

## **1. Focus should be on MSMEs to Address India's Steep Employment Challenges**

### **Context:**

- As India battles an economic slowdown and myriad other associated problems, attention is bound to be deflected from the ever-present priority of job creation for the country's youth bulge.
- There was cheerful news from India's factories sector in the recently released Annual Survey of Industries for 2017-18.

### **Annual Survey of Industries 2017-18:**

- Job creation in the sector has been steady, if not spectacular. The number of workers employed grew 4.8% in 2017-18. Total people engaged (including managers) rose 4.7%, the highest in four years.
- Promising as this is, the sheer magnitude of job creation required for young Indians to enjoy a life of dignity means that millions of them must become job providers rather than swell the ranks of job-seekers.

### **Traditional Industrial Policy:**

- In the years after independence, India's traditional industrial policy was built around **Three pillars—Concessional Credit, Fiscal Incentives and Input Subsidies.**
- However, a growing body of research has upended this conventional wisdom and shown that the predominant source of job creation is firms that start small and formal, and eventually grow into medium-scale enterprises.
- In doing so, they reveal an alternative path to generating productive jobs in India. This is not to overlook the value of large firms, but only to highlight the disproportionate importance of start-ups in job creation.

### **Findings of Industrial Survey:**

- Although micro businesses dominate most countries' economies, **India's economy has an excessive proportion of less productive, Informal Micro Businesses.**
- Employment in India is concentrated in these micro businesses, whereas in developed countries, it is concentrated in formal small and medium-sized firms.
- Productive jobs are created by firms that start out as formal.
- New and young firms create more jobs than older, established firms.
- Growing and efficient firms are founded and run by educated entrepreneurs.
- With age, Indian firms typically stagnate or decline in employment.

- India has a deficit of productive, job-creating entrepreneurs, and an excess of informal entrepreneurs focused on survival.

### **Role of MSMEs in Job Creation:**

- These findings suggest that government policies on micro, small and medium enterprises (MSMEs) must become more nuanced. **Informal micro enterprises and single-person enterprises run by those lacking formal education should be termed “subsistence Enterprises”**. The government would then be under an obligation to support them with basic public goods, including education and a robust social safety net. Educating the next generation is critical to breaking the iron grip of poverty and pulling single-person enterprises out of survival mode. However, support to these subsistence enterprises should be provided under anti-poverty measures and not under an economic development programme (much less under productive job-creation measures).
- In general, the government’s perception of entrepreneurship as a viable solution to the lack of employment options is well-founded. International evidence is supportive of this.

### **Need of Government Policy Support to MSME:**

- Start-ups and young firms create more jobs regardless of their size, and educated entrepreneurs have a far higher probability of success.
- Therefore, public policy to support entrepreneurship and MSMEs should target these entrepreneurs. To enhance the productivity of businesses and promote growth, the government **should subsidise the provision of management support services—as industrial public goods—to young businesses**.
- A nascent initiative in South Tamil Nadu shows that huge productivity gains are waiting to be unlocked in small businesses if entrepreneurs are made to understand the importance of some critical principles and concepts related to finance and human resources.
- Moreover, as education plays a big role in the growth of start-ups and their contribution to employment generation, institutions of higher learning should prepare students to be entrepreneurs in the same way that they equip them with functional, marketable skills.
- The government **should also periodically update the definitions of MSMEs to bring them closer to international standards**. This will help ensure that businesses are not prematurely labelled as large and are not denied government support while still in need of it. Finally, internalising the most important principle of public policy—if you cannot help, at least do not hurt—is the first thing the government can do to support entrepreneurs.