be the employment. An attempt is made in this study to examine the employment generation through size effect and substitution effects. For this purpose, regression equation of the form  $\log E = \_ + \_ \log P$  where E refers to the employment and P refers to the production has been estimated and presented in Table 4. Similarly the

regression equation connecting capital and production has been estimated in the form  $\log C = \_ + \_ \log P$  and presented in the same Table 5.

Based on the estimations, the following inferences are made:

- For one percent increase in production during the study period there is .493 % increase in employment implying that growth in production was positively associated with the growth in employment.
- One % increase in production led to .489 % increase in capital investment in the study period indicating that growth in production was also associated with growth in capital.
- Both the factors i.e., employment and capital exert equal degree influence in growth of production. The degree of differences between them is insignificantly small, implying that both employment and capital exhibit the characteristics of being equally sensitive to the growth in production by the same level.

The above facts are corroborated by the findings of the latest III census data in respect of employment, type of small scale unit structure and investment which are presented in the Table 6-8.

As compared to the situation prevailing at the time of second census, the third census brought out some structural changes. The average per unit employment has also come down from 6.29-4.6%.

About 89 and 98% of the registered and un-registered SSI units have a work force ranging from 1-7 employees. The figures give evidence to the fact that SSIs are bent on reducing the workforce and during times of contingencies SSIs are used to get their jobs carried out either by outsourcing agencies or employing contract services.

Another factor to be taken note of is that while the proportion of working units remained the same by and large the domination of SSIs of the working units (mostly of manufacturing type) has been reduced considerably from 96-66%. This is mainly due to increase the number of small scale units engaged in services.

The per unit fixed investment in the shop floor of SSI units has also gone up (Table 7) due to technological upgradation and development resorted to by the factory units in the face of the changed competitive situation.

## CONCLUSION

From the foregoing analysis, it is seen that Indian Small Industry has exhibited similar growth of employment and capital during the study period from the years

1990-91 to 2004-05. There is evidence to show that investment was forced on SSI for technological upgradation and modernization of machines. These developmental changes are quite visible in traditional sectors like textiles, leather and sunrise Industries like automobiles. This is due to pressure of competition which the SSI has to face in the domestic and international markets for their survival. In view of this, one can conclude that SSI manufacturing sector has been constrained to meet expectations of the planners as far as employee generation is concerned.

A still more realistic status of employment growth can be made known, if the missing data of the death-rate of the Small scale units during Study period is also taken into account.

#### **REFERENCES**

- Dutt, R., 2005. Indian Economy. S. Chand and Company Ltd, New Delhi, pp: 694-695.
- Gupta, S.P., 2001. Report of the study group on development of small scale enterprises. Edited by Planning Commission, Government of India, pp: 1-2.
- Papola, T.S., 2006. Emerging structure of Indian Economy. Indian Econ. J., 54 (1): 34-35.
- Rengarajan, C., 2007. Employment and Growth. The emerging scenario. Hindu English Daily, pp: 10.
- Shrivasta, A., 2007. Why this growth can never trickle down. Hindu English Daily, pp: 18.
- Tushar, K.M., 2006. Employment in Manufacturing. Economic Times, English Daily, pp: 18.