of workers affected has grown since 1990. The large number of public sector employees opting for voluntary retirement could be seen as the combined result of the environment and weakening of the trade unions' capacity to assert.

Table 3.6: Trends in industrial disputes

	No. of disputes			*No. of workers involved ('000)*			*No. of mandays lost (Million)*		
	Strikes	*Lockouts*	*Total*	*Strikes*	*Lockouts*	*Total*	*Strikes*	*Lockouts*	*Total*
1980	2,501	355	2,902	1,661	239	1,910	12.62	9.91	21.93
1990	1,549	366	1,825	1,162	146	1,308	10.64	13.45	24.09
1991	1,278	532	1,810	872	470	1,342	12.43	14.00	26.43
1992	1,011	703	1,714	767	485	1,252	15.13	16.13	31.26
1999	914	479	1,393	672	282	954	5.61	14.69	20.30
1994	808	393	1,201	626	220	846	6.65	14.33	20.98
1995*	732	334	1,066	683	307	990	5.72	10.57	16.29
1996*	763	403	1,166	609	331	939	7.82	12.47	20.28
1997*	681	453	1,134	564	316	880	5.02	9.90	14.93

Source: Ministry of Labour, *Annual Report: 1997-98.*
* Provisional.

To facilitate voluntary retirement, the Government of India, like many other countries who have taken up similar schemes of privatization, accepted to support financially the Voluntary Retirement Scheme (VRS) in October 1988. While VRS has been in operation in India for more than a decade, empirical studies to assess the impact of the VRS on those who opted for it have not been many. From the responses of the trade union representatives and the few available studies,[1] it appears that the experience at VRS has not been very encouraging; and there continues to be confusion on certain aspects of the VRS.[2]

6. Compensation

It is officially reported that the VRS has attracted nearly 0.23 million employees of the 169 central public sector enterprises. Of the total 169 CPSEs which implemented VRS, only 49 undertakings had more than one thousand employees under the VRS. There were corporations with a small number of employees opting for VRS. For instance, ONGC Videsh Ltd has shown only one employee seeking voluntary retirement. Similarly, Karnataka Antibiotics reported two employees opting for VRS. There are 13 corporations each having less than 10 employees opting for VRS. The average compensation per employee is estimated at Rs. 0.13 million.

The average compensation for employees differs widely from one undertaking to another.

[1] See for instance, Maniben Kara Institute, *Voluntary Retirement Scheme and Workers' Response*, Friedrich Ebert Stiftung, New Delhi, 1994 and B.P. Guha, *Voluntary Retirement: Problems and Prospects of Rehabilitation*, Shri Ram Centre for Industrial Relations and Human Resources, Delhi, 1996.

[2] See: Disinvestment Commission, *Report II,* April 1997.

If there was one corporation with more than Rs. 0.5 million of average compensation, the average VRS compensation was less than Rs. 50,000 for 32 employees of the Visakhapatnam Steel plant. The reasons for this wide variation could be the category-mix of employees opting for VRS, the length of service, scale of emoluments, or adoption of differing formulae for calculations. Table 3.7 shows the extent of variation in the amount of average compensation.

Table 3.7: Extent of variation in average compensation in CPSEs

Avmerage compensation (Rs. Million)	*No. of undertakings*	*No. of employees in %*
Up to 0.05	6	1.7
0.05 - 0.10	19	32.0
0.10 - 0.15	51	24.2
0.15 - 0.20	37	19.0
0.20 - 0.25	20	9.5
0.25 - 0.30	8	3.2
0.30 - 0.40	6	.07
0.40 - 0.50	1	–
Above 0.50	1	.07
NA	21	9.0
Per cent		100
Total	169	227,103

Source: Based on the information provided by the Ministry of Industry, Department of Public Enterprises.

The enterprise-wise average compensation does not bring out the real nature of the disparities in the value of VRS. There is no official survey to suggest the number of employees who got compensation in different value ranges. We have made an attempt to arrive at the general pattern of distribution in an exercise undertaken by us for the Asian Development Bank for one state of India.[1] An analysis of the information on emoluments for nearly 18,683 employees of the State public sector enterprises has shown that an overwhelming proportion (94 per cent) of the employees may get Rs. 0.1 million or less with the general average being Rs. 62,000 only. (Table 3.8).

The average per employee compensation under the VRS for the CPSEs is estimated at Rs. 0.13 million. Given the differences in salaries and professional levels it does appear to us that an overwhelming number of the employees opting for VRS in the CPSEs would get an overall compensation in the range of Rs. 100,000 to Rs. 150,000. Will such compensation be adequate to support the retiring employees for life long? This is an aspect that needs scrutiny after an assessment of the average liabilities of different groups of retiring employees. Information on age-distribution of the 88,670 retiring employees is available for 62 CPSUs. (Table 3.9). Nearly half of those opting for VRS were over 50 years of age. The ones below 35 years of age were less than five per cent.

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[1] S.K. Goyal, *Madhya Pradesh: Implementation of Public Sector Restructuring Programme: A Poverty Impact Assessment Study*, prepared for the Asian Development Bank, June 1998.

Table 3.8: Estimates of cash payments* under voluntary retirement scheme in select Madhya Pradesh state PSEs

Compensation range (Rs. Million)	*Number of employees Per cent in total*	*Compensation (Rs. Million) Per cent in total*
Up to 0.05	51.64	33.79
0.05 - 0.1	42.36	50.79
0.1 - 0.2	5.08	12.31
0.2 - 0.3	0.81	2.60
0.3 - 0.4	0.11	0.51
Total Percent	100.00	100.00
Total Number/Amount	18,683	1,160.79

* The VRS compensation is calculated at 45 days salary for each completed year of service and the salary estimate for the remaining period of service. All those cases with less than 10 years of service have been excluded from the calculations.

Source: S.K. Goyal, *Madhya Pradesh: Implementation of Public Sector Restructuring Programme: A Poverty Impact Assessment Study,* prepared for the Asian Development Bank, June 1998.

Table 3.9: Age profiles of workers covered by VRS in CPSEs

Up to May 31, 1999

Type of enterprise	*Total workers*	*Share in total workers in the category (%)*		
		Below 35 years	*35-50 years*	*Over 50 years*
Sick Companies referred to BIFR	59,105	5.07	43.68	51.25
Other PSEs	29,565	3.66	46.30	49.84
Grand Total	88,670	4.64	44.55	50.81

Source: NRF Division, Ministry of Industry.

