Small Enterprises: Who Benefited From Neoliberal Reforms?

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The policies pertaining to economic reforms in India, pursued since 1991, have their roots in the neoliberal policy prescriptions stated explicitly in the World Development Report 1987. The report argued in favour of outward oriented industrialization, macroeconomic stability and efficient allocation of resources by way of 'getting prices right'. To achieve these broader goals of structural adjustments, the recommendations were: reducing tariffs and abolition of quantitative restrictions, removing price controls, rationalizing investment regulations, deregulation of interest rates, reforming labour market regulations, and finally reducing the role of government in order to minimize Directly Unproductive Profits. The Statement on Industrial Policy, July, 1991 and related reform measures in fiscal, monetary, exchange rate and trade incorporated the set of policies mentioned above including dereservation, abolition of controls on investment (MRTP, FERA), reducing import restrictions and credit control, reduction in public expenditure and subsidies; reduction in customs duties and so on. In the context of industries it was assumed that as a result of these reforms industries would grow at a faster rate in this liberalized regime, being more efficient in its use in resources and more competitive in international markets. However facts go against the expectations of the liberalizers.

The hyperbole of high growth rates in GDP in India has not been accompanied by a satisfactory growth in Indian industries. For the last three successive years the growth rate of Indian economy was quite impressive, more than 9 percent, however, average annual growth rate of industrial output falls short from that of the earlier decade. True, industrial investment shows a rising trend during the later part of the liberalized regime. The surge in investment was basically a response to declining import duties i.e. to falling unit cost of capital inputs and also to increased accessibility to international finance. However, created capacities were never matched to incremental output because of stagnant demand which the neoliberal policies miss to address. The exclusionary nature of the growth trajectory of our economy influences the growth of industries as well. Indian industries are looking for export markets and the upper middle class market of the domestic economy. The compound annual growth rate of consumption of the middle and high income group of India was high over the last decade. In order to cater to their demands of luxury commodities and consumer durables, necessarily to be produced at international standards in order to remain buoyant in a market when the dichotomy between the 'domestic' and 'foreign' is gradually eroding, which is why, it influenced the choice of technology and the product mix. Indian industries increasingly relied on labour saving techniques and imported inputs thereby worsening the employment elasticity in the organized sector. The real capital stock per worker is now three times what it was in 1993 and in the post reform period growth in organized manufacturing sector was 7.31 percent, albeit, accompanied by no net increase in employment. On the other hand as a result of the market-led reforms employment capacity of the agricultural sector has decelerated sharply during the last decade thereby, increasing the 'push' factor and more people are forced to seek occupations in the non-agricultural segment of the economy. In this milieu, because organized sector is not capable to provide employment to the increasing number of job-seekers the share of non-agricultural worker in the unorganized sector rose from 32 percent to 36 percent in the course of reforms.

This is the backdrop of the resurgence of interest toward small enterprises. Small firms are assumed to have the twin capacity of generating employment by using labour intensive technologies and that of coping with the emerging challenges of the market with multiple skills and flexible technology. The recent debate within the World Bank Group on policies regarding small enterprises centres around two major contesting themes: a) pro-SME policies creating targeted provisions for credit and subsidized inputs and institutional facilities that help to protect small enterprises from uneven competition. b) Instead of a targeted approach improving overall business environment and competition relying more on size-blind tools that help the whole spectrum of industries, large and small. The Bank policies on small enterprises have increasingly shifted toward the latter approach. As a result policies in developing countries, precisely in India changed in favour of deregulation. Getting linked to global value chains or to increase the share of exports, policies are tailored in favour of the 'bigger' units among the small scale sector in order to reap the benefits of scale economies. Besides, the share of purchase of finished goods within the small scale sector rose from 13 percent to 20 percent during the period 1991/92 to 2002/03. This fact implies that the bigger units are not only gaining by optimizing their scale of production and by using improved technology but at the same time they are increasingly taking the advantage of undervalued labour by purchasing finished and semi-finished products from the tiny units those comprises 97.8 percent of the small scale sector.

