Above are the remedies which are external to SSI units. What is more important is that the owner/manager himself or herself is the person who should manage the unit successfully. Many a time sickness is caused by the owner/manager himself or herself. Often, an individual not endowed with entrepreneurial qualities (see Box 19.5 for some such traits) starts a unit – may be to enjoy the benefits and incentives offered by the government or the person has no other avocation to engage himself or herself in. There are instances where the owner/manager siphoned off funds for personal use such as buying vehicles, jewelry, or celebrating marriages. Units become sick in the meanwhile.

Box 19.5

Skills Needed to run Small Businesses Successfully

Technical Skills

- Writing
- Technical business management
- Ability to organize
- Management style
- Being a team player
- Monitoring environment
- Technology
- Network building
- Coaching

Business Management Skills

- Planning and goal setting
- Communication
- Marketing
- Accounting
- Control
- Venture launch
- Decision making
- Human relations
- Finance
- Management
- Negotiation
- Managing growth

Personal Entrepreneurial Skills

- Inner control/disciplined
- Innovative
- Persistent
- Ability to manage change
- Risk taker
- Change oriented
- Visionary leader

Conclusion

Because of the significant place the SSI sector occupies in our economy, an appropriate environment needs to be created for the growth and sustenance of the small scale units. This calls for steps to build on the strengths of small units; overcome their weaknesses; exploit their opportunities and ward off against their threats (See Box 19.6 for the SWOT of SSIs).

SMALL SECTOR INDUSTRIAL POLICY

The government announced its policy towards the small sector on 6th August 1991. The main features of the policy are: (See Box 19.7 for highlights).

Box 19.6

Small Sector:The SWOT

Strengths	* Flexibility in production volumes and design changes * Faster decision making * Lower labour costs * Lower overheads
Weaknesses	* Often lack of management, marketing or financial skills * Technological obsolescence * Poor financing * Lack of marketing strength
Opportunities	* Large companies are outsourcing more to reduce their own costs * Promising export markets * Higher investment limits mean companies can expand and modernise * Big companies can take a larger equity stake in small ones
Threats	* With concessions disappearing, inefficient units will die * With dereservation, competition will come from large companies * With import liberalisation, competition will come from MNCs and cheap inputs. * Smaller, less aggressive companies will suffer

(Source: Business India, June 15, 1995).

The primary objective of the new policy during the nineties would be to impart more vitality and growth impetus to the sector to enable it to contribute its mite fully to the economy, particularly in terms of growth of output, employment and exports.

Tiny Enterprises

The Government has already announced an increase in the investment limits in plant and machinery of small-scale industries, ancillary units and export-oriented units to Rs.60 lakh and 75 lakh respectively. Such limits in respect of 'tiny' enterprises would now be increased from the present Rs.2 lakh to Rs.5 lakh, irrespective of locations of the unit.

Service sub-sector is a fast growing area and there is need to provide support to it in view of its recognised potential for generating employment. Hence, all industry related service and business enterprises, irrespective of their location, would be recognised as small-scale industries and their investment ceilings would correspond to those of any enterprises.

It has also been decided to widen the scope of the National Equity Fund Scheme to cover projects upto Rs.10 lakh for equity support (upto 15 per cent). Single Window Loan Scheme has been enlarged to cover projects upto Rs.20 lakh with working capital margin upto Rs.10 lakh. Composite loans under Single Window Scheme, now available only through State Financial Corporation (SFCs) and State Small Industries Development Corporation (SSIDCs) would also be chanelised through commercial banks. This would facilitate access to a larger number of entrepreneurs.

Box 19.7

Salient Features of New Policy

- Equity participation up to 24 per cent by other industrial undertakings including foreign companies.
- Legislation to limit financial liability of new and non-active partners/entrepreneurs to the capital invested.
- Hike in investment limit for tiny sector up from Rs.2 lakh to Rs.5 lakh.
- Services sector to be recognised as a tiny sector.
- Support from National Equity Fund for projects upto Rs.10 lakh.
- Single Window Loans to cover projects up to Rs.20 lakh. Banks too to be involved.
- Relaxation of certain provisions of labour laws.
- Subcontracting Exchanges to be set up by industry associations.
- Easier access to institutional finance.
- Factoring services through SIDBI to overcome the problem of delayed payments. Also, legislation to ensure payment of bills.
- Women enterprises redefined.
- Package for handloom and handicraft sector.
- Export development centre in SIDO.
- Marketing of mass consumption items by National Small Industries Corporation under a common brandname.

Financial Support Measures

Inadequate access to credit-both short term and long term, remains a perennial problem facing the small-scale sector. Emphasis would henceforth shift from subsidised/cheap credit, except for specified target groups, and efforts would be made to ensure both adequate flow of credit on a normative basis and the quality of its delivery for viable operations of this sector.

To provide access to the capital market and to encourage modernisation and technological upgradation it has been decided to allow equity participation by other industrial undertakings in the SSI, not exceeding 24 per cent of the total shareholding. This would also provide a powerful boost to ancillarisation and sub-contracting, leading to the expansion of employment opportunities.

A beginning has been made towards solving the problem of delayed payments to small industries by setting up of 'factoring' services through Small Industries Development Bank of India (SIDBI). Network of such services would be set up throughout the country and operated through commercial banks. A suitable legislation will be introduced to ensure prompt payment of small industries bills.

Infrastructural Facilities

A Technology Development Cell (TDC) would be set up in the Small Industries Development Organisation (SIDO) which would provide technology inputs to improve productivity and competitiveness of the products of the small-scale sector. The TDC would coordinate the activities of the Tool Rooms, Process-cum-Product Development Centres (PPDs), existing as well as to be established under SIDO, and would also interact with the other industrial research and development organisations to achieve its objectives.

Adequacy and equitable distribution of indigenous and imported raw materials would be ensured to the small-scale sector, particularly the tiny sub-sector.

Marketing and Exports

National Small Industries Corporation (NSIC) would concentrate on the marketing of mass consumption items under a common brand name and organic links between NSIC and SSIDs would be established.

Though the SSI sector is making significant contribution to total exports, both direct and indirect, a large potential remains untapped. The SIDO has been recognised as the nodal agency to support the small scale industries in export promotion.

Modernisation, Technology and Quality Upgradation

Industry associations would be encouraged and supported to establish quality counselling and common testing facilities. Technology and markets would be established.

A reoriented programme of modernisation and technological upgradation aimed at improving productivity, efficiency and cost effectiveness in the small-scale sector would be pursued.

Indian Institutes of Technology (IITs) and selected regional/other engineering colleges will serve as technological information, design and development centres in their respective command areas.

Promotion of Entrepreneurship

The Government will continue to support the first generation entrepreneurs through training and will support their efforts. Large number of EDP trainers and motivators will be trained to significantly expand the Entrepreneurship Development Programmes (EDP). Women entrepreneurs will receive support through special training programmes.

Village Industries

Handloom Sector Handloom sector contributes about 30 per cent of the total textile production in the country. It is the policy of the government to promote handloom to sustain employment in rural areas and to improve the quality of life for handloom weavers.

The Janata cloth scheme, which sustains weavers often on a minimum level of livelihood will be phased out by the terminal year of the VIII Plan and replaced by the omnibus project package scheme, under which substantial funds will be provided for the modernisation of tools, training, provision of better designs, provision of better dyes and the chemicals and marketing assistance.

Handicraft Sector

The key areas in handicrafts that could contribute towards a faster pace of rural industrialisation are production and marketing. Scheme for training and design development and for production and marketing assistance will be given encouragement.

Other Village Industries

The government recognises the need to enhance the spread of rural and cottage industries towards stepping up non-farm employment opportunities.

The activities of the Khadi and Village Industries Commission and the State Khadi and Village Industries Boards will be expanded and the organisations strengthened to discharge their responsibilities more effectively.

The programmes of intensive development of KVI through area approach with tie-up with DRDA, TRYSEM and ongoing development programmes relating to weaker sections like Scheduled Castes, Scheduled Tribes and women would be extended throughout the country.

RECOMMENDATIONS OF THE ABID HUSSAIN COMMITTEE

Following are the major recommendations made by the Abid Hussain Committee:

* Abolition of the reserved items
* Hiking the investment limit for SSI units.
* Scrapping the foreign investment ceiling of 24 per cent.
* New law to cover business practices.
* Special incentives to clusters of units.
* Inclusion of services sector under SSI units.
* National Research Institution for SSI units.
* Sanctioning of composite loans and credit rating of SSI units.
* Liberalising excise benefits for manufacturing brand name items.

QUESTIONS

1. Define a small industry. What is the role of small industries in our economy?
2. Explain the facilities available for the promotion of small-scale units.
3. Bring out the problems faced and remedials available for small units.
4. Bring out the salient feature of the SSI new policy.

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CHAPTER 20

Industrial Labour

CHAPTER OUTLINE

Extent of Labour
Changes in Labour Force
Trade Union Movement
Industrial Disputes
- *Causes for Disputes*
- *Dispute Settlement Methods*

Wage Policy
- *Concepts of Wages*

Social Security in India

LEARNING OBJECTIVES

After reading this Chapter, you should be able to:
1. *Understand the changes that have taken place in labour front*
2. *Understand the role of trade unions and the changing profile of trade union movement*
3. *Understand the meaning of industrial disputes, and point out their causes*
4. *Describe the disputes settlement machinery*
5. *Understand the nature and relevance of wage policy and describe the various concepts of wages*
6. *Describe the social security in India*

Labour is an important input in industrial production. Mechanisation and automation have not diminished the role of human element in industrial establishments. Infact, the role of the workforce has become highly critical in an automated plant. Nor have the economic reforms belittled the significance of labour. Liberalisation of economy has brought labour to centre stage. Human resource is taken to be an important factor to increase productivity, improve quality and reduce costs-all necessary to survive in the competitive world.

There are several issues related to labour. They are: trade union movement, wage policy and industrial relations. This chapter is devoted for a detailed discussion of these and other aspects.

EXTENT OF LABOUR

Over the years the number of workers has risen considerably.

In 1900, the number of workers in our factories stood at just 5 lakh. By 1988, the figure went upto 26 million, an increase of more than sixty times over a period of nine decades. The annual growth rate of workforce, particularly in 80s, has been an average of two per cent. Table 20.1 gives data relating to employment in both public sector as well as in private sector. Table 20.1 gives details relating to employment in the organised sector (Public and Private Sectors combined)

Table 20.1

Employment in public and organised private sector

(in millions)

	Public Sector (end March)	*Private Sector (end March)*
1990-91	19.06	7.68
1991-92	19.21	7.85
1992-93	19.33	7.85
1993-94	19.45	7.93
1994-95	19.47	8.06
1995-96	19.43	8.51
1996-97	19.56	8.69
1997-98	19.42	8.75
1998-99	19.41	8.70
1999-00	19.31	8.65
2000-01	19.14	8.65
2001-02	18.77	8.43

(**Source**: Reserve Bank of India, *Handbook of Statistics on the Indian Economy*, 2003-04)

CHANGES IN LABOUR FORCE

Industrial labour in the organised sector has undergone the following important changes over the years:

1. Commitment to industry Labour is now committed to the industrial setting, thus contributing to the stable workforce. True, the worker might have his moorings in villages. But it is unlikely that he would go back to his village. He is settled in the city, his children are put into schools in city and, except himself, no one else in his family has an inkling of going back to the village. Besides, the present generation of young workers is mostly born and brought up in urban areas and has accepted industrial employment as a way of life.

But the sad part of the picture is that though labour is committed to the industry, it is not committed to work. This is the reason for the low productivity of our industrial labour.

India is probably the only country which is highly labour legislated country in the world.

2. Protective legislation From time to time, the government has been enacting a variety of labour legislations. Perhaps, ours is the only country in the world which has enacted so many legislations to protect the interests of workers. Distinction apart, there is no gainsaying the fact that working conditions in factories, payment of wages and other benefits, and general welfare of workers have improved over the years. This improvement has been mainly due to the protective legislation, though there were enlightened employers who were ahead of their times in providing amenities to the workers voluntarily. Such enlightened employees were few and far between.

There has been a social amalgam-status of the worker has improved.