The 35-50 years age group was nearly 45 per cent. The nature of problems for 50+ age group employees could be substantially different from those in the less than 35 years age group. In all probability 50+ age group would consist of employees with children of marriageable age. Their view on retirement would be governed by their advancing age and a desire to help their children marry and settle in life. Given the Indian system one suspects that the workers in the 50+ age group would be willing to retire early and attempt settling their children. It could, however, be also possible that elderly ones would have limited personal demands and would invest their compensation amounts in assets which could give them regular income. The younger employees (below 35 years of age) may not have large compensation as most of them would not have long service to their credit. In any case their number is not very large. The main concern will have to be about those falling in the 35-50 age group. For well-qualified and skilled workers, alternative employment in private sector is not very difficult; in fact exit from public sector may mean an improvement both financially and socially. Private managements have the freedom to reward good performers unlike in the public sector where decisions have to be rule-based. Jumping of the line in matters of promotion is not easy in public enterprises. At times a single change in policy and procedures, to accommodate a deserving case may affect thousands of employees beyond the individual enterprise.

Probably, in response to the criticism of the VRS and the increasing lack of enthusiasm of employees for availing it, PSEs seem to be attempting to improve upon the initial compensation package. SAIL plans to pay quarterly (basic + DA) for the remaining part of the service of the employees who have put in 20 years or more of service with the company. The employees opting for VRS would also continue to receive medical facilities.[1] The employees with up to five years of service left before retirement were assured full basic pay plus dearness allowance, as on the date of separation for the remaining period of service. Those remaining with five to eight years of service would get 90 per cent and those with more than eight years left, 80 per cent of the salary with DA and medical support.[2] BHEL targeted senior employees and the average payout was placed at Rs. 0.6 million per employee. Like SAIL, the BHEL also decided to extend medical facilities to those who opted for VRS.[3] For lower level employees such packages appeared attractive. The Department of Telecommunications (DoT) planned to offer STD/ISD booths to non-officer category employees who were accepting VRS from ITI and HTL.

7. Social safety net

Adoption of privatisation policies would alter employee-employer relationship in a radical manner. A good number of employees are likely to lose service and stable source of income. To meet the problem of retiring employees, monetary compensation need to be accompanied by measures that would provide a safety net as a long-term solution to their present loss of employment. There would be many who would be physically and mentally healthy and have financial commitments of regular nature. Also, it does not appear a sound public policy to throw out able bodied and willing workers from the productive national stream. Measures could be devised to enable the retiring public sector employees to continue being productive. Employees may be retrained or imparted with new skills. The basic purpose would be to harness the potential capabilities of retiring employees as also to help their rehabilitation. Setting up a social safety mechanism has to be seen as a requisite to protect interests of the workers affected by PSE restructuring. The National Renewal Fund (NRF) was created by the GOI in October 1992.[4] The objectives of the NRF are to provide:

(i) assistance to cover the costs of retraining and redeployment of employees arising out

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[1] See: "SAIL cites 7 plus points of VRS", *Economic Times*, September 2, 1998.

[2] See: "6,000 opt for VRS at Sail", *Statesman,* September 6, 1998.

[3] BHEL offered 45 days' pay (basic + DA) for each completed year in service or 30 days' pay for the number of remaining months till the age of 60 whichever is lower. See: "BHEL VRS achieves target before deadline", *Business Standard*, July 28, 1999.

[4] A view was voiced in certain quarters that the government formulated the guidelines in view of the visit of a high-level IMF team to discuss a fresh loan under the Extended Fund Facility. This was done to assure the visiting team of the government's commitment to economic reforms. See: "CCEA approves guidelines for operating national renewal fund", *Economic Times*, October 29, 1992.

of modernisation, technology upgradation and industrial restructuring;

(ii) funds for compensation of employees affected by restructuring or closure of industrial units in public and private sectors; and

(iii) funds for employment generation schemes both in organised and unorganized sectors in order to provide social safety net for labour needs arising from restructuring.[1]

Till May 1999, 0.13 million CPSE employees opted for VRS under the NRF scheme. The number of workers opting for VRS had started declining after 1994-95. This could indicate possible loss of interest of the employees or the falling budgetary allocations to NRF, or both. (Table 3.10) NRF allocations started looking up once again since 1997-98. In the initial years the allocations were supported by contributions from the multilateral agencies. The allocations remained low afterwards. The disinvestment of PSE equity did not proceed as expected. A part of the financial resources raised through disinvestment were expected to be put aside to support NRF. This did not happen.

Table 3.10: Number of employees availing VRS covered by NRF and expenditure on VRS and NRF: 1992-93 to 1998-99

(Amount in Rs. billion)

Year	*Budgetary allocation*	*Amount transferred to public account*	*Expenditure incurred on*		*No. of VRS availees covered by NRF*
			NRF	*VRS*	
1992-93	*8.297	8.297	5.967	5.667	39.751
1993-94	# 10.200	7.000	4.782	4.781	34.232
1994-95	2.000	1.000	2.519	2.508	16.206
1995-96	1.400	1.400	2.170	2.096	12.583
1996-97	1.500	1.500	1.956	1.880	6.980
1997-98	3.069	3.069	3.304	3.267	14.815
1998-99	4.013	4.013	3.773	3.721	4.482
Total	30.478	26.278	24.172	23.920	129.049

Source: Government of India, Ministry of Industry.
* Includes Rs. 5 billion received from IBRD/IDA.
# Includes Rs. 5 billion received from IDA.

A widespread criticism of the NRF has been that while the main objective of NRF was to help in retraining, counselling and redeployment of affected workers, and in employment generation, an overwhelming portion of the total expenditure incurred on NRF was utilised for compensation payments under VRS. The rate of redeployment of those workers who

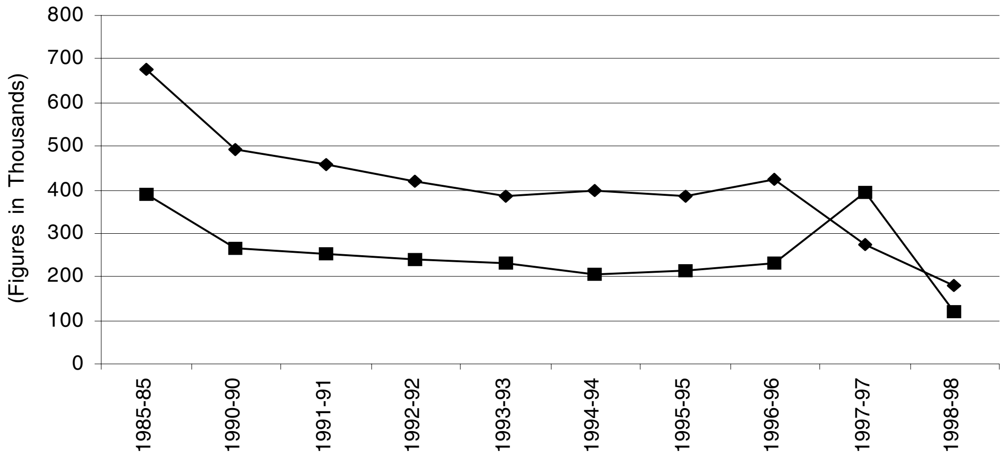
[1] India, Ministry of Industry, *Annual Report: 1992-93*, p. 16.

benefited from VRS was quite low. Out of the 98,327 VRS beneficiaries under the NRF surveyed, only 36,889 workers were retrained. The number of redeployed workers was still lower at 11,623. Even considering the fact that some of the workers might not have opted for retraining and redeployment these figures appear quite low; especially of those who got redeployed. Therefore, it is no surprise if the major Indian trade unions are extremely critical of the way VRS and NRF are being administered. A gist of their observations on privatization in general and VRS and NRF in particular is given in Annexure- A.

