

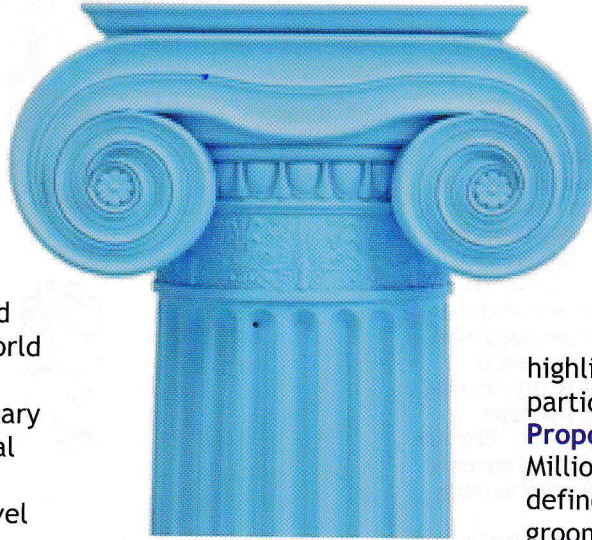


Article

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# MILLION PILLARS ECONOMY

A new economic theory for decoding the science of inclusive economic development!



Even before the Covid19 pandemic the world economy was stumbling. World Economic Outlook, October 2019 of International Monetary Fund (IMF) forecasted Global growth at 3.0 percent for 2019, which is its lowest level since 2008-09. The October Outlook also forecasted a 0.3 percentage point downgrade from the April 2019 World Economic Outlook. The outbreak of Covid19 has made it worse.

Another thing that happened over the years is the scepticism accumulated over the principle "Economy of Scale". The basic idea of Economy of Scale is that the larger the business, the more the cost savings. Does it work in that manner in the case of all industries and all contexts? How is this largeness measured? Does it consider services including components supplied by smaller ones?

Another aspect in this regard is, in most countries, the economy is represented and led by large corporations that are not that large in numbers. As a result, their strategic failures immediately influence the economy negatively. World has seen it

multiple times in the history when major manufactures, airlines, banks etc failed terribly. Are there any ways to minimize this effect?

The matter to be most highlighted in this context is that Micro, Small and Medium Industries contribute to the global economy in substantially higher percentages, but this fact seldom gets due attention. If properly recognized and nurtured, wouldn't MSMEs and Startups be able to present the world with a more sustainably progressive economic order with the support of incomparably large numbers of creative, strategic and entrepreneurial leadership available with them?

All the above questions together triggered the thoughts about the need for recognizing an alternative system driven by SMEs and Start-ups that can be named as Million Pillars Economy (to

highlight the larger number of participants).

### Proposed definition

Million Pillars Economy can be defined as an economy that grooms each one of its entrepreneurs to build pillars of that economy with greater focus to micro, small and medium enterprises (MSMEs), start-ups and farming so that economic growth would be widespread and stable. It would be like the economy is pivoted strongly on million pillars. Information and Communication Technology (ICT) enabled state-of-the-art supply chain management systems, that are competent to facilitate transnational business, shall be the backbone of the Million Pillars Economy

In the Million Pillars Economy, in the demand supply side, each demand pillar will be connecting to its counterpart supply pillar for the business cycles to move on. This economic ecosystem is created and maintained in a decentralized manner through a decentralized political system. Providing an enabling legal as well as technology framework

would be the principal role of the federal governments.

**Are MSMEs competent to assume this vital role?**

Before discussing the above bigger thing, let us refresh our knowledge on MSMEs - What are MSMEs? The definition of MSMEs varies from country to country. Let us consider a few examples. In the Indian context as notified by the Ministry of MSMEs, for Manufacturing Enterprises and Enterprises rendering Services category, following classification is effective from 1<sup>st</sup> July 2020.

Classification	Micro	Small	Medium
Manufacturing Enterprises and Enterprises rendering Services	Investment in Plant and Machinery or Equipment: Not more than Rs.1 crore and Annual Turnover ; not more than Rs. 5 crore	Investment in Plant and Machinery or Equipment: Not more than Rs.10 crore and Annual Turnover ; not more than Rs. 50 crore	Investment in Plant and Machinery or Equipment: Not more than Rs.50 crore and Annual Turnover ; not more than Rs. 250 crore

In the U.S context, North American Industry Classification System (NAICS) has detailed standard codes to define small industries expressed either in number of employees or annual receipts in millions of dollars. It is a detailed listing covering a lot of industry sectors and ranging from 1 million US dollars to 41 million US dollars in terms of annual receipts, and 100 to 1500 in terms of number of employees depending on the nature of the industry.

As seen in the above two cases, definitions vary from country to country, but are still easily identifiable in the context of any given country.

