Chapter - II

REVIEW OF LITERATURE

2:1 Introduction :

The review of literature provides basis for understanding the problem by identifying the gap in research so as to lead for further study. To understand the present studying, it is essential to know the earlier works in this field. Research projects undertaken by various individuals and a number of articles published form the core of the related literature in this field. Among these, the important ones are briefly reviewed. The review covers the case for and the significance of the small scale industries, the problems associated with the development of small scale industries and the policy of the Government for the promotion of the small scale industries.

Regional disparities arise due to the rapid development of some region and the slow growth of the other region. The past experience shows that the regional development is associated with industrial development. According to Günnar Mydral (1964) government intervention is required not only to achieve greater regional equality, but also to counteract the tendency towards inequality. He further observes industrialisation is a dynamic force of development.

Some regions of an economy are endowed with more natural resources and ones the spirit of development status, they attract more industries. However, he argues (1971) that the locational history of industries almost typically point out an early stage of concentration followed by a later stage of dispersion.

The process of development is normally hindered by the inability to go in for modern technology, even though, the physical and human resources are abundant. Carl and Ruskin (1980) provide an answer to this "in countries with much unemployment or underemployment and with small capacity to produce and limited foreign exchange to import capital goods, the development and use of intermediate technology will permit the absorption of more labour than it would in advance method, while still permitting substantial increase in productivity.

Patnayak's (1980) study "Developing Strategies for small industries". This study shows the historical setting of SSIs and its gradual development. Impact of industrial revolution which had brought revolutionary changes in Western Europe was hardly felt in the pre-independent India. As a result, the progress of industrial sector, especially the small scale sector was almost stagnant during the period. Despite the poor attention of British rulers, a few industries were established towards the end of 18th century.

K.T. Ramakrishna has studied the growth of Small Scale Industries in his "Finances for Small Scale Industries". He points out that the First World War gave a new impetus to growth of industries especially cotton, ginning and processing industries, oil mills, textile factories, training small engineering units etc. The small industries suffered a set back during the depression period. But the second world war came as a rescuer. As a result, the industrial sector has not only recovered but also made first step towards the rapid growth.

The Industrial Policy Resolution of 1956, as well as the carve committee 1955 have pleaded for setting up of SSIs in India by puting forth for arguments on this. Their arguments are worth considering by any economist.

With regard to the employment argument, it is pointed out that an industry should not be started for the sake of employment alone. Their contribution to natural manner and utilisation of resources particularly capital is more important. The important problem is not how to absorb surplus resources but how to make the best use of scarce resources. The advocates of the employment argument are of the view that small enterprises maximise output from scarce capital and entrepreneurship.

In this connection S.A. Prasad (1991) has undertaken a survey about small units in West Bengal in 1986-87. According to this survey, "the employment generation in SSI is more than three times in large industries. The problem of unemployment is serious one both in terms of magnitude and nature".

Sandesara J.C. (1980) in his study on "Incentives for Small Industry" has come to the conclusion "we believe that a vigorous small industrial sector, vital too the industrial economic growth and that may also be relevant to the broad socio-economic objective of the community. This sector suffers from many and varied handicaps which prevent it from allowing it to play its rightful role and left to itself the market may not be in a position to remedy the situation. There is, thus, a case for referential treatment of this sector by the state".

Secondly there is the decentralisation argument which is based on the belief that the small enterprises can more easily be disbursed into small towns and villages than large industries.

Vivek Develonkan (1988), is of the opinion that the small scale industries aim at the maximum productive employment of local resources in rural areas where 70% to 80% of the total population of the country live.

Francis Cheruneelam (1985) has revealed that village and small industries with their low capital ratio and higher employment potential of their product occupy a very important place in the economy. Further he has accounted that the village industries have contributed 50% of the total production of the manufacturing sector.

Jagadish Prasad and Rajendra Prasad (1984) who carried out a study in Bihar and found that the output can be increased by increasing labour inputs, indicating a positive relationship between value added per worker and output of the units.

Chowdry Rao (1984) has compared the employment potential in Andhrapradesh before electrification and after electrification and found that 200 person were employed after electrification in the region.