In the context of redeployment of workers a suggestion has been made that the services of employment exchanges could be made use of. It, however, appears that during the recent past the record of the employment exchanges in enabling job seekers to secure employment has not been encouraging. The number of vacancies announced through the exchanges and the number of placements made have been declining since the mid-eighties. (Figure 3.5) Though the figures started looking up after 1994, the improvement does not appear to be of much significance. In this background, the potential of the employment exchanges for redeployment of workers benefiting from VRS appears very limited. This is probably because the employment exchanges in India are involved mainly with placements in the public sector and their records reflect only the employment opportunities available in the public sector. When new recruitment in government and public sector has been restricted it is only natural that employment exchanges would be seen as having fared badly.

Figure 3.5

Vacancies notified and placements by employment exchanges



Figures for 1998 are extrapolated on the basis of registrations and placements during the first six months.

The weaknesses of VRS have come to be known widely. Individual enterprises are trying to improve the compensation packages. Whatever may be the size of cash compensation, the objective reality stays that no able bodied person wants to remain idle and sit at home. This is particularly true of persons who have remained employed in productive activity their entire lives. Retirement is a very depressing phenomenon if there is no alternative occupation available. Besides, the forced retirement offers no alternative for those who were keen to remain occupied, even on a part time basis, for additional income. This would be particularly true of lower income groups. Family conditions vary from one to another. The general cash compensation is not a full alternative to regular or part time employment. Some steps have to be taken to put the retiring workers into the productive stream. For this, public enterprises would need to undertake manpower planning and initiate advance action regarding the workers who would be expected to retire each year.[1]

Surplus manpower in each division of the PSEs needs to be identified. Once the exercise is completed and surplus manpower identified, the next step would be to classify these workers according to their basic characteristics: age; sex; hometown; family composition and dependents; academic and professional qualifications; experience and specialisation; economic status of the family; special attributes like Scheduled Castes and Scheduled Tribes; etc. A comprehensive socio-economic profile of the surplus labour is a pre-requisite to evolving a meaningful safety net and programme for rehabilitation and redeployment of the retiring workers.

There have been a variety of suggestions for training and counselling for those who take the option of VRS. The expectation that one can change the mindset of workers to become successful entrepreneurs overnight with financial support is not very realistic. Nor is it always possible to retrain each one of the retiring employees. A meaningful plan of rehabilitation needs to be worked out after assessing the potential, preferences and opportunities available in the immediate environment. Larger and growing townships would need a variety of skills which workers from engineering PSEs would have in plenty. We must emphasize here that there can be no generalised solution in the form of counselling or retraining. A detailed analysis of this was presented by Ashok Chandra.[2] Our own discussions support his conclusions. The major elements of the suggested strategy are as follows:

(1) Removal of the ten year limit on NRF and creating a stable mechanism for retraining;
(2) Retraining should be a continuing on-the-job process. Employers should be encouraged to plan for the development of their employees and create conditions for their continuing education and training;
(3) Retraining should be provided before retrenchment. It should be ensured that those threatened with redundancy should not be retrenched until they have been suitably prepared, through training and other measures, to enter the external

[1] In the context of having an estimate of excess labour the case of ITI cited by COPU (1998-99) is quite relevant. COPU noted that while there was surplus manpower in the company and a VRS has been introduced, "no scientific study has been conducted to assess actual manpower requirement in each of the units of the company". See: Lok Sabha Secretariat, Committee on Public Undertakings (Eleventh Lok Sabha), *Tenth Report*, p. 65.

[2] See: Ashok Chandra, "Retraining and Redeployment: NRF Initiative and Challenge in Training", *The Indian Journal of Labour Economics*, Vol. 42, No. 1, Jan-Mar 1999, pp. 31-47.

labour market;

(4) Arrangements for operating a labour market information system and providing feedback to employment planners and retraining planners should be created;

(5) Employment promotion plans and area regeneration plans are important requirements particularly because of concentration of PSE employees in certain regions (e.g. textile workers in Ahmedabad). Retraining should focus on the analysis of projected investment into the area and the economic activities likely to be taken up;

(6) Enhanced financial provision for restructuring of labour in general and education and training in particular;

(7) Retraining should aim at enhancing core skills and help towards improving/creating work culture. Selection of institutions should be done carefully to avoid mismatch between requirements and capabilities;

(8) Special attention needs to be paid to vulnerable groups like older and women workers. This is because women have a greater tendency of going out of the labour market and with the disappearance of joint family system the support available to older displaced workers may disappear soon;

(9) Since the scope for employment in the organised sector is likely to be limited in the short run, it is desirable to transfer skills from the formal to the informal sectors especially with the help of NGOs;

(10) Provision of continuing education and further training should be an integral part of technical education and training; and

(11) Self-employment and entrepreneurship development should be a part of the larger strategy of enlarging employment opportunities.

We may also add that government departments are not very willing to take responsibility for operating the safety net. The plea is that they are already overworked and starved of competent and responsible staff at workers and supervisory levels. With regard to the role of voluntary agencies and non-government organisations there is conflicting evidence. This task has to be undertaken at each location by a group of experts who can identify employment opportunities in the area that exist or can be created. Expertise of this nature has to be built. It is not in ready availability.

