

The World of Work and SMEs Today

ISED Discussion Paper

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ISED Small Enterprise Observatory
Jointly with
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Preface

The central theme of debate on poverty is the ways and means to overcome it, based on income opportunities. While a discussion on small enterprises and their role in the economy needs to be based on the structure and trends in the labour market and the respective coping systems, poverty, as a real- world problem, speaks of the distribution of resources and capabilities. Therefore, an agenda of reduction of poverty need to be grounded on enhancing the access to such resources and capabilities. Entrepreneurship has a critical role to play in this regard.

Under the India MSME Communication Programme(IMCP), the Observatory, in co operation with the various Knowledge Centres of the Institute, makes a rigorous analysis of the latest currents in the MSME constituency, leading to a unique 'Development Report'. This study is a spill-over of this exercise of Development Reporting on micro, small and medium enterprises (MSMEs) at the ISED.

While the team of the Observatory did a meticulous job under the guidance and support of the Project Leaders, individual members of the Team, including the editors and the Associates, have made their special contribution in specific thematic areas. While this title is significant in the present context of the Indian economy , and of the MSME developments in specific, I hope it will contribute to wider discussions in the subject area.

As this title come out as a joint output of the Observatory and the ISED Centre for Social Development, the Institute wishes to thank, without fail, the pains and efforts of the authors, and all who have supported it through inputs and suggestions. ISED has taken best efforts to ensure the quality and reliability of this paper. However, for the findings and views, the authors alone are responsible.



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Abstract

The central theme of debate on poverty is the ways and means to overcome it, based on income opportunities. While a discussion on small enterprises and their role in the economy needs to be based on the structure and trends in the labour market and the respective coping systems, poverty, as a real- world problem, speaks of the distribution of resources and capabilities. Therefore, an agenda of reduction of poverty needs to be grounded on enhancing the access to such resources and capabilities. Entrepreneurship has a critical role to play in this regard.

Key Words: Labour market, poverty debates, SMEs, India.

1.0. Introduction

Any discussion on small enterprises and their role in the economy need to be based on the structure and trends in the labour market and the respective coping systems.. As such , it should invariably be based on livelihoods, the ultimate outcome of the labour market. Naturally, the discussion on livelihoods is, alternatively, a discussion on poverty as well. Apart from several narratives on the concept and its measurement, the central issue of debate need to be, ways and means to overcome it, or the means and methods to ensure income opportunities.

Poverty is a relative concept. The poor are generally identified in terms of the degree of their deprivation to a basic command over resources(food). However, poverty, as a real- world problem, speaks of the distribution of resources and capabilities. Therefore, an agenda of reduction of poverty need to be grounded on enhancing the access to such resources and capabilities. This distributional aspect has often been perceived differently by development economists and scholars from other disciplines^[1].

2.0. Theoretical Perspectives

There are varying perceptions on poverty, though there is a unanimity of opinion that it need to be eradicated, or at least, brought down. However, the differences arise in terms of the methodological approaches. Such differences arise when poverty is considered as a relative concept. There are also some broad definitions of poverty, which explain it as: "the condition of a human being who is deprived of the resources, means, choices and power necessary to acquire and maintain economic self-sufficiency, or to facilitate integration and participation in society. According to early theories of economic development, the capital scare developing countries needed industrialisation, to follow the path of the developed countries. As such, greater infusion of capital, through import of capital

equipments was considered to be the major thread of the methodological approach. As development takes place, there is likely to be a spill- over effect that leads to a reduction of poverty levels.

Subsequently, the role of institutions, and institutional changes came to the mainstream of development debates in India during the 1970s. In the late 1990s, the focus on 'social capital' as an enabling platform for poverty reduction, came into active debates. Following the 'Gramin Bank Model' in Bangladesh, the concept of 'self help groups' emerged as a platform of social capital that can empower the poor people, came in to active debates.