**How strong and widespread is the MSME ecosystem in the world?**

As per an Info Story

published by the International Labour Organization (ILO) in October 2019, “MSMEs are responsible for more than two thirds of all jobs worldwide. They also account for the majority of new job creation. But despite providing a huge share of global employment, SMEs still face major challenges when it comes to working conditions, productivity and informality. ...While they may be small individually, new ILO data show that micro- and small enterprises, together with their own account workers, account for a staggering 70% of employment worldwide.” This is further endorsed by an article published on the website of United Nations Conference on Trade and Development (UNCTAD) on 26<sup>th</sup>

April 2021. As per the article “Policymakers need to adapt policies and institutions to enable small businesses to make a greater contribution to post-pandemic economic revival...MSMEs constitute the backbone of the global economy, accounting for two-thirds of employment globally and between 80% and 90% of employment in low-income countries”

The above status of MSMEs is found to be correct when we consider some major economies individually as well. As per an article published by the U.S Small Business Administration's Office of Advocacy on 30<sup>th</sup> January 2019, small business accounts for 44% of U.S economic activity. The Economic Times (India Times) reported on 5<sup>th</sup> July 2019 that India had plans to enhance the contribution of MSMEs for India's GDP to 50% so that MSMEs will be providing 15 cr jobs in 5 years. As per the Key Small Business Statistics - January 2019 released by Government of Canada on 6<sup>th</sup> December 2019 “As of December 2017, the Canadian economy totalled 1.18 million employer businesses. Of these, 1.15 million (97.9 percent) were small businesses, 21,926 (1.9 percent) were medium-sized businesses and 2,939 (0.2 percent) were large businesses”. As per an article appeared on the China Banking News web page on 22 June 2018, SMEs Account for over 60% of China's GDP. To quote the report “Small, medium and micro-enterprises account for over 90% of all market entities in China, over 80% of nationwide employment, more

than 70% of patents, over 60% of GDP and more than 50% of tax revenues.”

To quote 'Small Business Counts : Small business in the Australian economy', published in July 2019 by Australian Small Business and Family Enterprise Ombudsman "Small businesses account for 35% of Australia's gross domestic profit and employ 44% of Australia's workforce. Of the 877,744 total employing businesses, 823,551 are small businesses (93.8%), and of those businesses, 627,932 are businesses that employ only 1-4 people, known as micro businesses (76.2%) ... A healthy small business sector is a prerequisite for a growing economy with high employment opportunities. In a very real sense, small business counts. What emerges from this report is a picture of a large and vibrant sector, which is vital to the health of the Australian economy".

Further information from Wikipedia: "In any given national economy, SMEs sometimes outnumber large companies by a wide margin and also employ many more people. For example, Australian SMEs make up 98% of all Australian businesses, produce one-third of the total GDP and employ 4.7 million people. In Chile, in the commercial year 2014, 98.5% of the firms were classified as SMEs. In Tunisia, the self-employed workers alone account for about 28% of the total non-farm employment and firms with fewer than 100 employees account for about 62% of total employment."

**How do small industries**

### **contribute to big businesses currently?**

Imprints of MSMEs are already there in the large business. It is not at all a new thing. MSMEs have been working with large enterprises in multiple roles such as investing partners, business partners who manufacture components, supply chain facilitators, Back office/front-office service providers, customers, competitors etc. Let us consider a few examples to get an insight.

Oilmax Systems Pvt. Ltd, one of the top companies in MSME sector in India in the 10 cores to 50 crore INR group, which manufactures, exports, imports various industrial engineering products such as Vacuum Operated Sump Cleaners and Hydraulic Oil Cleaning Systems, etc has Hyundai, Hitachi, Mahindra and Bosch as clients. Another company, Minimac Systems Pvt. Ltd in the same group, and a manufacturer, exporter and technical consultancy company, which provides global quality standardised and customised solutions for high-velocity oil flushing, chemical cleaning, oil purification & oil testing etc has TATA, Adani Power, Aditya Birla Group, Essar, Samsung, EnerMech etc

In the US context, Advoco, a small company

which keeps track of equipment for bigger companies like PepsiCo and Starbucks, is a featured company in the listing "Forbes Small Giants: The Best Small Companies Of 2019". Its revenue in 2018 was \$13 Million. Filtrine Manufacturing in the same Forbes list, which makes custom water systems such as a chiller to cool a Boeing rocket and parts of medical radiation devices, has Coca-Cola and GE as clients. The company's revenues in 2018 was \$18 Million.

