



Dualism in the Manufacturing Sector and its Implications

KANIKA TALWAR

Abstract:

India today is one of the fastest growing nations and has emerged as a major global economic power and a favourite for international investment. It stands at 9th position as the most favourable country for foreign investment. An important aspect of the recent growth pattern in India has been the apparent sluggishness in the output and employment growth in the manufacturing sector despite high growth of GDP. This article brings to the focus on “missing middle” in the manufacturing sector in India which may be the reason for the slow growth of this sector.

Keywords: *Bi-modal distribution, Dualism, Labour Legislation, Missing Middle*

1. Introduction

Manufacturing enterprises are those engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation Act, 1951) or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing Enterprise are defined in terms of investment in Plant & Machinery. Depending upon the amount of the investment the manufacturing enterprises can be classified into four categories:

1. Micro Enterprises: These are enterprises which have an investment limit of twenty-five lakh rupees.
2. Small Scale Enterprises: These are enterprises which have an investment of more the twenty-five lakh rupees and less the five crore rupees
3. Medium Scale Enterprises: These are enterprises which have an investment of more than five crore rupees and less than 10 crore rupees
4. Large Scale Enterprises: These are enterprises which have an investment in plant and machine of more than 10 crore rupees.

Manufacturing Industry in India has gone through various phases of development over the period of time. Since independence in 1947, the Indian manufacturing sector has travelled from the initial phase of building the industrial foundation in 1950's and early 1960's, to the license-permit Raj in the period of 1965-1980, to a phase of liberalization of 1990's. The Indian Manufacturing sector performed fairly well till 2011 however, after recording an impressive CAGR of about 10 per cent during the period 2005 to 2011, manufacturing output grew by only 0.2 per cent per annum during the years 2012-13 and 2013-14. The share of manufacturing in GDP, which hovered in the range of 15-16 per cent in the past two decades, has edged downwards to 14.9 per cent in 2013-14. 2. It currently contributes 15-16% to GDP (2015) and gives employment to 12% (2014) of the country's workforce.

2. Structure of the Manufacturing Sector

Indian manufacturing is characterised by the prevalence of a large 'unorganised sector' existing side by side with the formal or organised sector. The Indian statistical authorities distinguish four types of establishments. There are three sub-categories within the unorganised sector including: (i) Own-account manufacturing enterprises (OAME), which are household enterprises making use of only family labour; (ii) Non-directory manufacturing establishments (NDME), which employ at least one wage (hired) worker and have 2-5 workers in total, and (iii) Directory manufacturing establishments

(DME), employing 6-9 workers in total, of which at least one would be a hired worker. These three sub-categories co-exist with establishments in the formal or organised sector, which are statistically defined (by the Factory Act) to be employing ten or more workers. The peculiarity of the Indian structure in the manufacturing sector is that it largely makes use of hired labour as the dominant type of employment in the enterprise. This includes both the DME and the organised sector as defined under the Factory Act

When we look at the data available with Annual Survey of India (ASI) we observe that there are two strong modes in the distribution of employment in modern manufacturing: in the '500 and more' category, and the '5-9' category, with the proportion of employment in the intermediate middle size groups being conspicuously small. This phenomenon is called the "missing middle". Indian manufacturing sector has faced a strong bi-modal distribution in employment with a strong concentration in small and large sized establishments with a conspicuous "missing middle".

The economic reforms during the last decade were expected to have made a serious impact on the structure of manufacturing. With dismantling of the traditional policy of reservation of a long list of products for the small-scale, liberalisation of import controls, particularly on a range of consumer goods and the relaxation of the licensing system for large-scale industrial units it was expected to have significant effect on the large-scale sector in moving away to more labour-intensive production and given a boost to middle-sized firms. However, there has been an increase in employment in all manufacturing, which has been almost entirely due to the increase in employment in the unorganised sub-sector.

3. Impact of the Dualism

Despite accelerated economic growth in India, the economy has shown some disturbing characteristics. These include three critical characteristics. Firstly, the growth process seems to have been led by the tertiary sector—both in terms of value added and employment, rather than manufacturing. Secondly, while the expectation in a labour abundant economy might be that the tertiary sector would have disproportionately absorbed labour displaced from agriculture at low levels of earnings, the data seems to suggest that this has not been so. The earnings level in the tertiary sector has been significantly above that in manufacturing, suggesting that growth in the tertiary sector has been productivity-led rather than employment-led. Thirdly, the manufacturing sector in India has been characterised by a persistent 'dualism'. There has been a strong bi-modal distribution in employment with a strong concentration of employment in the small and large size groups of establishments, with a conspicuous 'missing middle'. It is the 'dualism' in the manufacturing sector which has slowed down the expected dynamic role of this sector in the growth of the economy.

The government's Annual Survey of Industries 2013–14 found that of the 185,690 factories in operation, just 1.9 percent employed more than 1,000 people, and 73.2 percent employed fewer than 50 people (see figure 3).¹⁹ Factories employing more than 1,000 people made up 46.63 percent of the total fixed capital employed and 41.24 percent of the total output, whereas the smallest factories, which employed nearly three-fourths of the labour pool, accounted for just 7.06 percent of total fixed capital and 11.18 percent of total output. As a measure of total cumulative capital invested in plant and machinery,²⁰ though 91.31 percent belonged to the MSME category, collectively they accounted for only 13.1 percent of the total fixed capital employed, and they contributed just 27.03 percent of the total output.

