Directorate of Distance Education

UNIVERSITY OF JAMMU

JAMMU

STUDY MATERIAL

For

M.A. ECONOMICS

SEMESTER IV | **LESSON No. 1-19**
COURSE NO. 566 | **UNIT I-IV**

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DETAILED SYLLABUS

Semester : IV	**Title : INDIAN INDUSTRY**
Credits : 4	**Maximum Marks : 100**
Course No. : 566	**(a) Semester Examinations : 80**
Duration of Examinations : 2.30 Hours	**(b) Internal Assessment : 20**

INDIAN INDUSTRY

Preamble :

In the present Competitive and Industry has to play an important note in economic development. This course is design to make students understand the industrial policy of India, the industrial development pattern in India. Industrial finance, industrial labour and current problems of Indian industry. Globalization and its implication for we Indian industry.

UNIT-I : INDIAN INDUSTRIAL GROWTH AND PATTERN

Classification of Industries, meaning of Industrial policy, Industrial policy of 1948 1956 1977, 1985, 1991. Industrial development patterns before 1951-91 and its impact upon, corporate sector development, foreign investment and collaborations. Industrial development pattern after 1991 and its impact upon corporate sector, collaboration and foreign investment, Issues in industrial proliferation.

UNIT-II : INDUSTRIAL FINANCE

The need for finance, types of finance, sources of finance – owned and external funds, choice of funding, internal Vs external sources. Role nature, volume and types of institutional finance – IDBI, IFCI, SFC, ICICI. Financial statement – Ralance sheet, profit and loss account Assessment of financial soundness of a firm through ratio analysis.

UNIT-III : INDUSTRIAL LABOUR

Rrowth of industrial labour force, Employment dimensions of Indian industry, industrial relations, definition of industrial relations, objectives of industrial relations, evolution of industrial relations after independence, Rocial security for labour in India, critical assessment of social securiy measures in India Industrial legislation, Cages and profit of bonus, issues in labour market reforms.

UNIT-IV : CURRENT PROBLEMS OF SELECTED INDUSTRIES

Iron and steel Industry, cotton textile cement. Automobile industry, & electronics industry, industrial development of backbward areas-challenges, opportunities & suggested measures, industrial sickness, government policy with regard to industrial sickness in India. Development of cottage & small scale industry in India. Implications of the global change on industrial development, the challenges facing India.

NOTE FOR PAPER SEETING :

I here shall be two questions in each unit – four short answer type (each of 250 words) and two medium answer type (each of 500 words). The candidate will have to attempt two short answer type questions and one medium answer type question from each unit. Each short answer type question shall carry 4 marks and each medium answer type question shall carry 12 marks.

Basic Reading List

1. Paul R. Ferguson & Glenys J. Ferguson. Industrial Economics Issues & Perspectives.

CONTENTS

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COURSE NO. 566 **LESSON No. 1**
SEMESTER-IV **UNIT-I**

CLASSIFICATION OF INDUSTRIES

Chapter Outlines

1.1 INTRODUCTION

Classification of industries is necessary for measuring the contribution of all economic activities. So, In this lesson we will focus on the classification of industries in different categories.

1.2 OBJECTIVES

The objective of this lesson is to make the students understand the categorization of industries on the basis of size, inputs, output use and on the basic of owner ship so that they may easily classify and differentiate various industries.

1.3 CLASSIFICATION OF INDUSTRIES

Classification means arrangement of anything in classes. By Industrial classification, we mean the general difference between one industry and the other measured according to the nature of the product, number of employees, value of capital involved, nature of raw material etc. In simple words it is the categorization of Industries.

In any economy, GDP constitutes the contribution of P + S + T. For measuring the contribution of all economic activities some statistical system and measures are required. Such measurement would provide comparable estimates overtime between different regions, state and sectors will allow to take corrective measure to achieve the goal of maximum benefit to the entire society.

The official data has to be collected and presented according to the classification, designed to facilities their uses for national and international comparisons.

In 1923, the issue of standardization of Industrial classification conference of labour statisticians recommended the classification of economic activities under three broad categories:

1. Primary sector based on agriculture and mining.
2. Secondary sector including manufacturing and construction.
3. Tertiary sector including services, Transport, commerce, Hotel services, administration.

The International Standard of Industrial Classification (ISIC) was used both nationally and internationally in classifying activities to the kind of economic activities in various fields.

In the use of ISIC the experience gained over time revealed the need for periodic review of the structure and definition of its categories and the underlying principles because economic activities. New type of economic activities becomes important.

The UN statistical commission undertook a review and revision of ISIC in 1956, 1965 and again in 1979 and recently (2005). With the frame work of ISIC some attempts were made to classify the Indian Industries. The central Statistical organization is responsible for setting up statistical standards and took up the task of evolving National Industrial classification in early 1960 and invited suggestions from various concerned agencies of Government of India. It was revised in 1962, 1970, and CSO finalized the revised of NIC 1970 in 1987, and then revised in 1998. Recently it was revised in 2005.

National Sample survey organization provides data for both organized and unorganized sectors. ASI covers only organized sector (Registered Manufacturing units).

Classification of Industries by CSO

Aggregate : At one digit level

Group: At two digit level

Subgroup: At three digital level

Subdivision of subgroups: At four digit level

Then At firm level- micro level

The industrial sector of the country presents a wide spectrum. The various industries can be grouped into different categories on the basic of size, ownership, use of output, input etc.

1.3.1. On the basis of size of capital Investment

On the basis of size of capital invested industries may be classified into small, medium and large scale industries.

Small Scale industries are generally located in urban centers employing 50 workers with power and 100 workers without power. SSI can further be classified as:

a. Traditional

b. Modern

Traditional SSI's Include Khadi, handloom, cor handicrafts, sericulture etc.

Modern SSI's produces a wide range of products comparatively from simple items (power looms) to sophisiticated ones such as TV, Engineering products etc. We may also include the tiny and ancillary units in it.

Table below indicates it clearly:

Capital Investment in Plant and Machinery

	SSI	Ancillary	Tiny
1975	10 lakh	15 lakh	1 lakh
1980	15 lakh	20 lakh	1 lakh
1985	35 lakh	45 lakh	2 lakh
1990	60 lakh	75 lakh	5lakh

On the basis of Abid Hussan's Committee Government raised this points.

1997	3 crores	3 crore	25 lakh
2000	1 crore	1 crore	25 lakh

On October 2, 2006 government of India formed Micro Small and Medium Enterprises Act (2006)

According to this Act, new classification is as under:

Manufacturing Sector (Enterprises)

Micro Enterprises:	Investment not exceeding 25 lakh
Small Enterprises:	Investment lies between 25 lakh to 5 crores
Medium Enterprises:	Investment limit falls between 5 crores to 10 crores

Service Sector/Enterprises

Micro Enterprises:	Investment does not exceed 10 lakh
Small Enterprises:	Investment lies between 10 lakh to 2 crores
Medium Enterprises:	Investment limit falls between 2 crores to 5 crores

There are no clear definitions of medium and large scale units. Medium scale units are those where investment in plant and machineries lies between 1 to 10 crores, 50 % or more of total output is meant for mother unit.

Large scale units are those where investment limit raises beyond 10 crores.

1.3.2 Use Based Classification

On the basis of the nature of the outputs, its use industries are classified into the following categories.

1. **Basic Industries** are those industries which provide essential inputs for the development of other industries and economy. In other word words, these are industries which provide bases for development of other industries.

   For example, the Iron and Steel Industry forms the basis for the development of the engineering industry. Fertilizer is regarded as a basic input for the agriculture, coal, oil and electricity are also regarded as basic industries because growth of modern industry depends on the supply of these vital inputs.

2. **Capital Goods Industries** are those industries which produce machinery, equipment or tools. A capital good is one which is instrumental in producing other goods or serves any consumption requirement. They are used to produce consumer goods and services. The capital goods industries are capital intensives in nature i.e they require heavy capital investment. E.g. hand tools, heavy electrical equipments, electric motor, heavy vehicles.

3. **Intermediate Goods** are those goods which have already undergone manufacturing process but which form inputs for other industries as material for further processing, part or component. e.g. Cotton spinning, jute textiles, Dyestuffs, petroleum refinery product etc.

4. **Consumer goods Industries** are those industries the output of which is required for the final consumption. The consumer goods may be broadly classified into consumer durables and consumer non-durables.

Consumer non durables are those goods which are used up at once or within a relatively short period like food stuffs, cigarette, soap, bulb etc.

Consumer durables, on the other hand serve the consumers over a relatively long period like car, bicycle, electric fan, TV etc. A distinguishing characteristic of consumer durables is that their life or service may be extended by repairs.

1.3.3 Input Based Classification

On the basis of the nature of source of major input, industries may be classified into following categories.

- → An agro industry is one which uses agricultural product as the major input, like the sugar jute textiles and cotton textiles industries.
- → Similarly forest based industries are those which use forest products as their major inputs like the plywood industry, paper industry etc.
- → Industries which depend mostly on marine products like fish are generally regarded as marine based industries.
- → Metal based industries are those industries which are based on metals like the engineering industries.
- → Industries like fertilizers, pesticides, paints and vanishes, dyestuffs drugs and medicines are regarded as chemical based industries as chemicals are their major or basic inputs.

1.3.4 Proprietary Based Classification

On the basis of the nature of a ownership industries undertaking are grouped under public, private, joint and cooperative sectors.

1.4 SUMMARY

In order to measure the contribution of all economic activities, classification of industries is quite important. We have found in the lesson that categorization of industries on the basis of size, input output, use and on the basis of ownership.

Keywords: GDP, Capital, Handloom, Enterprise, Investment, marines, Proprietary, Joint Stock, Partnership.

1.5 SHORT ANSWER TYPE QUESTIONS

Q1. What do you means by small enterprises according to MSMED Act 2006?

Ans. It is the Unit/enterprise where investment in plant and machinery falls between 25 lakhs to 5 crores.

Q2. What are consumer durables?

Ans. Consumer durables serves the consumers over a relatively long period like care, bicycle, TV etc.

1.6 EXAMINATION ORIENTED QUESTIONS

1. Explain in detail the classification of Industries.
2. Classify industries on the basic of size of capital investment.
3. Discuss the classification of industries on the basis of ownership.

Suggested Readings

1. Barthwall, R.R Industrial Economics, New Age International Publication Ltd, New Delhi.
2. Frencis Cherunilam, Industrial Economics.

M.A. ECONOMICS

COURSE NO. 566	**LESSON No. 2**
SEMESTER-IV	**UNIT-I**

MEANING OF INDUSTRIAL POLICY

Chapter Outlines

2.1 INTRODUCTION

Industrial development of a country is guided and fostered by the industrial Policy. In the present lesson we will discuss the Industrial policies right from 1948 to 1991 in India.

2.2 OBJECTIVES

The objective of this lesson is very wide and comprehensive. In this lesson a possible attempt has been made to appraise the students with industrial policy resolutions in India as Industrial policy would reflect the pattern and direction of industrial development. We will discuss the Industrial Policy of 1948, 1956, 1977, 1985 and New Industrial Policy of 1990.

2.3 MEANING OF INDUSTRIAL POLICY

By 'Industrial Policy' is meant all those objectives, principles, rules, regulation and procedures concerning the pattern of industrial development, rate of growth of industries, ownership pattern of industries, location and functioning of industrial establishment in the country.

The industrial policy would reflect the direction and pattern of industrial development the country desires to have to help realize the economic social and political objectives of national development by means of industrialization. Thus, the industrial development of a country will be guided and forested by the industrial policy. The industrial policy would indicate the respective roles of public, private, joint and co-operative sectors and also of the large, medium and small scale sectors and will underline the national properties and their future development.

Thus, the concepts of industrial policy are compressive and it covers all those procedures principles, policies, rules and regulations which control the industrial undertaking of a country and shape the pattern of industrialization. It incorporates fiscal and monetary policies, the Tariff policy, labour policy and government attitude not only towards external assistance. But the public and private sectors also.

2.4 OVERALL FRAME WORK OF INDIA'S INDUSTRIAL POLICY

During the pre independence days, India hardly had its own Industrial Policy in the above sense. It was only after the country become independent and sovereign in 1947 that we notice a systematic evolution of comprehensive "Industrial Policy" for the country as a whole.

Industrial Policy of independent India has to work within the broader framework of India's Constitution and her Five Year Plans. It is in accordance with the plan objective and properties that decision regarding starting of new industries or expansion of old ones, regarding investment and location of industries, fixation of targets etc all come to taken up. This only means that Industrial policy has to help the attainment of Plan objectives and is a part and parcel of the overall economic policy which the government has decided to adopt.

The objectives of the Industrial Policy that got evolved since 1997 to the present day may be said to be as :

1. To bring about rapid economic development of the country by accelerating the growth of industries and industrialization of the country.
2. To provide increasing opportunities for gainful employment and skill formation.
3. To help establish the goal of socialist pattern of society as accepted by the Indian Parliament in December 1954.
4. To bring about the expansion of the public sector as a dominant sector of Indian economy.
5. To prevent under concentration of economic power and industrial monopolies in the private Sector.
6. To bring about reduction in regional disparities by establishing public sector industries in economically backward regions of the country.

7. To bring about development of basic and heavy industries with a view to reduce dependence of the country on foreign countries such as defence production, heavy chemical metal etc to make the country self relevant.
8. To give encouragement to small scales cottages village a rural industries, handicrafts and cooperatives sector of the Indian Economy.
9. To take steps to promote export of industrial goods so that India can have its due share in would port band.

2.5 INDUSTRIAL POLICIES IN INDIA

Indian hardly had a comprehensive and well thought out Industrial Policy as such before the country become Independent.

It was only after Indian become independent in 1947 that the Government thought of definite Industrial policy as such. At this stage industrial policy came to be evolved against the background of post world war II, Inflation in the country and abroad, worsening inflation conditions in India immediately after the end of the world war II in 1945, general scarcity of all types of manufactured goods, and increasing population in the country.

After Independence, the Government of India spelt out its approach to the development of the industrial sector in the Industrial Policy Resolution, 1948. This was followed by industrial Policy Resolution 1956. In between, the Government introduced the Industries Development and Regulation Act, 1951 to regulate and the development and controls the functioning of industries by licensing and other means.

In 1969, MRTP act, (Monopolies and Restrictive Trade Practices Act) was adopted to prevent concentration of economic power and control monopolies. Industrial licensing Policy was announced by in 1970.

Another legislation that had considerable implications for Industrial policy was the foreign exchange Regulation Act adopted in 1973 to regulate the growth of large house by companies' expression.

The industrial Fabrication was totally, dismantled on the eve of independence.

Against this back ground, the government of India since independence has embarked upon and prorogated several industrial policy resolutions to achieve the targeted growth and development. The industrial policy resolutions was mainly the outcome of industrial philosophy influenced by the Country's environment and the process of implementation. The principles, programme, policy, planning and the people have to be Consider environment putting them into practice. The Industrial Policy Resolution aim at implementing promotional, regulatory and stabilizing roles of the Government. While preparing the industrial policy Government has to keep in mind the obligation of socio economic development of the population, the development of technologies in the world and its impact on domestic scenario. So, in order to improve the tempo of economic development, it has become absolutely necessary for the country to declare and implement the industrial policy, Resolutions.

2.6 INDUSTRIAL POLICY RESOLUTION –1948

To regulate the performance and development of industries in the country, the government of India from time to time has set out the resolution indicating its policy. The industrial policy Resolution of 1948 was the first definite statement of the Government of India's industrial policy contemplated a mixed economy for the Country in which both public sector and private sector would play an important and effective role in the industrial sphere.

In this policy industries were classified under four parts, namely:-

a. **State Monopoly Industries:-** (In which arms and ammunitions, atomic energy and rail transport were included).

b. **Basic and Key Industries of National Importance:-** (Included six basic industries such as ship building, manufacture of telephone, telegraph and wireless apparatus, iron and steel, coal, aircraft manufacture and mineral oils). In the case of above industries, new undertaking was to be done only by the Government.

c. **Private Sector Industries Subject to Government control:-** (Included automobile, heavy chemicals, heavy machinery, machine tools, fertilizers, salt, tractors power and industrial alcohol, Cotton and woolen textiles, cement, sugar, paper and newsprint, sea and air transport, electricity etc).

d. **Completely Private Sector Industries:-** (These industries were open to Private enterprise, individual as well as Cooperative, but on these industries Government was to have General Control).

The industrial policy Resolution of 1948 laid down some guidelines for small-scale and cottage industries, industrial labour and foreign capital also.

It was obvious that the Resolution of 1948 tried to give a definite direction to the process of industrialization in India, but it was rather a tentative policy formulated and announced to clarify the state's industrial policy in the prevailing uncertain condition, which did not receive the expected support as it suffered from certain inherent limitations. The concept of nationalization enshrined in the resolutions discouraged the investors to new industries creating lack of enthusiasm and Promotion.

The period set for nationalization of private sector units after ten years created confusion and pessimism in the investing public. Most of key and basic industries that were hitherto in the private sector were transferred to Government sector and as, such the result of the policy was one of lack of enthusiasm and diffidence. "Dr V.K.R.V Rao very rightly pointed out that this policy could not satisfy any one among capitalists, investors, industrial labourers and the common people".

2.7 INDUSTRIAL POLICY RESOLUTION 1956

After the adoption of the Industrial policy Resolution of 1948, a number of development had taken place in the Country. The economic planning era had commenced in the Country by 1950 and the first five year plan (1951-1952 to 1955-56) had been completed with a fair amount of success. In the light of socialistic pattern of society as the goal for the Country, A more definite and clear cut industrial policy, based on the 1948 resolution, was announced in 1956 on the eve of the launching of the Second five years plan (1956-61). The industrial policy resolution of 1956 called by, some as the economic constitution of India.

To fulfill the objective of planned and rapid development, the resolution classified all the industries into three categories. These categories bear a close resemblance to the earlier classification but were more sharply defined and were broader in coverage as to the role of the state.

1. In schedule A, there were 17 industries included, inter alia, arms and ammunition, atomic energy, iron and steel, heavy electricals, coals, mineral oils, air transport, railways, generation and distribution of electricity, ship building etc. All these industries were reserved for exclusive development in the public sector.

2. In schedule B, those industries were included which were to be progressively owned by the Government and in which the Government would generally Set up new enterprises. However, private sector was expected to supplement the efforts of the Government. This list included 12 industries, the leading ones being aluminum, machine tools, fertilizers, road transport & sea transport etc.

3. Schedule C, Contained the rest of the industries which were left to the care of the private sector but under the general control of the Government.

In this policy there was a provision to adopt an integrated policy for the growth and development of large, cottage and small scale industries. The expansion of cottage and small scale industries was to be done by adopting the policy of reservation of certain goods for the production by these units, concession in certain taxes and providing direct grants. There was a provision to increase the competitive power of these industries through modernization and adoption of improved production techniques by the Government. The policy proposed reduction in regional imbalances through provision of infrastructure facilities (transport, power etc) in relatively backward areas of the country. Only by securing a balanced and coordinator development, of the industrial and the agriculture economy in each region, can the entire Country attain higher standards of living. The 1956 Resolution stressed the participation of labour in management and stressed and improvement in their working Conditions for increasing the working capacity of labour forces was emphasized. Public sector enterprises were expected to work as a guide in the progress of Iabours. In this policy there was a provision to develop financial institutions and economic infrastructural facilities such as, the development of transport and power sector financing and other incentives for the development of the private sector. Among special industries where both private and public type of entrepreneurship was operative, there was a provision for the Government to deal properly and non-discriminately with the private sector. The role of foreign capital and enterprise was recognized.

This policy was even not free from criticism through it had widespread appreciation for its socio—economic objectives. In respect of this policy it was pointed out that the expansion of public sector was unnecessarily emphasized. The Resolution stated clearly the inherent right of the state to acquire any industrial undertaking, expressed doubts in the ability of the private sector, by itself, to bring about fast economic development. The private sector was guaranteed enough opportunities for development. In fact, later development should that advantage was taken of several loopholes and licenses were obtained and private industrial units came to be set up in those industries which in fact to be the domain of the public sector. There is no doubt that the industrial policy resolution of 1956 has had a great and along lasting impact and influence both favourable and unfavorable on India's industrial expansion and its structure. However policy enjoyed its supremacy for more than 20 years.

2.8 THE INDUSTRIAL POLICY RESOLUTION 1973

On the basis of industrial policy of 1956 the Government of India announced a new Industrial policy on February 2, 1973. The policy prepared a consolidated list of industry groups Included a basic, critical, strategic industries and had direct linkage with the core industries with a long term export potential public sector was used to increase the capacity of consumer goods industries. Cement, paper, pharmaceuticals and textile industries were put under public sector.

The main feature of this policy was the creation of joint sector, in which both the public and private sector took an active part in the direction and control under joint sector was, medium scale industries and priority industries were established.

The joint sector was established in order to restrict monopoly practices. Big industrial houses which had assets worth more than 20 cores, were not allowed to participate in joint sector. They were rather allowed to participate in the core industries. There were 19 industries in the list of resolution of 1973. The development of small scale industries was given significant importance in this policy. The policy of product reservation for the expansion of small scale industry continued but there was a provision for the expansion of the reserved area on the basis of potentialities and performance of small sector industries. By this policy, the Government might fulfill the objective of more production. But the other objectives were subordinate ones. The policy did not make any effort for recognizing the place of joint sector. The concept of joint sector was not clearly demarcated. One of the important faults of this policy was, it opened the wider fields of the country to foreign concern. The policy was completely silent about the setting up of industries by large houses in backward areas.

2.9 INDUSTRIAL POLICY RESOLUTION 1977

The Janata Party, which came to power in 1977 declared an Industrial Policy statement embodying proposals directed towards removing distortions of the past so that the genuine aspirations of the people can be met within a time bound programme of economic development. This policy laid special stress on the promotion of cottage and small scale industries. The Janata Government classified small scale industries into, cottage and household industries, Tiny industries sector involving investment in industrial units in machinery and equipment upto Rs 1 lakh and situated in towns with a population of less than 50,000 and small scale industries comprising industrial units with investment in fixed capital up to Rs l0 lakhs and in case of ancillaries up to Rs 15 lakhs. Government also suggested some measures to stimulate development of small scale and cottage industries like, the products reserved for small scale industries were increased from 180 to 807 by May 1978. In each district, a District Industries Centre (DlC) was to be set up to provide all services and support required by the small scale and village industries. A special wing of the IDBI was created to look after the credit needs of small and cottage industries. It proposed revamping of khadi and village industries commission, to enlarge its area of operation. Since large industrial houses were expanding their business activities with the help of fund from public sector financial institutions. It was decided that they would have to depend on their own internally generated resources. The funds of public sector were used for the small sector. The role of public sector has also expanded by specifying that the public sector has to produce not only strategic and basic nature goods but also essential consumer goods. The policy resolution of 1977 was more or less an extension of 1956 policy statement having a thrust on removal of distortions. The thrust on removal of the policy was the promotion of small scale industries, for which number of measures were suggested by the Janata Government. All these measures were already listed in the Industrial policy of 1956. The only radical thing which the policy of 1977 did was to expand the list of 180 items listed earlier to 807 items. The Janata's Industrial Policy, failed to improve a ban on multinationals or large scale industries to produce ordinary items tike bread, biscuits, toffees, footwear, leather products etc, which should have legitimately reserved for the small sector. As the policy, resolution denied the large scale industries for funds from the public sector financial institution and asked them to depend upon their own internally generated resources it retarded their progress and growth. Thus, the policy resolution was lacking dynamism in many respects.

2.10 INDUSTRIAL POLICY RESOLUTION 1980

The Congress (l) Government announced its industrial policy in July 1980. In the root of industrial policy, 1980 the industrial policy resolution of 1956 were existing. The 1980 statement accepted that there has been an erosion of faith in the public sector in recent years due to its mounting losses, delays in construction works, faulty controls etc. For this purpose, Government decided to launch a drive to revive the efficiency of public sector undertakings. In order to boost the development of small scale industries, Government decided, to increase the limit of investment in the case of tiny units from Rs 1 lakh to Rs 2 lakhs, for small scale industries from Rs 10 lakhs to 20 lakhs and for ancillaries from Rs 15 lakhs to Rs 25 lakhs. In industrially backward regions the nucleus plants were to be established so that in those regions subsidiary, and cottage and small scale industries could be developed substantially. In many large scale units, the installed capacities exceeds the licensed capacities. The policy proposed to regularize such excess capacity on a selective basis in the case of industries of national importance and those producing mass consumption good. The facility of automatic expansion was also extended by the policy of 1980 to other industries specified in the first schedule of the 1951 IDR Act. (non- ferrous metals, paper, drugs, fertilizers, cement, transport equipment etc.). The policy showed concern for the increasing industrial sickness and proposed the devising of an early warning system to identify incipient sickness. It was proposed to grant income-tax concessions more liberally in cases of voluntary mergers of sick and healthy units to encourage the revival of sick units. Government was to take over sick units only as a last resort, where methods of revival were not possible.

The results of this policy were not praise worthy. The speed was not realized in the development of backward classes. The industries were not set up at propel place so that backward regions could benefit. The move to regularize installed productive capacity in excess of licensed capacity in the case of several industries as well as provision in regard to automatic expansion in future meant additional production of some essential goods at minimum possible cost. But this measure also meant that those industrial units which had illegally, exceeded the limit of licensed capacity benefited while those units which strictly adhered to the licensed limit were in a sense the losers.

To sum up, the industrial Policy (1980) was guided merely by considerations of growth. The policy concentrated more on large scale Industries and capital intensive path of development.

2.11 INDUSTRIAL POLICY RESOLUTION 1985

The Industrial policy resolution of l985 was mainly a modification of the industrial policy, resolution of 1980. In this modification on the Government attempted to remove the obstacles emerging in the way of industrial development and creating more appropriate environment for industrial development. In this resolution modification were made regarding the capacity re-endorsement of the industries, freedom from licensing to industries, efforts for the development of industries and enforcement of the programmes for technology improvement. To improve the utilization capacity of the industries the Government of India announced a scheme of capacity re-endorsement at the end of 1985, under which all such industries were provided the facility, of re-endorsement which had attained 80 percent production of their licensed capacity, during any of the previous 5 years prior to march 1985 plus one- third of the future annual production. Those industries whose production was more than the re-endorsement capacity were entitled more re-endorsement capacity, in subsequent years. This facility was provided to those industries which were out of the purview, of MRTP and FERA. Those manufacture goods were not reserved for small scale industries and the industries must not be located within specified urban localities. In June 1985, 82 bulk drugs and related drugs formulation industries were delicensed. In December 1985 delicensing was extended to MRTP and FERA companies for 22 out of the 27 industries exempted from sections 21 and 22 of the MRTP Act in may 1985, provided that such undertakings were located in centrally declared backward area. This was done with the objective of promoting industrialization in backward areas. With the same purposes in view, the conditions, permitting MRTP and FERA companies to establish non-Appendix-I or (non-scheduled-l) industries in backward districts have been liberalized. Under this policy FERA and MRTP companies were allowed to produce goods, if the goods were mainly export oriented than there export share should be equal to 60 percent and if goods were reserved for small scale industries than there export share should be equal to 7 5 percent. This was applicable for the industries which were not included in schedule-l industries. In this policy the Government of India declared the policy of broad-banding for larger industries which were within the purview of industrial licensing. This concept was introduced in a large number of items like, paper and paper pulp, two-wheelers, chemical, pharmaceutical etc. By the end of 1986 about 28 industry groups were included in it. This scheme was launched in order to diversity the products of the industries and improvements in capacity utilization. This policy was mainly a proceeding towards industrialization and modernization.

From the above discussion, it is very much clear that the policy of 1985 brought out various important changes in the industrial sector and economy of the country. It raised the investment limits for the small scale sector and provided fiscal incentives for growth. By introducing the concept of the Boarding banding it enabled the manufactures to produces a range of production and gave more flexibility. One of the important initiative taken by the policy as deli censing of MRTP and FERA companies. This made the companies to establish industrial units in the backward areas without any separate clearance are resections. Delicensing helped in promoting backward regions and speed development. It also expended the role of large houses/enterprises by broadening the list of industries open to MRTP houses. By introducing the scheme of re endorsement it made the industries to improve their capacity, utilization, which further helped the industries to improve their level of production and became more technically strong and competitive. In short policy has opened up a new era with liberalization which stressed the importance of higher productivity and Competitiveness both in the home market and the export market. Inspite of favourable trends, the policy suffered from certain loopholes. One of the important loophole of the policy was that the items strictly reserved for small scale units were made open to large scale industries due to which development of small units hunted badly. But without any doubts the policy has made a remarkable impact on the industrial sector of the country.

2.12 INDUSTRIAL POLICY RESOLUTION 1991

Keeping in view the need of the our growing economy and the loopholes of the previous policies the industrial policy resolution of 1990 was presented to parliament by the then industrial minister Shri Ajit Singh on May 1990.

The policy of 1990 announced various measures for the promotion of small scale and agro based industries. It increased the investment ceiling for small scale units from Rs 35 lakhs to 60 lakhs, for ancillary, units from Rs.45 lakhs to 75 lakhs and tor tiny units from Rs 2 lakhs to 5 lakhs. The investment ceiling of small scale units was further raised to Rs 75 lakhs, when they export 30 percent or more of their output by the third year of establishment. To ensure adequate and timely flow of credit for the small scale industries, a new apex bank known as small industrial development bank of India (SIDBI) was established. Policy also reduced various bureaucratic controls and other procedural requirement for the establishment of new small scale units. In order to assist the large number of artisans engaged in the rural and cottage industries the activities of the KVIC (Khadi Village Industries Commission) and KVI boards (Khadi Village Industries boards) had expended. Timely credit facilities and better technology for enhanced production were provided to them. To make the industry more competitive internationally, government took some important decisions like, deliciensing all new units up to an investment of Rs 25 Corers in non backward area and Rs 75 crores in centrally notified backward areas. The entrepreneurs were entitled to import capital goods up to the value of 30 percent of the total value of plant and machinery required for the unit. Import of raw materials and components, were allowed up to a landed value of 30 percent of the last year total value of annual production. Foreign collaborations were permitted (without any clearance from the government) on a condition that total royalty payment does not exceed five percent on domestic sales and eight percent on exports. In order to attract effective inflow of technology, investment up to 40 percent of equity was allowed on an automatic basis. 100 percent export oriented units (EOUS), and units to be set up in export processing zones (EPZs) were deliciensed upto Rs 75 crores investment in the policy. One of the most important feature of this policy, was location policy and environmental clearances for locating the unit.

Through the policy had opened the doors of the Indian economy to multinationals for maximum growth and progress in the international market But the policy was not dealt with any of the basic problem like industrial sickness public sector maladies and nonessential consumer goods. By raising the investment ceiling from the Rs 35 to 60 lakhs in small scale units the government had actually opened the reserved items for big industrialists. The policy has ignored the small sector industries and plants whose machinery does not exceed Rs 5 lakhs. In short the promotion of small scale and agro based industries remained an empty slogan as the policy was failed to safeguard the small scale sector against the encroachment by the large scale.

Since 1950, the Problem of economic development has been the subject of considerable thought and discussion among economists. Before independence, India had only the rudiments of an industrial structure dominated by consumer goods industries.

Legal Frameworks

The Indian Parliament enacted several legislations far regulation of industries in the desired way. The first and most comprehensive of them were the Industries Development and Regulation Act 1951. In line with the industrial Policy, Resolution of 1948, the constitution was amended and the industry Development and Regulation Act 1951 was enacted.

2.13 IDRA 1951 : (INDUSTRIAL DEVELOPMENT REGULATION ACT)

This Act provided the legislative framework for implementation of the industrial policy of the government, the framework for the licensing and regulation of industrial investment and related questions such as pricing and distribution controls in the country. The provisions of the act embraces the whole of India and all industrial undertakings manufacturing articles corning under first schedule were brought under the umbrella.

Objectives of IDRA 1951

i. The regulation of Industrial Investment and production according to plan priorities and targets.

ii. To ensure the establishment of new industrial capacities according to national priorities, balanced regional development etc.

In the initial stages 37 industries were brought under the purview of the Act which was later extended to include 70 industries. Industries operating with the aid of power and without the aid of power employing 50 or more workers and 100 or more workers respectively were brought under the purview of the Act. The Act was enshrined with 31 sections.

The Important provision of the Act were:

1. All the existing industrial undertakings in the scheduled industries were required to be registered whether they came under the private or the public sector.

2. No new industrial unit could be established or any substantial expansion

of the existing plants be made without prior procurement of a licence from the Central Government.

3. The government could order an investigation in respect of any scheduled industrial, or undertaking, if the working of a particular industrial unit was not satisfactory say, there was under utilization of capacity, there was market deterioration in quality or could of production and price were excessive.

4. lf the government felt that a particular industry was not being run satisfactory. It could issue directions for carrying out reforms. If these directions were not headed to the government could take over the management and control of that unit in its hands.

5. A Central Advisory Council was established in order to advise the government on matters concerning the development and regulation of the scheduled industries.

The Central Advisory Council was set up in 1952 and the licensing Committee for the scrutiny of applications for new units and expansion of capacity in the scheduled industries was constituted. In 1956 it was decided that the Act would be applicable to enterprises employing 50 or more workers without the aid of power or employing 100 or more workers without the aid of power. It was one of the saddest fact that in the beginning of Industrial Development Act 1951, the small scale industries were neglected and maximum packages were provided to large scale industries. But however, the IDRA exempted units employing less than 50 workers with power, and less than 100 workers without power from registration. This, exempted sector was known as Small Scale sector. It was stated that fixed capital investment in this sector should not exceed to Rs.5 lakh. But in 1966, the small scale enterprises were defined as undertakings with a fired capital investment of less than Rs. 7.5 lakhs. With this, the investment limit in this sector raised year after year from 7.5 to 10 in 1975, in 1980 (10 to 20 lakhs), in 1985 (20 to 35 lakhs) and up to 1990, it raised from 35 lakhs to Rs. 60 lakhs. In this way the Act extended the role and contribution of small scale industries in the industrial sector of the country. With the passage of time, more diversified and intensive measures were taken for its growth.

One of the important change took place in IDRA in 1960 was the exemption limit for fixed investment was raised from Rs.5 lakh to 10 lakhs and stated that the industrial units employing less than 100 workers and having fixed assets of less than Rs. 10 lakhs were not required to obtain any licence whatsoever. This exemption limit was raised to Rs. 25 lakhs in 1963 and to Rs. 1 crore in 1970. Again the exemption limit was raised to 3 crores in 1978 and later (in 1984) it was raised to 5 crores. The government announced a major package of industrial delicensing during the year 1988-89. In this package it was stated that, if the projects are located in backward areas with investment in fixed assets of more than Rs. 50 crore and if the projects are located in non-backward areas with investment in fixed assets more than 15 crores, industrial licences were required.

Thus, the Industries Regulation and Development Act of 1951 (IDRA) had been a mile-stone in the direction of promoting and regulating the industrial structure of the country. The government recognized it as a positive instrument for achieving planned industrialization; the business community has looked upon, it as a stumbling block in the way of rapid industrial growth. All over it was felt that the Industries development and Regulation Act 1951 had not served its purpose fully.

"Professor Hazari reviewed the working of industrial licensing and observed that : the large and medium business groups enjoyed a higher ratio of approval in licensing applications as compared to others. They followed the practice of multi applications for the same product and for wide variety of products. The impact of licensing on the pace and pattern of growth has been uneven and unrelated to priorities. For the purpose of sanctioning licences, first come first served basis was adopted. This procdure helped the big industrial houses to fore close capacity because they were in a better position to collect information relating to the timing of application and thus made themselves to stand first in the queue. Industrial licensing did not bring about balanced regional development. The most disappointed feature was the absence of follow up action once the licences were issued. The authorities concerned were not even aware of the total investment and foreign exchange commitments of licences issued. Thus, industrial licensing instead of an instrument of industrial development became an impediment"[2]

Following, the Hazari Report in parliament the Government of India appointed another committee in July 1967, known as Industrial Licensing Policy inquiring Committee to inquire into the working of the licensing system under the chairmanship of Mr. Subimal Dutt. Dutt Committee found that the four industrially, advanced states viz, Maharashtra, West Bengal, Gujarat and Tamil Nadu were able to acquire 62 percent of the total license issued. Obviously, the licensing system was unable to help the industrially backward areas or states.

One of the saddest features of licensing was foreign collaboration even in non-essential consumer goods like ball pen, loud speakers, toilet soap, sewing thread, refrigerators etc. “One of the most strange picture of Licensing policy was about 73 large industrial houses received 44 percent of financial assistance from financing institutions and 20 larger houses received 17 percent of financial assistance where as public sector companies received only 9 percent during the period 1955 to 1966. Even the public sector investment institutions like the LIC and Unit Trust of India did not provide any assistance to the public sector But to the large industrial Sector”. Thus from above it is clear that the Industrial Licensing system tailed to achieve the objective of planned economic development as well as of preventing concentration of economic power. It was proved to be a negative instrument which helped the large house in achieving their ends and means in a number of ways. As the policy was failed to channelize the industrial sector in a desired manner and operated in accordance with plan priorities it has been reviewed and modified by official bodies from time to time with a view to streamline and simplify it.

2.14 MRTP (MONOPOLIES AND RESTRICTIVE TRADE PRACTICES ACT 1969)

Under the Industrial Policy resolution, 1948 the government accepted the concept of mixed economy for India with clearly defined roles for both public and private sectors. One important aspect of the development of the private sector since independence has been the spectacular rise of a few large enterprises in the country. These large enterprises operated under conditions of virtual monopoly and oligopoly. Taking advantage of the absence of foreign competition and sheltered market, they influenced government policies to their own advantage and secured favourable foreign collaboration agreements. They try to dominate the market with their pricing policies thereby leading to concentration of economic power. Thus, with a view to increase the productivity, to meet the challenges of competitive market at the national and international level to check the concentration of economic power the MRTP Act was enacted (in 1969).

This was another piece of legal framework regulating industrial activities in India. The main aim of MRTP Act was to discourage and eliminate the concentrations of economic power.

The objectives of the MRTP Act were:-

a) To ensure the functioning of the economic system does not result in the concentration of economic power to the common detriment;

b) To control such monopolistic and restrictive trade practices as were injurious to the public welfare. The MRTP Act Covers the whole of India except the state of Jammu and Kashmir. The Act contains the following provisions, which describes its scope –Under the Act, a three man MRTP commission was set up. The Commission was empowered to inquire into any restrictive trade practice and monopolistic practices; the Commission was having an advisory status. In relation to restrictive trade practices it had power of enforcement. The act applies to:-

i. An undertaking which together with its interring connected undertakings owned assets worth more than Rs 100 crore (prior to 1985, the limit was Rs. 20 crores).

ii. A dominant undertaking, whose value of assets was not less than 3 crores (in 1970), This limit was Rs. 1 Crore).

iii. And an undertaking which either on its own or along with inter connected undertakings supplies at least one third (after 1985 it became one fourth) of any goods or services with in India as a whole or substantial part thereof. The Act defines a Monopolistic undertaking as any dominant undertaking which by itself or together with not more than two other independent undertakings, supplies or distributes or otherwise Controls not less than one-half of the total goods or services. The Act stated that large business houses and dominant undertakings must seek government's permission for substantial expansion, for starting a new undertaking, amalgamation, merger, takeover and appointment of directors under certain circumstances. Control over and prohibition of monopolistic and restrictive trade practices were found to be prejudicial to public interest. The Act made a distinction between monopolistic practice and restrictive trade practices. "Monopolistic trade practices refers to the, dominant firm practices whereby, they are able to control the market by regulating prices or output or eliminating competition. These practices raise the costs, prices or profits unreasonably lower quality or unduly restrict competition and are deemed to be prejudicial to public interest". The term 'restrictive practice implies" practices other than those pursued by monopolists which obstruct the free play of competitive forces or impede the free flow, of capital or resources into the stream of production or of the finished goods in the stream of distribution at any point before they reach the hands of the ultimate consumer".

The MRTP Act provided certain guidelines regarding the judgment of public interest. These includes

a) Production, distribution and supply by most efficient and economic means,

b) ensuring that efficiency is progressively increased,

c) encouraging new enterprises as a countervailing force and;

d) a reduction in inter –regional disparities.

Keeping in view the objectives and guidelines of MRTP, the Act did not fully take account of then and certain loopholes and limitations prevailed, So far its implementation was concerned, though the Government of India adopted it to reduce the concentration of economic power but it did not act effectively. The Sachar Committee was appointed in 1977 to review the working of the MRTP Act and made recommendations for streamlining it. The Government introduced the first amendment to the MRTP in November 1982 and the second amendment in August 1981. The first amendment was introduced to meet the urgent need to step up export earnings and to encourage exports and remove re constraints in achieving high productivity and output. In 1982s amendment, two important changes were introduced –firstly, substantial revision of the definition of the concept of dominant undertaking. The other one was empowering the government to grant outright exemption to certain proposals for substantial expansion and establishment of new units from the application of MRTP Act. Another amendment of the MRTP Act was introduced in 1984, which based on the recommendations made by Sachar Committee. The main thrust of the amendment was to clarify certain definitions so as to include certain categories which were hitherto left uncovered. The Amendment 1984 has clarify interconnected undertakings, under the existing provision in the MRTP Act, not less than l/3rd control over voting power or positions of the Board was required for establishing inter connection. The Amendment 1984 had reduced this proportion to 25 percent. The Amendment of 1984 made the definition of undertaking exhaustive to widen the scope of MRTP Act. "The earlier definition of undertakings" covered enterprises engaged in production sale, distribution or control of goods etc. The revised definition of undertaking covers enterprises engaged of proposed to be engaged in the production, storage, supply, distribution, acquisition or control of articles or goods or the provisions of any services, either directly or through one or more of its units or divisions whether located at the same place or at different places. Besides this, a body corporate which was engaged only in the business of acquiring underwriting or dealing with shares, debentures or other securities of any other body corporate shall be deemed to be an undertaking. Thus, the definition of undertaking became more comprehensive one. To reduce the effectiveness of the MRTP Act, the government considerable liberalized the operations of the MRTP Act under various pretensions from time to time. The result was that the large business houses had been given green signal to enter a number of industrial fields which were formerly closed for them. The MRTP Act itself provided the two significant exemptions:

a) Expansion in production or in the value of assets up to 25 percent was not be subject to the MRTP clearance.

b) Expansion of a large house in so far as it relates to production of the same, or similar types of goods already, being manufactured by it was outside the purview of the MRTP Act. A number of relaxations were also announced from time to time like –the 1973 industrial policy statement opened up a large number of industries to the large houses. These included not only the core industries but also industries which had direct linkages with the core industries and industries with a long term export potential initially there were 19 industries and gradually their number rose to 35. The government identified some industries which were specially important from export angle. These industries were allowed percent automatic growth per annum up to a limit of 25 percent in a plan' period. In 1980 this facility was extended to other industries including production, higher export generation, adoption of modern technology etc. large houses did not require separate approval under the MRTP Act for such automatic growth.

Even after so many relaxation, proper guidelines and good objective, the Act could not applied in a strict and vigorous manner. By the end of the March 1990, 1,854 undertakings were registered under the MRTP Act of where 1,787 belonged to large industrial houses and the remaining 67 were dominant undertakings. The MRTP Commission which was set up in 1970 to enquire into Monopoly power and restrictive trade function practices activities could not operate effectively the role of the MRTP Commission was an advisory only, commission had not given the mandatory powers to pass final orders. The Sachar committee trades a number of recommendations to strengthen the commission's position like, it recommended to give full judicial powers to commission. But these recommendations were turned down by the government though there was a provision in the Amendment Act, 1984 that the commission without waiting for a reference by the government can staff an inquiry into unfair practices, on its own. The motive of the MRTP Act was adopted with reducing the concentration of economic power but it failed to worked out effectively and strongly.

2.15 FERA : (FOREIGN EXCHANGE REGULATION ACT 1973)

The Foreign Exchange Regulation Act 1973 –often described as the economic canvas of the country has its origin in the FERA (Foreign Exchange Regulation Act 1947 and came into force on January 1, 1947. The FER A, 1947, was the outcome of various ordinances promulgated during the Second World War and those immediately thereafter regulating foreign exchange transactions. The term foreign exchange includes foreign currency, deposit and balances payable in foreign currency and foreign securities.

The preamble to the FERA, 1973 defines its scope and purpose. It is an act to consolidate and amend the law regulating certain payments. Dealings in foreign exchange and securities, transactions indirectly affecting foreign exchange and the import and export of currency and bullion, for the conservation of the foreign exchange resources of the country and the proper utilization thereof in the interest of the Industrial development of the country. The Act empowers the RBI (Reserve Bank of India) and the Central Government to see the foreign exchange earned by exports or otherwise is properly accounted for and realized;

To control acquisition and holding of foreign exchange in any form and making of payments in foreign exchange;

To make rules and issues notifications for this purpose; and

To give directions to banks, travel agents and others.

The FERA 1973 had various provisions –

a) All non-banking foreign branches and subsidiaries with foreign equity exceeding 40 percent had to obtain permission to establish new undertakings;

b) The permission of the Reserve Bank of India had to obtain for carrying on or continuing in the country any activity of a trading, purchasing of shares in existing companies or to acquire wholly or partly any other company.

The Act empowered the Reserve Bank to authorize any person to deal in foreign exchange. No person, other than the one authorized by, the RBI can deal in foreign exchange. All export earning in foreign exchange have to deposit with the RBI. The Act also prevented over invoicing of imports, and remittances of founds in India through unofficial channels. The Act empowered the RBI to enforce restriction on assets held by non-resident such assets cannot be transferred assigned, pledged charged or dealt with in any manner that so ever except in accordance with the permission granted by the Reserve Bank of India. The Act provided that no person in India can hold or transfer any immovable property situated outside India, except with the permission of the RBI. The employment of foreigners in India gave rise to foreign exchange liability and caused a drain on the foreign exchange of the country. Thus, restrictions on employment of the foreigners were imposed under the Act. The Act was passed with high optimistic expectations but substantial delays in implementing it made it subject of criticism.

India's heavy dependence on MNCs for bulk drugs came in the way of compliance of FERA regulations. Under section 29 of this Act MNC's were directly operated in India has tried to build up the R and D base in the Country effectively and none has tried to expand export markets substantially. Large companies were issued directions for dilution, but they did not carry out the directions. The government then itself exempted a number of units.

Thus, though in the wake of acute shortage of foreign exchange in the country, the Government of India had enacted the Foreign Exchange Regulation Act (FERA) but it was not in tune with the economic reforms.

2.16 FEATURES OF NEW INDUSTRIAL POLICY

With a view to bring revolutionary changes in the industrial scene of the country, Central Government announced the new Industrial Policy on July 24, 1991. Following were unique features of the policy.

Diluted the Role of Public Sector

The industrial policy 1991 provides a new approach to public sector enterprises. The public sector had given indirect role in industrial development and participation of private sector was encouraged. Public sector had shown a very low rate of return on the capital invested. This had inhibited their ability to regenerate themselves in terms of new investments as well as in technology development. The result was that, many of the public enterprises had become a burden rather than being an asset to the government. It was time therefore that the government adopt a new approach to public sector (enterprises). The must be restructured and given a new lease life. In this regard the new industrial policy had taken some major decisions pertaining to the public sector, in order to improve its performance and more it more growth oriented and technically dynamic.

a) Portfolio of Public sector investments was reviewed with a view, to focus the public sector on strategic, hi-tech and essential infrastructure bases. Whereas some reservation for the public sector was being retained, there would be no bar for area of exclusively to be opened up to the private sector selectively. Similarly the public sector was allowed to enter in areas not reserved for it.

b) Public enterprises which were chronically sick which were unlikely to be turned around, for the formulation of revival/rehabilitation schemes, be referred to the Board for Industrial and Financial Reconstruction (BIFR) or other similar high level institutions created for the purpose. A social security scheme was also created to protect the interest of worker's likely to be affected by such rehabilitation packages.

c) In order to raise resources and encourage wider public participation, a part of the governments share holding in the public sector was offered to mutual Funds, financial institutions, general public and workers.

d) There was a greater thrust on performance improvement through the NoU (Memorandum of understanding) system through which managements would be granted greater autonomy and would be held accountable. Technical expertise on the part of the government was upgraded to make NoU negotiations and its implementation more effective.

The major step for dilution of the role of public sector was reduction of the number of industries reserved for public sectors from 17 to 8, reduced again to 6 than became and now it is only 3, i.e atomic energy, minerals specified in the schedule to the atomic energy 1953, and rail transport and introduction of the selective competition in the reserved areas. Policy for the sick public sector enterprises remained to be same as that for the private sector. Thus, the policy made a substantial contribution for the improvement and advancement of the public sector and laid down various changes.

Privatization of Public Sector

The Governments strategy towards the public sector, continues to encompass a judicious mix of strengthening strategic units and non-strategic units through gradual disinvestments or strategic sale and devising liable rehabilitation strategy for weak units.

The main elements of the government policy towards public Sector undertakings (PSUs) are -

a) Bring down Government equity in all non- strategic PSUs to 26 percent lower, if necessary;

b) Restructuring and revive potentially, viable PSUs,

c) Fully protect the interest of workers; and

d) Close down PSU's which cannot be revived.

Abolition of industrial Licensing Policy

The government reformulated its industrial policy. In a major move to liberalize the economy, the new Industrial policy abolished industrial licensing for all projects excepts for a short list of industries related to security and strategic concerns, social reasons, hazardous chemicals and over roiling environmental reasons and items of elitist consumption. Industries reserved for the small scale sector continued to be so reserved. There were only 15 industries for which licenses were continue to be required. These were Coal & lignite, petroleum, sugar, cigarettes, hazardous chemicals, drugs pharmaceuticals, paper and newsprint, plywood and other wood based products, entertainment electronics, animal fats and oils, tanned or dressed furs skins, electronics aerospace and defence equipment, and industrial explosives. Originally the number of industries were 18 but in April 1993, three industries-motor cars, with goods and raw hides and skins and leather were exempted from licensing. As of now licensing is compulsory for only % industries. There are cigarette, alcohol, hazardous, chemical, electronics aerospace and defence equipment and industrial explosive.

In projects where imported capital goods were required, automatic clearance was given–In cases where foreign exchange availability was ensured through foreign equity; or if the cost, insurance and freight (CIF) value of important Capital goods required was less than 25 percent of total value (net of taxes) of plant and equipment, upto a maximum value of Rs. 2 crore. In view of the current difficult foreign exchange situation, this scheme came into force from April 1992.

Areas where security and strategic concerns predominate, was continued to be reserved far the public sector. In locations other than cities of more than I million populations required no industrial approvals from the central government except for industries subject to compulsory licensing. In respect of cities with population greater than I million industries other than those of a non-polluting nature such as electronics, computer soft and printing must be located outside 25 kms of the periphery, except in prior designated industrial areas.

A flexible location policy was adopted in respect of such cities (with population greater than I million) which required Industrial regeneration. Zoning and land use regulation and environmental legislation was continued to regulate industrial locations. Appropriate incentives and the design of investment was used to formulate the dispersal of industry particularly to rural and backward areas and to reduce congestion in cities. Existing units were provided a new broad banding facility to enable them to produce any article without additional investment. The exception form licensing was applied to all substantial expansion of existing units.

Abolition of Registration

All existing registration schemes such as delicensed Registration, exempted industries registration and DGTD (Directorate General of Technical Development) registration were sought to be abolished. Entrepreneurs hence forth only be required to file an information memorandum on new projects and substantial expansion.

Facilities to Laborers

The policy promised social security mechanism to protect worker's interest in affected public sector enterprises. It also promised to promote worker's participation in management and proposed workers co-operation to make sick units healthy. National renewal fund was proposed to be set up for those workers who were affected by technological changes.

Foreign Investment

Another most important feature of the industrial policy 1991 was maximum encouragement to foreign investment.. In order to invite foreign investment in high priority industries, requiring large investments and advanced technology, it has been decided to provide approval for direct foreign investment upto 5 l percent foreign equity in such industries.

For the promotion of exports of Indian products in world markets, the government encouraged foreign trading companies to assist Indian exporters in export activities.

a. According to the new industrial policy, approval was given for direct foreign investment upto 51 percent foreign equity in high priority industries. It was about 34 high priority industries for this purpose. However such approval was made available if foreign equity covers the foreign exchange requirements for imported capital goods

b. While the import of components, raw materials and intermediate goods, and payments of knowhow, fees and royalties were governed by the general policy applicable to other domestic units, the payment of dividends was monitored through the Reserve Bank of India so as to ensure that out flow an account of dividend payments are balanced by export earnings over a period of time. Other foreign equity proposals, including proposals involving 51 percent foreign equity which do not meet the criteria under (a) above, was continued to need prior clearance. Foreign equity proposals need not necessarily be accompanied by foreign technology agreements.

To provide access to international markets, majority foreign equity holding up to 51 percent was allowed for trading companies primarily engaged in export activities. While the thrust was ol1 export activities such trading houses should be at par with domestic trading and exports house in accordance with import export policy.

A special empowered board was constituted to negotiate with a number of large international firms and approve direct foreign investment in selected areas. This was a special programme to attract substantial investment that provided access to high technology and world markets. The investment programmes of such firm's world be considered in totality, free from pre-determined parameters or procedure.

Foreign Technology

The new industrial Policy had recognized the industry can scarcely be competitive with the rest of acquisition of technological capability is subject environment. With a view to injecting the desired level dynamism in Indian industry, the following policy announced:-

The new industrial policy accorded automatic approval for foreign technology agreements in high priority industries up to a lumpsum payment of Rs. 1 crore, 5 percent royalty for domestic sales and 8 percent for exports, subject to total payments of 8 percent of sales over 10 years period flow date of agreement or 7 Years form commencement of production.

The policy has created a provision for an automatic approval for technology agreements in industries other than those specified in (Annexure-lll), provided no free foreign exchange was required for any payments. No permission was required for hiring of foreign technicians, for testing of indigenously developed technologies over seas. Payment might be made from free foreign exchange according to Reserve Bank of India guidelines.

Small Scale Industries

While freedom had given to major industries to grow, industries reserved for the small scale sector was continued to be so reserved to promote industrial agro employment. Under the policy 1991, government announced a policy package for small, tiny and village industries. It raised the investment ceiling of tiny enterprises from 2 lakhs to 5 lakhs, locational restrictions on setting these enterprises were removed and their scope was enlarged to include all industry related services and business enterprises. The policy provided equity participation, not exceeding 24 percent, by other industrial undertakings, included foreign collaborations in the small scale sector with a view to encouraged modernization and technological up gradation.

MRTP Limit Goes

The new, policy had given concession to companies under MRTP Act. It removed the asset limits for MRTP totally. In this way big industries were given more freedom regarding expansion of undertakings establishment of new undertakings, mergers, amalgamations etc. since the enactment of the Monopolies and restrictive trade practice Act. In 1969, all firms with assets above a certain size (100 crores since 1985) had been classified as MRTP companies. Such firms had been permitted to enter selected industries only, for expansion of existing firms, the establishment of new undertakings, mergers, amalgamations and takeovers they were required to seek government's prior approval, restrictions also existed in respect of the acquisition of and transfer of shares of these companies, these form had to seek permission from the government even for appointment of certain directors in their companies. This had begun to have a significant detritus effect on the freedom of many of the large private firms in their plans for growth and diversification. The parliament passed the MRTP Act or Amendment Bill to remove the threshold limits of assets in respect MRTP companies and dominant undertakings. This eliminated the requirement of prior approval of central government for establishment of new undertakings, merger amalgamation and takeover and appointment of directors under certain circumstances. Policy emphasized on controlling and regulating monopolistic, restrictive and unfair trade practices. Simultaneously the newly empowered MRTP commission was authorized to initiate investigations suo moto or on complaints received from individual consumer or classes of consumers in regard to monopolistic, restrictive and unfair trade practices.