As per a World Bank Report titled 'Resilient Industries in Japan : Lessons Learned in Japan on Enhancing Competitive Industries in the Face of Disasters Caused by Natural Hazards (published in October 2020, page 74) "The Japanese government recognizes that the large-scale companies that are the backbone of its economy depend on many smaller firms within their supply chains. The Industrial Competitiveness Enhancement Act (2013) targeted the strengthening of SMEs that supply materials, parts, software, and design to large-scale assembly companies. Continuous strengthening of the base technologies of the manufacturing industry is a key driver of industrial competitive-ness. The strength



of SMEs is essential to the overall strength and resilience of the economy as a whole. Further strengthening of SMEs was incentivized through the Act for Facilitating New Business Activities of Small and Medium-sized Enterprises (1999), which provides easy-to-understand guidance for improving the productivity of SMEs". The vitality of the business linkages between small companies and larger ones is highlighted in several contexts in the above report.

### Characteristics of Million Pillars Economy

While going through data on the spread and influence of MSMEs in the Global Economy, we can elicit, without least exaggerating, that an MSME driven Million Pillars Economy has following characteristics.

1. **Democratic way of organizing an Economy.** From the definition itself we see that the Million Pillars Economy considers all contributors of the economy with due importance, in the same manner the citizens constitute a democratic republic. Therefore, MPE is the democratic way of organizing economic activities by recognizing the responsibility of and offering due respect to each participant of the economy.
2. **Use of Progressive Technologies.** When we tap into the contributions of a massive number of



participants, quite naturally, there should be well-designed systems to connect them and aggregate their services. As we are living in the Information Age, we should make use of the proven products of it for the above purpose. Accordingly, progressive technologies like Block chain, Artificial Intelligence, etc., become ideal choices for the MPE to manage the whole life-cycle activities.

3. **Sustainably progressive.** In the first place, entrepreneurship pillars will be kept on added to the economy and each pillar will be growing by itself as well. Secondly it will be impossible for any event in the economy to weaken all pillars in MPE simultaneously

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and in the same manner. Whenever a few pillars meet with some problems, the risks for MPE shall be absorbed, and the load will be taken over by the huge number of remaining pillars, quite scientifically, as in the case of any engineering marvel pivoted on large number of pillars.

4. **Resistant to Economic Downtime.** The evil effects of economic down times are greatly felt when the middle-income group and the poor, who form the majority of the world population, are hit hard by it. In a Million Pillars Economy, since there is always a better environment for application of alternative business strategies and the promotion of brand-new alternative products befitting to the evolving economic situations, the downward segment of business cycle is likely to be blunted or made affordable to the majority of the population. Therefore, technically, yes, the wave of business cycle with its ups and downs would be there, but its downtime would be not as hard hitting as we see now.
5. **Social entrepreneurship.** Since the Million Pillars Economy considers all sizes and types of enterprises,

the smaller ones, which cater to the needs of the local societies as an act of Social Entrepreneurship will get enhanced attention. It will open tremendous opportunities for social entrepreneurship development. It will also help to address environmental concerns.

6. **Demergers as a successful model.** Merger is the rule of the day in all Economies. Demergers seldom happen, as it is not considered a successful model. But in a Million Pillars Economy, demergers would also be a successful model since every player will be functioning in a plug and play model. Perhaps the better phrase would be 're-arranging the connections' depending on the ecosystem changes. And the beauty of it will be the affirmation "Nothing will be lost completely in a Million Pillars Economy!"
7. **Large business as an aggregator.** Your reading of this article up to this point might have made it clear to you the fact that in the Million Pillars Economy, large business acts as an aggregator of the business of MSMEs and Startups by way of outsourcing requirements starting from cleaning of facilities to



components manufacturing, from product designing consultancy to business processes re engineering consultancy and training, from market study to product distribution etc. World already has a system of 'plug and play' MSME zones, in which ready to occupy industrial facilities will be built by large corporations or governments wherein MSMEs can move in overnight, plug in their machines and start functioning! Million Pillars Economy proposes an advanced version of this model wherein the functions of these MSMEs shall also be integrated into the business life cycle of large corporations.