Mincho (1983) has observed from his study that the employment growth in small scale industries has increased and there has been a marginal shift of working force from agriculture to rural and small industries and other occupation.

Narana (1971) found through his study that the SSI and rural industries provide large volume of employment and equitable distribution of income. Even today on the one hand these industries enable income to a vast number of people on the other, these income are generated by the every people among whom they are distributed.

G.Srinivasan studied the small scale sector's crucial role for development. The author illustrated the country's ascending overall industrial production, employment generation and foreign exchange savings. It is found that small scale industries in the country now accounts for 35 percent of the total value of industrial production and contributes directly about 25 percent of the aggregate exports. The sector terms out as a major supplier of a large number of mass consumption items, making numerous exchange. It is also seen that in a developing economy like ours, the ability to generate new job outlets especially in a mileu marked by capital constraints is a valid criterion and in this regard the contribution of small scale industries is no small. It is also found that in 1980-81, production at current prices was Rs.28060 crore, employment (in 000) was 7100 and exports at current prices was Rs.1643 crore.

In 1985-90, production increased to Rs.80220 crore, Employment was Rs.11900 and exports at current prices was Rs.4140 crore at 1984-85 prices. It is also found that the small scale industry would continue to grow in view of its inherent advantages of low investment, high potential for employment creation, diversification of the industrial base and dispersal of industries in rural and semiurban areas from sixth plan to seventh plan. It is also found that the seventh plan document has deplored that there has been lack of effective coordination among myriad support organisations set up over the period for the promotion and development of small scale industries.

S. Venkataraman in his article on the financing of Small Industries has calculated that the small scale industries account for 45 percent of workers and 34 percent of business volume in the U.S. A and 29 percent of employment and 19 percent of output in the U.K. Further, according to the Goodwill Trade Mission, sponsored by the Federation of Indian Chambers of Commerce and industry in 1959 small and medium scale industries in Japan accounted for 84 percent of all the total employees in the country, their share of total industrial production was 56 percent and they handled 52 percent of the country's aggregate exports. He also put forth the problems faced by the small industries such as inadequate capital resources, lack of knowledge of modern machinery, lack of knowledge of modern methods of production and marketing and shortage of trained personnel. He also presented the number of steps have been taken for remedying the position by way of starting new organisations, strengthening of existing organisations and introducing new incentives.

2:2 Economics of Small Scale Industries :

Neelamakhrjee and Amitavamakhrjee have presented the comparative analysis between small scale industries and large scale industries for adopting the economising process. They have attempted to examine three aspects of small industries in the Indian experience as follows.

Inter Scale Aspects :

1 Efficiency of small scale industries vis-a-vis the large scales ones.

2. The place of the small scale industries in the Indian economy.

Intra Scale Aspects :

3. Inter industry comparison in the small scale sector.

(1) Neelamakhrjee has selected the 5 ratios to compare the efficiency of small scale industries vis-a-vis the large scale industries.

(i) Out put/fixed capital ratio

(ii) Worker/fixed capital ratio

(iii) Value added/fixed capital ratio

(iv) Value added/worker ratio

(v) Out put/worker ratio

The smallness of out put/fixed capital ratios in the small scale sector as compared to the ratio in the large scale, imply high capital productivity in the SSI. Indeed capital was neárly 120% more productive in the small scale sector than it was in the large scale sector.

The worker/ fixed capital ratio is 52% more in SSI Vis-a-vis the ratio in the large scale industries. This is expressive of the fact that the SSI are much more labour intensive than their large scale counter parts.

The value added/ fixed capital ratio is also higher in the SSI than in the large scale sector. It is 92.42% higher in the SSI. Increase in the value of input implies inter alia, that inputs are being combined with fixed capital more optimally in the SSI than in the large scale ones.

Value added/worker ratio is 9693 and 4056 in large scale and small respectively. This obviously implies that labour is comparatively less active in the SSI than in the LSI ones.

Out put/woker ratio is nearly 50% less in the SSI than in large scale industries. The low out put/worker SSI units than the efficiency of their counter parts in the SSI.