Necessary comprehensive amendments were made in the MRTP Act in this regard for enabling the MRTP commission to exercise punitive and compensatory powers.

All these above interconnected set of measures provided a new environment of increased competition and freedom in the operations of the Indian private sector. The aim of all these measures was to recognize the increased competence of Indian firms and to give them the necessary freedom to deal with the emerging challenges that were being thrown up by today's increasingly interdependent industrial world.

Critical Evaluation

When advanced and highly developed nations were flying in silver arrow planes, India cannot travel in a bullock – cart. The policy of economic isolations has no relevance in the space-age. With the dawn of independence India opened her eye and started moving on the path of development. Just after independence, the government of India adopted industrial policy and suitably amended to accommodate the need of the hour. All the industrial policy was treated as an instrument which gradually liberated Indian economy from the tyranny of underdevelopment and backwardness. Policy changes did according the four decades between 1951-1991.

The new economic and industrial policy adopted by Indian in 1991 constituted a break with the past. This policy 1991 was building on the past industrial achievements but was made to accelerate the process of making Indian industry internationally competitive. It recognized the strength and maturity of the industry and attempts to provided the competitive stimulus for higher growth.

The policy had given freedom to industries from government and statutory controls. It deregulates the industrial economy in a substantial manner. In a sense it liberated the Indian industrial structure from suffocated and complexed maze of rules, regulations, permits and licenses which had created innumerable impediments in the way of development of all types of industries. These unnecessary rules and regulations resulted in enormous delays upsetting all costs and profit calculations and schedules and resulting in massive corruption at every stage or hurdle that was required to be crossed, thus thoroughly discouraging the class of entrepreneurs who had to function in the most depressing atmosphere. But the free and liberated environment provided by policy of 1991 made the Indian entrepreneurs to function more efficiently and brought about substantial increase in annual industrial growth-rate.

For long, Indian industries were functioning in a closed and protected domestic market with heavy import duties, export subsidies and practically shutting off competition with foreign industrial goods. The consequence of high protection was industrial inefficiency, low productivity high cost and low quality of most Indian industrial goods. The new industrial policy introduced a world of free competition wherein Indian industries would hereafter had to function, if they want to be successful. This simplified and liberalized policy, had encouraged for healthy competition among domestic industrial units. It can be achieved through increased uses of technology. Up gradation of technology in Indian industries has made industries more efficient and competitive by increased productivity, cutting down costs and lowering process and improvement in quality.

One of the most favourable aspects of the policy of 1991 was the new approach, the policy brought in respect of public sector undertakings in India. Around 58 large public sector industrial undertakings have suffered losses year after year and growth of monopoly also took place in respect of essential infrastructural facilities in these public sector units. The idea of selling their equity to mutual funds or to private parties and if necessary, close them down or auction them was the best and most logical aspect of the policy 1991. The policy of disinvestments can be helpful in improving the rehabilitation function of sick units. This policy initiated the process of privatization of public sector also.

Opening the doors automatically to foreign investment upto 51 percent of equity in high priority industries and automatic approval for foreign technology agreements helped in upgradation of Indian industries and their competiveness in world market and pushed up India’s export. Thus the entry of foreign direct investment and technology integrated the domestic economy with the world economy and helped in raising the availability of scarce in the country on the one hand, and improved the level of efficiency of production on the other hand. Abolition of the MRTP and especially of FERA (Foreign Exchange Regulation Act) was expected to brought in substantial amount of foreign capital along with latest technology. This result in rising rate of industrial growth, increasing efficiency, increasing cost-consciousness, better management, lowering the prices of industrial goods and push up India's export. Policy gave greater emphasis in controlling and regulating monopolistic, restrictive and unfair trade practice and strengthened the power of MRTP commission which helped in curb anti-competitive behaviour of firms in the monopolistic, oligopolistic and ineffectively competitive markets and thus promote healthy competition and efficiency. All types of companies were provided equal opportunities to develop and grow. The policy of 1991 has given special attention towards the encouragement of tiny and small scale industries. It increased the investment limit of small scale industrial units to 60 lakhs ancillary units to 75 lakhs and tiny to 5 lakhs. The policy allowed equity participation by other or non-SS industrial undertaking in the small scale industries up to 24 percent of the total shareholding. This was done to encourage modernization, technical upgradation and sub-contracting. The policy provided various financial support measures by (SIDBI) small industries development bank of India and other agencies operated by commercial banks. As for marketing the policy envisaged market promotion of SSI units products to be undertaken by cooperatives, public sector institutions and other professional agencies. The new industrial policy had made provision for the export of products of the small sector. The nodal agency for expect promotion was the small industry development organization (SIDO). Special measures were taken for handloom, handicrafts, Khadi village industries. Measures have been provided to ensure the supply of substantial funds and facilities for modernization of looms, for training, for better designs for better dyes and chemicals and for marketing assistance. The role of the National Handloom Development Centre's (NHDC) as also of the National Cooperative development corporation (NCDC) was enhanced in respect of the supply, of raw materials like hank yarn, dyes and chemicals. For the development of handicrafts sector, the policy envisaged setting up of craft development centers. Thus, with all the above steps and measures the policy actually helped the small scale units in the country to develop and progress speedily and effectively.

The policy had been streamlined with a view to increase in production by according specific attention to the working and economic freedom of the country. Under the policy every industry enjoyed freedom to diversified their activities and abled to increase in production capacity within the prescribed limits.

This it is clear from the above discussion that liberalization, privatization and globalization policies in new, industrial policy removed the rigidity of industrial controls and regulations shifted the focal point of economic philosophy of the economy new industrial policy had been a major giant step in the right directions in uplifting the industrial structure of the country and Join the galaxy of world economy.

The new industrial policy announced by the government of India on 24th July 1991 fulfilled a long-felt demand of the industry. It brought out a substantial reduction in the number of industries required compulsory Licensing, promoted foreign investment, automatic approval of foreign technology, agreements, reformed Public sector and scrapped the asset limit for MRTP companies. The new industrial policy represented serious effect to establish a “market friendly” system which enabled India to join the international mainstream on the basis of efficiency and competitiveness. However several there were several areas which come forward for sharp criticism.

The permit and licensing system has been abolished, this laid indiscriminate rush of entrepreneurs in certain industries. The policy, of free entry and free exit might result into fierce competition in some industries, especially in some consumer goods industries. All this means wasteful competition and wastage of valuable resources.

The new industrial policy goes all out to woo foreign capital. It has been decided to provide approval for direct foreign investment upto 51 percent foreign equity in high priority industries. The government had further clarified that it permitted 100 percent foreign equity in case the entire output was exported. All this was done in the belief that the direct foreign investment was crucial to our development. However in over enthusiasm to welcome foreign capital, the fear was that we might sell our sovereignty, to multinationals.

Participation of foreign equity capital about 51 percent in any Indian industrial establishment (except some strategically, important industries) might create a number of problems. Like, foreign companies which are after maximum profit would enter into only these industries which cater to consumer needs of elite classes. This means the country's resource would be diverted into production of goods for the richer sections of the Indian country unit. The foreign collaborating companies would not be interested its entering heavy and basic industries requiring huge investment and long gestation period. Thus the governments have to take care to invite foreign capital in high priority industries.

The new industrial policy seems too confined to the liberalization of the environment for dynamic industrial development. This no doubt was important. But no less important was the role of research and development (R&D) in making industry innovative.

Keywords:- Monopoly, Licensing, Resolution, consolidated, Ancillary undertaking, amalgation.

2.17 SUMMARY

At the time of independence the structure of Indian Industrial development was limited. For the first time, in industrial policy, of 1948 philosophy to be adopted the industrial development was explained explicitly. The importance of public sector for the formation of economic infrastructure was accepted and the significance of equal distribution of income was specified. This policy was continued for eight years but treated as tentative policy, when it was announced there was no determined objective before the country. It affected adversely the spirit of investment of investors as in the policy, unnecessary threat for nationalization was implied. The policy had also lowered down the participation of private sector in the key and basic industries by transferring these industries to public sector. Overall it could not satisfy anyone nor the lower class neither the upper one. In the Industrial Policy of 1956 the main objectives were to increase the rate of economic growth and accelerate the rate of industrialization, so that objectives of establishment of socialistic pattern of society can be attained. In fact, the policy gave unnecessary emphasized on the expansion of public sector. As we know that in this policy, Government of India started to issue licenses for the expansion of industrial sector, balanced regional development and prevention of the concentration of economic power. But in practice the objective of socialistic patter of society remain a slogan and centralization of economic power was encouraged and large industrial houses ultimately enjoyed this policy. In the Industrial policy of 1973 high priority industries were identified and big industrial houses and foreign companies were invited for investment. Foreign technology and foreign capital were given importance but other objectives like balanced regional development of small scale industries etc. were ignored, the Industrial Policy of 1977 was opposite to 1973 as it gave maximum attention on the expansion and development of, Cottage and Small Scale Industries. The policy limited the expansion of large industries by denying them funds from the Government Financial institutions. This policy was not implemented more effectively because Janata Government was short lived. The industrial policy of 1980 was different from earlier policies as it provided new life to the private sector. There was the pledge to improve the efficiency of public sector, to remove artificial division between small and large scale industries and to make small scale industries as a complementary to large scale industries. This policy reaffirmed its faith in MRTP and FERA. But in this policy speed was not realized in the development of backward areas. It was more in the path of capital intensive development. The 1985 Industrial policy brought out various important changes in the industrial sector and economy of the country. It raised the investment limits for the small scale industries and provided financial helps for growth and introduced the concept of Broad Banding which enabled the manufacturers to produce a range of products. Re-endorsement facility was given to those industries which improve their capacity utilization and facility of deliciensing was also provided to them. In a way it opened up a new era of liberalization. But the policy opened the items strictly reserved for small scale units to large scale industries which badly affected the small units. The policy of 1990 announced various measures for small scale and agro based industrial but like previous policies it was also failed to safeguard the interests of small and agro based industries.

Though various rules & regulations were framed from time to time to implement the Industrial Policies Resolutions but due to certain loopholes, the industries policies and legal frame work were not conductive for improving the performance of the industrial sector.

Since independence Indian industry was comfortably settled behind the high protective walls of and quantitative restrictions on imports for a longer time and was in no mood for opening up to competition from imports. Industrial sector in India remained as public Liberalization, a process 'opening up' of the economy with a view to integrate the Indian economy with the world economy. Under the policy government encouraged all the industries whether small, medium or large, belonged to the public, private are co-operative sector to grow and improve on their past performance. In pursuit of the objectives and aims Government had taken series of initiatives in respect of the policies related to the areas like Industrial licensing, foreign capital, foreign technology, public sector, Monopolistic restrictive trade practice, registration schemes, small scale industries, labour problems etc.

2.18 SHORT ANSWER TYPE QUESTIONS

Q1. What do you mean by Industrial Policy?

Ans. By Industrial policy is meant all those objectives, principles, rules, regulations and procedures concerning the pattern of Industrial development and functioning of industrial establishments in the country.

Q2. How many industries are kept in schedule 'A' according to Industrial Policy 1956.

Ans. In schedule A, 17 industries are included which are required for exclusive development in the public sector.

Q3. How many industries require license at present?

Ans. As of now, licensing is a compulsory for only 5 industries. There are cigarette, Alcohol, hazardous chemicals, electronics aero scope and defence equipment and industrial explosives.

2.19 EXAMINATION ORIENTED QUESTIONS

1. Critically explain the Industrial Policy 1948.
2. Explain the futures of Industrial policy of 1956.
3. What are the features of Industrial Policy Resolution 1977?
4. Discuss the Industrial Policy of 1980.
5. Critically explain the New Industrial Policy 1991.

Suggested Reading

1. Misra & Puri, Indian Economy, Himalaya Publishing House, Delhi
2. Desai & Bhalerao, Industrial Economy of India, Himalaya Publishing House.

M.A. ECONOMICS

COURSE NO. 566 **LESSON No. 3**
SEMESTER-IV **UNIT-I**

INDUSTRIAL DEVELOPMENT PATTERNS BEFORE 1951-91 AND ITS IMPACT

Chapter Outlines

3.1 Introduction

3.2 Objectives

3.3 Industrial Development Pattern before 1951-91 and its impact upon corporate sector development, foreign investment and collaborations

3.3.1 Impact upon Corporate Sector Development

3.3.2 Impact upon Foreign investment and Collaboration (1951-91)

Foreign Capital

Technology

Exports and BOP's positions

Diversification

3.4 Summary

3.5 Short Answer Type Questions

3.6 Examination Oriented Questions

3.1 INTRODUCTION

In this lesson we propose a thorough analysis of industrial development pattern before 1951-91 and after 1991 and its impact upon cooperative sector development, foreign investment and collaborations in India.

3.2 OBJECTIVES

The approach of this lesson is to make the students aware about the industrial development pattern before 1951-91 and after 1991 so that they can easily understand its impact on various aspects like corporate sector, collaboration and foreign investment.

3.3 INDUSTRIAL DEVELOPMENT PATTERN BEFORE 1951-91, AND ITS IMPACT UPON CORPORATE SECTOR DEVELOPMENT FOREIGN INVESTMENT AND COLLABORATIONS:

Indian's industrial policies, the institutional arrangements for their implementation and the wider institutional setting all impacted upon the country's industrial development in various ways.

3.3.1 Impact upon Corporate Sector Development

The industrial approval system as a whole was meant to promote private investment in accordance with politically established objectives such as:

1. To ensure industrial diversification in a national context.
2. To achieve technological upgrading and catching up with industrialized countries in terms of technological development.
3. To prevent and even reduce concentration of economic power in the private sector.
4. To promote development of small scale industry. In addition, balanced regional development was the objective.

However, the actual impact was different as has been pointed by different studies:

According to the studies:

> The industrial approval system contributes to industrial diversification in a national context. During 1970's India had a more diversified Industrial structure than any other LDC's. Diversification was made possible by making several efforts for the expansion of public sector. During this period high level of diversification and import substitution were attained.

Indian Industries were also protected, however at a high cost.

The approval system did not reduce the technology gap. It did not contribute to India's catching up with industrialized countries in terms of technological development. Actually, it may have slowed down progress in this area considerably.

The approval system did not present concentration of economic power in private sector. Rather, it most probably reinforced such concentration.

Finally, the system did not promote development of small scale industry but rather acted as an entry barriers for new comes.

The industrial approval system, no doubt contributes to diversification and its industrial development in some backward areas but it did not bring about the other affects envisaged.

At the same times, the system added to the cost of transacting investment and reduced cost consciousness by creating sheltered conditions for companies which had obtained license. The regulatory framework as a whole restricted domestic market and by establishing entry barriers.

Concentration of economic power in private sector was facilitated by mode of functioning of the approval system.

Table 1

Branches of MNC's in India

So No.	**Name of the Country**	**No. of Companies**		**Assets (Rs.Crores)**	
		1973-74	**1978-79**	**73-74**	**78-79**
1.	U.K.	319	189	1239	659
2.	U.S.A.	88	64	381	535

TATA IRON AND STEEL was the highest industry in private sector during 1960-61. During 1983-84, Reliance was registered 3rd in corporate sector of India. However, the MRTP regulation constrained big firms from attaining optimal sizes or at least implied that it was much easier for the firms to diversify rather than expand in the same product line.

A good illustration was the Indian government is delaying of the growth of Bajaj Auto which constituted a considerable set back in this company's quest to become the leading two wheeler manufacturer in the world. As a result India's International competitiveness suffered. Using export related performance measures clearly indicates this:

India's share of world as well as developing countries manufactured exports declined in the 1960's and 1970's and the recovery in the 1980's did not compensate for the general lost in the previous decades. Thus, India's share of world manufactured exports declined from 22.1% in 1962 to 3.4% in 1980. There was no increase in this share during the 1980's. In other words, it appears that the overall outcome for organized Indian Industry was reduced competitive pressure to bring down costs and improve productivity and competitiveness.

Impact upon Foreign Investment and Collaboration:

The impact of Indian policies and industrial arrangement on foreign investment and collaboration can analyzed on the capital, Technology, Export and Import and on Diversification.

As we know that FERA aimed at conserving the foreign exchange resources and India's economic development. FERA was formulated in 1973 and came into force on 1st January, 1974 section 29 of the act refers directly to the operations of MNC's in India.

According to this section all non banking foreign branches with foreign equity greater than 40%, had to obtain permission to establish new undertaking, to purchase share in existing companies or to acquire wholly or partly any other company.

According to FERA, all branches of foreign companies operating in India should convert themselves into Indian companies with at least 60% local equity participation. All subsidiaries of foreign companies should bring down the foreign equity share to 40% or less.

It is interesting that the means to achieve these objectives did not relate directly to remittance of profits, royalties, dividends and repatriation of capital. Such remittances by force companies were subject only to rules and regulations common to all companies in India.

Instead the strategy adopted concerning foreign equality was based on the assumption that a reduction in remittance abroad. Turning to some other effects of Indian policies and institutional arrangements on foreign investment and collaboration, it may help structuring the analysis by using as starting point for four types of benefits from TNC operations that the Indian authorities aimed at achieving with the help of published data by RBI some statements can be made concerning the impact on foreign investment and collaboration.

Impact Area	Potential Benefits
CAPITAL	Provision of scarce capital resources – Internally generated – Externally generated
TECHNOLOGY	Provision of sophisticated technology and other technology not available in the host country.
Exports & Balance of Payment effects	Access to superior global distribution and marketing systems. TNC's may increase exports and crate BOP's effects.
Diversification	TNCs command technology and skills required for diversification of the industrial base and creation of backward and forward linkage. Based on the host country factor endowments.

3.3.2 Impact of Industrial Development Pattern on foreign Investment and collaboration (1951-91)

Foreign Investment and technology are encouraged in India for capital, technology, diversification and for improving balance of payment position. From the first five year Plan to the new industrial policy in 1991, the impact of industrial development can be realized in these components of the economy.

Foreign Capital : After independence in the industrial Policy statement of 1948, the role of foreign capital was realized but the industrial Policy of 1956 gave a fair and non discriminatory treatment to foreign capital and investment. Industrial regulatory measures were framed and accordingly FERA (Foreign Exchange Regulatory Act) was there to regulate the foreign investment according to national priorities. The means to achieve these objectives did not relate directly to the remittances of profit, royalties, dividend or repatriation of capital such remittances by foreign companies was subject to rule and regulations coming to all companies in India.

The potential benefits from TNCs operations can be realized under impact areas of capital, technology, exports and BOP effects and diversification.

The strategy adopted with regard to foreign investment during 70's was that if there is a reduction in foreign equity participation it would automatically bring about a reduction the foreign controlled companies were having high profitability ratio during 70's than the Indian controlled companies and during 80's also the same pattern continued.

Profit remittances accounted for 10-15% of foreign controlled companies throughout the period of 1950 to 1990 under study. The amount of remittances paid abroad on account of dividends has varied considerably from Year to year on account of fluctuations in the amount of dividends.

Dividends remittances increased from 1974 and the net inflow of foreign capital went down in relative terms. Foreign capital never continued substantially to capital formation in India but it is indeed noteworthy that the contribution declined after 1974. In case of capital issue approved, the share of non residents went down from 34% in 1976 to 11% in 1980. The net inflow of foreign investment fluctuated and remained at a low level. During the period of 1986-90 net FDI amounted to only Rs. 9 billion. Technical payment increased after 1974.

During the first few decades India did not attract foreign investment and technical collaboration because of unfriendly policies institutions that's why India attracted little foreign investment.

Branches of MNC in India

Table 2

Size wise distribution of Net Assets of Pvt. Sector Companies in India (1960-61) in Rs. Crores

Size/Range	**No. of Companies**	**Size in %**	**Total Assets**	**%**
Between100-400	1633	96.6%	78405	60.9%
400-700	31	18%	15773	12.2%
700-1000	26	1.6%	3465	26.9%
Total	**1690**	**100%**	**128793**	

Though number of MNC's has declined from 1973-74 to 1978-79 but the total assets of these MNC has shown an increasing trends.

According to RBI study, both these companies have accounted for 71% of total companies studied with a share in paid up capital of 74%.

RBI has again conducted a study for 1980-81 foreign collaborations have dominated the manufacturing sector in India.

In case of machinery, metal, electrical accounted for 31%. In case of chemicals medicines and pharmaceuticals, MNC's accounts for 33% consumer goods like tea, coffee etc have 49% of total foreign investment and accounted for 21% in case of intermediate goods and services.

From RBI study it is clear that MNC's have not shown this interest in base and capital goods but they went reaped quickly and moreover these was huge outflow of capital from chemical, medicines and pharmaceutical with foreign dominance .

Technology : No doubt the regulatory framework introduced in 1970's strengthen the bargaining position of Indian Technology buyers and license without seriously the inflow of foreign technology in quantitative terms. But costly ‘over-import’ of technology continued.

Technology already available in India was imported under other brand names and paid for a particular conspicuous case appeared in the mid 1980’s, when it was found out that Indo-Japanese joint venture, the Maruti –Suzuki had prompted suppliers and subcontractors to enter into almost 200 new technical collaboration agreements with Japanese firms.

Furthermore, these were great difficulties with the upgrading of Indian technology. It appears that the maximum limits established for technology payments acted as discentive for international technology suppliers.

In International competitiveness India has suffered because of restricted access to sophisticated foreign technology and poor performance of indigenous R&D institutions.

Exports and BOP’s Positions:- One of the intentions behind FERA and other regulatory policies was to compel TNC’s and affiliated companies to increase their exports. This did not happen during the first decade 1974. Foreign affiliated companies did not show a better export performance than Indian Companies. Thus, foreign controlled companies did not apply their superior global distribution and marketing system in order to enhance exports from India.

The TNC managers interviewed explained their low export performance simply by starting that they had not come to India to produce for export. They had come to take advantage of the growing domestic market in the country.

As a result of modest earnings in foreign exchange through exports, the foreign companies actually spent more foreign currency than they earned. As a group, they showed a higher prosperity to import than Indian Companies. The combined effect was negative net impact on the BOPs. This was basically in contradiction with the Indian policy of import substitution and export expansion.

A study from the RBI concerning the finances of foreign controlled rupee companies for the period 1984-87 revealed a significant increase in the drain of foreign exchange. The net outgoing foreign exchange on account of these controlled companies was around Rs. 350 million in 1984-85. This increased to Rs. 1160 million in 1985-86 and to Rs. 2350 million in 1986-87.

FERA and Industrial Licensing policies may have contributed to the unintended outcome in the sense that these policies have acted as pressures on foreign controlled companies to bring down their involvement in consumer goods and other light industries, where they had expensive export potentials. Instead, they were impelled to explain their operational in engineering and chemicals where they had neither an interest nor the same potential for exports.

Diversification:- By directing foreign controlled companies engaged in low priority production to bring down non-resident interest to a maximum of 40% (the Indian government excepted subsidiaries of TNC's to diversify their activities. But in most cases the FERA provision by themselves did not effectively induce TNC's to transfer resource firm low priority industries into high priority industries.

Instead of trying to avoid the effects of new regulations, the TNC's exploited them by entering into new product line in key sectors. They thus diversified risks and exploited highly protected markets.

In a wider perspective, the diversification of TNC's activities into core sectors has probably acted against the intended reduction of foreign control. The diversification and the often associated backward and forward linkages have most likely even increased foreign influence in several Industries. The process has most likely strengthened the TNC's bargaining power with the Indian authorities and private companies.

In certain respects however the regulatory framework did bring about intended re-allocations of foreign industrial assets. The most important trend was the increasing importance of the manufacturing sector. This sector accounted for only about a quarter of the total stock of FDI at the times of independence. The share increased to 40% in the mid 1960's and further to around 85% in the late 1980's. This significant increase came about at the cost of plantations, mining, petroleum and services.

Actual impact of TNC operational in India 1974-90.

CAPITAL	• Insignificant net inflow • The TNC raised most of investment capital in the Indian markets. • Dividend remittances increased and remained above pre FERA trend for almost a decade • Technology payment increased • Foreign participation in corporate capital formation decreased continuously in relative terms.
TECHNOLOGY	• Transitory reluctance followed by increased inflow but • Most costly over import • Problems with advanced technology supplanting • Problems with technical support.
Export	• Export performance on par with Indian companies. • Higher import propensity than Indian companies. • Some import substation but negative BOP effects.
DIVERSIFICATION	• TNC's did contribute re-allocation in favour of manufacturing and technology intensive sub sectors. But • Pre-emption of growth opportunities and substitution of Indian capital in several promising areas • Increase foreign influence in key sectors

3.4 SUMMARY

During the period from 1951 to 9191, India did experience industrial growth, diversification and import substitution. It is our general conclusion that. India's economic policies, the administrative setup and producers along with the wider institutional setting impeded and distorted industrial development preventing the country form exploiting its potential.

3.5 SHORT ANSWER TYPE QUESTIONS

Q.1 What do you mean by Industrial pattern?

Q.2 Discuss in brief the features of Industries before 1951-91.

Q.3 How foreign Investment affect the industrial pattern before nineties.

3.6 EXAMINATION ORIENTED QUESTIONS

Q.1 Explain in detail the industrial pattern before 1951-91 and its impact on corporate sector development.

Q.2 How the industrial pattern of before 1990s affect the foreign investment and collaborations ?

M.A. ECONOMICS

COURSE NO. 566 **LESSON No. 4**

SEMESTER-IV **UNIT-I**

INDUSTRIAL PATTERN AFTER 1991 AND ITS IMPACT

Chapter Outlines

4.1 INTRODUCTION

Industrial pattern aftrer 1991 scenario was quite different. LPG introduced which led to breaking down of various barriers to the growth of industries.

4.2 OBJECTIVES

The objectives of the lesson is to make students familiar with how the scenerio of industrial pattern appeared and its impact upon corporate sector development, foreign investment and collaboration.

4.3 INDUSTRIAL DEVELOPMENT PATTERN AFTER 1991 AND ITS IMPACT UPON CORPORATE SECTOR FOREIGN INVESTMENT AND COLLABORATION.

The implementation of India's post 1991 industrial policies continued to be constrained and distorted by the administrative set up and producers as well as by the wider institutional setting in the country. This negatively affected investment and industrial development although less so than in the proceeding period.

Regarding the period 1991-97, it should be stressed that the policies adopted and the way in which they have been implemented constitute only part of the complex determination of the pattern of industrial development. Other important factors are global and regional conditions and factors affecting cross border economic transactions and the parameters for domestic and international competition of India based industrial companies. Additional determining factors are the strategies adopted by both Indian and Foreign companies in response to changes in the policy framework and the economic conditions.

The policy change after 1991 were generally welcomed by both Indian and foreign business representations. But since the mid 1990s an increasing number of Indian business representatives have expressed concern that the liberations may have gone too far, too fast. Although, it appears that a broad agreement has emerged among Indian industrialists the new policy framework has emerged among Indian industrialists that the new policy framework has introduced certain biases in favour of foreign companies new foreign investors. However, the institutional arrangement for implementation the policies seen to embody biases mainly in favor of large India based companies with close persoilatitic relations with government bureaucracies and individual civil servants. The overall outcome is a situation where established India based companies are worried about the policies formally adopted, while foreign investors and potential new comers in India are worried about the difficulties they are likely to face at the stage of policy implementation. Apparently, all types of investors and entrepreneurs regard the institutional set up and the mode of functioning of the government bureaucracy as delaying, distorting and obstructing industrial growth.

Industrial investment increased significantly just after 1991, but there slowed down again quite markedly after 1995. As regard FDI, actual inflows after 1991 increased significantly as compared with 1980s and continued to grow till 1997 but then slowed down again. Moreover, actual flows were much lower than the approved amounts. In comparison with the experiences from East Asian industrialization it seems that the institutional framework in India is lacking in respect. This can to some extent explain Indian comparatively slow industrial growth in long term perspective.

4.3.1 Impact upon corporate sector development.

It appears warranted to conclude that while India's post 1991 industrial policies reflected attempts at accommodating more than before the interests of foreign capital, the institutional arrangements for their implementation embodied biases mainly in favor of large Indian based companies with established relations with government bureaucracies. Whether this is reflected also in the pattern of development at enterprise level, however remains an open issue.

Companies involved in Indian industrial development through investment or trade can be divided into categories according to their status in relation to the pre and post 1991 regulatory framework. At least five main categories may be indentified in this way.

1. Indian controlled companies and groups of companies which previously, until 1991, come under the preview of the more polices and restrictive trade practices acts. (there are big Indian companies and business house.
2. Foreign companies established in India before 1991 which, until 1991 were 1991, were affected by the foreign exchange regulation act (FERA and at the same time came under the MRTP Act. There are the big foreign branches and subsidiaries is of transnational corporation with foreign held equity at 40% and above.
3. Foreign companies considering, establishment manufacturing branches or subsidiaries and /or entering into strategic alliances (including joint ventures) in India after 1991.

4. Foreign companies interested only in trading with India.
5. Indian companies not covered by MRTP Act including small and medium sized companies.

1) Indian controlled companies and group of companies which previously came under the preview of the MRTP Act have generally expressed great appreciation of the policy changes since 1991 as regards de licensing and other aspects of de regulation in a national context.

   The scrapping of MRTP restrictions and de licensing have allowed these companies to expand on case sectors. The increased competition mainly from new foreign companies imports, however, has affected these companies negatively in several sector where entry has been easy where gestation periods have been short and where qualities periods have been short and where quality of products and mattered. The strategies adopted by several Indian companies have resulted in discontinuation of activities in areas meeting the above description. For instance

- The TATAs withdrew from textiles and oil mill partly because they were facing fiercer competition in these areas, and partly because they could concentrate on expanding in the groups core sectors like automobiles, steel, power and chemical.
- Another examples was L & T's withdrawal from office equipment mainly because of increased competition and the fast technological development in this area (printers, fax machine etc) which put the group in disadvantage situation as compared with the global leaders.
- This also illustrated how Indian controlled companies came under pressure especially regarding products where, therefore, high expenditure is required for R & A. The Indian companies were less affected in areas where technical innovation is slow or where large scales projects constitute the core of activities.

2) Foreign controlled companies established in India before 1991 which were affected by the FERA and MRTP Act stipulations can only to some extent

be treated as one categories because the new policy framework affected the different sectors of industry in dissimilar ways.

Both FERA and MRTP Act, however, impeded overall growth of most of their companies prior to 1991. Moreover, mergers and amalgamation were difficult.

After 1991, these foreign controlled companies were allowed to expand in all the deregulation sectors, and most obstacles to amalgamation were abolished several of the companies reacted by concentrating their activities and selling off unrelated affiliates. But some of the vary big TNCs pursued interesting combinations of strategies, expanding in their original core sector while at the same time amalgamating with other companies.

An important example was Hindustan lever limited one of the very powerful companies in India which started a process of amalgamations and mergers a few years after 1991. HLT thus took over Tata detergent and Tata Oil mills in 1993-94. The following year HIL amalgamated with Brook Band Lipton India. As for the impact on investment and growth, transnational corporations in consumer goods have generally expanded significantly faster after 1991, and their overall growth rates have gone up.

TNCs an consumers goods have faced stronger competition from new international companies but apparently they have been able to cope.

TNCs in more capital and technology intensive areas have faced fierce competition from new international companies which they have not allow been capable of handling.

Stamens for instance have incurred losses in some of its activities for the first time since establishing itself in India.

The overall picture that emerges from these observations is that the new economic policies in some areas reflect so much emphasis on attracting foreign investment and facilitating international trade that they at the sometime reflect less attention to the interests of Indian based industrial enterprises.

4.3.2 Impact upon Investment and Collaboration

One of the main objectives of the new economic policies was to attract more foreign capital and particularly more foreign direct investment. As we know much more foreign capital poured into India after the reforms than before and net private capital inflows remained at a significantly higher land. FDI amounted to only around US$ 100 million a year in the late 1980s. the comparable figure for approved FDI in 1997 was more than US $ 15 billion indeed a very significant increase.

As regards FDIs, there are number of interesting facts.

1. First, the amount of FDI approved increased substantially from 1991 to 1997, then fell to the level of the mid 1990s again in a longer term perspective this represented a very considerable increase in foreign investors' interest in India. clearly, brought about by the new open economy policies introduced after 1991.

2. Second, actual inflow of FDI showed a similar trends as approved investment for the period 1991-97 and then decline somewhat in 1998, but actual inflows have been much lower than the proved amounts. For the period as a whole, actual inflow came to less than 30 % of total approved investment, as compared with 70-80 % in some of the fast growing coast Asian countries.

3. There is another more convincing explanation, however, much of the actual inflow in recent Year has been on account of transfer of shares from residents to non-residents under section 29 of the FERA be mainly parent companies buying more shares in their own subsidiaries. In 1996, this form of FDI accounted for only 3 % of total actual FDI, but this share went up to 5.8 % in 1997 and 30.5% in 1998.

4. For the period 1991-97 approvals were given in preference of foreign investment in this sector in keeping with stated policy priorities. About 47% of FDI approved during this period was for infrastructure, while the FDI disbursed to the sector amounted to less than 10% of the total. In

practice, preference was given to other sectors and sub sectors such as chemicals, electrical equipment combined theses sectors accounted for more than 44 % of actual FDI.

In this context of India's macroeconomic policies, FDI and other external resources have been used as a soft option in lieu of mobilizing domestic resources through taxation. FDI has been seen by the authorities as the main carrier of technology transfer. The government has provided very little guidance or support to indigenous R & D.

Turning to India's performance is attracting foreign investment in a comparative perspective, official a statements emphasise that the country's share of the total flow to developing countries has increased during the 1990s. this again is an indication that the new economic policies have had an impact as intended. But it is difficult to characterize the outcome as impressive when comparing with other major developing countries as seen in Table 1.

Table 2

Inflow of Foreign Capital selected developing countries

	Net Private Capital inflow as % of GDP		**Net Foriegn Direct Inv. as% of GDP**	
	1983-91	**1991-96**	**1983-91**	**1991-96**
India	1.4	1.5	0.1	0.4
China	1.1	3.5	0.6	4.2
Indonesia	2.6	4.8	0.6	1.8
Brazil	0.6	3.5	0.4	0.5

Net FDI has increased as percentage of GDP but from an extremely low level and not as much in absolute terms as in the case of China and Indonesia.

As for total private inflows the increase has remained very modest, from 1.4 to 1.5 percent of GDP. This is clearly developing as seen from the Indian policy makers perspective.

Table 2

	Amount of FDI approved	Actual inflow of FDI	Actual inflow as % of approved	NRI investment as % of actual inflow
1991	5.3	3.5	66.0	45.7
1992	38.9	6.8	17.5	22.0
1993	88.6	17.9	20.2	31.3
1994	141.9	32.9	23.2	34.0
1995	320.7	68.2	21.3	28.9
1996	361.5	103.9	28.8	19.8
1997	548.9	164.2	29.9	6.3
1998	308.1	133.2	43.2	5.7

4.4 SUMMARY

India's Industrial Performance has improved in certain respects as a consequence of the new policies adopted after 1991 but is appears that the institutional legacy of the past continues to impede, sustained, diversified industrial growth and intuitional competitive. The institutional framework may not be the main reason for India's comparatively poor performance. In this regard there is a little doubt that institutional constraint has added significantly to the difficulties.

4.5 SHORT ANSWER QUESTIONS

Q.1 How the industrial pattern after 1991 affect the corporate sector development ?

Q.2 Discuss the major relaxation granted to the industries after 1991.

4.6 EXAMINATION ORIENTED QUESTIONS

Q.1 Describe the industrial development pattern after 1991 and its impact on foreign investment and collaborations.

M.A. ECONOMICS

COURSE NO. 566 | **LESSON No. 5**
SEMESTER-IV | **UNIT-I**

ISSUES IN INDUSTRIAL PROLIFERATION

Chapter Outlines

5.1 INTRODUCTION

Industrial proliferation refers to the spread of industries in an area or a country.

In this lesson, we will discuss the various issues arising out of industrial proliferation.

5.2 OBJECTIVES

No doubt, Industrialization is necessary for the development of economy but at the same time, it leads to various serious and harmful effects. The purpose of this lesson is aware the students about the ill effects of Industrialization and the various issues arising due to proliferation of industries.

5.3 ISSUES IN INDUSTRIAL PROLIFERATION

No country of the world can have sustainable development without Industrialization when any economy develops, there is transformation of agriculture to industrial sector. But the transformation of natural resource for industrialization is accompanied by serious environment degradation because man is elfish in Nature and tries to overpower it and the economy that is aimed to built by man to protect himself and prosper itself is stressed.

If mankind is to live generation the economic system which feeds them has to be sustained and there comes the question of controlling man's exercise of power.

Conversion of natural resources is accompanied by serious environment degradation. It is a fact that The economy is a guest, self invited to extract and consume resources form nature. In other words, the guest grows at the cost of host. For example, the earth's ecosystem.

The growth of the economy is conventionally understood as:

1. The dynamic shift from agriculture to industries, which is a structural question.
2. The rate of growth of industrial output is a growth question.

   Both these dimension of structural transformation and the reliance on high speed Industrial growth takes man far from nature in its original form and distorts nature.

   During the process of transformation of nature by man instead of showing a symbiotic relationship between man & nature, it shows a man centric effort to conquer nature and ultimately over power it.

Currently at a sector level, there is unanimity all over the world on the urgency of addressing environmental pollution the malady of industrial age.

The issues which arise due to proliferation of industries are:

5.3.1 Green Revolution: The Growing use of Agro chemical such as fertilizers, pesticides, insecticides, herbicide and wild killers are usually washed away from the fields by rain and irrigation wated into the rivers and seas. This has been estimated that in the past 20 years, humanity has damaged 30 to 50 % of the earth's oceans and other water sources in several parts of the world are loaded with thousands of contaminants like bacteria, detergent, pesticides, nitrogen compounds, trace of metals and acids and so on making the water unfit for biological, agriculture and industrial use.

5.3.2 Industry and Environment: Industrialization is the cause and effect of economic development. Though industrialization results in many benefits and prosperity, it also gives birth to a number of problems and few unwanted side effects. On the one hand, its influence may cause environmental pollution. The increasing production of synthetic material is leading to less recyclable wastes in comparison to wastes of natural substances in India. The major industries are the chemicals, fertilizers, insecticides, antibiotics, drugs, oil refineries, textiles, jute, tanneries, sugar, distilleries papers, metal etc. these add very dangerous pollutants of air and water because they discharge many toxic organic and inorganic contaminants.

No doubt industrialization makes an important contribution in economic development but it is equally costly by the social point of view because there has been relatively faster growth of industry in the areas which are more polluted. Some industries are fixing treatment plants for pollution controls. But effluent treatment and pollution control are not completely technically and financially feasible for some industries.

5.3.3 Mining and Environment: Due to industries the production of all important minerals shows an increasing trend during the planning period. There is no doubt in the fact that the availability of rich mineral resources makes the economic development of a country easier. But on the other hand the excavations of processing of minerals directly lead to environmental pollution and degradation of the concerned areas by way of polluting water and air adversely affecting land productivity. Mining degrades the quality of life of the people who live and work in the vicinity. Poor tribal's in Orissa are worst affected whose land and forests have been damaged and health is ruined. Proper mineral policy and measures for reclamation and legislations needed to be passed.

Recently, Coalgate and opening of mining activity for foreign companies is doubtful.

5.3.4 Localization of Industries: It is a big challenge. Hazardous chemical industries should be located for away from human settlements. Unfortunately industrial location were never considered on environmental ground, it has led to disasters in many cities.

For example, Bhopal gas tragedy of 1984 explosion of union carbide factory led to mission of toxin gases causing 4000 deaths and injury to 20 lakh people.

In another case, because of polluted water death of livestock took place by drinking poisonous water in barian village of Samba district in 2012.

Mechanical and electrical equipment, containing moving parts are a permanents source of noise pollution.

Hydroelectric power is a clean energy, causing no air pollution. But large dams and their resources takes up land and if not carefully designed and sited can requires the relocation of a large number of people and damage ecological system. The question related to construction of large dams for generating of electricity, human displacement and probable disaster flood in case of loose boundary of large dams constructed are serious for the respective state and country.

5.3.5 Solid Waste : Industrial construction threatening to urban life because uncontrolled dumping of solid waste on the outskirts of urban areas and cities have created the overflowing landfills which is not impossible to reclaim because of haphazard dumping of solid waste but has an implication in terms of polluting the surface ground water and burning of waste adds to air pollution by the increase in total suspended particles which add equal to vehicular emission.

5.3.6 Surface Water : In India 50% of surface water is said to be polluted by industrial effluents and untreated sewage. Many rivers like Ganga and Yamuna are polluted. Through Industrial pollution accounts for 25 % but the kind of effluent waste generated by the industries makes rivers highly toxic. A large quantity of hazards waste is added by the expansion of chemical industries in recent past.

Due to proliferation of industries, there is migration of rural people to urban areas which adds stress to natural resource. For example, in Mumbai out of 12 million people 6 million live in slum and squatter settlements.

Proliferation of industries require provision of infrastructure, demand for labour, raw material, transport, power etc which puts burden on the economy.

5.3.7 Suggestion

Some measures should be adopted to combat these issues .

These are as under:

1. Filters can be used to capture and recycle the escaped gases from the engine.
2. Legislative measure should be adopted such as in India there are the motor vehicles Act 1938. The air prevention and control of pollution 1981, the environment Act 1986.
3. Proper engineering systems such as septic tanks filter beds, waste water and sewage treatment plants for the removal of various pollutants from the sewage before it is tripped into river or seas should be used.

4. Noise producing vehicles should be prevented from plying on the roads their use of pressure horns should be entirely checked.
5. The path of sound can be interrupted by using various materials which absorb the sound energy.
6. Afforestation drive should be made popular.
7. Science and technology should be made to develop solar plants.

5.4 SUMMARY

To check industrial pollution through proliferation of industries in India both regulatory (like no objection certificate, consent, standards etc.) and fiscal (such as fines, subsidies, instruments have been employed to control and present pollution and the emphasis is predominantly on the regulatory approach.

Keywords: Proliferation, conversion, property, Right, Tradeable, permits, Subsidies.

5.5 SHORT ANSWER TYPE QUESTION

Q1. Define Industrial Proliferation

Ans. Proliferation of Industries Means expansions or spreading of Industrial. When an industry develops in an area it lead to growth and expansion of other industries subsequently. It is called Industrial proliferation.

Q2. How does Industrialization affects environment.

Ans. Industrialization is the cause and effect of economic development. Through it results in many benefits, but also cause pollution the effluent, smoke emited from the vehicles, production of synthetic material, chemical antibiotic industries, distilleries etc. add very dangerous pollutants to air and water.

5.6 EXAMINATION ORIENTED QUESTIONS

Q. Discuss the issues in industrial proliferation.

M.A. ECONOMICS

COURSE NO. 566 **LESSON No. 6**
SEMESTER-IV **UNIT-II**

INDUSTRIAL FINANCE

Chapter Outlines

6.1 Introduction

6.2 Objectives

6.3 Industrial Finance and Accounting

6.4 Need for Finance

6.5 Type of Finance

6.6 Source of Finance

6.7 Choice of Funding Internal Vs External Sources

6.8 Summary

6.9 Short Answer Type Questions

6.10 Examination Oriented Questions

6.1 INTRODUCTION

Finance is the backbone of any industrial activities. In this lesson, we will discuss the need, types and source of finance. More over the aspect like owned and external funds, choice of funding, internal vs external source are also discussed in this lesson.

6.2 OBJECTIVE

The objective of this lesson is to appraise the student about need, types and source is of the almost important for energy economic activities.

6.3 INDUSTRIAL FINANCE AND ACCOUNTING

The study of industrial finance is an important aspect of industrial economics. There are two major dimensions of such study. One is the sources of finance and the second its effective utilization. A business firm takes decisions on various issues of these two dimensions of financing. Such decisions will have widespread ramifications as the activities of the firm are interrelated and finance is involved in all of them. Let us take a simple example of financing expansion of a fine. The money for expansion may be raised by borrowing from the markets or by reduction of dividend payments or by curtailing expenditure on some other activities of the firm. If the fine borrows from the market it has to return the money with interest in due course of time. A risk is involved in this. Moreover, the firm is subjected to the pressure of the creditors which may affect its efficiency. If the money is raised by lowering dividend, the price of the firm's shares in stock market may fall. The firm, thus, loses its good will and eventually faces a difficulty in meeting its requirements of funds from outside. If other corporate activities are curried in order to make the money available for expansion, the firm is likely to lose its competitive position in the market which in turn, may affect its earning. In making the choice of financing the firm will examine all such possible effects of the decisions on its position and performance. There will be similar effects of the decisions on its position and performance. There will be similar effects of utilization side of finance on the performance of the firm. A firm having greater proportion of liquid assets in its financial structure may lose profitability. On the other hand, too much fixed assets may lead to a situation when the firm experiences shortage of working assets due to poor liquidity. Considering all such possibilities, the firm has to maintain a proper balance in its assets, i.e. uses of funds in the light of its objectives. How financial decisions are made for this as well as for procurement of finance is a comprehensive subject for study which is covered under Business Finance or Financial Management. This is an integral part of Industrial Economics, since financial behaviour of the firm cannot be studied in isolation with the other elements of the firm's behaviour in the market under different situations. Financial constraints are as important for the firm as market and technological constraints. Even in public regulation of the firm or industrial financial instruments play the key role in practice. This chapter and the following two others will give a brief outline of the financial analysis which will be adequate to understand the financial behaviour of the firm and its integration with the other elements of Industrial Economics. The present chapter will take up the various issues related to industrial finance and accounting for discussion while the analysis of financial statements and capital investment, etc, will be carried on in the following chapter.

6.4 THE NEED FOR FINANCE

A firm, whether it is owned by an individual proprietor or partners or shareholder, undertakes business in anticipation of future gain or return from it. For setting up in business the firm has to make advance expenditure.

Finance is need to undertake all such activities in business. The money which the firm has commits on its business is expected is come back to the human the in form of return in due to course, firm has to wait for this. A farmer ploughs and saw the seeds, labour, etc, before it gets paid for its haulage service. Similarly, a manufacture has to produced goods before he can sell them. He can do so only when he has adequate finance for production of his goods. It is true that in some industries goods are sold before they are made but even in such industries the entrepreneur need finance. Finance is thus a necessary precondition for business, both for its initiation and smooth running.

The requirement for finance depends on the type of business or production and the kind of payment for which it is to be used. Large scale production with capital-intensive technology world required huge amount of money for initial investment and for operating expenses. Small scale production with relatively labour-intensive technology on the other hand may need less amount of money to start the business and to operate it. The nature of technology and the level of output to be produced are natural determinants of the requirement of finance. In some business, it takes considerably long time to set the plant and to make it operative. In business technology such length of time is called ‘gestation period. Longer the gestation period, more will be the requirement of finance. Steel mills, refineries, ship-building, power plants, etc., are a few example of such business. A part from the gestation period, the length of operating cyclie will have considerable implications for requirement of finance. Operating cyclie is the speed with which the working capital completes its round. i.e. conversion of cash into inventory of raw materials and stores, inventory of raw materials into inventory of finished goods, inventory of finished goods into books debts or accounts receivable from the customers and finally realization of cash from the customers and finally realization of cash from the customers. Longer is the period for such cycle more will be the requirement of finance for business operations. The other factor’s influence the requirement of business finance can be cited as terms of purchases and sales, growth and expansion policies of the term, dividend policy, production policies, business, cycle fluctuation and managerial efficiency of the firm. In short, initially finance is needed to establish the business. i.e. installation of plant and other facilities which we call ‘fixed capital formation’. Once such facilities are developed than money will needed for meeting the requirements of working capital. The configuration of technical factor, market and marketing forces and internal managerial decisions and efficiency of the firm will determine the need for finance. The relative important for of individual factors in such configuration is likely to vary across the industries.

6.5 TYPE OF FINANCE

There are basically two type of finance–short-term and long-term. Short-term finance is needed to meet day-to-day requirements of working capital, i.e. making each round of production possible. Long-term finance is needed to meet the requirements of fixed capital formation, i.e. to buy long-life assets which are used repeatedly in the process of production. Normally a firm w ill not commit long-term finance for short-term purposes. A firm, for example, will not use its equity capital raised from stock-market for meeting the requirements of working capital. There is a great risk of capital loss by doing so. Since the money invested in short-term uses is not certain to be realized in the form of return from the business. It is only, expected to flow back to the firm in the form of realized sales. Between these two categories of finance, e.g. short-term and log-term, there is no unanimity about what constitutes the medium term it can be nay use of money between, say, one to ten years. The medium term finance has considerable flexibility in its uses. It may be sought for investment in plant and equipment and so semi-permanent or permanent addition to current assets say long-term buffer stock of certain input higher purchase requirements or leasing of equipment or other property for use in business. The firm can use term finance the retiring a bond issue of redeemable preference shares.

Short-term finance, used in business, is paid back when the goods are sold. it will be recovered when everything produced with its help is sold to the customers at a reasonable price and the cash from the sales is realized by the firm. After making appropriate deductions for profit, depreciation and other imputed values, the firm uses the balance of the sales revenue to finance the next round of production. There may be deficiency in financing the successive rounds of production when the output of the previous round of operation is not sold fully in the market and thus part of the working capital remains unrealized. The deficiency of funds may also arise as a result of increase in cost of production and upward revision of the production target. In all such situations, the firm would be in need of additional short-term finance which could be arranged by either drawing from the reserves of accumulated retained earnings and depreciation or borrowing from outside. Retained earnings and depreciation reserves are generally used for long-term financing, i.e. for expansion of productive capacity of the firm or replacement of old unserviceable equipment by new one. If such reserves are diverted towards short-term uses then there may be deficiency in financing the long-term expansion plans of the firm. Again it has to go to the market for borrowings to cover up such deficiency. Both the types of finance are, thus, used for different purposes. The firm is likely to face difficulties or complications in proper use of its money if there is overlapping in the uses of short-term and long-term finances. The overlapping is possible of course in the case of medium-term financing.

Besides the requirements of finance for short-term and long-term purposes a firm would need money to meet future uncertainties and business-risks. Fraud, embezzlement, thefts, fire-destruction, etc., are some example of business-risks and uncertainties. Firms generally maintain adequate financial reserves to meet situations. There is no specific name for this type of financing. Some of the risks are covered through short-term provisions such as insurance coverage but, by and large, there is no standard procedure to account for them regularly. Each firm will be having its own criterion and judgment to meet the financial requirements for risk-coverage. Its short-term and long-term financial policies will take care of such requirements mostly on probability basis. So, we may still classify the finances into two general categories: short-term and long-term, and add a third one to them which is called 'medium-term finance' as defined and discussed above.

6.6 SOURCE OF FINANCE

Other important inquiry in connection with the financial analysis is to examine the sources of short-term long-term finances. Where from we get them and at what cost, is a highly relevant question. In this section the first part of this question is being examined leaving the second part for the later section. Sources of finance can be divided into three categories:

i. Internal or Self-Finances comprising of (a) Retained Earnings, (b) Depreciation Provision, (c) Taxation Provisions, and (d) Other Reserves.

ii. Short- and Medium-term External Funda comprising of mainly (a) Bank Credit, (b) Hire-Purchase Debt, (c) Trade Credits, and (d) Fixed Deposits.

iii. Long-term External Funds, i.e. the sale of shares and loan capital.

Internal Sources

Internal funds are generated by the firm itself. The major portion of such funds will be in the form of reserves and surplus which a business firm accumulates annually by retaining a portion of its profits. Apart from contained earning a business firm makes annual provisions for depreciation allowance, taxation, etc. The accumulated amounts of such provisions constitution the other element of internal funds. There will be extensionally other miscellaneous item on account of which internal funds are generate such as development rebate given by the

Deprecation money would be used for replacement of old and unserviceable fixed assets. However there is no strict rigidity in use of internal funds. If needed, such funds could be used absolute levels of past and current profits, the policy adopted by the firm towards, the distribution of such profits (i.e divided policy) and scope and need for expansion of the firm. The dividend policy or retained earnings decision of the firm directly affects the current supply of internal funds for long-term uses and indirectly the external funds for such uses, since for a given requirement of long-term funds greater the proportion of internal supply of funds lesser will be the dependency on external sources, other things such as cost of capital, etc,. remaining same. The availability of deprecation founds depends on the amounts of capital invested on fixed asserts., method of depreciation calculation. Service-life of the asserts rate of discount, etc. The internal funds available from other source such as taxation (net of income tax) provision, development rebate etc., will depend mainly on the government's fiscal and investment policies. Their proportion in the total internal funds will be normally very low or insignificant.

External source : short-term

External funds for short-term uses are raised in various forms such as bank loans, trade credits, commercial papers like bill-of-exchanges and other promissory notes, hire-purchase facilities and leasing, etc. Banks are traditional source of short-term finance. They provide credit for industry and trade in the form of loans and overdraft facilities basically to meet the working capital requirements. Such loans mature within a year time after which they are either returned backed with interest or renewed for next year. Banks also provide medium term loans to meet the requirements of fixed capital formation pending the raising of long-term finance through other sources. Availability of bank finance depends on good banking relations, cost of borrowing, repayment terms, credit-worthiness of the firm, and nature of business whether it is risky or not, etc.

Trade credit is another important for m of short-term financing. It refers to the sale of goods on non-cash terms. A firm receives trade credits when it pays in arrears for goods and services received from its suppliers. It gives credits when it allows its customers time for paying the bills. The firm giving trade credit records it under "accounting received by the firm largely in manufacturing and distributing sector. It is now becoming popular in other sectors of economy also. There are four important factors which determine the volume of trade credits, they are (1) the nature of product, (2) the seller's financial position, (3) the buyer's financial position and (4) the terms of sale, i.e. the cash discounts. The nature of product refers primarily to the speed of sales turnover. The products that have faster sales turnover, i.e. sell quickly in the market, are sold on shorter credit terms as the firm giving such credit would not be facing slackness of demand for its product and consequently accumulation of inventories. Where demand prospects are positions jointly determine the availability and terms of trade credit. A seller's and buyer's financial position may offer favourable credit terms for longer period than a seller whose financial position is weak. Similarly, a buyer with strong financial position may prefer shorter trade credits as he would like to have benefits of cash discount while buying goods. A buyer having weak financial position would not be able to get such cash discount. His option will be prefer long trade credits. Cash discounts will have independent influence on the length of credit. A seller may induce its buyer to reduce the length of trade credit received by them by offering high cash discounts. Trade credits are flexible and deadly available source of short-term finances. However, there will be costs associated form the seller's and buyer's codes in trade credit transitions which are to be properly balanced with the advantage of the system.