Overstaffing in an enterprise causes low labour productivity, general inefficiency, high costs and low operational surpluses. While the reasons for overstaffing may differ from one enterprise to another, a few primary factors can be identified which make it obligatory on the part of PSEs to downsize their labour force. One, India had placed a premium on projects in public sector which offered larger employment opportunities. The size of new jobs created was an important aspect of project scrutiny for government approval. This is no more accepted as a national policy. Two, large PSEs were often located at new locations in backward and less developed areas having neither industrial nor urban infrastructure. It became obligatory for PSEs to build and maintain housing, transport and other social infrastructure (like schools and hospitals) as a part of the project. Employment of larger staff for supplementary services was the consequence. Three, PSEs were expected to expand in a long term national and developmental perspective. It could not be visualised that the role of public sector would be revised downwards in a short time. Four, as PSUs in non-strategic areas are now to be closed down in part or in full, emergence of labour surpluses is the unavoidable consequence. Five, with adoption of new technologies, economic and business logic would place more weightage to labour saving options than to administrative or political conveniences. Thus, many more enterprises are obliged to cut on new wage employment. Six, old enterprises while replacing equipment and machinery opt for more efficient alternatives which reduce the demand for labour. Seven, existence of surplus labour is also a problem carried over with nationalisation of sick private mills. And last, for some time new investments under economic plans have witnessed a downward trend. This has resulted in a reduction of new orders with public sector producers of heavy machinery and other inputs. The reduced capacity utilisation demands lesser labour and the result is in labour surpluses. Most of the public enterprises, especially the older ones, have been found with considerable excess staff. The precise level of the staff surplus in each PSE has not been identified in a systematic manner. The need for such exercises, however, has been repeatedly emphasised by parliamentary (COPU) and other committees. It was an expectation that data on surplus staff for each enterprise would be available with the Standing Conference on Public Enterprises (SCOPE). Which was, however, proved wrong.

A broad view on the question of excess labour could be had by comparing the size or value of labour per unit/value of production for comparable private and public undertakings. The extent of labour requirement is quite significantly dependent upon the technology, capital equipment and production processes. There are not many enterprises in any one sector of production to permit such a comparison. Indian public sector enterprises enjoy monopoly position in most cases and these are also multi-product units. It is often argued that the Indian public sector is highly labour inefficient. The labour costs are supposed to be high for it. If one compares SAIL and TISCO one does not, however, find on many counts, much of a difference between the two companies. The ratio of wages and salaries to net turnover stood at 16.95 per cent for SAIL and 16.33 per cent for TISCO in 1998. In 1995 and 1996 SAIL was in a more favourable position.[1] Facts appear quite contrary to what is generally believed. If one takes the ratio of wages and salaries to turnover as index of labour efficiency one finds that in 1997 labour efficiency with non-big business was the highest with the ratio being 4.0 per cent. This was followed by the CPSEs with 4.3 per cent. Foreign-controlled companies had the percentage at 5.2 and the top Indian Business Houses, 5.6. The private sector as a whole had this percentage as 4.9. Understandably, in the case

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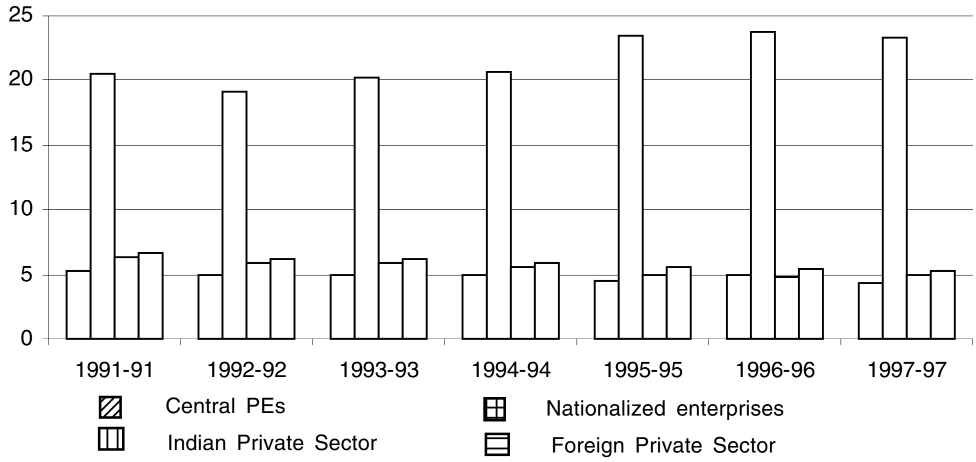
[1] This observation is based on the data available in *Equity Research Station*, a corporate database developed by Asian CERC Information Services (India) Ltd., Bangalore.

[2] We are, however, aware that the ratio could be influenced by use of contract labour. The declining ratio of wages, etc. to operating income could indeed be indicative of the growing phenomenon of contractualisation of select operations. But since it has been happening in both the sectors and both are known to use such labour, it does appear that public sector is not worse off than the private sector.

Figure 3.6
Share of wages and salaries in net sales in the indian corporate sector



of sick companies the ratio was substantially higher at 23.7. That this is not a one-time occurrence is reflected from the relative positions of different groups, which have remained broadly similar since 1991.[2] (Figure 3.6)

Source: Centre for Monitoring Indian Economy, Corporate Sector, April 1998.

We examined the share of wages and salaries in gross value added or conversely, gross value added per unit of wage input in value terms. The Indian private sector appears to be equally overstaffed in terms of the relative size of expenditure on workforce. The relative position of the two sectors suggests that for improving the efficiency of the public sector efforts may not be restricted to labour alone. There must be multi-pronged attack for improvements starting with managerial and technological aspects of the corporate life.

8. Summing up

End of the Second World War was succeeded by political liberation of third world countries. Most of the newly independent economies suffered from low GDP and per capita income, low agricultural and industrial productivity, absence of health and education facilities, existence of wide interpersonal, interregional and intersectoral disparities, domination of unproductive, wasteful and exploitative social and economic institutions and other symptoms that go with underdevelopment and backwardness. An assurance of the political leaderships in these countries was that after gaining political freedom the state would not remain a silent spectator to the problems of the country and the people. The need of the Third World countries was to drastically restructure their socio-economic and political systems and establish requisite infrastructure for a purposeful change. This, it was unanimously agreed, could only be undertaken with state initiative in a planned manner. Thus, the state was obliged to play the lead role. India was no exception to this pattern of thought and analyses.

Over nearly half a century of planned development, India has success stories on many counts. At the same time, there is a widespread consciousness of the distortions that have crept into the process of socio-economic development. The regulatory mechanisms were neither properly designed nor provided with built-in self-correcting system. The operation of regulatory machinery caused wide spread irritation as the administrative structures and bureaucratic procedures of work were neither transparent nor functional nor did these related to the purpose for which these were created. In any case, after half a century of administering regulations and controls in India it was time for having a fresh look at the entire gamut of economic regulations. There has not been adequate appreciation that a regulatory mechanism can provide appropriate mechanism to allow smooth functioning of the market forces. Besides the limitations caused by structural shortcomings it had not been fully recognised that the success and failure of a regulatory system depends on the clarity and understanding of those who are charged with the responsibility to administer regulations. Similarly, the working of public enterprises has not always brought credit either to the state or to the economy. The Indian public sector has been amenable to a variety of political and administrative pressures as it had to function under the heavy shadow of the respective administrative ministries.

