

COVID 19 Calls for a New Economics:

'Sustainable Development through Enterprise'

ISED Discussion Paper

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ISED Small Enterprise Observatory
Jointly with
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Published by P.M. Mathew for Institute of Small Enterprises and Development.

Series: ISED Discussion Paper

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Preface

Mainstream Economics and development policy often consider employment in the limited framework of the 'factors of production', labour and capital, being the drivers of income and employment. The 'Sustainable Development approach and the global agenda are more comprehensive, and consider the process of development in terms of its multifarious contributory factors. The term 'enterprise', in its dual meaning as a noun and a verb, is closer to the above new framework of analysis. Covid-19, the pandemic that has triggered a massive disruption in all types of economic activities. This is an opportunity for introspection on the prevailing theoretical positions and policy approaches. Unleashing the creativity of the human being is the key to any kind of a pandemic situation.

This Discussion Paper, brought out jointly by the ISED Small Enterprise Observatory and the ISED Centre for Economic Research, is expected to contribute to the debates on labour market and enterprise development strategies in developing and emerging economies.

The Institute wishes to thank the research team for its support and cooperation.

Cochin

April 12, 2020

P.M. Mathew

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Abstract

Mainstream Economics and development policy often consider employment in the limited framework of the 'factors of production', labour and capital, being the drivers of income and employment. The 'Sustainable Development approach and the global agenda are more comprehensive, and consider the process of development in terms of its multifarious contributory factors. The term 'enterprise', in its dual meaning as a noun and a verb, is closer to the above new framework of analysis. Covid-19, the pandemic that has triggered a massive disruption in all types of economic activities. This is an opportunity for introspection on the prevailing theoretical positions and policy approaches. Unleashing the creativity of the human being is the key to any kind of a pandemic situation.

Key words: Covid-19, new economics, sustainable development, enterprise, evidence-base

1.0. Introduction

The consequences of COVID-19 are unprecedented and felt around the world. The 'world of work' is being profoundly affected by the pandemic. Besides its public health implications and social tensions, the economic disruption threatens the long-term livelihoods and wellbeing of millions. Understanding and pin-pointing the economic impact is critical for getting grip on the way forward.

The ILO, by its mandate, looks at the labour market disruption in broad terms. Its latest estimates of global unemployment is 25 million. Based on different scenarios, its estimates indicate a rise in global unemployment of between 5.3 million ("low" scenario) and 24.7 million ("high" scenario) from a base level of 188 million in 2019. By comparison, the 2008-9 global financial crisis increased global unemployment by 22 million only. While making such

projections, economists would, naturally, look for simplifying assumptions.. The basis, as ILO puts it, is the "internationally coordinated policy response" measures including, social protection, supporting employment retention, and financial and tax relief, including for micro, small and medium-sized enterprises. Does it offer a sound logic for the policy maker? After all, beyond the judgement of the epidemiologist and the economist, it is the decisions of the policy maker that will shape the destinies of economies and people's lives at this critical juncture in human history.

2.0. Need for Evidence-base

The need for a strong evidence-base, as the sine qua non for public policy, is universally accepted today. That would, again, require that, development discourse need to be grounded on conceptual clarity and operational meaningfulness. However, it is a little bit

surprising that, in many cases, the economist and the popular media share a common identity, and come up with guestimates rather than estimates. Rather than creating a scare that is worse than the pandemic, the development practitioner need to take a more realistic position based on evidence-base, and of the understanding on the objective situation of particular countries. To the economist, there is a self correcting mechanism by which the economy functions. The role of public policy is to channelize such forces to the best interests of the welfare of the masses.

3.0 Conceptual Clarity

In the Economics of Pandemics, the two relevant key words are, 'enterprise' and 'livelihoods'. For both, the labour market is the operational ground. Enterprise is, at a time, a human trait and a physical entity. Livelihood is an individual choice. Opportunities, in turn, are offered by the market. The fundamental issue of public policy is to provide the 'Framework Conditions'(EFCs), by which they bloom and fructify into economic activities that generate incomes, employment being a spill-over. 'Livelihood' is, an economic opportunity translated into an activity that can act as a means of subsistence. 'Framework conditions are those conditions that enhance (or hinder) new business creation and entrepreneurship. In the methodology of the 'Global Entrepreneurship Monitor (GEM)'. EFCs are one of the most important components of any entrepreneurship ecosystem and constitute "the necessary oxygen of resources, incentives, markets, and supporting institutions for the creation and growth of new firms" (Bosma et. al., 2008: p. 40).