Position Dimension :

The position of SSI in national economy is quite significant, small industries consitituted 40.07% of the countries total exports. It also contributed to employment opportunities.This is evidenced by the number of registered units which went up from 16,000 in 1950 to 8.53 lakhs units in 1985-86. At the time of the 1972 items in the reserved list. By 1983 the reserved list included 837 items.

Intra Industry Comparison :

It has recorded high growth rate in fixed capital and also registered a high growth rate in out put. This higher growth rate in fixed capital have been found in

i. Rubber & Ruber based industries 27.8%

ii Paper & Paper based industries 17.5%

iii. Other industries/Soft drinks, watches etc. 17.2%

iv. Chemical and Chemical based industries 11.4%

The growth rate in out put has been found in the following order.

i. Other industries 14.6%

ii. Paper and Paper based 11.3%

iii. Rubber and Rubber based 11.3%

iv. Rubber and Rubber based 9.1%

K. Umeshchandran has studied the economics of small scale industries in and around the Calcutta and his major conclusions are;

1. Capital is much more productive in the SSI than in the Large Scale Industries. In the Kaliescope of development efforts being made by a capital scarce economy like India the higher capital productivity in SSI holds out special hope for the ration.

2. The SSI are 500% more labour intensive than in the Large Scale Industries.

3. Out put per worker is much lower in the SSI than in the Large Scale Industries. This casts a spell of shadow on the efficiency component of labour in the small scale sector vis-a-vis the large scale sector.

4. The value added per worker is much lower and value added per unit of fixed capital higher in the small scale sector than in the large scale sector.

5. The contribution of SSI of India's total exports have been fairly stable at around 16%.

2:3 Problems

The Second All India Census of small industries has studied the causes for the closure of the units almost the third of the closed units in three states, of U.P., M.P and West Bengal. Among the reasons for closure, paucity of finanace appear to the top of the list. A distant second reason is the poor marketing facilities. Labour trouble is the last important factor to closure of SSIs. The units have been categorized industry-wise and the results show that the metal product industry account for 14% followed by with 10%, repair service 10% and the chemical products 6.6%. The time series data also show that there is a steady increase in the number of closed units. With the share in total units owing from 3.7% in 1971 to 21.6% in 1986.

The planning commisiion has also summarized the problem faced by the small scale entreprise in India. They are a) Competition from imported articles and from large scale units b) Shortage of suitable Raw Materials. c) Lack of Machinery, Equipment and Technical Assistance d) Absence of Producers' Organization and Marketing hurdles and e) Paucity of Requisite Finance.(P.G. Gadgil & P.L.Gadgil,1985)

Another problem is with regard to the location of units. Kulvinder Kaur (1983) studied the structure of industries in India and pointed out the tendency on the part of the entrepreneure to cluster around the developed areas and they are not intersted to take new areas unless conditions are created and concessions are given to them. To his support comes the techno-economic survey in Hariyana (1970). It has been observed that there is a disparities in the industrial development among the district in the state Hariyana, while there is near conjuction of industries in the Faridabad area, the district of Mahendragarh, presence a very desolete picture. A number of entrepreneure from Delhi for want of accomadation have shifted to Faridabad, Gurgaon, Bahadurgarh and Sonapet. Nearness to Delphi provides a big market for both raw material and finished industrial goods, huge amount of capital, a wider of range of labour and technical skills.

S.N. Bhattacharya (1981) has appreciated that the Tamilnadu Government Industrial Policy. The state lays great emphasis on encouraging private entrepreneurial talent. The state accounts for 1/4 of the country's spinning capacity, 1/4 of the commercial vehicles, 1/5 of the cement, caustic soda and Nitrogeneous fertilizers, and 1/10 of nations production of sugar, bicycle and Calcium Carbide. It produces nearly 60% of the safety matches, 77 % of the finished leather and which account for about 60% of the country's leather export.

Sandesara (1993) has pointed out that a number of SSI units started falling rick and over time sickness among these units was supported to be on the increasing. Almost one-third of the SSIs had closed down and one half of these units had closed within five years of commencement of operations.