The weaknesses of the present system of administration of public enterprises have been pointed out repeatedly and at differing fora. It is unfortunate that timely key decisions often get delayed or are never taken. Government responses have been poor in matters of ensuring efficient operation of public enterprises. The case for reform of the regulatory system and the Indian public sector is only too clear; and delays in initiating the corrective measures have already inflicted irreparable damage to the economy in general and the public sector in particular. There are two avenues before the policy makers: (a) to undertake comprehensive reforms and take corrective measures, or (b) to withdraw and leave the decision-making process to the private managements and forces of the market. State can roll back both in matters of regulations as well as her direct intervention in the form of public enterprises.

Privatization process in India has taken many forms. A dramatic change has been in opening up of the areas reserved for exclusive development in the public sector. But for the strategic and defence related areas, practically all economic activity has now been thrown open to private sector. Similarly, a host of the irritants in the form of industrial licensing, regulations to save foreign exchange and technical scrutiny to assess export potential and contribution to import substitution have been abolished. Government has taken a variety of initiatives to affect privatization of public sector in a phased manner. In spite of having undertaken so many important steps which have considerably altered the country's economic policy frame, there continues to be a widespread confusion in India about the primary objective of privatization. While resource mobilisation has been stated only as one of the many objectives of privatization of PSEs, the fact remains that this is the only objective that has so far materialised. The frequently stated objective of privatisation has been to manage exit from the situation under which huge public sector losses have to be met by the exchequer. This could help bridge the yawning budgetary gap which contributes to the fiscal deficit. In such a case loss-making public enterprises would be first targeted for privatisation or even liquidation. Instead, the present attempts do not singularly focus on loss-making enterprises alone. Little has been done to either close down or privatize the taken-over sick mills of the private sector. If the purpose of the take-over of private sick textile mills was to restore them to health there should have been efforts to modernise these mills or close these down in a phased manner. A decision has been pending on this for years.

The disinvestment of government equity in profitable PSEs has certainly helped the government mobilise one-time funds. The system of limited disinvestments, as pursued so far, can no way cause any change in the management of public enterprises. The initiative and approval for this has to be of the government only since majority equity in these enterprises continues to be with government. Additionally, the equity has been unloaded mainly to the public sector financial institutions. Should one consider these developments as privatization resulting in more professionally governed PSUs? It is debatable. While holding a little less of the full stake, say 90 per cent and not 100 per cent, the main responsibility for changing the nature of the management has to come from the government. If the government wished, it could have been done earlier without any fear of opposition from shareholders or workers.

Maybe the intention behind PSEs privatization was to deepen capital market and obtain larger public participation. Here, one suspects that the massive entry of public sector equity, in all probability would have had an adverse impact in the form of overall depressed stock prices. The profit making enterprises would have certainly attracted investors but then one does not gain much by public participation as a mechanism to improve further the working of these enterprises. Most small shareholders the world over remain dormant and do not take active interest in management. The primary concern of the equity shareholders is the return in the form of dividends and appreciation in the stock value. To expect widely spread small shareholders to bring in public involvement and perform the vigilance role is taking matters literally. Ultimately, it would be one or two large shareholders who could reach a position of influence even when they are in minority.

Two objectives, however, appear to have been pursued effectively by government initiatives at privatization. One, obtaining of funds by transfer of PSU equity to public sector financial institutions and mutual funds. And two, to honour the assurances that government had given during the negotiations with the Brettonwoods institutions that India would take effective steps to reduce the role of the state in internal management of the economy. India did take the measures agreed upon under the Structural Adjustment Programme and has succeeded to convince multilateral bodies that India was seriously pursuing the promised changes. As a result, two positive developments have resulted. One, the flow of foreign private capital has been quite substantial; and two international lending agencies have provided adequate support for India to maintain high credibility and business confidence in the international business community. India has been projected as a stable economy. This may not be the stated objective of privatization but the additional resources would help keep the fiscal deficit at a lower level than what would have been the case otherwise. This could be the strategy of the policy planners, though not spelt out openly.

If the present level of privatization is maintained and no PSE is allowed to change hands to the advantage of either the Indian big business or TNCs, the sting associated with privatization may not hurt public sentiments. The criticism that privatization amounts to sale of family silver would not hold true. In case of partial disinvestment, the management control continues to rest with the government not only because it would have a clear majority equity but also because government would retain controlling stake in CPSEs even after substantial disinvestment. If the debate remains confined to the privatisation processes, one would fear that the basic questions would not get addressed. What is needed in the PSEs is restructuring, not only in its shareholding structure but more so in management, pricing, autonomy from administrative and frequent political interventions. To start with, there has to be clarity on the business objectives of each PSE. Operationally, one needs to have a professional group as Board of Directors. The domination of bureaucrats needs to be replaced by those who have commitment and aptitude for corporate management. The role of nominee directors continues to be vague. Above all, it is not often that the Chairman and key Board members get appointed in time. Continuance of vacancies and too frequent changes at the top do not permit business stability of the enterprises. The top leadership of the PSEs needs to be assigned specific responsibilities and in doing so there has to be abundance of transparency in their work. What in essence is being suggested is the restructuring and stability of the Board of Directors with clearly defined objectives.

Privatization has been strongly opposed by labour. No one can dispute that from the individual and collective labour viewpoint, public sector would always be the preferred employer. It is not very correct to view that labour in PSUs is indifferent to the problems of the enterprises where they work. Labour knows that an unprofitable undertaking could only hurt their own interests. They have high stake in their place of work. However, what is essentially needed is the sharing of the basic problems by the managements of PSEs with labour. For instance, it would have been helpful if before taking measures to privatize, the government had shared the objectives of privatization and obtained their view. There is bound to be an expression of conflict between the managements and the trade unions if the two sides do not have regular lines of communication. One does need to recognise that today's labour is far more intelligent and able to appreciate problems and viewpoint of managements than what might have been true in the past. The remarks by SBI trade union leader are an important indicator.[1]

Privatization by itself cannot be considered as an ideology of development. At the same time it fits well in the overall scheme for reducing the rigour of directed economies and introducing market-oriented production and distribution structures. Quite different from the ideological stances, it is clear that there is growing awareness that over the past half a century, there have been a variety of important technological and other developments that warrant fine-tuning of the role of the state. It needs to be underlined that one cannot paint all public enterprises black, just as it would be wrong to consider all large private enterprises to be exploitative. There are areas in which private and decentralised sector have a built-in merit over large public sector establishments.