Another source of short-term finance is commercial papers which consists of the unsecured promissory notes of large firms sold primarily to other large firms and financial institutions. The bill-of-exchange is a simple example of a commercial paper is widely used in financial markets for short-term funds. The bill-of-exchange is, in law an unconditional order in writing, addressed by one person to another the person giving it, requiring the person to whom it is addressed to pay on demand or at determinable future time a sum certain in money to or to the order of a specified person or to beater. The person to whom the bill is addressed' accepts' it by signing on its face. Tire bill-of-exchange then a legal commercial paper and an instrument for short-term financing. The drawer of the bill (i.e. the who issues it) can hold it himself until it is due for payment or he might be able to discount it with a bank or discount house and get payment at once less interest for the outstanding period and banks the service' He might be able to use it after endorsement to pay a creditor of his own if the willing to accept the bill the use of the bill-of-exchange is restricted now to large firms. Deferred cheque are now preferred over the bill-of-exchange. In India, ‘Hundi’ is the conventional form of the bill-of-exchange. Being a form of unconditional promissory notes, the success of the bill-of-exchange in credit market depends on goodwill of the business firms commercial papers, including the bill-of-exchange, are usually cheaper than unsecured bank loans. The business circles, particularly the large corporations, find them convenient in use.

Recently hire-purchase system has gained the status of an important source of short-term financing. Firms resort to this practice for buying machinery and plants and other durable goods. It is the easiest-way of financing since the firm pays in installments for the goods and the security of loan (i.e. value of goods purchased) resides in the goods purchased as they belong to the supplier till will payment is made for them. This system of financing, though convenient, may be expensive. It is more appropriate for medium-term financing rather than short-term. There are other miscellaneous ways of short-term financing which on the whole may be quite significant. Fixed deposits with companies under the companies (Acceptance of Deposit) Rules, 1975, in India, for example, is becoming a popular way of financing for short-term, medium-term purposes their borrowing from commercial banks. Public deposits are channelized in business directly rather than through banks, which eliminates bank profits and service charges from the cost of funding. The facility of public deposits is beneficial only to large corporations. Small business firms run by single proprietors or partners would not be resorting to this method of financing. They depend for their short-term finances on the other sources discussed above and even may go to private unorganized money markets for funds.

External Sources : Long-term

Long-term finance is raised from external sources in the form of share or equity capital and borrowings. The issue of shares and thus raising of share capital from outside is regulated by the government. It is, therefore also called as ‘authorized paid-up capital’. The shares are ‘sold’ in the market in two forms: ordinary common shares and preference shares. The difference between these two types of shares has already been discussed earlier (see chapter 3). Mainly, they are distinguished on the basis of the mode of payment dividend. The rate of dividend on preference share is fixed which is to be paid even though there may be a loss in earnings. The rate of dividend paid to ordinary shares will be fluctuating depending on earnings and dividend policy of the firm. The proportion of preference shares will normally be extremely low or even it significant in the total number of shares floated by the firm. A public limited company will collect its authorized equity capital from a large number of shareholders directly or through brokers. A private limited company however restricts the number of shareholders to 50 only. Though tile share capital is owned by the owner of the firm, i.e the shareholders, yet it comes under external funds because it is not earned by the firm itself. It comes from the outside sources. Some shares are, of course distributed by the firm form its serves and surplus stock to its shareholders. Such shares are called bonus shares. The amount of money shown by such share will of course be defined internal funds.

Bounds and debt instruments. A bond is a security to pay a certain number and money units of yearly until it matures. After that time the borrower pays back the principal of the bound at the. A debenture is just like an equity share but it is a loan to the company. A person holding debenture get interest at fixed rate. He cannot participate in the ownership of the firm. The loan specified by debenture is usually, but not necessarily, redeemable in the stated year or within a stated range of years. It is normally secured on the company a specific assets. Such debenture is called mortgage debenture. The debenture may be secures by a general changes on the assets of the company. It is then called floating debenture and when it us secured at all then unsecured debenture. If debentures are convertible into shares then they are called convertible-debenture'. A growing practice in most of the industries is, now to issue such debentures. Bonds and debentures are alike as for as their functions are concerned. Both, being debt instruments, save corporate income tax. However, a bond is issued for some fixed but debenture has not such limit of time.

6.7 CHOICES OF FUNDING INTERNAL VS EXTERNAL SOURCES

One alternative sources of financing are available to a firm it has to make the choice from them. Particular the decisions to the taken whether money is to be raised from internal or external sources. If external sources are to be tapped then the obvious question arises about the form in which funds should be raised. A firm may float more shares in the market. It may raise money through debenture and bonds or simply borrow from banks and or financial corporations or even approach the government or its own friends for help. The choice of the form in which finance is to be raised is not very easy. Let us examine some of the issues involved making such choice.

As the choice between internal and external finance is concerned, firm in general prefer the former one. There are some advantages from this. it will be easy for the firm to take risks with internal, i.e. own money than with someone else's. The firms will be having flexibility in the use of internal funds. They will not be subjected to control and pressure of outsiders in the company's affairs which is an inherent difficulty of external finance. The firms pay high price by surrendering control, or a part of it, to the outsides by taking external finance. Further, the firms need not be under constant pressure of increasing their profits to meet the cost of funding effectively. They may be contented with some satisfactory level of profits with internal money. Whatever be the advantage of internal financing economists' suspect it as conducive to an inefficient use of resource since companies relying on entirely internal funds are subjected to no checks on the relative profitability of their investment. Such as imposed by competition for fund in the market. With external funds, a firm becomes more conscious of the cost of financing. It attempts to maximize its profits through efficient management of the funds and their utilization. It is, thus, subjected to the test of the market which makes firms more efficient. Firms relying on internal funds, particularly the small firms who find it difficult to borrow or raise money from outside may be as efficient as the firms which are subjected to the market test through external finance provided their management is efficient. Most of the firms go to the for money when internal sources are not enough. A firm retaining high proportion of its profits for internal financing is likely to lose its wealth as low rate of dividend affects the value of shares adversely. On the other had of the firm approaches the market for funds frequently in the absence of sufficient internal funds, it has to pay higher rate to cover the creditors risk due to its high indebtedness. The external situation of financing, i.e. hundred per cent internal or external finances are unlikely. The common practice observed in business circles is that firms maintain some appropriate proportion between internal and external funds. The proportion of the funds depends on factors like purpose for which funds are required profitability of the firm, dividend policy, stability of earnings, relative cost of funds, availability of funds nature of business, structure of firm's assets and liabilities, ownership pattern of the firm, future expectation and the regulatory policies of the government. Such factors are not allowed to raise equity capital beyond a certain limit by floating shares. Similarly, they are not free to issue bonds or debenture beyond the sanctioned limit. Considering all constraints imposed by the government by the government and/or market, firm will take decisions about the financing pattern of their business. The principle of opportunity cost of funds will be the basis for financial decision-making. If opportunity cost of internal funds is high, the firm will be external funds in greater proportion and vice-versa.

It taking financial decisions a firm has to keep in mind that there should not be either under capitalization or over-capitalization of its business. Under-capitalization is a situation when funds are inadequate for the work they intend to do. If there is such situation, the firm will face several consequence. It will be two much cautious in its uses of funds. It will be foregoing spot bargains, economies of buying and cash discounts due to shortage of finance. It will be dependent on markets for short term finance. Frequent borrowing by the firm from outside may be viewed as a red signal about the sound of the firm. Creditors may therefore raise the rate of interest for such firm in order to cover the risks of defaults The current operations and growth of the firm are likely to be to under-capitalization. The suppliers of the firm do not get their payments in time the deliverers of materials, etc. This hampers production and consequently by the customers and eventually a loss of revenue and further deterioration in the financial position of the firm. If production, and hence earnings are maintained effectively (which is unlikely of country) then under-capitalization makes the profit-rate high. Because of high profit-rate there may be demand from workers for more wages, customers plead for lower prices and the firm is subjected to public criticism for higher profits. This puts the firm in embarrassing situation. If the firm responds to all such demands then its financial position will worsen further.

Over-capitalization is the reverse situation, i.e., funds are more than required. It helps the management in the early stages in bringing the stability in earnings and growth of the firm. However, too much money in the hands of managers is a temptation to waste and inefficiency. This may lead to low income-capital ratio which, in turn, reduces the rate of dividend. Low dividends due to over-capitalization, eventually put unfavourable effect on the market valuation of the firm's shares which implies a loss to the firm. The external financing in such situation becomes more difficult or expensive forcing the firm to rely more on internal sources. If this is so, the firm has to make adequate provision for internal finance to meet its current requirements by increasing retained earnings. This reduces the rate of dividend further which puts the firm in troubles in the share markets. To avoid such possibility the firm may be led to low income-capital ratio which, in turn, reduces the rate of dividend. Low dividends due to over-capitalization, eventually put unfavourable effect on the market valuation of the firm's shares which implies a loss to the firm. The external financing in such situation becomes more difficult or expensive forcing the firm to rely more on internal sources. If this is so, the firm has to make adequate provision for internal finance to meet its current requirements by increasing retained earnings. This reduces the rate of dividend further which put the firm in trouble in the share markets. To avoid such possibility the firm may be led to inflate its income by dubious methods in order to show high profitability on , though it increases maintain its good will in the stock-market the firm has to make some sacrifice. In practice, a rational, i.e. efficiently managed firm, would never allow itself to be in such a trap.

6.8 SUMMARY

Under-capitalization and over-capitalization are undesirable symptoms of business. They are to be avoided. For this, the firm has to be very careful in making estimates of capital requirements for its business. once such estimates are made the him looks for the sources of funds. The choice of the sources of funds will be governed by the factors mentioned earlier such as purpose of funding, cost of capital, current and expected earnings, dividend policy of the firm, assets-structure, government policies, etc. It is not very easy to find the optimum structure of financing since this requires a careful balancing of so many interplaying factors.

Key words: Fixed capital, bond, debentures embezzlement, retained earnings, hire purchase, lease, dividend.

6.9 SHORT ANSWER TYPE QUESTIONS

Q1. What are the types of Finance?

Ans. There are basically two types of finance:

Short Term and Long Term : Short term finance is needed to meet day to day requirement of working capital. Long term finance is needed to meet the requirements of fixed capital formation i.e. to meet the requirement of foxed capital formation i.e. to buying long life assets which are used repeatedly in the process of production.

Q2. Discuss the source of finance.

Ans. Source of finance can be divided into three categories.

a) Internal or Self Financing comprising

(a)	Retained earnings	(b)	Depreciation Provision
(c)	Taxation Provisions	(d)	other reserves

b) Short and Medium Term External Funds comprising of mainly

(a)	Bank Credit	(b)	Hire Purchase debt
(c)	Trade Credits	(d)	Fixed Deposits

c) Long term external funds i.e. the sale of shares and loan capital.

6.10 EXAMINATION ORIENTATED QUESTIONS

1. Discuss the need and important of Industrial finance.
2. What are the various types of finance?
3. What are the basic sources of finance?
4. Discuss in details the choice of funding: External vs Internal.

Suggested Reading

Barthwal, R.R, An Introduction to Industrial economics, New Age Publishing House.

M.A. ECONOMICS

COURSE NO. 566 | **LESSON No. 7**
SEMESTER-IV | **UNIT-II**

INSTITUTIONAL FINANCE

Chapter Outlines

7.1 Introduction

7.2 Objectives

7.3 Industrial Development Bank of India (IDBI)

7.4 Industrial Finance Corporation of India (IFCI)

7.5 Industrial Credit and Investment Corporation of India (ICICI)

7.6 State Financial Corporations (SFCs)

7.7 Short Answer Type Questions

7.8 Examination Oriented Questions

7.1 INTRODUCTION

In India there are number of financial institutions doing commendable work in the field of finance. In this lesson an attempt is made to discuss the role, nature, volume and types of various financial institutions like IDBI, IRCI, ICICI and SFC.

7.2 OBJECTIVES

The objectives of this lesson is to make the student understand the role and importance of financial institutions like IDBI, IRCI, ICICI and SFC. So that they may have knowledge of every aspect of these institution.

7.3 INDUSTRIAL DEVELOPMENT BANK OF INDIA (IDBI)

Prior to the establishment of the industrial bank of India, the country had a number of special industrial financing institution. They had done commendable work in the field of industrial finance, though in terms of range and magnitude they could not adequately meet the demands of the industry. There was organization to coordinate the functions of various industrial financing institution. It was under these circumstances that IDBI was set up as wholly owned subsidiary of the RBI. In February 1976, the IDBI was made an autonomous institution and its ownership passed on from the Reserve bank of India to the government of India.

The IDBI has rightly been designated as the apex organization in the fields of development banking. It not only has organizational links with other development banks but it also renders some such services to them which only an apex organization is expected to perform.

In the first place, it provides refiance against loans granted to industrial concerns by other development banks like the IFCI, the SFC and so on and rediscount their machinery bills.

Secondly, it subscribes to the share capital and bond issues of the IFCI the ICICI, the SFCs and the IRCI. Apart form these linkages the IDBI plays the role of a coordinator at all India level. For this proper machinery has been evolved and regular meetings of the Heads of Various financial institutions are held under its leadership. Thus the IDBI enjoys a unique position in India's development banking system.

Role to be played by IDBI

The most important feature of the IDBI is that it is assigned the role of the principle institution for coordinating the financial activities of public financial institutions engaged in providing financial assistance as also in promoting and developing industries, coordination being done in conformity with national policies and priorities.

The IDBI is assigned a special role to play in the following sphere:-

1. Helping to plan, promote and develop industries as per the national priorities as indicated by the Industrial policy resolution and help to fill vital gaps in the industrial structure of the country.

2. Providing administrative and technical assistance for promotion, expansion and management of industries.

3. Undertaking research and surveys in the sphere of marketing and investment and techno-economic surveys relating to the development of industrial in the country.

A special and most important function of the IDBI is to coordinate and monitor the entire range of credit facilities offered by the public financial institutions for small and cottage industries.

The IDBI is empowered to provide financial assistance to any types of industrial establishments engaged in the following activities. Manufacturing, processing and presentation of goods, shipping and transport, mining, generation and distribution of electricity, fishing, vehicles, hostelling and setting up of industrial estates. The IDBI is taking research and development of any product or providing technical knowhow or other type of services needed for the development of industries. Also, the IDBI provides for exporting of engineering goods on a deferred payment system.

Management and organization of the IDBI

Management of the IDBI is enfrusted to the board of directors. This board consists of 22 persons, including a full time chairman cum-managing director who is appointed by the central government.

1. The other members of the Board of Directors include a representative of the RBI.

2. Officials of financial institutions, a representative each of all India financial institutions,

3. Representatives of the public sector banks and state financial corporations and persons with special knowledge of industries. There is also provision in the Act for appointing nominees of employees of the financial institutions.

The board of Directors constitutes an executive committee which consists of 10 directors including the chairman-cum-managing director. While the board of directors deal with only overall policy matters concerning the activities of the IDBI. The executive committee deals with applications for loans and with proposals for sanction of financial assistance to industries and other important matter of the IDBI.

The IDBI has its head office in Bombay it has five Regional offices which are located at Ahmedabad, (western Region) Calcutta (Eastern Region) Guwahati (Northern Region), Chennai (Southern Regions) and New Delhi (Northern Region). The IDBI has set up Regional committees to gives advice and guidelines to different regional offices of the IDBI.

Besides these, the IDBI has eleven branches at Bangalore, Bhopal, Bhubneshwar Chandigarh, Cochin, Hyderabad, Jaipur, Jammu, Kanpur, Patna and Shimla.

Capital and financial resources of IDBI

The operations of IDBI have grown over the years and so have it resources. The main source of its funds are share capital reserves, borrowing from the RBI and the government of India and bonds and debentures issues. A part from these principal sources these are a few other sources of funds like deposits from companies and role of investment. The IDBI raised its original share capital from Rs. 100 crores to Rs. 200 crores in May 1980. At the end of June of 1981 its paid capital stood at Rs. 14 crores Reserves and Reserve fund at Rs. 129 crores i.e. its own funds came to Rs. 274 crores. Its total funds including other at the end of June 1981 stood at Rs. 3363 crores.

Types of Assistance/functions by the IDBI

The activities of the IDBI which comes a wide compass have been patterned to suit the requirements of the large, medium and small sector industries. In respect of the size of the loans there are virtually no restrictions on it. Moreover, it is completely free to use its own direction in respect of the security to be obtained against the loan sanctioned. Its assistance can be broadly classified into the following categories.

1. Direct financial assistance to industrial enterprises :-

The IDBI provides direct financial assistance to industrial concerns in the forms of loans underwriting and direct subscription to shares and debentures and guarantees. The policy framework of the IDBI in respect of direct financing has been decided by its apex position. It, therefore generally avoids competing with other special industrial financing institutions. It Infact, acts as the lender of the last resort. Morever, the loans and advances which the industrial Development Banks makes to any industrial concern may be converted into equity stocks and shares at the option of the development bank. The bank is also empowered to guarantee loans raised by industrial concerns in the open market from scheduled banks, the state cooperatives banks, IFCI and other notified financial industries.

The IDBI normally charges a rate of industrial of 11.85% on its term loans, charges understanding commission of 2.5 % on the face value of shares underwritten, 1.5 % in the case of underwriting of debenture. The IDBI's direct assistance to industrial enterprises in the entire period of its existence has accounted for about 1/3 of its total assistance.

2. Indirect financial assistance :-

A major part of the IDBI's assistance is routed through some other financial institutions including the state financial corporation, (SIDC) State Industrial Development corporation and commercial banks. This form of assistance is generally charactersced as indirect financial assistance. It has demand into three categories

First of all it can refinance term loans to industrial concern repayable within 3 to 25 yrs given by the financial institutions.

Secondly, it can reference terms loans repayable between 3 and 10 years given by the scheduled banks or state cooperative banks.

Thirdly, it can refinance export credit given by scheduled banks and state cooperative banks rediscounting of bills, subscription to shares and bonds of financial institutions.

3. Special Assistance :- The IDBI Act, 1964 has provided for the creation of a special find known as the development assistance fund. This fund is to be used by the bank to assist those industrial concerns which are not able to secure funds in the normal course because of low rate of return.

It is interesting to note that unlike the other existing statutory financial corporation the development banks has no restriction imposed regarding the nature and type of security which it should kept.

• Some more operations of the IDBI

The industrial development bank provided direct loans to industrial concerns, refinance of industrial loan and export credits, rediscounting of bills, undertaking of and subscription to shows and debentures of industrial units. It has become the most important institutions asserting industrial units.

IDBI has introduced new services with a view to provide wide range of services under direct finance. For instance IDBI has introduced venture capital funds and technology upgradation requirement finance etc. some more functions or assistance of IDBI are shown as under:

Assistance to backward areas:- The IDBI has initiated certain financial and non financial measures to encourage industries in back ward area. Financial measures are of three types:

a) Direct financial assistance in the form of loans at concessional rates, longer initial grace period etc.

b) Conversional reference assistance to project in backward areas.

c) Special concession to project in North eastern area under the bill rediscounting scheme.

Non financial measures aim at helping potential entrepresence in identifying and formulating viable projects, technical assistance etc. The IDBI's assistance to projects in backward area amounted to 4227.02 crores in 1967-83 constituting 36.3% of its total assistance. During 1983-84, it provided 42.4 % of its total assistance to backward areas.

Assistant to small scale sector:- The IDBI are shown particular interest in the small scale sector. From the very beginning it has been operating a scheme under which the small scale industry receives financial assistance concessional term. The IDBI's assistance to small scale industries and small road operations is picking up very fast.

IDBI launched the National Equity Funds scheme in 1988 for providing support in the nature of equity to small scales industrial units engaged in manufacturing cost not exceeding Rs 5 lakh. Of particular importance is the setting up of the small industries development fund in may 1986 to facilities the development and expansion of small industries. It started functioning from April 1990 and has become the principle financial institution for promotion, financing and development of small scale industries.

Refinance facilities by IDBI

Refinance of industrial loans is an important function undertaken by the IDBI.

Under this scheme medium size and small scale industrial units can avail of the IDBI's refinance assistance through eligible financial institutions like the commercial banks, state cooperative banks, SFC, Regional Banks and investment corporations.

The IDBI provides reference assistance upto a maximum of Rs. 140 lakh to a single project involving investment of upto Rs. 200 lakhs in respect of loans sanctioned by the conservation of state level financial institutions.

The IDBI also provides reference facilities in the case of given for construction of industrial estate.

For small scales industrial, refinance of loans upto Rs. 5 lakh from eligible institution is possible from 1st July 1978. Rs 25000 sanctioned to village and

Cottage Industries.

The IDBI also provides foreign currency loan assistance through the SFCs to medium and small size industrial units for financing the import of capital equipment and technical knowhow from abroad Maximum amount of loan is Rs 10,000000 and minimum 10000.

Soft loan Scheme :- IDBI introduced in 1976 the soft loan schemes to provide financial assistance to productive units in selected industries namely cotton textiles, jute cement, sugar etc. This soft loan assistance is given to enable these industrial units to bring about the much neglected modernization, replacement and renovation of plants and machinery, all with the objectives of enabling the assisted units to achieves higher lends of efficiency and productivity. This scheme is operated by the IDBI in cooperation with IFC and ICICI.

The rate of interest is 7.5% and the period of loan is 15 years.

From Jan 1984, this schemes was modified and now called –soft loan schemes for modernization –so as to cover deserving units in all industris.

Technical development funds Scheme : The IDBI provides direct financial assistance or loans to enable industrial units to utilize imports license under the technical development fund scheme of the Government. Generally, the limit for total import under this scheme is Rs. 250000 per undertaking per years.

Balanced Regional development:- Since 1970 IDBI has initiated certain promotional and development activities to meet the twin objectives of balanced regional development and accelerated industrial growth.

Export finance and counseling service of IDBI:- The IDBI provide finance for the purpose of helping the export of engineering and other capital goods and services on deferred payment basis. The IDBI offers financial assistance on liberal credit terms with a view to enable Indian exporters to complete in international markets. The IDBI's principal export formation schemes include items such as:-

a. Overseas buyer’s credits under which the IDBI offers credits to foreign buyer to import capital goods from India.

b. Providing finance to overseas financial institutions

c. Direct financial assistance to Indian exporters of capital goods.

d. Refinancing facilities in case of export credit

e. Providing guarantes.

Subscription to share capital and bonds of other financial institutions:- IDBI makes a contribution to the share capital and bond of financial institutional like SFC’s the IFCs, ICICI and the UTI with a view to strength their financial base and position by providing a sound capital base.

IDBI’s Schemes of Discounting of Bills:- Under this scheme, the IDBI rediscounts bill promissory notes assessing out of roles of indigenous machinery on a deferred payment basis. The advantage of these schemes is that it enables industrial establishment to buye machinery on deferred payment basis.

Seed capital assistance schemes of IDBI :- With a view to render assistance to entrepreneurs who possess technical skill but lack of funds IDBI has put into operation the following 2 seed capital schemes.

(A) **The SFCs special shares capital schemes :-** Under this schemes, the SFCs provide such assistance to projects in the small scales sector from their special class of shares capital contributed by the IDBI and the concerned state government.

(B) **The IDBI’s own schemes :-** This schemes is operated mainly through SIDCs and the SIICs and is providing seed capital assistance to medium scales industrial projects costing up to Rs 1 crore. Assistance under both the schemes mentioned above is interest free with service charges of just 1 % peranncem

Promotional function of IDBI:- Apart from providing financial assistance to industry the IDBI performs certain promotional functions as well. These include provisions of training in project evaluation and development of entrepreneurship. A special schemes had been initiated for no industrial potential of 90 no industry district. The programme is to arrange training for potential entrepreneur in these district besides giving financial, technical and administration resistance to selected projects.

The IDBI has also sponsored eight technical consultancy organization in different parts of the country. TCO has also made considerable progress in training new entrepreneurs.

Financial assistance by the IDBI:- Since its establishment in July 1964 till the end of 1991 the IDBI has sanctioned finical assistance of around 48560 crores whereas the total amount of financial assistance disbursed amounted to Rs. 34660 crores. In 1980-81 amount disbursed by IDBI was 788.5 crores whereas in 1990-91 it will 3511.5 crores amount sanctioned during 1991-92 it will Rs 3511.5 crores. Amount sanctioned during 1991-92 was Rs 7639.6 crores.

Critical Appraisal

From the above description of the role and functions of the IDBI, it would be clear that the IDBI aims at providing new direction and thrust in the area of industrial finance. The IDBI was set up twenty three years ago to function as an apex institution in the field of development finance judged by its assistance measured in quantitative terms, the performance of the IDBI looks quite impressive.

However, without under the importance of the contributions made by the IDBI, it must be stated that it has failed to develop itself as a true development bank.

Firstly, it accent on providing loans and treating underwriting of shares and debentures of industrial concerns as a secondary activities is not very appropriate.

Secondly, though the IDBI has covered 245 out of 247 backward district in the country, there still exists a wide disparity in financial assistance to backward district of different states.

Similarly, in spite of its repeated consenting to help the small scales sector, the largest check of financial assistance has gone to big industrial concerns. Thus the distributional consequences of its working are not very healthy.

Finally, the IDBI has mainly concentrated on providing the financial assistance. The promotional and consultancy works has not been assigned the same importance.

To meet these challenges effectively, steps will have to be taken not only effecting needed organizational changes and for attracting and motivating the required cadre of personal but also for upgrading their skills. Thus, there is a need for a change in the approach of the IDBI towards industrial development.

7.4 INDUSTRIAL FINANCE CORPORATION OF INDIA (IFCI)

Industrial finances corporation of India was set up in 1948 under a special Act, with the object of providing medium and long term credit to industry. The role assigned to it was that of a gap filler which implied that it was not expected to complete with the existing channel of industrial finance. It was only meant to supplement their efforts. It was expected to provide credit to industrial concerns including cooperatives only when they could not raise funds by recourse to capital issues methods or normal banking accommodation. The objective was to diversify industrial and financial activities, sub serve the common good of the nation and promote industrial growth by providing industrial finance in areas where banks could not make much headway. The ambit of the IFC embraces the entire industrial sphere in the country.

Management of the IFCI

The board of directors of the IFCI consists of a whole time chairman and 12 directors. The chairman is appointed by central government in consultation with the IDBI of the 12 directors, 2 are nominated by the central government and 4 by the IDBI and 6 are elected by the shareholders of the IFCI other than IDBI.

Capital and other Financial Source of IFC.

The main source of funds of funds of IFCI, other than its own capital, retained earnings, repayment of loans and role of investments borrowings from the markets by the issues of bonds, borrowing from the central government and lines of credit secured form foreign lending institution.

Three main sources:-

i. Share capital
ii. Bonds and debentures
iii. Other borrowings

The authorized capital of IFCI is RS 20 crores of that 50% is subscribed by the IDBI and the remaining 50% is subscribed by the scheduled commercial banks, cooperatives banks, life Insurance corporation etc.

Functional performed by the IFCI

The IFC provides financial assistance to industries in India in one or more of the following ways :-

i. Rupee loans
ii. Under or direct subscription to shares and debenture of public limited companies and
iii. Loans in foreign currencies out of foreign exchange line credits made available to the IFCI.

The IFCI also provides guarantee for:

i. Deferred payments in respect of machinery purchased from Indian market or import from abroad.
ii. Foreign currency loans raised from foreign financial institutions by industrial undertakings in India from the scheduled commercial banks and state cooperative banks and from the money market.

Conditions for eligibility for financial assistance from IFCI Under the IFCI Act of 1948, the following classes of industrial concerns in India are eligible for financial assistance from the IFCI

1. Public limited companies whether in the public, private or joint sector incorporated in India.

2. Cooperative society registered in India which are engaged in
    i. Manufacturing processing and preservation of goods
    ii. Shipping
    iii. Hotel industry
    iv. Generation and distribution of electricity and any other form of energy.

Quantum of financial assistant by IFC

The IFCI has been largely catering to the financial needs of large scale and medium scales industrial assistance either single or jointly in cooperation with other financial institute like the IDBI, LIC, UTI etc. The IFCI entertains applications from those eligible industrial undertaking in India whose cost is above Rs 2 crores. Industrial project costing over Rs 2 crores upto Rs 3 crores can be considered eligible for financial assistance by the IFCI independently.

In case the IFCI considers that such a project costing above Rs 2 to 3 crores require participation for financial assistance purpose of other financial institutions the IFC arranges such participation of other financial institution by itself by contracting them.

But the policy of the central level financial institution is that as for as possible, the applicant should have to deal with only one financial institutions for apprasial of an industrial project, disbursement of Funds and follow up action.

Purpose for which the IFC assistance is available:-

The IFCI, by itself or jointly with other central level financial institutions, provides financial assistance for

a. Establishing new industrial projects.
b. Expansion of existing industrial units.
c. For diversification into new lines of production.

d. For renovation and modernization of existing industrial units.

The IFCI does not generally give loans to industrial concerns for the purpose of meeting their working capital requirement.

While giving financial assistance to a new industrial project or for expansion of an existing industrial units, the IFCI also pays due attention to economic and social aspects of the project such as employment potential possibilities of development of ancillary industrial units, benefits which are likely to accrue to backward and rural areas of the country and so on.

Apart from giving financial assistance to industrial specifically listed by the government in the priority sector, the IFCI considers the following criteria while financial assistance.

a. Labour intensive and employment orientated projects

b. Export oriented project with export obligation of 60% of the total quality by produced or above that %

c. Project preferred to be established in notified less developed area of the country.

d. Industrial project of new entrepreneur and technology and new materials.

Soft loans to industries by the IFCI.

At present, the planning commission has notified 247 districts in 22 states and seven UT as less developed districts or areas. In the case of industrial units to be started in these specified less developed districts or areas, loan are given on concessional terms upto a maximum limits of Rs 2 crores and underwriting up to maximum of Rs 1 crore are available from the central financial institution on a joint financing basis. In the case of the IFCI the overall for concessional finance for individual industrial units is Rs 1 crore, if other central finance institution do not participate in the case of backward area development schemes. It include:

a. Concessional rate of interest applicable to both Rupee loan and sub loan in foreign currency.

b. Extended amortization and moralosirum period.

c. 50 % reduction in the case of rupee loans by the IFC’s normal charges such as legal charges etc.

d. 50 % reduction in the applicable rate of underwriting commission

e. 25 % reduction in the rate if commission on deferred payment guarantee.

Concessional loans to hotel industry

The IFCI is the only designated central financial institution which gives a limits of RS 75 lakh per hotel at a subsidies rate of interest to hotel industry. The element of subsidy is 1% per annum and it borne by the Government provided the concerned hotel does not commit default in paying installment and meeting it commitment to IFCI. The objective behind giving subsidized loans to the hotel industrial is to promote tourism and earn valuable foreign exchange for the country.

Modernization Assistance Scheme:- For modernization of five selected industries, namely cotton textiles, jute, cement, sugar and engineering, there is a scheme known as soft loan scheme. The overall responsibility of the Scheme in with the IDBI.

Under the Soft loan scheme introduced in 1976 both of and weak industrial units in the above mention categories are eligible for concessional assistance for modernization would be that of modernization of the units is not effected that would lead to sickness, where if modernization is taken up it would lead to increase in productivity and competitive strength of the unit in a relatively short period of time.

Sub Loans in Foreign currencies.

Sub loans in foreign currencies at concessional rate of west Germany, the UK and Sweden are given by the IFCI along with the lines already stated for financing import of capital goods for new projects or expansion or balancing or modernization of existing industrial units.

For this, it is necessary that the applicant must have in this possession capital goods clearance from the Government followed by the issue of requisite import license authority the import of plant and equipment.

Guarantees for deferred payment and for foreign currency loan:

The IFCI is empowered under the statue to provide guarantees for deferred payment to be made by industrial units to supplies of machines, for import of machinery from abroad or purchased within the country. Also, the IFC provides guarantee in the case of industrial units which have negotiated loans from foreign lending institute whenever such guarantee as require by lender.

Underwriting and Direct Subscription to shares and Debentures:-

The IFCI can underwrite shares and debentures of industrial undertaking, the approaches of IFCI in the regard is project oriented not investment oriented. Generally, the IFCI considers applications for underwriting or direct subscription in conjunction with other forms of assistance to be given by it.

In order to provide some measure of relief to small and medium scale industrial units, The IFCI subscribes directly to their share capital on a selective bank, instead of underwriting where the amount for subscription does not exceeds Rs. 25 Lakh. The objective behind this schemes to help small entrepreneurs and save their expenditure on the items such writing, advertisement, besides underwriting commission etc.

Promotional Role of the IFCI

In additional to rendering financial assistance to industrial undertaking, the IFC has also been undertaking promotional activities financed out of a special funds called Benevolent Reserve Funds.

The IFCI has been laying emphasis on the development of backward region. It helps development of small of medium scale enterprisers by providing them with the much needed guidance through its specialized agencies in the sphere of project identification project formulation, project implementation, development of ancillary industries and small scale industries etc.

Also the IFCI has set up its offices at various centres in the country, fully equipped to give necessary guidance to entrepreneur in the matter of preparation of application for loans and their submission to the IFCI Guidance from these official of the IFCI can be obtained in respect of matters like project planning, completion of application forms, requirements regarding debt equity ratio social cost benefits analysis, eligibility for financial assistance etc.

Risk capital foundations

IFCI set up in 1975 Risk capital foundation which was later converted into risk capital and technology foundation LTD (RCTF) in 1998 to promote three schemes:-

1. Risk capital Scheme
2. Technology Promotion Scheme
3. Venture capital schemes

Since 1998, RCTF has been renamed as IFCI venture capital Funds ltd.

Financial assistance by the IFCI

The total financial assistance sanctioned by the IFCI since its establishment in 1948 upto 1991 amounted to Rs 11420 crores against which the actual total disbursed amount Rs 7050 crores.

The financial assistance given by the IFCI included Indian Rupee loans, foreign currency loans, underwriting and direct subscription to equity shares and debentures, foreign loans guarantee and so on. In 1980-81 the actual disbursed amount was RS 108.9 crores in 1990-91. Amount sanctioned for 1991-92 was Rs 2869.3 crores.

The Government of India subscribed Rs 400 crores through 20 years convertible bonds to improve the capital adequacy ratio of IFCI.

Critical appraisal of IFCIs performance

Looking at the growth IFCIs capital financial assistance sanctioned and disbursed and steadily rising profits, its performance seen to be impressive.

However, an in-depth study reveals certain flows in its functioning and those have innate criticisms for different quarters.

i. As pointed out by Mahalanobis committee long ago the IFCIs lending operational have an concentration of wealth and capital and pressures a discriminatory to the disadvantage of medium 8 small sized industrial units.

ii. The IFCI has done little to remove regional disparities.

iii. The IFCI has failed to exercise necessary control over the defaulting borrows.

iv. The rate of interest charged (11%) was fairly high.

v. There was much delay in sanctioning loans and their actual disbursal.

While some points of criticism may have some validity, it should be pointed out that the IFCI has been entering new lines and giving increasing financial assistance to increasing number of large scale industries with experience, the administration of the IFCI has also improved.

Working of IFCI is not satisfactory as the clear from the table,

Years	Loans Sanctioned	Disbarred
1993-94	37496 Cr	2163 Cr
1995-09	6580 Cr	4586.5 Cr
2008-09	4015 Cr	3311 Cr

This gap is due to the defaults that make IFCI risk and face losses. So the Government of India proposses that IFCI has to merge with PNB so that it can avoid the losses and sickness of IFCI.

7.5 INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA (ICICI)

The industrial credits and investment corporation was sponsored by a mission form the world banks for the purpose of developing small and medium industries in the private sector. It was registered in Jan 1955 under the Indian companies Act with an authorized capital of Rs 60 Crore and a subscribed capital of Rs. 22 crores. Its issued capital has been subscribed by Indian Banks Insurance companies and individuals and corporations of the United States, the British eastern exchange banks and other companies and the general public in India. Its headquarter is at Mumbai.

The ICICI differs from the two other all India development banks i.e. IFCI and IDBI in respect of ownership, management and lending operations. Unlike the IFCI and IDBI which are public sector development banks, the ICICI is a private sector development banks. Its distinguishing feature is that it provides underwriting facilities which are generally neglected by other institutions.

Objective of the ICICI

1. To provide financial assistance in promoting expanding and modernization of industrial undertaking.
2. To encourage and promote participation of private enterprise, both Indian and foreign in industrial enterprises in Indian
3. To encourage and promote industrial investment and expansion of investment market.

Capital and financial resources of the ICICI were rather moderate compared with its present massive resource. At all time of its establishment, the ICICI share capital was Rs.3 crores.

The ICICIs authorized capital is Rs 50 crores of that Rs 5 crores is an ordinary share of Rs 100 each of these Rs 5 crore Rs 3.5 crore were taken up in India (Rs 2 crore by Indian Banks, insurance companies etc and Rs 1.5 crore by the general public). The subscribes in the UK (including the common wealth Development Finance corporation limited) took Rs 1 crore and American subscribers took Rs 10 lakhs.

In the case of the ICICI, the major share holders are the LIC of India, the general Insurance corporation and UTI. The ICICI has at present about 2000 individual sharesholders.

As regards other financial resource of ICICI, the share capital has been supplemented by borrowing from the Government of India the world Bank, Agency for International Development, Government of federal republic of Germany, Government of UK and IDBI. The ICICI has further raised its financial resource by selling debentures in India, by selling bonds in Switzerland and by raising loans from the dollar market. Also since 1978, the ICICI has started accepting deposits from the public.

Infact, more than half of ICICIs resources are in foreign currency. World Bank alone accounts for 80% of foreign currency resources of the ICICI.

Types of financial Assistance Given by the ICICI.

With the objective of promoting industrial development in India, ICICI provide the following types of financial assistancecial of financial.

1. To underwrite public and private securities such as equity shares preference shares, debentures, bonds etc.
2. To subscribe directly to shares and securities of industrial concerns.
3. To secure Rupee loans for industrial undertakings payable over a period of 15 years.
4. To provide similar loans in foreign currencies for payment of imported capital goods and foreign technical service.
5. To guarntee for payment for credit made available by other institution.
6. To provide credit facilities to manufacture for formulating the role of equipment on a payment basis.

The main purpose for which the ICICI gives financial assistance is the procuring of capital assets suchas land, building, machinery and such other productivity assets.

ICICI has assisted industries manufacture, paper chemical and pharmaceutical, electrical equipment textiles, sugar, metal ore, glass, manufacture etc. ICICI assists all sector i.e. private sector, the joint sector, the public sector and the cooperative sector. But the major beneficiary is the private 3 sector. Its assistance comprised of foreign Indian currency loans, rupee loans, guarantees and corporative of shares and debenture.

Eligibility for financial assistance from the ICICI.

The following can avail of financial assistance from the ICICI.

1. Any companies with a limited liability.
2. Promoter of such a company
3. Any sole propriety concern
4. Partnership firm and
5. Any cooperative society

All or any of the above can approach the ICICI for financial assistance for financing a second industrial project or for expansion or modernization of an industrial undertaking.

The person applying for assistance from the ICICI may be Indian or foreign, the Plan to be financed may be in any part of India, the applicant may require assistance in any from the ICICI.

There is no minimum or maximum limits on the financial assistance that the ICICI can be provide to industrial concerns. In actual practice, the lower limits on finance to be provided by the ICICI is fixed at Rs 5 lakhs because there are other financial institutions providing financial assistance of smaller amounts. If the financial assistance by industrial undertaking is too large for the ICICI it tries to enlist the cooperation of other financial institutions in India or abroad for providing financial assistance to the project.

Providing consortium finance :- The ICICI encourage Indian and foreign financial institution and individuals to collaborate in its investment and lending operations. Where required, the ICICI operates in consortium with other public financial institution like the IDBI, LIC, UTI, and foreign financial institutions like finances company of the UK and international companies.

Other functions of the ICICI

1. **Assistance to Industrial Project in Backward Areas :-** The ICICI provide financial assistance to Industrial projects to be established in backward areas. For examples low rate of interest, lower rate of commitment charges and underwriting commission, longer period of repayment and of moratorium. The ICICI plays on active role in undertaking techno-economic surveys of areas in different states under the initiative of public financial institutions at the all Indian lend. The objective of such survey is to determine the industrial potential of selected areas and suggest measure for realizing such potential.

2. **The ICICI assistance under soft loan schemes :-** The ICICI in cooperation with the IDBI and IFCI operates the soft loan schemes. This is meant for modernization of industrial undertaking in cement, sugar, cotton textile, jute and certain engineering industries. The schemes was introduced in 1976 for providing concessional assistance for modernization, replacement and innovation of plants and equipment that would enables the assisted industrial units to achieves higher efficiency, productivity, and therefore higher competitive strength in both domestic and foreign markets. The ICICI has assumed lead responsibility in respect of engineering and cotton textile industrial and IDBI and the IFC is respect of other industries.

3. **Promotional activities:-** The ICICI consistent with its corporate philosophy, provides promotional assistance like identification of new industrial projects and selection of suitable locations for the proposed industrial projects. Special concession is offered in the case of manufactures of new products and adoption of new process. It provides comprehensive guidelines to new process. It provides comprehensive guidelines to new entrepreneur in selected projects for their formulation.

4. **Merchant Banking Activities of the ICICI:-** The ICICI started its merchant banking division in 1973 with the objective of advising its client on raising finance for existing industrial units. The division also gives

advice to its clients on amalgamation proposals for submission to financed institutions and banks for financial assistance and for negotiation with them in the matter of securing loans and for underwriting.

5. **Rural Development Assistance:-** The ICICI has been taking interest in rural development since 1976, by assisting on an experimental basis, rural projects such as land shaping, lift irrigation and agricultural research. The ICICI has brought out a publication entitled "Perspectives on Rural Development" in 1977 after undertaking a detailed study of various aspects of rural development. In 1977, the ICICI set aside a sum of Rs. 25 lakh for undertaking projects of rural development in association with industrial units and voluntary association in the area concerned.

6. **Establishing Research Institutes;-** The ICICI has been instrumental in establishing the institute of financial management and research of Madras which has been conduction specialized course in subjects like advanced techniques of financial management and carrying on reach in the field of financial management in the corporate sectors.

   The ICICI conducts informal discussion with entrepreneur, seeks their assistance right from the early stage of project finding and formulation right up to the final stage. The ICICI has regional offices at Delhi, Chennai and Calcutta all well equipped to advice entrepreneurs on requirements for sending applications and in fulfilling legal and other requirements and formalities and also follow up action.

   The ICICI staff analyses the application and carries and out independent enquiries. The appraisal of the proposal is placed before the Board of directors for discussion. If the assistance is sanctioned, the legal contracts covering it must be carried out within a reasonable times generally not more than four months.

Role played by the ICICI

From the establishment of the ICICI to be the need of March 1980, total financial assistance sanctioned by the ICICI amounted to Rs 1270 crores and total disbursement to Rs 93 crores of this total assistance the share of the public sector undertaking was 1.3 % of Joint sector 9.3% of the cooperative sector 3% and of the private sector 85.9%.

Institutions setup by ICICI:- The ICICI has set up a number of institutions which are working very creditably. ICICI has Joined with J.P Morgan and co to set up ICICI securities and finance co ltd, ICICI, Mutual fund, ICICI Asset Management co. ltd in June 1993, ICICI Banking corporation ltd (Jan 1994), credit Rating Information service of India, shipping credit and investment company of India limited used to specialize in growing loans for acquisition of ships and no of such institutions.

Financial Assistance by ICICI

Financial assistance actually disbursed during 1980-81 was Rs 18503 crores which rose Rs 1936.5 crores. Amount sanctioned during 1991-92 was Rs 4305.9 crores. The ICICI has provided financial assistance to industries manufacturing chemical, pharmaceuticals, paper, Cement glass etc.

In recent Years, the ICICI has shown interest in developing industries in backward areas of country. For Example in 1990-91, the ICICI sanctioned loans amounting to Rs 1270 crores for industrial development in backward areas of the country. Till March 1991, total loans sanctioned to project in backward areas by ICICI amounted to Rs. 5400 crores.

Conclusion:- Of all the development financial intuitions setup by the Indian government after Independences, ICICI has registered the most of spectacular success, particularly in the last 10 yrs and so. Infact, the financial assistance sanctioned disturbed by the ICICI rose tremendously during the 1990s and has exceeded the assistance extended by IDBI, which us the institution in the field of development finance.

However, like the fact and ICICI has also not cared to help in reducing disparities. The most advanced industrial state of Maharashtra alone received more than 1/3 of total assistance granted by the ICICI. Gujrat, W.B, T.N and Karntka have received substantial assistance from the ICICI and received about 40% of the loans and assistance from the ICICI.

An important development inifratre taken by ICICI result in the formation of Housing Development Finance Corporation limited in 1977. It provides long term loans on reasonable terms, primarily for middle and lower income group housing.

The ICICI which commenced assistance for competition, modernization schemes, export orientation, pollution control, balancing and expansion. The industries assisted under leasing include textiles engineering chemical, fertilizers cement, sugar etc.

7.6 STATE FINANCIAL CORPORATIONS (SFCS)

At the central level, financial institutions like the IFCI, the IDBI and IRBI were established and functioning to provide financial and other assistance to the basic and heavy industries and other industries of national importance, it was felt that there should be financial institutions to function at the state level and help development of industries in each state, taking into account the peculiarities of each state, differences in the industrial structure and problems of each state and so no.

And therefore, the state financial corporation Act was passed by parliament on 1951. This Act of 1951 enabled the state government to establish state financial corporation with the objective of making a significant contribution to industrial development of their respective states. The first SFC was set up in Punjab in 1953. Subsequently in other states too, SFCs were set up. At present there are in all 18 SFCs in the country. Normally operations of SFCs in the country. Normally operation of SFCs are confined to their respective states. However, in some case they extend to neighboring states or union Terri forces. The SFCs are meant to provide financial assistance to medium and small industrial units in the respective states.

Financial Resources of the SFCs

The authorized capital of a state Financial corporation is fixed by the state Government within the minimum limits to Rs. 50 lakhs and Rs 5 crores.

The SFCs mobiles their financial resources from the following source.

1. Their own share capital.
2. Income from investment and repayment of loan

3. Sale of bonds
4. Loans from the IDBI
5. Borrowings from the RBI
6. Deposits from the public
7. Sometimes loans from the government.

Management:- The management in the case of SFC is similar to that of the IFCI. It has a board of directors, managing Direction and an executive committee. The corporation can open offices at different places with the state.

Industries legible for Financial Assistance from the SFCs:- Under the state Financial corporation Act, 1951 industrial establishments which are engaged in the following industrial activities are eligible for financial assistance from the SFCs.

1. Manufacture, Processing and preservation of goods
2. Mining activities
3. Generation and distribution of electricity
4. Hoble Industrial
5. Transport of passengers by motor, waterways
6. Vehicles, vessels, motor boat, travelers and tractors
7. Maintenance, repair, testing and servicing machinery of nay description.
8. Packing industry
9. Development of land for industrial estates
10. Fishing
11. Technical knowledge and other services that would help promotion of Industrial growth in the state.

Large industries in the country can approach financial institutions like the IFC and the ICICI and IDBI. The SFCs are established to provide financial assistance to medium and small scale industrial units in the respective states. To attain this objective the SFCs are statutorily prevent from giving financial assistance or loan to any industrial establishment which has its owned funds exceeding Rs 1 crores and secondly the SFCS cannot lend more than Rs 90 lakhs to any single borrow industrialist.

Purpose for which SFCs can give financial assistance.

The SFCs grant loans primarily for helping entrepreneurs to establish new industrial units and for the expansions of existing industrial units. Loans to new industrial units are considered in case of feasible industrial schemes and in cases to feasible industrial schemes and in case where entrepreneur are prepared to contribute then stipulated share predated to contribution their stipulated share of capital. In the case of industrial liners loans are granted by the SFCs for their expansion and renovation. In both the case, loans from the SFCs are given for accruing tangible capital assets such as land, machinery and other such accessories. The SFCs also grant assistance in foreign currencies in special cases for importing plant and machines other accessories machine tool and technical know.

Types of financial assistance by the SFCs.

All types of industrial concerns can get accumulation from state financial corporation and so in this sense the scope of activities of a state financial corporation is very ride. It provides the following types of assistance to industrial units in their irrespective states.

1. Loans and subscriptions to debentures of industrial concerns repayable within a period not exactly 2 years.
2. Providing guarantee for loan raised by industries units form commercial banks and state cooperative banks.
3. Providing guarantee for deferred payment in case where industrial units have purchased capital goods on a differed payment.
4. To underwisble the issue of shares bonds and debentures of industrial concerns. To subscribe to shares, bonds and debentures of industrial units.

The main function of the SFCs is to grant loans to industrial units and some if the SFCs underwrite shares of industrial units. The SFCs great loans to industrial units for the purchase of fixed capital assets like land and machinery. In some exceptional cases some SFCs also provide loans for working capital requirements in combination with loans for fixed capital.

→ The SFCs also provide loans in foreign currency loans and subscriptions to debentures of industrial concerns repayable within a period not exceeding 20 years.

→ Besides a nine SFCs acts as agents for their respective state Government for sanctioning and disbursing loans to small scale industries under the state Aid to industrial Act.

→ The SFCs have also been entrusted with International Development Association (IDA) credit for assisting small and medium industrial units.

Role played by the SFCs

All these years, there has been a steady increase in the financial assistance pounded by the SFCs to medium and small soles industries. For example if m 1970-71 the financial assistance sanctioned by the 18 SFCs was less than Rs 50 crores. In 1979-80, it rose to Rs 164 crores. At the end of June 1980 it was Rs 1500 crores. And total disbursement amounted to Rs 104 crores of the total assistance of Rs 1500 crores sanctioned by the 18 SFCs till the end of June 1980. 44% was given to industrial units in backward areas.

→ Till the end of June 1980, the SFCs have assisted nearly 63,000 small scale industrial units and the total financial assistance sanctioned to them amounted to Rs 836 crores. Over 13000 transport operators were granted financial assistance totaling Rs 115 crores. This means that about 56 % of the total financial assistance sanctioned by 18 SFCs till the end of 1980 was given to a small scale industrial units and 7.7 % to small road transport operations.

Financial assistance by the SFCs

Financial assistance by the SFCs in 1980-81 was Rs 258 crores and 1990-91 it was Rs 1260 crores. Amount sanctioned during 1991-92 was Rs 2178.1 crores.

Critical appraisal of SFC:- The working group appointed by its RBI to look into the functioning of the SFCs has found that the preference of the various state Financial corporation has not been way satisfactory. The SFCs have failed to the demands of medium and small industrial adequately. A apart from the soft loan which they now sanction on all other loan their rates of interest are high and terms and conditions stringent.

A major problem faced by the SFCs in their operation is the magnitude of over dues. The increasing over dues have considerably cut into resources available to the SFCs for industrial financing.

Then there is difficulty of getting technical personal of the right type to examine the soundness of the loan proposals of the borrowing units. Inspite of the odds of the SFCs face, they have given good account of themselves. As part of the promotional role, SFCs are taking positive interest in the development of backward area either independently or in collaboration with the state government and the IDBI.

Key words:- Refinance, Bonds, Debenture, Soft loan, Merchant Banking.

7.7 SHORT ANSWER TYPE QUESTIONS

Q1. When does IDBI established?

Ans. IDBI was established in July 1964 as a wholly owned subridiary of the RBI. IN Feb 1976, the IDBI was made an autonomous institution and its ownership passed on from RBI to government of India.

Q2. When does IFCI formed?

Ans. IFCI was set up in 1948 under a special Act with the objective of providing medium and long term credit to industry.

Q3. What are State Financial Corporation?

Ans. The State Financial Corporation Act was passed by Parliament in September 28, 1981. This Act of 1951 enabled the state Government to establish state financial corporation with the objective of making a significant contrition to industrial development of their respective state. The first SFC was set up in Punjab in 1953. Subsequently in other states too, SFCs were set up.

7.8 EXAMINATION ORIENTED QUESTIONS

1. Discuss the Role, Nature and Importance of IDBI.
2. Explain in detail the role and volume of IFCI.
3. Discuss the Industrial Credit and Investment corporation of India in detail.
4. What is the role, nature and volume of SFCs?

Suggested Reading

1. Desai & Bhalerao (2002), Industrial Economy of India, Himalaya Publishing House, Delhi.
2. Dutt & Sacdhram, Indian Economy.

M.A. ECONOMICS

COURSE NO. 566 **LESSON No. 8**
SEMESTER-IV **UNIT-II**

BALANCE SHEET

Chapter Outlines

8.1 Introduction

8.2 Objectives

8.3 The Balance Sheet

8.4 Profit Loss Account and Income Appropriation Statement

8.5 Classification and Description of the Ratios

8.6 Summary

8.7 Short Answer Type Questions

8.8 Examination Oriented Questions

8.1 INTRODUCTION

This chapter has talked about the importance of financial statements-balance sheet and various financial ratios.

8.2 OBJECTIVES

The core objectives of this chapter is to study the balance sheet and carry out a discussion over the profit-loss account and income-appropriation statement. It also deals with various financial ratios.

8.3 THE BALANCE SHEET

In accounting a financial statement that gives a classified list of assets and liabilities at a moment in time i.e as on a stated date is called ‘balance sheet’. It is also called ‘statement of Financial position’ or simply ‘Position Statement’. An asset in business is defined as any physical or financial property or other possession of value of which the enterprise has titles, i.e. ownership by virtue of acquiring that. similarly, liability in business accounting is the money value plan obligation somebody as a result of business transaction. A business firm raises capital from various sources is described earlier. In doing so the firm becomes liable to those who supply funds (including itself) to it. All sources of funds are therefore interpreted as liabilities. The capital raised from various sources is utilized for acquiring the assets such as machines, raw material, inventories etc The uses of funds are therefore called ‘assets’. A balance sheet will show us precisely the sources and uses of funds in the form of liabilities and assets. All liabilities are shown on the credit side of the sheet and assets on the debit side. The two sides in sum will balance each other. That is why the table is called as the balance sheet. In preparing such sheet the principle of double entry accounting is followed. The balance sheet discloses the names of all such account; which show balances (i.e. stocks) such as paid up capital account, reserve and surplus account. fixed capital account and inventories accounts etc. we will understand this point clearly when we examine the entries of the balance-sheet carefully.

The assets side of the balance sheet shows entries in value terms for (a) fixed assets, and (b) current assets. Fixed assets are tangible and intangible properties that are capitalized on account of relatively long life and substantial value such as land, building, paint and machinery, furniture and fixtures, trade patents and goodwill etc. They are not intended for resale. The service of such assets are used for longer periods either for production of goods and services or some other purposes in business. Most of the fixed assets will be in physical (i.e tangible) form but there will be some intangible fixed assets like the right or franchise granted by the government to use some property such as a bus route, the copyright granted by the government and the goodwill of the firm. They will be entered in the balance sheet provided they are measurable in money terms.

The ‘loss’ of fixed assets in production or use, that is a decline in their value is called ‘depreciation’. Total or ‘gross tired assets minus depreciation is termed as ‘net fixed assets’.

Current assets are those properties which are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business, say a year. They are not capitalized. Such assets will be in the form of (a) inventories of raw materials, finished goods including semi-finished products, stores and spares. (b) loans and advances (including amount yet to receive from customers given by the firm (c) marketable securities i.e. short-term investment made by the firm e.g. bonds, debentures, government securities etc. and (d) cash in hand and bank balances. All current assets are also known as working assets. They are easily convertible into cash (i e. liquid money) for short-term financing of business.