Tamilnadu today occupies an important place in the industrial map of India. The growth and dispersal of industries is largely due to the availabilty of infrastructure and other facilities offered by the state. A noteworthy feature is that more than one-third of the industrial licenses have been issued between 1977 and 1981, have gone to backward areas.

Subramanian (1993) has realised that even though many programmes and measures being initiated the performance of SSI units has been quite satisfying in fulfulling the objectives for which they have beem envisaged. The factors responsible for their slow growth may be any one or combination of poor marketing facilities, technological obselescene, inadequate Management Information System, isolation in working conditions, Managerial inability, competitiveness, inadequate raw material supply, inadequate finance etc.

According to Nayak Committee which examined the issue of credit availability, the sector was getting only about 8 1 percent of its total output by way of institutional credit as against the norm of minimum 20 per cent considered as reasonable bank finance requirement of SSI. The tiny sector and other rural industries were getting not more than 2.7 per cent of their output by way of bank credit. Small scale industries including village and cottage industries were receiving about 14 per cent of total bank credit as against 40 per cent to large and medium industries. The large and medium industries were getting bank credit and had also access to capital market, but the SSI sector had no access to capital market. This also reveals that SSI sector has been depending more on private and personal capital than formal institutional capital. However, one advantage of SSI sector has been its being a component of the priority sector lending programme of the commercial banks. The most common demand of small entrepreneurs is to ensure supply od adequate and timely credit. An effective implementation of Nayak Committee recommendations, it is expected, will go a long way in meeting the credit needs of this sector. Opening of specialised branches in the areas where SSI units have sizable concentration will also help in facilitating adequate supply of credit.

It is often said that small had not been beautiful in the absence of the policy of effective protection from the Government. The policy of reservation of 836 items for exclusiver manufacture in the SSI sector has come up for criticism from some quarters recently. It is said that the sector has been able to record an impressive growth due to reservation policy. In this connection, it may be mentioned that the items reserved account for about 11 per cent of the total items manufactured and above 28 per cent of the total output of the SSI sector. A vast segment is still outside the purview of reservation and this sector has successfully withstood competition all along.

The SSI sector is facing numerous constraints which are typical because of the small size of the enterprise. Most of these revolve round technological, managerial, financial and marketing aspects. Inspite of these constraints the sector has performed well because of the support from the Government both at the centre and the states. In this context, the role played by the fiscal concession available in the form of excise exemption and concession is definitely significant and important. It may also be mentioned that SSI sector does not form part of any special concessional credit programme and this sector is no longer dependent on the Government quota for raw materials. After liberalisation, as a result of the liberal import, and increase in production of raw materials within the country, the critical raw materials are no longer in short supply.

2:4 Studies of a General Nature

Ambirajan (1964) has presented a brief survey of tax incentive in India. To him tax incentives create a favourable economic climate for the investors. Tax incentives reduce business costs and increase profitability. Again tax incentives can augment investment by increasing the internal sources of the firms.

Tripathy (1970) in a brief analysis of tax incentives, has stressed the need for tax concessions in a developing economy. Tax incentives influence corporate investment by reduction their tax liability and increasing the internal sources. Tripathy is against the populat demand for depreciation allowance at current cost, as it would be unjust to shelter one section alone against inflation- much the same view expressed by the Taxation Enquity Commission. He pleads for linking fiscal incentives directly with the growth of output. Larger fiscal rewards could be granted to firms that register larger increase in output. According to Tripathy, this has been the scheme suggested by Knoor and Baumol in a book edited by them - "What Price Economic Growth?".

Gupta (1973) has maintained that development rebate is largely neutral between techniques of varying capital intensities. The effect of development rebate is to reduce the tax liability by an amount related to the cost of the plant and machinery. The resultant increase in profits would be an uniform percentage for all types of equipment whatever may be their capital intensity.

According to Jhaveri (1973) though development rebate has an inherent bias towards capital-intensive investment, it has definite advantages.

1. Development rebate facilitates early write off of capital assets and reduce the risk of capital investment.

2. It augments internal resources by the amount of tax saved.

3. Effective rate of tax gets reduced.

Like Ambirajan, who recognised development rebate as the 'safety valve against capital erosion', Jhaveri has identified development rebate as an useful instrument facilitating replacement investment in the context of inflation.