[1] Sura note 65.

A live, sensitive and important issue as a fallout of privatization is the question of compensation and resettlement of surplus labour that have no option but to accept voluntary retirement. Cash compensation under the VRS, for a large majority, may not be adequate to help them obtain regular incomes. There are reasons to believe that if the entire compensation is handed over to VRS retirees it would get diverted to support un-productive expenditure. A better alternative, for an effective social safety net, may be in working out a pension scheme.

As a part of developing social safety net it has been suggested that the retiring workers should be given training for setting up their own enterprises. This may offer a good alternative and secure future. It is, however, not easy to change the mindset of persons who have for long pursued a certain way of life. A worker does not become an entrepreneur overnight as he has little knowledge to defend himself against business uncertainties and risks. It seems, therefore, doubtful if any generalised training to workers would help much to convert workers into entrepreneurs. Moreover, business opportunities and environments differ from place to place. Then, there are wide differences in the nature of experience of the retiring employees. Given these realities it appears that an effective method may be in preparation of local area employment plans for important public sector locations that could suggest opportunities for establishment of low investment service activities. For instance, most of the mechanics, drivers and conductors of public transport corporations may easily fill the fast growing demand of the automobile services for repair and maintenance as also privatized passenger transport service and individual taxi operations. Similarly, there can be new openings in the service sector especially in information technology. There is a need to prepare imaginative plans for employment in major locations. Public enterprises could also take advance action for the new opportunities and encourage discussions with other informed sections of the populations. Opportunities in the service sector may be more suitable to retiring public sector employees, especially those who had experience of secretariat and staff support.

One assertion that one may make is that unless political leadership recognises the need for adoption of appropriate corrective measures for improving the working of public enterprises with the utmost promptness, no production system can survive without difficulties for long. Secondly, there can never be any substitute for regular exchange of views and mutual consultations on common problems. There is a need to strengthen the consultative mechanisms. And lastly, many of the problems which are sought to be settled through measures like privatization could be better attended to in the spirit of mutual understanding with labour.

May be this is the time to restructure our approach and systems of management in the true sense. Public sector needs restructuring in terms of its goals, system of decision-making, adoption of reward and penalty mechanism and in determining the pricing policy. There will have to be a change including organizational restructuring. Mere transfer of ownership to private sector may not help achieve higher productivity without high social costs.

9. Recommendations

Privatisation in its various forms attempts to reduce ownership, direction and regulation of the economic activity by government and expand the area of decision-making processes by the market forces. These attempts need to be viewed against the background of bureaucratic rigidities, misconceived regulations and controls and high cost of direct government interventions by way of public sector and other policies, which inhibit optimal allocation of the factors of production. The process need not necessarily aim at elimination of the state in the economy. Pursuit of privatisation policies, there is no denying, will cause a shift from the public to a private system of ownership and adoption of commercial values in its operations.

It has to be accepted by government, workers and public that privatisation needs to be accompanied by restructuring of the existing regulatory mechanism. The new system must have well defined objectives and should allow full transparency and adequate powers to effectively administer the regulatory provisions of law and least possible discretion. Privatisation of public enterprises (PEs) should aim at their restructuring and should not remain confined to disinvestment or transfer of ownership of PEs. The need is to professionalise the managements and reduce unnecessary interventions by Government Departments.

Broadly speaking, the consequences of privatisation can be grouped under two categories. One, the immediate problems which relate to (a) mechanisms for restructuring of ownership, management, control and other operational policies, (b) problems relating to resettlement of surplus labour, the establishment of social safety-net to reduce the hardships for retiring public sector employees and (c) provision of adequate resources and other support to make loss making enterprises become profit making enterprises. The problems are well recognised.

The second set of problems would come up after the initial transfer of PEs has been affected and CPSEs start operating as independent enterprises with or without change of ownership. These are problems emerging from operations of large sized enterprises, with the probable monopolistic situations.

From a review of the reports and recommendations of the Disinvestment Commission, it has been noted that the Commission has been in most cases ignored by the Government. This is unfortunate. When an expert group examines a problem and reports, it should be obligatory on the Government to accept the recommendation. If certain recommendations are not accepted the reasons for this must be made public and reported to Parliament. Further, the present practice of the Commission being barred to take up investigations on its own should be given up. The Commission should have the authority to report on any related aspects of disinvestment.

Under the proposed mechanism of privatisation it is expected that there would be a rapid expansion in the number of shareholders as also entry of a good number of new corporations in the capital market. India is a newly emerging capital market. The experience of the last decade has not been very encouraging for small and new investors. SEBI has certainly become more effective during the last few years. However, there still continues to be shortcomings in the regulations of capital market, which have to be attended to. There is a need to expand information base on corporations and their operations in the capital markets. This could help monitor operations of the stock exchanges for appropriate remedial measures in time.

It has been accepted in principle by the government to pay cash compensation to workers under the Voluntary Retirement Scheme (VRS). While one-time cash compensation may appear to be an attractive proposition, it may not solve the long-term problems of the workers. The emphasis should be in seeking alternatives, which provide an effective safety net that can ensure regular incomes to the retirees. The alternatives may be in (a) award of pension, (b) regular full-time or part-time employment, or (c) helping them establish independent service or manufacturing establishments.

One issue of significance is with regard to the employees who had reservations and preferences in matters of employment in the public sector. The problem may not be very serious in case of the existing employees but it should be obligatory on all large private corporations to respond to social problems of the society. Alternatives to help the weaker and socially backward sections have to be explored by the large private corporations.

Privatisation of services that leads to casualization of the labour is against the norms of labour laws. Besides exploiting the unorganised labour and denying the legitimate rights, long-term social consequences of contractualisation trends would be serious. It is, therefore, necessary that some effective institutional mechanism be established to protect casual and contractual labour.

One important reason for privatisation of PEs in India has been the continuing losses, which have to be borne by the public exchequer and thereby the common man. It is obvious that even after extensive privatisation there would continue to be certain enterprises in the public sector. One should also not rule out the possibility of new PEs coming into being in case of market failures. Additionally, in most of the privatized enterprises government is likely to remain as a dominant shareholder. The government may not be able to totally isolate itself from the working of these enterprises. The minimum expectation would be that government provides positive support to the internal structural changes in the enterprises and help the new managements to achieve higher productivity for the massive national capital that has already been invested. Government must also develop an objective and efficient system of monitoring and advice. It is also necessary to develop a proper system for identification and creation of professional groups who could be available to solve problems by all large corporations irrespective of their being in public, private or cooperative sectors. It is envisaged that if proper internal restructuring of CPSEs is attempted, the twin objectives of protecting public interest and efficiency can be combined effectively.