The liabilities side of the balance-sheet will have (1) long-term liabilities and (2) current liabilities. Long-term liabilities are all kinds of debts obligations that are due for settlement after one year of the shareholders, equity or net worth. i.e. the sum of their own money such as paid up capital and reserves, and surplus, long-term borrowings and miscellaneous non-current liabilities such as deferred dividend payment, deferred taxation liability etc. come under these categories. The net worth, i.e. paid-up capital and reserve and surplus, cause “internal liability’ i.e. it is liability of the firm towards its owners who supplied the money for use in its business. Current liabilities are the values of those obligations that are due for settlement with in the current accounting period i.e the year. They include short –term borrowings, accounts payable, e.g. sundry trade creditors, taxes and provisions, promissory notes such as bill of exchange payable within the year and like that.

The choice of the format for balance-sheet is a matter of convenience to the firm. It may be horizontal presentation in which liabilities and assets are shown side by side, or vertical presentation” in which liabilities are presented first and then assets vertically below as shown in Tables 11.2. the individual item of the balance sheets need not balance but total liabilities will always be equal to total assets. All entries in the balance sheet will be at historical costs particularly for fixed assets as shown in the books of the firm. An illustrative example combined balance sheet for the selected Indian companies prepared by the Reserve Bank of India is given in Table 11.3. It is fairly comprehensive balance-sheet. In practice, most of the firms condense their balance-sheet by taking the aggregates of different categories on liabilities and assets sides.

The balance sheet is an indispensable financial statement. It is needed by the owners of the firm to assess financial soundness of their firm. In what form capital is realized and how it is used is clearly shown in the balance sheet. For control of the capital structure, such information is vital. The creditors, government officials and potential share holders will also assess the financial soundness of the firm by looking at its balance sheet. The bulk of data for financial planning is obtained from the balance sheet.

8.4 PROFIT-LOSS ACCOUNT AND INCOME APPROPRIATION STATEMENT

The profit-loss account or alternatively called as the income statement show the revenue and expenditure account for a period of time. The sources of revenue income and expenditure items are separately indicated in the profit-loss account. The difference between total revenue and total expenditure during the period constitutes the profit to the firm. It will be loss when the expenditure exceeds total revenue. The entries in a profit-loss statement are the flows during the period. Revenue is realized through production of goods and services, work done for consumers and other income like dividend interest, rent earned by the firm, sales of by-product etc. The expenditure include all administrative and operating expenses incurred by the firm during the period. The format of profit-loss account varies from country to country or firm to firm. A common pattern that is, by large, followed in India is shown as below.

1. Value of Production and Other Income:- This will be a sum of (a) sales net of rebate discounts, excise duty, and cess, (b) increase (+) or decrease (-) in the value of the stock of finished goods and work-in-progress, (c) other income such as dividends, interest, rent, by-product sales, work done for others and (d) non-operating surplus (+) or deficit (-).

2. Total Expenditure: This includes (a) materials stores and other manufacturing expenses, (b) current repairs (c) salaries and wages. (d) managerial (TA and DA. etc.). (e) welfare expenses. (f) selling expenses, (g) depreciation. (h) other provisions like rent, provident fund, local taxes, and debit, royalties, (i) insurance charges and (j) other miscellaneous expenses, such as R & D expenses etc. The difference between total value of production and other income and total expenditure i.e. (1) –(2) is called 'gross-profit'. The distribution of gross profit as interest, taxes, dividend and retained earnings is called "appropriation of income'.

The identities for this will be:

Gross Profit - Interest = profit before Tax or Operating profit

Profit Before Tax - Corporate Income Taxes = Net profit

Net Profit = Dividend + profit Retained

8.5 CLASSIFICATION AND DESCRIPTION OF THE RATIOS

The financial ratios are normally classified into five general categories namely (i) structural, (ii) profitability, (iii) liquidity. (iv) activity and (v) miscellaneous. The structural ratios indicate the composition of liabilities and assets of a firm. The relationships between various sources of funds and their utilization patterns are reelected by such ratio. The profitability ratios show the overall performance of a firm measured in different ways. The liquidity ratios measure the ability of a firm to meet its short-term financial obligations. In activity group, all those ratios are included which indicate the turnover of various classes of assets.

More precisely, they reflect the efficiency of resource utilization by the firm. The last category of ratios is a general one in which all other ratios which do not fall in any of the above categories are included. The important ratios of different categories based on financial analysis are as follows.

Structural Ratios

(a) Gearing Ratio

This ratio indicates the proportion of debt finance to the total assets of a firm. It may be expressed in a variety of limits depending on how the terms ‘debt’ and ‘assets’ are defined for computing the ratio. One may define ‘debt’ as a sum of total borrowings (i.e. short-term and long term borrowing plus current liabilities) and assets as a sum of net fixed assets and working. i.e. current assets. Alternatively, one may take short-term and long term borrowings in debt and paid-up capital, reserves and debt in total assets to compute the gearing ratio or the ratio may be simply taken as a proportion of long term borrowings in total capitalization, i.e. the sum of long term borrowings, paid-up capital and reserves. No hard and fast rule can be specified as to what should be included in ‘debt’ and ‘assets’. The financial analyst will define when precisely while computing the ratio. From the data presented in Table 12.2 for a company X the gearing ratio taken as a proportion of total borrowings (3.08 crores) to total capitalization (Borrowings: Rs. 3.08 crores + Reserves: Rs. 4.57 crores + Paid up capital: Rs.7.48 crores) comes out to be 0.203 or 20.3 percent.

The gearing ratio has important role in financial decision-making. The cost of capital of a company is likely to be linked with its gearing ratio although Modigliani and Miller found a negative result for this. A high gearing ratio implies greater debt burden which reduces the margin of safety for tenders. The interest burden increases with the gearing ratio having its impact on net earnings of the firm and therefore on dividend paid to the share-holders. If dividend paid is low then the value of the firm is likely to be affected adversely in the market.

(b) Debt-Equity Ratio

This is a simplified version of the gearing ratio. It has same functions and relevance as the gearing ratio. The debt-equity ratio is taken as a proportion of debt to the net-worth (i.e paid-up capital plus reserves) of the firm. For company X (see Table 12.2) this comes out to be 3.08/(7.48 + 4.57)= 0 2556 or 25.56 per cent. As we know the debt finance entails no ownership claim while the equity (i.e. net-worth) has such claim. So, the debt-equity ratio will reflect the extent of owners of money in the total capital of the firm. It is also a proportion of the external funds minus paid-up capital to the internal funds including paid-up capital of the firm. The debt-equity ratio is also named alternatively as the leverage ratio. Debt-equity ratio will be an important index for evaluation of the credit worthiness of a firm. As the interest on debt is exempted from corporate tax, a high debt equity ratio goes against the interest of the government. It will, therefore, normally, put severe restrictions on the limits of debt-equity ratio in practice. From operational side of the firm the debt equity ratio is also important. If the earnings of a firm are high and stable. it may go for higher debt-equity ratio, otherwise not as it may lead to insolvency due to poor earnings and high interest charges.

(c) Net-worth Ratio

This ratio expresses the net-worth of a company as a proportion outs total net assets. Obviously, if the ratio is high enough the company will be in a happy situation because of lesser extent of the creditors' potential claim for its assets. For company X, this ratio is (12.05/26.21) = 0.459 or 45.9 per cent.

(d) Net-worth to Fixed Assets Ratio

This ratio indicates the extent to which the equity' capital including reserves has been used to finance tried capital information. The firm will be in a better position if the ratio is high enough. If the ratio exceeds unity which mean: part of the net-worth is being utilized for current assets needs including cash reserves. The creditors will consider, this ratio while assessing the credit needs of the firm. A high ratio will provide greater security for their credit.

Internal Allocation Ratio

This indicates the proportion of net fixed assets in total net assets of a firm. It is also called as organic composition of capital. For company,(this ratio comes out to be 4.53/26.21 = 0.1 73 or 17.3 per cent. Through this ratio, the firm will get an idea about how its capital is being utilized. A high internal allocation ratio is not necessarily a desirable situation since in this case the firm may have shortage of funds for working capital. A low ratio is a reflection of higher weightage by the firm to current assets formation rather than fixed investment. The optimum size of the ratio depends on the nature of business, manufacturing technology, efficiency of capital markets and the stability of earnings etc.

Profitability Ratios

There are many possibilities for measuring profitability in terms of certain ratios depending on the choice of the variables. The common ratios used at present for this purpose are as follows:

a) **Net Profit Margin :-** This is defined as the ratio of net profit (i.e. profit after interest and taxes) to net sales. For company X, this ratio turns out to be 0.70/16.01 = 0.0152 or 1.52 per cent. This is obviously very low. Higher the ratio, better the profitability of the firm.

b) **Gross Profit Margin:-** this is defined as the ratio of gross profit (inclusive of the tax and interest to net sales. The company X shows a gross profit margin of 2.53/46.01 = 0.055 or 5.5%.

c) **Operating Margin:-** This is a ratio of net sales to total operating expenses. In place of net sales one may take total value of products and by-products and other income for computing the ratio. The expenses exclude financing costs and income taxes. If the ratio is more than one, it reflects positive profit, otherwise negative, except when it is unity showing no-profit-no loss situation. These three ratios are short term measures of profitability. They are, in fact, different forms of price-cost margin showing the operating efficiency of the firm.

Rate of Return on Investment

This ratio reflects the long term profitability of a time. This expresses gross or net profit as a percentage of return on net assets of the firm. For company X, for example, the ratio or return on net assets would be as follows:

1. Rate of gross returns on net asset

$$= \frac{Gross\ Profit}{Net\ assets} = \frac{2.53}{26.21} = 0969 \text{ or } 9.69\%$$

2. Rate of net return on net assets

$$= \frac{net\ profit}{Net\ assets} = \frac{2.0.7053}{26.21} = 0.0267 \text{ or } 2.67\%$$

(e) Rate of Return on Net Worth

This is an alternative index to compute long-term profitability of a firm. Instead of taking net assets as base for computing the rate of return, the net-worth which is owners own investment in business is used. Again the numerator may be gross profit or net profit, the latter being more appropriate from shareholders' point of view for computation of the profit rates. For company X, the rates of return on net worth are 21 % and 5.8 % using gross and net profits respectively.

There are other possibilities also for profitability ratios. One may use, for example, total value of production and other income as base for computation of short-term profitability and net fixed assets for long-term profitability. The choice of appropriate base will depend on the purpose of the study und convenience of the investigator. In general, for any profitability index, higher the ratio greater the efficiency of the firm judged by it.

Liquidity Ratios

The ability of a firm to meet its current obligations with a margin of safety is judged on the basis of two ratios, namely, the current ratio and the quick assets (or 'Acid Test') ratio. The current ratio shows the proportion of current assets to current liabilities. The assets which constitute current assets are: (a) inventories, (b) marketable securities, (c) accounts receivables, and (d) cash in hand and at the banks. All these assets are liquid in the sense that they are easily convertible into cash to meet current liabilities such as accounts payable, current provisions etc. Higher the ratio the better from the point of view of creditor but from the point of view of management it may be quite unwise to build up excessive liquid assets particularly surplus cash lying idle and similarly, building up of inventories out of proportion to the needs of the business. The firm would be losing profits from such liquid assets, so there is every likelihood of a trade- off between liquidity and profitability after a certain range. A current ratio of 2 : 1 is considered as a norm but it depends on the quality and character of the current assets. A high current ratio is not itself a guarantee of the sound and reserve strength of the firm.

The difference between current assets and current liability is called 'net current assets' or 'working capital' as the surplus left over after meeting the requirements of current liabilities, can be used for working capital purposes.

The quick assets or 'acid-test' ratio is a much more stronger test for liquidity of a firm. It eliminates some of the disadvantages of the current ratio by concentrating strictly on liquid assets whose value is certain. The inventories are excluded from the current assets and then the ratio of the remainder to the current liabilities is computed which defines the quick assets or acid test ratio. That is,

$$\text{Quick assets ratio} = \frac{current\ assets - inventories}{current\ liablities}$$

The philosophy of the ratio is simple. It gives an answer to the question: If the business firm was to stop working today what is its ability to meet its current obligations immediately with the readily convertibly funds on hand?" It takes time to dispose off inventories and that is the reason for their exclusion from that computation of the ratio. The magnitude for the ratio is difficult to special but a value of unity is a norm from this. Any values less than unity are a warming signal for the firm.

For company X, these two ratios, as revealed by the relevant data, are as follows:

1. Current ratio $= \dfrac{current\ assets}{current\ liablities} = \dfrac{Rs.21.68}{Rs.11.08} = 1.96$

2. Quick assets ratio $= \dfrac{current\ assets - inventories}{current\ liablities}$

   $= \dfrac{Rs.21.68 - Rs.9.66\ crores}{Rs.11.08\ crores} = 1.09$

3. Net current assets = Current assets – Current liabilities

   Work capital = Rs. 21.68 crores – Rs. 11.08 crores

   = Rs. 10.60 crores

The liquidity ratios are useful tools for credit planning and control. Apart from the managers of the firm, its creditors and the government will have interest in these ratios for assessing the credit needs of the firm.

Activity Ratios

The ratios in this category compare sales or costs of goods sold to some asset such as total net assets. Total net fixed assets, working assets and inventory. The ratios are also called 'turnover-ratios' as they reflect turnover or the concerned asset.

The popular ratios of this class are as follows:

a) Assets Turnover Ratio:- This ratio is computed by dividing net sales by the net assets of the firm. Alternatively, it is called ‘capital- turnover ratio’. A high ratio reflects better use of the tangible assets, but in some industries the ratio may be low because of large outlays on fixed assert. The ratio should therefore be interpreted in the light of other relevant factors in operation. For company X, the asset turnover ratio is 46.01/26.21 = 1.76.

b) Net Fixed Capital Turnover Ratio:- This reflects the efficiency of fixed capital utilization. The ratio is computed by dividing net sales by the net fixed capital. The interpretation of the ratio is similar to that of the asset turnover ratio.

c) working Capital Turnover Ratio:- This is the ratio between net sales and working capital employed by the firm. In general, a higher ratio indicates better, utilization of working capital but there may be a situation when the ratio is higher or lower as a result of under capitalization or over-capitalization of operations. The ratio therefore is to-be interpreted carefully taking into account all such possibilities.

d) Inventory Turnover Ratios:- Related to inventories, the following ratios are generally used.

   i. Inventory cost turnover ratio

$$= \frac{Cost\ of\ Goods\ sold}{Average} = \frac{Rs.40.23\ crores}{Rs.9.66\ crores}$$

   = 4.76 times, for company X

   The cost of goods sold is the difference between total sales (or income as one desires to define it) and operating profit. The average inventory is the simple arithmetic average of inventory levels at the beginning and end of the year, The inventory figure will be clearly specified in the balance sheet under current assets. This ratio shows the Frequency with which the average level of inventory investment has been recouped or turned-over through operations. A high turnover from smaller average level of inventory investment is an indication of better performance.

ii. Inventory-sales turnover ratio

$$= \frac{Sales}{Ending\ inventories} = \frac{Rs.46.0\ crores}{Rs.9.66\ crores}$$

4.76 times, for Company X.

This ratio serves as the same purpose as (i). However, it is a crude approximation as ending inventory figure may not be a true representative of the level of inventories throughout the year

e) Receivables Turnover Ratio and Average Collection Period:- The receivable turnover ratio is computed by dividing total sales by the receivables outstanding. If total sales during the year is Rs 46.01 crores and the receivables to be collected Rs. 11.50 crores shown for company, X the receivable turnover ratio would then be Rs. 46.01 crores/ Rs.11.50 crores = 4.0 times. A larger ratio will reflect better efficiency of sales collection. Another way to express the turnover is to compute the average collection period for it. It is done in two steps. The first step is to find the average daily sales by dividing total sales during the year by the number of days of the year (365). The second step is then to divide total receivables by the average daily sales which gives us tire number of days for collection of the receivables. For example, Company X show a daily sales of 0.126 crores (= Rs. 46.01 crores/365) and an average collection period of 91.3 days (= Rs. 11 .50 crores/Rs. 0. 126 crores). A longer average collection period for receivables, as we see for company X, is a reflection of poor or less effective management of credit department.

A firm purchases materials often on credit terms. The efficiency with which it pays the bills can be assessed in the same fashion as accounts receivables. For this, the ratio of total purchases (Rs.) to the accounts payable (Rs) may be used as one index. A larger value of this index shows greater promptness in making the payments and vice versa. Alternatively, the average payment period for the accounts payable can be computed to assess such promptness.

This is done by dividing the accounts payable (Rs.) by the average daily purchase. The average daily purchase is computed by dividing total purchase, during the year by 365 shorter average payment period for the payables is desirable from the managerial efficiency point of view.

Miscellaneous Ratios

There are a few other important ratios which we will discuss in this section. They are as follows:

a) The Retention Ratio :- The profit after interest and tax is, appropriated as dividend plus retained earnings. The proportion of retained earnings in total net profit is called 'retention ratio', and the proportion of dividend as the 'pay-out' ratio, the pay-out ratio will be equal to one minus the retention. For company X these ratios are:

a. Retention ratio = $\frac{\textit{Retained Profit}}{\textit{Net profit}} = \frac{\textit{Rs.0.25 crores}}{\textit{0.70 crores}}$

= 0.357 or 35.7%,

b. Pay-out ratio = $\frac{\textit{Dividend}}{\textit{Net profit}} = \frac{\textit{Rs.0.45 crores}}{\textit{0.70 crores}}$

= 0.6453 or 64.3

There is no standard norm about the size of either of these two ratios. A firm may keep low pay-out ratio of earnings are required for financing its growth. On the other hand, if there is no pressure for raising additional finance, the firm keeps high pay-out ratio in order to maintain or get an increase in the market price of its equity shares considering the needs or finance and the effects of the retained or payout ratio on valuation of the firm, a proper balance is to be maintained between retention and pay out of the earning. It is very crucial decision which is reflected by the ratios.

b) The Earnings-price Ratio:- This ratio is computed by dividing net earnings per share by market price per share. The earnings per share is obtained by dividing the total earning, i.e net profit by the number of shares outstanding. The market price of an equity share fluctuates from day to day It creates some complication as which market price of the share is to be taken for computation of the earnings-price ratio. Should it be the average market price of the all days of the year or on certain days, or an average of the highest and the latest market price over a period is difficult to decide. The only thing we can say is that the chosen market price must represent the fluctuations in the value of shares adequately over the concerned period. The ratio it also earnings yield. It is very much useful for investors as they link the earnings to the true value of their equity through this ratio. The inverse of the earnings-price ratio, i.e. the price-earnings ratio show the number of times by which the market price of a share exceeds the earnings per share. A company having stable or increasing earnings, bright prospects for future, sound managerial competence and financial strength will generally have high market price of its equity shares making the earnings-price ratio low or the price-earnings ratio high.

c) **The Dividend Yield:-** This is a fraction of the earnings-price ratio. The shareholders may be interested in knowing the explicit return from their capital. For this the dividend yield is appropriate. This is simply the proportion of dividend per share to the market price per share.

d) **Times Interest Earned or Interest Coverage Ratio:-** This is a relationship between operating profit, it earnings before interest and taxes, and explicit interest payment liability of the firm. The ratio is obtained by dividing the operating profit by the amount of interest to be paid. The ratio is used mainly to measure the final's current ability to meet its interest obligations. One may include the installment of loan repayment in denominator along with the interest payment to make the ratio a more severe test of the firm's ability to meet the interest and related obligator's. This will be a useful index for the creditors of the firm. Greater the ratio better is the ability of the firm to meet its interest obligation and lesser will be the risk of default from the creditors point of view.

e) **Book Value of Equity Share:-** This is not the subscribed price of the share which is a normal connotation far the book value. In fact, apart from the subscribed value of the shares, the reserves and surplus are also opened by the shareholder in proportion of their enquiry. The true book value of a share, therefore, would be the net worth (i.e. paid-up capital plus reserves and surplus) per share. It is obtained by dividing total net worth by the number of shares of the firm. The book value of a share has important function in financial analysis. It will be an immediate reference on the basis of which the growth in value of the firm is assessed.

f) Valuation Ratio:- This is the ratio of market value per share to book value per share. This ratio reflects the contribution of a firm to the health of society. When this ratio exceeds one which implies that the firm has contributed to the creation of wealth in the society. When the ratio is equal to which mean that the firm has neither contributed to nor detracted from the wealth of society. A value of the ratio less than 1 reflective contribution of the firm in creation of the wealth of society.

g) **q- Ratio:-** This is popularly known as Tobin's q in the analysis of investment. Tobin first Introduced this ratio in a macroeconomic context in 1969. It is the ratio of the financial market valuation of reproducible real capital assets to the replacement cost of these assets, that is, a ratio of market value of equity and liabilities to estimated replacement cost of all assets. Computation of this ratio is not very simple as both numerator and denominator of the ratio has ambiguities. As per the definition of the ratio, the numerators included market value of equity, long-term liabilities and short term liabilities. The denominator included fixed assets, inventories and other current assets. A simpler and perhaps better way of calculating the ratio is to take market value of equity and long term liabilities to replacement value of fixed assets by leaving out both current liabilities and current assets. Computation of replacement value of assets or fixed assets is a difficult task. There are some procedures for this, but a final consensus for computing replacement value of assets is yet to emerge. Consequently, q-ratio, in spite of its being potentially a good measure of market value of a firm is rarely used in financial analysis.

We have discussed briefly the major financial ratios. The list is not exhaustive. One may develop many such ratios by linking the appropriate variables whenever there is a need or justification for them. Different functionaries in business will be using different sets of ratios for evaluating the performance of the firm from their standpoint. The investors, who are interested in earnings capacity of the firm will use the profitability ratio e.g. price-cost margins, rates of return on equity or net worth or net assets, and ratios like earnings per share, book value per share, market price of share, earnings-price ratio and dividend yield etc. The creditors will emphasise much on credit-worthiness of the firm for which the profitability ratios, times interest earned, current ratio, the acid test ratio, the leverage ratio, debt-equity ratio and the other structural ratios will be useful. The managers whose task is to run the firm efficiently, will use the various turnover ratios along with the profitability ratios for evaluation of their work and the overall performance of the firm. In fact, none of these categories of persons related to business can ignore the other ratios which are not directly connected to them. The weights given to the ratio in decision-making from their view-point of course. may be different. For a systematic analysis all ratios are to be examined in an integrative framework.

8.6 SUMMARY

In accounting a financial statement that gives a classificed list of assets and liabiltites at a moment in time is called 'Balance Sheet'.

The profit-loss account or alternatively called as the income statement, show the revenue and expenditure account for a period of time. The sources of revanu income and expenditure items are separately indicated in the profit-loss account.

The financial ratios are normally classified into five general categories, namely (i) structured (ii) profitability (iii) liquidity (iv) activity (v) miscellaneous. These indicates the composition of liabilities and assets of a firm.

8.7 SHORT ANSWER TYPE QUESTIONS

Q.1 What is a balance-sheet ?

Q.2 Explain the profit-loss account?

Q.3 What is an Income Appropriation Statement?

Q.4. Explain the Rate of Return of Investment?

8.8 EXAMINATION ORIENTED QUESTIONS

Q.1 What are the financial ratios? Classify and describe the general categories of the financial ratios.

Q.2. Explain in detail the concept of structured ratios?

M.A. ECONOMICS

COURSE NO. 566 **LESSON No. 9**
SEMESTER-IV **UNIT-II**

GROWTH OF INDUSTRIAL LABOUR FORCE

Chapter Outlines

9.1 Introduction

9.2 Objectives

9.3 Causative Factors responsible for growth of industrial labour force

9.4 Employment Dimensions of Indian Industry

9.5 Employment in Public and Private Sector

9.6 Women in work force

9.7 Summary

9.8 Short Answer Questions

9.9 Examination Oriented Questions

9.1 INTRODUCTION

Industrial labour force occupies a dominant place in the production activity. In this lesson we will discuss growth of Industrial labour force and employment dimensions of industry. More over an attempt is also made to study the definitions, objectives and evolution of industrial relations.

9.2 OBJECTIVES

The basic objective of this lesson is to make the student aware about the industrial labour force and various employment dimensions of Indian Industry. Industry dispute is also an issue in industries. The approaches of this lesson is to provide the necessary knowledge regarding industrial relations and their evolution. An attempt is also made to study and analyse the industrial relation policies after independence and industrial relations in the public and small scale sector

9.3 CAUSATIVE FACTORS RESPONSIBLE FOR GROWTH OF INDUSTRIAL LABOUR FORCE

The Indian working class has had a somewhat different historical origin than that of its compeers in most western industrialized countries. There, the origin of the industrial class is traced to the town-dwellers, the artisans and other social groups of the town economy. For example in England, the Industrial Revolution was preceded by an agrarian revolution, the disbanding of feudal retainers, the dissolution of monasteries, enclosure movement, changes in methods of tillage and the law of primogeniture. These conditions led to heavy swelling of industrial proletariat, who migrated in large numbers to the newly developed industrial centers. This displaced mass of workers was quickly absorbed in the rapidly expanding industry. The rural affiliations of these migrants were very rapidly loosened and the children of these city-bred migrants hard retained any trace of their peasant stock.

But, in India, the picture was different, though, here too, modern industrialism was preceded by the rise of the wage-earning class. yet the mass of workers mostly craftsmen and artisans uprooted from their traditional sources of livelihood had no alternative but to fart back upon agriculture. The transfer of population from the non-agricultural traditional sector to agriculture, together with rural pauperization and impoverishment following an increase of population fragmentation of rand, rack-renting, defective system of land revenue assessment, and the exploitation of the cultivators by moneylender (aided by the new laws of registration and conveyance) led to the creation of a landless proletariat class, for the first time, in India history. With the loss of common rights in the rural economy, the disuse of collective enterprise, the multiplication of rent receivers, free mortgaging and transfer of land followed by a decline in cottage industries, the number of this class increased and the age of hired labour began. These agricultural laborers – permanent and causal - appeared first on the farms where they offered their labour for full-time or part-time employment. In 1882 their number was estimate d at 7 5lakhs which increased to 189 lakhs in 196l to 263 lakhs in 1971, 326 lakhs in 1981 to 315 lakhs in 1991.

The increased agricultural labour force, based on the hierarchy of castes, did not find-much employment in industrial centre's. During 1872-81 and 1891-1901, terrible famines visited the country, which compelled these rural migrants to move into industrial centres. This movements was rather temporary, because industries did not increase at a sufficient fast rate. Hence, hordes of migrants returned to their villages, when they would not find employment there. The number of factory workers in India continued to ebb and flow from village to city and from city, to village.

In India, the beginning of industrialization was made after a long time lag, and mechanized industry registered a painfully slow rate of growth. Eventually, in the initial years of industrial development, the displaced rural masses were absorbed in the construction of road, railways, and public buildings which were started under the public works Department (PWD) of the Government of India in the middle years of the nineteenth century. Prior to this, a large number of Indian workers were sent to the British colonies of South Africa, Mauritius, the Pacific coast and some other countries under the system of indentured labour. But when plantations, mines and factories started working, some progress was made in the sixties and seventies of the last century in the country itself, and the need for workers was greatly felt. At about this time, the factory in Bombay experienced a great shortage of labour. The wage-earning crass was composed of the lowest and most unfortunate class of people," who ranked low in the social hierarchy of the traditional village society. The already severe economic conditions in the village worsened and, therefore, people were forced to leave their ancestral homes and seek employment in factory towns. where custom was replaced by contract, cooperation by competition, the intimate village neighborhood by impersonal relations and anonymity, and the security provided by the joint family by insecurity and unemployment.

This wage-earning class, though nominally tee from the tyranny of village customs and social injustice and disabilities was looked, down upon in the mill towns as Jail labour." This created problems arising out of social and economic maladjustments. Socially, the main problem was related to its status in an industrial society; economically, it was rerated to hearth, housing, hours and conditions of work, welfare and a number of other problems. The unfavourable factory atmosphere trying conditions of work and maladjustment with the urban environment compelled a great majority of workers, who were still villagers at heart and who at any time, be constrained to go back to their family holding – leave the factory job either permanently or temporarily.

But with the growth of industrialization, especially during and after the First world war, conditions changed. This was reflected in two ways. First India emerged as an industrial nation. Second, there was a steady increase in the ranks of landless laborers, who flocked in large numbers to industrial centres and settled there as the permanent industrial proletariat.

Regarding the changes that took place in the world of Indian labour, the Rege committee observed "when the Royal Commission on Labour reported, the working class of India was neither sufficiently organised nor properly stabilized. In recent years, there has been a greater concentration of the working class population in industrial areas, and this has led to the rise of an industrial proletariat in most cities, which is prepared to stick to the town to a greater extent than before to fight for its legitimate rights and to seek its livelihood in urban rather than rural areas. The workers were not without a stake in the industry: where the looking and living conditions were better. they did not migrate from place to place, though they still retained their links with the villages." In the same vein, the National Commission on Labour remarked: The trend towards the sterilization of industrial labour has been further strengthened. A worker today is far more urbane in taste and outlook than his predecessors. The idyllic notion of a village nexus, has receded to the background.

The factors responsible for this change were:

1. positive steps undertaken by employers in the interest of industrial labour

such as incentive payment for regularity and productivity:

2. Provision on of minimum facilities under various labour enactments and adoption of various social security measures; and
3. Creation of a wide variety of jobs - both skilled and unskilled as a result of planning –in which young persons from urban families sought industrial work.

9.4 EMPLOYMENT DIMENSIONS OF INDIA INDUSTRY

Distribution of worker by Industrial Category

According to the 1991 census, 66.7 per cent of the working population was engaged in the primary sector, 12.7 per cent in the secondary and 20.5 per cent in the tertiary sector. A break-up of the occupational structure of the rural working population shows that 84.8 per cent were dependent on agriculture and allied activities; 0.6 per cent on mining, manufacture and household industry; and only 10.2 per cent in trade, commerce and other services. This highlight the fact that agriculture still continues to be the primary occupation of the rural masses and that the programmes of industrialization have not made much impact on the rural areas. In the urban sector, however, 54.9 per cent of the population was engaged in the tertiary sector' and only 32.3 per cent found employment in the secondary sector. This implies that even in the urban sector, the proportion of worked engaged in the manufacturing industry was less than that in the tertiary sector.

Employment in Factories

Industrial development in the country after the Second world war led to a phenomenal growth in the size of workforce in the country in the organised sector. The factory labour formed the bulk of this organised labour. Before discussing the pattern of employment of workers in factories, it is desirable to have an idea of the types of factories we have in our country. Factories have been divided into two categories, namely,

a) Regulated factories; and

b) Unregulated factories.

The regulated factories are those factories which are governed by the Factories Act, 1948. They are any premises, including the precincts therefore, there 10 or more persons are working. and in part of which power is used for manufacture: or where power is not used, the number of workers should be 20 or more. Such factories have been sub-divided into two categories:

i. Perennial factories, and

ii. Seasonal factories.

In the perennial factories th.ose industries are included which work for the whole year. Of these, the food products (including beverages) employment largest of laborers about one-third of the total work force. Next comes the cotton textile industries claiming about l3 per cent of the total employment. The other industry groups which account for r high employment are machinery, non-metallic products, basic metal industries, engineering, drugs and pharmaceutical industries chemical products and metal products, etc. The labour in ail these groups of industries is large because the factories provide stable, round-the-year and permanent employment.

The seasonal factories are those which on an average, work for not more than 180 days in a year. Such factories are comparatively small and are scattered over wide areas and recruit labour from amongst the agricultures. These factories comprise two sub-groups: the first is the cotton-ginning and pressings, jute pressing, shellac, tea, coffee and rubber factories. This group is predominantly seasonal. The second sub-group consists of rice mills, oil mills, sugar mills factories, flour mills- tiles and brick factories ice and aerated water factories

Employment in Plantations

The plantations are an important sector of the economy which are highly labour-intensive, for most of the work is manual. The plantations are generally of tea, coffee and rubber which together cover about 0.4 per cent of the cropped area and are concentrated mainly in the north-east and along the south-west coast. With the rapid increase in the area under plantation crops, largely due to the increase in the home consumption of these commodities and an expanding foreign market, the number of workers has increased. In 1911, there were 7.4 lakh plantation workers; in 1921, these numbered 10 lakh; 12.2 lakh in 1961. In 1971, the number of plantation-employed was estimated at 8 lakhs and in 1981, it was 9.0 lakh which shot up to 10.89 lakh in 1990 (Provisional figure). In 1986, 7.91 lakh workers were employed in tea gardens,31000 in coffee and 38,000 in rubber plantations. However, since 1987-90, except in tea plantation in both coffee and rubber plantations, it has declined considerably.

The labour force engaged on plantations represents only the principal earners and working dependents. If non-working dependent are included not less than 5 million would the population dependent on the plantations industry.

Employment in Mines

From the employment point of view, mining is an important sector, for the country is rich in mining centre are located in Bihar, Orissa, West Bengal, Rajasthan, Andhra Pradesh, Karnataka and Madhya Pradesh. Therefore, quite a large number of migrant worker have been working in those areas.

There has been a steady increase in the employment of workers in mines. In 1901, the total number of workers employed in mines was 104.48 thousand which increased to 305.24 thousand in 1950 to 652.06 thousand in 1960; in 1976 the figure was 748,000 which inflated to 750.50 in 1988 and 765.39 thousand in 1990.

It has been observed that during all the years, i.e 1901 to 1990 by, and large underground mines employed the maximum number of workers followed surface works. The least number was employed in the open cast mining.

Employment in Communications

Next to mining comes the communication group, of which the railways are the main employers. In 1911, the transport group employed 38 lakh persons, of whom 636311 were employed in the railways alone and the rest were engaged in operating various types of trucks, buses, auto rickshaws etc. In 1951, transport, communications and storage employed 20 lakh workers. Of these, the railway transport accounted for 5,70000 and the rest were employed in transport, communication and storage was 30 lakh in 1961 and 40 lakh in 1971. Of these, 11.6 lakh in 1961 and 13.48 lakh in 1966 were employed in the railways. In 1981, the railways employed 15.7 lakh regular employees and about 2.3 lakh casual labourers.

Employment in Ports

A sizeable chunk of labour force is also employed in ports by various agencies such as Port Trusts or Port commissioners, coaling firms, owners of barges and lighters, ship repairing and painting firms and contractors. Some are employed as stevedores.

Employment in Shop and Establishments

Fairly -good amount of labour is employed in shop and commercial establishments, restaurants etc. In 1961, the number of worker employed in these place were 20.69 lakh which increased to 31.12 lakh 1981.

9.5 EMPLOYMENT IN PUBLIC AND PRIVATE SECTOR

Unlike the private sector whose sole objective is profitability, the public enterprises were set up to cater to the dual objectives of local development and entrepreneurship. As a policy, the government till mid-1991 was to usher in socialistic pattern of society, so the PSUs were instrumental to the cause of social development in various areas, As a result, employment in this sector swelled since its inception. Also the basic and heavy industries were developed in this sector that led to heavy employment of labour. Though the liberalization has come to stay in the Indian economic environment, it has not influenced the employment potential of this sector. This is because of the fact that they continue to function in certain key areas of industrial/service sector like:

a) Long established public utilities like the railways, road transport services, ports, post and telegraphs, bank and insurance, power and irrigation projects.

b) Department undertakings of the Central and State Governments, including defense production and establishments, railway engines and wagons, coach-making units, aviation production and mines.

c) other industrial undertakings, which derive their finance almost wholly from the Central Government in the form of equity capital and loans.

9.6 WOMEN IN WORK FORCE

Sociologists have rightly remarked that the employment of women is one of the key determinants of a country's social growth and development. If this statement is examined from Indian perspective, it would be observed that certainly the Indian working women are at the lowest level of developmental hierarchy. In fact, on the various employment indices, they, have given a poor show. They stand nowhere in comparison to working women of developed and developing countries and lag far behind the Indian working males. Their miserable plight has been nicely summarized in the annual report, Ministry of Labour (1994-95) which reads that "they lag behind men considerably both in terms of level and quality of employment. An all the time inferior position if Indian working women is obvious from the fact that in the total working population of 314 million, only 9O million are women. Further, a vast majority of women workers are found employed in rural areas. Among rural workers 8% are employed in agriculture as laborers and cultivators. Also, in urban areas a much as 63.30% women workers are found working in unorganized sectors like house hold industries, construction etc. further , their participation in work force which 22.73% (1991) is exceptionally low in comparison to working women of Japan where it is 41.3 % (1990). Malaysia 31.1%, (1987), Sri Lanka 30.1% (1990) and of Indonesia where it is 34.50% (1988).

This miserable plight of women workers is largely due to certain forces that are dominating the Indian labour market since pretty longs. A few are cited here:

1. The gender bias against employment of women.
2. The tendency to escape from the moral responsibility of providing special facilities to them during and after confinement.
3. The industries using high technology like electronics, drugs and pharmaceuticals, engineering, textiles etc. calls for higher level of education and training that is generally not available among women workers. hence

their employment opportunities gets limited.

4. The prohibition on the employment of y4onlc'n during night shifts also Produces the scope of their employment.

Employment in Unorganized Industries

The unorganized or unregulated factories are those which fall outside the purview of the Factories Act as they employ less than 20 persons or, even if covered by Section 5 of the Act, employ less than 10 workers.

The labour in unorganized industries include those persons who cannot identified by definition: they are those persons who have not been able to organize themselves in pursuit Of common Objective because of Such Constraints as:

1. Acute nature of under employment (often underemployed workers work for more than one employer according to availability of job).
2. Scattered nature of work places (workers doing the same kind of job are in different habitations) and do not necessarily live together live together in compact geographical areas.
3. Lack of integration, on account of all above factors with the consequent low collective bargaining power.
4. Low level of unionization (Trade unions have serious difficulties in accessing workers who are underemployed, scattered, and home based).
5. Lack of concrete employer-employee relationship.

In an organised factory, such as lac and shellac industry, saw mill, cotton ginning, tanneries, carpet weaving, wool cleaning, handloom weaving etc. Unprotected labour and contract labour are largely employed. The labour report of Government of India, 1994-85,reveared that out of India's total workforce of 374 million about 80% (249 million) are i n rural areas. About 64 % of the workers (200 million) are engaged in agriculture. About 8.5% of the workers arc self- employed or employed on casual wages.

Contract labour

The contract labour is labour which is not carried on the payroll and is not into two categories:

a) Those employed on job contracts; and

b) Those employed on labour contracts.

The large establishments offer job contracts for such operations as the loading and unloading of the metals by the mining industry or the construction of roads or buildings by P.W.D. departments. The contractor generally engage his own workers and pay them either on time or piece rate basis.

The occupations in which contract labour is largely employed range from purely unskilled categories of loaders, unloaders, cleaners, sweepers, and khalasis to those of skilled categories, such as polishers, gas cutters, turners, riveters in oil distribution and drillers, blasters, blacksmiths, carpenters and fitters in the mining industry

Besides these, contract labour is common in certain regular processes such as:

a) Nickel polishing and electroplating in engineering establishments.

b) Dyeing, bleaching, printing, folding and sizing in the cotton textile industry.

c) Cleaning , grading and bailing in the woolen industry.

d) Designing and raising work in carpet manufacturing.

e) Building and construction industry, including irrigation projects.

However, it may be noted that contract labour is more prevalent in the mining and construction industries. Over 20 per cent of the labour force under contract labour is employed in iron ore, manganese ore, metal extracting mines and refining factories; jute pressing, breweries and manufacture of salt, fire bricks; joinery and general woodwork; metal founding; cotton ginning, cleaning and pressing; rice and dal mills, construction work under the P.W.D connected with the construction of roads, bridges, culverts, dams, canals, buildings (of hospitals, schools, offices).

Much employment has been generated by construction activities because of the housing project of the central and state Governments. The laying down of new railway lines, water pipelines and the construction of village and other town roads have also attracted quite a significant number of workers under approved contractors. According to an I.L.O. Report- the advantages to the employer in employing contract labour are:

i. Production at lowest cost;

ii. Engaging labour without having to extend such fringe benefits as leave wages. E.S.I. or provident fund contributions and bonus;

iii. General reduction in overhead costs and the administrative burden of maintaining an establishment: and

iv. The economics of farming out contracts for the manufacture of certain components rather than investing capital and installing plants for their manufacture.

9.7 SUMMARY

The Indian working class has had a somewhat different historcial origin than that of its compeers in most western industrialized countries.

The increased agriculturel labour force did not find much employment in industrial centres. During 1872-81 and 1891-1901, terrible famines visited the country, wich compelled these rural migrants to move into industrial centres.

Soicologists have rightly remarked that the employment of women is one of the daterminants of a country's social growth and development. If this statement is examined from Indian perspective, it would be observed that certainly the Indian working women are at the lowest level of developmental hierarchy.

The problem of industrial labour management did not arise when business organizations were small. They develop only when elaborate organizational structures came into being during the late nineteenth century, when gigantic industrial comprises of fianancial tycoons in the early twentieth century.

9.8 SHORT ANSWER QUESTIONS

Q.1 Discuss the growth process of industrial labour force.

Q.2 Describe the factors responsible for the growth of industrial labour force.

9.9 EXAMINATION ORIENTED QUESTIONS

Q.1 Explain the employment dimensions of Indian Industries.

M.A. ECONOMICS

COURSE NO. 566 **LESSON No. 10**
SEMESTER-IV **UNIT-II**

INDUSTRIAL RELATIONS

Chapter Highlights

10.1 INTRODUCTION

Industrial relations : Concepts

Of all the human resource management problem that have emerged on the corporate forefront in recent times, the problem of industrial relations is the one that has achieved more prominence than any other one. The increased popularity of this vital aspect of human resource management is due to one single factor, that it deals with people who are the base of industry—a class of people who are the base of industry class of people that makes things to happen. This inaction or violent very often makes paper headlines. Certainly, the strikes, redundancies, gheraos by the workforce and the indifferent and inhuman attitude of employers in dealing various labour problem is matter of great concern for one and all bothered about the nation's welfare. In facts, the very relationship between labour and management itself creates a host of opportunities they bring parties to conflict.

Prior to pondering over the dynamics of industrial relations, it is quite fruitful to know the concepts. In facts there are as many as definitions of industrial relations as the authors on the subject. So coming out of jungle of defilations, here industrial relations are industrial relations are viewed as the "Process by which of people and their organization interact at the place of work to established the terms and conditions of employment. The process of interaction stressed not just the resulting standard. Finally, the whole process is viewed as a "system", in order to emphasize the interrelations among people, there work organization and the standard in industrial milieu.

10.2 OBJECTIVES

The main emphasis in the lesson laid on the conceptual framework and objectives of industrial relations along with the evolution of industrial relations after interdependence.

10.3 INDUSTRIAL RELATIONS

The term "industrial relations" commonly denotes " employee-employer relations" in both organized and unorganized sectors of the economy. The book, however, takes a narrow view for the term. Industrial relations (also known as labour-management relations or labour relations) will be treated here as the study of employee-employer relationship.

The basic thrust of the discussion is to examine the relationship between the management, workers and the trade unions representing the firm's work force. Further, it studies the Industrial relations in manufacturing and service sectors and omit the industrial relations situations founds in small- scale, agriculture and other sectors of economy through they provide employment to more workers in comparison with the organised sector. A few notable feature pertaining to industrial relations are as under:

I. Industrial relations do not emerge in vacuum they are born out of employment relationship" in an industrial setting. Without the existence of two parties, i.e. labour and management, this relationship cannot exist. It is the industry which provides the environment for industrial relations.

II. Industrial relations are characterzid by both conflict and co-operation. This is the basis of adverse relationship. So the focus of industrial relations is one the study of the attitude, relationship, practices and procedures developed by the contending parties to resolve or at least minimize conflicts…

III. As the labour and management do not operate in isolation but are part of large system , so the study of industrial relations also includes vital environment issues like technology of the workplace, country's socio-economic and political environment, nation's labour policy, attitude of trade unions, workers and employers.

IV. Industrial relations also involve the study of conditions conducive to the labour, management co-operation as well as the practices and procedures required to elicit the desired co-operation from both the parties.

V. Industrial relations also study the laws, rules, regulations, agreements, awards of court, customs and traditions, as well as policy frame work laid down by the government for eliciting co-operations between labour and management. Besides this, it makes an in-depth analysis of the interference patterns of the executive and judiciary in the regulation of labour-management relations.

In fact, the concept of industrial relations is very broad-based, drawing heavily from a variety of discipline like social science, humanities, behavioral sciences, laws etc. in this context, it has been rightly remarked that "if we make industrial disputes (the absence of positive industrial relations) the centre of a circle, it will have to be divided into various segments. A study of the conditions of work, mainly the level of wages and security of employment, comes under the preview if economics; their origin and development under history; the resultants social conflict under sociology; the attitude of the combatants, government and the press under social psychology; their cultural interactions under cultural anthropology; state policies bearing on the issues involving international aid (to combatants) under international relations; the degree of effectiveness with which labour policy is administered under public administration; the technological aspects (e.g control of temperature and introduction of rationalization) of disputes under technological ; and quantitative assessment of losses incurred by the parties and the country's economy under mathematics.

The level covered by these subject range from individual relations at the shop floor to the regional, national and international bodies. The subject has grown exceedingly complex in certain areas, for instance, the man-machine interface (technology) sweeps the entire system, the legal side of the business has become quite complex and ever-changing. The specialism of industrial relations has given rise to sub-specialism in a variety of areas. That has further complicated the system. In fact, industrial relations encompass all such factors that influence behaviour of people at work. A few such important factors are detailed below.

i. Institutions: It included government employers, trade unions and employers federations, employers federations or association, government bodies, labour courts tribunals and other originations which have direct or indirect impact on the industrial relations system.

ii. Characters: It aims to study the role of workers, unions and employers federations, employers federations officials, shop stewards, industrial relations officers/manager, mediator/conciliators / arbitrator, judges of labour court, tribunal, etc.

iii. Methods: Focus on collective bargaining, workers participations in the industrial relations schemes, disciplines, procedure, grievance redressed machinery, dispute settlement machinery, working of closed shops, union recognitions origination of protest through methods like strikes, gheraos, bandhs and lookouts, formulations and revisions of existing rules, regulations, policies, procedure hearing of labour courts, tribunals etc.

iv. Content: Includes matter pertaining to employment conditions like pay, hours of work, leave with wages, health and safety disciplinary actions, lay-off, dismissals, retirement etc., laws relating to such activities, legislation governing labour welfare, social security, industrial relations, issues concerned with workers participation in management, collective bargaining, etc.

Importance of Industrial Relations

Prior to the industrial revolution, the problem of industrial relations was literally mom-existent as the owners were themselves producers or the production was carried out by the family members themselves. However, with the industrial revolution, in Europe and its subsequent impact on the entire globe, the scenario changed considerably. As with the emergence of factories, the cottage industries were thrown in black gear, which compelled a large number of workers to leave their farms and become wage earners in factories with meager wages under tiring working conditions. With the passage of time, a substantial population including men, women and children started concentrating in industrial centres; and this population characterized by ignorance, poverty, conflicting ideologies. Gradually—tow groups—the haves, the status- dominated universalitistic and aspiring class and other haves not, ill-class, ill-fed and ill-educated. As both having radically different interests and ideologies developed their own unions to give a taught fight to order. The government came on the scene for regulating the working conditions of employees who had little bargaining power. Further, the changes in the techniques and methods of production, work methods, supply of better skilled workers etc. changed the complexion of industrial relations considerably. To-day, with the increased sophistication of work methods and the techno-based HRM policies have given a new dimensions to the industrial relation system. Coming to the India industrial scene, which is rapidly transforming from the agrarian system to the industrial one, the study of manpower management relations cannot be underestimated. The country which has a populations of 38 millions (1991) of which 14 million (1991) are in the workforce but only 25.5 of total working populations is organized. In the light of these facts, the question that pricks one's mind is that, is it really worthwhile to study the industrial relation that effect only a small chunk of workforce. The answer to this query lies in the fact that the relations that influence such a small segments of workers has for-reaching implications not only on the attitude of unorganized workers but on economy as a whole. Hence, there is a case for the study of industrial relations.

i. Industrial relations patterns, organized Sector of economy has definite impact on labour management relations in the unorganized sector. The trends and pattern establishment in the unorganized sectors "spill over" or influence the practices of even the most unorganized industries. This happens because there is always pressure from a variety of groups on unorganized firm to match its employment and working conditions, benefits etc. with that of organised one.

ii. Unions are important force in the Indian political system: the impact of Indian trade unions on the political system in much wider than on the industry. The Indian trader unions which are fall-out of the political system are invariably used by both the ruling and opposition parties for electioneering purpose. In additional the union sponsored by the ruling party do influence the legislative process through their intense lobbying activities. The representative of all the nation local union are consulated by the government in formulating various social-economic policies, in general and labour policies in particular. Because of these diverse activities in the political sphere, the trade union becomes a strong political force in the country. This in turn influences the system of industrial relations in a variety of ways.

iii. Varying pattern of industrial relations: In India, the pattern of industrial relations are not only in sharp construct both in unorganized and organised sector, but also within the latter, they exhibit a considerable variation. In the unorganized sector due to non-unionization of the workers, the grievances are usually redressed by the threat of dismissal or literal beating –thus the problem of industrial relations however, acute is not allowed to surface.

iv. Status difference in the workers of public and private sector: n Indian with the adoption of socialistic pattern of society and subsequent acceptance of industrial policy resolutions of 1956, the public sector was entrusted with the responsibility to accelerate the economic development of the country. As such basic and heavy industries were allowed to concentrate in this sector and the private sector was not given an opportunities to come up as there were a host of constraints in its growth and development.

The workers in the public sector were the government employees and accordingly, were given a fair deal. In contrast to it, the workers in the private sector had to suffer on many counts, which is reflected in its industrial scenario. Through there are brighter spots in the private sector, on the whole, the workers suffered at the hands of employers. However, With the passage of time, the situations started changing. It is interesting to note that with liberalization of Indian economy, the man management relations are now improving in the private sector and in the public sector they are worsening every day. This really tempts one to study as to how the dynamic of the industrial relations changes over a period of time and which, in turn, influences the economy of the country.

10.4 SCOPE AND ASPECTS OF INDUSTRIAL RELATIONS

An industry is a social world in miniature where an associations of variety of people like employers, executives and supervisory personal and workmen interact and create a relationship known as industrial relations. This associations of people not only influences labour relations but also the social, economic, political and moral lives of the whole community. In other words, industrial life creates a series of social relationship which regulate the relation and working of wide variety of people either directly, indirectly or both. The industrial relations are, therefore, part and parcel of industrial life, as such they include.

i. Labour relations, i.e relations between union and management (also known as labour-management relations).

ii. Employers-employee relations, i.e relation between management and employees.

iii. Group relations, i.e relation between various groups of workmen; and

iv. Community or public relations, i.e relations between industry and society.

The last two generally do not fall under purview of industrial relation, but form part of the large discipline—sociology. Further, the two terms, labour-management relations and employee relations are synonymously used.

The main aspect of industrial relations are:

i. Promotion and development of healthy labour-management relations;

ii. Maintenance of industrial peace and avoidance of industrial strife and

iii. Development of industrial democracy.

I. Development of healthy labour management relations : the promotion of healthy labour management relations pre-supposes;

a. The existence of strong, well-organised, democratic and responsible trade unions and associations of employers. These organization enhance the job security of employees, help in increased workers participations in management (affecting the terms and conditions of their employment) and give labour a dignified role in society. These association also tend to create vantage grounds for negotiations, consultations and discussions on a mutual basis which ultimately lead to good labour-management relations;

b. The spirit of collectively bargaining and willingness to take recourse to voluntary arbitration. The collective bargaining recognizes equality of status between the two conflicting groups and prepares the ground in an atmosphere of trust and goodwill, for discussions, consolations and negotiations on matters of common interest to both industry and labour. In an industry, the collectively bargaining, plant discipline and union relations are the principle items which from the core of industrial relations;

c. Welfare works, whether statutory or non-statutory, provided by the state, trade unions and employers create, maintain and improve labour-management relations and thereby contribution to industrial peace.

II. Maintenance of industrial peace: Industrial peace pre-suppose the absence of industrial strife which is essential for increased productivity and harmonious labour-management relations.

The industrial peace can be largely nurtured through the following means:

a. Machinery should be set up for the prevention and settlement of industrial disputes of adjudication when the situation tends to get out of hand and industrial disputes: It can be brought about by developing various legislative and administrative enactment like Trade Unions Acts, Industrial Dispute Act, Industrial Employment (Standing Industrial orders) Act, works Committees and joint Management Councils; Conciliation officers and Boards of conciliation: labour courts, Industrial Tribunals, National Tribunals; Courts of Enquiry; and provisions for voluntary arbitration.

b. The government should have the power to refer disputes to adjudication when the situation tends to get out of hand and industry is faced with economic collapse due to continued stoppage of production on account of long strikes/lockouts; or when it is in the public interest to do so during periods of emergency; or when there is fear of foreign attack; or when production needs to be carried on without interruption.

c. The government enjoys the power to maintain the status quo: This Power is expressed when the government, after referring the dispute to arbitration, find that either party is continuing the strike or lockout and that strike or lockout is likely to jeopardize the life of the community and to create in industry.

d. The provision of the bipartite and tripartite forums for the settlement of disputes: these forums act on the basis of the code or discipline in industry, the code of conduct, the code of efficiency and welfare, Modal Standing Order, Grievance Procedure and the granting of voluntary recognition to trade unions by the employer. These non-statutory measures help to create satisfaction among employers and employees.

The industrial peace can also be attainment by the creation and maintenance of implementation cells and evaluation committees which have power to look into implementation of agreement, settlements and awards and also violations of statutory provision laid down under various labour laws.

III. Development of industrial democracy. The idea of industrial democracy exhorts that the labour should have the right to be associated with the management of an industry. To achieve this objective, the following techniques are usually employed.

a) Establishment of the shops councils and joint Management councils at the floor an department level, which Endeavour to improve the working and living conditions of employees, to assist in the administration of laws and agreements, serve as a channel of communication between management and employees, create among the employees a sense of participation in the decision-making process and a sense of belonging to the industry. These method and activities provided the necessary climate for the development of industrial democracy in the country.

b) Recognition of Human right in industry: This implies that labour is not a commodity of commerce which can be purchased and disposed of at the whims and caprice of employers. The workers are required to be treated as human beings whose sense of self-respect s to be fostered. Certainly better understanding of their role in the organization by the employer would brought home to them. Their urge for self-experience (through closer association with management) should be satisfied. These are the basic pre-requisites for achieving industrial democracy.

c) Increase in labour productivity : The factor s which contribute to higher productivity are: improvement in the level of efforts and skills of workers; improvement in production process, materials, equipment, layout, workers, research and development, including special studies and technological development, including special studies and technological development elsewhere; improvement in the output resulting from capital intensification within the frame-work of the same technology; and increasing the productivity of labour by adopting a proper motivation system which may lead to a satisfactory performance of job and maintenance of good industrial relations

d) The availability of proper work environment is necessary so that the worker can effectively carry out his assignment, as it is this environment which stimulates or depresses, improves or destroyed the relations between labour and management.

In the words of Lester: "Industrial relations involve attempts at arriving at solutions between the conflicting objectives and values; between authority and industrial democracy; between bargaining and co-operation; and between conflicting interests of the individual, the group and the community."

10.5 COMPONENTS OF INDUSTRIAL RELATIONS SYSTEM

An industrial relations system is made up of certain institutions, which are popularly known as "three actors" of the system. In all developed and developing economics, these actors are… workers (employees) and their organization (trade unions), management (employers) and their organization (employer's associations/ federations), the government. These actors jointly determine the output of the system, which largely consists of rules/regulations relating to terms and conditions of employment. On the face of it, the system seems to be very simple but in fact is very complicated –as it is for this reason that the management of industrial relations system is regarded as a quite an uphill task. Let us now deliberate on the role behaviour of three actors of industrial relations system.

