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Renewed assault on the small

Encouragement to small scale units is not dogma but a practical economic philosophy, says Uttam Gupta

WITH liberalisation, opening up areas reserved for the small scale sector to the medium and large enterprise as also MNCs has been on the national agenda.

It is not as if that the latter presently have no presence in the so-called exclusive preserve for the SSI; enough loopholes exist in the reservation policy which enable them to do good business in these areas. However, the intention seems to be not only to legitimise this, but also further enhance their stronghold.

So far, various modus operandi have been aired. These include raising of the equity by medium and large enterprises in SSIs from existing 24 per cent to 49 per cent, and raising of the investment ceiling applicable to the latter.

So far, talk of outright dereservation has been mute in view of its political ramifications. This is notwithstanding an ongoing process of reviewing and rationalising the list of reserved items with the aim of pruning it drastically.

Recently, however, this received a shot in the arm with the industry minister categorically stating at a recent seminar that "preservation and protection of the small scale sector will eventually have to go as this sector is gradually brought into the fold of the government's economic liberalisation policy".

That, in the same seminar, the secretary of the department of small scale, agro and rural industries suggested de-reservation of the dairy based ice-cream sector, shows the impatience and the speed at which the Government now wants to proceed.

Why should the reservation for SSI go? This question has not been addressed. The government is not even keen to look into the objectives for reservation, its achievements and the critical role that the SSIs play in the overall national economy.

At the core, the policy has an employment orientation. Ours is a country with rapidly growing population and large scale unemployment. A large number of small size units, operating simple and labour intensive technologies, assure work for millions. Encouragement to such units is not dogma, but a practical economic philosophy best suited to the needs of the nation.

Flourishing and growing SSIs contribute to generally improved income levels and a better distribution of income. This is good even for the medium and large industries operating in sophisticated, high tech areas. Evenly distributed and reasonably high incomes provide large scale purchasing power for a variety of industrial goods in which bigger industries specialise. But for the former, it will be virtually impossible to support growth of the latter.

The policy has been a great success. This is amply vindicated by the rapid growth of SSIs during the 70s and

ed to be a source of incremental employment. On the contrary, there is bound to be unprecedented loss of jobs consequent to implementing the PSU restructuring programme and its privatisation. Job creation in the private sector is too slow despite repeated pronouncements about rapid expansion. Against this backdrop, the need for encouraging the SSI is even greater.

In support of de-reservation, the questions of quality, hygiene and economies of scale have been raised. Are we saying that the SSI do not produce quality goods? That they do

We can have hundreds of units region. Alternatively, it is also possible to meet the entire requirements of the block/city/ region from a single, modern, fully automated large scale plant.

Undoubtedly, the second option enjoys economy of scale; but this need not necessarily result in lower unit cost of shoes. This is because the potential benefit of having to distribute fixed cost, including capital charges, over a large output tend to be more than offset by much higher financial costs including high overhead and the tendency of the big wigs to maintain unprecedented profit margins.

While consumers may still not benefit by way of lower prices, the setting up of large-sized modern plants is bound to eliminate the small units and render millions of workers unemployed.