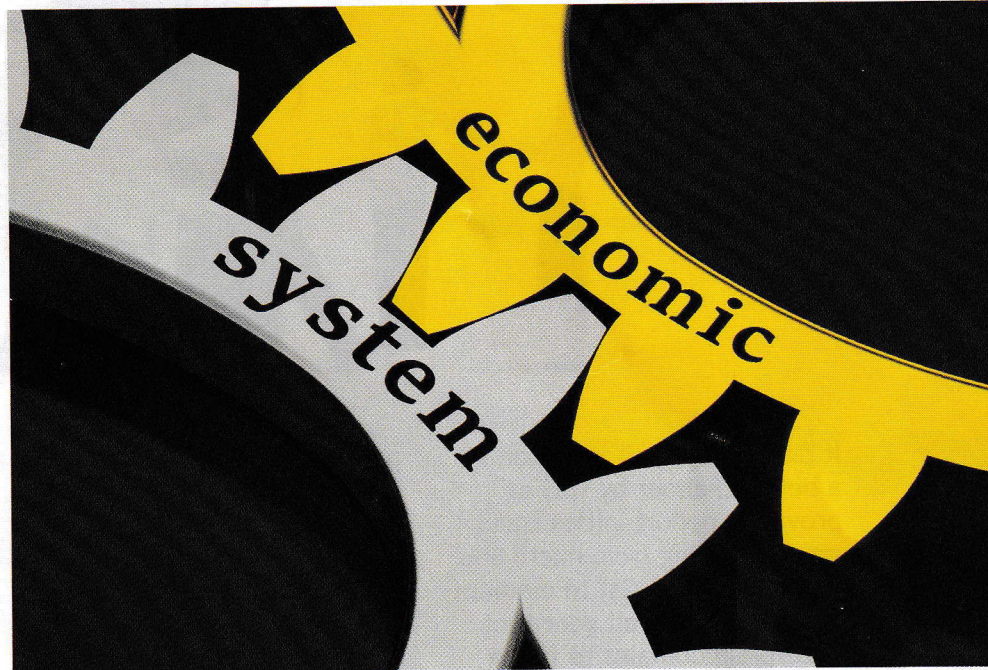
8. **Million engines throttle development together.** As already discussed in this article, in the Million Pillars Economy, pillars are well-connected using progressive technologies of the

information age, the wealth (energy) each pillar generates is scientifically channelized as in a highly sophisticated rocket that uses many engines to serve the end purpose - here it is holistic economic development. Then it will be like a million engines throttle the development together.

9. **An ideal system to ensure the inclusive circulation of resources:** During both the booming and down times of economy, circulation of resources, especially money is critical. During booming times, the circulation shall be happening naturally through market interactions. In an MPE, its effectiveness will be optimum because of the higher degree of participation. During down times governments would pump additional resources into the system. In this scenario, if the resources are circulated through millions of MSMEs, it will keep the economy livelier than any other method of circulation because each unit of MSME shall be multiplying the effect of additional resources it got and reaching out to greater numbers of common people with products, livelihood support and other

services. This in turn would tremendously enhance people's power to interact with the economy - the real ignition for restarting the economy! It will stimulate markets directly and quickly than any other methods of pumping resources.

economic system in which the decisions regarding investment, production and distribution are guided by the price signals created by the forces of supply and demand. The major characteristic of a market economy is the existence of the factor 'markets' that play a dominant role in the allocation of capital and the factors of production" (from Wikipedia). Million



**Comparative study of models: Mixed Economy theory**

Now let us try to compare the possibilities of a Million Pillars Economy (MPE) driven by MSMEs with a recognized economic model - Mixed Economy - to see how the new theory would operate in such environments. Mixed economy has multiple definitions. There are also political and apolitical definitions. When we draw a middle line among all the definitions, we get this one 'a Mixed Economy combines various elements of Market Economy, Socialist Economy and Planned Economy'. "A market economy is an

Pillars Economy is a Market Economy in the sense that it organically evolves and sustains based on the market dynamics as given above. "A socialist economic system is characterized by social ownership and operation of the means of production that may take the form of autonomous cooperatives or direct public ownership wherein production is carried out directly for use rather than for profit" - (from Wikipedia). Million Pillars Economy can be termed as an improved version of Socialist Economy as it promises greater inclusiveness.



It promotes social inclusion in a better manner by way of providing opportunities to all sizes - starting from micro Self Help Groups (SHGs) to medium companies, and all genres of enterprise domains to find a fortune in the market as well as to serve the communities they represent. It also makes use of policy and framework support from Governments in an effective and efficient manner. In the original Socialist Economy theory, the services are not intended for profit making. In the Million Pillars Economy, the Self Help Groups, Cooperatives etc, that are also pillars, can continue in the not-for-profit manner with options to get profit from business somewhere else and use the revenues from such business for the welfare of the societies they represent. Here also the purpose of not-for-

profit existence shall be served, probably, in a better manner. "A planned economy is a type of economic system where investment, production and the allocation of capital goods take place according to economy-wide economic plans and production plans. A planned economy may use centralized, decentralized, participatory or Soviet-type forms of economic planning" (from Wikipedia). We can see that the Million Pillars Economy is also a Planned Economy in the sense that its plug and play functionality with hub and spoke models always fit into the overall business plans of the markets. In other words, the plug and play feature of the Million Pillars Economy functions based on well-designed plans. Hence the above definition of

a Planned Economy works perfectly fine in the case of a Million Pillars Economy also. Perhaps, the Million Pillars Economy provides a new look, feel, depth and more dynamic functionality to the Mixed Economy theory environment. **The new theory is not for a new system, but to recognize an existing system** From what has been discussed in this article so far one thing is very clear. The MSME ecosystem is very strong in the global economy. Therefore, the proposed theory is not at all to install a new economic order. On the contrary, it is an attempt to bring an existing order, which remains overlooked though vital, into the limelight.