1) Worker and their organizations: When the bulk of workforce is employed in the production of goods and service, the relation between them become impersonal and dehumanized. Further, if they are forced to work in an

alienated, monotonous, unhygienic works environment where their activities are closely regulated and controlled by the managerial personnel, their dissatisfaction with the system forces them to revolt against it, so worker s form their unions. Their basic activity normally included political actions and, so worker s form their unions. Their basic activity normally included political actions and, so worker s form their unions. Their basic activity normally included political actions and, so worker s form their unions. Their basic activity normally included political actions and safeguard workers, interested both within and outside the plan/unit. In fact, they act as sectional bargainers by representing the interest of the workers, on whose behalf they bargain with the management at all level particularly at the plant level, in countries like Norway, Sweden, Austria etc. and at the national level in other countries. As sectional bargainers, the unions may combined into larger national federation –the Trade Union congress in the UK, the AFL and CIO in the USA and Labour organization in Sweden. In India, there are ten central organization of workers of which, a large number of unions affiliated to them. Moreover, there are unions of white-collar workers like that of the union of LIC employees, the Bank Employees Association, the Air-India Employees Association etc. they represent and protect the interest of their members through collective on all important issue, often by the use of pressure tactics or threats of strikes and gheraos. The unions believe that "the right to strike, i.e., the flexing of economic muscles, is essential –not always, as a last resort for effective collective bargaining.

In some countries, such as France, Norway, Sweden, Denmark and Austria, the central trade unions or federations like the unions of transport workers, railway employees, civil servant etc, also play the role of "class bargainers". They normally enter in long-terms collective bargaining agreements with employees on various matters effecting labour-management relations. This trend id now picking up in Indian Industries, too.

The trade unions of erstwhile socialist countries used to play the role of "state Agent." They propagated the policy of state and acted as controlling groups working together with the management to raise productivity besides assisting management in the administration of various social security and welfare measures.

Earlier the trade union has also acted as partners in the social control of industries as in west Germany, Russia, Italy and Yugoslavia, where the representatives of the workers sit on the Board of Management and Participated in the decision-making process with the ultimate aim to gain control over industries. However, with the downfall of communism across the globe , the unions of such economics, too, have altered their philosophy and modus operandi. In India, workers participate in management through works committees, joint management councils and even workers representatives on the Board of directors.

In fact, the workers organizations are mainly political institution, which are associations of employees formed and maintained for the specific purpose of securing concessions from employers. This power is used as a regulating device to fetter management discretion and pressurize them to yield to their demands for better wages, improvements in working conditions, and better and more amenities and welfare measures. As a matter of fact, a trade union has often been regarded as a conflict association with strong political and emotional overtones.

The management

The employer/management is the key factor in the system of industrial relations, round which the whole process revolves. As they not only provide job to workers but also lays down the terms and conditions of their employment, administrative various social security and labour welfare programme. Over and above managing various aspect of industries that directly or indirectly influences the total system. The manner in which the management gets the work done through workers determines the quality of relations with its employees. Rensis Likert has identified the following leader ship style that are commonly practiced by the managers to manage people at work.

They are exploitative authoritative system. This style was common during early stages of industrialization where workers were treated as a “commodity”. It was exploited ruthlessly, paid very low wages: the hours of work were unbelievably long; discipline was maintained by the rule of rod, security of job was unknown. as the workers worked at the whims of the employer; the working conditions were very unhealthy and welfare amenities were externally poor. In the case of accidents, injury or death, workers had to depend on their resources. Which were very meager, therefore, there was high death rate due to accidents. The workers were voiceless. There was none to support their genuine demand for a subsistence wages. This style of management often survived under the “laissez faire policy. Which almost invariably encouraged the growth of “revolutionary trade unions”.

2) under the benevolent authorities system , the situation was somewhat different. Because of the pressure of society and the enactment of protective legislation, it finally dawned on employers that they had to look after the interests of their workers if production and profits were to be maintained at a high level. So there was some change in the attitude of employers they started treating workers as children who needed careful guidance and welfare amenities for their well-being. However, they rarely conceded to labour the adult privilege of having

   a say in their own affairs and. therefore, they usually believed in a paternalistic altitude towards labour.

3) With further growth of labour legislation and the development of trade unions, the system of consultative management style began to take root. Though this type of management generally does not believe in the good intentions of trade unions, and though these have set up their own “‘company unions”, they believe in having a well-developed communication channel between them and their ‘ employees in a system of feedback from the shop floor upward: in collective bargaining and in sharing information, whenever necessary with workers and the middle management. This type of

management tries to undertake all possible welfare measures for the benefit of the workers. “The worker is regarded as a mature employee with rights and views of his own, although important decisions continue to be the prerogative or responsibility of the management.

4) Under the participative style labour is treated on an equal footing by the management. i.e. neither as a “commodity” nor as a “child’’ but as an ally and a friend, even a partner in the joint endeavor of improving the efficiency and productivity of the enterprise.

The Government

In the system of industrial relations government acts as a regulator and judge. Further, not only the central Government but the government at the state and regional level do influence the system industrial relations, also the other functionaries of the states like the executive and judiciary has a definite impact on the system. Now let us see how the system of government intervention evolved.

Till 19th century, the Government almost everywhere including India adopted the policy of laissez faire. i.e. it did not bother to intervene between the employer and workers’ problems unless when situation warranted. As such, parties were let free to settle the score the way they liked it. This attitude of the Government and the high-handedness of the employers compelled workers to combine for a common cause for protest against the inhuman conditions of work, meager wage and harsh treatment by the management etc. Towards the end of 19th century, however, a change was witnessed in the attitude of the Government because of the agitation by social philanthropists like Robert Owen, Ruskin and others in the ITK and Lokhandey, Bengalee and Wadia and others in India, as a result of which, the Government was constrained to bring in some type of protective legislation relating to conditions of work, regulation of wages compensation in case of injury/accidents and the formation of unions.

In the early forties of the present century and after independence, the

Government laid emphasis on the need for consultation between the representatives of labour management. And the government in tripartite and bipartite forums. Moved by the constant pressure of I(.L.O)

the Government of India enacted various tripartite bodies; like Indian Labour Conference (l.L.C.). the standing labour committee (S.L.C.) and the industrial committees to deliberate on various issues relating to labour and management that have far-reaching impact on the country's labour policies and legislation.

Inspired by the Gandhian philosophy, Government accepted importance of the trusteeship concept in the field of industrial relations; also it came out which a series of codes to regulate the labour-management relations on a voluntarily basis.

Finally, when the State emerged as one of the largest single employer in the country, it adopted the regulatory role, by constantly monitoring the activities of labour and management in the field of industrial relations.

To-day with the greater emphasis on liberalization and privatization, the private entrepreneurs are entering on various areas of business consequently the problems of workers have increased manifold as very system needs highly skilled workforce and there is no place for the workers in industrial with low technological expertise. It is alleged that the privatization has spawned many problems, such as lay-off, discharge and voluntarily retirement, underemployment etc. l.ave become order of the day. In fact, it has become difficult for the Government to strike a fair balance between the demand of liberalization and expectation of its workforce. The regulatory role of the Government has now become more crucial and demanding than before which is likely to complicate with the passage of time.

These three actor in the system interact with each other to yield the basic output –which is the set of rules that govern working conditions and the terms of employment. This output influence both labour and management , sometimes the net result of the system is not as per expectations of the labour which end up in strikes and gheraos and in protest of this employers often resort to lockouts. In case, when the parties fail to iron out their differences, the Government intervenes in their relations by referring the matter to adjudication. The result of this is likely to adversely affect the interest of the other party. Otherwise also the Government regulates the relationship through variety of rules and regulations. Moreover, when either of the parties are not happy with the action of other, it tries to seek further changes through intense lobbying etc. and which further adds fuel to the fire.

It is interesting to note that with the adoption of liberalization and globalization process, increasing awareness of workers and growing complexities of business, the relations of the three actors in the system would become increasing complex.

10.6 FACTOR AFFECTING INDUSTRIAL RELATIONS

The industrial relations system of an Organization influence by a variety of factors. A few important are:

1) Institutional factors.
2) Economic factors.
3) Social factors
4) Technological factors.
5) Psychological factors.
6) Political factors.
7) Enterprise-related factors.
8) Global factors.

These inter-related and interdependent factor determine the texture of industrial relations in any setting. In fact, they act, interact, and reinforce one another in the course of developing the industrial relations.

1) Under institutional factors are included items like state policy, labour laws, voluntary codes, collectives bargaining agreements, labour unions, employers organization/federations etc.

2) Under economic factor are included economic organization, (socialist, communist, capitalist) type of ownership, individual, company –whether domestic or MNC, Government, co-operative ownership) nature and composition of workforce, the source of labour supply, labour market relatively status, disparity of wages between groups, level of unemployment economic cycle. These variables influence industrial relations in myriad ways.

3) Under social factors items like social group (like caste or joint family) creed, social values, norms, social status (high or low) –influences industrial relations in the early stages of industrialization. They give rise to relationship as master and servant, haves and have-nots, high caste and low caste etc. But with the acceleration of industrialization these factors gradually loses their entity but one cannot overlook their importance.

4) Under technological factor fall items like work methods, type of technology used, rate of technological changes R&D activities ability to cope up with emerging trends etc. These factors considerably influence the patterns of industrial relations as they are known to have directly influence on employment status, wages level, collectively bargaining process in an organization.

5) Under psychological factors fall items pertaining to industrial relations like owners attitudes, perception of workforce, workers attitude towards work, their motivation, morale, interest, alienation, dissatisfaction and boredom resulting from man-machine interface. The various psychological problem resulting from work has a far-reaching impact on workers job and personal life, that directly or indirectly influence industrial relation system of an enterprise.

6) The political factors such as political institutions, system of government,

political philosophy, attitude of government, ruling elite and opposition toward labour problems. For instance, the various communist countries prior to the adoptions of new political philosophy the industrial relations environment was very much controlled by the government ever since changes has altered considerably like other capitalist economics. There too, unions are now at the helm of labour activities, the industrial relations and is marked by labour unrest. Most of trade unions are controlled by political parties, so here the industrial relations are largely shaped by the gravity of involvement of political parties in trade union activities.

7) Under enterprise-related factors fall issues like style of management prevailing in the enterprises, its philosophy and value system, organizational climate, organizational health, extent of competition, adaptability to change and the various human resource management policies.

8) Under global factors, the various issues included are international relations, global conflicts, dominants economic-political ideologies global cultural milieu economic trading policies of power blocks international trade agreements and relations international trade agreement and relations, international labour agreements etc.

Thus, the industrials relations can be viewed as a “Complex System” formed by the interaction of the industry, the government and labour which are monitories by the existing and emerging social economic, institutional and technological factors. In this context, the observation of Singh are note worthy. He opined that “ A country’s system of industrial relations is not the result of caprice or prejudice. It rests on the society which produces it. It is a product on only of the industrial changes, but of the preceding total social changes out of which industrial society is built(and industrial organization emerges).It develops and moulds itself according to the institutions that prevail in a given society (both the pre-industrial and the modern). It grows and flourishes or stagnates and decays. along with these institutions. The process of industrial relations is intimately related to the institutional forces which give shape and content to the socio-economic policies at a given time.? The outward and invisible signs of the country’s industrial relations are generally the reflexes of the nation's history and its political, historical and social philosophy and attitudes.

The development or industrial relations is not due to any one single factor but has rather been largely determined by the conditions prevailing at the eve of the industrial revolution in western Europe along with the social economic and political situations existing in the different countries. The changes which took place during this revolution did not follow a uniform pattern in different countries, but reflected such economic and social forces as had for a long time shaped the principles and practices of industrial relations in these countries. Baljit Singh has succinctly summarized these: From the earliest phases of industrialization, when workers, formerly working with their own tools, entered into power-driven factories owned by others to the minimization of breakdown due to industrial conflicts of later days and further to industrial peace and hence to the human-relations approach to raise productivity in an era of full employment when the threat of a sack would no longer be real; and, finally, to industrial democracy based on labour partnership not only for the sharing of profits but of managerial decisions themselves, It has been a long journey indeed.

a) Those employed on job contracts

b) Those employed on labour contracts.

10.7 EVOLUTION OF INDUSTRIAL RELATIONS IN INDIA

The problem of industrial or labour management did not arise when business organisations were small. They developed only when elaborate organisational structures came into being during the late nineteenth century, when gignantic industrial emphises of financial tycoons came into existences, followed by the technology of mass production in the early twentieth century.

Industrial Relations During Pre Indepdences Period :

Industrial activity in India started about the middle of the nineteenth century when cotton mills in Bombay and Jute mills in Calcutta wars established. The workers in these industries were guided by their traditional values and their relation with employers were essentially of the master and servant type. Though the problems of labour employer relations must have emerged with the beginning of modern industrial activity, there is little to note about the happening in the 19th century except that there were some stray incidents of labour protests, the earliest being that involving the weavers of the Empress Mills, Nagpur, in 1877. The Royal Commission on labour observed in 1931 that strikes were rare before 1918.

1919-1939 : The World War I gave rise to a period of boom for industrial employers. With prices, their profits went up enormously. The wages of workers, however, did not keep pace with this overall trend. Their economic distress brought workers together, and an organised working class movement began in the country. The unrest among workers found an outlet in an increased numbers of strikes. Of these strikes, the one in Ahmedabad led by Mahatma Gandhi and the other at Madras led by B.P. Wadia in 1921 were outstanding.

The other significant aspect of the period was the developments in the legislative field, which were, to some extent, a result of the influence of the ILO. The Workmen's Compensation Act of 1923 was the first measure for the protection of the workers against injury during employment. The Trade Union Act, 1926, gave a legal status to trade unions and granted them protection against criminal and civil suits in cases of strikes. The Indian Trade Disputes Act, 1929 marks the beginning of the concern of the government about industrial unrest.

Thought the All- India Trade Union Congress (AITUC), the first central trade union organisation, was established in 1920, trade unions in the country did not develop well enought to build up their bargaining strength vis-a-vis their employers.

The authoritarian attitude was very much in evidence among the employers. They were opposed to collective relations with workers for they looked upon workers organisations as threats to their authority. During this period, the government was a passive regulator of the situation with a view to preserve law and order.

World War II : Employers made huge profits during the war. The index of profits for all industries rose from 138.0 in 1940 to 233.6 in 1945. The workers demanded a share in this prosperity. They were granted bonus and dearness allowance; but they were unhappy because the increase in their money wages did not keep pace with the rising prices. The governement tried to check this dissatisfaction and consequential strike activity by prohibiting strikes under the Emergency rules, i.e., Rules 81 A of the Defence of India Rules. These rules provided for the adjudication of disputes between employers and workers. This emergency measures and procedure has now become a permanent feature of the industrial relations scene in India.

The other significant development during the war years was a major split in the trade union movement and the emergence of a new central trade union organisation. The Indian Federation of Labour (IFL) was formed in 1941.

The Indian Labour Conference as a tripartile consultative machinery was instituted during this period, i.e. in 1942. In 1950s, this forum evolved certain principles, norms and practices which shaped the subsequent pattern of industrial relations in India.

1946-47 : These were the most disturbed years from the point of view of relations between employers/managers and workers. There was a considerable increase in strike activity. This is evident from Table 1.

TABLE 1

Year	*No. of Disputes*	*No. of Workers involved (‘000s)*	*No. of Man-Days Lost (in lakh)*
1946	1629	1962	127.18
1947	1811	1841	165.63

There was also a significant increase in the number of trade unions and in their membership. A new Central Trade Union Organisation the Indian National Trade Union Congress (INTUC) was formed in 1947.

A number of labour laws were passed during this period. The Industrial Employment (Standing Orders) Act, 1946 regulates the terms and conditions of service of workers. The Industrial Disputes Act of 1947 provides primarily for the settlement of industrial disputes. At the states level, the Bombay Industrial Relations Act of 1946 deserves special mention because it made a specific provision for the statutory recognition of trade unions.

During World War II, industrial activity in India received a tremendous boost in terms of diversification and growth in the size and number of industrial units. The management, which came into prominence with this industrial expansion, inherited from employers their authoritarian attitude towards labour.

After Independence : Immediately after independence, the primary consideration was the uninterrupted industrial production which alone could bring about improvement in the economic conditions of the people. In December 1947, government convened a tripartite conference at which the Industrial Truce Resolution was adopted, giving paramount importance to the maintenance of industrial peace. With a distinct commitment to improving the conditions of labour, the government entered the field in a big way of passing several Acts relating to the different aspects of industrial work and workers, such as the Minimum Wages Act of 1948, and the Factories Act of 1948, and the Employees State Insurance Act of 1948.

In the meantime, the disunity among trade unions which began during the War years, gave rise to the establishment of three new Central Trade Union Organisations during the 1947-50 period the Indian National Trade Union Congress INTUC (1947), the Hind Mazdoor Sabha HMS (1948), and the United Trade Union Congress UTUC (1949).

After 1950, the developments in industrial relations have been examined with reference to the planning activity in the country.

First Five-Year Plan

The Plan did not offer any clear policy or a definite programme for labour. The guidelines on labour gave prime importance to the maintenace of industrial peace. During this period, the Provident Fund Law was passed in 1952, and the Industrial Disputes Act of 1947 was amended in 1953 to provide for compensation in cases of lay-off and retrenchment.

The Second Five-Year Plan

The tripartite machinery the Indian Labour Conference set up in 1942 was effective during this plan period in evolving certain norms, mechanisms and practices, such as formulae for need-based minimum wage, wage boards, guidelines for rationalisation, code of discipline, code of conduct, scheme for worker's participation in management, list of items on which works committees could conduct their business, model grievance procedure evaluation and implementation machinery, and emphasis on voluntary arbitration. One significant feature of these developments was that these measures or norms were not incorporated in the Acts but were backed only by moral sanction. This voluntary approach is associated with Mr. Gulzarilal Nands, who was Minister for Labour during those years.

The Third Five-Year Plan

During the emergency caused by the Chinese War in 1962, the Industrial Truce resolution was adopted, and employers and workers pledged themselves to maximise production. The Payment of Bonus Act was passed in 1965 with a view to resolving the most important item of discord between the two parties. The right of an individual worker were better safeguarded when the Industrial Dispute Act of 1947 was amended, granting to an individual worker the right to raise a dispute even if cause was not espoused by a trade union.

The Fourth Five-Year Plan

About the end of 1966, the Government of India appointed a National Commission of Labour, which submitted its report in 1969. During this Plan period, serious thought was given to the recommendations of the National Commission of Labour.

In all the Plan documents, the state showed a strong commitment to the development of strong trade unions and effective collective bargaining.

*Industrial Relations Scene

The overall trend after 1970 in the sphere of industrial relations is qualitatively expressed in terms of strike statistics consisting of the number of work stoppages (including strikes and lockouts), the number of workers involved and the number of man-days lost. These statistics, however, do not necessarity reflect the total picture of the state of industrial relations in the country.

TABLE 2 NUMBER OF DISPUTES, NUMBER OF WORKERS INVOLVED AND NUMBER OF MAN-DAYS LOST

Year	*No. of Disputes*	*No. of Workers, Involved ('000s)*	*Avg. No of Workers (Involved per Dispute)*	*No. of Man days Lost (in Lakh)*
1961	1,357	512	377	49.19
1981	2,589	1,588	613	365.84
1990	1,825	1,308	716	240.86
1991	1,810	1,342	741	264.86
1992	1,714	1,253	731	312.58
2001	674	688	1,020	237.37
2002	579	1,079	1,863	265.86
2003	552	1,816	3,290	302.61
2004	477	2,072	4,344	238.67
2005	456	2,914	6,390	296.55
2006	430	1,810	4,209	203.25
2007	375	696	1,856	275.15

Source : Handbook of Labour Statistics

The figures in Table 2 show that strike activity in the country has fluctuated over the years. Still, there has been a perceptible increase in both the number of disputes and the average number of workers involved in each dispute. This tendency is also revealed when the number of man-days lost is related to the estimated employment (in working factories) date in the country.

TABLE 3 MAN-DAYS LOST PER 1000 WORKERS

Year	*Man-days Lost per 1000 Workers*	*Index*	*Severity Rate*
1961	1,022	-	—
1966	2,041	199.6	—
1970	3,329	325.2	—
1971	2,302	225.2	—
1972	3,035	297.0	—
1973	3038	297.3	—
1974	4,704	460.0	1,973
1975	3,615	354.0	1,431
1976	2,157	211.0	895
1977	3,316	324.0	1,493
1978	3,641	357.0	1,646
1979	5,896	577.0	2,699
1980	2,529	248.0	1,161
1981	4,335	424.0	2,080
1982	9,646	944.0	4,919
1983	5,769	564.0	2,910
1984	6,437	630.0	3,197
1985	3,267	320.0	1,649
1986	3,941	386.0	2,000
1987	4,141	405.0	2,249
1988	3,738	366.0	1,938
1989	3,423	335.0	1,744
1990	2,352	230.0	1,198
1991	2,638	258.0	1,138
1992	3,354	328.0	1,706

1993	2,388	234.0	1,062
1994	2,460	241.0	1,067
1995	1,779	174.0	758
1996	2,216	217.0	1,046
1997	1,854	181.0	935
1998	2,410	236.0	862
1999	2,357	230.6	1,198
2000	4,350	425.6	2,644
2001	3,666	358.7	2,259
2002	4,296	420.4	2.637
2003	3,385	331.2	2,090
2004	3,313	324.2	2,046
2005	3,718	363.0	2,290

Severity Rate : Ratio of Man-days lost to 1 lakh man-days scheduled to work.

Sources : (1) Handbook of labour statistics.

(2) Pocket book of Labour Statistics, 1987, Labour Bureau, Ministry of Labour, Government of India.

From the data in Table 3 it is obvious that the index of man-days lost and the severity rate were at the maximum level in 1982.

Keeping in view these quantitative details which highlight the state of industrial relations in the country, we shall now deal with the part played by each one of three participants in industrial relations

(i) The workers and their trade unions;

(ii) The employers/managements

(iii) The government.

As a result, industrial relations in the small-scale sector are very informal and personal. The workers are exploited, and this exploitation takes the form of the low wages, bad working conditions and insecure service conditions. Those who are weak and ill-organised, they develop a structured, are employed in modern industry groups, struggle to move for employment to the large and reputed industrial units in urban metropolitan areas. In other words, the industrial relations scene in the small-scale sector presents wide varieties between the extremes of stable but exploitative relations, on the one hand and unstable relationship due to high labour turnover on the other.

Industrial Relations Scene

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ii. The employers/management;

iii. The government.

Trade Unions in India

The data-on the trade union movement in India for the period 1961-96 reveal that trade unions in the country have grown quantitatively in terms number and membership.

Despite this growth in the number and size of membership, trade unions have remained predominantly small in size and financially weak. The average membership of trade unions submitting returns varied between 600 to 800. The

National Commission on Labour-observed in its report (1969) that the membership of 73.2 per cent of the trade unions in India had was below 300 in 1964-65. A small number of trade unions account for a large share in membership, and a large number of small-sized trade unions for a small share in the total membership.

In 1970 the membership of 71 per cent of the trade unions was below 300 and these trade unions accounted for only 12.6 per cent of the total membership. Less than 1 per cent of the large-sized trade unions accounted for about 32 to 33 per cent of the total membership.

Besides being predominantly small in size, trade unions in India are financially weak. The average monthly income of a trade union in 1969 was as low as Rs.3.14. This improved to Rs. 625 per month in 1975 to Rs. 1,425 per month in l98l and to Rs. 2.000 in 1915.

The other important point in regard to the nature of trade unions in India is the disunity or fragmentation in trade unions. Fragmentation exists even at the national or all-India level in four recognized central Trade union organizations. The disunity in the trade union movement was caused primarily by differences in political ideologies which have given-birth to many new central trade union organizations. such as CITU, HMP, BMS etc.

Because of these weaknesses, the trade unions in India have not on the whole, attained a degree of organization which would enable them to claim their rightful, recognized place as effective participants, in industrial relations activity. The main problem facing them in the country is therefore their recognition.

The recognition of trade unions by employers either voluntary or under statutory provisions, is necessary for their qualitative improvement. The government has not succeeded in creating a framework for their statutory recognition of trade unions. In the absence of any statutory provision, the Code of Discipline; backed by moral sanctions, acts as guideline for employers in granting recognition to trade unions. The provision for their statutory recognition has been made in some state Acts, such as the Bombay Industrial Relations Act (BIR) of 1946, and the Maharashtra Recognition of Trade Unions (MRTU) and Prevention of Unfair Labour Practices (PULP) Act of 1971.

Employers/management

As a sequel to rapid industrialization after independence,. there has been a managerial revolution in India, involving a break from tradition towards modernity. A diverse and complex picture of employers/management had emerged in the country. The two prominent trends following this development are:

Authoritarian and paternalist. It is hard for employers/management to accept labour and their unions as significant participants in the process of making decisions/rules to influence their relations. They prefer to view labour as either servants or as children, and therefore look upon union with doubt or suspicions. The attitude of employers/management and their handling of labour relations are complex and diverse. A wide variety of influence operate in the field, such as the rapid growth of the public sector, increase in foreign investments in Indian enterprises and pressures from the government and organised labour. At one end of the scale is the traditional authoritarian or paternalistic from of management, which fails to develop stable labour relations because of the prevailing atmosphere of suspicion and antagonism. At the other end are what Van D. Kennedy calls the blue ribbon enterprises in Indian Industry. These included new firms in the newer industrial and foreign-ownership firms which practice modern methods of management. The third variety is of those industrial where strong employers' associations have development to carry out various task on behalf of their members: the Millowners Association in Mumbai for the textile industry and the Indian and Juet Mills Associated for the jute industry in kolktata.

In national-wide industrial such as the railways, the Posts & Telegraphs, banking, insurance, ports and docks and defence industries, the problem of labour are tacked on an all-India basic, and the relationship between the parties are regulated through negotiations at the national level.

Government's Role

The main issue in regard to the government's role is the degree of state intervention in the formation maintenance and direction f industrial relations. In India, particularly after independence, the government has been playing a comprehensive and dominant role in shaping the pattern of industrial relations. In the mixed economy of our country , the state has emerged as a big employer. The government evolves though tripartite forums the norms or standards which are in the nature of guidelines shaping industrial relations. It accepts the responsibility of ensuring conformity to these norms though the administrative and judicial machinery. It enacts legislation and implement both the substantive and procedural laws.

The industrial relations policy of the government forms part of the broader labour policy. The main tents of this policy, as stated by the national commission of labour are.

i. Primary to the maintenance of industrial peace.

ii. Encouragement for mutual settlement, collective bargaining and voluntary arbitration.

iii. Recognition of the workers right to peace full direct action, i.e strike.

iv. Tripartite consultation.

The state intervention primarily aims at preserving industrial peace and has, therefore, focused on (a) the avoidance of industrial disputes; (b) the expeditious settlement of industrial disputes they do arise.

The state has done little in India to encourage the growth of a strong and effective trade union by providing for trade union recognition and promote a stable relation between labour and management by fostering the growth of collective bargaining. Through in its policy pronouncement settlement of industrial disputes by government intervention is often pressed into action in preference to the bipartite negotiations and collective bargaining. Only about 25 to 33 per cent of the disputes are resolved though mutual settlement.

The adjudication and other regulative aspects of the role of the government continue to form the core of industrial relations in India. The details of the machinery for the settlements of industrial disputes and also of the method of collective bargaining have not been spelt out here, for these have been separately dealt with in other chapters.

First world war to pre-independence Period

Isolated disputes took place in India as early as the 80s of the last century, but it was not until 1919 that they became a serious feature of the Indian industrial system. The absence of strikes does not, however indicate that workers were satisfied and contended. Through they were dissatisfied with long hours of work, bad condition of work and low wages. But tacked, necessary class-consciousness and organization am6hg them. They had an entirely, passive outlook on life and regarded are turn to their village homes as the only solace for the hardships of the industrial work.

The world war I (1914- 18) created a period of boom for employers. With rising prince their profits went up enormously. The wages of worker, however, did not keep pace with this tendency. Their economic distress brought workers together and an organised working class movement began in the country. The unrest among workers found an outlet in increased strike actions, among which the one at Ahmadabad (led by Mahatma Gandhi) and the other at Madras(led by B.P. Wadia) in't9?1 are outstanding. During this period as a result of ILO influence various Acts were enacted the-workmen compensation Act (1923), the trade unions Act (1926) and the Trade Disputes act(1917). Which provided significant measure of protection of workers against injury during employment; provided a legal status to trade unions and granted them protection against criminal and civil suits in cases of strikes; and provided machinery for bringing about industrial peace.

During the Second war, employers' made enormous profits. The workers demanded a share on it. Bonus and dearness allowance was granted to them but as the money wages did not increase in proportion the rise in price Government tried to check this dissatisfaction :and consequential strike activity by prohibiting strikes under the Emergency, Rules (Rule 81-A of the Defence of India Rules) - which provided for the 'adjudications of disputes between employers and workers., Tripartite consultative Machinery was instituted in 1942, evolving certain principle, norms and practices in the l95os, which have subsequently shaped the pattern of industrial relations in India.

The years immediately following the war (1946 and 1947),were most disturbed years from the point of view of the pattern of industrial- relations in India, for a large number of strikes took place these years. However, there was a considerable increase in the number of trade unions and their membership. In 1947,the INTUC was formed. Many legislative enactments were brought. In 1946, the Industrial Employment (Standing orders) Act was passed to regulate terms and conditions of service. The Industrial Disputes Act, 1941 ,provided for the settlement of disputes.

Evaluation of industrial relation after independence

Immediately after Independence, in the interest of the national economy, considered necessary to put a stop on strikes/lockout and have uninterrupted production. A tripartite conference was, therefore, convened in,1947 at which the industrials Truce Resolution was adopted giving paramount importance to the maintenance of industrial peace. The Minimum wages Act, the Factories Act, and the Employees' State Insurance Act were all enacted in 1948.

In the period that followed since 1951, (first plan period) great importance has been given to maintenance of industrial peace. During the second year plan period were evolved certain norms, mechanism and practices formula for need-based minimum wage boards, guidelines of rationalization code of discipline, code of conduct, scheme for workers, participation in management, list of items on which works committees could conduct their business, model grievance procedure, evaluation and implementation machinery and emphases on voluntary arbitration.

During the third five year period, emergency caused by, the Chinese war in 1962,the industrial Truce Resolution was adopted and employers and employees. Pledged themselves, to maximize production., The bonus Act was passed in.1965 to resolve the most important cause of discord between the two parties. The rights of an individual worker game to be better safeguarded when the industrial Disputes Act .was amended in 1947. In 1969 with the submission of the report of the National commission on labour and the various pronouncements by the state, a growing concern has been shown for maintenance and improvement of industrial relations. During the period of emergency (1975) and 1976), the industrial relations in the country were quite peaceful as strikes and lockouts were prohibited. Since then, with the repeated changes in the government and favourable economic environment, the industrial relations in the country are too exhibiting an erratic pattern.

It is regrettable to note that ever since the declaration of the new economic policy of 1991, the countries, industrial relations are in doldrums. on account of the various atypical changes that have emerged on the industrial scene. It is apprehended that as the enhances would further trickle down, they would breed man-management problem in the years to come (for details , see chapter on Industrial Unrest in India

Evolution of industrial relation polices

1. **In pre-independence India**

State intention in labour/industrial relations had its beginning when the British Government in India was constrained to protect its commercial interests in this country. An ILO publication observes. "for form protecting the interest of labour, the earlier attempts to regulate labour consisted of enactments such as the Assam Labour Act, the workmen's Breach of contract Act, 1819, and the Employers and workmen's (Disputes) Act of 1860. These Acts aimed at protecting the social system against labour rather than protecting labour against the social system.

The deterioration in working conditions, because of unplanned and haphazard development of industrial units; unduly low wages and consequent dissatisfaction of the working class growing indiscipline of workers; strained relations between labour and management; the formation of ILO the emergence of AITUC (1920) and demands for higher wages, improved conditions of work and living led to serious industrial troubles and treated labour problems of large dimensions. The situation became ur-unmanageable in Bombay and Bengal. Hence, committees were appointed to look into the matter.

The chronological trends in industrial relations may be set forth in a tabular form (fable 11.1).

The beginning of industrial, relations dynamics can be traced back, one author puts it, to the inception of the Indian Labour conference as far back as 1942 by Dr. B.R. Ambedkar, when the policy of bringing together the three parties, namely, the government, management and labour, on a common plat form as a consultative triprite forum for all matters of labour policy and industrial relation was accepted.

When the Second world war broke out, the Government of India passed the defence of India rules and incorporated in them section 81A, which banned strikes and lockouts in any trade with view to ensure continuous supplies for the requirements of war, and provided for compulsory adjustment of industrial disputes.

2. In Post-Independence India

In free India, this legacy was given statutory recognition when the legal provisions for regulating industrial relations were embodied in the Industrial Disputes Act enacted in 1947. This Act provided for ;

i. The establishment of a permanent machinery for the settlement of disputes in the shape of certain authorities like the conciliation Officers, Industrial Tribunals, Labour Courts; and

ii. Making an award of a Tribunal or any settlement brought about by the conciliator binding on the parties and legally enforceable:

The Act seeks the prevention and settlement of industrial disputes in all industries through conciliation, arbitration and adjustment. A part from setting machinery for the settlement of industries disputes, it seeks to prohibits strikes and lockouts during the pendency of conciliation and adjudication proceeding. The amendment made in the Act employers, power to “lay off’ or retrench a worker or to impose “closure”.

Besides this enactment, two major efforts made were to amend the Trade unions Act 1926 –once in 1947 and then in 1950. In 1947, a law was enacted which defined unfair employer practices and unfair union practices. It provided for the compulsory recognition of representative unions by employers and for the arbitration of disputes over the certification of unions as representative unions. These amendments were a break with the canonical British tradition, and were influenced by the American National Labour Relation Acts (popularly known as Wagner Act) of 1935. Unfortunately, these amendments to the Trade Union Acts never came into force. The newly formed INTUC Union did not favor some of the changes. The employers were not enthusiastic. Some of the unions did not like the exclusion of civil services and other categories of government employees and of supervisory personnel from the scope of the Act.

In 1950, two bills were brought by the government—a labour Relations bill and trade unions bill. They retained the provision of the 1947 amendments. They also introduced the principle that collective bargaining would be compulsory for both employers and unions under stipulated conditions. The labour courts were empowered to certify union as sole bargaining agents. All corrective collective agreements were to provide for peaceful settlement without work stoppage of all questions arising out of such agreements by arbitration or otherwise. However, the draft bill lapsed with the dissolution of parliament.

10.8 INDUSTRIAL RELATIONS POLICY DURING THE PLAN PERIOD

The Industrial Relations policy during plan period is, in fact, the continuation of some of the earlier efforts made in the direction of maintaining industrial peace.

The First plan period

The First Five-year plan emphasized the need in industry peace in industry, the ultimate oneness of interests and virtue of harmonious relations between capital and labour. The plan encouraged mutual settlement, collective bargaining and voluntary arbitration. It observed; it is incumbent on the state to arm itself with legal powers to refers disputes for settlement by arbitration or adjudication, on failure of efforts to reach an agreement by other means".

The plan emphasized two other principle

i. Workers' right of association, organization and collective bargaining should be accepted without reservation as the fundamental basis mutual relationship; and

ii. Employer-employee relationship should accepted as a partnership in constructive Endeavour to promote the satisfaction needs of the community in the best possible manner.

The plan pointed out that the cause of industrial peace had not been advanced by the manner in which the legal machinery had functioned in several industrial disputes. These was excessive delay, most of the judgments lacked balance, and the work of the labour courts suffered in quality and speed of disposal. The Plan, therefore, said that the best way of settling disputes was to allow employers and employees to settle theses without the interference of a third party. It expressed the view that the coldest collaboration between the two through consultative committee at all levels was a first step towards the prevention of dispute. Impartial investigation and voluntary arbitration were thought of as the main vehicles for resolving differences.

The plan stressed that the machinery to settle disputes should be managed in accordance with theses principle:

a) Legal technicalities and formalities of procedure should be used managed in accordance with these principles;

b) Each dispute should be finally and directly settled at a level suited to the nature and important of the case;

c) Tribunals and courts should be manned by specially trained expert personnel;

d) Appeals to these courts should be reduced and

e) Provision should be made for prompt compliance with the terms of any award

For the sake of uniformity, the plan recommended the setting up of "norms" and standards to govern the relations and dealings between employers and employers and employees and for the settlement of industrial disputes through tripartite bodies, viz., the Indian Labour Conference, the standing Labour committee, and the Industrial committees for particular industries.

The second Five-Year Plan

The second Five Year Plan continued the policy formulated in the previous plan. It observed that inadequate implementation and enforcement of awards and agreement had been a source of frication between labour and management. It reiterated that emphasis should be placed on avoidance of disputes at all levels, including the last stage of mutual negotiations, namely conciliation." It also suggested deterrent penalties for non-compliance in the implementations and enforcing compliance should rest on an appropriate tribunal to which the parties should have directed approach. Faith in the effectiveness of standing joint consultative machinery was reiterated. The plan suggested a proper demarcation of the functions of works committees and trade unions to remove the suspicion of the latter of the former.

The plan also recommended increased association of labour and management, which might be achieved by councils of management, technicians and workers. It emphasized the need for the avoidance of indiscipline in industry and in pursuance of this a code of discipline in industry was agreed upon in 1958.

The second Plan suggested that statutory provision should be made for the recognition of unions, keeping in mind the need for having one union in an industry.

It suggested that there should be restrictions on the number of outsider who serve as office-bearers of unions, that the workers who become office-bearers should have additional protection against victimization, and that the finances of the trade union should be strengthened.

The third Five-Year Plan.

The third Five-year plan laid stress on the moral rather than on legal sanctions for the settlement of disputes. It laid stress on the prevention of unrest by timely action at the appropriate stages and giving adequate attention to root causes. This involves a basic change in the attitudes and outlooks of parties and the set of readjustment in their mutual relations.

The plan pinned its faith on the greater popularity of 'voluntary arbitration' which should gradually replace adjudication. It said: Ways will-be found for increasing the application of the principle of voluntary arbitration. The same protection should be extended to proceedings in this case as is now applicable to compulsory adjudication. Employers should show much greater readiness to submit disputes to arbitration than they have done hitherto. This has to be the normal practice... as an important application accepted by parties under the code of Discipline.

The plan suggested that "workers' participation in management should be accepted as a fundamental principle and an urgent need. In view of its importance, the plan undertook as a major programme the progressive extension of the scheme of joint Management Councils to new industries and units during the plan period so, that in the course of a few years, it may become a normal feature of the industrial system. In course of time, management cadres should rise out of the working class itself.

It has also laid emphasis on an intensive programme of workers education in all establishments where such Councils are set up. It was hope trade union leadership would grow progressively out of the ranks of the workers and this process would be greatly accelerated as the programme of workers' education gathered momentum.

Industrial trade resolution, 1962

At the time of the Chinese aggression it was felt necessary that production should not be jeopardized in any way. The second industrial, truces resolution was therefore, passed on November 3, 1962, at joint meeting of the employers and workers representatives in New Delhi .The Resolution said:

"No effort shall be spared to achieve the maximum production management and workers will strive in collaboration in all possible ways to promote the defence efforts of the country.

The Resolution emphasized:

a) the paramount need to maximize production and laid stress on the duty of employers and workers to exercise restraint and forbearance;

b) that no interruption of work should be allowed;

c) that all disputes should be settled by voluntary arbitration, especially those relating to dismissal, discharge and retrenchment of worker

d) that union should discourage absenteeism, and negligence on the part of workers;

e) that joint emergency production committees should be set up.

Fourth Five-Year Plan

No fresh direction or any shift in the government's industrial relations policy was indicated in the Fourth Plan. It made a very brief reference to industrial relations. It said:

i. in the field of industrial relations priority will be accorded to the growth of a healthy trade union movement so that it could secure better labour-management relations ;

ii. more emphasis should be laid on collective bargaining, and productivity should the increased through labour-management co-operation and

iii. Industrial disputes should be settled by voluntary arbitration.

The plan hoped that trade unions would serve not only as agencies seeking for their member fair wage and proper conditions of work and living; but play as increasingly important role in the nation; development.

it recommended that summary powers be conferred on labour courts, that separate works committees should be setup at the plant level and that the effective functioning of joint management councils should be ensured to that harmonious industrial relations may promote the growth and development of the country.

Fifth Five Year Plan

The Fifth Plan stressed the need 'for great be involvement of labour by ensuring its vertical mobility in industrial organization. It observed

Stress will be laid on strengthening industrial relations and conciliation machinery, better enforcement of labour legislation research in labour relations and labour laws, imparting training to labour officers, improvement of labour statistics and undertaking studies in the field of wages and productivity. Special attention will be devoted to bring about, improvement in productivity in all spheres of the economy

Sixth Five-Year Plan

The Sixth Plan declared: industrial harmony is indispensible for a country if it is to make economic progress....healthy industries relations, on which industrial harmony is founded, cannot be regarded. As a matter of interest only to employers and workers, but are of vital concern to the community as a whole. In the ultimate analysis, the problem of industrial, relations, is essentially one of attitudes and approac.hps of the parties concerned. A spirit of co-operation postulate that employers and worker recognize that while they are fully justified in safe guarding their respective right they must also bear in mind the large? interests of the community. This is the true significance of the doctrine of industrial harmony; in its three dimensional aspect,.. while effort must continue to minimize the areas of disagreement among the parties concerned and acceptable improvements in law and machinery effected, some of the changes in the existing laws and trade unions, industrial disputes and. standing orders, which are generally considered essential for promoting industrial relations, need not be held over and should be carried out:

The plan further said: “If adequate consultative machinery and grievance procedures are evolved and made effective, strikes and lockouts would become redundant. Effective arrangements should be made for the settlement of inter union disputes and to discourage unfair practices and irresponsible conduct.

The plan stressed that “collective bargaining should be encouraged, for this would enhance the strength and facilitate the enlargement of trade unions role. Serious effort should be made by trade unions to promote greater involvement of workers in the enterprise to fulfill the norms of greater efficiency and achieve excellence in its overall performance.

The Seventh Five-Year plan

Commenting ‘on industrial relations, the..Seventh Five-year plan remarked: There is considerable scope for improvement in industrial relation which would obviate the need for strikes and the justification for lockouts. In the proper management of industrial relations, the responsibility of unions and employees has to be indentified and inter-union rivalry and intra-union divisions should be avoid

10.9 THE INDUSTRIAL POLICY RESOLUTION, 1956

The Industrial Policy Resolution made following observations on industrial workers and industrial relations:

“it is necessary that proper amenities and incentives should be provided for all those engaged in industry. The living and working conditions of workers should be improved and their standard of efficiency raised. The maintenance of industrial peace is one of the prime requisites of industrial. In a socialist democracy, labour is a partner in the common task of development and should participate in it with enthusiasm- some laws governing industrial relations have been enacted, and a broad common approach has developed with the growing recognition of the obligations of both management and labor. There should be joint consultations and workers and technicians should, wherever possible, be associated progressively in management. Enterprises in the public sector have to set an example in this respect.

The Industrial Policy Resolution, 1991

with a view to inducting an element of dynamism in Indian economy, a new industrial policy was announced by the government in 1991. The said policy has brought about a drastic change in the -organization and working of industrial system of the country, that in turn considerably influenced its labour policy, With a view to safe guarding the interest of labour, the industrial policy has stated that the “Government will fully protect the interests of labour, enhance their welfare and equip them in all respects to deal with the inevitability of technological change. Government believes that no small selection of society can corner the gain of growth, leaving workers to bear its pains. Labour will be made an equal partner in progress and prosperity. Workers participation in management will be promoted. Worker cooperatives will be encouraged to participate in packages designed to turn around sick companies. Intensive training skill development and upgradation programmes will be launched.

National commission on labour and industrial relations policy.

The national commission on labour on various aspects of industrial relations has given a host of recommendations. They are detailed below

1. Collective bargaining. while realizing the fact that the collective bargaining agreement has not made headway in India, the NCL has recommended compulsory recognition of a union as a sole representative for the purpose of bargaining.

   The Commission has suggested various measures to encourage the growth of collective bargaining which, according to it, enjoys an important place in maintaining peaceful industrial relations. It has observed that:

i. In the absence of arrangements for statutory recognition of unions, except in some states, arid provisions which require employers and workers to barging in “good faith”, it is no surprise that teaching of collective bargaining agreements ‘has not made much headway in India. Nonetheless, the record of reaching collective agreements has not been as unsatisfactory, as is popularly believed. Its extension to a wider area is certain desirable;

ii. there is a case for a shift in emphasis and increasingly great scope for and reliance on collective bargaining. Any sudden change replacing adjudication by a system of collective bargaining has to be gradual. A move should be made towards collective bargaining in such a way that it may acquire primacy, in the procedure for settling industrial disputes.

The Commission also observed that

i. a essential step to facilitate collective, bargaining process is the compulsory recognition of a union as sole –representative for the purpose of bargaining with the management;

ii. in order to enable employees to effectively participate in the process of collective bargaining, they should be well organised and trade unions must become strong and stable;

iii. the place which strike/lockout should have in the overall scheme of industrial relations needs to be defined collective bargaining cannot exist without the right of strike or lockout.

2. Recognition of Unions: A trade union seeking recognition as a bargaining agent from individual employer should have a membership least 30 per cent of worker in the establishment. The minimum membership should be 25 per cent if the recognition is sought for an industry in a local area.

The Commission is of the view that statutory recognition should be granted to the union as a sole bargaining agent. In this connection it recommended

a. Recognition should be made compulsory under a central Law in all undertakings employing 100 or more worker or where the capital invested is above a stipulate size. A trade union seeking recognition as a bargaining agent from an individual employer should have a membership of at least 30 per cent of the workers in the establishment. The minimum membership should be 25 per cent if the recognition is sought for an industry in a local area.

b. The Industrial relations commission is to certify the union as a ,representative union of the basis of either verification of membership of the contending unions or by a secret ballot open to all workers in the establishment. The commission will deal with various aspects of union recognition such as: (i) determining he level if recognition whether plant, industry, centre cum-industry; to determine which is the majority union; (ii) certifying the majority union as a recognized union for collective bargaining; and (iii) generally dealing with other related matters.

c. The recognized union should be statutorily given certain exclusive rights and facilities, such as the right of sole representation the right to enter into collective agreements on terms of employment and conditions of service; the light to collective membership subscriptions within the premises of the of the undertakings the right of check-off, holding discussion with departmental representatives within factory premises, inspecting, by prior agreement, the place of work of nay of its members and nomination its representatives on works/grievance committees and, other bipartite committees.

d. The minority unions should be allowed only the right to represent cases of dismissal and discharge of their members: before the Labour court.

e. The unions should be made strong; organizationally and financially, Multiplicity of unions and intra-union rivalries should be discouraged

   a. providing compulsory registration of unions;
   b. raising the minimum number required for forming a union;
   c. raising the minimum membership fee;
   d. reduction in the number of outsiders; and
   e. taking steps to build internal leadership.

   The compulsory registration of employers' association has also been recommended.

3. **Strikes/Lockouts and Gheraos:** The NCL has categorized industries as 'essential' and 'non-essential' for the purpose of strikes and lockouts, and observed that every strike/lockout should-be preceded by a notice.

   It has made the following recommendations

i. In essential industries/services, where a cessation of Work may cause harm to the community, the economy or the security of the nation itself, the right to strike maybe banned, but with the simultaneous provision of an effective alternative like arbitration or adjudication to settle disputes.

ii. In non-essential industries, a maximum period of one month's has to be fixed for the continuance of a strike or lockout. After the lapse of this period, the dispute has automatically to go before the IRC for arbitration. In essential industries, the right to strike/lockout should be made redundant by requiring the IRC to adjudicate when mutual negotiations fail and parties not agree to arbitration.

iii. Every strike/lockout should be preceded by a notice. A strike notice to be given by recognized union should be proceeded by a strike ballot open to all the member, of the union, and the strike decision must be supported by two-thirds of the members present and voting.

iv. Gherao cannot be treated as a form of labour unrest since it involves physical coercion rather than economic pressure. It is harmful to the working class, and in the long run may affect national interest.

v. The penalties, which have been provided for unjustified strikes/lockouts, would ultimately discharge these and would, in due course persuade, the parties to sit round the table earnestly and settle their disputes by negotiation

vi. To restrain the outbreak of unnecessary strikes/lockouts, compensation and forfeiture of wages for a strike/lockout should be provided for.

4. **Conciliation:** As per NCL recommendations, conciliation was made part of the Industrial Relations Commission proposed. The NCL observed that settlement of disputes through voluntary arbitration will be accepted.

The commission observes that the functioning of conciliation machinery has not been found satisfactory due to the delays involved, the casual attitude of one or the other party to the proceedings, lack of adequate background in the officer himself forunderstaqdingthem4iorissues involved, and the ad hoc nature of the machinery, and the discretion vested in the government in the matters of reference to disputes.

It has, therefore, pointed out:

i. Conciliation can be more effective if it is freed from outside influence and the conciliation machinery is adequately staffed. The independent character of the machinery will alone inspire greater confidence and will evoke greater co-operate of the parties. The conciliation machinery should, therefore, be a part of the proposed industrial Relations Commission. This transfer will introduce important structural, functional and procedural changes in the working of the machinery as it exists today.

ii. Officers using the machinery would function effectively if there is proper selection, adequate pre-job training and periodic in-service training.

5. Arbitration: The commission has observed that with the growth of collective bargaining acceptance of recognition of representative unions and improved management attitudes, settlement of disputes through voluntary arbitration will be accepted.

6. Unfair labour Practices: The Commission recommends that unfair labour practices on the part of both employers and worker union should be detailed and suitable penalties prescribed in the industrial relations law for those found guilty of committing such practices. Labour courts will be the appropriate authority to deal with complaints relating to unfair labour practice

7. Works Committees and Joint Management Councils As per NCL works committees should be set Up in units which have a recognized union.

   Regarding the works committees, the Commission has recommended that.

They should be set up only in units which have a recognized union. The union should be given the right to nominate the worker-members of the works committee.

A clear demarcation of the functions of the works committee and the recognized union, on the basis of mutual agreement between the employer and the recognized union will make for a better working of the committee.

About joint management councils, the Commission says:

when managements and unions are willing to extend co-operation in matters they consider to be of mutual advantage, they may set up a joint management council. In the4 the meanwhile, wherever-the management and the recognized trade union in a unit so desire, they can by agreement powers and scope of the works committees to ensure a greater degree of consolation/co-operation. The functions of the two in this latter situation can as well be amalgamated.

8. Settlement of industrial Disputes: According to the Commission' the best way to settle industrial disputes is for the parties to the dispute to talk over their difference across the table and settle them by negotiation and bargaining. A settlement so reached leaves no rancor behind and helps to create :an atmosphere of harmony and cooperation. They should be a shift to collective bargaining. Dispute between employers and workers, the commission observes, have been taking a legalistic turn, mainly because of the emphasis on adjudication through industrial tribunals and courts.

   The Commission has laid down the procedure for the settlement of disputes. It observers: 2s

   After negotiations have failed and before the notice of a strike/lockout is served, the parties may agree voluntary arbitration. The IRC will help the parties in choosing a mutually acceptable arbitrator or may provide an arbitrator from among its members/officers if the parties agree to avail of such service.

   In essential services/industries, when collective bargaining fails and parties do not agree to arbitaetion, either party may notify the IRC of the failure negotiations, whereupon the IRC shall adjudicate on the dispute.

   In the case of non-essential service/industries, the failure of negotiations and refusal to avail of voluntary arbitration, the IRC, after receipt of notice of direct action, may offer the parties its good officers for settlement.

   After the expiry of the notice period, if no settlement is reached, the parties will be free to resort to direct action. If direct action continues for 30 days, it will be incumbent on the IRC to intervenes and arrange for the settlement of the dispute. When a strike/lockout commences, the appropriate government may move affect the security of the state national economy and public order and if after hearing the parties and the government, the commission is to satisfied, it may for reason to be recorded, call on the parties to terminate the strike/lookout and file statement before it. Thereupon the commission will have to adjustment on the dispute.

9. Grievance producer: The Commission has observed that "statutory backing should be provide for the formulation of an effective grievance procedure, which should be simple, flexible, less cumbersome and more or less on the lines of the present Model Grievance procedure. It should be time-bound and have a limited number of steps, say, approach to the supervisor, then to the departmental head, and thereafter a reference to the grievance committee consisting of management and union representatives.

   The commission has, therefore, recommended that:

   (i) Grievance procedure should be simple and have a provision for at least one appeal. The procedure should ensure that it gives a sense of (a) satisfaction to the individual workers (b) reasonable exercise of authority to manager and (c) participation to unions. A formal grievence procedure should be introduced in units employing 100 or more workers.

   (ii) A grievance procedure should normally provide three steps: (a) submission of a grievance by the aggrieved worker to his immediate superior, (b) appeal to the departmental head/manager (c) appeal to a bipartite grievance committee representing the management and the recognized union. In rare case, where unanimity eludes the committee, the matter may be referred to an arbitrator.

10. Discipline Procedure: After the views of both the employees and the worker have been heard, the commission has suggested the following change in the discipline procedure;

i. Standardization of punishment for different types of misconduct;

ii. Inclusion of workers' representative in the domestic enquiry committee;

iii. Having an arbitrator to give his decision in a domestic enquiry;

iv. An adequate show-cause opportunity to a workman;

v. Presence of a union official to represent the case of a workman during the enquiry proceedings;

vi. Supply of the record of proceedings to the aggrieved workman;

vii. Payment of a subsistence allowance during the suspension period;

viii. Right of appeal to administrative tribunals set up for the purpose and

ix. Fixing a tie limits for tribunal proceedings and giving unfettered powers to it to examine the case de novo, modify or cancel a punishment ordered by the employer.

To make the procedure more effective, the commission has made the following recommendations:

i. In the domestic enquiry, the aggrieved workers should have, the right to be represented by an executive of the recognized union or a workman of his choice;

ii. Record of the domestic enquiry should be made in a language understood by the aggrieved employee or his union;

iii. The domestic enquiry should completed within a prescribed time which should be necessary short;

iv. Appeal against the employer's order of dismissal should, be filed within a prescribed period.

v. The worker should be entitled to subsistence allowance during the period of suspension as per agreement.

11. Industrial Harmony:- While industrial peace calls for both a negative and positive approach, the attainment of the industrial harmony necessarily calls for a positive and constructive approach to the solution of industrial disputes. Therefore, the commission laid emphasis on the freedom of industrial relations machinery from "political partisan influence. This was necessary in view of the multi-party governments that were emerging in

the country.

The Commission has reference to certain weaknesses in the working of the existing industrial relations machinery, namely, the delays involved, the expenditure. The largely ad hoc nature of the machinery and the discretion vested in the government in matters of reference for disputes. Therefore, to make the industrial machinery more effective and more acceptable, suitable modification in the existing machinery should be made.

12. Industrial Relations commission: The Commission has recommended

The constitution of an Industrial Relations Commission on a permanent basis, both at the state level and the Centre. The state IRC will deal with disputes in state government is the appropriate authority, while national IRC will deal with disputes involving questions of national important or those likely to affect or interest establishments situated in more than one State. One of the principal reasons for suggested commissions is the desire to eliminate the possibility of political influence disturbing or distorting industrial peace in the country.