3. Status of the worker The economic and social status of today's workers is vastly improved. Industrial employment is no longer the undesirable alternative left for those driven out from the villages. Improved skill contents of the jobs and increased emoluments have made industrial employment the first attraction of young job aspirants. Industrial employment is not now restricted to the socially low castes; the dynamic changes in the industrial sphere have, as the National Commission on Labour has observed, brought about a '*social amalgam*.' The status of the industrial worker of today is enhanced as a result of the readjustment in the value system in favour of industrial employment, which in turn, has the aggregate effect on his improved skills and his enlarged pay-packet. The stigma attached to the factory employment has gradually disappeared.[1]

4. Employment pattern Another feature noticed in the industrial labour is the change that has come about in the employment pattern of labour, due to changes in industrial activity, which has tremendously expanded and diversified and has undergone a technical transformation. In the early years, unskilled work predominated in industrial employment, so long as traditional industries like textiles and mining were in the forefront. In the process of expansion and diversification, new avenues of industrial enterprises in engineering, chemicals, pharmaceuticals, etc. have assumed importance and changed the composition of industrial employment. The improved technology of these new industries created new jobs with greater skill content, raising the minimum standard of education required. Industrial employment, inspite of being blue-collared in nature, is no more looked down upon as an inferior mode of earning a living. The employment pattern has further changed in the service industries like air transport and in newer industries like petro-chemicals, wherein the employment has become more and more white-collared and sophisticated.[2]

5. Growth of trade unionism Industrial labour is organised today, primarily to protect and promote its own economic interest. Industrial workers in the early days, being mostly ignorant and illiterate, were led by outside sympathisers and their organisations had close links with political activities. These legacies have proved to be serious hurdles in the path of building up strong trade unions even today. The trade unions are multiple in number and weak in strength. No doubt, strong trade unions are an essential prerequisite for the success of collective bargaining. In the absence of such unions, the government intervenes increasingly in the sphere of industrial relations, thereby leaving the trade unions weak and reducing bilateral relations, to a mere formality. There has been in the field of industrial relations in India a perennial controversy between the voluntary approach based on relatively free collective bargaining and the legal approach, providing for considerable State intervention for want of a sole and strong bargaining agent. However, the industrial worker today is better organised than before. With a higher level education, the workers have become more conscious and vocal. As leadership is gradually coming up from within, a tendency towards independent trade unions is growing.[3]

Number of trade unions has multiplied over the years.

TRADE UNION MOVEMENT

Started during the first quarter of the 20th century in India, the trade union movement has travelled a long way. As of toda, there are 59,968 registered unions and most of them are affiliated to one or the other central union. Table 20.2 gives details about the number of unions and their membership. Table 20.3 reveals figures of membership as on today.

As Table 20.2 shows, there has been a steady increase in the number of registered unions but their membership fluctuated from year to year. The figure slipped to all time low in 1993, but increased in the years that followed.

Table 20.2

Union Membership

Year	*No. of Unions Registered*	*Membership ('000)*
1990	52,016	7,019
1991	53,535	6,100
1992	55,680	5,746
1993	55,784	3,134
1994	56,872	4,094
1995	57,952	6,538
1996	58,305	5,613
1997	59,968	7,408

(Source: Various Issues of Labour Year Book)

Table 20.3

Union Membership end March, 1996

Trade Union	*(in lakhs) Membership*
BMS	31.1
INTUC	26.9
CITU	17.7
HMS	14.6
AITUC	9.4
UTUC(LS)	8.4
UTUC	5.8
Others	9.4
Total	123.6

Trends in Trade Union Movement

1. A major trend witnessed these days is the change in the attitude of unions towards the management, industry, government and the economy. The change is reflected in–

Attitude of the unions towards management has changed.

- Unions are becoming substantially matured, responsive and realistic in their thinking and actions. Gone are the days of cat-call strikes, *bandhs, gheraoes* and violence.
- Unions are reconciled to the economic reforms. Their accent is on opposing the adverse impact of reforms and not the reforms *per se*.
- Discussion among trade union circles nowadays is on issues like productivity, Total Quality Management (TQM), technology, competition, MNCs, exports, and the like. Major unions of the telecom employees, for example, are online with the corporatisation of plans of the department. They are now talking about issues like gearing up for competition and inculcating a customer-friendly approach.
- Unions have accepted that there is surplus labour everywhere and the organisation needs to be trimmed. Unions are, therefore, extending cooperation to schemes like voluntary retirement and the golden handshake. 35,000 workers of National Textile Corporation alone have retired voluntarily.

2. Depoliticisation of unions is another trend witnessed these days. It is too well known that the federations of the unions are affiliated to one political party or the other (Refer to Table 21.1). No surprise that the prominent national leaders in the post independent India were incidentally popular union leaders. Being affiliated to one or the other political party, the unions were more busy toeing the lines of their political bosses than protecting workers' interests. Unions have realised the futility of such affiliations and are now insulating themselves against political influence. In many leading companies such as Telco, Philips, Voltas, Siemens, Hindustan Lever, Blue Star, Pfizer, Tomco, and Hoechst, there are unions unions but not affected by political parties. The trend towards depoliticisation started in the 1960s and received further boost in the post-liberalisation era.

There has been depoliticisation in trade union movement.

3. Nature abhors vacuum, so goes the saying. Unions seem to relish affiliations. They are now formed on the basis of religion and caste. This is indicative of the socio-political realities after the Mandalisation of the polity and the heightened sectarian consciousness after the demolition of the disputed structure at Ayodhya.[4]

Unions now are being formed on the bases of religion and caste.

4. Workers' associations in our country are highly fragmented and the consequence has been the multiplicity of unions. Multiplicity is caused by ideological rifts, personal ambitions of leaders, craft divisions among workers and the management's own myopia. The number of unions in some organisations is truly mindboggling. The Bokaro Steel Plant is blessed with 68 of them. Calcutta Corporation has the unique distinction of having about 100 unions. The Singareni Collieries has 36 unions. The Collieries is gripped by labour problems almost everyday, the trouble started by one union or the other. Steel Authority of India Ltd. (SAIL) has 240 units and Delhi Transport Corporation has 50.

Multiplicity of unions weakens the bargaining strength of employees. Management's position is no better. For example, the management of the Calcutta-based Dolphin Laboratories which had raised money in the capital market on May 1994, to start a second manufacturing base in Gujarat, was forced to think two months later to shift completely from West Bengal because of intra-union rivalry over the duration of wage agreements.

The futility of multiple unions is being realised by the government and workers. Government proposes to amend the Trade Unions Act, 1926 to prescribe minimum strength for the formation of a union at 100 per cent or 10 per cent of the total staff, whichever is less.

Union leaders too are conscious about the need for single union plants. Of late, unions have presented a common front on issues like industrial sickness and the National Renewal Fund. At the 31st session of the Indian Labour Conference held in 1995, unions of varying status and affinities demanded better utilisation of the fund and felt that the amount should not be used merely for financing voluntary retirement schemes.

5. One of the effects of the trade union movement in our country has been the phenomenon of external leadership. Individuals who were not connected with a factory would assume the leadership mantle of the union. A Bangalore-based electrical company is an example to be quoted in this context. For a long time Mr.X, a communist leader, was the president of the worker's union, but he was neither a worker nor a supervisor in the company. Eight years back, workers decided against the practice and in the election held Mr.X and his coterie were defeated and the insiders became office bearers of the Union. Employees of a neighbouring plant too drew inspiration from the electrical company and re-enacted the coup and got the same Mr.X defeated in another election.

External leadership of the unions is unique to Indian trade unions.

Partly the fault for outsider leadership lies with the Trade Unions Act, 1926 itself. The Act permitted external participation to the extent of 50 per cent of the strength of office bearers in a Union. The government proposes to bring this down to one-third or two, whichever is less.

6. The clout of the central trade unions, which peaked during the post-nationalisation years, has started waning. For example, the membership of Indian National Trade Union Congress (INTUC), which claimed to have enjoyed a strength of 54.35 lakh in 1989, had slipped to 54.05 lakh in 1993, a fall by 30,000. Same is the fate of the Centre of Indian Trade Unions (CITU).

One of the reasons for this trend is the gradual realisation on the part of the workers, who are young and well educated, and that independent unions are more advantageous than being affiliated to all India federations.

7. The future is likely to witness a major battle between labour unions and the small and medium enterprise owners; though the unionisation of the workforce in the unorganised sector will prove to be arduous and difficult to deal with. The labour movement in India, despite its broad sweep and deep roots, has largely concentrated its energies in the organised sector, which provides employment to less than 10 per cent of the labour force. It has not been able to make any significant headway in the unorganised sector and the rural sector. Not surprisingly, while the employment generation in the organised sector has remained more or less static, or grown slowly, there has been a veritable boom in the employment opportunities in the unorganised sector.

Independent unions are better than affiliated ones.

8. The other major trend that has already manifested itself, and will gather momentum in the new century, is the rise of new types of employment opportunities - especially in knowledge-based industries-where unionisation will have no role to play. Professionalisation of the service sector is also likely to weaken the need for collective bargaining. The manifold diversification of the process of industrialisation will also hamper the growth of a mass-based labour movement. Intensive unionisation in a few industrial and service sectors was possible in India because of the absence of diversification of business activity, thanks mainly to the fact that India missed the industrial revolution. But as diversification of businesses occurs, employment opportunities will increase, and the need for old-style unions will end up being obsolete.

New types of employment opportunities may weaken unions further.

9. There is a comprehensive change in the mindset of the country's working class. The individual has replaced the collective. In an economy that is increasingly becoming globalised, it is not dearness allowance that matters, it is the dollar earnings that do. Annually-renewable contracts will become the order of the day, as wage agreements become redundant.

10. Faced with the problem of declining membership and the fear of losing their relevance, trade unions are taking initiatives to fight unitedly. Many unions, including those affiliated to Left Parties, have joined together to fight for such causes as disinvestment, closure and modernisation. The merger between AICTU and HMS is on the cards. Union after union, in their respective annual conventions, is calling for united movement.

11. Professionalisation of trade union movement is yet another trend witnessed these days. To counter criticisms and also to fight organised forces of employers, trade unions, through various institutions such as Ambedkar

Institute of Labour Studies, Maniben Kara Institute and National Labour Institute are trying to upgrade the quality leadership, personnel, as well as the services rendered. Topics like IT, strategic planning, diversity, networking, OD techniques, productivity and the like now form inputs in training programmes organised for union leaders.

Unions are getting highly professionalised.

There will be no more leaders who can drive the working classes into a frenzy by the sheer force of their personality and charisma. Tommorrow's labour leaders will match the managements in both style and content. Negotiation and not oratorial skills will determine how many followers a leader will have. The Datta Samants of the world have become history. In this brave new world, which is already upon us, George Fernandes has become a conformist joke. The man who brought the entire country to a standstill in 1974 when he led the railway strike, is used to sit in treasury benches and advising unions law to be more industry – friendly.

Thus, the trade unions are at the crossroads. Their membership is declining, their political support is waning, public sympathy is receding and their relevance itself is at stake. Management is, on the other hand, on the offensive. They are able to force unions to accept terms and conditions and sign on the dotted lines.

Unions should come out with innovative ideas to regain their lost grounds. One possible way is to extend unionism to non-traditional groups such as white collar and professional workers. Another way is to give up their obsession with strike and start serving the members.

INDUSTRIAL DISPUTES

Disputes are common in industries. They manifest in the form of strikes, *bandhs* and lock-outs. Consequences are loss of production, loss of profit, loss of market and even the closure of plants.

Table 20.4 gives details about the workdays lost due to strikes and lock-outs since 1999.

According to the Industrial Disputes Act, 1947, an industrial dispute means any dispute or difference between employers and employers, or between employers and workmen, or between workmen and workmen, which is connected with the employment or non-employment or terms of employment or with the conditions of labour of any person [S.2(k)].

Causes for disputes

The causes for industrial disputes are many and varied. The major ones relate to wages, union rivalry, political interference, unfair labour practices, multiplicity of laws and others.

Disputes arise out of wages, union rivalry, unfair labour practices, multiplicity of laws and others.

Wage demands

By far, the most important cause for disputes relates to wages. The demand for wages has never been fully met because of high inflation and equally high cost of living. Wage agreement reached in one company will inspire unions in other plants in the locality and prompt them to pitch tents demanding similar rise in wages.

Table 20.1

Mandays Lost Due to Disputes

[illegible]	Strikes (No.)	*Mandays lost (Million)*	Lockouts (No.)	*Mandays lost (Million)*	Total (No.)	*Mandays lost (Million)*
1999	540	16.16	387	10.62	927	26.79
2000	426	11.96	345	16.80	771	28.76
2001	372	18.2	302	5.56	674	23.77
2002	295	16.92	284	9.66	579	26.58
2003(P)	255	27.04	297	3.20	552	30.25
2004(P) (Jan-Sept)	189	10.13	215	3.40	404	13.53

P=Provisional; Total may not tally due to rounding off of figures.
(**Source**: Labour Bureau, Simla)

Union-rivalry

Most organisations have multiple unions. Multiplicity of unions leads to inter-union rivalries. If one Union agrees to a wage settlement, another Union will oppose it. Often, opposition is merely for the sake of it. The consequence is never ending disputes, as has been happening in the Singareni Collieries. The company had 445 strikes in 1990-91, resulting in a loss of production of 3.12 m.tons and 34.19 lakh mandays.