The dualism drags down the manufacturing sector

- The missing middle implies a weak process of transformation from small to large scale enterprises.

- Dualism slows down the growth of labour force with industrial skills. The slow growth of skilled labour force, in turn, impacts the choice of technology. The shortage of skilled labour has slowed down the growth of employment in the industrial sector.
- The missing middle has also led to lack of integration of markets which has become a major bottleneck. It has led to splitting of the industrial market products into low quality products supplied by small scale enterprises and high quality products supplied by large establishments.
- It also has created a large gap in productivity between the two size of groups. The gap between the productivity has been due to gap between marginal productivity of capital and labour.
- Thus the dualistic nature has increased inequality and slowed down the pace of growth in this sector. Compared to other economies where the manufacturing sector has the largest share in GDP and is the key driver of growth the Indian manufacturing sector has become stagnant.

4. Causes of the Emergence and Persistence of Dualism

- 1. Multitude of Labour legislations:** This has been traditionally at the top of the list of the proximate causes of the phenomenon. Under the Indian Constitution labour is a concurrent subject meaning both state and centre can enact laws in this area. The Ministry of labour lists about 52 independent Acts and there exists another 150 state level laws. This adds up to approximately 200 labour laws. Thus most of the firms prefer being capital intensive to avoid labour laws.
- 2. Infrastructure problems:** These appear to be almost as important in the causes of limited vertical mobility of small enterprises. Inadequate supply of power produces not only low productivity of small dispersed units, but also accentuates the need for heavy lump-sum capital investment for firms needing to provide their own generators for electricity, and biases the economies of scale favouring very large units.
- 3. Education policies:** The policies that have been implemented in India over the years, have been biased towards the promotion of tertiary education and have neglected basic primary and low secondary education. Modern manufacturing requires a minimum of basic education for a workforce to be able to perform up to minimum standards in modern manufacturing. Small and medium-sized units—adopting comparatively labour-intensive technology—benefits from an ample supply of such labour. They are contrasted with tiny units, which could use nearly unskilled labour with less than primary education for low-grade production, but would find it difficult to grow beyond a certain scale with such labour. The relatively plentiful supply of skilled labour with higher education biases production to less labour-intensive industry and modes of production. Large units have a comparative advantage in using such labour, which smaller units cannot afford.
- 4. Small Scale Reservation Policies:** The protection of small-scale units has been an important aspect of Indian industrial policy since Independence. It has taken the form of reservation of a large number of items for production in exclusively small units and the provision of incentives—fiscal, financial and legislative—as long as the units stay below a certain size. Such policies have always provided an incentive for entrepreneurs to expand horizontally with more small units, rather vertically with larger middle-sized units.
- 5. Hysteresis:** The policy of reservation for the small-scale units largely ended with the post-1991 reform process. But we have seen that the impact of the reforms on the size structure of establishments in manufacturing has been minimal. This limited impact might be due to widely-recognised processes in which a socio-economic system established over a long period of time tends to persist even after its original causes have disappeared. This persistence is not just due to inertia. Economic agents and institutions acquire characteristics that sustain the system. For example, entrepreneurs develop ambitions to think in terms of horizontal rather than vertical growth. Marketing channels, financial institutions and infrastructure are geared more towards supporting small units with limited markets rather than dynamic units growing into larger sizes and different markets.

5. Conclusion

India's future growth depends critically on the nation's ability to populate its missing middle-the medium-sized producers and middle class of consumers. The greatest number of Indian businesses is small or microenterprises, many operating in the informal economy and not contributing to India's tax base. Without the growth in sector, there will not be jobs for the millions of young people seeking entry into the workplace each year. If the demographic bulge becomes a bulge of the under- and unemployed, it will have dire implications for social stability and national security. It used to be thought that the solution was to liberalize the labour laws that discouraged hiring because they made shedding labour difficult.

Time and again India has brought in many schemes and policies changes to encourage the growth of this sector. The Government of India has an ambitious plan to locally manufacture as many as 181 products. The move could help infrastructure sectors such as power, oil and gas, and automobile manufacturing that require large capital expenditure and revive the Rs 1,85,000 crore (US\$ 27.75 billion) Indian capital goods business.

India is an attractive hub for foreign investments in the manufacturing sector. Several mobile phone, luxury and automobile brands, among others, have set up or are looking to establish their manufacturing bases in the country. With impetus on developing industrial corridors and smart cities, the government aims to ensure holistic development of the nation. The corridors would further assist in integrating, monitoring and developing a conducive environment for the industrial development and will promote advance practices in manufacturing. However, what now is required to bring growth is to address the root cause of slow growth.

Reference

1. <http://carnegieindia.org/2016/11/16/missing-middle-labor-and-economic-growth-pub-65092>
2. http://www.dcmsme.gov.in/ssiindia/defination_msme.htm
3. <http://www.ide.go.jp/library/English/Publish/Download/Vrf/pdf/480.pdf>
4. <http://www.ihdindia.org/Formal-and-Informal-Employment/Paper-10-The-Employment-Problem-in-India-and-the-Phenomenon-of-Missing-Middle.pdf>
5. http://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---sro-new_delhi/documents/publication/wcms_496510.pdf
6. <https://www.ibef.org/industry/manufacturing-sector-india.aspx>