The commission will have both judicial and non-judicial members. The judicial member as well as the president of the national/state, IRC, are to appointed from among persons eligible for appointment as judges of high courts. Non-judicial members need not have qualifications to hold judges posts, but should be otherwise eminent in the field of industry, labour or management.

The IRCs will be high-powered bodies independent of the executive. The main functions of these ICRs will be (a) adjustment in industrial disputes, (b) conciliation and (c) certification of unions as representative unions.

The conciliation wing will consist of a conciliation officer with the prescribed qualification and status.

The functions relating to certification of unions will rest with a separate wing of the national/state IRC.

The commission may provide arbitrators from among its members/officers, in case parties agree to avail of such service.

All collective agreements should be registered with IRC.

An award made by the IRC in respect of a dispute raised by recognized union should be binding on all workers in the establishment (s) and the employers (s).

13. Labour Courts

The commission recommended for:

i. The setting up of labour courts in each state. The strength and location of such courts is to be decided by the appropriate government.

ii. Members of the Labour Court will be appointed by the government on the recommendation of the High Court.

iii. Labour Courts will deal with the disputes relating to right, obligations, interpretation and implementation of awards and claims arising under the relevant provision of law or agreement, as well as with disputed relating to unfair labour practices.

iv. Labour Courts will thus be courts where all the disputes specified above will be tried and their decision implemented. Proceeding institute by parties asking for the enforcement of rights falling under the aforesaid categories will be entertainment in that behalf.

v. Appeals over the decisions of the Labour Court in certain clearly defined matters may be with the High Court within whose jurisdiction/area the court is located.

Industrial relations in the Public Sector

Prior to 1947,the government adopted an approach of non-involvement and its role in industrial activities was restricted to the railways, the Post and Telegraph, ports and docks, ordinance factories, printing presses etc, In less than a year after independence, the government announced a comprehensive policy, which was spelt out in the Industrial Policy Resolution of 1948. It decided to pursue path of a mixed economy and assumed responsibility for playing an active part in the process of development. This Mixed Economy provided for the active co-operation of the private sector the industrialization of the country and. at the same time, envisaged a widening scope for the growth the public sector. As a result, there was need for demarcating the spheres of operation for the two sectors. This exercise was initially done by the Policy Resolution of 1948, which was subsequently modify by the Industrial Policy Resolution of 1956 Rapid industrialization, with emphasis on the setting-up of basic and key industries, formed the core of the Policy Resolution of 1956, which still continues to be main framework for the industrial development programme in our country.

In regard to its role in industrial development, the government began as an encourager by building up suitable infrastructure and developing proper environment. This consisted of taking up projects for the generation and distribution of power, provision of means of transport and communications, and setting-up of institutions for the provision of finance technical know-how etc, the scope for the involvement of the government in industrial activities widened when it took upon itself the role of an initiating agency. As provided in the Policy Resolution of 1956 the government launched basic and key industries, including iron and steel projects and diversified into machine building, machine tools, heavy engineering and heavy chemicals. In the years prior to 1947, public sector enterprises were run mostly as departmental organizations for example, government mints. Department organizations formed part of the parent departments in the government and enjoyed almost negligible autonomy in their operations; not realizing that autonomy is 9f a vital importance in the working of any industrial/business unit. With the expansion of the public sector, there arose a need for organizing public sector enterprises on the basis of giving them a relatively higher degree of autonomy. Public sector enterprises were organised in the 1960s as statutory corporations and STC, MMTC, etc. were set up and have now been organised as government companies registered in accordance with the provisions of the Companies Act, 1955. Statutory corporations and government companies have independent identities and their working is looked after by separately constituted Boards, which are expected to take independent and quick business decisions.

The concept of the public sector is really complex, for it denotes a wide range of activities, including both such industrial enterprises as the HMT and the NTC, and such commercial enterprises as the STC Public Sector units are owned, controlled and managed by the government at the centre, or at the state level or both. The government may set up enterprises in association or collaboration with private sector. Its efforts to resolve the issue of demarcating the sphere of operations between the private and public sector have paved the way for the development of joint sector wherein the government and the private sector join hands to set up an enterprise

Between 1971 and 1981, the number of enterprises in the public sector increased from 97 to 185 and further to 236 by the end of 1990-91. During the 1970s, investment in public sector enterprises went up four and half times, and between 1981 and 1991, this has further gone up 5 times Between 1971 and 1991, the total employment in the organised sector in the country showed an increase of 55 per cent, whereas the incense in public sector employment during the same period was over 77 per cent. The share of public sector employment in the total employment has risen from over 61 per cent in 1971 to 7 percent in 1991. Between 1971 and 1985the number of enterprises in the public sector increased from 97 to 221 . During the 1970s investment in public sector enterprises went up by four and a half times: between 1981 and 1985, this has doubled. Between 1971 and 1985, the total employment in the organised sector in the country showed an increase of 40 per cent, whereas the increase in public sector employment during the same period was about 62 per cent. The shape of public sector employment in the total employment has risen from over 61 percent in 1971 to over 70 per cent in 1985.Government employees fall under three categories: (i) civil servants; (ii) quasi-industrial employees; (iii) and industrial employees. The civil servants are those who work in government office and are connected with the administration, but who do not come under the provisions of labour such as the Industrial Disputes Act. 1947. and the Trade unions Act, 1926. the quasi-industrialize employees in the public sector are those who are employed in such establishments as the railways, the posts ant Telegraph, Telephone and civil Aviation. Quasi-industrial employees in the public sector are not covered by the Factories Act, 1948, but are protected by the Industries dispute, Act and the Trade Unions Act. Industrial employees are employed in factories and allied activities. They are covered subject to some exception enactments which are applicable to industrial labour-in general. The discussion on industrial relations in the public sector in this chapter relates mainly to quasi-industr.iul and industrial employees.

Industrial relations in the public sector are influenced by a variety of factors which include the managements, the trade unions, the forums of bipartite dialogue and the negotiating machinery. The overall tread id in industrial relations in the public sector may be expressed in terms of the data relating to the man-days lost per 1000 workers employed in the manufacturing sector. Table 3 furnishes information on both the public and private.

The data relating to man-days lost per 1000 workers employed in the public sector show that there have been considerable variations in the number of lost man-days over the years. Still, the rising trends in number of man-days lost in the public sector is quite evident. The other noteworthy feature of the data is the inter-sector comparison between private and public sectors in regard to the number of lost man-days. The index of man-days lost (with 196l as the base) for the public sector is considerably than that for the private sector for nearly all the years. The tendencies towards industrial unrest are on the increase in both the sectors, but they are more conspicuous in the public sector.

Trade Unions in Public Sector

The trade unions in the public sector present the same picture of multiplicity as they do in the private sector. A majority of public sector units have two or more trade unions. These unions are granted recognition on the basis of verification of membership, as laid down under the code of discipline. Yet the of trade unions generates inter union rivalry.

A study of 241 public sector units by the Ministry of Labour Government of India, reveals significant information about trade union activity in the public sector.

About 34 units had more than 5 unions. Over 61 percent of the units have two or more trade unions. and the number of units having only one trade union is about one-fifth of the total.

Management in Public Sector

The task of management in public sector units is rather difficult for employees in public sector look upon the government as an ideal employer. They expect a much better deal from their employers in terms of status, wages, conditions of work, provision of welfare facilities; and other benefits. The functioning of management in public sector units is influenced by their overall set of objectives or goals, among which profit making lies somewhat lower in the scale of ranking. As against this, profit-making is accorded the topmost priority in the private sector. Employers in private sector can resist the pressures of rising labour costs on the plea of the need for commercial cost reductions. Public sector units are exposed more to pressure of broader social obligations of being the ideal employers than to the need for being cost effective.

There are certain aspects of managerial decision-making in the public sector which tend to influence their relations with employees. The decisions are often taken, on an ad-hoc basic rather than on the basis of a well-formulated policy on several personnel matters, including transfer, promotion, etc. This adhocism in decision-making leaves room for favoritism. The other aspect is that managerial decisions are not-timely for the process is exposed to bureaucratic delays. Delayed decisions give rise to dissatisfaction and mistrust in labour-management relations. Delays are caused by the less authority delegated to them. Actually, the management, in the public sector have to provided progressive leadership to labour and infuse in them a sense of belonging and participation.

Industrial Relations

The sector-wise break up of public and private sectors in regard to the data on the number of disputes, the number of workers involved, and the number of man-days lost indicate the trend in industrial relations in the public sector. The number of industrial disputes in the public sector was higher in 1979 and 1983 and accounted for over 35 per cent of the total number of industrial disputes in those years. Similarly, the number of workers involved accounted for over 50 per cent in 1979 and 1983. The public sector accounts for between 25 to 35 per cent of industrial disputes, 40 to 50 per cent of the number of workers involved, and 15 to 20 per cent of the man-days lost.

In absolute figures, the number of industrial disputes and the number of workers involved were at the highest respectively at 1,071 disputes and 14.61 lakh workers involved in 1979, and the man-days lost were more than 1 crores in the years 1980 and 1981. At the same time, it has to be borne in mind that the public sector employs nearly 20 per cent of the total number of workers employed in the organised sector.

The Present state of industrial relations in the public sector may be attributed to the absence of systematic personnel policies and the neglect of certain procedural aspects of industrial relations. The standing orders enforcing discipline among the employees have laid down the grievance procedure and allow them opportunity to express their dissatisfaction. But these standing orders were, till recently, not in existence in a number of public sector units. The position in regard to the purpose of encouraging bipartite dialogue is not encouraging. Not much has been done by setting up the forum of joint management councils; for these councils are functioning only in a few public sectors units.

Negotiating Machinery

The Permanent Negotiating Machinery (PNM) was set up in the Railways in January 1952 with a view to maintaining contact with labour and resolving disputes. The unions in the Railways have been organised at the zonal/regional level and federated into national union/federations. The PNM has tiers at the Railway level. where recognized unions have access to officers at the district/divisional level or at the headquarters. The next level in the machinery is federations raking up matters with the Railway board. At the topmost level, is the ad-hoc tribunal.

Joint Negotiating Machinery

A joint negotiating machinery at three levels was set up in 1954 by the Defence Ministry for the settlement of disputes in ordnance factories and other Defence establishments.

Joint Consultative Machinery

A machinery for joint consultation and arbitration for Central Government employees, including those in the Railways. Defence, and Posts and Telegraphs, was formally inaugurated in October 1966. The scheme provides for regional and or office councils, departmental councils and a national council. The objects of the scheme, as detailed out by the National Commission on Labour, are: Promoting harmonious relations and securing the greatest measure of co-operation between the government in its capacity as employer and the general body of its employees in matters of common concern and with the object of further increasing the efficiency of public services.

The procedures for the prevention and settlement of industrial disputes provided under the industrial Disputes Act 1947. apply to industrial employees in public sector undertaking as well. It has been suggested that, to curb industrial unrest, there should be bun on strikes or, at any rate, the right to strike should be restricted, particularly in respect of employees in public utilities or essential services. Though these measures become necessary when attempts are made to disrupt the functions of the government or to bring public life to a standstill, the remedy really lies in having a continual dialogue with the employees with a view to developing a stable bipartite relationship based on mutual recognition. The exercise of the right to strike would become superfluous if the differences are expeditiously resolved through negotiation und agreement.

There are certain important areas to be looked into to improve the state of industrial relations in the public sector. The managements must not function on the basis of adhocism but develop systematic personnel policies and adhere to objective, standard practices. The delays in decision-making can be avoided if the powers delegated to the managements are suitably made use of at the appropriate levels.

Trade unions in the public sector suffer from multiplicity, which weakens their bargaining strength. The workers look upon the government as a model of ideal employer and build up high expectations. But they have to reduce the lamentation in their unions and press for their just and reasonable demand.

Industrial Relations in the small-scale sector

The Small-scale industries sector holds a significant position in the industrial ser-up of our country. It is therefore necessary to deal separately with industrial relations in this sector. The account of the present state of industrial relations in the small-scale sector however may at best be descriptive for want of relevant data on the subject.

Small-scale industries(SSI) have emerged in the country after Independence. Earlier, in the pre-industrial era; there were artisans and craftsmen who used their hereditary skills to make traditional products. During the war years many small scale engineering units were set up. Since the 1950s the SSI sector has grown in response to the promotional work done as a part of our planning strategy of the government and government-sponsored agencies. In recent years, there has been a rapid growth in the SSI sector in terms of an increase in the number of units. their contribution to industrial production, the employment opportunities generated by them and their sizable share in the country's exports. A large number of small-scale units do not register themselves with state government authorities. though they are expected to do so with the District Industries Centers under the Directorate of Industries. As a result, only about fifty per cent of the units in the SSI lector arc registered units

Small Scale Units : Definition

The definition of a small unit has evolved over the years and has gone through a number of modifications. During the 1950s, the concept of an SSI unit referred to a limit of Rs. 5 lakh for capital investment and to the level of employment at less than 50 persons, if using power, and less than 100 persons without the use of power. Since 1960, the reference to the size of employment has been deleted and the limit on capital investment is retained as the only cut-off point. In 1966, it was stated specifically that the term capital investment, i.e., investment in fixed assets, meant investment in plant and machinery. Between 1966 and 1985, the ceiling on capital investment in small-scale units has been revised upward as under:

1966 : Rs.7.5 lakh;

1914 : Rs. 10.00lakh;

1980 : Rs. 20.00 lakh

1935 : Rs. 35.00 lakh

The concept of small-scale units was modified when in 1977 very small units with a capital investment upto Rs. 1 lakh each (raised to Rs. 2 lakh in July 1980) in plant and machinery and located in small town and village were singled out as units belonging to the tiny sector. Since the 1970s, a separate mention of ancillary units has been made. The ceiling on the capital investment in ancillaries was RS. 15 lakh in1974. This was raised to 25 lakh in 1980 and to RS.45 lakh in March 1985. Small Scale (SSI) denote industrial units with investment in plant and machinery upto RS. 60 lakh and upto Rs 75 lakh in case ancillary units (w.e.f April 1991). The investment limit for tiny units has been raised to 5 lakh.

Composition of SSI Sector

The data provided by some recent studies on SSI help us to understand the structure and composition of the small-scale sector. The Diagnostic Survey of sickness in small–scale units conducted by the Development commissioner (SSI), Ministry of Industry in 1985, covered a 2 per cent sample from the total number of units registered in the states/union territories, Directorate of Industries and coming under the purview of the Small Industries Development organization (SIDO).

The other on the role of small-scale industries in the process of indus6ialisation in Pune and Aurangabad districts of Maharashtra State was done by the Gokhale institute of politics and Economics Pune in 1985. This study has released the following data in the employment and investment in the SSI sector.

The latest data on the capital investment and employment in the factory sector show that nearly 80 per cent of the factories employ less than 50 workers per unit; and that 52.5 per cent of the factories have capital investment. i.e., gross value of plant and machinery per unit, of upto Rs. 2.5 lakh.

The points to be noted in regard to the type of organization, size of employment and capital investment or SSI Sector are:

i. Over 63 per cent of the units in the small-scale sector are proprietary concerns, i.e.. One-Man Shows.

ii. The average size of employment in a majority of the units, in the SSI sector is less than 10 per unit. According to a DC (SSI) study, the average employment in over 63 per cent of the units was 8 per unit. The employment size in over 60 per cent of the units in Pune district and in over 70 per cent of the units in Aurangabad district was upto 10 persons.

iii. According to an all-India study, the average investment in fixed assets was less than Rs. 1 lakh each in over 63 per cent of the units, and around Rs.2 lakh in 33.3 per cent of the units. The investments in fixed assets was more than Rs. I lakh in only 32 per cent of the units in Pune district and 28 per cent of the units in Aurangabad district.

These facts about the pattern of organization size of employment and level capital investment are quite relevant to the subject of employer employee relations in the SSI sector. The line demarcation in respect of employment at 10 workers is significant because the factory, according to the Factories Act of 1948, is any premises where 10 or more workers are employed and where the manufacturing process is carried on with the aid of power (20 or more workers, if the manufacturing process is carried on without the aid power). It is alleged that many small-scale units employ more than 10 persons but record the employment as less than 10 to remain outside the purview of the Factories acts.

Industrial Relations Scene in SSI Sector

The typicalities of the small-scale sector in so far as ownership, size, employment, location and the work force are concerned, give rise to widely diverse industrial relations scene. It may, however, be stated that employer-employee relations in the SSI sector are largely informal, direct and personal. As majority of the units of one-ran shows employing less than 8 to 10 persons, the relations between the owners or partners and workers are likely to be close and informal. The informal and personal nature of the relationship however. does not imply harmonious and cordial relations between two parties. The exploitation of workers in the small-scale sector is that they receive low wages, their working conditions are bad' there is an absence of welfare facilities, and they function under insecure service conditions is quite widespread. As a result, there is dissatisfaction among workers. Yet their protest actions are neither long-drawn nor frequent.

These exploitative aspects of labour relations are often viewed as the positive grounds in support of the small-scale sector. Tire SSI units gain an advantage large and medium scale units in the form of low labour costs' for workers in-SSI units are paid less and work under conditions in which hardly any facilities or amenities are available. Some of these general observations about the pattern of industrial relations in the small-scale sector are applicable to:

i. The workers who are illiterate unskilled and work in traditional industry groups Rice/dal mill. Repair workshops etc.

ii. Scattered small-scale units in industrially backward areas with traditional printing presses. bakery units, etc., in smaller towns and rural areas.

iii. The workers whose main concern is subsistence and therefore require work on a continuing basis' The mortality rate among small-scale units is relatively higher. As a result, workers are more worried whether their source of livelihood would always be avilable to them.

The pattern of industrial relations in the SSI sector undergoes changes when the different locations, industry groups, sizes of units and level of employment are taken into account. In this context, the most significant factor is the role of workers organizations. i.e., of trade unions. When trade unions emerge to play their role in the setting of industrial relations in the SSI sector., the relations become structured and formal. The informal, personal touch in the bipartite relations is lost but the tendency to exploitation is curbed. The effects are visible in the industrial relations in small-scale units located in metropolitan areas, large cities and in industrial estates which are in close proximity to other larger and medium-scale units.

The work force in different industry groups differs in so far as the level of education and skills of the employees is concerned. Unskilled or semi-skilled labour in traditional industry group is profoundly concerned about getting continuing employment and subsistence. If skilled workers in newer industry groups such as engineering and chemicals, are absorbed in the SSI sector, they look out for opportunities for moving to large scale organised sector units. The problem of owner /partners of small-scale units, located in places like Aurangabad and Nasik, is the retention of workers in a situation of high labour turnover.

In small-sized units with a low level of employment, the exploitation of workers is on the higher side even when those units are locate in metropolitan areas and bigger cities for example, in garment-during units, diamond processing units, and small repair workshops. Employer-employee relations in these units are informal and personal, and exploitation of labour is common, mainly because of the absence or low level of union activities. The worker in these units are exposed to the serious threat of being victimized.

Many SSI units manage to keep themselves outside the purview of factory legislation even when they ordinarily employ a larger number of workers than that specified in the legislation. In this way, they keep themselves free from the obligations of providing certain conditions of work, as laid down in the Factories Act. The aggrieved workers refrain from raking up the matter for redressal with the authorities because individually, they are weak and isolated. In the smaller units with a very low level of employment ‘they are weak and isolated. In the smaller units with a very low level of employment, the common issues of dissatisfaction and injustice do not often to the surface in the absence of workers, organizations, which would champion their cause with government agencies, such as conciliation bodies and labour courts/industrial tribunals provided under the Industrial Disputes Act.

In the relatively larger units in the SSI sector located in urban/metropolitan areas and in industrial estates in close proximity to other industrial units consisting of some large/medium-scale units: and in the small-scale units in the modern industry groups wherein workers are skilled or highly skilled, the industrial relations scene presents a distinctly different pattern. Labour in these setting is backed by the strength of unions. The industry-wide unions and, in some cases, the general workers, unions represent these worker and try to protect them against exploitation. Industrial relations now become more formal and structured giving rise-to wage settlements/agreements which regulate the workers earnings and conditions of work. Backed up by their trade unions. employees resort to open protest, including strikes, when they fail to reach an accord with their employers. Nevertheless, the effectiveness of union activities in furthering the cause of workers is limited and circumscribed by certain typicalities of ownership, organization, location and economic stability of small scale units.

As a result industrial relations in the small-scale sector are very informal and personal. The workers are exploited and this exploitation takes the form of low wages, bad working conditions and insecure service conditions. Those who are weak and ill-organised bear with their hardships for the fear of victimization and loss of employment. where the workers are organised, they develop a structured, formal relationship and protect their interests. Those who have skills are in the younger age groups and are employed in modern industry groups, struggle to move for employment to the larger and reputed industrial units in urban metropolitan areas. In other words, the industrial relations scene in the small- scale sector presents wide varieties between the extremes of stable but, exploitative relations on the one hand and unstable relationships due to high labour turnover other.

The fourth Five-year Plan

About the end of 1966, the Government of India appointed a national commission of labour which submitted its report in 1969. During this plan period, serious thought was given to the recommendations of the National Commission of Labour.

In all the Plan documents, the stare showed a strong commitment to the development of strong trade unions and effective collective bargaining.

10.10 SUMMARY

Industrial labour forces occupies a dominate place in the production activity. In this lesson, we will discuss growth of Industrial labour force and employment dimensions of Indian Industry. Moreover an attempt is also made to study the definition, objectives and evolutions of industrial relations.

The basic objectives of this lesson is to make the students ware about the Industrial labour force and various employment dimensions of Indian Industry. Industrial disputes is also an issue in industries. The approach of this lesson is to provide the necessary knowledge regarding industrial relations and their evolution. An attempt is also made to study and analyse the industrial relation policies after independence and industrial relations in the public and small sector.

10.11 SHORT ANSWER TYPE QUESTIONS

Q1. What do you mean by regulated factories.

Ans. The regulated factories are those which governed by the factories Acts 1948. They are any premises where 10 or more persons are working and in part of which power is used for manufacture or where power is not used, the number of workers should be 20 or more. They may be perennial or seasonal Factors.

Q2. Difference between contract labour and casual labours.

Ans. The contract labour is labour which is not carried on the payroll and is not directly paid. It is usually divided into two categories.

a. Those employed on job contract

b. Those employed on job contract

Those casual labour is engaged to fill the vacancies caused by absenteeism and temporary work of pressure.

Q3. Defined Industrial Relations:

Ans. The term industrial relations commonly denote “employee-employer” relations in both organized and unorganized sectors of the economy.

10.12 EXAMINATION ORIENTED QUESTIONS

1. Discuss the growth of industrial labour force in India
2. Explain the employment dimensions of Indian Industries.
3. Discuss the meaning and definition of industrial relations.
4. What are the objectives of Industrial relations?
5. Explain the evolution of industrial relation after independence.

Suggested Reading

Memoria and memoria, Dyanmic of Industrial relations.

M.A. ECONOMICS

COURSE NO. 566 **LESSON No. 11**
SEMESTER-IV **UNIT-III**

SOCIAL SECURITY IN INDIA

Chapter Outlines

11.1 INTRODUCTION

Social security measures provide the security of an income to take the place of earning in case of sickness, accident, retirement, death etc. In this lesson, we will focus on various social security measures.

11.2 OBJECTIVES

The approach of this lessons is to appraise the students about the various social security legislations in India and their critical appraisal.

11.3 SOCIAL SECURITY IN INDIA

social security means the security of the whole society. This concept is so wide that it encompasses all activities of mankind in all spheres of human life. However, the term as commonly used connotes measures for economic security only under government auspices and such economic security in underdeveloped countries like India does not extend to all members of the society, but only to some restricted classes of people life industrial labour, government employees, etc. A coverage of the programmes under social security would be clear from the following definition put forward by Lord William Beveridge, "The term 'social security' is used to denote the security of an income to take the place of earnings when they are interrupted by unemployment, sickness or accident, to provide for retirement thought age, to provide for loss of support by the death of another person, and to meet an exceptional expenditure, such as those connected with birth, death and marriage." Social security measure involve (1) providing cash payment to persons and families specified class whose income from earning has been reduced drastically or caused temporarily or permanently (2) providing medical benefits and medical care to persons in the specified class in the event of sickness, maternity, etc; and (3) providing cash payments in the form of stipends, pensions, etc. to the dependants of an employee' in the event of his death.

11.4 SOCIAL SECURITY LEGISLATION IN INDIA

Social security measures are usually divided into the following two categories: (i) social insurance and (ii) social assistance. Social insurance schemes are usually financed through contributions by the employees, employers and the state. The benefits to insured persons are linked to their contribution. Social assistance schemes seek to provide assistance to the poor and needy persons. They are not linked to the contributions made by the persons and are financed from the general revenues of the State.

The important social security legislations in India are briefly discussed below.

Workmen's compensation Acts 1923

A beginning in social security in India was made in 1923 when Workmen's Compensation Act was passed. The Act covers only workmen in factories and provides for the payment of comparison to them and their families in the case of industrial accident of certain occupational diseases arising out of land and in the course employment and resulting in death or disablement. The Act is very wide in coverage and covers many diverse industries including mines, factories, transport, plantations constructions activities, electricity generation etc. but certain specified categories (like members of the armed forces) are excluded. The government can include any class of reasons employed in any class of person employed in other hazardous occupation. However, the Act does not apply to those industries or factories where Employees' State Insurance Act, 1948, is in operation. Prior to Attachment Act of 1984, the term "workmen' covered only person on wages not exceeding Rs 1,000 p.m. However the WC (Amendment) Act, 1984, has done away with the salary restrictions and thus any person who is employed in any capacity stipulated in schedule II will be included in the definition irrespective of the wages drawn by him. Minimum rate of compensation for permanent total displacement and death can goo upto Rs 10.97 lakh and Rs 9.14 lakh respectively depending on age and wages of workmen.

Maternity Benefit Act, 1961.

The Maternity Benefit Act, 1961, regulates the employment of women in certain establishments for certain period before and after child birth (six weeks before and six week after confinement) and provides for maternity woman shall, on request being made by her, be required by her employer to do any arduous work one month before her expected delivery. The Act applies to mines, factories, circus, industry, plantations, shops and establishments employing 10 or more persons except the employees who are covered under the Employees' State Insurance Act, 1948. It can be extended to other establishments by the State governments. There is no age limit far coverage under the Act.

Employees State Insurance Act, 1948

The most important step in the field of social security was taken in 1948 when the Employees' State Insurance (ESI) Act was passed. The Act is applicable to non-seasonal factories using power and employing 20 or more persons and non-power using factories employing 20 or more persons' the Act is being gradually extended by the State governments to new classes of establishments, namely, shops, hotels, restaurants, cinemas including preview theatres, road motor transport undertakings and newspapers establishments. The Act covers employees drawing wages not exceeding Rs 10, 000 per month with effect from October 18, 2006 Persons of armed forces are not covered in the ESI scheme.

Benefits under ESI. The ESIC has its own fund known as the ESI funds. It is utilised for payment of cash benefits to the insured persons, provision for medical benefits under the scheme, establishment of hospitals, dispensaries, etc.

The ESI Act provides the following six major types of benefits to the insured persons - medical benefit, sickness benefit, disablements benefit, maternity benefit, dependants benefit and the funeral benefit. As far as medical benefits is concerned, to involves free and complete medical care to all insured persons and their families. The person seeking such medical benefit gets free hospitalization, tree medical treatment and attendance, free consultation and dispension etc. During indoor medical treatment, food is supplied free of cost. As on March 2009, there were 143 ESI hospitals and 42 annexes with 27,739 beds and 1393 dispensaries under the scheme.

The scheme of sickness benefit provides for periodical cash payments to an insured person in the event of his certified sickness. The benefit is payable for a maximum period of 91 days in any two consecutive benefit periods. However, in certain long drawn-out diseases this period can be further extended. Maternity benefit is payable to an insured, women employee for a period of 12 weeks (six weeks before and six weeks after the date of confinement). Disablement benefit is payable to an employee who suffers an injury resulting into disablement, whether permanent or temporary or who suffers from an occupational disease. The worker is paid for the period for which he is unable to work but if the period is less than three days, no benefit is paid. In the case of permanent disablement, the payment is made for lifetime and its rate is determined in proportion to the degree of disability as decided by the medical board. Dependants' benefit is paid to the dependants of the employee in the event of an employment injury resulting in the death of the employee. The dependants include the widow, minor children and parents of the deceased. Funeral benefit comprises the payment towards the expenditure on the funeral of the deceased insured person and is payable to the eldest surviving member of his family.

Employees' Provident Fund and Miscellaneous Provisions Act, 1952

Retirement benefits in the form of provident fund, family pension and deposit linked insurance are available to the employees under the Employees' Provident Funds and miscellaneous Provision Act, 1952. The object of this Act is to make: (1) some provisions for the future of the industrial worker after the retires, (2) to provide for the dependants in the case of the employee's death, and (3) to cultivate the spirit of savings among the employees. The Act covers 186 industries/classes of establishments employing 20 or more persons. The rate of contribution is 12 per cent. Under the Act, employers are required to make matching contribution.

Refund and Claims. Under the scheme, a subscriber can withdraw the full amount in the fund in the following cases: (i) retirement from active service after attaining the retirement age; (ii) retirement on account of permanent and total incapacity; (iii) migration from India for permanent settlement abroad; and (iv) termination of service in the course of mass retrenchment. Full amount of employer's contribution with interest is payable only when the subscriber has remained a member of the scheme for at least 15 years. If a subscriber remains member for less than 15 years, only a part of the accumulation of employer's share is payable to him. However, in all cases, he will always get back his own contribution to the Fund.

The scheme also provides for payment of non-refundable advances in certain contingencies like illness of family members, house building, purchasing shares of the Consumers Cooperative Credit Housing Societies, marriage of the member himself or of his dependant, damage to property due to some grave calamity, etc.

Employees' Provident Fund Scheme, 1952

The Employees' Provident Fund Scheme 1952 seeks to provide financial security for employees in an establishment by providing a system of compulsory savings. The Scheme covers employees getting wages not Rs 6500 per month. As on March 31, 2009, total number of establishments and factories covered were 573063 in which total membership was 470.72 lakh. A Death Relief Fund has been set up under the Employees' Provident Fund Scheme. As a measure of immediate relief, upto Rs 2,000 is admissible to the nominees/heirs of such of the deceased member whose pay, at the time of death, does not exceed t 1500 per month, in case the death has occurred on or after April 1, 1988.

Employees' Deposit linked insurance Scheme 1976

The Employees' Deposit Linked Insurance Scheme was introduced for the members of the Employees' Provident Fund and the exempted Provident Funds with effect from August 1, 1976. A special feature of this scheme is that the members are not required to contribute to the Insurance Fund; only the employers and the government are required to make contributions. On the death of a member' the person entitled to receive the provident fund account accumulations would be paid an additional amount equal to the coverage balance in the provident fund account of the deceased during the preceding twelve months. The maximum amount of benefits payable, under the scheme, is Rs 1,00,000.

The Payment of Gratuity Act 1972

Gratuity is defined as a lumpsum payment made to a worker or to his heirs by the company on termination of his service due to retirement, retrenchment, invalidity or death. The Payment of gratuity Act,1972, is applicable to factories, mines, oil fields, plantations, ports, railways, motor transport undertakings, companies shops and other establishments. The Act provides for payment of gratuity at the rate of 15 days wages for each complete year of service subject to s maximum of Rs 10 lakh. In the case of seasonal establishments, gratuity is payable at the rate of seven days wage for each season. The Act does not affect the right of an employee to receive better terms of gratuity under any award or agreement or contract with the employer.

Employees' Pension Scheme, 1995

This scheme was introduced for the industrial workers with effect from November

16,1995. Under the Scheme, pension at the rate of 50 per cent pay is payable to the employees on retirement/superannuation on completion of 30 years contributory service. A minimum 10 years' service is required for entitlement to pension. Depending upon the salary and service of the employee at the time of death, the scheme also provides for grant of family pension ranging from Rs 450 per month to Rs 2,500 per month. In addition, children pension at the rate of 25 per cent of widow pension subject to a minimum of 150 per child also payable upto two children. The scheme is financed by diverting the employer's share of provident fund representing 8.33 per cent of the monthly wage to the pension fund. In addition, tire Central government also contributes to t1re scheme at the rate of 1.16 per cent of the wage' The upper limit has been raised from Rs 5,000 to Rs.6,500 with effect from June 1, 2001.

11.5 A CRITICAL REVIEW OF SOCIAL SECURITY MEASURES IN INDIA

As would be clear from the brief review of social security legislation in India, the government has undertaken various steps in the post-independence period to provide social security to employees. However, we have only made a start so tar and much needs to be done as would be clear from the following discussion.

1. **Insufficient coverage.** The most important criticism of the social security measures undertaken by the government is their totality insufficient coverage. A majority of the people continue to remain outside the ambit of social assistance and social insurance. For example, the total employment in both organised and unorganized sectors in the country in 1999-2000 was of the order of 39.9 crores i.e., around 2.8 crores in the organized sector and the balance 37.1 crores (about 92.0 per cent) in the unorganized sector. No social security scheme worth the name is available for the workers in the unorganized sector. Particularity miserable has been the condition of 23.9 crores worker employed in the unorganized sector in agricultural (of the total 17.1 crores workers employed in the unorganized sector) who have irregular employment and no land or poverty to fall back upon. Even in the organised sector only persons working in establishments employing more than 20 persons are covered under most of 'the social security schemes.

In addition to workers employed in organized are unorganized socials, there are a large number unemployable people—old and sick people, people suffering from various disabilities etc. No social Security measures worth the names have been undertaken for the class of people. However, in recent times the government has been trying to provide some semblance of social security to these people by introducing old age pension schemes and health insurance schemes (for example, the four public sector general insurance companies launched a Community based Universal Health Insurance Scheme' in July 2000. For old persons an integrated programme for older people is being implemented which includes setting p of an age homes, day care centers and introducing mobiles median units.

2. **No unemployment insurance.** In many developed countries there is a provisions for unemployment insurance. Benefits under such schemes are available to those individuals who are able to work and are available for work (as evidenced by requirement at a public employment office). Such insurance enables by registration at a public employment office). Such insurance enables the individual to meet his minimum, subsistence requirement during the period he is seeking employment. However, because of the immense economic costs of this scheme, most of the under developed countries (including India) have found it difficult to implement it. What we have in our country a provision for retrenchment and lay-off compensation which does not even touch a fringe of the problem. Unless something is done to provide unemployment insurance, economic security cannot be achieved and in the absence of economic security, social security will also remain a dream.

3. **Over lapping of schemes.** India does not have an integrated scheme of social security. on account of this reason. There is considerable overlapping of schemes and similar benefits are disturbance under various schemes. This result in wastage of effort and money. Though the idea of integrating the various schemes has been mooted at various- seminars and discursions, nothing concrete has been direction so far with the result that different schemes of practically the same nature continues to be administered by

different agencies.

4. **Inadequate facilities in relations to the needs of beneficiaries.** The social security schemes are woefully inadequate in relation to the demand for them by the beneficiaries. For example, the medical and dispensing facilities available under the ESI scheme are very insufficient. The number of dispensaries and hospitals is much less than desired. Even the dispensaries and hospitals that exist are understaffed. The beneficiaries are put to a lot of trouble and botheration. There is overcrowding in the dispensaries and hospitals and their staff finds it difficult to cope with the demand on this service. Naturally, they get irritated and their behaviour towards patients is anything but cordial.

   The critical review of the social security schemes in India suggested that there is a need to widen their coverage so that a majority of the people who continue to be outside their ambit be bought within it. There is also a need to bring about a qualitative improvement in the services provided, introduce unemployment insurance and bring about an integration amongst the various social security schemes.

11.6 EXIT POLICY

The proposal to introduced an exit policy was first mooted in September 1991 when it was stated that without labour market flexibility efficient industrialization would be difficult to achieve. The World Bank and the IMF have been insisting for quite some time that the government should introduced labour market reforms to allow employers shift workers from one unit to another and also retrench excess labour.

11.7 RETRENCHMENT THROUGH VRS

Following this 'advice' many companies in the large corporate sector and many public sector enterprises have opted for retrenchment of labour through the announcement of VRS (Voluntary Retirement Scheme). For example, a study by Business Standard Research Bureau published in 21001 showed that 23 manufacturing companies accounting for 17 per cent of the total sales of the private manufacturing sector cut their workforce by a shopping 40,338 in 2000-01 over 1998-99, i.e. in a matter of just two years. According to official estimates, Indian companies as a whole shed over 8,70.000 jobs during 1990s. During the last few years, the growth in the corporate sector has been 'labour saving' to an extreme degree. For example, in 1994, Tata Motors produced 1,29,400 vehicles with 35,000 workers. In 2004, it produced 3,11,500 vehicles with just 21,400 workers. In the mid-1990s, Bajaj produced a million scooters with a workforce of 24,000. In 2004, it produced 2.4vmillion vehicles with a labour force of 10,500.7 Thus, what we see is corporate sector's jobless recovery in recent times with jobs actually declining instead of increasing with industrial growth.

The public sector enterprises have resorted to still larger .job cuts through the VRS route. Over the period 1998-99 to 2000-01, six blue-chip public sector units which include Steel Authority of India (SAIL), Coal India Ltd. (HZL), Bharat Heavy Electricals ltd. (BHEL), Hindustan Zinc Ltd. (IIZL) and Oil and Natural Gas Corporation (ONGC) axed 1,20,000 jobs.8 CIL alone cut jobs by 90,000 and SAIL by 20,000. Public sector banks (like State Bank of India, Indian Overseas Bank, Punjab National Bank; Bank of India, Indian Bank, Syndicate Bank, Central Bank of India etc.) have also seen the exit of more than one lakh employees through the VRS route. Gopal Joshi's Study of privatization programme in India (published in 2000) suggests that 23 per cent jobs in public sector enterprises have been made redundant under voluntary retirement schemes following privatization.

The above discussion shows that companies are turning 'lean and mean' to increase their profit margins. Because of the increasing threat from competition, the domestic companies are now focusing more on 'core competence' and less on diversification. They are, accordingly, trying to pull cut of unrelated and unprofitable businesses. VRS is also adopted by companies when they form strategic alliances with other companies or there is a takeover. Hapless workers are the victim of the process of consolidation, restructuring, mergers, acquisitions and amalgamations which is sweeping the Indian corporate sector presently. As a result of the 'opening up' of the economy, many (Multinational Corporations) have entered the industrial sector during the last few years. MNCs are also assuming control over it number of Indian companies. These tendencies are bound to have serious implications for labour as these companies employ labour-saving technologies. With automatic machines, the production process in a unit can be carried on with a handful of workers and this can lead to the displacement of hundreds of workers previously employed in the unit.

11.8 NATIONAL RENEWAL FUND

The above discussion shows that the structural adjustment and industrial restructuring programme is bound to have serious implications for the labour class and result in large-scale retrenchments. To tackle the problems relating to the retrenchment of employees, the Government of India set up a National Renewal Fund (NRF) in February 1992.

The objectives of NRF were as under:

1. To provide assistance to firms to cover the costs of retraining and redeployment of employees arising as a result of modernization and technological upgradation of existing capacities and front industrial restructuring
2. To provide funds for compensation to employees affected by restructuring of closure of industrial units both in the public and private sectors.
3. To provide funds for employment generation schemes in the organised and unorganised sectors in order to provide a social safety net for labour.

NRF had three components: (i) the Employment Generation Fund (EGF), (ii) the national Renewal Grant Fund (NRGF) and (iii) the insurance Fund for Employees (IFE). EGF was meant to provide resources for employment generation schemes in both the organised and unorganized sectors. NRGF was meant to deal with payments under the Voluntary Retirement Scheme (VRS) and compensation to workers affected by closure/rationalisation resulting from approved rehabilitation schemes in both the public and private sector enterprises. IFE was expected to cater to the compensation needs of the employees in future.

The main criticism against the NRF is that it remained a fund for financing VIISs solely in the Central public sector undertakings. In other words, only the NRGF component of the NRF was operationalised and that too partially. While the main objective of NRF was to help in training, counselling, and redeployment of affected workers, and also employment generation, 92.8 per cent of the NRF expenditure was utilized for compensation payment under VRS till 2000-01 (NRF was abolished vide Government of India notification dated July 12, 2000). This prodded the trade unions into labeling NRF as the National Retirement Fund.

This shows that only 7.21 per cent of the NRF was used for non-VRS activities like survey of workers, counselling,' retraining and redeployment over the entire period of operational of NRF (1992-93 to 2000-01). Data show that only about 40 per cent VRS availees well retrained and merely 13.7 per cent could be redeployed under NRF.

Displacement of a large number of workers through the mechanism of VRS without equipping them with adequate skill and training to re-enter the job market has resulted in a huge loss of productivity manpower. Many worker who exited the manufacture sector through the VRS route have joined the unorganized sector as new poor'. A study by Roy choudhary (1996) found that 25 per cent of the displaced workers who were working as casual labourer, were not employed even for a full week Noronha even for (1999) found that displaced workers also faced income lost the average income of those re-employed dropped, by about 44 per cent, Datta (2001) found that though more than half the VRS availees could have found employment within a period of six months, most of them took self employment in agriculture in their native village. "This is social waste of human potential and raises questions about the training objective of NRF".

11.9 SUMMARY

Social security means the security of the whole society. This concept is so wide that it encompasses all activities of mankind in all spheres of human life. Social security measures are usually divided into the following two categories :- (i) social insurance (ii) Social assistance. Social insurance schemes are usually financed through contributions by the employees, employers and the state. The benefits to insured persons are linked to their contributions. Social vassitance schemes seek to provide assistance to the pool and needy persons. They are not linked to the contributions made by the persons and are financed from the general revenues of the state.

As for the review of the social security legislation in India, the government has undertaken various steps in the post-independence period to provide social security to employees.

Key Words : Insurance, Compensation, Provident Fund, Gratuity pensions, unemployment people, Retrenchment, Displacement.

11.10 SHORT ANSWER TYPE QUESTIONS

Q1. What do you mean by social security?

Ans. Social Security is used to denote the security of Income from risk like accidents, death, retirement etc. Social security measure provides social assistance and social insurance.

Q2. What are the various social security legislation in India.

Ans. The following are the major social security legislation in India.

1. Workers compensation Act, 1923.
2. Employees state insurance Act 1948.
3. Employees provident funds and miscellaneous provisions Act 1952.
4. Employees provident fund sachem 1952.
5. Employees deposit linked insurance schemes 1976.
6. The payment of gravity Act 1972
7. Employees pension schemes 1995.

11.11 EXAMINATION ORIENTATION QUESTIONS

1. Critical explain the social security measure in India.

Suggested Reading

1. Mishra & Puri, Indian Economy Himalaya Publishing House.

M.A. ECONOMICS

COURSE NO. 566 **LESSON No. 12**
SEMESTER-IV **UNIT-III**

INDUSTRIAL LEGISLATION

Chapter Outlines

12.1 INTRODUCTION

In this lesson on attempts is made to study the **INDUSTRIAL LEGISLATIONS IN INDIA**.

12.2 OBJECTIVES

In order to easily solve the industrial disputes there are number of industrial legislations in India. Through this lesson students will understand these legislations easily.

12.3 LEGISLATION RELATING TO FACTORIES

The Factories Act, 1948, came into force on 1st April, 1 949. It was enacted with a view to remove a number of defects, revealed in the working of the Act of 1934. The act of 1948 not only consolidates but also amends the law regulating labour in Factories. It extends to the whole of India. Section 116 provides that unless otherwise provided, this Act also applies to factories belonging to the Central or any State Government.

1. **Objective of the Act**

The object of this Act is, to secure health, safety, welfare, proper working hours, leave and other benefits for workers employed in factories. In other words the Act is enacted primarily with the object to regulate the conditions of work in manufacturing establishments corning within the definition of the term factory as used in the Act.

2. **General Scheme of the Act**

The Act is divided into 11 Chapters and contains one Schedule.

Chapter I deals with Preliminary Information' like the title, extent and commencement of the Act; references to time of day; power to declare different departments to the separate factories or two or more factories to the single factory; approval of licensing and registration of factories; and notice by occupier (Sections 1 to 7).

Chapter II deals with the 'Inspecting Staff', viz., Inspectors, their powers and Certifying Surgeons (Sections 8 to 10).

Chapter III deals with the "health of the workers" with reference to such matters as cleanliness of waste and effluents, ventilation, dust and fume, artificial humidification, over-crowding, lighting, drinking water, latrines and urinals and spittoons (Sections 11 to 20).

Chapter IV deals with the with Safety of working in a factory. It includes matters such as fencing of machinery, works on or near machines, work on or near machinery in motion; employment of young person's on dangerous machines; striking gear and devices force cutting off power; self-acting machines, prohibition of employment of women and children near. Cotton-openers, hoists and lifts, lifting machines, etc., revolving machinery, pressure plants, floor, stairs, means of access ; pits, pumps, excessive weights, protection of eyes; precaution against dangerous fumes; explosive or inflammable dust, gas, etc., precaution in case of fore; power to require specification of defective part or test of stability; safety of buildings and machinery, maintenance of buildings, and safety officers, etc (section 21 to 41).

Chapter V relate to ‘welfare of workers’ and provides for washing facilities; facilities for storing and drying of clothing; facilities for sitting; first-aid appliances; canteens; shelters rest-room, and lunch-rooms; crèches, welfare officers, etc. (section 42 to 50).

Chapter VI deals with working hours of adult’ and contains sections 51 to 66. It covers issues like weekly hours; weekly holidays; compensatory holidays; daily hours; intervals for rest; spread over; nights shift; prohibition or overlapping shifts; wages for extra work; restriction on double employment, notice of periods of work for adult; register of adult workers etc. (sections 51 to 66).

Chapter VII provides for various restrictions/limitations on employment of young persons and deals with other matters like certificate of fitness; working hours for children; register of child working hours for children; power to require medical examinations, etc (sections 67 to 77).

Chapter VIII deals with annual leaves and wages and includes annual leaves with wages; wages during leave period; payment in advance in certain case mode of recovery of unpaid wages, etc. (Sections 78 to 84).

Chapter IX deals with special provisions relating to power to apply the act to certain premises; power to exempt public institutions; dangerous operations; notice of certain accidents; notice of certain diseases; power to direct enquiry into cases of accident or diseases etc. (Sections 85 to 91A).

Chapter X deals with Penalties and procedures connected therewith. (Section 91 to 106).

Chapter XI deals with supplemental issues like appeals; display and service of notices; returns, obligations of workers; publication of rules, protection to person acting under the Act; and restrictions on the disclosure of information. (Section

107 to 120).

It also includes one Schedule which gives the list of Notifiable Diseases.

3. Scope of The Act (Section 1)

The Act is applicable to the whole of India except Jammu and Kashmir. It being a social legislation; tries to achieve social reform and therefore, must be constructed Liberally to achieve its legislative purpose without doing violence to language.

4. Important Definitions (Section 2)

i. Adult: Means a person who has completed eighteen years of age Section 2 (a).

ii. "Adolescent": Means a person who has completed his fifteenth year of age but has not completed his eighteenth year. [Section 2(b)].

iii. Calendar year : Means the period of twelve months beginning with the first day of January in any years [Section - 2bb].

iv. "Child": Means a person who has not completed his fifteenth year of age [Section 2(c)].

v. "Young person";Means a person who is either a child or an adolescent, i.e., one who has not completed. his eighteenth year of age [Section 2(d)].

vi. "competent person": In relation to the provision of the Act means a person of an institution recognized, such as chief inspector for the purpose of enforcement of Act ; [Section 2(a)] ,

vii. "Manufacturing Process": Means' five categories of processes involved, viz.,

i. Making altering, repairing, ornamenting, finishing, packing, oiling, washing, cleaning, breaking up, demolishing or otherwise treating or adapting any article or substance with a view to its use, sale transport, delivery or disposal [Sec. 2(k) (i)].

This, in other words, means that there must be a process of transformation of an article which enhances its value from economic standpoint. Thus, according to-this definition, “the process, carried out in the salt works; making of bid is; work of grabbing of pepper or of tobacco leaves; the conservation of latex into sheet rubber; peeling, washing, cleaning etc., of prawns; repairing of gunnies; the use of electric motor for the purpose of lifting water; and slicing of bread are manufacturing processes. The conversion of a draw film into a finished product for screening it in cinema theatre is also a manufacturing process.”

ii. pumping oil, water or sewerage or any other substance, or preserving or storing any article in cold storage but where no mechanical or electrical or complex device is used for drawing wage or oil, will not be deemed to be a manufacturing process;

iii. any process for generating, transforming or transmitting power; or

iv. process relating to composing types for printing by letter press, lithography, photogravure or similar other process is and black binding; or

v. any process relating to constructing, reconstructing, repairing, refitting, finishing or breaking up ships or vessels (sec 2(K) (iv)]

vi. preserving or storing article in cold storage.

vii. Worker [Section 2(1) viii]: Under the Act, a “ Worker” has been defined as a person employed, directly by or through any agency (including a contractor) with or without the knowledge of the principal employer, whether for remuneration or not, in any manufacturing process or in cleaning any part of machinery or premises used for a manufacturing process, or any other kind of work incidental to or concerned ,with the manufacturing process or the subject of the

According to this, definition, a person can regarded as a worker if he satisfies four conditions viz.

a. He must be employed by, the owner or occupier of a factory. The employer, the employee and the contract of employment are three ingredients of employment. The employer is a person who employs or engages the services of other persons. The employee is one who works for another for hire. The employment is the contract of service between the employer and the employee under which the employee agrees to service the employer, subject to his control and supervision.

b. The person may be employed in the establishment either directly or by or through any agencies; and in either case, there is a contract of employment between the management and the person employed. Thus were coolies are not employed by the management directly nor are they employed by the management through an independent contractor, such coolies cannot be regarded as workers, but where it is provided that persons have been procured through the agencies sardars to Work in the kiln of the employer they will be treated as workers.

c. The person may be regarded as a worker whether he is employed for wages or gratuitously.

d. The person may be employed in any manufacturing process or in cleaning any part of the machinery or premises used for manufacturing process, or in any other kind of work incidental to, or connected with, the manufacturing process, or the subject of manufacturing, process.

The worker does not include any member of the armed forces; also it does not include persons who are solely entrusted with clerical duties.

Factory : The Act defines “factory”, as “any premises ,including the precincts thereof (i) where in ten or more workers are working or were working, on any day ,of the preceding twelve month and in any part of which a manufacturing process is being carried on with the aid of power, or is ordinarily so carried on; or (ii) wherein twenty or more workers are working, or were working on any day of the preceding twelve months’ and in any part of which a manufacturing process is being carried on without the aid of, power, or is ordinarily so carried on but does not include a mine, subject to the ordination of the Mines Act..1952; or a mobile unit belonging to the armed forces of the Union, a railway running shed or hotel or restaurant or eating place [Section 2(m)].

Under this definition, the factory must be:

i. Situated on any premises which expression includes the precincts. The word ‘premises’ means open rand or land with building or buildings ‘ alone, while ‘premises’ includes ‘precincts’; and ‘precincts’ means a space enclosed by walls. It is not necessary that the entire premises or precincts should be used for the manufacturing, process. “the manufacturing process may be carried on in any part of the land upon which a building is situated.

ii. Related to the object or purpose of establishment. Thus, the production of cloth in an industrial school for the purpose of demonstration and instruction in weaving to the students is not a manufacturing process and, hence is not a factory.

iii. In a factory, the manufacturing process may be carried on either with the aid of power or with human or animal agency. ‘Power’ means electrical energy or any other form of energy which is mechanically transmitted and is not generated by human or animal energy sec. 2(g). Thus, the constant pres-sure maintained in a boiler which transmits steam is a power. Similarly, when shooting and production of films in the film studios are done with the aid of electrical current, cameras, sound-recording machines, ingredients of power are held to be satisfied.

iv. If a factory works with the aid of power, the minimum number of workers who are working or were working on any day in the preceding 12 months is fixed at ten; and where manufacturing process is carried on without the aid of power, the minimum number of workers, limited to 20.

Thus; each department of a film studio will be a factory, if it has lo or more persons. receiving wages as distinguished from salary. A premises where composing is carried on for, the purpose of printing by letter-press is a ‘factory’; even though printing -is being carried on in another premises.

However, the definition of factory does not include a mine, subject to the operation of the Mines Act, 1952, or a railway running shed. A place where work is carried on by heterogenic, miscellaneous and irregular group of piece workers with, no specific hours of work or control over the regularity of attendance, or nature or quantum of work, will not be a factory. Similarly, a theatre where films are exhibited is not a factory.

(x) occupier. occupier of a factory means “a person who has the ultimate control over the affairs of the factory, and where the said affairs are entrusted to a managing agent: Such agent shall be deemed to be the occupier of the factor , [Sec. 2(n)].

An “occupier” is usually presumed to be the owner, because he has always the his factory. He may be a lessen or a mere licensee, but he must have the right to occupy the property and dictate terms of management. The occupiers should be a proprietor or it any rate, be in possession of the factory and control its working. He cannot, therefore, be anyone who is a mere servant charged with specific duties in regard to the control of the machinery, workmen, or office. An occupier of a factory may be a firm or other association of individuals or joint owners having equal power of ultimate control over the affair of the factory.

5. Approval, Licensing and Registration of Factories (section 6)

Every employer has to obtain the prin permission in writing of the State Government for the site on which a factory is to be situated and for the construction or extension of any factory. For this, he has to submit plans and specifications of construction for certification and approval to the chief Inspector or the construction or extension of all factory. For this, he has to submit plans and specifications of construction, for certification and approval to the Chief Inspector or the State Government.

He is required to get his factory registered and obtain a licensee for operating it, by paving the prescribed license and registration fees and supply such information as is required by the government.

No license shall be granted or renewed unless notice has been given by the occupier.

If an application, for permission, accompanied by plans and specifications has been sent to the state Government or chief Inspector by registered post, and no order is communicated to the applicant with three months from the date on which it is so sent’ it shall be assumed that permission has been granted.

where the State Government' of the chief inspector refuse to grant permission to the site, construction, or extensions of a factory to the registration and licensing of a factory, the applicant may, within thirty days of such refusal, appeal to the Central Government.

A factory shall not be deemed to be extended by reason only of the replacement of any plant or machinery, in such replacement or addition does not reduce the minimum clear space required for safe working around the plant or machinery or adversary affect the environmental conditions from the evolution or emission of steam; heat or dust or fumes injurious to health.

6. Notice by Occupier (Section7).

The occupier is require to send written notice, at least fifteen days before he begins to occupy or use any premises as a factory, to the chief inspector containing; (i) the name and situation of the factory; (ii) the name and address of the occupier; (iii) the name and address of the owner of the premises or building; (iv) the nature of the manufacturing process carried on in the factory during the last twelve months (in the case of an existing factory) and to be carried on in the next twelve months (in the case of all factories); (v) the total rated horse power installed or to be instated; (vi) the name of the manager of the factory (vii) the number of workers likely to be employed per day during the last twelve months and (ix) such other particulars as may be prescribed.

7. Inspectors (Section 8)

Under Section 8(1), the State Government is required to appoint an inspector for the enforcement of the Act by a notification in the State Gazette. The person who possess the required qualification can be appointed for the purpose and his powers can be prescribed by the state Government. Further, under Section 8(2), the State Government can also appoint any person as chief inspector.