Multiplicity of unions pose additional problems to managers. One such problem relates to the authenticity of membership. Unions put up respective numbers of members in such a way that together the figure shall exceed the total number of workers in the organisation. Another problem relates to the selection of a bargaining agent for collective bargaining process to settle a dispute.

Political interference

Major trade unions, as was stated earlier, are affiliated to political parties. Political affiliation is not peculiar to our country alone. Even a cursory look at the labour movement around the world would show that trade unions are, by their nature, political, and that the participation of labour is the rule rather than the exception. This is so much the case that Flanders, an acknowledged British expert on industrial relations, remarked, "Everywhere, trade unions have been compelled to engage in political action to obtain enough freedom from legal restraint to exercise their main industrial functions. Freedom of association, the right to strike and to picket, the prevention of undue influence in their internal affairs, are familiar objectives which have demanded the use of political methods. Unions have also fought for legislation that would assist them in collective bargaining and the like. Much more could be said about this, but these indications should suffice to show that, as a minimum, trade unions must be involved in politics in order to establish and maintain the legal and economic conditions in which they can flourish.... It makes the term *'non-political union'*, taken literally, a nonsensical description, there is no such animal."[5]

What happens when unions get politicised? In the *first* place, distant ideological issues divide and fragment unions on party lines. When unions multiply, inter-union rivalry erupts and the consequences are too obvious. *Secondly*, inspired by their political ideologies, certain unions refuse to sign an agreement even if it is favourable to all the workers, thus the ever dissenters manage to keep the issue alive. The communist led CITU is an example to be quoted. "The CITU follows a pristine model of trade unionism drawn from the theory of class conflict... The communists love to fight, but hate to win. Victory for them appears to be defeat... The General Secretary, CITU, had an answer to the accusation that they never signed a settlement: 'When we start discussions, we know what is a fair settlement. Others may be willing to accept unfair terms, but we cannot. We are also opposed to long-term settlements. Many settlements here are for four years. Anything can happen during this time. The cost of living could triple. Our position is that no settlement should be for more than three years.'... In point of fact, the communists had managed to maintain their lily-white image by refusing to sign any settlement for fifteen long years."[6]

Communists love to fight but hate to win.

Thirdly, every political party somehow engineers strikes, *gheraos* and *bandhs* to demonstrate its political strength. Invariably, the political party which is in power, favours a union which is affiliated to it, and the result is endless disputes.

Unfair labour practices

Majority of the disputes are management inspired. The following points[7] justify the assertion:

(i) Management generally is not willing to talk over any dispute with the employees or their representatives or refer it to '*arbitration*' even when trade unions want it to do so. This enrages the workers.

(ii) A management's unwillingness to recognise a particular trade union and the dilatory tactics to which it resorts to while verifying the representative character of any trade union have been initiating industrial strike.

(iii) Even when representative trade unions have been recognised by employers, they do not, in a number of cases, delegate enough authority to their officials to negotiate with their workers, even though the representatives of the labour are willing to commit themselves to a particular settlement.

(iv) When, during negotiations for the settlement of a dispute, the representatives of employers unnecessarily and unjustifiably take the side of the management, tensions are created, which often lead to strikes, go-slow or lock-outs.

(v) The management's insistence that it alone is responsible for recruitment, promotion, transfer, merit awards etc. and that it need not consult employees in regard to any of these matters, generally annoys workers, who become unco-operative and unhelpful and often resort to strikes.

(vi) The services and benefits offered by the management to its employees promote harmonious employer-worker relations. But a large number of managements have not taken any steps to provide these benefits and services for their workers.

Too many laws

Labour laws in our country, as in several other countries, have been enacted to create conditions for the protection of labour from unfair employment practices and to provide a legal framework within which industrial relations are to be regulated.

> Labour legislation is conceived as an important agency for regulation of working and living conditions of workers.

Labour legislation is regarded as the most dynamic institution. From a simple restraint on child labour in 1881, labour legislation in our country has become an important agency of the State for the regulation of working and living conditions of workers, as indicated by the rising number and variety of Labour Acts. This rapid development of labour legislation is an integral part of the modern social organisation.

There are about 108 Acts, both Central and State, earning our country the dubious distinction of being one of the few highly labour legislated countries in the world. What has been the outcome of all these?

Surely, the result has been endless industrial strife, loss of production and the exploitation of labour by the management and of the management by labour.

What is strange is that in developed countries of the Western world, labour legislation followed the emergence of industrialisation and in response to a demand for economic and social betterment of the workers. In India, the emergence of labour laws preceded industrial growth, as a result, the persons who benefited by such laws represent only a small percentage of the total workforce. We neither experienced an industrial revolution, in the true sense of the term, leading to gradual emergence of a welfare state, nor a socialist revolution which steels the public sector with a sense of performance. Yet we have evolved the most advanced industrial Jurisprudence in the world.[8]

> While dealing with discipline cases, the Supreme Court has not only the path but also the map and the compass. It has gone to the extent to say that an illegal strike is justified.

Judiciary has not played a positive role either. During the last decade and a half, in the name of 'directive principles,' 'social justice' and 'activist law making,' the Supreme Court, instead of having a balanced and reasoned consideration of opposing interests, has entirely vitiated the industrial relations fabric by making wholesale dogmatic assertions in undermining discipline. To borrow a simile from G.K.Chesteron, while dealing with discipline cases, the court lost not only the path but also the map and the compass. It has gone to the extent to say that even an 'illegal strike is justified.' By those whose horizons are limited, trifles are easily confused with technicalities. The result is that indiscipline in the industry has spread like wildfire and sapped the national production and productivity. The classic case is that of the textile industry which has been wrecked by indiscipline. The conflagration is continuing to engulf various industries one by one.[9]

Others

The Industrial Relations (IR) managers, who have the responsibility of promoting cordial relations among employers and employees, themselves stoke the fire and then extinguish it-all to justify their own existence in organisations.

The intellectual background of IR managers may have much to do with the way the function has evolved. Predominantly, they have been trained in either social work or law, and sometimes in both. Social work as a discipline is strongly oriented towards welfare, which is not the best intellectual equipment for a man who has to face the fire and brimstone of trade unionism. Law trains the manager in methods of punishing the errant, not of motivating the average.

Neither discipline teaches the pupil to regard trade unionism as anything more than a necessary evil. Industrial relations itself has not developed as an academic discipline, and there is just one university in this country which has a separate department for that subject. Sociology, political science and economics, which have far greater relevance, have never been major inputs.

With such meagre intellectual equipment, it is but natural that there should be a striking absence of conceptual clarity in the industrial relations managers. Managers assert that they have engaged in collective bargaining whereas they have only got the labour department to intercede. The mere existence of a settlement is often presumed to imply a bargain. They claim to practise participative management after setting up a few committees which discuss the strength of the canteen brew. Not a few wonder why they are steeped in conflict even after the union president has been nominated to the board.

Then there is much obfuscation about the social purpose of trade unionism itself. Everybody has his own idea of what the unions ought to be doing. Managers find it convenient to shrug off responsibility for discipline and productive efficiency, arguing that this is really a union function. With a better conceptual orientation, they would have known that trade unions are formed not to unburden them, but indeed to force them to cope with greater burdens. Conceptual knowledge would also have helped them to look inward instead of seeking scapegoats.

Trade unions are known to be responding much of the time to what the management does or fails to do, rarely ever taking the initiative to set the pace themselves. They are like opposition parties whose entire existence is built around the failings of the ruling party. It is really the managerial system which supplies the powder for the union armoury. What business would unions be left with, especially between settlements, if managers refrained from playing favourites, sharpened their sensitivity to the everyday problems of their subordinates and operated an effective grievance procedure? The best way to cope with the Union is not to smash it but to starve it of business.[10]

Dispute Settlement Methods

Several methods are available to settle industrial disputes. The well known methods are-

* Collective bargaining
* Code of discipline
* Grievance procedure
* Arbitration
* Conciliation
* Adjudication

Table 20.5 gives details about the disputes referred to various settlement methods.

Table 20.5

Disputes Referred for Resolution

Year	*No. of disputes referred to IR machinery*	*No. of failure reports received*	*Cases referred to adjudication*	*Cases referred to conciliation*	*Cases referred to arbitration*	*No. of disputes for which awards were available*
1975	58,575	15,168	10,551	197	10,778	5,480
1978	73,365	20,067	18,043	263	14,306	8,826
1979	61,821	17,931	10,360	346	10,706	8,044
1981	24,775	681	6,828	61	6,890	2,026
1983	66,661	26,796	10,094	141	16,235	7,879
1985	47,436	19,306	10,914	29	15,948	5,878

(**Source**: *Indian LabourYear Book*)

Collective bargaining is the most effective method of settling disputes.

Collective bargaining is probably the most effective method of resolving disputes. It occurs when representatives of a labour union meet with the management representative to determine employee's wages and benefits, to create or revise work rules, and to resolve disputes or violations of the labour contract.

The bargaining is collective in the sense that the chosen representative of the employees act as a bargaining agent for all the employees in carrying out negotiations and dealings with the management. The process may also be considered collective in the case of the corporation in which the paid professional managers represent the interests of the shareholders and the board of directors in bargaining with union leaders.

Collective bargaining is most effective because it creates a system of industrial jurisprudence. It also establishes rules which both the management as well as employees must observe.

Code of discipline determines responsibilities of employers and employees.

Code of discipline defines duties and responsibilities of employers and workers. It is effective because (i) it ensures that employers and employees recognise each other's rights and obligations, and (ii) promotes constructive cooperation between the parties concerned at all levels.

Grievance procedure is another method of resolving disputes. All labour agreements contain some form of grievance procedure. And if the procedure is followed strictly, any dispute can be easily solved.

When an employee feels aggrieved, he or she files a grievance which is resolved through a set procedure, *viz*.-

(a) Section head shall try to resolve, and if this fails;
(b) Departmental head shall intervene to resolve, and if this fails;
(c) Division head intervenes, and if this too fails;
(d) Complaint is referred to the union.

Arbitration is a procedure in which a neutral third party studies the bargaining situation, listens to both the parties and gathers information, and then makes recommendations that are binding on both the parties. Arbitration is effective because it is (a) established by the parties themselves and the decision is acceptable to them; and (b) it is relatively expeditious when compared to other methods.

Conciliation is a process by which representatives of workers and employers are brought together before a third party with a view to persuading them to arrive at an agreement by mutual discussions between them. The third party may be one individual or group of people.

It maybe stated that the conciliator has no power to force a settlement but can work with the parties seperately to determine their respective positions, explain a position more fully to the opposition, point out bases for agreement that may not have been apparent previously, help in the search for solutions, and generally facilitate the reaching of an agreement. Hence, conciliation can be effective in resolving disputes, but much depends on the third party.

Adjudication refers to a mandatory settlement of an industrial dispute by a labour court or a tribunal. Generally, the government refers a dispute for adjudication on the failure of conciliation proceedings.

Structural Adjustment Programme and Industrial Relations

In the context of the ongoing Structural Adjustment Programme (SAP) in the Indian economy, the industrial relations system now constitutes a major bottleneck which must be substantially removed if India's pursuit of industrialisation is to be renewed. The main problem is that industrialisation must be sustained through technological renewal accompanied by the scrapping of established organisational charts, deskilling of labour and the consequent redundancy and retrenchment. Coming in the way, the existing provisions of the I.D. Act have rendered either work reorganisation or sustained technological renewal and the resulting de-manning and the remanning of organisations too costly in money and time, if not altogether impossible. This has compelled entrepreneurs to opt for extensive automation with minimum manpower, instead of equally good labour-intensive machinery. Domestic entrepreneurs are shy of employing more labour, even in pressing needs and the interested foreign investors have kept away. In principle, this difficulty can be totally overcome through a law which will provide social insurance cover to those already employed in the designated industries. If this can be done, the Indian industry will be liberated from organisational overload of manpower cost which it can easily do without. Then, it can move forward to face boldly the challenge posed by the SAP.

WAGE POLICY

Wage policy refers to all systematic efforts of the government in relation to a national wage and salary system. It includes orders, legislators, etc. to regulate the levels or structures of wages and salaries with a view to achieving economic and social objectives of the government. Specifically, objectives of wage policy are:

Wage policy refers to all systematic efforts of the government in relation to a national wage and salary system.

- To obtain to the workers a just share in the fruits of economic development;
- To set minimum wages for workers whose bargaining position is weak;
- To bring about a more efficient allocation and utilisation of human resources through wage and salary differentials and
- To abolish malpractices and abuses in wage and salary payments.