Public enterprises in India by the very nature of their origin enjoy a monopoly and a dominant place in the respective areas of their operations. Monopolies have a tendency to ignore research and development (R & D) and continue their economic activities with obsolete technologies, high cost operations and use of outdated and depleted capital and machinery. This results in high costs and the enterprises being left out of the modern trends in industry. In absence of any internal and external commercial threat, monopolies tend to perpetuate inefficient low quality production with little capabilities to compete globally. The change over from public ownership and control to private economic interests need to ensure that private monopolies are not established in place of public monopolies. There are fears that privatisation of public monopolies would be followed by an upward revision of tariff. Such price revisions could easily eliminate losses without improvements in productivity. To protect consumers and long-term national and industry interests, it is, therefore, essential to establish an industry-based authority to regulate and issue guidelines for conduct of dominant and large business enterprises.

For a smooth and successful transition from a planned to an open market economy it is essential that all sections concerned with the change be brought together for a healthy and meaningful system of consultations. The interaction has to be among various parties; such as, employers and workers' organizations and central and state governments. Information and the logic of the proposed steps at re-arrangement of the regulatory mechanisms must be shared without any reservation. This could help avoid unnecessary resistance to change and keep the process of change within broad perspective of development.

Annexure - A

View point of the labour

1. Five major trade unions and a public sector officers' association[1] besides some individual trade union leaders and academics were contneted, who have been dealing with different aspects of labour in India. Detailed discussions with the senior trade union functionaries were extremely rewarding. Thers is a high degree of similarity in their responses, which probably reflects the closeness of the views expressed with the reality. The following is a brief point-wise summary of the views expressed by the TU leaders.

Privatization

2. Trade Unions (TUs) have expressed their disapproval of the government's unilateral decision to promote policies towards privatization of Indian public sector. They were not involved in a meaningful way in the disinvestment process either. The privatization of public enterprises, which happen to be large in size, can only mean a transfer of the public property to Indian Big Business or Transnational Corporations. Operational aspect of the proposed scheme for restructuring of public enterprises is downsizing of labour. The TUs believe the 'exit policy', 'golden handshake', privatization, closures and downsizing are all aimed at weakening of the bargaining power of labour. Each form of privatization has direct adverse implications for the labour. TUs do not accept the basic premise that public sector enterprises have always to be running under loss. They point out that the real reason for PSEs being in red is the utter neglect of PSEs in matters of appointing competent professionals. Most PSEs do not have full strength of their management boards and consequently PSEs are administered as a remote control system by bureaucrats from ministries. The TUs also underline that PSEs are directed by the government to adopt pricing policies which are wholly unrealistic and are the main cause of losses. TUs argue that since PSEs are in the nature of monopolies, left to independent operation, none of the enterprises would be in loss.

3. TUs are not prepared to accept that privatization policy is a 'home grown' product. The inspiration of this has come from foreign-based multilateral bodies like the World Bank and IMF. These policies have been thrust on the Indian government. TUs question both the assumptions and the analyses as outlined in the cryptic decisions and directives to pursue

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[1] These were: (1) Mr. Chandi Das Sinha, Secretary Indian National Trade Union Congress (INTUC) & Editor, The Indian Worker; (2) Mr. Raj Kishan Bhakt, Member, Executive Committee, Bhartaiya Mazdoor Sangh (BMS); (3) Mr. Umraomal Purohit, General Secretary, Hind Mazdoor Sabha (HMS); (4) Mr. Tapan Sen, National Secretary, Centre of Indian Trade Unions (CITU); (5) Mr. K.L. Mahendra, General Secretary, All India Trade Union Congress (AITUC); and (6) Mr. Ashok Rao, Secretary General, National Confederation of Officers' Associations of Central Public Sector Undertakings (NCOA).

privatization of PSEs. TUs argue that while the main responsibility for the public sector losses is that of bureaucracy and political leadership, it is the labour that has been asked to pay the price. TUs say, “Common workers are totally disturbed by privatization and VRS”. The situation is worse in case of State level PSEs. On the one had, NRF is not extended to them; and on the other, they just sell away the units to private parties.

VRS

4. TUs’ opposition to the new economic policies is essentially due to the expected adverse effect on employment. Retrenchment or voluntary retirement in the Indian context implies, on the one hand, absence of unemployment insurance, and on the other lack of alternative jobs. Public sector employment gives them, particularly those in the lower rungs, the opportunity to lead a life of dignity and self-respect. The restructuring of PSEs is forcing them to choose a different vocation and that too unexpectedly. In most cases those who accept VRS are in their mid-life when adjustments at the personal and family levels are extremely difficult to make.

5. A few employees who were young in age, and possessed engineering degrees, opted for VRS and were able to get jobs in the private sector. A small proportion of the retrenched workers did eventually get jobs in the small-scale private sector, since this sector is labour intensive. These jobs, however, meant half the earlier income with annual insecurity, as small-scale sector is prone to high degree of mortality. Practically, all of them were critical of the way VRS is being implemented. Their response is best summed up in one of the studies of Maniben Kara Institute as “...vast majority of the workers who opted for VRS and resigned their jobs are having a bad time. Many of them were left with only a small portion of the lump sum, the major portion having gone in repayment of loans or expenses on marriages or having spent on petty unnecessary items.”[1]

Inadequate VRS amount

6. Not only the VRS amounts are small, they get smaller when adjusted against loans already availed, like house building advance, etc. It is an unfortunate reality of the Indian system that employees face a variety of social pressures once they receive the severance payment. Moreover, not having used to handling relatively large amounts, they fall prey to spending on durables or end up extending sticky loans to friends and relatives or invest in unproductive and risky investments. Unlike in the West, ordinary people are not at all aware of the way stock markets function and often get lured by sudden booms in share prices.

7. The VRS amount is measly and needs to be increased in multiples. At the least, the VRS benefits should be calculated at the rate of 90 days salary for each completed year of

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[1] Maniben Kara Institute, Voluntary Retirement Scheme and Workers’ Response, Friedrich Ebert Stiftung, New Delhi, 1994, p. 35.

service.[1] This was attempted by Air India and some quasi-government institutions like the Coffee Board. It would perhaps also be appropriate for the VRS benefits to take the form of pension in entirety.[2] A government organisation could be associated with administering the pension scheme for all PSEs. This is because there have been cases in PSEs where persons who retired have altogether not received their pension payments.