The enhanced global interest in poverty reduction led to enquiries in new directions, often of a multi disciplinary nature. The thinking of the poor people as a potential link in the global value chains, often directed by the multinationals, was another stream of thinking. The 'Bottom of the pyramid " hypothesis, put forward by Prahlad(2006), has three premises: (1) the world's poor constitute massive growth opportunities and profit potential for MNCs; (2) MNCs should play a leading role in unlocking the economic potential of such difficult-to-access markets; and (3) bringing the poor into the global economy will simultaneously generate fortunes for the MNCs, while solving the problem of global poverty.

There is a common thread that runs through the above theoretical discourses: labour market behaviour. The changes in the labour market are both a cause and consequence of entrepreneurial behaviour of individuals and communities. Therefore, a discussion on it is crucial for a meaningful understanding of the state of MSMEs.

3.0. The Forgotten Full Picture

The concept of 'poverty' has been widely debated. It involves three vital, but interrelated, aspects: 1) food; 2)livelihood; and 3)enterprise. Survival of the

Poverty, Livelihood, and Enterprise: Need for a Full Picture

The concept of 'poverty' involves three vital, but interrelated, facets: 1) food; 2) livelihood; and 3) enterprise. Survival of the human being involves the necessities of life, ie., food clothing and shelter, as it is put forward by the classical economists. 'Food' is a notional indicator of survival. 'Livelihoods' involve the income opportunities that facilitate access to food. 'Enterprise' is an indicator of human capabilities that facilitate access to livelihood. Therefore, 'enterprise' is considered to be the sine qua non for 'sustainable development'. Given this mutuality of relationships, the objective environment of nation States, along with the prevailing public policy framework, drive the economy forward in utilizing its human resources for sustainable development. However, public programs and schemes often have a stand-alone view of enterprise development and employment promotion.

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Though the above basic principle is valid in all societies, the concept of the nation state and the growth of the market economy has contributed to theoretical perception and constructs that favour specialisation. In economic theory, from classical comparative advantage theory to modern concept of 'flexible specialisation', and to more advanced strategies of work organisation such as 'hubanomics', the basic assumption in a globalised economy is that, countries and communities need not bother about producing everything that they consume; deficits can be met somewhere else; surpluses can be exported. A logical extension of this, obviously, leads to "beggar your neighbour policies" and having over optimism on one's own relative capabilities and strengths. The twenty first century has witnessed a marginal retreat from this line of thinking, which has reflected in local production strategies, and even a global agenda called Local Economic Development, as propounded by the multilateral agencies like the ILO. While this is an encouraging trend, as it helps to preserve local livelihood opportunities and skills, its constraints also need careful examination. Space-neutral production systems have been argued on productivity and efficiency grounds. However, the ongoing pandemic, Covid-19, has strengthened the case for regionalised production and local value chains.

4.0. Technology and Productivity

The role of technology and productive efficiency have been a long debate. It is this debate that has led to discussions on the 'Intermediate Regime' in theoretical discourses. The milestone in this area is the formal accelerated trend in globalisation, specifically since the 1990s. The radical changes in production structure, both vertical and horizontal, has resulted in leaving the basic studies on 'choice of technique' and 'poverty', into the backyard of development debates. The paradigm of 'Fourth Industrial Revolution', and its path breaking potential, has raised questions on the scenario of the labour market, and of livelihood opportunities, especially of the so called "redundant labour".

4.1. Formalisation of the "Invisible Workplace"

The concept of flexible production systems, and the very concept of flexible specialisation, was a characteristic feature of the Third Industrial Revolution. Flexible specialization, a form of industrial organization in which firms specialize in certain products but are able to change at short notice to producing different ones. A notable feature is that such flexibility can make it viable to produce small batches of each product. While the logic of mass production gave way to small batch production, it became possible that the basic economic principle of 'scale of production' could take a tweak, without productivity and profitability being adversely affected. As a corollary of this tweak, labour, which was traditionally considered to be less mobile, became a significantly more mobile factor.

While mobility of labour became increasingly important for the new model of production, the legal and institutional framework often acted as a constraint for such mobility, apart from the costs involved therein. Therefore, it became imperative that labour be incentivised to choose mobility, rather than enforcing it. In government service, job transfer, in many cases is considered as a punishment. A strategic approach to deal with the situation has been two-fold: 1) incentivising mobility; and 2) incentivising