The first step in the evolution of a wage policy was the enactment of the Payment of Wages Act, 1937. The main objective of the Act was to prohibit any delay or withholding of wages legitimately due to the employees. The next step was the passing of the Industrial Disputes Act, 1947, authorising all State governments to set up industrial tribunals which would look into all disputes relating to remuneration. Another notable development in the evolution of the wage policy was the enactment of the Minimum Wages Act, 1948. The purpose of the Act is the fixation of minimum rates of wages to workers in sweated industries such as woollen, carpet-making, flour mills, tobacco manufacturing, plantations, oil mills, quarrying, mica, agriculture and the like. The Act has been amended several times, making it applicable to more and more industries. Then came the Equal Remuneration Act, 1976, which prohibits discrimination in matters relating to remuneration on the basis of religion, region or sex.

The Constitution of India committed the government to evolve a wage policy. Successive five year plan documents have also devoted necessary attention to the need for a Wage Policy. Following the recommendations of the First and Second plans, the Government of India constituted Wage Boards for important industries in the country. A Wage Board is a tripartite body comprising representatives of the government, owners and employees. Technically speaking, a Wage Board can only make recommendations and they are normally implemented through persuasion.

Inspite of the legislations, tribunals and boards, disparities in wages and salaries still persist. Some of the disparities are:

Wage disparities are several. For example employees of MNCs are paid more than those working in host country industries.

- Employees of MNCs are paid much more than their counterparts in host countries for identical work.
- Different industries have different wage and salary structures resulting in disparities in remuneration for identical work.
- Wide gaps exist between wages and salaries of employees of the organised sector and of those in the unorganised sector, the latter earning much less than the former.
- Differences exist between the earnings of employees in the government sector and those in the private sector.
- Within the government sector, salary differences exist among employees of different departments.

An illiterate supervisor in a leather processing unit earns Rs.12,000 plus per month and a hefty annual bonus. A University Professor does not earn that much.

Disparities are glaring. If an illiterate supervisor in a leather processing unit can earn Rs.12,000 plus per month and a hefty yearly bonus, how much a University Professor should earn? Rs.10,000 and no bonus? If an autodriver can earn Rs.3000 per month, how much a temporary lecturer in a college should earn? Rs.1200 per month? And remain temporary for ever? A sweeper in L&T is an income-tax assessee but a boy or a girl with B.E. or MBBS works for Rs.800 per month in a small scale unit or Rs.1200 per month in a private nursing home.

Actually, there are clerks in Mumbai who get nearly twice as much as a labour tribunal judge-the man who arbitrates on everyone's wages and salaries. And a head clerk in the LIC gets, at the maximum of his grade, more than half of the salary of a High Court Judge, not less. An average worker in a government owned unit hardly soils his or her hand, yet clears a four figure salary every month.

In order to correct such disparities, the Government of India appointed a committee, headed by Mr.Bhootalingam in 1979. The brief given to the committee was to suggest a rational and integrated wage policy covering all sectors of the economy. Soon after the committee submitted its report, there was hue and cry raised against the recommendations. The report was criticised as anti-labour and impracticable. It was promptly and predictably shot down.

Concepts of wages

While evolving a wage policy, three concepts of wages, namely, (i) minimum wages, (ii) fair wages and (iii) living wages are generally considered. These are broadly based on the needs of the workers, capacity of the employers to pay and the general economic conditions prevailing in a country.

Minimum wage

Minimum wage is the one which provides not merely for the base sustenance of life but also for the preservation of the efficiency of the worker. For this purpose, the minimum wage must also provide for some measure of education, medical requirements and amenities. Minimum wage may be tied by an agreement between the management and the workers, but is usually determined through the legislation. This is more so in the unorganised sector where labour is not unionised. In the fixation of minimum wages, besides the needs of workers, other factors like the ability of the concern to pay, contents of jobs, etc. are also considered.

> Minimum wage provides for the basic sustenance of life but also for preservation of the efficiency of the worker.

Fair wage

Fair wage is understood in two ways. In the narrow sense, a wage is fair if it is equal to the rate prevailing in the same trade and in the neighbourhood for similar work. In the wider sense, it will be fair if it is equal to the predominant rate for similar work throughout the country and in the generacity of traders. Irrespective of the way the fair wage is understood, it can be fixed only by comparing with an accepted standard wage. Such a standard can be determined with reference to those industries where labour is well organised and has been able to bargain well with the employers.

> Fair wage compares well with the going rate in some other trade.

Living wage

Living wage is a step higher than the fair wage. Living wage may be described as the one which should enable the wage earner to provide for himself and his family not merely the base essentials of food, clothing and shelter, but a measure of frugal comfort including education for children, protection against ill health, requirements of essential social needs and a measure of insurance against the more important misfortunes including old age. Living wage must be fixed considering the general economic conditions of the country. The concept of living wage, therefore, varies from country to country. In the more advanced countries, living wage itself forms the basis for the minimum wage.

> Living wage is higher than the fair wage. It provides for basic sustenance and for other comforts in life.

In India, minimum wage is determined mainly for sweated industries under the provisions of the Minimum Wages Act, 1948. Fair wage is fixed for other industries considering prevailing rates of wages, productivity of labour, capacity of the employer to pay, level of national income and other related factors.

Tribunals, awards and wage boards play a main role in fair wage fixation. Many people are of the opinion that living wage is a luxury for a developing country like India and can, therefore, be deferred.

SOCIAL SECURITY IN INDIA

Social security is an essential aspect of economic development. It covers certain risks an individual is exposed to. Social security covers the entire population, but we are concerned with only industrial labour.

The government has come out with a series of legislative measures for the benefit of workers in our country. Such measures are:

- The Workmen's Compensation Act, 1926
- The Maternity Benefit Act, 1961
- The Employees State Insurance Act, 1948
- The Employers' Provident Fund Act, 1952
- The Factories Act, 1948
- The Payment of Wages Act, 1936
- The Minimum Wages Act, 1948
- The Payment of Gratuity Act, 1972
- The Payment of Bonus Act, 1965

Regrettably, provisions of these and other acts and the benefits flowing from them go only to the workers in the organised sector. A large chunk of labour, specially in the agricultural sector and the unorganised sector, estimated at about 87 percent of the labour force, is outside the preview of the protective legislation. Even for the workers in the organised sector, benefits hardly reach. One should visit an ESI hospital to see the plight of an average worker seeking medicine and relief from the doctors. Experience of workers is no better in the provident fund offices. In many cases, managements fail to remit their and worker's contributions to the P.F. Commissioner regularly. For majority of the owners, social security is a charity and is treated as a burden to be avoided at the slightest pretext.

QUESTIONS

1. Bring out the important changes that have taken place at the labour front.
2. Outline the trends in the trade union movement.
3. Bring out the causes for industrial disputes. How are they resolved.

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CHAPTER 21

Industrial Sickness

CHAPTER OUTLINE

Definition of a Sick Unit

Extent of Sickness

Causes for Sickness

Effect of Sickness

Remedies

- *Preventive Measures*
- *Curative Measures*

Omkar Swami Committee on Sickness

LEARNING OBJECTIVES

After reading this Chapter, you should be able to:

1. *Define a sick unit, analyse causes for sickness and detail effects of sickness*
2. *Outline the extent of sickness in Indian industries*
3. *Suggest remedies to cure sickness*
4. *Detail recommendations of expert committee on sickness.*

Industrial sickness* is a natural concomitant of the market economy. In the UK, over 10,000 units fall sick every year. In the USA, the figure may be much higher. A study indicates that during the decade 1967-1976, one in four companies listed on the US stock exchanges had turned sick. In our country too, the problem of sickness is serious and is likely to grow worse in the years to come. This chapter is devoted to a detailed discussion of the nature, extent and causes of industrial sickness. Towards the end, reference is made to the remedial measures available to revive sick units.

DEFINITION OF A SICK UNIT

According to Reserve Bank of India (RBI), a sick unit is that which has incurred a cash loss for one year and is likely to continue incurring losses for the current year as well as in the following year and the unit has an imbalance in its financial structure, such as current ratio is less than 1:1 and there is a worsening trend in the debt equity ratio.

An appropriate definition of a sick unit is given by the Sick Industrial Companies Act, 1985 (SICA). According to the Act, a sick industrial company is an industrial company (being a company registered for not less than seven years) which has at the end of any financial year accumulated losses equal to or exceeding its entire net worth and has also suffered cash losses in that financial year and in the financial year immediately preceding it.

A sick unit has accumulated losses equal to or more than its net worth.

The definition of sickness has been widened by the Companies (Second Amendment) Act 2002. As per the amended Act, a company becomes sick when it fails to repay debts within any three consecutive quarters on demand made by creditors.

Distinction is made between actual sickness and potential or incipient sickness.

Actual Sickness

(i) Erosion of net worth by 50 per cent or more.

(ii) Units being closed for a total period of six months and more during the last year, and

(iii) Default in payment of loan instalment.

Incipient Sickness

Capacity utilisation is less than 50 per cent of the highest achieved during the preceding five years.

According to State Financial Corporations (SFCs), any unit which fails to pay three consecutive instalments (half-yearly) of interest and/or principal is sick.

In the small-scale sector, a unit is treated as sick (according to the RBI), if it has:

(a) incurred cash loss in the previous accounting year, is likely to continue to incur cash loss in the current accounting year and has an erosion in its networth to the extent of 50 per cent or more and/or

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* The usage *industrial sickness* came into being during 1970s when large units were facing closure in West Bengal.

(b) has defaulted on any interest payment for consecutive four quarters/ instalments of principal for consecutive two quarters, with persistent irregularity in the operation of its cash credit limit.

EXTENT OF SICKNESS

About 90 units fall sick every day. Every third or fourth small unit is sick and the ratio is 10th unit in medium and large categories.

Industrial sickness is growing at an annual rate of about 28 per cent and 13 per cent respectively in terms of the number of units and outstanding amount of bank credit. It is reckoned that as of today, there are more than three lakh sick units with an outstanding bank credit of over Rs.46,000 crore. Nearly 29,000 units are added to the sicklist every year, i.e., about 90 units fall sick every working day. Almost every third or fourth small sector unit and every tenth unit in the medium and large sectors are sick or dying. Table 21.1 shows more details about sickness among large, medium and small units.

Table 21.1

Industrial Sickness

(Rs.Billion)

As at end-March	No.of Sick/Weak Units			SSI Units as Percentage of Total Units	Outstanding Amount		
	Total	SSI	Non-SSI		Total	SSI	Non-SSI
1991	2,23,809	2,21,472	2,337	98.95	107.68	27.92	79.76
1992	[illegible]	2,45,575	[illegible]	99.05	115.83	31.01	[illegible]
1993	2,40,700	2,38,176	2,524	98.95	131.34	34.43	[illegible]
1994	[illegible]	2,56,452	2,500	99.03	136.96	36.80	100.16
1995	[illegible]	2,68,815	2,391	99.11	137.39	35.47	101.92
1996	[illegible]	2,62,376	[illegible]	99.10	[illegible]	37.22	[illegible]
1997	2,37,400	2,35,082	[illegible]	99.00	137.87	36.09	[illegible]
1998	[illegible]	2,21,536	[illegible]	98.89	156.82	38.57	[illegible]
1999	3,09,013	3,06,221	2,792	99.09	194.63	43.13	151.50
2000	3,07,399	3,04,235	3,164	98.97	236.55	46.08	190.47

(**Source**: SIDBI, 2002)

Not that any data are needed to prove the extent of sickness. A casual drive through an industrial estate or the suburbs of a city is enough to understand the magnitude. It is not uncommon to see that if about five units are working successfully, equal or probably more number of units are either closed or under indefinite lock-out.

CAUSES FOR SICKNESS

There are external as well as internal causes why units fall sick.

Causes for industrial sickness may broadly be classified into two categories: (a) internal; and (b) external. *Internal factors* mainly relate to the poor quality of the top management. Poor quality of top management may take one of several forms: excessive conservatism, excessive complacency, growth-mania, poor financial control, excessive centralisation and authoritarianism, weak board and a weak watchdog function, excessive commitment to policies that worked well once but no longer appropriate, poor financial or marketing management and the like.

External causes can be further classified into:

- industry-specific factors;
- government-related factors;
- financial institutions-related factors and
- others.

Industry specific factors include stagnation, recession, competition, excess capacity and the like.

Industry-Specific Factors These relate to stagnation or recession in the industry (e.g., the textile industry), competition faced by the unit (e.g., small units, rayon grade, pulp units) and excess capacity in the industry (e.g., the type of industry).

