

# **FACULTY OF JURIDICAL SCIENCES**

# Lecture-23



## **Types of Small Business:**

Small business includes a variety of companies.

**They may operate in any of the following areas:**

(a) Manufacturing,

(b) Trading,

(c) Services

(d) Others

## **Roles of Small Business:**

In selecting industries for development in a new country attention should be given to those industries which create conditions favorable for the growth of other industries since this method will lead to the simultaneous development of many industries. Rosenstein Rodan advocates this line of development. India followed this path by constructing multipurpose river-valley projects and by developing small scale industries.

An underdeveloped economy should produce and export commodities that use relatively less capital per unit of output and to import items requiring more capital. Prof. Amartya Sen has come to the conclusion that the case for choosing relatively labor-intensive techniques in the under developed economies is not bad in many sectors of production.

Small industries are capital-light, skill-light, and labor-intensive and dispersed. They are of quick investment type, and by carrying the job to the worker they can overcome the difficulties of geographical immobility. In the conditions prevailing in many underdeveloped countries the

development of small industry may be the most economic form of industrialization; it may be more economic than either large scale organized industry or cottage industry.

Moreover small industry represents much less of a break with previously established modes of living and therefore represents less of strain than industrialization in the form of large units.

In relation to cottage and small scale industries the Industrial Policy Resolution, 1956, states that they provide immediate large scale employment; they offer a method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilization of resources, of capital and skill which might otherwise remain unutilized.

Some of the problems that unplanned urbanization tends to create will be avoided by the establishment of small centers of industrial production all over the country. The Industrial Policy Resolution puts forth four main roles of small industries in the Indian economy.

### **1. Employment Argument:**

The most important economic task before the country is the solution of unemployment problem. The scope for creation of “wage employment” is limited as it depends on industrial growth. But there is a large scope for the creation of “self-employment” and here the small scale industries can play a significant role.

The development of the Indian economy over the last four decades has been characterized by a high incidence of unemployment and under-employment, resulting in 30 p.c. of the population living below the poverty line. Another feature is that the growth of the non-agricultural sector during the last 40 years has failed to make any impact on the work force, 62% people continue to depend on agriculture.

These aspects of the economy have prompted the policy makers to turn to small industry for absorption of the additions to the labor force primarily because these are labor-intensive in character. The small businesses are labor-intensive and create more employment per unit of capital employed.

A more sophisticated form of this argument is that small industries should be developed because the capital-output ratio for such enterprises is lower vis-a-vis large scale industries. Prof. P. C. Mahalanabis supports small scale industries on the ground that capital-output ratio for such enterprises is lower than that for large scale enterprises.

## **2. Equality Argument:**

Large-scale industries generally lead to inequalities of income and concentration of economic power. On the other hand, an SSI leads to a more equitable distribution of produce of industry. In other words, the income generated in a large number of small enterprises is dispersed more widely in a community than income generated in a few large enterprises.

The income benefit of small enterprises is derived by a large population while large enterprises encourage more concentration of economic power. In this way, small enterprises bring about greater equality of income distribution.

However, it is a fact that there is a common tendency in all countries wages to be lower in small factories than in large factories; but it is also equally true that in underdeveloped economy workers have a choice not between a high paid job and a low paid job but between a low paid job and no job at all.

So the low paid job is accepted by the force of circumstances. In the absence of small enterprises, the workers have to lose even small wage which they hope to get. A policy of supporting cottage and small industries is really a policy of social insurance for a group which would otherwise be threatened by unemployment.

### **3. Latent Resources Argument:**

Small scale industries are capable of mopping up latent and unutilized resources. This argument justifies the cause of SSIs on three grounds: First, it presupposes that there are a large number of small and potential entrepreneurs who are capable of running industrial units efficiently if proper help is extended to them.

Second, there are a large number of potential enterprises whose full capacities have not been used so far. Third, SSIs will be helpful in putting idle savings in productive use.

### **4. Decentralization Argument:**

Decentralization of industrial activity has also been advanced as another reason for promoting SSIs.

There are two aspects of this argument; first, there is the need to prevent congestion in large cities through prevention of growth of industries there; second, this negative measure has to be reinforced by promoting industrial growth in semi-urban and rural areas so that the local people can stay on their areas without immigrating to the nearby cities.

The primary objective of developing small industries in rural areas is to extend work opportunities, raise incomes and standard of living and to bring about a more balanced and integrated rural economy. In India, the method adopted for developing cottage and small scale industry is the construction of industrial estates, usually in towns.