Under sub section.(2-A); the state Government may, by notification in the Gazette, appoint any number of chief inspector is, Joint-chief Inspectors, Inspectors and deputy chief inspector and as many other officers as it thinks fit for the purpose of the Act.

Powers of inspectors (Section 9),

Under the Act, the chief Inspector enjoys the following Powers:-

1) He may enter any place which is used or which he has reason to believe is used, as a factory. He may be accompanied by such assistants who are Government servants or any local or public authority as he thinks fits.

2) He many examine the premises, plants and machinery, acquire the production of any prescribed register or any other document relating to the factory.

3) He may inquire into any accident or dangerous occupations, whether resulting in bodily injury, disability or not and take on the spot or otherwise, statement of any person or persons which he may consider necessary for the purpose of the Act.

4) Confiscate any register, record, or other document or any portion thereof which he may consider necessary in respect of any offence under this act, which he believes or has been committed.

5) Exercise any other such power as may be prescribed.

8. Certifying Surgeons (Section 10)

Under Section 10, the State Government is empowered to appoint qualified practitioners to be certifying surgeons for the purpose of this Act, sub-Section (2) lays down that a certifying surgeon may with the approval of the State Government authorize any qualified: medical practitioner to exercise any of his power under this Act for such period as specified by the certifying Surgeon with the prior approval of the State Government.

According to Section 10(a) of the Act, the certifying Surgeons are

i. the examination and certification of young persons.

ii. the examination of persons working in factories engaged in dangerous occupations as may be specified in the Act.

iii. the exercise of such medical supervision as may be prescribed for any factory or class or description of factories where

a) cases of illness have been reported, where it is reasonable to believe that they are due to the nature of manufacturing process carried on or other conditions of work prevailing therein.

b) due to any change in the manufacturing process or the substance used therein or by reason of adoption of nay new substance for use in the manufacturing process, there is a likelihood of injury to the health of workers employed.

c) Young person are or are about ot be employed in any work which is likely to cause injury to their health.

9. Provisions Regarding Health

A large number of provisions have been made under the Act, which are required to be enforce by the employers for health of the workers. These relate to cleanliness, disposal of waste and effluents, ventilation and control of temperature, artificial humidification, elimination crowding, lighting, drinking water facilities , latrines, urines and spittoons. Sections 11 to 20 of the Act casts a salutatory, the employers that adequate arrangements add provisions shall be made in very factory so as to secure the aforesaid purpose.

1) cleanliness (section 11): Under the Act, it is required that every factory shall be kept clean and free from effluvia (or outflow of bad gases) arising from any drain, privy or other nuisance. The following precaution shall be taken in particular:

    a) accumulation of dust shall be removed daily by sweeping or any other method, from the floor and benches for work rooms and from stair-cases and passages, and disposed of in a suitable manner;

    b) the floor of every work room shall be cleaned at least once in every week by washing, using disinfectants;

    c) if the floor becomes wet during the process of manufacture, provision should be made for proper drainage;

d) all inside wails, partitions and ceilings of the workplaces and sides and tops of passages and staircases should be repainted or revarnished at least once in every five years. Where they are painted with washable water paint, they should be repainted with at least one of such paint, at least once in every period of three years and washed at least once in every period of six months: where they have smooth impervious surface, they should e cleaned once in every fourteen months. In any other case, they must be white-washed or colour-washed at least once in every fourteen months;

e) the dates on which the processes required by clause (d) are carried our shall be entered in the prescribed register.

all doors and window-frames and other wooden or metallic frame work and shutters shall be kept painted or vanished and the painted or varnishing shall be carried out at least once in every five years.

The compound surrounding every factory shall be maintained in a sanitary and clean condition, free of rubbish, filth or debris.

If, in view of the nature of the operations carried on in a factory, it is not possible for the occupier to comply with all or any of the provision, the State Government may be order exempt such factory from any of the provisions and specify alternative method for keeping the factory in a clean state.

2) Disposal of waste and effluents (section 12): as regards the disposal of waste and effluents, the state Governments are required to make rules for

3) Ventilation and temperature (section 12): Effective ad suitable provision shall be made in every factory for securing and maintain in every workroom.

    (a) adequate ventilation for the circulation of fresh air, and for the propulsion of the air from the room, either by natural ventilation through windows and ventilators or by artificial means like that of electric fans;

    (b) temperature shall be kept at a level comfortable to workers and prevent injury to health.

(c) the walls and roofs shall be kept at a level of such material and of such design as to keep the temperature low. States Government may prescribe a standard of adequate ventilation and reasonable by such methods as white-washing, spraying or by raising the level of the roof or insulating the roof or insulating the roof either by an air space and double roof or by the use of insulating roof materials or other methods.

4) Dust and Fumes (section 14). If necessary, exhaust appliance shall be installed as near as possible to the point of origin of the dust, fumes or other impurities and such points shall be operated unless the exhaust is conducted into the open air, and no other international combination engines shall be operated in any room unless, effective measure have been taken to prevent such accumulation of fumes as are likely to be injurious to workers employed in the room.

5) Artificial Humidification (Section 15): The Act Provides that in respect of all factories, in which humidity is artificially created, the state Government may make rules (i) prescribing standards of humidification; (ii) regulate the method used for artificially increasing the humidity of the air (iii) direct prescribed tests for determining the humidity of the air to be correctly carried out and recorded and(iv) securing adequate ventilation and cooling of the air in the work rooms.

6) Over Crowding, (Section 16) : No room in nay factory shall be over crowded to the extent of its being injurious to the health of the workers employed therein. To prevent of its crowding, the Act provides that in every work room worker is to be provided with space at the rate of 9.9 cubic meter in old factories and 4.2 meters in new factories. The chief Inspector factories can also prescribe the maximum number of workers who can work in each work room.

7) Lighting (Section 17): In every part of a factory where worker are working or passing, there shall be provided and maintained suitable lighting, nature or artificial, or both. In every factory, all glazed window and sky-lights

used for lighting of the work rooms shall be kept clean on both the inner and upper surfaces and free from obstruction except, when required for the prevention of glare from a smooth or polished surface; and the formation of shadow a to such an extent as to cause eye strain or the risk of accident to any worker. The state government are to prescribe standards of sufficient and suitable lighting for the different classes of factories.

8) Arrangements for Drinking water (Section I8): In every factory, effective arrangements are to be made to provide and maintain at suitable points a sufficient supply of wholesome drinking water. All such points shall be clearly marked "Drinking Water', in regional language; and every such point shall be situated more than 6 meters away from any washing place, urinal or latrine, unless a shorter distance is approved in writing by the chief Inspector. Water supplied from source other than municipal water supplying system has to be approved by competent authority. It should be availabl6.duiing the working hours and be stored at the rate of 1 gallon per worker per day. Factories employing two hundred and fifty or more worker should supply 'cool-drinking water' during the hot weather (i.e from the period march 1 to November 30).

9) Conservancy Arrangement (Section 19): separate enclosed arrangements should be made for male and female workers in regard to conservancy service. Privacy should be secured and water supplied inside the cubicles. In every factory wherein more than two hundred and fifty workers are employed, urinals and latrines of prescribed sanitary type should be provided at convenient places, accessible to workers at any time, while they are in the factory. The flour internal walls up to the height of ninety centimeters and the sanitary blocks shall be laid in glazed tiles. These parts and sanitary pans shall be thoroughly washed and cleaned at least once in every seven days with suitable detergents with disinfectants or both. There should be one seat for 2-5 male workers up to 100 and one seat for additional 50 workers. For women, there should be one seat for every 25 persons. Urinals should be provided formal workers at the rate of one urinal for every 50 men up to 500 and one for every additional 100.

Such accommodation should be adequately maintained in a clean and sanitary conditions at all times. Sweepers should be employed whose primary duty would be to keep latrines urinals and work places clean.

10) Spittoons (section 20): A sufficient number of spittoons should be provided at convenient places in every factory and these should be maintained a clear and hygienic condition,. State Governments may make rules prescribing the types and number of spittoons in, every factory., No person shall spit with the premises of a factory except in the spittoons provided for the purpose. Any person working against this provision shall be punished with fine not exceeding up to five rupees

10. Provisions Regarding Safety

Safety provisions are contained in sections 21to 41 of the Act. These relate to: fencing of machinery work on or near machinery in employment of young person's on dangerous machines; striking gear and advices for cutting off power, self: acting machines; casing of new machinery prohibitions of employment of word and children near cotton openers hoist and lifting tackles; revolving machinery; pressure plant machines; chains, ropes and lifting tackles; revolving machinery; pressure plant; floors; stairs and means of access; pit, sumps, opening in floor; excessive weights; precaution of eyes; precautions against dangerous fumes, explosive or inflammable dust, gas, etc.; precautions in the defective parts or tests of stability. These provisions are absolute in character and the occupier of every factory is expected to comply with them.

These provisions are:

a) Fencing of Machinery (section 21): In every factory, every dangerous part of any machinery, every moving part of a prime mover and every fly wheel connected to prime mover, the head-race and tail-race of every water wheel and water turbine and every part of an electrical generator, motor or rotary convertor, every part of transmission machinery, must be securely fenced by safeguard of substantial construction. The state government is empowered to frame rules in this regard.

b) Work on or near Machinery, in Monitor (Section 22): With a view to secure the safety of the workers, it is necessary to examine any part of the machinery while it is in motion. The examination and lubrication of the machinery, while in motion, should be carried out only by a specially trained adult worker wearing ,tight-fitting clothing. Such a worker is not allowed to handle a belt of a moving pulley unless the belt is less than fifteen cm in width and the belt-joint is either faced or flush with belt. Women and young children are not allowed to clean. lubricate or adjust any part of a prime mover or transmission machinery while it is in motion, if it is likely to expose her or him to the risk of injury from any moving part.

c) Employment of young Persons on Dangerous Machines (Section 23): A young person is not to be allowed to work at any dangerous machine unless (i) he has been sufficient instructed of the danger arising in connection with the machine and the precaution to be observed; (ii) he has received sufficient training to work at the machine or is under adequate supervision of an experienced person before he is allowed to work on such a machine.

d) Striking Gear and Devices for cutting off power (Section 24): In every factory suitable striking-gear or other efficient mechanical appliance has to provided, maintained and used to move driving belts. Effective measure have to be made to ensure prevention of the belt from creeping back on to the fast pulleys. When driving belts are not in use, they should not be allowed to rest on shafting in motion. Suitable device for cutting off power in emergences from running machinery shall be provided and maintained in every work room.

e) Self-acting Machinery (Section 25): No travelling part of a self-acting machine in any factory and no material carried thereon shall be allowed to run on its outward or inward traverse with in a distance of eighteen inches from any fixed structure which is not a part of the machine, if a person is liable to pass over the space over which it runs.

The Chief Inspector-of Factories may make exempting orders in case of factories instiller before the commencement of the Act.

f) Casing of New Machinery (section 26): In every factory, installed after 1st April 1949, all machinery driven by power—every set0screw, bolt or key or any revolving shaft, spindle, wheel or pinion, spur, worm and other toothed or friction-gearing has to be properly encased or guarded in order to prevent danger to the workmen.

The Act also prevents persons to self or these machines without proper casing or guarding. The offender may be punished with imprisonment up to three months or fine up to five hundred rupees or both.

The state Government may make rules specifying further safe-guards to be provided in this regard.

g) Prohibition of Employment of Women and Children Near Cotton openers (section 27): Women and child workers are prohibited to be employed any part of a factory cotton pressing cotton in which a cotton opener at work. But they may be employed on the other side of the partition where the feed-end is situated, if the feed-end of the cotton opener is separated from the delivery end by a partition. But in such case a written permission has to be obtained from the Inspector.

h) Hoists, Lifts, Lifting Machines, etc. (sections 28 &29): In every factory, lifting machines, chains, ropes and lifting tackles must be of good mechanical construction, sound material, adequate strength and free from form defects. They are to be properly maintained and thoroughly examined by a competent person at least once in every period of six months. The hositway and the liftway are to be properly enclosed. The maximum safe working load has to be plainly marked on every hoist and lift. The cage of a hoist or lift used for carrying persons, has to be fitted with a gate on each side of the lifting machine and no chain or rope of lifting tackle shall be loaded beyond the, safe working load, which shall be plainly marked thereon- A register shall be kept containing the prescribed particulars of every examination done of the lifting machines.

i) Revolving Machinery (Section 30): In every room in a factory in which the process of grinding is carried on, a notice indicating the maximum safe working' peripheral speed of ?every grindstone or abrasive wheel, shall be permanently affixed safe working peripheral speed of every revolving vessel, case, basket; flywheel, pulley or disc has also to be ensured. Effective measures must be taken to ensure that the safe working speed is not exceeded.

j) Pressure Plant (Section 31): if in any factory operation is carried on at pressure above the atmosphere pressure, effective arrangements shall be taken to ensure that the safe working pressure is not exeded

k) (k) Floors, Stairs and means of Access (Section 32): In every factory all floors, steps, stairs, passages and gangways shall be of sound construction and properly kept and maintained. A sufficient number of handrails, in case of necessity should be provided. As far as possible, means of access to every person should be provided and maintained in every place of work.

l) Pits, Sumps, Openings in Floors etc (section 33) Every fixed vessel, sump, tank, pit or opening in the ground or in a floor, which may be a source of dangerous shall be either securely covered or securely fenced.

m) Excessive Weight (Section 34). The Act Provides that no person is to be employed in any factory to lift carry or move any load so heavy as is likely to cause him injury. The State Government may prescribe the maximum weights to be lifted, carried or moved by adult women, adolescents and children.

n) Protection of Eyes (Section 35): The State Government may require the provision of effective screens or suitable goggles if the risk of injury to the, eyes is caused from particles or fragmentation thrown off in the manufacture process or from exposure to excessive tight.

o) Precaution against Dangerous Fumes (Section 36): In any factory, no person shall be allowed to enter any chamber, tank, vat, pipe, flue or other confined space in which dangerous fumes are likely to be present to an extent involving risks to persons. A person can enter such a space only when it is provided with a manhole of adequate size or other effective means of egress. If the fumes are likely to be inflammable, only lights of flame-proof construction have to be used. A person may be permitted to enter such ii Space only when all practicable measures have been taken to remove any fumes which may be present and to prevent any ingress of fumes. Suitable breathing apparatus, reviving apparatus and belts and rope kept ready for use in emergencies. sufficient number of persons employed in the factory should be trained in the use of all such apparatus in the method of restoring respiration.

p) Precautions regarding the use of Portable Electric Light (Section 36A): the Act provided in any factory: (i) no portable electric light or any, other electric appliance of voltage exceeding twenty four volts shall permitted for use inside any chamber, tank, vat, pit, pipe; flue or other confined space and (ii) if any inflammable gas, fume or dust is likely to be present in such chamber, tank, vat, pit, pipe, flue or other confined space no lamp or light other than that or flame-proof construction shall be permitted to be used therein.

q) Explosive or Inflammable Dust, Gas etc. (Section 37): where in any factories any manufacture process produces dust, gas, fume or vapors, all practicable measures have to be taken to prevent explosion by: (a) effective enclosure of the plant or machinery used in the process (b) removal or prevention of the accumulation of such dust, gas, gum, or vapor and (c) exclusions or effective enclosure of all possible source of ignition.

r) Precaution in case of Fire (Section 38): Every factory has to be provided with adequate means of escape in case of fire. The exits door must not to be locked or fastened in such a way as they cannot to be open outwards. The exists used in the case of fire have to be marked in a language understood by the majority of the workers employed there. Effective and clearly audibled means of giving warning in the case of fire have to be provided. A free passage way giving access to each means of escape, fire has to be maintained, for the use of the workers in every room of a factory. If it appears to the inspector that any factory is not so provided with fire-protection measures, he may serve on the manager an order in writing specifying the measures to be adopted.

s) Power to Require Specifications of Defective parts. Or tests of Stability (Section 39). The Act empowers the Inspector to serve on the managers of a factory, an order in writing requiring him to furnish specification of defective parts (Such as those of building , machinery or plant) or he may order the manager to carry out tests as he may specify and to inform him of the results.

t) Safety of Buildings and Machinery (section 40) The Act also empowers the inspector to serve on the manager of a factory an order in writing specifying the measures which should be adopted before a specified date for the safety of buildings and machinery. In the case of imminent danger, the Inspector is empowered to prohibit the use of such building, machine etc., until properly required or altered.

u) Maintenance of Buildings (section 40A): If it appear to the Inspector that any building or a part of a building in a factory is in such a state of disrepair as is likely to lead to conditions detrimental to the health and welfare of the worker, he may serve on the manager/occupier or: both of the factory an order in writing specifying the measure, which, his opinion should be taken and requiring the same to be carried out before such date as is specified in the order.

v) Safety Officers (Section 40B): In every factory: (i) wherein one thousand or more workers are ordinarily employed; or(ii) wherein; in the opinion of the State Government; any manufacturing process or operation is carried on, which process or operation involves any risk or bodily or bodily injury, poisoning or disease, or any other hazard to hearth, to the person employed in the factory, the occupier shall employ such number of Safety Officers as may be specified. The duties, qualifications and conditions of service of Safety officer shall be such as maybe prescribed by the State Government.

w) Power to make Rules: The State Government has the power to make rules to supplement the provisions relating to safety contained in the act.

11. Provision Regarding Welfare of workers.

The act has laid down elaborate provisions for the welfare of workers. The various provision detailed out in the act are as under:-

a) Washing facilities (Section 42): In Every factory : (a) adequate and suitable facilities for washing shall be provided and maintained for the use of workers therein; (b) separate and adequately screened facilities shall be provided for the use of male and female workers; (c) such facilities shall be conveniently accessible and shall be kept clean.

b) Facilities for Storing and Drying Clothing (Section 43): The State Government may make rules requiring the provision of suitable places for keeping clothing not worn during of wet clothing.

c) Facilities for sitting (Section 44) : Section 44 down that (a) In e very factory suitable arrangements should be provided, for sitting and maintained for all workers obliged to work in a standing position, in order that they may take advantage of any opportunity for rest which may occur in the course of work; (b) the chief inspector, workers in a particular room are able to do to work efficiently in a sitting position, he may by an order in writing direct the occupier of the factory to provide Sitting arrangements before a specified date.

d) First Aid Appliance (Section 45): Section 45(1)requires that at least one first-aid box, having prescribed contents; should be kept in all factories. In addition to this, there should be at least one first-aid box for one hundred and fifty workers ordinarily employed at a time. Each first-aid box or cupboard shall be kept in the charge of a separate person, (who hold a certificate in first-aid treatment) and Who shall always during the working hours of the factory. A first-aid register Should always be kept along With the box and all dispensations should be entered into it. Section 45(4) lays down that every factory employing five hundred or more workers should maintain an ambulance room, staffed by a doctor, a compounder and a nurse and equipped with at least minimum prescribed articles. Such factories should also have an ambulance van available at call.

e) Canteens (Section 46): These are to be provided in factories employing over two hundred and fifty workers. The State Government may make rules providing for : (a) the date by which the canteen shall be provided; (b) standards in respect of construction, accommodation, furniture and other equipment of the canteen; (c) the foodstuffs to be served and the charges which may be made thereof; (d) the constitution of a managing committee for the canteen and representation of the workers in the management of the canteen; (e) the types of expenditure in the running of the canteen which are not to be taken into account in fixing the cost of foodstuffs and which shall be borne by the employer.

f) Shelter, Rest Room and Lunch Rooms (Section 47): This section lays down that in every factory where in more than one hundred and fifty workers are ordinarily employed, adequate and suitable shelters or rest rooms and a suitable lunch-room, with provision for drinking water, where workers can eat meals brought by them, shall be provided and maintained for the use of the workers. Where a lunch-room exists no worker shall at food in the work room. (ii) The shelters or rest-rooms or lunch –rooms to be provided shall be sufficiently lightened and ventilated and shall be maintained in a cool and clean condition (iii) the State Government may prescribe the standards in respect of shelters, rest rooms, etc. but it why exempt any factory or class or description of factories from the requirements, of this section.

g) Creches (Section 48): In every factory, where more than thirty women workers are ordinarily employed, there shall be provided and maintained a suitable room or rooms for the use of children under the age of six years of such women. Such rooms shall be under the charge of women trained in the care of children and infants. Suitable provisions must be made in such creches for washing and, changing the clothing of the children and for the supply of free milk or refreshments or both. Facilities must be provided to mothers to feed their children at necessary intervals.

The Act empowers the State Government to make rules: (a) prescribing the location and the standards in respect of construction, accommodation, furniture and other equipment in the rooms, to be provided; (b) requiring the provisions of additional facilities for the care of 'children, suitable provisions of facilities for washing and changing of their clothing's; (c) reacquiring the provision of free milk or refreshment or both for such children; (d) requiring that the facilities shall be given to mothers of such children to feed them at necessary intervals.

h) Welfare Officers (Section 49): Section (49) provides that (a) In every factory, wherein five hundred or more workers, are ordinarily employed, the occupier shall employ in the factory such number of welfare officer as may be prescribed; (b) The State Government may prescribe the duties, quantifications and conditions of service of officers employed.

i. Power to Make Rules in Connection with Welfare Activities (Section 50): Under the section, the State Government is empowered to make rules:

   i) For exemption. subject to compliance with all such alternative arrangements for the welfare of workers, any factory or class of factories from the compliance with any of the welfare provisions.

   ii) Directing any factory or: class of factories that the representatives of workers employed in the factory shall be associated with management of welfare facilities.

12. Provisions Regarding working fours and holidays for Adults

The Act makes no distinction between 'perennial' and non-perennial, factories and as such the same hours of work are kept for all factories.

a) Hours of work (Section 51): No adult worker shall be required or allowed to work in a factory for more than forty-eight hours in any week. Further, the daily hours of work have restricted to nine (Section 54). But the daily maximum working can be exceeded with a view to facilitate the change of shifts by previous approval of the Chief Inspector:

The period of work shall be so fixed that no adult worker is required to work for a period exceeding five hours without interval of rest of at least half an hour (section 55). The period of work, included such intervals of rest shall be so arranged that they shall not spread over more than ten and a half hours with the permission of the chief inspector for specified reasons (Section 56).

b) Weekly Holiday (Section 52): An adult worker shall have a holiday, on the first day of the week (i.e. Sunday). But if he is required to work on, this day, he must have another whole day as a holiday which should fall within three days before or after the first day of the week. Further, a previous notice of this desire of manager to employ a worker on a Sunday has to be communicated to the chief inspector before the worker is made to work. Such notice must also be displayed in the worker working for more than ten days consecutively without a holidays, for a whole day.

c) compensatory Holidays (.section 53): where the worker is required to work on a weekly holiday consequent, upon an order or rule made under the provisions of this Act, he must be allowed compensatory holidays of an equal number to the holidays so, worked within the month in which the holidays were due to him o within two months immediately following that month.

d) Night shifts (section 57): where a worker in a factory works on a shift which extends beyond midnight: (a) his weekly holiday and compensatory holiday means a period of holiday for twenty-four hours beginning when his shift ends; (b) the following days for him shall be deemed to be the period twenty-four hours beginning when such shift ends and the hours he has worked after midnight shall be counted in the previous day.

e) overlapping of shifts (section 58): work shall not be carried on in any factory by means of a system of shifts so arranged that more than one relay, of worker is engaged in work of the same kind at the same time.

f) Extra Wages for Overtime.(section 59): When a worker works in a factory for more than 9 hours in a day or for more than 48 hours a week, he is entitled to extra wages in respect of overtime work. The extra wages shall be paid at the rate of twice his ordinary rate of wages.

Where wages are paid on a piece rate basic, the state government, in consultation with the employer concerned and the representatives of the workers, shall fix the time earning of those and the rates so fixed shall be deemed to be the ordinary at the rate of wages of the workers. No worker shall be allowed to work overtime for more than seven days at a stretch and the total number of hours of overtime work in any quarter shall not exceed seventy-five days.

g) Double Employment (Section 60): No adult worker shall be required or allowed to work in any factory on any day on which he has already been working in any other factory, except in such circumstance as may be prescribed.

h) Notice of Periods of Work for Adults (Section 61): there must be displaced in every factory a notice showing periods of work of adults, classification of workers in groups according to the nature of their work, shifts and relays etc. Changes made on the system of work must be notified to the inspector before they take place.

i) Register of Adult Workers (Section 62): The manager is required to maintain a register of adult workers showing:, (i) the name of each worker; (ii) the nature of his work; (iii) the group in which, he is included; (iv) where his group works or shifts, the relay in which he is allotted and (v) such other particulars as may be prescribed.

No adult worker shall be required or allowed to work in any factory unless his name and other particulars have been entered in the register of adult workers.

13. Employment of women (Section 66)

Certain restrictions have been placed under the Act on the employment of women. For example:

a) Hours of work: (i) No women can be allowed to work for maximum, daily hours of work, i.e. nine hours a day (ii) No women shall be employed in any f4tory except between the hours of 6 a.m. and 7 p.m. The State Government may & notification in the official Gazette vary the limits for particular factories: But such provisions request not authorize the employment of women between the hours of10 pm and 5 am. (iii) There shall be no change of shift for women except under a weekly holiday or any other holiday.

b) Work on or near Machinery in Motion: No woman shall be allowed to clean, lubricate or adjust any part of the machinery while the prime-mover or transmission machinery is in motion or to work between moving parts, or between fixed and moving parts of any machinery which is in motion, and is likely to expose her to the risk of injury from any moving part (Section 22 (2)).

c) Prohibition of Employment of Women near Cotton Openers: No woman shall be employment in any part of a factory for pressing cotton in which a cotton-opener is at work (Section 27).

d) Excessive Weights; The State Government may make rules prescribing the maximum weights which may be lifted, carried or carried by adult man, adult women, adolescents and children employed in factories or in carrying on any specified process.

e) Creches: In every factory wherein more than thirty women workers are ordinarily employed, there shall be provided and maintained a suitable room or rooms for the use of children under the age of six years of such women(Section 48)

f) dangerous Operations: When the State Government declares any operation in any factory as dangerous or injurious to the health of women, it may make rules prohibiting or restricting the employment of women in that operation Section 87(b)].

14. Employment of Young Persons

Various restrictions have been put on the employment of young person's on the ground of State's responsibility for, the health of future citizens.

a) Prohibition of Employment of Young Children (Section 67) A child who has not completed his fourteenth year is prohibited from working in any factory.

b) Child or Adolescent to Carry token (Section 68): A child who has completed his fourteenth year or an adolescent shall not be required or allowed to work in q factory unless: (a) he has been granted a certificate of fitness by a competent surgeon. Such a certificate shall be in the custody of the manager; and (b) such child or adolescent carries, while he is at wo1k, a token giving a reference to such a certificate.

c) Certificate of fitness (Section 69): The certificate of fitness is granted by a certifying surgeon on the application of any young person or a guardian. The application must be accompanied by a document signed by the manager of a factory that the young person will be employed therein if certificated to be fit to work in a factory. The application for the grant of the certificate of fitness can also be made by the manager of the factory in which the young person wishes to work. The certifying surgeon shall examine the young person and ascertain his fitness for work in a factory. If the certifying surgeon is satisfied, he may grants or renew the certificate to such young person in the prescribed from:

a. a certificate-of fitness to work in a factory is a child, provided he has completed his fourteenth year, has attained the prescribed physical standard and is fir for such work;

b. a certificate of fitness to work in a factory as an adult, provided he has completed his fifteenth year and is fit for a full day's work in a factory.

The certifying surgeon must have personal knowledge of the proposed place of work and of the manufacturing process involved.

The certificate of fitness is valid only for 3 period of 12 months. It may be granted subject to such conditions as regards the nature of the work involved and periodical re-examination. The certificate may be revoked by a certifying surgeon if holder of the certification is no longer fit to work. Any fed payable for a certificate under this section shall be paid by the occupier and shall not be recovered from the young person, his parent or guardian.

d) Effect of certification to Adolescent (Section 70): An adolescent, who has been granted a certificate of fitness to work as an adult, would, be deemed to be an adult and all the provisions of the Act relating to adult workers would apply to him. If the adolescent has not attained the age of seventeen, he cannot be allowed or permitted to work in the factory during the night. An adolescent who has not been granted a certificate of fitness shall be deemed to be a child for the purpose of the Act.

e) Employment of and Working Hours for Children (Section 7l):The Act provides that: (1) No child shall be employed or permitted to work in any factory: (i) for more than four and a half hours in any day; (ii) during night hours, (By night is meant a period of at least twelve consecutive hours which shall include the interval between 10 pm and 6 am.

(2) The period of work of all children employed in a factory shall be limited to 2 shifts which shall not overlap or spread over more than 5 hour each. Each child shall be employed in only one of the relays which shall not be changed more frequently than once in a period of thirty days.

(3) No child shall be required or allowed to work in any factory on any day in which he has already been working in another factory.

f) Notice of Period of Work for Children (Section 72): A notice must be displayed and correctly maintained giving the periods of work for children growing clearly the periods during which children shall be required or allowed to work in any factory unless his name and other particulars have been enter in the Register of Child Workers.

Register of Child Workers (Section 73): The Register must provide information giving: (i) the name of the child worker; (ii) the nature of his work; (iii) the group in which he is included, the relay to which he is attached: and (iv) the number of this certificate of fitness.

g) Hour of Work to Correspond with Notice under Section 72 and Register under Section 73 (Section 74): Section 74 requires that a child shall not be employed in any factory otherwise than in accordance with the notice of period of work for children displayed in the factory and the entries that have been made in the register meant for the purpose.

h) Power to Requires Medical Examination (Section 75),under Section 75, the inspector is empowered to serve notice to a factory manager requiring that:

i. Such person or persons, as the case may be, shall be examined by the certifying surgeon; and

ii. Such person or persons shall not be allowed to work unless he is being declared fit to work by the certifying surgeon.

i. Power to Make Rules (Section 76): Section 76 empowers the State Government to make rules for;

i. prescribing the forms of certificates to be granted under the Act providing for the grant of a duplicate certificate in the event of loss of the original ones and fixing the fee which may be charged for such certificates;

ii. prescribing physical standards to be attained by the young person's for working in factories;

iii. regarding the procedure of certifying surgeons under the Act;

iv. Specification the other duties to be performed surgeons in connection with the employment of young persons and fixing the fees which may be charged for such duties and the person to whom they shall be payable.

Safety of Young Persons

According to the provisions of the Act:

1) No young person shall be allowed to clean, lubricate are, or adjust any part of the machines while it is in motion if it is likely to expose him to the risk of injury by any moving part [section 23(2)].

2) No young person shall work at any dangerous machines unless: (i) he has been fully instructed as to the dangerous arising in connection with the machine and the precautions to be observed; (ii) he has received sufficient training in work at the machine, or is under adequate supervision by a person who has a thorough knowledge and experience of the machine [section 23(2)].

3) No child shall be employed in any part of a factory for pressing cotton in which a cotton-opener is at work (Section 27).

4) Where the State Government declares any factory as dangerous or injurious to the health of young persons, it may make rule prohibiting or restricting the employment of young persons in that operational.

15. Annual Leave with Wages:

1) Annual Leave with wages (section 72): Every worker who has worked for a period of two hundred and forty days or more in a factory during a calendar year is qualified for annual leave with wages. The worker is to be allowed this leave during the subsequent calendar year. The leave shall be allowed at the rate of (a) one day for every twenty days worked in the case of adults; and (b) one day for every fifteen days worked in the case of the children.

   For the purpose of calculating 240 days in a calendar year: (a) any days layoff by agreement or contract or as permissible under the standing orders; (b) in the case of female labour, maternity leave for any number of days not exceeding twelve weeks; and (c) the leave earned in the year prior to that in which the leave is enjoyed, shall be deemed to be days on which the workers has worked in the factory but he or she shall not earn leave for these days.

   If a worker is discharged or dismissed from service during the course of the year, he shall be entitled to leave at the rate of one day for every twenty days work put in by him even if he has not worked, for 240 days in a calendar year.

Leave not enjoyed in the year can be accumulated in the succeeding year up to a limit of 30 days for an adult and 40 days for a child.

Leave not shall not include weekly holidays or holidays for festivals or other occasions except as provided for annual leave.

It may be noted that the Southern States usually provide for eight paid holidays, whereas states in Northern India have four to six paid holidays. The National Commission on Labour has recommended that every employee should be allowed in a calendar year three paid national holidays; viz. 15th august 26th January, and 2nd October and 5 paid festival holidays as may be fixed by the appropriate government in consultation with the representatives of employed and employees.

A worker shall apply for leave in writing to the manger for not less than 15 or 30 days in the case of public utility undertakings before taking leave and the total leave may be taken in not more than three installments. If a worker is entitled to leave or having applied for but not granted such leave, is discharged before taking leave, he shall be paid wages in respect of leave not taken and such payment shall be made before the expiry of the second working day of the termination of his service.

2) Wage During the Leave Period (Section 80): Wages fur the leave period are payable at a rate equal to the daily average of his total full time earnings for days on which he worked during the month immediately preceding his leave. For, the purpose of calculation education, wages will exclude any overtime and bonus but include any dearness allowance and cash equivalent of the advantage accruing through the concessional sale to the worker, of foodgrains and other articles.

3) Payment in Advance in Certain cases (Section 81) A worker will be paid advance wages provided the leave allowed is not less than four days in the case of a child.

4) Mode of Recovery of Unpaid Wages (Section 82): This Section lays down that any sum required to be paid by the employed, if remains unpaid, shall be recoverable as delayed wages.

5) Power to Make Rules (Section 83): This Section empowers the State Government to make Rules directing inspectors to keep the leave register updated as' prescribed, requiring it to be made available for examination by the inspector.

16. Special Provisions

i. Department as Factories (Section14): The State, Government may upon application declare that for the purpose of the Act, different departments or branches of a factory shall be treated as separate or that two or more factories of the occupier shall be treated as the same factory.

ii. Exemption during Public Emergency (Section 5): Factories or any class of factories may be exempted from the operation of any of the provision of the Act during a public emergency except that of Section 67, employment of children) for such periods and subject such conditions, as the government may, think fit. The exemption is to be made by notification in the Official Gazette for a period not exceeding three months at a time.

iii. Power to Apply the Act to Certain Premises (Section 85): The State Government may apply all or any of the provisions of the Act to all places wherein, a manufacturing process is carried on with without the aid by power, notwithstanding that the number of persons employed therein is less than ten, if working with the aid of power or persons working therein are nor employed by the owner but are working with the permission of such owner (Section 85).

iv. Exemption of Public Institutions (Section 86): The State Government may exempt, subject to such conditions as it may consider necessary, any workshop or workshops where a manufacture process is carried on and which is attached to public institution maintained for the purpose of education training or reformation from all or any of the provisions o the act. But no exemption is to be granted from the provision relating to hours of work an holiday unless there is a schemes relating to such matters containing rules, not less favourable to the workers than the provisions of the Act.

v. Dangerous Manufacturing process or operations (section 87) : The stare government is empowered make special rules for the purpose of controlling and regulating any factory where any manufacturing process or operation is carried on, exposing worker to a serious risk of bodily injury, poisoning or disease. Rules may be framed for (a) declaring such manufacturing process or operation to be dangerous; (b) restricting or prohibiting the employment of women adolescent or children in such process or operation; (c) providing periodical medical examination of persons employed in the manufacturing process or operation, and prohibiting the employment of person not certified as fit, for such employment and requiring the payment of the occupier of the factory of fees for such, medical examination; (d) providing for the protection of all persons employed in such process or operation or in the vicinity of the places where it is claimed on; (e) prohibiting or controlling the use of any specified materials or process in connection with the manufacturing process or operation; (f) requiring the provisions of welfare amenities and sanitary facilities and the supply of protective equipment and clothing, and laying down standards thereof, as regards to the dangerous nature of the manufacturing process or operation.

vi. Noticeable Accidents (section 88): where in any factory an accident occurs, which causes death or any other bodily which the person injured is prevented from working for a period of forty-eight hours or more immediately following the accident, the manager is required to notify the same to the authorities concerned. Where a notice an given about accident, the authority to whom notice has been sent, shall make an enquiry into the incident within one month of the receipt of the notice. The state Government may make rules for regulating the procedure of enquiry.

17. Notice of Certain Dangerous Occurrence

Similarly, a notice is also required to be given by the manager to the authorities where, in a factory, any dangerous occurrence of such nature as may be prescribed occurs, whether causing any bodily injury or: disability or not (Section 88A).

i. Notifiable Disease (Section 89): The manager of a factory must send a notice to the authorities whenever a worker contracts any diseases mentioned in the Schedule of the Act. The medical practitioner attending to the person, if any, shall without delay send a report to the chief inspector in writing, starting the name and full address of the person affected, the disease from which the patient is suffering, and the name and address of the factory in which the patent is employed.

If any medical practitioner fails to give his report about such a disease, he shall be punishable with a fine which may extend up to fifty rupee.

ii. Enquiry into Accident and Diseases (Section 90) : The state Government any appoint a competent person to enquire into the causes of any accident occurring in a factory or of a notification disease, and may also appointment one or more persons possessing legal or special knowledge to act as assessors in such enquiry. The person appointed to enquire cancel witness is like a civil court and exercise any of the powers of an Inspectors.

18. Penalties and procedures

i. General Penalty for officers (Section 92): If any factory does anything contrary to the provisions of the Act or does anything against the rules, the occupier and managers of the factory shall each be guilty of an offence and punishable with imprisonment for a term which may extend to two year or fine which may extend to one lakh rupees or both; and if the contravention is continued after conviction, a further fine which may extend to rupees on thousand for each day and day an which the contravention is continued.

ii. Liability of the owner (section 93): wherein any premises separate buildings are leased to different occupiers for use as separate factories, the owner of the premises shall be responsible for the provisions and maintenance of common facilities and services, such as approach pad, drainage, water supply, lighting, sanitation, washing facilities etc. The state government may order the owner to provide for these within the specified time, if these do not exist.

iii. Penalty after previous conviction(section 95): If any person against repeats an offence, amounting to contravention of the same provision, he shall be punishable with an imprisonment for a term which may extend upto three years or fine which shall not be less than rupees ten thousand-but which say extend to two lakh rupees or both.

    Where as a result of contravention of any provision, any accident occurs causing death or serious bodily injury, the finial shall not be less than thirty-five thousand rupees in the case of death and ten thousand rupee in the case of serious bodily injury.

iv. Penalty for obstructing Inspectors (section 95): whoever willfully obstructs the Inspector from exercising try power conferred on him, or fails to produce any registers or other documents on demand, or conceals or prevents any worker in a factory from appearing before or being examined by an Inspection, shall be punishable with imprisonment up to six months or with a fine, which may extend to ten thousand rupees or both.

v. Penalty for Leakage of transformation (section 96): whosoever publishes, or discloses to any person the results of the analysis of the samples taken by the inspector shall be punishable with imprisonment up to three months or a fine up to five hundred rupees or both.

vi. Offence by workers (Section 97) If any worker employed in a factory contravenes any provisions of tire Act or any rules or orders, he shall be punishable with a fine which may extend up to five hundred rupees.

vii. Penalty for using false certificate of fitness (section 98): If any person knowledge attempts to use a certificate of fitness, granted to himself or to another person, he shall be punishable with month imperfection up to two months or fine up to and thousand rupees or with both.

viii. Penalty for Permitting Double Employment of a child (Section 99): If a child works in a factory on any day on which he has already been working in another factory, the parent or guardian of the child shall be punishable with fine up to one thousand rupees, unless it appears that the child has so work hard without the consent or connivance of such parent.

ix. Presumption as to employment: A person is found in the factor when the factory is going on or the machine is in motion, except during the time of meal or rest, is presumed to be employed in the factory until the contrary is proved. (Section 103).

onus as to ones Age (section 104): when in the opinion of the court, a person is prima facie under-age, the burden shall be on the-accused to show that such a person is not under-age.

19. Cognizance of Offence and prosecution (Section 105 & 106)

No court can take cognizance of an offence under the Act except on a complaint by or with the previous sanction of an Inspector in writing. Only a Presidency Magistrate of the First Class can try offences under the Act (section 105).

The complaint must be filled within three months of the date when the commission of the offence came to the knowledge of an Inspector. For disobeying a written order of ah Inspector, a complaint may be filed within six months of the date when the offence was committed (Section 106).

20. Appeal (Section 107)

The manager or the occupier of a factory on whom an order in writing has been served by an Inspector, can appear against it to the prescribed authority within thirty days.

21. Display of Notice (Section 108)

In certain cases, abstracts of the Act and the Rules are required to be displayed in the factory. All notices must be displayed in English and in a language understood by the majority of the workers, employed therein. They must be displayed in a conspicuous and convenient place at or near the main of the factory and must be maintained in a clean and legible condition. The Chief Inspector may require the display of posters relating to the Health, safety and welfare of workers.

22. Submission of Return (Section 110)

The owners, managers and occupiers of factories are required by rules to submit various returns and reports as may be required for the purpose of this act.

23. Power of the Central Government (Section 113)

The Central Government may give direction to a state Government as to the carrying into execution of the provision of the Act.

24. No Change for Facilities and Convenience (Section 114)

No feed or changes shall be realized from any worker for facilities provided appliances supplied by the occupier under the provisions of this act.

25. Restriction on Disclosures of Information (Section 118)

The Act places a restriction on an Inspector not to disclose any information relating to the factory which he obtains in the course of his duties, whether he is in service or out of service.

26. Obligations of the Employers

a) Under the Act, every employer or occupier of a factory is under an obligation to

   i. Obtain approval of the government for the location, plan and construction of the factory, and also license and registration certificate for operating the factory.

   ii. Implement of all provision of the Act, and under the health, safety and welfare measures.

b) Observe all restrictions regarding working hours, spread over, over-time' double employment, over lapping shifts and employment of women and children.

c) Provide all benefits and facilities to the workers regarding annual leave, weekly holidays, extra wage for overtime, washing, first-aid, canteens, creches, rest and lunch rooms.

d) Display notices, maintain registers and records, and submit to the government returns required for the proper enforcement of the Act.

27. Rights of Employers

Under the Act, the employers have the following rights:-

a) To make the workers observe hearth and safety provisions.

b) To refuse employment to children and other young persons who fail to produce fitness certificate from a certifying surgeon.

c) To go ahead with their plans to start constructing a new factory, and extend the existing ones, if they do not hear from the government within three month of their submission of necessary papers and information.

d) To appeal against the decision of the government in this and other respects.

28. Obligations of Employees

Under the Act, no workman in the factory is entitled

a) Interfere willfully or misuse any appliance, convenience or other things provided in a factory for the purpose of securing the health and welfare of the factory workers.

b) Do willfully and without any reasonable cause anything likely to endanger himself or others.

c) Neglect willfully to make use of any appliance or other things provided in the factory for the purpose of securing the hearth and safety or factory workers.

29. Rights of Employees

They workers enjoy the following rights under the Act:

a) They can claim minimum health and safety welfare facilities, annual leave, observance of working hours for adults, women and children.

b) They can refuse to work in contravention of provisions of the Act and observe the statutory working hours, rest intervals, weekly holidays and overtime restrictions.

c) They can claim overtime payment at double the ordinary rates of wages, and also advance payment for annual leave if the period of leave is of not less than four days.

d) They can claim wages for the proportionate annual leave even before he puts in the qualifying service, if he is discharged or dismissed.

Keywords:- penalty, procedure, relay, shift, occupier, effluents, precincts.

12.4 SUMMARY

1. The Factories Act, 1948, came into force on Ist April, 1949. The act of 1948 not only consolidates but also amends the law regulating labour in Factories.
2. The object of this Act. is, to secure health, safety, welface, proper working hours, leave and other benefits for worker's employed in factories.
3. The act is applicable to the whole of India except Jammu and Kashmir.
4. In every factory, where more than thirty women workers are ordinarily employed, there share be provided and maintained a suitable room or rooms for the use of children under the age of six years of such women.
5. When a worker works in a factory for more than a hour in a day or for more than 48 hours a week, he is enlitled to extra wages in respect of over time work.
6. A child who has not completed his fourteenth year is prohibited from working in any factory.

12.5 SHORT ANSWER TYPE QUESTIONS.

Q1. When factories Act came in force?

Ans. The factories Act, 1948 came into force on 1st April, 1949.

Q2. What does Adult refer as per Factories Act 1948.

Ans. According to the Act, Adult means a person who has completed 18 years of age.

12.6 EXAMINATION ORIENTAL QUESTION

1. Explain the Industrial legislation in India.

Suggested Reading

1. Memoria and Memoria, Dynamics of Industrial Realtions.

M.A. ECONOMICS

COURSE NO. 566 | **LESSON No. 13**
SEMESTER-IV | **UNIT-III**

WAGES AND PROFIT OF BONUS

Chapter Highlights

13.1 INTRODUCTION

In this lesson stress is laid on the issues related to the problem of wages and Bonus and various Acts passed in relation to it.

13.2 OBJECTIVES

The objectives of this lesson is to make the students understand various Provisions and Acts related to the problem of wages and bonus.

13.3 WAGES AND PROFIT OF BONUS

Minimum wages payable to anyone in employment in whatever occupation should be such as would satisfy the needs of the worker and his family arrived at on the need based formula of 15th Indian Labour conference. However before fixing the minimum wage the appropriate govt should keep in mind the capacity of the industry to pay as well as the needs of the workers.

The commission recommends that every employer must pay each worker his one month's pay as bones before an appropriate festival, be it Diwali or Onam or Puja or Ramzan or Christmas. Any demand for bones in excess of their upto a maximum of 20% of the wages will be subject to negotiation. The commission also recommends that the system of two wages willing for reckoning entitlement should be suitably enhanced to Rs 7500 and Rs 3500 for entitlement and calculation respectively.

There should be a national minimum wage that the central government may notify. In Addition, it should have a component of dearness allowance to be declared six monthly linked to consumer price index and the minimum wage may be raised once in five years. Each state/union territory should have the authority to fix minimum rates of wages, which shall not for in any event less than the minimum wages.

In India, the term "Bonus" has been interpreted differently by different. The worker organization define bounce as deferred wage or pay which is their legitimate due and which therefore cannot be denied to them whether an industrial establishment makes a profit or suffers a less. It is also interpreted as a share in profits on which workers have a claim.

On the other hand, managements generally view bonus as either incentive payment of things like satisfactory work or additional work done etc. Some management regard bones as ex-gratia payment to be paid entirely at the discretion of the management and which, therefore, cannot be claimed by workers as their legal dues.

When these opposite interpretation of bonus are kept in mind, it would at once become clear why bonus has become a bone of contention between management and workers. The main point or centre of controversy has been whether bonus is ex-gratia payment of bakshish which management may or may not give to workers at its sweet will.

Right since independence the nature of bonus and its quantum to be given by management to workers have been a matter of controversy and the causes of many industrial disputes.

13.4 BONUS COMMISSION

As a result of increasing pressure by trade unions on Government for payment of bonus the government of India appointed the bonus commission under the chairmanship of M.R Maher.

The bonus commission came to the conclusion that bonus is a share due to workers in the profits or prosperity of the company where they are working, it is worker's share in the profits of the company.

Based on this conclusion, the bonus commission made specific recommendation regarding how much minimum bonus (4%) should be given to worker, how to calculate the surplus of a company, who are entitled to the payment of bonus and soon.

13.5 PAYMENT OF BONUS ACT

The government of India while accepting the broader recommendations of thee bonus commission made some suitable modifications and enacted the payment of Bonus Act in 1965.

The main provisions of the Payment of Bonus Act, 1965 were as fallow.

a) The payment of bonus Act applies to all factories and public sector undertakings (excepting those run departmentally) employing 20 or more employees.

b) The reserve Bank of India, life Insurance corporate, unit trust of India, colleges and university, social welfare organization, hospitals and public undertaking run by the central and state governments and local bodies will be exempt from the application of the Act.

c) The act will apply to employees drawing a monthly wages or salary upto Rs 1600, but bonus payable above Rs. 750 per month would be calculated as if the wage or salary of the employee was Rs 750 per month.

d) The minimum bonus to be paid would be 4% of the salary or wages or Rs 40 whichever is higher, whether a company makes a profit or not, the maximum amount of bonus in any year payable out of available surplus would be 20% of the basic wage and dearness allowance.

e) Those employees who have worked on tall working days would be allowed the full payment of bonus, reduction in the amount of bonus being made in proportion to the days absented the minimum period of working being 30 days in a year for entitlement to payment of bonus.

f) For purpose of calculating available surplus for distribution of bonus, certain will be deducted such as deprecation and development admissible under the Income Tax Act, remuneration to directors, partners and properties, all dividends to be period on preference shares, return of 8.5% on equity shares and 6% for reserves and all direct Taxes such as corporation tax (on profits of a company.

g) In every accounting year, 60% of allocable surplus as calculated above will be available for distribution of bonus, the allocable surplus in the case of foreign companies is being 67% for distribution of bonus. Workers were dissatisfied with the provisions of the payment of bonus Act of 1965 on the ground that according to them, bonus is deferred pay legally due to them, whether a company makes a profits or not this is because if profit is made the basic of payment of bonus, management may so manipulated accounting as to show that the company is not making any profits or less profit or is even making a loss, that the minimum of 4 % bonus was too low and that the minimum should be 8.33% or on month salary.

13.6 BONUS REVIEW COMMITTEE

As the controversy over the recommendations of the payment of bonus Act 1965, got heated up Government of India appointed in 1972 a bonus Review committee under the chairmanship of Dr. B.K Madan.

The Bonus Review committee submitted its final report in September 1974. The main recommendation of this committee included the minimum amount of bonus was to be 8.33% (instead of 4%) and maximum 20% to be paid to employees getting a wage or salary upto Rs 2000 per month. But the recommendation did not include for purposes of payment of bonus. Government department employees and even employees of the LIC (who were entitled to bonus under the payment of bonus Act of 1965) as they were declared as not entitled to receive bonus.

The president of India issued an ordinance amending the payment of bonus Act of 1965 enforcing the above provisions.

Recommendation of the bonus review committee came in for review criticism from both management and workers. Management was critical and disappointed because the minimum compulsory bonus rate was raised from 4% to 8.33% whether a company made profit or not and worker were critical because their demand for 10% bonus for 1973 and 12.5 for 1974 was ignored. Payment of bonus continued as before to be one of the major issue of controversy between management and workers.

13.7 PAYMENT OF BONUS DURING THE EMERGENCY (JUNE 1975 TO MARCH 1977)

Mrs. Indira Gandhi proclaimed the emergency on 6th June 1975 and it remained in force till March 1977. Immediately after the declaration of emergency, the payment of bonus Act with its amendment was reversed. The government rejected the workers view that bonus was a deferred pay, it reversed the earlier decisions raising bonus from 4% to 8.33%, it made it clear that bonus would be linked to productivity and profitability of an industrial undertaking, Government held the view that insistence of workers on payment of bonus even by industrial units not making profit had led to sickness of many industrial units and had adversely affected the growth of employment opportunities, under the new arrangements industrial units making losses were exempted from payment of bonus and the minimum amount of bonus was raised from Rs. 40 to Rs 80 in the case of adults and from Rs. 25 to Rs 60 in the case of children.

After lifting of the emergency in March 1977, the entire questions of bonus burst out again and industrial establishments threatened to go on strike. The major issues were whether or not bones was deferred pay and the second issue was the minimum bonus to which worker were entitled.

The Janta Govt. (Which assumed power and formed Government at the centre in 1977) restored the percentage of bonus from 4% to the former 8.33% as minimum bonus. It appointed the boothalingam study group to go into the question of bonus to workers in wider context of wages and incomes policy.

13.8 RECOMMENDATIONS OF BOOTHALINGAM STUDY GROUP.

The boothalingam study Group's conclusion were as follows. Bonus as reflected to profit is suitable only in the case of undertakings where profit motive does not operate at all (a s in the case of government service, railways, post and telegraph, public utility service and financial and other institutions) bonus linked with productivity is more logical and satisfactory, but it is difficult to identify and measure productivity which and be uniformly applicable to all industrial units, bonus linked to profit both in private and public sector industrial undertaking would result is greater disparities even among workers doing the same type of work and therefore it will tend to create tension between the workers, workers and management and between government and workers.

The study group recommended that bonus should be replaced in the long run by a system which enabled workers to get a fair share of profitability without causing distortion. Bonus payment, according to the study group, has become an industrial way of life and therefore it recommended continuance of payment of Bonus.

13.9 PRESENT POSITION REGARDING BONUS PAYMENT

Though the Janta Govt. raised the minimum bonus from 4% to 8.33%, the govt. had to fore a serious problem in the form of demand for bonus from government departmental undertakings like railways and posts and telegraph. The railways and posts and telegraph. The railways employers renewed their demand but it was linked to productivity through how to measure railways mans productivity was not spelt out. Soon the government had to concede the demand for bonus of all government departmental employees such as Posts and Telegraph, ordnance factories and so on.

Keywords : bonus, minimum wage, allowance, Governmental undertakings.

13.10 SUMMARY

1. Minimum Wages Payable to anyone in employment in whatever occupation should be such as would satisfy the needs of the workers.
2. In India, the term Bonus has been interpreted differently by differnt. The worker organization define bonus as deferred wage or pay which is their legitimate die and which therefore cannot be denied to them whether an industrial establishment make a profit or suffers a loss.
3. The bonus commission came to cencision that bonus is a share due to workers in the profits or prospeting of the company where they are working. It is worker's share in the profits of the company.

13.11 SHORT ANSWER TYPE QUESTION

Q1. Define bonus

Ans. In India Bonus is defined differently by different economists. It is a share in the profit on which workers have claim. The management generally defines bonus as either incentive payment for thing like satisfactory work or additional work done.

Q2. Which factories came under the ambient of payment of Bonus Act.

Ans. The payment of bonus Act applies to are factories and public sector undertaking (excepting those run departmentally) employing 20 or more employees.

13.12 EXAMINATION ORIENTED QUESTIONS

1. Discuss the problem of wages and bonus in India.

Suggested Reading

S.S.M Desai and N. Bhalerao (2002) Industrial Economy of India, Himalaya Publishing House Delhi.

COURSE NO. 566 | **LESSON No. 14**
SEMESTER-IV | **UNIT-III**

ISSUES IN LABOUR MARKET REFORMS

Chapter Outlines

14.1 INTRODUCTION

Labour Market reforms occupies an important place in Indian Industry. In this lesson we will discuss the various issues in labour market reforms.

14.2 OBJECTIVES

The objectives of this lesson is to make the students aware about the need, importance and issues in labour market reforms and their policy implications.

14.3 ISSUES IN LABOUR MARKET REFORMS

Labour Market adjustment in India includes wage policy employment security and labour redundancy in the organized sector together with the role of NRF, which has been established to ideal with the problems of labour redundancy. It is widely held in both academic and policy Making circle that labour market adjustment will be helpful in minimizing social cost of economic reform launched in 1991.

Labour Market Reforms are necessary for stimualating long term growth of output and employment in the Indian economy.

Reforms have social cost but why and how this social cost arises and how labour market reforms help to minimize the social cost of the reform and in stimulating growth of output and employment.

Because labour Market Reform is meaningful idea only in case of 9% of employed labour force in orgainsed sector it is legimate to wonder, if the labour market reform can be of much consequence in such a content.