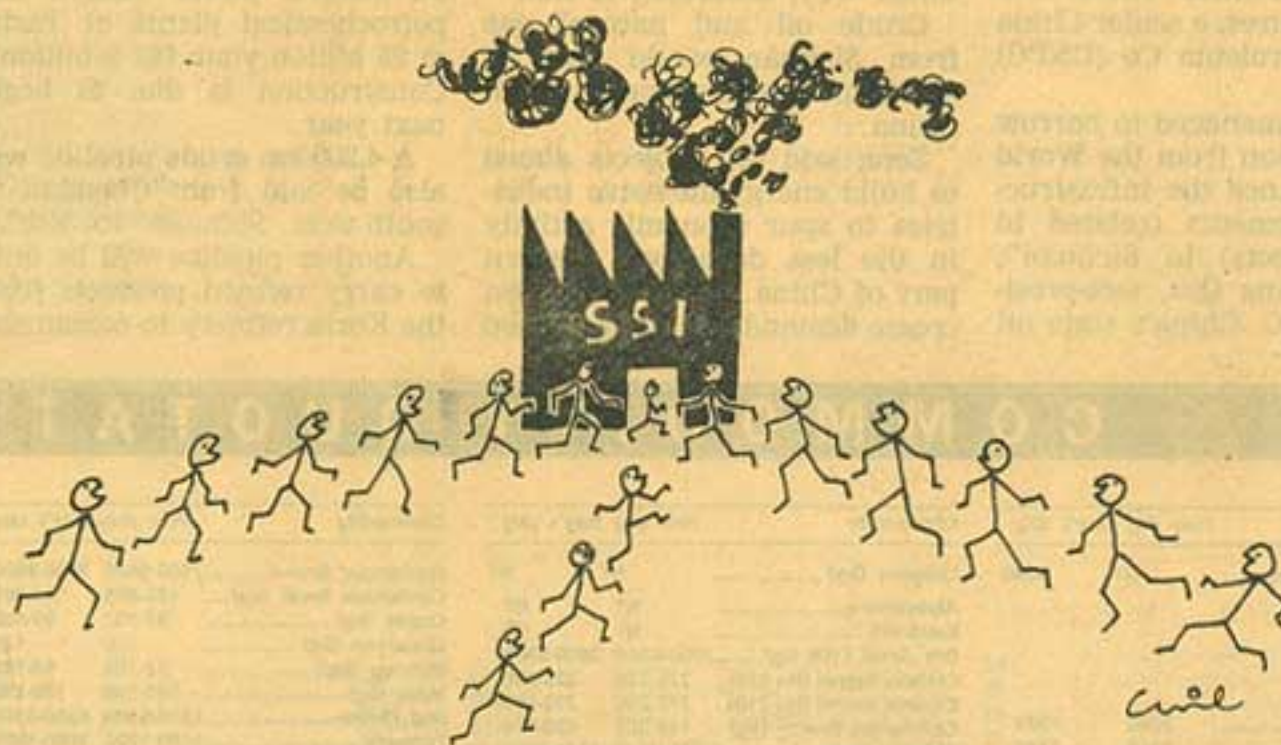
Critics of reservation unfortunately do not highlight the adverse effect, if any, that production of any given item by large number of small units may have. What does the economy lose if they are allowed to continue? They must figure this out before launching a tirade against SSIs which are virtually the foundation of the Indian economy.

The big should also recognise that annihilation of the small scale units will be contrary to their own interest. Workers thrown out of jobs on an unprecedented scale means recession which is unlikely to leave the biggies, including the MNCs, unscathed. If they want their markets to grow, it is in their own interest that they allow the policy dispensation like the reservation for the SSIs to continue.

The government, too, should view SSIs in a broader perspective. To the extent, employment in the SSI sector expands, there will be less pressure on the government to create more jobs — even allowing it to tackle with redundancy in the government sector. Exports by SSIs are a big source of foreign exchange earnings.

It is hoped that the government will not initiate itself in to a policy that could spell disaster for the country's economy. Liberalisation and competition are, no doubt, important; but let us not twist definitions and phrases to buttress policy changes that do not stand scrutiny in terms of economic rationality.

to improve the quality of the



80s and resultant predominant contribution in the overall manufacturing output, in exports and in providing employment. Notwithstanding this, the overall employment situation in the 90s is far from satisfactory.

In fact, the 8th Plan Mid-Term Appraisal clearly brings out that the growth in employment during the first three years of the plan (post-liberalisation phase) has not only been short of the target, but even lower than growth in the pre-reform period. The review further stresses that during the remaining two years (i.e. 1995-96 and 1996-97) of the plan period, additional employment creation will have to be 12 million each to reach the overall target.

The public sector has virtually ceas-

not carry out production in hygienic conditions? These observations are divorced from the ground reality. Large scale acceptance and use of goods produced by SSIs on the home front clearly proves that the charge of lack of quality is a myth.

That the SSIs contribute the largest share of export earnings further reinforces this point. There could, however, be some cases of poor quality and substandard goods and material. But that is not something special to SSIs; laggards exist even in medium and large enterprises.

The economies of scale argument is a total misfit in the context of the small scale industries. Shoe making, for instance, is inherently a labour not require sophisticated technology.