3.1 Inner Meaning of ' Employment'

The terms, 'employment', 'livelihood', and 'entrepreneurship' are interchangeably used today; even policy makers and development practitioners often fail to distinguish the in specific contexts. Both 'enterprise' and 'livelihood' form part of a continuum. 'Livelihood', a more broad term, is a means of making a living. It encompasses people's capabilities, assets, income and activities

required to secure the necessities of life. 'Enterprise' is a more focused concept. The qualitative dimension of the continuum has been described by economists in terms of the duality of orientation, "necessity-driven" or "opportunity-oriented".

A heavy bias of necessity orientation of entrepreneurship, in any economy, would lead to the mushrooming of a large number of tiny enterprises, often engaged in services, such as tea-shops, barber saloons, mobile phone repairing etc. While the policy maker often considers them as a political solution to the problem of unemployment, available global data and findings of country studies show that, they often do not make a major contribution to addressing the problem of unemployment. For example, results of Rabelotti's research on Italy generally confirm a negative association between the rate of self-employment and the stage of development: According to him, self-employment would tend to disappear with the development process. However, his study suggests that, some cases self-employment are also related to high value-added manufactured exports, representing a dynamic and emerging form of entrepreneurship. To this aim, self-employment would not be motivated by the desire to evade taxes, but rather an active role of the government may enhance it.

3.2 Systemic Versus Welfare Approach

While wage employment and self employment are the two key options available in the labour market, what is the degree by which people choose between the two? It depends on: a) subjective perception on risk/return; and b) the objective reality of economic and social factors that define occupational 'security'. In labour market analysis and policy, one need to analyse the individual choices, as also the systemic features that can explain the situation, and to shape strategies. Hence, a systemic approach to understanding the process of economic

opportunities, getting translated into 'enterprise' or 'livelihood', is crucial.

In a 'systems approach', self employment cannot be created simply on a 'welfare' mode. It needs to be discussed under the specifics of the market. Therefore, what is needed is to create systems, and to ensure that these systems work in a sustainable manner. It is in this context that the concept of "enterprise security" become relevant.

4.0 Comparability

Some scholars and the popular media in general have tried, to compare the unemployment levels of the 2008/9 global crisis, and of the present pandemic. Such comparison has also been made with the Great Depression. From the point of view of shaping public policy for the SME sector, such comparison itself is wrong, let alone the incorrect results that it may lead to. Why?

Understanding SME performance under business cycles is complex. There are some isolated studies that have looked into their role in the economy during crisis situations (see, Erixon, 2009). How they behave during a pandemic, is yet to be analysed on the basis of hard data. The Spanish Flu (1918-20) is the only global pandemic known to this generation, at least to some extent. Economic data from the early 20th century is scarce. However, an analysis by the Federal Reserve Bank of St. Louis estimated that a lot of businesses, particularly service- and entertainment-oriented ones, "suffered double-digit losses in revenue." However, the economic disruption appears to have been short-lived, as the underlying health emergency subsided in 1919.

The Great Depression is the only global economic reference point available to us. However, unlike the days of the Great Depression, SMEs and entrepreneurs are a much more vital presence in global economy today. The logic of SME behaviour during an economic

crisis is much different from the behaviour of other economic entities. An analysis of the more recent experience from Europe, brought out by the Economist Intelligence Unit, is revealing. SMEs represent the vast majority of all firms in Europe; of the existing 20,500,000 companies in Europe in 2007, all but 43,000 were SMEs. Also, their number is growing faster than that of large enterprises. The 3.5 million SMEs account for 99.7% of the total number of companies in Japan and, needless to say, they are essential in sustaining the country's economy. The United States' 30 million SMEs account for nearly two-thirds of net new private sector jobs in recent decades. There were approximately 2.45 million SMEs in Germany in 2017, an increase of 360 thousand enterprises when compared with 2011. Of these enterprises, the vast majority were micro-sized enterprises which employed up to nine people.

