CHAPTER - 1

INTRODUCTION
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1. 1. INTRODUCTION

"Each Needs the Other: Capital cannot do Without Labour, nor Labour without Capital"

--Pope Leo XIII

The range of industries in India extends from the organized large and medium scale industries to modern small scale industries and unorganized traditional village industries. The Small Scale Industries occupy a place of strategic importance in Indian industry and general economy. The Small Scale Industries sector is generally divided into eight sub sectors namely Khadi and Village Industry, Handloom, Sericulture, Handicraft, Coir, Power Looms and Modern Small Scale Industries. The Small Scale Industries sector has been considerably contributing to the Indian economy in terms of output, exports and employment. According to the Planning Commission this sector has accounted for more than 40% of the gross value of output in the manufacturing sector, about 35% of the total exports and provided employment to over 60 million persons, which is second only
to agriculture. This contribution has emerged despite the sector being exposed to intensifying competition. The Small Scale Industries sector in India has been confronted with growing competitive environment since 1991 due to liberalization of investment regime favouring Foreign Direct Investment, the formation of World Trade Organization in 1995 forcing its member countries to drastically scale down restrictions on imports and domestic trade and economic restrictions. The cumulative impact of all this is a remarkable transformation of the economic environment in the country in which Small Scale Industries Sector has to conduct itself as a meaningful entrepreneur fulfilling the requisites of corporate social responsibility order in a competitive market.

India is a predominantly agricultural country with the second largest population in the world and planning fits in harnessing national resources to weed out unemployment and poverty and drawing a vast network of Small Scale Industries (herein after referred to as SSI) is a great imperative. Traditionally the Government of India over the years laid emphasis on the growth of large and medium scale industries from the point of view of better industrial relations between the labour and

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1 Bala Subrahmanya, M.H. "Small industry and Globalization", Economic and Political Weekly, (May 1, 2007) at 1826.
capital leaving out totally the SSI Sector which in fact offer considerable percentage of employment for millions of rural and urban semi-skilled and un-skilled labour class population in the country. The issue of wages, welfare and social security for the labour was constantly viewed only from the perspective of the large and medium scale industries leaving out totally the workers employed in the SSI sector.\textsuperscript{2} The Planners and the High Power Commissions\textsuperscript{3} constituted immediately after the independence concentrated on labour law reform front only in respect of the workers employed in other sectors leaving out totally the SSI.

The SSI deserves much more attention in terms of planning and resource allocation than has been the case so far. This emphasis on SSI follows from the very logic of the Indian situation in improving the purchasing power of the millions of overall labour class.

\textsuperscript{2} The Minimum Wages Act, 1948 is the only piece of legislation enacted with a view to prevent the exploitation of workers in the unorganised sector, which include Small Scale Industry.

\textsuperscript{3} The National Commission on Labour (1969) centered its concentration only on the organized sector and to some extent on sector specific unorganized sector such as Beedi and Plantation. The Royal Commission on Labour (1931) laid emphasis on the aspect of prevention of exploitation of sweated labour and recommended for the widening of the scope and applicability of existing welfare legislations such as Factories Act, 1948 and Workmen's Compensation Act, 1923.
For Centuries, India had a considerable variety of arts and handicrafts which indicate a more advanced economic and financial organization than the crafts of contemporary Europe. The specialization of jobs had advanced to such an extent that particular classes of artisans undertook distinct processes in the chain of production. Products of such processes had commanded wide foreign markets. Artisans worked independently as well as under master artisans, dealers and financiers. In the 16th and 17th centuries and even up to the end of the 18th century India enjoyed a long lead over Great Britain and the rest of Europe in respect of cotton and silk textiles as well as many other handicraft products.4