Entry of MNCs and strict qualtity and hygiene specifications prescribed and enforced by them have contributed to the sickness of several firms, particularly in the SSI sector. Take the case of metal cap industry. 16 out of 20 SSI units (supplying metal caps to bottlers of soft drinks) have gone sick as they failed to meet the specifications for metal caps prescribed by Coke and Pepsi. Similar is the story with several mango pulp processors in the Chittoor district of Andhra Pradesh. Here too, high qualtiy and house-keeping specifications prescribed by MNC's are beyond the reach of the traditional pulp processors.

That government provides incentives and other facilities for promotion of industries, itself is one of the contributing factors causing sickness.

Government-Related Factors These include tax burden on the unit, especially import duties, excise duties and sales tax; legal restrictions on the units; expansion/diversification (as with erstwhile FERA and MRTP companies); frequent changes in government policies affecting the unit; liberal imports that compete with the unit's products; the government or its agencies going back on its promises made to the unit (such as promised price performance to the joint sector units); poor law and order situation (as in parts of North and Eastern India) political interference in the unit's affairs (as in the public sector units and agro-based industry); unhelpful government machinery (e.g., in supplying power or in clearing a project) and the like.

Financial Institutions-Related Factors These include harshness in dealing with the unit; delay in providing finance to the unit; inadequate working and/or long-term capital provided by them and their inexpert assessment of the client's finance proposal. (See also Box 21.1).

Others Other external factors include customer resistance to the unit's products; erratic availability of raw materials/components/power/fuel to the unit (e.g., paper and sugar industries, aluminum units); inadequate transport facilities available to the unit (e.g., for transporting coal) and the like.

It is the internal factors which contribute to major sickness. In an American study, it was found that external factors may have been mainly responsible for only about 10 per cent of corporate decline. Internal causes of decline, on the other hand, accounted for about 70 per cent of decline (The remaining 20 per cent declines were caused by a mix of external and internal factors). An RBI study estimated that nearly two-thirds of cases of sickness arise from inappropriate management, including faulty choice of product, technology/scale.

Specifically, internal factors contributing to sickness include shortage of working capital, managerial ineffectiveness, siphoning of funds for non-productive purposes, lack of proper planning, and the like.

Box 21.1

Interesting Findings on Sickness

In a study on industrial sickness in textiles and engineering industries during a period of 20 years (from 1970-90), the following findings were drawn:

* Sickness has a long history. Today's BIFR companies have shown very different attributes from currently healthy firms, not just in recent years but over two decades. There is also a high degree of persistence...poor financial performance in the past increases the probability of sickness in future.
* The major difference between BIFR and healthy companies throughout the last two decades has been in interest cost and wage cost per rupee sale, i.e., in fixed costs. Both are statistically significant determinants of industrial sickness. Moreover, even small hikes in interest rates substantially increase a firm's risk of being sick and, in the case of a BIFR company, significantly reduces the probability of successful turnaround.
* Today's BIFR companies have always had higher debt-equity and total liability-equity ratios compared to the non-BIFR firms. Consequently, the BIFR firms were always poorly insured against the prospect of bad sales than the less leveraged non-BIFR companies.
* In the two decades, there has been no major difference in unit variable costs between the BIFR and non-BIFR firms. Indeed, there are many financially healthy firms in textiles and engineering that have higher variable costs (and lower variable profits) compared to the industry average, and even some of the sick firms.

Signals of Sickness The following actions of a unit indicate that the unit is sick or going to be sick:

There are several signals of sickness. For example:
- irregularities in clearing dues
- low capacity utilisation
- high rate of rejection of goods.

- Continuous irregularity in cash credit accounts;
- Low capacity utilisation;
- Profit fluctuations, downward trend in sales and stagnation or fall in profits followed by contraction in the share of the market;
- High rate of rejection of goods manufactured;
- Reduction in credit summations-whenever the companies are in financial difficulty, they open a separate account with another bank and deposit all collections therein;
- Failure to pay statutory liabilities;
- Larger and longer outstandings in the bills accounts;
- Longer period of credit allowed on sale documents negotiated through the bank and frequent returns by customers of the same;
- Constant utilisation of cash credit facilities to the hilt and failure to pay timely instalment of principal and interest on the loans and instalment credit;
- Non-submission of periodical financial data/stock statement etc. in time;
- Financing capital expenditure out of funds provided for working capital purposes;

- Decrease in working capital on account of:
  - (i) increase in debtors and particularly dues from selling agents;
  - (ii) increase in creditors;
  - (iii) increase in inventories which may include a large number of slow or non-moving items;
- A general decline in that particular industry combined with many failures;
- Rapid turnover of key personnel;
- Existence of a large number of law suits against a company;
- Rapid expansion and too much diversification within a short time;
- Sudden/frequent changes in management-whether professional or otherwise and/or dominated by one man/few individuals;
- Diversion of funds for purposes other than running the units;
- Any major change in the share holdings.

EFFECT OF SICKNESS

Sick unit is like a patient at home.

A sick industrial unit is like a patient at home. A patient, in addition to suffering from the ailment himself, causes inconvenience to others and often, spells ruin to the family, particularly when the treatment is prolonged and expensive. A sick unit too will have serious repercussions on the economy as a whole, besides adversely affecting the interests of people directly connected with it.

Impact of sickness on the economy is easy to guess. In the first place, sickness contributes to high-cost economy. This, in turn, will affect the competitiveness of the economy at home and abroad.

Secondly, industrial sickness is mainly the problem of 88 per cent terminally sick units, investment in which is completely dead. Dead investment is a burden on both banks and budget and ultimately consumers have to pay the high cost.

Thirdly, persistent nature of industrial sickness, especially when policies do not allow flexibility for exit and other forms of adjustment, not only tends to restrict new employment opportunities but also constrict technological innovation, thus keeping the employment stagnant. Unviable units remain closed and employment in these units, in effect, is disguised unemployment.

Sickness drains resources of the economy.

Finally, industrial sickness worsens the problem of stringency of financial resources in the economy. Money locked up in sick units gives no returns and affects the availability of resources to other viable units. The continued operations of chronic loss-making firms snatches markets from more efficient producers and acts as a drain on the financial system. Besides, the huge amount of capital, running into many thousands of crores, which is invested in sick units is being wasted which a capital scarce country like ours can ill-afford.

REMEDIES

Happily, a majority of the sick units are retrievable (See Table 21.2). An RBI study indicates that 84 per cent of the large sick firms for which viability studies were conducted were considered to be potentially viable, though only 10 per cent of the small units were so considered. These figures provide some idea about the potential for reducing sickness. The potential may be even greater. If effective steps can be taken to prevent sickness in the first place, the incidence of sickness could be potentially lowered even more. For the next decade, it may not be an impossible goal to cut down the incidence of sickness to half of what it may otherwise be: (a) by devising steps to prevent sickness in the first place, and (b) by strengthening the machinery to turn around expeditiously those units that do fall sick but are salvageable.

In order to tackle the problem of sickness from the two angles, *viz.*, preventing sickness from occurring and curing it if it has taken place but remediable, the role of three agencies assumes significance: (a) the government, (b) the financial institutions and (c) the industry associations.

Preventative Measures

> Remedies to cure sickness fall into two categories - Preventive and curative. Curative measures intervene when a unit falls sick. Preventive measures seek to prevent a unit falling sick. Obviously, preventive measures are preferable as the popular saying goes-prevention is better than cure.

Role of the Government If the number of industrial units in the country has increased some ten times since independence and if we have a diversified industrial structure with widespread entrepreneurship, the credit for this largely belongs to the government. Its efforts at creating infrastructural facilities, specialised industrial and financial institutions, package of incentives for entrepreneurs etc., have borne rich fruit. Equally, of course, the government's vacillating policies, incompetence in managing the core sector, excessive protection to domestic units and a Frankensteinian control structure that has mostly bred corruption and vitiated national objectives, are to blame for a good part of the structural sickness in the Indian economy.

Penalising managements that wilfully make units sick is the first thing that the government should do to prevent industrial sickness. Under the Sick Industrial Companies (Special Provisions) Act, 1985, the government has set-up a Board for Industrial and Financial Reconstruction (BIFR) which will have to be notified by the management of companies of their potential sickness. This early warning system may be supplemented by the government strengthening the monitoring role of the banks and the financial institutions. Not only in the public sector, but also in the private sector, the government can do much to mitigate the number one cause of sickness, namely, the ineffective management of the unit. The basic requirement for both sectors is to identify early the level of competence of the unit's management, help it upgrade itself if there is a potential for improvement, or otherwise replace it quickly and ruthlessly if the level is low and not much potential exists for improvement.

A second area where the government can be helpful is *vis-a-vis* industrial licensing. The very existence of licensing and monopoly regulation legislation implies that there is a stampede to *'get in'* whenever licensing is liberalised for an industry or the economy as a whole. The two-wheeler industry, the car industry and the television industry are recent examples of a stampede to get in which will inevitably lead to widespread sickness and a bad shake-out a few years from now.

Role of Financial Institutions The apex financial institutions like IDBI, IFCI, ICICI and nationalised commercial banks are in an extremely favourable position to prevent industrial sickness. After all, they are the direct and indirect purveyors of the bulk of the long-term and working capital needed to run private sector enterprises

Table 21.2

Viability Status of Sick and Weak Units : End-March 1991

	[illegible]		Non-SSI		Total	
	[illegible]	[illegible]	*Number*	*Outstanding bank credit (Rs.crore)*	*Number*	*Outstanding bank credit (Rs.crore)*
1. *Viable units*	[illegible]	[illegible]	941	3699.63	[illegible]	4392.78
2. *Non-viable units*	[illegible]	[illegible]	974	2206.97	[illegible]	4204.10
3. *Viability not assessed*	[illegible]	[illegible]	422	2069.18	[illegible]	2170.98
4. *TOTAL*	[illegible]	[illegible]	2337	7975.78	[illegible]	10767.82
5. (*a*) *Units under nursing programme*	[illegible]	[illegible]	578	2336.07	[illegible]	2886.15
(*b*) *per cent of viable units*	[illegible]	[illegible]	61.42	63.14	[illegible]	65.70
			Composition			
1. *Viable units*	[illegible]	[illegible]	40.27	46.39	[illegible]	40.79
2. *Non-viable units*	[illegible]	[illegible]	41.68	27.67	91.20	39.04
3. *Viablility not assessed*	[illegible]	[illegible]	18.00	25.94	[illegible]	20.16
4. *TOTAL*	[illegible]	[illegible]	100.00	100.00	100.00	100.00

(**Source** : *Economic Survey*, 1992-93) in India. They are the ones that by and large decide whether an enterprise will get stated or not, and once stated, whether it will run or not. Besides, they remain in constant touch with market conditions as well as funded units, and are in an excellent position for receiving an early warning of sickness.

The following are the ways by which sickness can be prevented by the financial institutions:

A. Continuous Monitoring of Unit

(i) Periodic financial reports.
(ii) Desk officer for client unit.
(iii) Institutional nominee(s) on the board.
(iv) Periodic inspections.
(v) Institutional adviser deputed to the unit, especially to monitor project implementation in risky ventures.
(vi) Inter-institutional reviews of unit.
(vii) Market intelligence and industry cells.

B. Careful Project Appraisal

(i) Independent verification of sales, profits etc., projections of the client.
(ii) Careful scrutiny of technology and plant size, choices of location, government-related contingencies and quality of management.
(iii) Use of external consultants for appraising large or risky projects.

C. Professional Institutional Response to Unit's Problems

(i) Training of desk officers and reputed advisers in professional management.
(ii) Discretionary authority to monitoring desk officers to commit the institutions (up to some limits) to immediate contingency reliefs.
(iii) Better coordination and faster response by financial institutions through a smaller consortium.
(iv) Lead agency concept.

D. Required Systems at Client Units

(i) Approval of financial institutions for appointing (or removing) internal and statutory auditors, etc.
(ii) Professional management training for promoters.

E. Incentives to Units to Remain Healthy

(i) Interest relief if there is no sickness.
(ii) Penal interest for avoidable project cost escalation, careless or false sales and profit projections.

Role of Industry Associations The industry associations in India have always played, albeit indirectly, some sort of a sickness prevention role. This has largely taken the form of lobbying the government for solving problems faced by or likely to be faced by the industry. A more explicit and direct role, however, may be feasible because of the intimate knowledge such associations can possess about industry-wise trends as well as the problems faced by their various member units. Besides, an alternative to bureaucratic and centralised regulation of the industry is industrial self-regulation in the light of national policies and a greater self-monitoring and sickness prevention role could strengthen the development of responsible industrial self-regulation. For this purpose, industry association should be broadened to include representatives from various stake holders-the government, labour, financial institutions, suppliers and customers.