Lakdawala (1973) has observed that all tax incentives imply an immediate loss of revenue and they complicate tax administration. Tax incentives are more likely to succeed when confined to narrow fields. To Lakdawala, tax incentive schemes must have continuity, so that the tax payer can count on their availability and decide on his investment.

Jain (1975) has observed that the technique of tax incentives to encourage savings investment dates back to the days of Kautilya. He regrete that we have been experimenting with tax incentives, without adequate data to prove their efficacy.

Incentive taxation assumes greater significance in the context of the low levels of savings and investment in India. To him incentives must be selective, flexible, substantial and simple, besides having a fairly long tennure. Like Gupta, A.R.Jain has also suggested the setting up of a Tax Research Institute, within the Income Tax department to evaluate the impace of the tax incentives.

Chelliah has observed that tax incentices constitute a conscious attempt to use taxation as an instrument of promoting economic development. The place of tax incentives needs no emphasis in the context of a mixed economy, in which the private enterprise has to contribute its mite for the rapid economic development of the country.

Jain (1976) has presented a tidy survey of tax incentives in India. She has observed that these incentives have augmented savings and investment. She is for giving a fairly long trial for tax incentives before contempleting any change on them.

Bishnoi (1980) in her review of tax incentives in India has observed that tax incentives are all the more necessary in India in the context of low levels of saving and investment. She has pointed out that development rebate encourages industry to set up new plants and machinery, while the existing capacity has been unutilised, leading to excess capacity and waste. This defect can be removed by linking development rebate with increase in output over a base year level.

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Godbole (1978) in his study of industrial dispersal policies selected a random sample of 69 units. A control sample from 30 units in similar industries was also chosen. The author found that the units in the developing area compared to developed area did not suffer from any intrinsic disadvantages. He further stated that mere financial incentives could not attract industries in the backward areas, physical, infrastructure facilities might also be given. Negative policy, he recommended, for balanced regional development.

Nagaiya (1988) has carried out a study in the Marathwada region of Maharastra to assess the effectiveness of infrastructure programme in a backward region. The study found that industrial estates proved to be highly profitable in the absolute senes irrespective of their location. However, it is noticed that estates in less developed area were socially remunerative than the estates in developed region.

Thangamuthu and Palanivel (1985) analysed some aspects of industrialising the backward areas by studying a backward district, Pudukkottai, in Tamil Nadu. They pointed out that incentives were being offered to entrepreneurs for setting up industries in backward regions but the entrepreneurs after availing the incentives located their units in towns and border areas (adjoining to the developed region) to enjoy the external economies. This tendency, according to them, further creates a greater inequality between interior areas and towns/border areas.

Narayana Nair (1982) had attempted to study the industrial incentive policy and backward area ddvulopment. The small units were taken for the study. The main findings of the study were :

i) Small units speeded up its growth in terms of employment, output, number of capital after the scheme,

ii) The growth procescemas not uniform in the backward districts and

iii) Incentives helped much for developed districts than backward districts.

Durairaj and Soundra Nageswaran (1988) studied entrepreneurship in small scale industries in a backward taluk, Paramakudi. The study revealed that the entrepreneurs have adopted capital intensive technique (because concessional finance andn capital subsidy are available in the areas). Also the study added that. Also trepreneurs faced the problem of raw materials, marketing, space, labour and management.

Bharathan, studied the development of backward region through incentives. However, he included both physical and financial incentives. He studied the backward region, Hosur and found incentives induced a rapid industrialization in the region.

2:6 Conclusion

The review of the stuides on tax incentives on the development of the small scale industries has highlighted the following parts. There is a strong case for the development of SSIs in over all economic development in utilization of scarce resources, in creation of employment opportunities, in dispersal of industries, the literature reviewed in the first part supports this. However, the review of literature also shows the problems faced by the industry, the problem are yet to be solved. The last section shows the measures taken on the part of the Government both in India and abroad to promote small industries. It may be concluded that there is need for an analysis of the problem faced by the SSI units in the study area and how far developmental measures will be helpful.

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