Traditionally in India there exist two types of industries, namely, (i) Rural Cottage Industry and (ii) Urban Industry. The Rural Cottage Industry provides the day-to-day requirements of the agriculturists in the village. They served mostly local needs. The artisans applied their traditional occupations uninfluenced by the outside world. The Urban Industries on the other hand, are compact and closely organized. They are of two types namely, (i) the urban domestic industry and (ii) the

small urban factory. The urban domestic industry includes large native industrial units and multi-national companies. On the other hand, the small urban factory refers to small units with less intensity of capital and labour but having a huge space in the economy. Taking into consideration the special emphasis laid in the Constitution, the Government of India through the Industrial Policy pronouncements and under Plans laid special emphasis gradually on the development of SSI sector in the country. The Industrial Policy Resolutions, the progressive allocations made in the Five Year Plans, the creation of different promoting and supporting organizations and the nationalization of Commercial Banks reflect the spirit and effort of the government towards the creation of a favourable climate for the growth and working of SSI without losing the sight that it is this sector which provides employment opportunities for the millions of semi-literate and illiterate population of the country. Various Industrial Policies have assigned a significant role to the SSI in the over-all programme of industrialization. In this regard the SSI sector has achieved a rapid rate of growth gradually. The small scale and cottage industry in their varied aspect have been regarded as ‘an integral and continuing

5 Under Part IV and Entry 8 and 9 of the Eleventh Schedule of the Constitution.
element' both in the economic structure and in the sphere of national planning of India.

There are various legislations relating to development and functioning of SSI which include plethora of regulations made there under promulgated both by the Centre as well as respective State Governments. All these legislations and the regulations made there under speak exclusively for its growth and survival from the economic and political point of view by providing them sufficient financial and infrastructure support. Unfortunately these legislations and the relevant regulations are totally silent on the welfare aspect of the millions of workers who toil in the sector under exploitative conditions without any welfare and social security cover. The bulk of labour legislations that exist in the country providing a measure of welfare and social security protection have concentrated only on labour employed in organized industries for various reasons.6

6 The organized Trade Union Movement with strength of its bargaining power made good inroads into benefits provided for the workers under these legislations which ultimately led these legislations to concentrate only on this sector leaving out totally the unorganized sector workers.
After the advent of the Constitution of India, the State comes under an obligation to improve a lot of the workforce equally. The Directive Principles of State Policy incorporated in Article 38 mandates the State to secure a social order for promotion of welfare of the people and to establish an egalitarian society. Article 39 enumerates the principles of policy of the State, which include welfare measures for the workers. The State Policy embodied in Article 43 mandates the State to endeavour to secure by a suitable legislation or economic organization or in any other way for all workers, agricultural, industrial or otherwise, a living wage, conditions of work ensuring a decent standard of life and full enjoyment of leisure and social and cultural opportunities. Unlike the labour in the organized industries who are borne on the pay roll of the establishment and are entitled to be paid wages and other welfare benefits, the labour in SSI by and large is neither borne on pay-rolls nor is paid properly.

The SSI, by investing only seven to fifteen per cent of the total manufacturing sector's capital contributes to nearly one-fifth of the total industrial output and employ 35 to 40 per cent of the workers in the
industrial sector. The SSI sector has been showing the highest employment for each rupee worth of fixed capital. It also produces seven times the output for each rupee worth of fixed assets compared to what the large industries produce. In terms of value addition, fixed investment in small factories resulted in at least three times the value addition in the large-scale sector. The estimated relative total factor productivity of SSI during the period 1980-81 to 1994-95 was greater than one in all years, except 1987-88 when it was 0.53, suggesting that at the all-India level, the SSI sector is more efficient than the large-scale sector.

The growth of the SSI sector surpassed the overall growth rate of the industrial sector since 1991. This is despite the fact that government intervention did not contribute towards the growth in these units, and concessional credit induced inefficiency in these units.

While there has been a phenomenal growth in these units falling within

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9 Supra n. 6 at 18.
the purview of the Small Industries Development Organizations, this development has concentrated in a few metropolitan areas and large towns.\textsuperscript{11}

With the initiation of globalization process in a rapid phase, the whole native industrial sector is undergoing swift transformation and hardships. Due to the pressure of the stiff market competition, the organized industries have now totally resorted to the incidents of contractualization, sub-contracting and outsourcing, which resulted in heavy job loss situation in the sector. This has ultimately led to the tremendous growth in the percentage of labour in the unorganized sector. Today the unorganized sector labour constitutes a total of 93% of the total working class population in the country. They include the workers employed in the SSI sector, who works without any job security under highly exploited working conditions. And equally with the availability of bulk of commodities of foreign origin at cheap prices and for other related reasons, the local SSI sector which was the pioneer of these products hither to is facing severe survival crises.