How can industry associations play a concrete role in sickness prevention? A number of potentially useful steps are listed below.

A good practical review by each industry association of installed and usable capacity in the industry, capacity utilisation, growth trends, problems and opportunities etc., should be useful for the potential new entrants for deciding whether to enter the industry or not, and for existing firms for taking strategic diversification, expansion and project-mix decisions. This should also help the financial institutions to formulate industry-specific guidelines about funding project finance requests and the government to formulate industry-specific licensing guidelines.

The industry association could have some sort of a first aid cell. This could consist of professionals who could go to the aid of a unit that is beginning to fall, with the offer of managerial and technical help. These professionals would be particularly useful since they would be conversant with the nature of the industry and with practices that have effectively worked in the industry.

The industry association can perform a professionalising function by conducting training programmes for managers, technocrats etc. The programmes could be quite useful since they would be tailored to suit the needs of the industry. Suitable industry association periodicals could also disseminate case studies of effective practices.

The industry associations would facilitate acquisitions of weaker units by stronger units and other contractual arrangements to help out ailing units, such as loan of managers from stronger units, sharing of marketing or production facilities, sharing of import of technology, a fair sharing of imported inputs, collaboration in mounting export campaigns etc.

These suggestions do not necessarily go counter to a policy of fostering competition. On the contrary, by preventing ailing units from going sick and, indeed by strengthening them, they should promote a healthy competition, that is, competition for serving customers more effectively with better products at cheaper prices.

Curative Measures

Till now measures to prevent sickness were listed. Prevention is certainly better than cure. But with the best of preventive measures, sickness often creeps in. How to cure the sickness after it has crept in is a relevant question. The answer lies in the following paragraphs.

The preventive measures detailed above will, if extended, help cure industrial sickness. In addition, the existing machinery to rehabilitate sick units should be strengthened. The existing agencies are explained below.

There is the SICA . The Act was passed by the Parliament and received the assent of the President in January 1986. It was amended in December 1991 so as to bring government companies within the purview of the Act. The Act provides for the setting up of a Board for Industrial and Financial Reconstruction (BIFR). With the establishment of the BIFR, with effect from January 12, 1987, medium and large-scale companies whose networth has been eroded by 50 per cent or more, will be obliged to report this fact to the Board. The Board has been given wide-ranging powers in respect of the approval of rehabilitation packages for sick industrial companies, including their reconstruction and revival as well as the change of managements or amalgamation with any other company or sale or lease of a part or whole of the industrial undertaking or even winding up of the company.

Since inception upto December 31,2004, the BIFR received cases of 5147 of which 259 are under revival, 436 cases have been reviewed, winding up has been recommended in 1302 cases and 1377 have been dismissed (see Table 21.3).

Table **21.3**

Board for Industrial and Financial Reconstruction Yearwise Performance as on 31.12.2004

Year	Total Cases Recd. during the Year	Cases Disposed off during the year			
		Cases under Revival	Cases Revived	Winding up Recommended	Dismissed
1	2	3a	3b	3c	3d
1987	311	0	0	0	[illegible]
1988	298	0	[illegible]	12	29
1989	202	0	[illegible]	31	[illegible]
1990	[illegible]	3	[illegible]	43	[illegible]
1991	155	3	[illegible]	47	[illegible]
1992	[illegible]	3	[illegible]	30	[illegible]
1993	152	6	[illegible]	64	[illegible]
1994	[illegible]	7	[illegible]	79	[illegible]
1995	[illegible]	13	[illegible]	63	[illegible]
1996	[illegible]	19	[illegible]	85	[illegible]
1997	[illegible]	5	[illegible]	85	[illegible]
1998	370	7	[illegible]	50	[illegible]
1999	[illegible]	7	[illegible]	64	[illegible]
2000	[illegible]	5	[illegible]	151	[illegible]
2001	[illegible]	28	[illegible]	129	[illegible]
2002	559	52	[illegible]	135	[illegible]
2003	430	54	[illegible]	145	[illegible]
2004	[illegible]	47	[illegible]	89	[illegible]
Total	5147	259	436	1302	1377

Since its inception upto June 30, 1996, the Board had reached a final decision on 1481 sick companies out of a total of 1802 companies referred to it. Of the total, rehabilitation packages had been approved or sanctioned for 493 companies; the Board also decided to wind up 446 units. Thus, of every three sick companies, two were approved for rehabilitation while one was wound up. The Board, by and large, has adopted a professional approach of being fair, just and pragmatic as far as possible. Within this framework, it has also tried to distribute sacrifices among the concerned parties in a fair and equitable manner and in the case of workers according to their ability to bear such sacrificers. The number of medium and large units revived against the total number of sick units is four out of 1534 in 1992, 11 out of 1867 in 1993, 16 out of 2000 in 1994, and 18 over 2000 in 1995.

As a result of the steps taken by BIFR to streamline internal procedures, it was possible to reduce the time taken between registration of a case and its first hearing. The average time taken during 1994 for the first hearing was 63 days, against an average of over 160 days in the first five years. The time taken for deciding cases was also considerably reduced from 700 days in the first five years of the functioning of the Board to 187 days in 1993.

The Board deals with only medium and large-scale sick industrial companies because it is in these companies that heavy amounts are sunk.

Further, there is the Industrial Reconstruction Bank of India (IRBI) which came into being on March 20, 1985 by converting the erstwhile Industrial Reconstruction Corporation of India. The IRBI is a principal reconstruction agency which provides assistance for the reconstruction and rehabilitation of sick industrial units. In addition to granting of loans and advances to industrial concerns, underwriting of shares and debentures, guarantee of loans and deferred payments, IRBI's wide spectrum of activities also include such developmental activities as providing infrastructural facilities, raw materials, consultancy, managerial and merchant banking services, machinery and other equipment on lease or hire-purchase basis for the purpose of reconstruction and the development of industrial concerns.

The IRBI itself came under sharp criticisms. For example, it was criticised for (1) inadequacy of resources at its disposal; (2) excess overdues; (3) majority of the loans were sanctioned but not disbursed; and (4) regional biases in the functioning.

A new bank, called Industrial Investment Bank of India, was set up in 1997 which took over the IRBI. Being more proactive and development focussed, the new bank would respond to changing needs of the industry better.

For sick units in the small-scale sector, separate facilities are available. State Finance Corporations and commercial banks will be asked to devise a scheme for the rehabilitation of sick units in the small-scale sector, and the assistance given by them for the revival of such units will be eligible for refinancing by the IRBI at a concessional rate of interest.

Mere strengthening of the existing machinery may often amount to taking an unwilling horse to the water. The horse should be made to drink. Here lies the importance of effective management. Ultimately, it is in the hands of the management to revive the sick unit and put it on the profitable track.

> Sylvania and Laxman and Enfield are two examples of dynamic turn around. It was the management that turned them around.

Growing evidence suggests that effective turnaround management can revive pretty hopeless cases, or at least drastically reduce the extent of sickness. There are several stunning examples of corporate turnaround. Sylvania and Laxman lost some 40 per cent on sales, and two years later, a turnaround of some 60 per cent on sales was achieved. In another four years, it quadrupled its sales. Similarly, Enfield India which lost over 25 per cent on sales in 1976-77 broke even in two years, and earned about seven per cent on sales three years later. What is significant is that both Sylvania and Laxman and Enfield operated in a fairly competitive market during their periods of turnaround. In both cases, there was a significant change in the style of the top management during this period.

Even in the public sector where there is bureaucratic regulation of public enterprises and political interference in their operations, there are numerous examples of turnaround. For instance, Hindustan Copper lost some Rs.30 crore in 1982-83 but broke even next year, despite a fall in the price of copper in 1983-84. Bharat Aluminum Corporation (BALCO) reduced its losses from about Rs.528 million in 1982-83 to Rs.215 million next year without raising its prices. Burn Standard, which was losing some 30 per cent on sales until 1978, broke even four years later. Gujarat State Transport Corporation made a cash loss of about Rs.370 million in 1981-82 but reported zero cash loss in 1983-84.

The government and other buyers of the products of the small-scale industry will be directed to settle the dues of the small-scale units on a priority basis and commercial banks will be asked to ensure that the credit given to large-scale units for working capital is applied first towards meeting the dues of the small-scale suppliers.

In order to protect the investment of technical entrepreneurs in cases where the small-scale units promoted by them are forced to close down for reason beyond their control, the possibility of evolving a suitable scheme of risk insurance for safeguarding their interest may be examined.

Finally, if a unit is so sick that it is beyond redemption, it is advisable to allow the unit to die a natural death instead of clinging on to it on political or personal considerations. This should be so whether the unit is in public, private, joint, cooperative or in the small-scale sector.

OMKAR GOSWAMI COMMITTEE ON SICKNESS

A Committee was constituted in April 1993 to study and make recommendations on the question of industrial sickness and corporate restructuring. The Committee submitted its report under the chairmanship of Dr.Omkar Goswami on July 13, 1993.

The Committee observed that while there are sick companies, sick banks, ailing financial institutions and unpaid workers, there are hardly any sick promoters. 'There lies the heart of the matter,' it added.

The Committee has come out with a report recommending far reaching reforms to facilitate the end of non-viable firms.

Following are the highlights of the committee's recommendations:

- Five 'fast track' winding up tribunals in major cities for the closure of sick companies.
- Five recovery tribunals should be set up exclusively for recovering corporate debts to secured creditors and only cover cases exceeding Rs.50 lakh.
- The definition of sickness as mentioned in the Sick Industrial Companies Act (SICA) is *'backward'* looking. The BIFR should use the SICA's winding up provisions more frequently.
- A sick company's own reference to the BIFR should be voluntary, not mandatory.

- The selection of incipient sickness can be possible only if the scope of BIFR and SICA is fundamentally restricted to single-point facilitation and fast arbitration.
- There is a strong case for having SICA override the Foreign Exchange Regulation Act (FERA) to encourage foreign investors to take over potentially viable sick companies.
- The Reserve Bank of India's guidelines for rehabilitation should be altered and financial institutions should adjust the write-off against some equity of the sick company.
- The Central Board of Direct Taxes (CBDT) should remove all tax hurdles that prevent banks and financial institutions from converting debt to equity of sick companies.
- All financial institutions should create a common information pool about firms that have defaulted on term lending dues and list the names of the promoters of such firms.
- The Companies Act should be amended so that secured creditors can implement *defacto* changes in management and/or the board of directors in instances of repeated debt defaults.

The Government should amend the compensation for retrenchment and closure from 15 days wages to one month's/year of completed service.

The Omkar Goswami Committee's recommendation on industrial restructuring are a radical departure from earlier attempts at tackling this issue. In place of a piece meal approach, it has suggested a package of reforms addressing both industrial as well as financial sectors. If accepted, they will undoubtedly have far-reaching consequences for the industrial sector as well as the economy as a whole.

The Committee's recommendations led the Government to enact the Companies (Second Amendment) Act 2002. The amended Act provides for replacement of SICA and setting up of a National Company Law Tribunal (NCLT). The NCLT handles all the functions of SICA, BIFR, Company Law Board and High Courts.

QUESTIONS

1. Define industrial sickness. What are the causes for sickness?
2. What is the impact of sickness on the economy?
3. Suggest remedies to cure industrial sickness.
4. Bring out the impact of economic reforms on sickness.

CHAPTER

22

Exit Policy

CHAPTER OUTLINE

Arguments for Exit Policy

Arguments against Exit Policy

National Renewal Fund

LEARNING OBJECTIVES

After reading this Chapter, you should be able to:

1. *Advance arguments in favour of exit policy*
2. *Argue against exit policy*
3. *Describe the functioning and achievement of National Renewal Fund.*

One of the policies proposed by the government as a part of the total package of economic reforms relates to the exit of unretrievable sick industrial undertakings. Popularly called the Exit Policy, the new action plan entails closure of sick units, both in public and private sectors, via a well laid out route.

The proposed exit policy has evoked strong but varied response from all sections of society. While the idea is welcomed by some, it is equally condemned by others. It is useful to place the issue of exit policy in its proper perspective. This chapter is devoted for the purpose.