It is not often the size of the economy that matter in facilitating the growth of SMEs. In fact, small enterprises sprout and grow against difficult odds, rather than the typical ecosystems that governments try to provide with. In the EU-15 group, it is Portugal and Ireland that have experienced the fastest growth—both with an annual average growth rate above 8%. The retail sector has the greatest number of slightly more than 30% of SMEs, followed by construction and manufacturing. Though at a time when many large manufacturing companies have outsourced production to other countries within Europe, one would have expected a bigger increase in their share; it has not happened. About two-thirds of the private sector employment in Europe is constituted by SMEs. Micro firms, with an average of two workers, represent roughly 30% of total employment in the private sector.

Portugal and Italy are the two countries with the highest share of private employment represented by SMEs. Countries with a high

employment share represented by SMEs do not seem to add to many new jobs. In Italy, for instance, the employment share of SMEs is declining. In Portugal the average growth rate has been 0.02% in the past 8 years. In fact, the pattern observed suggests that, the higher the employment share, the lower the employment growth is. One explanation for the declining or low growth rates in these countries can be found in the profile of their SMEs. The above "Gazelles and Mice" argument has been the mainstay of the "missing middle" debate, fashionable among the global development finance circles today. The argument is that, development finance is moving largely towards the " micros", denying the middle, the opportunities of growth.

5.0 Contra-cyclical Role

The contra-cyclical role of the SMEs has been articulated based on some country studies; it needs much more strong evidence-base. In fact, evidences have to come from large economies like India. A slowdown in the economy is a time of productivity swings. The balance in productivity growth will probably shift in favour of large businesses. Labour-productivity in large enterprises tends to grow. Such trend of higher labour-productivity growth in SMEs is likely to extend from the medium to long term. For the corporates, the short-term cyclical effect will be much greater. It is therefore, important that, anti- cyclical public policy for the SMEs need to be of a long -term nature, and increasingly focused on correcting structural abnormalities. A one-time relief package, during times of a crisis, is not likely to help them much. But, this is what most governments do. On the other hand, large businesses need a one-time boost, which often happens in the forms of a massive pump-priming policy. Such measures meant to boost demand will, along with business confidence, help to expand consumption levels. The initial boost will be taken forward by the SME sector, thereby leading to a long-term impact on aggregate demand.

6.0 Towards a New Economics and Development Policy

The experience of COVID-19 presents a unique challenge and opportunity for development theory and policy. It presents a development dilemma posed by the interplay of two mutually exclusive objective factors: While the prevailing development paradigm, specifically as it relates to the micros, addresses them in terms of "social capital", the epidemiological compulsions of today urge them to maintain " social distance". Countries like Japan, Canada and European Union, having reasonably strong business demographic platforms and analytical tools are able to at least find out and make a quick assessment of what has happened to their SMEs, and can take some corrective steps in the short run. For other countries, there need to be a meticulous effort towards streamlining their economic governance system.

COVID-19 has brought in a mega disruption in the economies of the world. Unlike during the Spanish Flu, and the Great Depression, technology has emerged as a much greater significant third force. For public policy, the options today are limited. To go ahead with the paradigm set in by Industry 4.0 (Fourth Industrial Revolution),or to opt for a hybrid model where SMEs have a much greater space. The feasibility of brand new concepts such as "micro manufacturing", "gig economy" and "circular economy", need to be discussed against this background.

Unlike the days of the Great Depression, there is a major contradiction as well. Following the "roaring 20s", up to 1940s, manufacture was the driving force of economic growth in most advanced countries of the world. It was against this objective ground that tremors erupted in the form of the Great Depression. Today, the place has been taken over by services, which accounts for nearly 63 per cent of the global GDP. While

manufacturing provides the backward and forward linkages for the SME sector, which is services-dominant, today, manufacture itself has taken a back seat. Hence, during times of a long-term crisis, such as the present pandemic, "enterprise security", by and large, will be in trouble, the adverse consequences of which will fall largely on the SMEs. The present experience demands a new economics of small enterprises, based on a 'rights' based approach. For historical and objective reasons, India has a sound ground for moving on these lines. Even with its creditable economic growth, India has miles to go before it reaches the Sustainable Development Goals. The train of natural calamities over the past half a decade, and more specifically the present pandemic, reminds us of the fragility of the growth rates, and the need for broad basing the growth experience. Igniting the entrepreneurial spirit among the masses, is the key to such a broad basing exercise.

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