The decade of the 1990s was marked by deregulation of the industrial

economy through delicensing and dereservations. The problem of sickness in SSI is due to under-utilization of capacity caused by shortage of working capital, lack of demand, non-availability of raw materials, frequent migration of available labour, technological obsolescence, absence of organized market channels, constraint of infrastructural facilities, including power, uneven resource allocation, regional disparity and deficient managerial and technical skills.

The policies intended to favour SSI in terms of reservation and financial incentives, etc are neither promoting employment nor improving the competitive base of small firms. This type of tendency may further widen the gap between the organized and unorganized workers in the country pushing the unorganized workers into further starvation. The much expected inadequate Unorganized Workers Social Security Act, 2008 apparently remained only as a mere paper document. Hence, the fundamental issue needs to be resolved, i.e. even concentration in promoting policies of the State towards the SSI and special emphasis on welfare of the workers in the sector.

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This research is an attempt to project the importance of the SSI sector in the economy of the country not only from the perspective of economics but also from the employment potentiality aspect and the workers rights during the era of Constitutionalism in our country. The author in this research with a view to be more specific and to draw pertinent conclusions in the context made a sincere attempt in selecting the SSI in Belgaum district as a case study presentation.

1.2. THE PROBLEM

Over the years Government of India laid emphasis only on the welfare of the workers in the organized sector except enacting a few sector specific welfare labour legislations for the unorganized workforce in the country. The globalization process resulted more in widening the gap between the rich and poor in a country like ours where the societal imbalances and uneven distribution of wealth remaining a dream to be achieved even after six decades of the commencement of the Constitution.

1. 3 THE IMPORTANCE OF SMALL SCALE INDUSTRIES

As stated above, the SSI sector has been playing an important role in the economy of our country on account its contribution to the gross domestic product, employment, exports, expansion of entrepreneurship development and dispersal of industries. In recognition of the growing importance of this sector, the Ministry of Small Scale Industries was created in 1999. The main function of the Ministry is to formulate policies and support measures for the growth of the SSI sector to facilitate expansion of gainful employment and equity in regional growth. It supervises and co-ordinates the activities of different promotional agencies, facilitates the supply of credit and other facilities for the growth of the sector. The need for the steady progress of the sector lies in the appropriation of employment allocation among millions of Indian population which is deeply rooted with societal imbalances and inequalities. The State and the private enterprises constituting of large and medium scale industries can in no situation provide sufficient employment to all the needy in the country. Hence there is a need for individual entrepreneurship in a country like ours with equal emphasis on labour rights.
1. Traditionally India has accounted for more employment creating opportunities in agricultural as well as through individual or joint entrepreneurship in semi-urban and rural areas.

2. The SSI Sector as such played a crucial role in ensuring a decent livelihood for small and individual entrepreneurs and created an impact as a trade to be reckoned with in the world market providing a base for potential employment generation.

3. At one side the doctrine of *lessaize faire* prevalence on the growth of SSI sector during pre-independence period has remained though as a focal point, subsequently the State laid greater emphasis on the growth of the sector immediately after independence under the planned economic development as well as through policy pronouncements from time to time keeping in view its contribution to the economy from all perspectives.
4. Though the dominant growth of the SSI sector in rural as well as in semi urban and urban areas in India has contributed directly to a large extent the employment generation but at the same time the lukewarm attitude of the State pushed the workers in this Sector to further starvation in the absence of any specific welfare and social security protection.

5. The emphasis made of late by the State as well as the international regime under the slogan of 'free trade regime' played significant role in reducing the SSI sector to be uncompetitive and the labour employed therein without any protective specific legal regime.

1. 5. METHODOLOGY

The study is basically of a socio-legal approach. The study is empirical mixed with doctrinal analyses. The base in empirical analysis is built on comprehensive review of relevant literature in the area of the study. A critical assessment of the problem required adoption of varied techniques for meaningful research. The descriptive method is

1. 6. IMPORTANCE OF THE STUDY

The importance of the study of an area like this certainly leads to an understanding of the economic and social realities prevailing in the Indian social order during the era of Constitutionalism. Taking into account the magnitude of the population and the rate of its growth, certainly it is imperative on the State to encourage the growth of the individual entrepreneurship from the bottom rock of the country. Certainly the study will help the students and researchers of economics and sociology, the policy makers, academics, judiciary, planners, legislators and alike to have a clear vision of the country in the back ground of economic liberalization.
1. 7. LIMITATIONS

The study excludes the in depth analyses of the reasons for the shift in the State Policy in going for totally new economic regime where in one can find the full encouragement for the large scale investment and the flow of huge foreign capital. In order to be more specific, taking into consideration the geographical back ground, the Belgaum district is selected as a sample case study with regard to the growth and survival of Small Scale Industries both from the perspective of capital as well as labour rights.