Now let us look into the responses of the small or tiny enterprises in the small scale sector. In the typical parent-subcontracting relationship a large number of small producers depend on a few buyers. The big dealers face a competitive output market. However, while purchasing inputs or final products from smaller units they behave like oligopsonists. As a result, there are pressures on the prices for inputs as well as on inputs use, compared to that in a competitive market situation**.** Thus the subcontracting units rather produce finished products at a lower scale. More the degree of imperfection, the less will be the margin of profit for smaller units as the pressure for reducing costs cannot be transferred to the workers whose wage level has already touched the level of reservation wage. The only space left for an owner of a small unit is to restrict the upward mobility of labour, by refusing to recognise his skill accumulation, and thereby claims for increased wage. The wage increment after a certain period is not remunerative to the skill and productivity that the worker attains. Because capital intensity in these units is relatively low, a little amount of capital to buy simple tools and rents for machines is sufficient enough to open a new unit. Therefore, a skilled labour after acquiring some experience about output market can easily move on to opening up an Own Account Enterprise. On the other hand most of the small producers try to protect their 'profit' by increasingly replacing hired labour by the owner himself or by unpaid family labour. Both of these processes may be termed as self-exploitative fragmentation which generates a typical polarization within the small scale sector. As a result of this fragmentation the share of Own Account Enterprises in terms of number of units has increased in the space of unorganized sector although their share declined in terms of employment and gross value added. These tiny enterprises are producing low value added goods and also not able to provide much employment. The final outcome of these market-led reforms is not that was expected by policymakers. Growth and employment in the small enterprise sector do not show an impressive picture and if we compare between pre-reform and post-reform periods, both of the average growth rate of output and average growth rate of employment declined during the course of liberalization.

Another approach that gained currency in official policy discourse is promotion of SME clusters. Clusters can be defined as sectoral and spatial concentration of enterprises, having a definite kind of dynamism in production organization that opens up efficiency and flexibility gains. However, studies on successful clusters in Europe (especially Third Italy) reveal the role of political and cultural resources in building the local society that is conducive for a collective enterprise. It is sustained not only through 'exit' mechanism of market, but together with strong 'voice' options which the political subculture nurtured. In developing countries markets often fail to signal the appropriate choice of technology and sources of capital because of widespread information imperfections and missing markets. Besides institutions those are meant to resolve the market failures do not evolve automatically as a response to altered incentives. Market failures due to existence of information imperfections, externalities and public good and the institutional failure to resolve those imperfections only partially explains the depressed status of small enterprise clusters. Asymmetric power relations and conflicts arising between the trader and the small producer reproduce a production relation that hinders the high road growth path.

The whole of the World Bank approach and related policies remain silent on these asymmetric power relations and speaks of supply-side piecemeal corrections or increasing competitive pressure. Ignoring the fact that there is a ‘missing link’ between the external forces of globalisation that increases competitive pressure and the capability of a country to leverage the opportunities, created in a liberalised regime. And competition without proper institutions put in place and capabilities endowed with, leads to self-exploitative fragmentation. Instead of a dynamic ‘high road’ growth path the spawning of small enterprises reflects a survival strategy of the unemployed, those either lost or denied jobs in the urban organized sector or pushed out of agriculture because of increasing agrarian distress. What is required is a remedial intervention that primarily reduces the option of depending upon undervalued labour, together with generating an evolutionary process of capability building through public intervention in the micro and meso levels. Public interventions should be aimed at neutralising advantages/disadvantages that emerge due to asymmetric power relations in the vertical production/distribution chain. However, World Bank policies maintain silence on the issues of asymmetry in power relations because the burgeoning small enterprises and informal sector in general help maintaining the stability of the system. Capitalism exorcises the self-exploitative economy from its discursive space, it is the ‘other’ non-capitalist periphery which is suppressed but never extinguished.

A brief index of reform proposals for developing countries by the World Bank in *World Development Report 1987*.

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