ARGUMENTS FOR EXIT POLICY

People who support exit policy offer the following views:

The economy would be better off by closing sick units

1. The economy would be better off than what it is today by closing sick units. This may sound paradoxical but a deeper analysis reveals the truth. As is well known, banks, financial institutions, State Governments and Central Government are asked to offer several concessions to keep the sick units going. Popularity called 'sacrifices,' these concessions include:

- Interest on terms loans can be reduced by two percentage points below the existing rate, and penalties for non-payment are waived.
- Liabilities on account of non-payment of workers, statutory dues and overdue creditors are shared between the participating banks and institutions on a fifty-fifty basis. The financial institutions also provide the margin money for additional working capital. The cost of rationalisation of labour is met by the financial institutions and banks on a fifty-fifty basis.
- Private promoters are expected to bring in 20 per cent of the additional long term funds requirements either as equity or non-interest bearing loan. This is reduced to 15 per cent if a firm is under new management.
- The State Governments must make many sacrifices: (i) sales tax loans at low or zero rate of interest; (ii) loan guarantees; (iii) preferential power supply, including not disconnecting for non-payment; (iv) exemption of sales tax and octroi; (v) waiver of all penal levies; and (vi) price preference to public sector suppliers.
- The Central Government's sacrifices are (i) exemption from central excise duties; (ii) income tax relief; (iii) preferential supply of canalised items; (iv) deferment of provident fund and ESI dues; and (v) exemption from paying the minimum bonus.

These sacrifices mean heavy subsidies offered to units which have become sick because of inefficient and inept managements. But none of these concessions is available to healthy units. Now, instead of maintaining the sick units through subsidies, it would be wise to divert the resources to healthy units and make them grow healthier.

2. There is a belief that workers would be thrown out of jobs if sick units are allowed to down their shutters. And in the absence of a safety net, these displaced workers would be put to sever hardship.

The belief that exit policy would displace workers is not correct.

The belief that the workers would be displaced permanently is unfounded. The truth is that usually the lenders to sick units do not recover their money and the shareholders lose all their equity. The new owners who buy the assets of the failed companies re-employ, usually an equal number of new workers, through terms that may not be as attractive as the earlier workers may have enjoyed. In fact, after an initial contraction employment expands. New jobs will be created through additional investments made in various sectors of the economy. Then there are MNCs which outsource of establish grantield projects in India.

Maintenance of sick units, benefits managements and not workers.

3. Stressing the argument of workers' interests further, it may be stated that maintenance of sick units would, contrary to popular belief, benefit managements and State Governments and not workers. As is well known, labour accounts for only a fraction of total cost of production, in textiles it is 21 per cent and in engineering it is 20 per cent. Continued funding of sick units, therefore, implies that resources are not used to maintain labour alone but for other inputs; and in activities that result in negative nominal returns, chronic cash losses and negative net worth.

Chronically sick units die on their own-exit or no exit policy. Why not close down such units?

4. Continuing on the same subject, chronically sick units die their death, exit policy or no exit policy. In Gujarat alone, for example, 27 textile mills downed their shutters permanently between 1983 and 1988. An exit policy will ensure that at least the legitimate dues of displaced workers are paid to them satisfactorily. Without such a policy, these employees have to lose their dues, besides losing jobs. Precisely same thing happened to 45000 textile workers of Gujarat. Though the mills, where they were working, were closed nearly several years age, till to date not even one worker has been paid his/her dues. Same is true with the textile workers of Bombay where several mills were closed.

5. There is a belief that certain undertakings, particularly in public sector, must be maintained notwithstanding their losses. Textile industry, with hundreds of sick mills, is toted as an example in support of this view. It is stated that sick textile mills ought to remain in operation despite budgetary and other financial support because (i) these units produce subsidised *janata* cloth for the poor, and (ii) their output puts a downward pressure on textile prices. But these arguments also sound hollow.

That public sector units need to be maintained, losses notwithstanding is only bureaucratic mindset.

The so called poorer sections are increasingly buying synthetic textiles despite the fact that they are three to four times costlier than *janata* cloth. Thus, the first rationale for maintaining sick units, especially in the public sector, exists more in the minds of bureaucracy than in reality. Regarding the second, the downward pressure on prices is at the expense of budgetary support that maintains grossly inefficient units. If the objective is low prices, the same can be better achieved by giving a lumpsum subsidy to the efficient units. The same objective is met at a lower cost with probably better quality products.

6. Yet another argument relates to the infant industry theory. According to this, a sick unit shall remain so only in the short run and can be nurtured to efficiency in the long-run. But how long is really long-run is not clear. If one takes a look at the sick units referred to the BIFR, majority of them continued to remain sick for more

than five years in spite of massive concessions given. To be specific, 18 to 24 sick textile mills (75 per cent) remained sick from 1982 to 1990 without showing any sign of rehabilitation. Similarly, of the 22 sick engineering firms 15 were chronically sick from 1985, and nine from 1982. It is difficult to find an economic canon that justifies continous injection of subsidised funds for a decade so that the long term considerations might finally prevail.

7. Many countries that have successfully carried out economic reforms have exit policies. Be it Singapore, Malaysia, Thailand or Indonesia, exit policy is implemented without resistance. The results of such policies are encouraging. Why not we try similar policy in our country too?

Countries with successful economic reforms have exit policies.

8. We are talking in terms of integrating our economy with the world economy. There is no point in trying to globalise Indian economy if a company can not do anything about its surplus labour or close a sick unit both of which any competing country can easily do. Indian companies will be at a competitive disadvantage as a result. If Indian companies cannot sell assets like surplus land while their competitors overseas can, this again will weaken the competitive strength of Indian corporate sector. If workers cannot be transferred in India but can be elsewhere, again our industry will be at a disadvantage. Overseas firms are allowed to 'exit' their sick units. Our corporate sector too must have the facility, so that captains of industry can operate on a level playing field.

Integrating India's economy with the world economy demands that an employer shall have freedom to handle labour in his own way.

ARGUMENTS AGAINST EXIT POLICY

People who oppose exit policy have equally strong arguments on their side. Place the above points on the flip side of the coin, we have arguments against exit policy. But there are some more arguments which need a mention here. The arguments against exit are as follows:

1. Why think of an exit policy as the only remedy available for tackling industrial sickness? Surely, closure is not the ideal solution for sickness even as death cannot be an answer to illness. Other strategies like merger, takeover, turnaround management, revamping management and the like may be tried before planning for exit of sick units.

Death cannot be an answer to illness. So also closure is no solution to sickness.

2. What should happen to workers who would be displaced thanks to exit of sick units? Where should they go? Do we have a safety net which would ensure that an unemployed worker is not a starving worker but merely a worker on the dole, that unemployment does not mean any loss of old age pension, nor the loss of house, nor the denial of health care, nor the dreaded thought that bright young kids have to be taken out of school because their fathers are jobless?

In the absence of safety net can we displace workers?

3. People who advocate exit policy have an ulterior motive, a motive to denounce and scrap Nehruvian socialism altogether. It has now become a fashion, symbol of progressivism on the part of intellectuals to criticise socialism, the opinion being emboldened by the fall of communism every where. What is not realised is that the socialism we have in our country is different from what it was in other parts of the globe. We have been having a mixed economy

People who advocate exit policy are hitting at Nehruvian policy.

embodying both State enterprises and private ownership, a system where both sectors existed and functioned in the pursuit of shared goals.

We never prevented private enterprises from growing. In fact, we gave them all facilities and encouragement but imposed some regulations to ensure that the private enterprises would sub-serve national goals. We defined the role of State in the economy and by and large the government confined itself to its role, stray excesses notwithstanding. But all of a sudden Nehruvian socialism has become untouchable and all its planks, including protected employment, has been reduced to total irrelevance.

How can a philosophy, i.e., (Nehruvian socialism) which has worked for 40 years and which has produced reasonably good results become untouchable overnight? Why talk of condemning the philosophy instead of correcting mistakes, if any?

The exit policy is obviously dictated by the World Bank and the IMF.

4. The exit policy is clearly dictated by the World Bank or the IMF. Why should we be guided by an agency which derives its strength and inspiration from Western World and which has no understanding of the problems peculiar to our country?

NATIONAL RENEWAL FUND(NRF)

The National Renewal Fund (NRF) was constituted on February 4, 1992, with an initial corpus of Rs. 200 crore. The size of the fund has since been raised to Rs.2.250 crores. The non-statutory fund, which will provide a safety net to the labour force, would cover both public and private sectors. The contributions to the fund will come from the Central Government, the State Governments, financial institutions, industrial units and the General Insurance Corporation of India (GICI).

The fund would mainly provide assistance to cover the costs of retraining and redeployment of labour arising as a result of modernisation and technology upgradation and also provide compensation to labour affected by restructuring of any industrial unit.

The NRF will be in operation for 10 years only. After that only the Insurance Fund for Employees (IFE), one of the three constituents of NRF, would remain operational and will be self-financing in nature. This means that there will be no open ended government liability for NRF beyond this period.

NRF is proposed to be divided into three parts. The first part of the fund, Employment Generation Fund (EGF), will provide resources for approved employment generation schemes. The second part, the National Renewal Grant Fund (NRGF), will deal with the immediate requirements of labour in sick units arising from revival or closure of such units. The funds will be disbursed as grants. The third part of the fund, IFE, will permit industries to prepare for future changes in their employment structures with changes in technology and modernisation.

Eligible Units

The following four categories of units have been identified which would be eligible for drawing money from the various funds under the NRF:

(i) Units which are potentially viable and require money for schemes like voluntary retirement.

(ii) Units which require money for technology upgradation urgently to survive competition;

(iii) Sick units which need to be closed down requiring money for compensating the retrenched workforce; and

(iv) Units requiring funds for training of workers and generating employment for weaker sections of the society.

Operation of the Fund

For the operation of the NRF, the Government has set out guidelines for identifying and categorising workers in all the unviable units on the basis of age, skill and family commitments. Based on this classification, every enterprise faced with closure is to formulate its action plan for counselling and guidance, or retraining and redeployment of workers. Five major centres for retraining and redeployment have been set up with the assistance of the ASSOCHAM (Kanpur), CII (Bombay), Gandhi Labour Institute (Ahmedabad), NSIC (Calcutta) and SISI (Indore). Twenty-one institutes-including 15 industrial training institutes-have also been authorised to run vocational courses for rationalised labour. Based on the current statistics of worker outflows, 48 locations in 16 states have been identified for setting up employee assistance centres spanning the unit, city and district levels which will assist actively in job searching, labour placement, skill-matching, and counselling. Skill, educational attainments, age, family responsibilities and also preferences will be taken into account. Those who so desire will be assisted to go back to farming, others, who are middle-aged or above will be helped to get self-employment. The younger lot will be retrained, and redeployed in the labour market.

Starting from 1991-92, when the NRF was announced, upto 1996-97, a total of Rs. 1,918 crore has been spent on NRF schemes.

Conclusion

Till now we have presented the views for and against the exit policy. In conclusion, we many state that it is advisable for a sick unit to have well laid out exit route both in the interest of workers and in the interest of the economy. Such a route can be via the BIFR. To its credit it may be stated that in all the units whose closure was ordered by the Board, it saw to it that the workers' interests were taken care of.

With the launch of the National Renewal Fund the much talked about criticism that there is no safety net for workers, will also be removed.

QUESTIONS

1. What is exit policy? Why is it necessary?
2. Enumerate arguments for and against exit policy.

CHAPTER 23

Infrastructure

CHAPTER OUTLINE

Growth of Infrastructure

- *Energy*
- *Transport*
- *Communications*

Concluding Remarks

LEARNING OBJECTIVES

After reading this Chapter, you should be able to:

1. *Understand the role of infrastructure in the development of our economy*
2. *Trace the growth of energy with its various components*
3. *Make a SWOT analysis of electricity*
4. *Trace the growth of transport agents and make SWOT analysis of railways, road and shipping*
5. *Trace the growth of communication facilities and make a SWOT analysis of this vital sector*
6. *Rank India among other countries in respect of infrastructural facilities*

Adequate quantity, quality and reliability of infrastructure is key to the growth of any economy. Power is needed to turn the wheels of machines; vehicles are essential to transport goods and services and communication links are vital to talk to suppliers, customers and creditors. Economic growth is not possible if any of these facilities is lacking. This is precisely what has happened to our country. Due to the lack of infrastructure, India is losing a battle that could have placed it firmly in the midst of the most advanced nations in the world.

Adequate quantity, quality and reliability of infrastructure is key to the growth of Indian economy.

Infrastructure is a tiny word which encompasses the entirety of a nation. But for the purpose of this chapter, infrastructure shall include-

- *Energy*: Electricity, coal, oil and non-conventional sources.
- *Transport*: Railways, roads, shipping and civil aviation.
- *Communications*: Posts and telegraphs, telephones and telecommunications.

Infrastructural facilities are also called the *social overheads* and belong to the core sector of the economy.