1. 8. PLAN OF THE THESIS

The present study comprises of Eight Chapters. The first Chapter as usual deals with the introduction of the subject, problem, importance, methodology, limitations and the scheme of presentation. The second Chapter deals with historical growth of SSI sector in the country. Small Scale Industries have certain peculiarities which make them eminently appropriate for the Indian social environment. They are of labour intensive and need comparatively small amount of
investment for every person employed. Apart from the fact that they require a small amount of capital, they can be established everywhere and anywhere in the country. Besides, they can be set-up at the very door step of the workers, living mostly in rural and semi-urban areas. Besides it includes the investigation of carrying further the policy of the State in this regard.

The third Chapter deals with the post-independence scenario, wherein there has been a steady and significant growth in the number of SSI units, their production, investment, employment and exports over the years. In this period both the Government of India as well as the State Governments have followed and implemented the pronouncements made in the Industrial Policy Resolutions from time to time. This becomes more rigorous under the regime of the planned economic development. The sector was recognized as labour intensive and thus paved more opportunities. Its contribution led to decentralized industrial development and proved to be flexible and able to quickly reorient themselves to emerging trends. It has got higher potential for growth in terms of output, employment and exports. It aims to improve the quality of production and at the same time a
note has been developed in the thesis the negligent conduct of the State in pursuing the welfare of the workers employed in these units.

The fourth Chapter records the introduction of global trade, free market and WTO regime. The impact of the international conditionalties on the SSI and the possible apprehensions to be confronted by the SSI in the regime both in trade as well as employment potentiality and the initiatives to be made by the State for its effective functioning are examined.

The fifth Chapter deals with the conflicting claims relating to environmental protection and the industrial prosperity. There is a popular belief that continuing growth of economic forces are at the root of environmental degradation. Current global concerns with the environment rest on the notion that environmental modification has gone too far; to the point where well being of current and future population is threatened. As a consequence, a consensus is emerging around the idea that the intentional and incidental impact of economic activities on the environment has to be brought under control. This has
gained further momentum with the active intervention of the judiciary with the aid of non-state agencies which has even led to the ordering for the closure of thousands of small and other industrial establishments in the country giving least importance to the survival of the thrown out workers. Environmental Economics is primarily concerned with the impact of the economy on the environment, the implication of the environment to the economy, and the appropriate way of regulating economic activity so that balance is achieved among environmental, economic and other social goods.

The sixth and seventh Chapters are the core areas of this thesis. The analysis of the data of the survey of the Small Scale Industries in Belgaum District is presented in tune with the required sample case study in order to draw certain pertinent findings on the basis of which the present thesis can draw vital conclusions in accordance with the hypothesis drawn at the beginning.

The penultimate seventh Chapter deals with in depth analysis of the labour employed in the sector in Belgaum District in selected
sample study. The study deals with the employment potentiality of the selected sample industries and the labour issues relating to the terms and conditions of employment and the welfare benefits. The unorganized sector cannot be based on the number of employees in undertakings because it covers agricultural workers, crafts men, home based workers, self employed workers, workers in weaver’s cooperatives, as well as workers in Small Scale Industries where the workforce can be counted on one’s fingers. Unorganized sector covers such kind of workers who have not organized in pursuit of a common objective because of constraints such as, casual nature of employment and small size of establishments with low capital investment per person employed and threat of termination. The existing welfare labour law regime is ill-applicable to the sector due to various reasons stated. The new legal regime dealing with social security protection for the unorganized workers may remain far from reality. In this context the issue appears to be very clear, i.e. the unfulfilling task of the State in ensuring welfare of this working class.
A fair summary of the present thesis and the appropriate findings contained therein are recorded in eighth Chapter in order to draw certain vital suggestions.