Non-payment of VRS amount

8. It was pointed out that there was no guarantee that the promised amounts would be paid-out and gave the instances of NTC and IDPL, where workers were retrenched but did not receive the full VRS payment. "In Cement Corporation of India and Hindustan Steelworks Construction Limited, workers and officers opted for VRS but they were not paid the VRS amount. Now, while they continue to be in employment, they are not getting salaries."[3] Further, in the sick industries, those who opted for VRS did not receive their provident fund dues and gratuity payment. "The concerned PSEs do not have the funds to make the payments", they say.[4] This led the TUs to underline that organisations should not be allowed to offer VRS unless they have adequate funds.

Non-voluntary dimension of VRS

9. TUs point out that in a good number of cases VRS has become non-voluntary in nature because in the new scheme, where the PSEs would be given loans by banks to fund the VRS and the loans would be guaranteed by the government, those who opt for the VRS in the stipulated time period get 45 days salary for each year of service that they put in. After the stipulated period they get only 15 days salary, as then the Industrial Disputes Act becomes applicable. This forces employees to apply within the time limit set by the organisation.[5] "In Hindustan Steel Construction Limited, (HSCL) even intimidating tactics have been employed to compel the workers to take VRS. They have been told either they take VRS or lose it altogether". The voluntary nature of VRS should be restored.[6]

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[1] That a VRS benefit calculated at the rate of 90 days salary for each completed year of service is reasonable was argued in S.K. Goyal, Madhya Pradesh: Implementation of Public Sector Restructuring Programme: A Poverty Impact Assessment Study, prepared for the Asian Development Bank, June 1998. An alternative calculation could be five years of emoluments. See: Ruddar Datt, "Public Sector and Privatization", The Indian Economic Journal, January-March 1992,No. 3, pp. 1-38.

[2] The pension benefits could be calculated as arising from a corpus based on funds that would become available if 90 days salary were to be paid for every completed year of service. The provident fund benefits and the gratuity payment would of course be received in lump sum amounts. The purpose of a pension is to rule out the possibility of those taking the VRS landing in dire straits through the inability to manage VRS benefits. The pension would additionally have to be indexed.

[3] Mr. Tapan Sen, CITU.

[4] Mr. Chandi Das Sinha, INTUC.

[5] The ex-gratia payment includes pay plus dearness allowance.

[6] This view was supported, apart from the Trade Unions, by Ruddar Datt. op. cit.

Retraining of employees

10. A vast proportion of funds in the NRF has been spent on VRS with very little going into retraining the employees.[1] One of the TU representatives even went to the extent of saying that "they have not trained 500 people to date. There is no redeployment."[2] Another said, "Retraining is a farce".[3] Very little is spent on retraining exercises.[4] It is a matter of serious concern that TUs are not convinced of the industrial training capabilities of the institutions that have been assigned the task.[5] Adequate provision needs to be earmarked in the NRF for purposes of retraining and redeployment. Retraining has to be provided while the worker was still at his job and not after he had been retrenched. Similar should be the case with redeployment.

11. Priority should be given for creating employment opportunities instead of downsizing public enterprises. First and foremost is to find ways to revive sick PSEs instead of concentrating on VRS. A revolving fund for the revival of sick industries should be created. The fund could be generated through disinvestment by LIC, UTI, GIC, etc. in private sector companies.[6] The fund could take the form of share capital in a corporation meant for the revival of sick industries. It was pointed out that the institutions often pump money to revive the stock markets yet the market continues to be a bottomless pit. Instead of referring sick PSEs to the BIFR, which is not taking any decisions,[7] an attempt should be made to handover the units to workers to be run as co-operatives.

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[1] In 1992-93 almost the entire sum allocated to NRF, was spent on VRS (Maniben Kara Institute, 1994: 15). It is important to note that a similar view was expressed by the Committee on Public Undertakings. The Committee said: '... the trend so far has been to expend major chunk of the amount on VRS which is not in keeping with the original concept of setting up of the Fund". COPU Report (1998-99), op. cit., p. 4.

[2] Mr. Raj Kishan Bhagat, Member Executive Committee, Bharatiya Mazdoor Sangh.

[3] Mr. Tapan Sen, CITU.

[4] The Government indeed admitted that "(D)ue to financial constraints sufficient funds have not been available for various schemes envisaged under the NRF resolution." They, however, tried to explain the low expenditure on retraining by saying that expenditure on VRS would be high as the cost of VRS per employee is approximately Rs. 0.2 million while the cost of retraining is about Rs. 8,000 per employee. See: Lok Sabha Secretariat, Committee on Public Undertakings (1998-99) First Report, p.41.

[5] For instance, it was pointed out that "(T)he needed infrastructure, the methodologies relevant to the older retrenched workers and the institutional material required just do not seem to be available". See: Ashok Chandra, op. cit.

[6] Interestingly, COPU (1998-99) in response to the government's reply that investments in PSEs are made on their commercial consideration, reminded the government that:

> *... the responsibility for rehabilitation of existing PSUs, irrespective of whether they are in the infrastructural or in the non-infrastructural areas rests with the Government ... it would be unfair to hold a view that investments should not be made even for revival of a sick PSU just because it is in the non-core or non-infrastructural sector. See: COPU (1998-99), First Report, p. 5.*

[7] With regard to the treatment meted out to the sick PSEs, COPU (1997-98) categorically stated that:

> *Other than introducing the legislative measure for referring the sick PSUs to BIFR, no major initiatives have been taken by Government to cope with sickness in the public sector. See: Lok Sabha Secretariat, Committee on Public Undertakings (1997-98), Sickness in Public Undertakings, Eleventh Report, p. 80.*

12. TUs highlighted the plight of employees of sick PSEs such as Hindustan Steelworks Construction Limited, Cement Corporation, National Project Construction Corporation, Indian Drugs and Pharmaceuticals Limited and Tannery and Footwear Corporation of India, who have not been getting their salaries regularly. Restoration of budgetary support, they say, is inevitable if regular payment of salaries has to be ensured.[1]

Contract labour

13. TUs had some very revealing things to say about reduction in public enterprise employment. While the number of workers in PSEs are being reduced, the reduction does not mean that the work is being done by a reduced workforce, but that part of the work is being done by casual and contract labour. Privatization is thus leading to exploitation as regular jobs are getting converted into low paid jobs depriving the workers social security and other essential benefits like housing, medical and children's education.

14. TUs assure that they are prepared to extend full support. Unfortunately, they say, this can be done only if they are involved in the ongoing processes in a meaningful and sincere manner.

[1] Significantly, Annual Report of the Ministry of Industry informs that the improved compensation package announced by the Minister of Finance in the 1998-99 budget for those seeking VRS from sick companies was still being worked out at the end of the year. See: India, Ministry of Industry, Annual Report: 1998-99, p. 178.

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