GROWTH OF INFRASTRUCTURE

Most infrastructure services in India have until recently been provided by public monopolies and quasi-monopolies and have been beset by severe problems like the lack of accountability, low productivity, poor financial performance and over-employment. In order to meet the challenges of rapid economic growth and international competitiveness, there is an urgent need to achieve greater efficiency and accountability in these sectors, much greater prevalence of commercial principles and much more competition in the provision and operation of infrastructure services. As the government's ability to undertake investments in the infrastructure is severely constrained, it is necessary to induce much more private sector investments and participation in the provision of social overheads. The entry of private suppliers can also encourage better risk sharing, accountability, monitoring and management in infrastructure sectors.

Most infrastructural facilities till recently were provided by public and quasi monopolies.

Coming to the growth of infrastructure, it maybe stated that massive allocations were made in successive five year plans towards infrastructure (See Table 23.1). As a result of huge investments, there has been phenomenal increase in the facilities over the years, as seen from Table 23.2.

Energy

Energy is the most important determinant of a country's economic growth. Infact, per capita consumption of energy is taken as an indicator of a country's prosperity.

Energy is created through several sources. The sources are conventional and non-conventional (See Fig.23.1). The first category shall include commercial and non-commercial sources of energy.

Table 23.1

(Rs.Billion)

	1993-1994	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000
Key Infrastructure Sectors	352.7	379.5	412.1	429.2	427.9	487.8	531.9
Energy	190.8	195.6	201.9	193.9	201.3	226.4	244.0
Power	53.9	59.6	62.8	55.1	64.8	71.3	76.8
Petroleum & Natural Gas	110.9	109.5	117.4	114.0	115.6	123.8	124.7
Non-Conventional Energy	[illegible]	0.4	[illegible]	3.8	3.7	4.0	[illegible]
Coal	26.0	26.0	[illegible]	21.0	[illegible]	27.3	[illegible]
Transport	[illegible]	108.6	[illegible]	134.5	[illegible]	126.5	[illegible]
Railways	[illegible]	68.9	[illegible]	83.0	84.0	87.6	[illegible]
Surface Transport	16.7	16.9	[illegible]	29.2	[illegible]	21.1	[illegible]
Civil Aviation	14.5	22.8	20.5	22.3	15.8	17.8	15.7
Communications	[illegible]	75.4	[illegible]	100.8	[illegible]	134.9	[illegible]
Other Sectors of which	[illegible]	106.8	[illegible]	113.2	[illegible]	90.2	[illegible]
Steel	[illegible]	36.5	[illegible]	32.5	[illegible]	48.4	[illegible]
Mines	[illegible]	1.9	[illegible]	3.4	[illegible]	4.4	[illegible]
Chemicals & Fertilisers	[illegible]	15.6	[illegible]	34.8	43.0	21.2	[illegible]
All Sectors	[illegible]	485.9	[illegible]	542.5	549.6	578.0	[illegible]
Memo:(% GDP)							
Key Infrastructure Sectors	[illegible]	4.1	[illegible]	3.5	[illegible]	3.1	[illegible]
All Sectors	[illegible]	5.3	[illegible]	4.4	4.0	3.6	[illegible]

(**Source:** Government of India, *Expenditure Budget*, Vol.I, various issues)

Figure 23.1

Sources of Energy

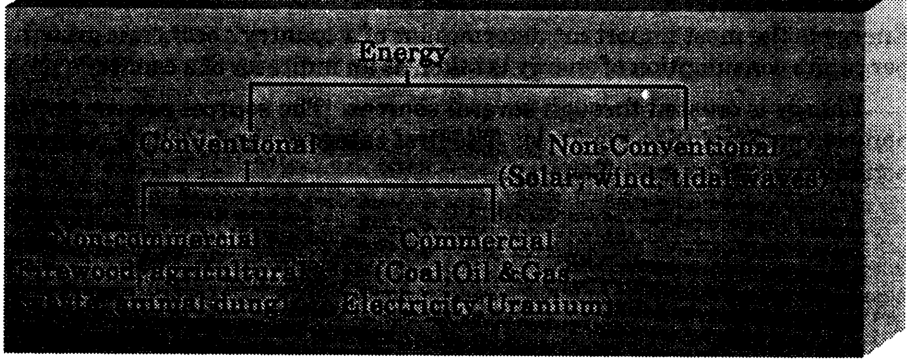

Table 23.2

Infrastructure in India

Year	Railway Freight (million Tonns)	Railway Trarff (millions)	Road Length Surfaced (km)	Road Length Unsurfaced (km)	[illegible]	Cargo handled by ports ('000 tonnes)	Coal Production ('000 tonnes)	Electriety generated (million units)	Crude Oil Production (million tonnes/ Metrs)	Natural Gas Production (million metric
1990-91	341	3,858	[illegible]	970	[illegible]	1,51,665	NA	NA	NA	NA
1991-92	360	4,049	[illegible]	1,059	[illegible]	1,51,665	NA	NA	NA	17,998
1992-93	[illegible]	3,749	NA	NA	[illegible]	1,66,575	[illegible]	NA	26.95	NA
1993-94	[illegible]	3,708	NA	NA	[illegible]	1,79,260	[illegible]	NA	[illegible]	NA
1994-95	[illegible]	3,935	NA	NA	[illegible]	1,97,262	NA	3,50,490	NA	NA
1995-96	[illegible]	4,158	NA	NA	[illegible]	2,15,263	NA	3,80,084	35.16	22,639
1996-97	NA	NA	NA	NA	[illegible]	NA	NA	NA	32.90	NA
2002-03	[illegible]	4,971	NA	NA	[illegible]	1,09,590	NA	5,32,430	[illegible]	31,390

(**Source:** *Economic Surveys*, Issues of *Infrastructure in India*, and *India Development Report*, 2004-05)

Commercial energy is so called as it commands a price.

Commercial energy is so called as it commands a price and the user is expected to pay it for its use. Non-commercial energy commands no price (theoretically, because a kg of firewood now costs Rs.five to six) and the user can take it as a free good gifted by nature. Non-conventional energy is a recent discovery and its use is confined to limited pockets in our country.

Coming to the commercial energy, it maybe stated that *coal* is the main source, accounting for 67 per cent of the total energy consumed in the country. Coal production stood at 246 m.tons in 1993-94, registering an increase of 3.3 per cent over the previous year. Low productivity and high ash content are the major constraints of coal.

The Government has initiated several steps to improve the supply of coal. Private sector participation is allowed in coal mining. Imports of cooking coal under the Open General Licence (OGL) are being allowed and the import tariff has been slashed from 85 per cent to 35 per cent.

Power generation in 2003-2004 stood at 55813.4 million units from 350490 million units during 1994-95. While thermal contributes 71 per cent, hydel power generation for 27 per cent and only 2 per cent is accounted for by nuclear power.

Power has been bugbear of our economy.

Power has been a bugbear of our economy. Lack of sufficient power supply has checked the growth of industries all over the country. Coming down to per capita consumption of power, we rank very poorly with 282 kwh. In contrast, Canada has 18,117 kwh, Sweden 16,655 kwh, and the US 12,160 kwh.

The Indian power sector is dominated by State Electricity Boards (SEBs). These boards have been traditionally monopolies controlling generation, transmission and distribution of power in the country. Almost 60 per cent of the total installed capacity is controlled by SEBs, 30 per cent by the central generators and around 10 per cent is in the private sector.

For a long time the focus in our country has been on generation, at the cost of transmission and distribution.

For a long time, the focus in the power sector was on generation. As expected, the power generated fell short of demand for it and it was felt that power sector would help fill the gap between demand and supply. In the early 1990s, the power sector was liberalised. Incentives such as guarantees, assured returns and duty cuts were offered to attract private developers. But transmission and distribution did not receive much attention. Much of the generated power was lost in transmission and distribution. Loss was only an euphemism used to describe theft of power. SEB's inefficiencies and corruption added to the woes in power sector.

By the late 1990s, realisation dawned on the government that some drastic changes were needed if power sector were to be improved. Theft should be minimised and networks should be upgraded. This meant investments in transmission and distribution, neglected till now. More importantly, the SEBs should be restructured to make them accountable. There was also a need to establish independent regulators which could set commercial tariffs.

Action was initiated on all the fronts. 10 SEBs have been restructured (including in Karnataka) and are now made corporations. There are regulators in

19 states, apart from the central regulator. Power tariffs are being rationalised through tariff orders issued by these regulators.

> 10 SEBs have been corporatised. Spearheading the reforms is the Electricity Act 2003.

Spearheading the revival is the Electricity Act 2003, which contains provisions for power trading and open access, thus removing the monopoly of the SEBs and letting market forces come into play.

For a long time SEBs owed huge sums to the Central Government. In order to settle these dues, tripartite agreements were signed between state governments, central government and the Reserve Bank of India under which states were to issue tax-free bonds to securitise the outstanding dues of the SEBs.

The government has also launched an intensive programme called the Accelerated Power Development Reform Programme (APDRP) under which easy loans are provided to the states which undertake measures to plug the leaks and reform distribution systems. Greater the reduction in losses, the more loans and incentive a state earns. As a result of the APDRP incentives, several states have reduced losses and improved revenues.

Obviously, power sector in India is on the revival spree and hopefully, the country will have, in the days to come, uninterrupted supply of power to light the lamps, turn the wheels and run the pumps.

> Power sector in India is on the revival spree.

Read Box 23.1 for strengths, weaknesses and remedies for the power sector.

As with power sector, *oil* sector (crude oil and natural gas) was, for a long time fully in the hands of public sector undertakings. Until the late 1990s, the National Oil Companies (NOCs), Oil and Natural Gas Commission (ONGC) and Oil India Limited (OIL) were the only players in exploration and production while gas transmission and distribution was the domain of GAIL India Ltd.

On April 1, 2002 government announced deregulation. Following the deregulation, there has been an increasing participation by private and foreign players in exploration, refining and retailing oil and gas. Thus, we find Reliance, Essar Oil and Shell being busy in the oil and gas sector. Disinvestment is also in place. The disinvestment saga was initiated by the sale of IBP and IPCL.

> Since 2002, there has been an increasing participation by private and foreign players in exploration, refining and retailing oil and gas.

Coming to the production figures of crude oil, it may be stated that the output has witnessed ups and downs. For example, the production was 35.16 (m.tonnes) during 1995-96 but it came down to 31.95 (m.tonnes) during 1990-00. The output stood at 33.06 m.tons in 2002-03.

Domestic crude production is less than the demand for it, necessitating import of crude oil. Crude oil imports stood at 82.34 million tonnes during 2002-03, up from 27.34 million tonnes during 1995-96. Crude oil imports have witnessed a compounded annual growth of over 14 per cent since 1995-96.

With regard to natural gas, the output has been increasing steadily. The output was 22.64 (million metric metres) in 1995-96. It rose upto 31.39 (m.metric metres) in 2002-2003.

Box 23.1

Strengths, Weaknesses and Remedies (Electricity)

A. Strengths

* Elaborate organisational framework for the growth of electricity has been provided by the Electricity (Supply) Act, 1948. Now, Electricity Act, 2003.
* Power and responsibilities neatly divided between centre and states. Former confines itself to planning, co-ordination and regulation. Latter looks after generation and distribution.
* Vast network of generation, transmission and distribution facilities spanning the length and breadth of the country
* Joint ventures among states in power generation.
* Numerous amendments to permit private participation in power generation.

B. Weaknesses

* Very low plant load factors.
* Declining share of hydro-power.
* Too much subsidy burden on state electricity boards.
* Incompetent and corrupt electricity boards
* Frequent and heavy load-shedding
* Capital intensive but starved of funds
* Heavy losses during transmission and distribution

C. Remedies

* Formulate unambiguous guidelines for private sector investment and ensure speedy clearance
* Expedite formulation of guidelines for private participation in transmission and distribution
* Create autonomous regulatary authorities at the central and state levels
* Corporatise SEBs, with separate generation, transmission, and distribution segments
* Set cost-based pricing for each consumer group, building in pre-determined tariff increases.

(Source : Remedies from *Business Today*, Oct. 22- Nov. 6, 1996)

Transport

> Started in 1844, Indian Railways have travelled long lines and as on today has a network of 63122 kms. IR runs about 14000 trains every day to ship 13 million tones of freight and 13 million passengers. IR is the second largest in the world

Transport sector includes railways, roads, shipping and civil aviation.

The *Indian Railways* (IR) have a long history as Box.23.2 tells. They consist of an extensive network spread over 63122 kms which is the second largest in the world. IR runs about 14000 trains every day to transport 13 million passengers and 1.3 million tonnes of freight.

IR has played an important role in defining the social and economic landscape of India. It contributes one per cent to the GDP and is the largest employer in the country with a workforce of about 1.6 million, constituting six per cent of the 27 million employed in the organised sector. IR operates three of the largest suburban services in the world - in Mumbai, Kolkotta and Chennai.