14.4 LABOUR MARKET REFORM IN INDIA

The orgainsed sector accumulated surplus labour over the year partly because the public sector employment generation as a social responsibility and partly because the govt undertook to subsidize non unviable enterprises in order to prevent job losers. According to a conservative estimate more than 16% of the employment in the orgainised sector is actually redundant.

- The economic reforms have reduced the capacity of the public sector enterprise and the government to carry the stock of surplus labour.
- Growth of competitive pressure in the economy and the need to maintain fiscal discipline on the part of the govt are among the factors which threaten to transform hidden unemployment into open unemployment.

- The government response to this threat has been the establishment of NRF which is meant to finance VRS programme, for counseling, retraining and redeployment of the workers accepting voluntary retirement and area regeneration scheme for areas with incidence of Job losses.
- The progress at the implementation lend of these programmes has been rather poor so for.
- There are weaknesses in the labour policy programmes pursued so far in India. But at the same time it must be born in mind that labour plicy reforms are meant to minimize and not add to social cost of the structural adjustment.

The reforms must address these key objectives;

1. The firms right to retrench must be restored must be restored, irrespective of it size. Healthy firms large and small also need this flexibility to adjust to changing market conditions and technology. From the available details the current proposals of the government fall short of addressing the objective adequately, since they focus on firms with 1000 or more employees.
2. Appropriately uniforms rights conforming to the international practices, should be established for all workers irrespective of whether they are employed in small medium and large firms. This must included the establishment of appropriate retirement benefits and separate pay based on the number of years worked.
3. Outsourcing and the states of contract workers must be formally recoginsed, ending the tyranny of contractors. Any discrimination against female workers should be eliminated.
4. To give substance to these provision, proper enforcement mechanism must be instituted. This means creating time bound procedures strict timetable must be imposed on the BIFR proceeding with workers awarded their compensation on a timely bases. Justice delayed is justice denied.

14.5 GROUP OF MINISTERS ON LABOUR REFORMS:

After dithering for many years, the govt appears to have finally made upto its mind to push through much needed labour market reforms.

The worse employment scenario, growing social tensions and the absence of aderuate social security have made the issue politically sensitive. However the problem has been compounded by the state of voluntary retirement scheme (VRS) being implemented across the sectors and the growing pink slip culture in the New Economy sectors in the wake of prolonged slow down.

As per the group of ministers recommendation, establishment employing less than 1000 worker will not need the govt. permission for laying off retrenching workers or closure of the units itself. According to estimates 95% of the Indian enterprises will be covered by the proposed legislative changes. The government has bought to balance this measure with additional benefits to labour..

1. A hike in the workers upper wage celling form Rs. 16000 to Rs 6500 per month for calculating the compensation.

2. With regard to provision of contract labour it appears that there are still some differences.

3. As for as the safety nets for the displaced labour force, much needs to be done. NRF has been created in 1991-92 to provide safety nets to workers affected by retracting of PSUs and closure of unviable units.

   But the objective of retraining and redeployment of displaced labour were totally neglected. Infect at present, one does not know, what is the status of the NRF is today and what is the role assigned to it.

4. There is an urgent need to revamp the NRF and expand its scope considerable to persons not only displaced persons form PSUs but also from the public sector.

5. The major issue is to provide social security to the workers employed in the unorganized sector.

   93% of the workforce in the unorganized sector is denied fair wages and even modest land of social security. Hence labour market flexibility must be accompanied by some kind of insurance and social security to the vast unorganized labour force in the country.

14.6 NEED FOR LABOUR MARKET REFORMS

1. Stabilization measure (compressing domestic demand through public expenditure) leads to slow down of economic growth in the short seen and it is much sharpest in modern sector dependent upon imports leads to slow down in employment growth in organized sector and due to this the rate of growth of demand for labour supply to informal sector increases. Output slowdown in the organized and the growths of demand for products and services slow down in the informal sector. Thus overall employment conditions deteriorates because the share of informal sector in the employment increase and employment conditions within this sector deteriorates.

2. When attemps are made to reduce public expenditure Public Savings and investment will reduce and standard and investment will reduce and standard of living declines. There by reducing saving.

3. When public investment decline it can have adverse consequences for output growth in agriculture and decline in labour absorption capacity of agriculture leading to underemployment in agriculture and increasing rural to urban migrations. In case of India declining public expenditure adversely affect the growth of non agriculture activities in rural areas.

4. In informal activities, due to reforms relative price changes such that real wages decline. In pre-reform situation, there were subsidies and tariff and quantities trade restriction but as subsidies are withdrawn and trade restrictions are reduced the intersectional terms of trade tend to move in favour of agriculture and relative price of food rises reducing the real wages in both agriculture and urban informal sector.

5. Due to reforms there is a change in the composition of industries. Several industries giving rise to redundancies and job losses in the orgainsed sector. The problem of industrial sickness in India exists even in pre-reform period the problem may nevertheless remains manageable. But if slow

growth persists, social costs associated with job losses can be very substantial the absence of safety not programmes.

6. When there is growth of unemployment and fall in real wages, there is growth of poverty and it further strengthened if public expenditure on anti poverty progrmmmes in rural areas falls to minimize social cost of economic reform requires.

    - Much more than labour market adjustment
    - Falls in saving and investment rates has to be prevented
    - Public investment expenditure has to be sustained.
    - Too sharp rise in relative prices of food has to be avoided
    - Safety net programmes and anti poverty programmes be introduced on a substantial scale.

Thus labour market flexibility can minimize redundancies and job losses in short run and can speed up industrial restructuring on medium term by smoothening the process of labour reallocation.

- ➔ During stabilization, when National expenditure falls there is downward pressure on demand money wages be adjusted downward and price falls thus moderating the fall in demand and hence output. If decline in output is moderated or prevented, job losses will be moderated or prevented.

  In India this argument is least relevant for organized industries and services decrease it only employs a small percentage of total labour force. However, this fact by itself does not render the argument irrelevant for the economy.

  If output and employment in organized sector are sustained, employment conditions in the unorganized sector is sustained, the demand for informal labour would also be sustained.

  But there are other arguments

1. If product wage falls, real wage declines. Real wage in the orgainsed sector determines aggregate demand. A fall in real wages in orgiansed sector implies fall in demand for products in orgainsed sector but in case of India this effect may not be large because it employess only a small proportion of labour force. When the relative price of orgainsed sector product vis-à-vis agriculture product falls demand from agriculture for the orgainsed sector product will rise. The net effect can be either positive or negative.

2. Stabilization causes reduction in imports output and then demand. Labour market adjustment cannot present this decline.

3. Labour cost constitutes only a small proportion of production cost in organsied industries. Devaluation makes imports costly. Thus reduction in money wages may not be sufficient to allow reduction in production prices.

   Thus in India Labour market adjustment is not of much help in minimizing social cost of stabilization. Here focus should be on the role of labour market adjustment in facilitating structural adjustment and the objective of structural adjustment is to change the composition of national output in favours of tradeables. Thus shifting labour from non tradeables to production of tradeables. Thus it can be facilitated through temporary wages differential and well functioning of labour market would generate the appropriate wages differentials. If institutional factors create wage rigidities, labour reallocation would be slow and inefficient and structural adjustment is thereby wandered.

   The focus on wages differentials is inappropriate in India, thus labour supply to sector is vitality limited.

   To achieve economic viability and competitiveness , wages adjustment id revised so as to ensure that changes in relative prices can be accommodated without loss of output and employment wages flexibility is important but more important are labour market regulations and is important but more important are labour market regulations and institution for employment flexibility.

Shrinkage of jobs in the orgainesed sector will result more people entering the unorganized sector. But being unskilled or semi skilled they will find their absorption by the market extremely difficult.

Problem of human insecurity and unemployment would be at the top of the political agenda in most countries. Thus increasing social polarization and exclusion would necessitate the provisions of a strong social framework and social safetymen side by side with the search for a new economic system and framework.

Labour reforms in India in the content of globalizations is much desired, but also feared and misinterpreted. The issue has been a touchy one. Even since the liberalisation era began under the Narsimha Rao Govt. in the early 1990s.

Labour reforms is a very sensitive subject in the context of India, given the ground realities of poverty, illiteracy, diseases, deprivation, exploitation, low per capital income etc. labour market reforms involves institutional innovation.

Social costs are associated with labour markets reforms therefore the need is of creating appropriate institutions for a new regulatory regime. A new labour policy has to be formulated with these consideration in view.

Challenges in labour markets reforms (in the 21st century)

1. The changes in the new millennium will lead to recognition of work policies of economic liberalizations have several a altered the relationship between the state labour and business. Economic outcome are influenced more by market force than through social actors, legal norms or state interventions.

2. Globalization is backed up by rapid technological progress bring in its trait—multiskilling, alternations of the normal employment relations which are characterised as pervasive casulisation

information.

3. Shortage of jobs in organized sector will result in more people entering the unorganized sector. But being unskilled or semi skilled they will find their absorption by the market extremely difficult leading to problem of human insecurity and unemployed which would retain to the top of the political agenda in most countries.

   The social dimensions of globalization and the problem and challenges at brings would become public concerns. There would be growing realisation that markets don't function in isolation from social and political context. Increasing social polarization and exchange would become public concern.

   These would be a growing realization that market don't function in isolation from social and political context.

   Increase social polarization and exclusion would necessitate the provision of a strong social framework and social safety net side by side with the search for a new economic system and framework.

Issue in labour market reforms

1. Protection for vulnerable groups, including minimum working age requirements equality of wages and employment opportunities and special provision for women.
2. Establishment of minimum compensation for work including minimum wages and minimum non wage benefits and overtime pay.
3. Assurance of absent working conditions including occupational health and safety provisions and maximum hours of work.
4. Provision of income security including social security, job security several pay and public work

In India, we had 165 price of labour legislation.

The proliferation of labor laws is made worse by definition complexities making their interpretation even more different lack of clarity about sights and obligation of employees and employers delays in settling disputes have consequently become key features in application of the Indian labour laws.

Emerging issues a paradox

1. Bargaining power has gone down in post reform period
2. Labour regulations have become considerably weak in recent years because of dilution of rules though (1) amendment (2) through self certification
3. Through relaxation of inspections
4. Through a pro-employer attitude

There is a competition among states and to attract more investment labour regulation have been weakened. Kingfisher has given pink ships to its workers even without giving a prior notice to them which is injustice.

14.7 EXIT POLICY

Issues in labour market reforms. The economic reforms initiated in 1991 brought in their wake the issue of exit policy as a part creating labour market flexibility without which efficient industrial development would be impeded.

The world banks & the IMF have been insisting that government should introduce labour market refers to allow employers shift worker from the one unit to another and also retrench excess labour. It is the danger of retrenchment that is causing worry to the working class.

According to estimates made, the number of workers employed in sick units is 45 lakh of which 58 chronically sick public sector units employed 41 lakhs, while the balance are in the private Sector units. It is the sick units are closed down such a large number of workers would be reduced unemployed.

Under the guise of improving competitive strength of our exports & introducing competitive environment in the Indian domestic market, the NEP has opened up the doors to MNCs.

During the last few years, a large numbers of collaborations with foreign companies have been entered into MNCs have also assumed control over a numbers of Indians companies. These tendencies are found to have some serious implications for the workers as MNCs employ capital Intensive technology, this can lead to the displacement of hundreds of workers previously employed in the unit.

Thus It is not only the sick units in the public and private sector that will shed labour but also healthy units in a bid to remain in competition Vis-a-Vis the MNCs. The danger signals are already there for everyone to see.

A large no of companies have already initiated VRSs at their various units. The PSU have resorted to still large job cuts through the VRS route.

In the last few years 6 blue chip PSUSnehas Sail, BHEL Cola India ltd. ONGC Hidustan zinc ltd HZL have axed 1,20,000 jobs. Public sector Banks (such as SBI, Indian overseas Banks, P.N.B Banks of India) etc have also seen the exit of more than one lakh employees through VRS.

Helpless workers are the victims of the process of consolidation restructuring mergers, acquisitions and amalgamation which is sweeping the Indian corporate presently.

The government policy has been to make the task of retrenchment of workers easier. In the budget speech for 2001-02. The finance minister announced that the threshold for hiring and firing employees without govt. permission, under the provision of IDA (Industrial Dispute Act) is proposed to be raised from units employing. 100 persons to 1000 persons. Acceptance of this proposal will have serious consequences for labour because 75.4% of the total workers are employed in units employing less than 10000 workers. Therefore, raising the threshold limit to 1000 employees would put as many as 75.4% of workers out of safety net only 24.6 % of workers, working in large units would continue to enjoy job security since lay off in these units would be subject to government permission.

The structural adjustment and industrial restructuring programme is bound to have serious implications for the labour class and result in large scale restaurants. To tackle the problems relating to retrenchment of the employees. The government of India set up a NRF in February 1992. The overall aim of NRF is to provide safety net for labour.

The objective of NRF.

1. Its objective is to provide funds for compensation to employees effected by restructuring or closure of Industrial units.
2. To improve funds for employment generation schemes in the original organized and unorganized sector, in order to provide a social safety net for labour.

14.8 IMPACT OF EXIT POLICY AND NRF ON LABOUR :-

The establishment of the NRF is a major step by the government to safeguard the interests of workers, who may be affected by technologcial up gradation of industrial or closure of chronically sick units, which cannot be nursed back to health.

The government has repeatedly made it clear put the thrust of new economics and industrial policies is not aimed at displacement of labour. Then the Prime Minister Mr. P.V Narasimha Roa said, we are committed to protecting the interests of the labour, exchanging its welfare and providing facilities for skill up gradation .

Since then the government has held consultation with trade union organization or more than one occasion. It is but natural that trade union organizations should raise their voice against any retrenchment. On the other hand industry has always called for recognition of the right to exit, when a units cannot be run economically or is terminally sick.

As establishment with over 1000 workers labour has not been given maximum protection in regard to job security. This has created a spectra of mass retrenchment and sparked of concuss all over the nation.

In a series of discussion with labour leaders. The government has sought to remove such fears and impress upon them that the industrial restructuring would be done with the human face.

Few studies have been conducted to examine the impact of the NEP on labour and land relations. Their conclusion is that the package of measures adopted by the government under the exit policy has adversely affected the industrial worker.

These implementations of exit policy is unexceptional and long overdue the government has to undertake steps very cautiously and otherwise there can be nationwide strikes and lockouts. The going a damper on development. Thus the government has its own compulsion in implementing the policy as a part of liberalization and opening up outside the world.

No doubt in the globalised world the policy of hiring or firing. The labours is a step towards becoming competitive but in India. the real challenge to provide alternative jobs to 75% if the labour force. It is the exit policy becomes successful. In India, where we have overcrowded labour market, the only exit policy, which can become successful, is that the financial destination of displaced workers has to be indentified then redeployed and retaining them would importantly an exit policy for smaller in scope.

Therefore it would be useful to set up a special employment exchange cum training centre for the surplus or the retrenched employees for further employment. Also appropriate exit policy supported by an efficiently operated NRF, will be given a fillip to the modernization of industry but will also take case of the legitimate interest of the working class.

While introducing labour market reforms:-

Issues:-

1. Protection for vulnerable group, minimum working age of requirements, equality of wages and employment opportunities and special provision for them.
2. Establishment of minimum compensation for work including minimum wages and minimum wage benifts and overtime pay.
3. Assurance of decent conditions including occupational health and safety provisions and maximum hour of work.
4. Provision of income security, social job security.

Emerging issues:-

1. Bargain power declined
2. Labour regulation become considerably weak in recent years.
3. Dilution of rules through amendments, through self certification, through relaxation of inspection.
4. Through a pro-employed attitude because of competition among state and to attract more investments, labour regulation have been deleted keeping in the view the climate of country. The government should undertake industrial restructuring in such way that cost burden of conditions not borne trading to weakening of trade unions entirely by the worker.

14.9 LABOUR MARKET REFORMS AND THEIR IMPLICATIONS

Introduction :- Since the 1991 economic reform growth in India has quadrupled but the rate of good quality Jobs has stagnated India's labour legislation has become increasingly inflexible and restrictive over time. The costs imposed by such regulation forces business to remain in the informal or unorganized sectors, where regulation is little or absent but social security is also nonexistent. As a result, 93% of the Indian workforce is employed in low quality, low paid jobs, with hardly any social security cover. On the other hand, there is evidence of productivity being higher in the formal sector.

Informal sector in India can be best defined on three ways. First, there is a definition in terms of exemptions from paying indirect taxes. Second, there is a definition in terms of small scale industry, which again is defined in terms of threshold lends of investment in plant and machinery. Third, there is a definition in terms of labour laws. That is an enterprises is unorganized if it uses power and employs fewer than 10 people or does not rise power and employs fewer than 20 people. Informal sector workers can be identified by occupations like small farmers, fisherman, beedi packers and/or bounded labour , migrant worker, contract and casual labours. Scavengers loaders and unloaders also belong to this category.

In India, the relationship between economic growth and job creation has often been inconsistent. To the extent that even when jobs are added to the economy.

They have been mainly in the informal sector. The following points clearly illustrates this in Indian context.

1. **Inconsistent relationship between employment and growth:-** since the 1991 economic reforms, employment rates did not pick up as much as growth rates. The overall employment which experienced a steady growth of around 2 percent during 1990-91 and further to around 1 per cent during 1993-00, when growth rose to an average of 6 per cent.

2. **Slow rate of good job creation:-** It is also clear that while employment rate increased slowly, the rate of good creation is going the opposite direction, while the formal sector grew slowly at 1.2 percent annually in 1983-94, this rate fell to 0.53 percent in 1994-2000. The massive fall in aggregate employment from 2000-05 to 2005-10. Is mainly because of changes to composition employment. For instances, the number of casual jobs rose substantially in the latter period 8.6 to 21.9 million. But regular jobs dropped from 18.6 to 5.7 million in 2005-10. Even the small increases in aggregate employment of 2.2 million during the low job growth period of 2005-2010 was due to a massive increase in informal jobs.

3. **Growing informal sector:** a combination of slow and poor quality job creation has resulted in a bloated informal economy are increased takes and social security contributions burdens, intensity of regulation and low quality of public sector services. Steadily increasing, today about 93 percent of Indian workforce is employed in the informal sector out of a working population of owner 400 million only about 7 percent of the workforce is covered by social security. The rest of the 93 percent have no direct access to unemployment insurance, skill or training programmes which also makes them less employable. Wages are lower as the minimum wage legislation would be two expensive for small informal business to implement, making poverty a wide spread issue. Our current labour regulations framework is Archaic, restrictive and convoluted. A growing formal sector thus seems to have more benefits for businesses and workers as opposed to the current trend of a growing informal sector. However it is difficult to expect

businesses to formalize considering India's poor institutional and regulatory set up. Historically, reforms suggested by analyst and businessmen have drastic in nature mainly pertained to the formal sector and failed to consider stake holders with visited interests in an inflexible labour market while those interests in an inflexible labour market. While those interests are not entirely unreasonable it might be interesting to collate a few reforms that have a workable "go between" approach for most stakeholders—employers, employees, trade unions and the government .

It may be worthwhile identifying labour market reforms which are realistically doable , exploring components of the labour market that could be usefully reformed with lesser resistance, finding more ways to boost job reform, developing the informal sector, and eventually explore the future prospect of formalizing the informal economy to increase productivity. Finding a go between, workable approach is probably the second best step in the right direction considering India's urgent need to boost livelihood in the face of economic and political challenges like rising fiscal deficit, exploiting the demographic dividend and tricking trade union.

14.10 POLICY CONSIDERATIONS

The policy recommendations below are an attempt to address above issues by taking a more workable approach through a middle ground to sensitively initiate the development of labour market to prove the transition to flexibility and security in future. The reform, sustainable live hoods creation state competition and engaging with trade unions effectively.

1. **Increasing contestability in the labour market:-**

While the formal sector is characterized by a rigid labour market, the 93 % of the Indian workforce in the informal sector work under extremely flexible conditions. However, social security coverage is minuscule or non-existent. In India, social security in the formal sector is organized around some key laws like ESIA 1948, Employees Provident Funds and Miscellaneous Provisions Act 1962, employee's compensation Act 1923. Maternity benefit Act 1961 and the payment of Gravity Act 1972 scaling up security for informal sector workers could reduce the fierce resistance of some of this trade union in addition to developing their work life in the informal sector.

2. **Identifying difficulties to scale up social security in the informal sector.**

Although informal workers, especially contract employees are supposed to be conserved by social security schemes. Under the employees provident fund organization, implementations is often a problem because of several reasons.

The EPFO provides and regulates social security schemes such as employees provident fund employees social insurance and employees social insurance and employees Pensions Scheme. However there is not much incentive for small unregulated enterprises to adopt EPFO schemes mainly due to cost and administrative burdens.

Collusion between business and labour inspectors is another adverse consequence of poorly managed social security schemes. The inspector often colludes with the company in exchange for bribe. Therefore, for flexibility to work, implementation of existing laws is important in order to set a precedent for future laws.

3. **Encouraging contestability and monitoring in social security provisions.**

To reduce rent seeking, improve value for money in contribution and increase social security coverage for informal worker , competition in the pension sector is key. With the extension of the national pension system to all Indian citizens including the unorganized sector and the pension fund regulatory and development. Authority or regulator of the pension sector employees should be encourages to allow employees to opt into the scheme of their choice. Contract labour is often exploited in Indian formal sector. Formal business employ short term informal laborers' absent social security provision. The presence of such organizations would ensure that contract labour get a fare wage for their service in addition to social security as temporary jobs are still better than no jobs. There is an increasing need for these organizations to set up shop in the informal sector. The government should incentivise small privately run organization on a similar model to ensure safe contractual labour coupled with social security in the informal economy. This could help narrow the wage and benefit gap with the formal sector and also encourage informal workers to move to the formal sector where productivity is higher. Moreover, Aadhar linked benefits system could play a role in not only safe delivery of social security payment but also encourage financial inclusion.

4. Feasibility of formalization and boosting livelihood opportunities:

The ministry of Finance 2013 Economic survey-acknowledges that, while industry creating jobs too many such jobs are low productive non contractual jobs in the unorganized sector, offering low income, little protection and no benefits. Formalization is a desirable step but without adequate skills and training amongst transitioning workers it would means coming under expensive social security packages, especially where employers don't offer the NPS option. The financial inability of small informal employers to provide social security and comply with labour regulations would result in either unemployment or mechanization or both.

While states should be urged to act on boosting incentive to formalize, they should also allow individual states to boost livelihood opportunities in the informal sector with some provision of social security. Narendra Modi recently highlighted how we have power plants but no coal and therefore no livelihood because of policy paralysis. States like Gujarat have been proactive in creating more choice and opportunities for farmers by amending restrictions on the Agriculture Produced Marketing Committee Act to allow them to sell their produce to whole sales exporters, industries and large trading companies. Gujarat has also been upbeat in making small amendments to labour regulation that has resulted in reducing rural and urban unemployment. It has been even managed to keep its informal sector smaller than the national qnerage.

A bigger problem that restrict livelihood opportunity is also the lack of skills that are relevant to the market place. Welfare programmes like the MGNREGA have resulted in massive expenditure of taxpayer money and widening the fiscal deficit, but only creating a class of mostly young people without skills to contribute to India's economic progress or their own development. The state of Gujarat has entered into an agreement with team lease to setup the first vocational education university that aims to address the skills gap via its 22 community colleges that offer short associated degree programmes in conjunction with employees and increased aces to technology. If labour laws and regulatory practices are not made compatible with economic and social structures prevailing current and with evoving structures—welfare cannot be advanced.

Conclusion:- In the face of sluggish growth rates, a rising fiscal deficit and forth coming demographic dividend, India's political life must remember that boosting good quality jobs is a matter of top priority. It is a time we should start a nuanced discussion on how o develop the labour market to think about small reforms which are compatible with the current political economy and include the informal political economy and include the informal sector in the reforms dialogue.

Keywords:- Organised sector, retrench, out sourcing, deployment, stabilization, polarization, social cost.

14.11 SUMMARY

1. Labour Market Reform are necessary for stimulating long term growth of output and employment in Indian economy.
2. Labour reforms is a very sensitive subject in the centext of India, given the ground realities of poverty, illteracy, diseases, deprivation, exploration, low per capita income etc.
3. Labour market reforms involves institution innovation.
4. The world banks and IMF have been insisting that government should introduce labour market refers to allow employers shift worker from one unit to another and also reternch excess labour.
5. As per the GOM establishment employing less than 1000 workers will not need the governments permission for laying off, retrenching workers as closure of the units itself.

14.12 SHORT ANSWER TYPE QUESTIONS

Q1. What are the recommendations of Group of Ministers on Labour Reforms?

Ans. As per the GOM establishments employing less than 1000 workers will not need the governments permission for laying off, retrenching workers or closure of the units itself.

Q2. What are the basic issues in labour market reforms.

Ans. a) Protection for valuable groups.

b) Establishment of minimum compensation for work.

c) Assurance of decent working conditions.

d) Provision of Income security.

14.13 EXAMINATIONS ORIENTED QUESTIONS

1. Discuss the issues in labour market Reforms
2. What is need of labour markets Reforms? Discuss.
3. Do you think that labour market reforms in the 21 century are invertible? Explain.
4. What are the challenges of Labour Markets reforms? Explains.

Suggested Reading

Indian economy current issue

M.A. ECONOMICS

COURSE NO. 566	**LESSON No. 15**
SEMESTER-IV	**UNIT-IV**

INDUSTRIES IN INDIA

Chapter Outlines

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15.3 Iron and Steel

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Liberalization of Steel Policy

Production, Consumption and Export of Steel

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Central Phases of Indian Cement Industry

Performance of Indian Cement Industry

15.6 Indian Economy and Cement Industry-A Close Relationship

Regionwise concentration of Cement Industry in India

15.1 INTRODUCTION

In this lesson, we propose to discuss some major industries of India. We have chosen the Iron & Steel Industry, Cotton, Textile, Cement, Automobile and Elecronics Industry.

15.2 OBJECTIVES

Industries occupies a dominant place in the economy of any country. The objective of this lesson is to provide the relevant inforation regarding major industries in India.

In this chapter, we propose to discuss some major industries of India. For our discussion we have chosea the following industries — iron and steel, jute., textiles, sugar and cement.

15.3 IRON AND STEEL

The earliest successful attempt to manufacture iron and-steel by modern methods was made in the country at Barakar in 1875 for the production of pig iron. This was taken over by the Bengal Iron Company in 1889. However, the first effort at large-scale production was made when Tata Iron & Steel Company (TISCO) was set up in Jamshedpur in 1907. The Indian Iron and Steel Company (IISCO) was set up at Burnpur in 1919. The first unit in the public sector, now known as the Visvesvaraya Iron and Steel Works Ltd., started functioning at Bhadravati in 1923.

Progress in the Post-Independence Period

After Independence, special attention was paid to the development of the iron and steel industry. The Second Plan which aimed at laying strong foundations of industrial development naturally gave top priority to the development of the iron and steel industry. This would be clear from the fact that the investment on steel programme in the Second Plan alone was about 2.5 times the combined new investment undertaken by the public and private sector on the industrial programmes in the First Plan. Three steel plants of one million tonnes ingot capacity each were set up in the bublic sector at Bhilai, Rourkela and Durgapur. Besides, expansion programme to double the capacity of the two private sector plants, namely, TISCO and IISCO to 2 million tonnes and 1 million tonnes respectively were also taken into hand.

The three steel plants set up in. the public sector came into operation in stages between 1959 and 1962. The Third Plan placed emphasis on expansion of theseplanits and the setting, up of a new steel works at Bokaro. The Fourth Plan steel programme was based on the maximum utilisation of steel capacity and preparation of plans to set up three new steel plants at Salem in Tamil Nadu, Vijayanagar in Karnataka, and Vishalehapatnam in Andhra Pradesh. The Bokaro Steel Plant was commissioned on February 26, 1978. With till, the total installed ingot capacity which stood at 8.9 million tonnes on March 31, 1974, increased to 11.6 million tonnes as on March 31, 1980. The government also took over the management of IISCO in 1972 and acquired its ownership in 1976 to improve its working.

Prior to 1973, of the four steel plants in the public sector, the plants at Bhilai, Rourkela and Durgapur were owned and managed by the Hindustan Steel Limited (HSL), and the Bokaro Steel Plant by Bokaro Steel Limited (BSL). In 1973, the government set up the Steel Authority of India Ltd. (SAIL). HSL and BSL became the wholly owned subsidiaries of SAIL. The management of IISCO is also under SAIL. Visavasaraya Iron and Steel Ltd. was taken over by SAIL in August 1989.

Thus, SAIL is now the main integrated steel company. Vishakhaptnam Steel Plant of Rashtriya Ispat Nigam Ltd. (RINL), was commissioned in July 1992. It is the best laid out steel plant in the country with a capacity of three million tonnes. In the private sector, Tata Iron and Steel Company (TISCO) is the first integrated steel plant. It inlocated at Jamshedpur. Other imported players in the private sector are Essar, Mukand (having the biggest mini steel plant in the country), Lloyds, Jindal, Nippon Denro Ispat Ltd., Mahindra Ugine Steel Company Ltd., FACOR, Mardia Steel Ltd., etc. India was the third largest crude steel producing country in the world in 2009. This sector represents around Rs. 90,000 crore of capital and directly provides employment toover five lakh people.

LIBERALISATION OF STEEL POLICY

Iron and steel industry was reserved for the bublic sector in the 1956. Industrial Policy Resolution which had stated that while existing units in the private sector would be allowed to continue and expand, new units will be set up in the public sector only. However, due to acute shortage of steel in 1960s and 1970s and increase in the demand of steel by the re-rolling and engineering industries, the govermen liberalised the steel policy. The process of liberalisation. initiated in 1982 has been progressively extended. In 1986, private sector was allowed to produce steel using EAF (Electric Arc Furnace) Proces. Small blast furnaces were allowed only if they used optimum energy. In February 1988, expansion of units was permitted within an overall capacity ceiling of upto 250,000 tonnes per ainnum. The enhancement of capacity up to 1.50 per cent of the existing licensed capacity was allowed within the overall ceiling limit. However, certain conditions were imposed.

To liberalise and rationalise the manufacture of steel and steel-based products. remove unnecessary restrictions, and promote minimum economies of scales of production, the government issued a new set of guidelines on June 6, 1990. Under the new policy, the private sector was allowed to set up steel plants with a capacity of up to one million tonnes per annumand, for this purpose, they were allowed the freedom to choose between the electric are furnace and blast furnace processes. Subsequent to the announcement of the substantial liberalisation measures in July

1991. the government removed the iron and steel industry from the last of industries reserved for the public sector and also eeempted it from the provision of compulsory licensing. The government also abolished price and distribution controls uniform and steel manufactured by integrated steel plants with effect from January 16, 1992. The Freight Equalisation Scheme was also withdrawn. The iron and steel sector is now almost entirely open with no sectoral reservations, with no licensing, pricing, distribution and import controls. This is a radical departure for an industry which has experienced near exclusive public sector monopoly, canalised imports, protective import tariffs and government regulated domestic prices.

Production, Consumption and Exports of Steel

The production of finished steel (including secondary producers) rose from 1.04 million tonnes in 1950-51 to 6.82 million tonnes in 1980-81 and 59.7 million tonnes in 2009-10. The consumption of finished steel in 2005-06 was millon tonnes which rose to 56.5 million tonnes in 2009-10. The total export of finished steel in 2008-09 and 2009-10 was 4.44 million tonnes and 3.24 million tonnes respectively. However, since 2007-08, India has turned into a net importer of finished steel. In 2009-10, while exports of finished steel were 3.24 million tonnes imports were 7.29 million tonnes.

Problems of Iron and Steel Industry

The development and expansion of the industrialisation programmes of a country depends crucially on the development and expansion of the iron and steel industry. It is mainly due to the emphasis laion the development of his industry in the post-Independence period and the progress registered by it that India's industrial base has now become strong enough to mel the reouiroments of rapidly expanding engineering goods industries, machine building industries, machine tools industries and a number of other capital goods, intermediate goods and consumer goods industries.

Naturally, a set-back in the iron and steel industry due to any reasons whatsoever has to be viewed with concern since it has adverse repercussions on the numerous industries associated with it. Let us now consider some of the problems that the steel industry has had to face :

1. **Rise in input costs.** Raw materials such as iron ore and coal constitute on average 70 per cent of the total costs of steel companies. In 2005-06, prices of iron ore shot up by 71 per cent and coal by 50 per cent. As a result, a third of the large steel players' profits were wiped out. In 2008-09. the Indian iron and steel industry was hit hard by the spiralling cost of imported coking coal/metcoke.

2. **Shortage of coal and power.** The steel plants frequently face problems in obtaining adequate quantities of the desired quality of coking coal. This has often forced the steel plants to restrict the pushing of coke ovens. In addition. Indian coking coal has a high ash content mainly because of the sedimentary nature of their origin. In the 1950s. the steel plants were designed for using coal with 17 per cent ash content. Over the years, as mining proceeded deeper and to lower seams, the ash content increased to 25 per cent. Every one per cent increase in ash brings down the production of blast furnaces by 2-3 per cent. In addition, coke rate goes up and quality of it he product goes down. To keep the ash content of the blend at around 15 per cent, the dependence on imported coal has to be increased which is obtained at a considerably higher cost as compared with domestic coal (while price of domestic coal is in the range- of $40-45 per tonne, that of imported coal is in the range of $70 per tonne). Power shortages also affect the functioning of steel plents adversely. For instance, inadequate power availability from Damodar Valley Corporation (DVC) has adversely affected the performance of SAIL.

3. **Technologicral obsolescence.** Some public sector steel plants are today victims of technological obsolescence. In respect of blast furnace productivity, consumption of coke and tap-to-tap time in convertors, most of the integrated steel plants are half as efficient as the steel plants in the rest of the world. For example, in terms of hot metal output per cubic metre of working volume per day, the performance has been 1.11-1.33 for Bokaro 1.21-1.26 for Vishakhapatnam Steel Plant and 1.87 for the G-furnace (new furnace) for TISCO while the same has been in the order of 2.3-2.8 on a typical Japanese furance. Similarly, the tap-to-tap time in

the blast furnace in the TISCO plant has been in the range of 70-136 minutes while the same is 20-30 minutes in a Japanese firm. Not only in material value productivity, even in terms of labour productivity. Indian steel industry lags cc tsiderably behind the developed; countries. While labour productivity in Indian steel industry ranges between 39 tonnes per man year to 228 tonnes per man year, it ranges between 300-500 tonnes per man year in the steel industry of industrialised countries. It is also due to technological obsolescence that energy consumption in Indian steel mills still continues to be considerably higher than in steel mills of the developed countries. For instance, while energy constitutes about 20 per cent or one fifth of the total cost of steel making in the latter, it is as high as 33 per cent (almost one-third) of the total cost of steel making in India.

4. **Inefficient management.** The management and control of steel plants leaves much to be desired. The top management often comprises non-specialised, non-technical people who are often unequal to the task of providing the requisite managerial competence in the complex and capital-intensive projects as the steel plants, in fact, are. The management also works under severe constraints like undue political interference, frequent labour disputes etc.

5. **The demand constraint.** The steel industry has faced rough time during a number of recent years due to a slump in demand following reduction in government's planned expenditure, lack of investment in the housing and infrastructure sectors, and additional capacity creation based on assumed growth in consumption which did not materialise. As a result, there was huge piling up of inventories resulting in downward pressure on prices and deep erosion in the profitability of the steel producers. The latest instance of this was the latter half .of the year 2008-09 when the domestic demand for steel was adversely impacted by economic slowdown and, in particular, by slackening demand in some of its leading end-use segments. As a result, domestic steel prices started declining from September 2008 and the pace of growth of production slowed down considerably.

6. **Menace of dumping.** Already in distress over the failure of domestic demand to increase, the misery of the Indian steel industry was compounded by the alarming downtrend in international price during the late 1990s. In respect of certain steel products, the decline in prices was as much as 30 to 40 per cent. This led to unhealthy practices like dumping which pulled down domestic prices and eroded the bottom line of the local steel makers. The lower tariff regime in the current era of liberalisation and the unrestricted import of all iron and steel material under the new export-import policy made things worse for the domestic producers of steel. What is more worrying is the feet that seconds and defective grades of steel were dumped into the economy. These were no match to the quality products turned out by the Indian steel mills but spoiled the market of domestic steel makers.

   The Eleventh Five Year Plan has listed the problems faced by the steel industry as follows : "depleting iron ore resources, inadequate availability of coal, inadequate sintering and pelletisation capacities and poor transport infrastructure for movement of raw materials." Outlay for the steel sector in the Eleventh Plan has been kept at Rs. 37,318 crore.

Facing the Challenges

To face the problems mentioned above, the Indian steel industry has adopted a multi-pronged strategy consisting of the following steps:

1. **Control raw materials.** To tackle the problem of rising costs of raw materials, the Indian steel companies are devising strategies to 'control' raw materials. For example, companies are acquiring captive iron ore mines to control iron ore supplies. For instance, Jindal South West (JSW) is making efforts to source at least 50 per cent of its iron ore requirements from its captive mines in Karnataka. As for coke, companies 'are now setting up their own coke oven batteries where they can manufactule it from raw coal.

2. **Integrate.** India's companies are also engaged in backward integration to mitigate risks. For instance, Bhushan Steel and Strips buys hot-rolled

steel — used to manufacture high-end cold rolled and galvanised steel — from the market. Now it is setting up a 3 million-tonne hot-rolled steel manufacturing plant in Orissa. Another area of backward integration is power. For example, in 2005-06 JSW commissioned a 100-MW captive power plant in Vijayanagar, which helped reduce power costs by nearly 25 per cent.

3. **Engineer the finances.** Steel is a capital intensive industry and many companies resort to long-term loans. The recent upturn in the sector enabled many companies to pay off their long-term debts early and in general, interest payments have also come down. Thus, companies are saving through debt restructuring.

4. **Expand.** The massive expenditure on infrastructure development has created extensive opportunities for the steel companies (for example, Phase I of National Highways Development Programme alone led to a demand for 1 million tonne of steel). To benefit from these opportunities, companies have started expanding capacities. For exampla, SAIL has embarked upon a Rs. 35,000. crore expansion plan. Similar expansions are being undertaken by Tata Steel (which recently acquired Corus), JSW, Mukand, Bhushan Steel etc.

Since India has significant resources of iron ore and coal. India is an attractive destination for global steel companies such as Pasco and Mittal Steel. Therefore, smaller Indian companies can be subject to hostile bids from these global player’s. To stave off this danger, it is expected that consolidation in India will happen among the domestic players in near future.

National Steel Policy, 2005

The Government of India approved the National Steel Policy (NSP) 2005 in October 2005. The long-term goal of NSP is to ensure that India has a modern and efficient steel industry, capable of standing upto international competition and catering to the growing domestic demand for steel. The NSP envisages a threefold role for the State in the now deregulated Indian steel industry — (1) as a catalyst for"triggering" domestic demand, (2) as a facilitator to do away with supply-side constraints, including the finance constraint, and (3) as a coordinator to "manage" the external environment effectively, However, as correctly pointed out by Economic and Political Weekly, success on all these fronts is suspect. For example, it is not clear how the government can boost the domestic demand for steel with the FRBM (Fiscal Responsibility and Budget Management) Act in place and neo-liberal ideology dictating fiscal conservatism. As far as doing away with supply-side constraints is concerned, this would imply heavy financial assistance and commitments to private sector capitalists who decide to invest (particularly due to the capital-intensive nature of the steel industry). This would put pressure on the resources of financial institutions and push up their non-performing assets (this is what happened in the first half of 1990s when initial deregulation of the steel industry had led to a surge of investments in the sector). As far as "managing" the external environment is concerned, the NSP has no strategy in dace. It has nothing concrete to say about how India plans to deal with steel-industry-related subsidies, dumping, and the filing of anti-dumping and countervailing duty cases. Overall, the NSP simply lacks substance.

15.4 TEXTILE INDUSTRY

Textile industry is the largest industry of modern India. It contributes about 4.0 per cent of GDP, 14 per cent of total industrial output and provides employnmend to over 35 million people. Together with allied agriculture sector, it provides employment to over 82 million people. The contribution of this industry to export earnings of the country is about 12.5 per cent. It is the only industry which is self-reliant, from raw material to the highest value added products, viz., garments/ made-ups. The first cotton mill was set up in Kolkata in 1818. However, the industry made a real beginning in 1854 when a cotton mill was set up in Mumbai. In fact, the industry got localised in Mumbai and Ahmedabad as would be clear from the fact that in 1911 Mumbai City had 33 per cent of the total number of mills and provided employment to 45 per cent of the total workers of the industry. Ahmedabad had 19 per cent of the mills and provided employment to 13.6 per cent of the workers. Outside Mumbai City, some mills were located in Sholapur, Baroda and other minor local centres in Mumbai State. In the United Provinces (Uttar Pradesh), Kanpur had 5 large mills and dominated the industry of UP. In the post-

Independence period, important centres of this industry have been Mumbai, Ahmedabad, Sholapur, Kanpur, Kolkata. Indore and Coimbatore.

India's textile industry continues to be predominantly cotton based, more than 56 per cent of fabric consumption in the country being accounted for by cotton (as against the world average of 46 per cent).

Expansion of the Textile Industry

There are four sectors in the textile industry — mill sector, powerloom sector, handloom sector and hosiery. The latter three are jointly considered under the heading `decentralised sector'. Over the years, the government has granted many concessions and incentives to the decentralised sector with the result that the share of this sector in total production has increased considerably. For example, while the share of the mill sector in total cloth production was 80 per cent in 1950-51, it fell to 50 per cent in 1980-81 and further to 3.3 per cent in 2009-10. The share of the decentralised sector correspondingly rose from 20 per cent in 1950-51 to 96.7 per cent in 2009-10. Of the total output of 59,809 million square metres of textiles in 2009-10, the share of the mill sector was only 1,961 million square metres — the rest 57,848 million square metres being contributed by the decentralised sector.

Of the three sub-sectors — handlooms, powerlooms and hosiery — in the decentralised sector, it is the powerlooms sub-sector that has grown at a faster pace. For instance, in 2009-10, the share of powerlooms in total textile production was as large as 61.3 per cent while hosiery contributed 22.8 per cent and handloom 11.3 per cent. There are many reasons for the. fast development of the powerloom sub-sector : (i) government's favourable policies on synthetic fabric industry; (ii) ability of this sub-sector to introduce flexibility in the product mix in line with the market situation; (iii) low labour costs achieved indirectly through the flexible use of labour itself resulting in lower cost of production : and providing an edge in the market; and (iv) increase in exports from the powerloom sub-sector.

NEW TEXTILE

With the aim of developing the four sectors of the industry, viz., mills, powerlooms, hosiery and handlooms in an integrated manner, the government announced a new Textile Policy in June 1985. The main objective of this policy was to enable the industry to increase production of cloth of good quality at reasonable prices for the vast population of the country as well as for export purposes. A Textile Modernisation Fund of Rs. 750 crore was created in 1986 to meet the modernisation requirements of the textile industry. A Textiles Workers' Rehabilitation Fund was set up to provide interim relief to workers rendered unemployed as a consequence of permanent closure of the textile units. Another measure of significant importance has been the delicensing of the textile industry as per the Textile (Development and Regulation) Order 1993. Under the new policy, prior approval of the government is not necessary to set up textile units including powerlooms. The Technology Upgradation Fund Scheme (TUFS) was launched in 1999 to enable textile units to take up modernisation projets, by providing an interest subsidy on borrowings. Under TUFS, loans worth Rs 85,091 crore were disbursed to 28,302 applicants upto June 30, 2010. National Textile Policy 2000 targeted increase in textile and apparel exports from $ 11 billion to $ 50 billion by 2010 with the share of garments at $ 25 billion. Scheme for Integrated Textile Parks (SITP) was launched in 2005. Under this scheme, 40 integrated textile parks of international standards, covering weaving, knitting, processing and garmenting sectors with project proposals worth Rs. 4,133 crore have been sanctioned. So far, eight textile parks have heen inaugurated.

A new scheme, namely the 'Integrated Skill Development Scheme' for the textiles and apparel sector including jute and handicraft was launched on August 5, 2010 with the objective of capacity building of institutions providing skill development and training for workers in the textiles sector. The scheme envisages an investment of Rs. 272 crore, of which the Government contribution would be Rs. Rs. 229 crore during 2010-11 land 2011-12 with a target of 2.56 lakh persons to be trained.

Problems of Textile Industry

1. **Availability of raw materials.** The Indian textile industry continues to be predominantly cotton based. This would be clear from the fact that cotton

accounts for more than 73 per cent of the total fibre consumption in the spinning mills and 56 per cent of the total fibre consumption in the textile sector. Naturally in those years when the production of raw cotton is small, the cotton textile industry faces a serious problem. The target of raw cotton was kept at 7 million bales in the Third Plan but the achievement was merely 4.9 million bales. There were extreme shortfalls in some other plans as well. Such shortfalls in the production of raw cotton as compared to the targets affected the expansion programmes of the textile industry adversely. However, things have now changed. From period of low level of output and shortages, raw cotton has now reached an era of self-sufficiency with production touching the level of 23.9 million bales in 2009-10. The cause for concern now is the fluctuating and highly volatile prices of cotton month after month. Such large fluctuations adversely affect the decentralised sector and handoom weavers in particular.

2. **Poor quality and low productivity of cotton.** Productivity of cotton in India is very low. In fact, cotton yield is only around half of the world average (in comparison with China, the productivity is just one-third). Not only this. Cotton cultivation is done in India by small farmers with very small farms and with improper technology and methodology. Outdated farm practices and poor maintenance of the market yards have earned Indian cotton the label of the world's most contaminated cotton. This poor quality of cotton is creating difficulties for the spinning industry.

3. **Outdated plant and machinery.** Since the cotton textile industry is fairly old in India and a number of mills were set up long back, the machinery and equipment have grown old and outdated and need fast replacement. Production with the help of such outdated machinery results in higher costs and poor quality of product. According to a study by Doraisamy, out of 35 million spindles installed in the country, as many as 9 million need to be scrapped while another 16 million need modernisation of varying degrees.

4. **Fiscal structure skewed against modern, in the grated mills.** The fiscal structure in India has been biased against the modern, integrated mills with the result that the organised textile industry has not been able to attract much investment. in modernisation in the last three-four decades. Both in weaving and processing we have small and tiny units dominating the sector with outmoded technology and sub-optimal scales. In the process of trying to protect what should be marginal segments of an expanding industry in which India traditionally has had competitive advantage, fiscal policy has been killing the industry itself. The net result is that India is left without domestic production of quality textiles needed by the largest and most Iucrative segments of the garment trade.

5. **Interest burden and NPAs.** With steady erosion in their profits, most mills find it difficult to repay their loans. Most of these loans date back to early 1990s when interest rates ranged from 16 to 18 per cent. Today, the textile industry accounts for a significant portion of the NPAs (non-performing assets) of the banking sector in the country (in fact, it has the dubious distinction of having made the maximum contribution to the NPAs of the banking sector). For a large number of technically viable mills, the pressure of unbearable interest burden has been the limiting factor to growth (expansion and modernisation) and even to survival.

6. **Labour problems.** The cotton textile industry has been faced with frequent labour problems. While some problems of labour are genuine it is no doubt true that the cotton textile mills have become the playground for personal rivalries and the testing ground for some political groups. Protests from labour have also come in way of modernisation of textile mills due to fear of displacement and unemployment. For instance, according to one estimate, a single worker can oversee 48 automatic looms while he can manage only 6 non-automatic looms. The problem is aggravated by the fact that due to stagnant demand conditions, there is litle possibility of the displaced labour being employed else where in the sector.

7. **Eroding cost competitiveiniess.** India suffers from a competitive disadvantage vis-a-vis its competitors like China, Pakistan and Taiwan. For example, compared with China and Pakistan, Indian salaries and wages are higher. by 30 to 60 per cent. It is also estimated that Indian spinners pay 100-150 per cent more than their competitors for their power, making power cost 12 per cent of the production cost as against 5-7 per cent of the competition:

8. **Dismantling of MFA and India's export prospects.** Since January 1,1974 the textile and clothing industry came to be governed by MFA (multi-fibre arrangement). The MFA handed countrywide quotas for exports of textiles. India had bilateral arrangement under MFA with USA, Canada, Australia, countries of the European Union, etc. More than 70 per cent of India's clothing exports were to quota coantries of USA and EU. However, in accordance with the Agreement on Textiles and Clothing (ATC), 1995 (which is a part of WTO agreements), the MFA was dismantled with effect from January 1, 2005. This opened up the textile industry to free competition at the international level from January 1, 2005 for the first time in 30 years. There was a wide consensus among many economists. that China and India will gain from this. Garment shops set up in small countries to take advantage of quotas will die; India and China — with their investment capacity, cotton and synthetic fibres, and economies of scale — will sweep the board. Within one year of the MFA regime coming to an end, Indian textile exports grew at a rate of 22 per cent. However, Indian textiles and clothing exports faced many ups and downs after that, initially due to appreciation of Indian Rapee in 2007-08 and subsequently on account of global meltdown. Moreover, the performance of India's textiles continues to lag substantially behind that of China in of rate of growth of exports and share in world textile exports. While China has created huge capacities and capitalised on economies of scale, India has an incredibly fragmented industry which is simply not geared to meet the challenges of a rapidly changing

global industry. There are hundreds of thousands of powerloom units producing most of the fabrics in the country with the share of the organised mill industry being negligible. How can this miniscule million sector pull up the entire industry? It is also to be noted that while China is moving aggressively towards modernisation and upgradation and pumping in large sums of money in building up its textiles- and clothing industry, the Indian industry has shown Complacency and distinct lack of enterprise. China's industry also has a cost advantage and better infrastructure. Therefore, many experts have argued that India will lose out the race to China."

Sugar Development Fund

Under the Sugar Cess Act 1982, a cess of 14.00 per quintal is collected on all sugar produced in the country and an amount equal to the same is credited in the Sugar Development Fund (SDF) created under the SDF Act 1982.

15.5 CEMENT INDUSTRY IN INDIA

India has been considered as the world's second largest producer of cement after China with cement companies adding nearly 8 MT capacities in April 2009, taking the total installed capacity to 219 MT and despatch of 16.65 MT during the years 2008-09. The cement industry has been one of the fast growing sectors in India with CAGR of 13.4 percent between the years 1998 and 2008. The cement industry have added 40-45 MT of capacity in this fiscal resulted in 21 percent increase over the installed capacity at 212 MT in the year 2008-09. In terms of quality, productivity and efficiency. the cement industry in India was compared best in the world. It has been almost entirely home grown built indigenously and using locally sourced inputs. In other words the hardware and software that run the industry are mostly Indian Barring one or two exceptional years, its performance in the last two lecades has been quite consistent and commendable in terms of modernisation expansion. growth in production. improvements in productivity and cost efficiency.

Evolution of the Indian Cement Industry

The story of the evolution of the Indian cement industry is rather long During its long journey ceement industry has seen many ups and downs. The evolution of cement industry has been presented hereunder.

The Beginning of Indian Cement Industry

The attempt to produce cement in India dated back to the year 1889. When a Calcutta Firn, attempted to produce cement fromt Argillaceous (Kankar). But the first organized effort on mass scale to manufacture cement has commenced in Madras (Washermanpet), in the year 1904 by South India Industries Limited. The factory could not succeed and hence, it failed. However, it was in the year 1914, the first commissioned cement-manufacturing unit was set up by India Cement Company Limited at Porbandar, Gujarat with an installed capacity of 10,000 tonnes and production of 1000 tonnes. Subsequently two plants; one at Katni (Madhya.Pradesh) and another at Lakheri (Rajasthan) were set up. The First World War had given the positive stimulus to the infant industry. After the First World War, the cement industry has seen more number of plants, installed capacity and production. This period could be called as the nascent stage of Indian cement industry.

The problem of supply outstripping demand was significant in the early period of the industry. Problem of disposal of cement was aggravated by the prejudice with which indigenous cement was regarded. This was followed by a price war between the producers where they resorted to cutting down the prices and selling below the production cost. This situation has forced many cement companies in India into liquidation.

In this stage, the Government of India has intervened into the market and referred the cement industry to the tariff board. The board has recommended the protection of cement companies by Government and sought cooperation among the existing cement units. All these events have resulted in formation of Indian Cement Manufacturers Association in the year 1925, whose main function was to regulate the prices in the industry. In the year 1927. Concrete Association of

India was formed. whose two main objectives were to educate the public about the use of cement and to play an active role in popularizing the Indian cement. The next step in the direction of rescuing cement industry was the formation of Cement Marketing Company of India Limited in the year 1930 to promote and control the sale and distribution of cement at regulated prices.

After all these initiatives, the sale of cement has increased along with more plants. In the year 1936, eleven companies, except Valley Portland Cement Company Limited, merged to form an Associated Cement Company Limited (ACC). In the year 1937. Dalmiya Jain Group has setup five factories with the installed capacity of 575000 tonnes and ACC have added four more plants. With all these expansions. price war has again started off which resulted into significant decrease in prices. But in the post world war period, Independence of the country has led to the setting up of Department of Planning which provided fresh impetus to the cement industry.

The price control system on cement, implemented in the year 1956, aimed at ensuring fair prices to producers and consumers all over the country, thus reducing regional imbalances and at reaching self-sufficiency within a short period of time. Although due to slow growth in capacity expansion and rising cost in the industry, the Government had to increase the fixed price of cement several times. However, these price increases. as well as, financial incentives to enhance investment showed little effect on the industry. In spite of the fact that Government exercised no control over the Indian cement industry all through the Third Five Year Plan (1961-67), growth was low due to inadequate retention price and lack of adequate financial resources to the existing cement companies.

Control Phases of Indian Cement Industry

The cement industry has been controlled by the Government of India from the years 1969 to 1982. decontrolled during the years 1982 and 1989 and fully decontrolled from the year 1989 onwards by the Government of India. The periods from control to decontrol of Indian cement industry has been summarized below :

Control Period (1969-1982)

The Indian cement sector had been under strict Government control for almost whole period. Government intervention took place both directly and indirectly. Direct intervention happened in the form of Government control over production, capacity and distribution of cement, while indirect intervention took place in the form of price control. During this period, many companies and their plants started off but still growth was not witnessed at the desired rate. In the year 1977, higher prices of cement were resulted in more cement production by new plants and major expansions of existing plants. The uniform price imposed by the Government was substituted by a three-tier price system in the year 1979 due to slow growth in cement industry. Different prices were assigned to cement produced in low, medium and high cost plants.

However. further increases of input costs could not be neutralized adequately. Thus, controlled price did not reflect in the true economic cost and profit margins have reduced considerably, preventing essential investments in capacity and production expansion. A permit system was introduced by 14 states and union territories in the period which comprised direct control over public distribution of cement to ensure fair supplies to priority sectors. However. this system has resulted in artificial shortages, extensive black-marketing and corruption in the civil supply departments of the Government.

The system of price control was accompanied by a policy of freight pooling. The price control fixed a uniform price according to the estimated production costs at which cement was required to be sold all over the country. This price contained a freight component that was averaged over the country as a whole. This freight pooling system has promoted equal industrial development all over the country. It supported the regional dispersion. Yet, it has resulted that producers had no incentive in locating production in such a way that transportation costs of cement would be minimized. Market distance became a less important issue. As a result of non-optimal location of industry, average costs of production, as well as, demand for scarce railway capacity for transportation has increased.

Partial Decontrol (1982-1989)

On account of the difficulties faced by the cement industry during control period, the Government of India has introduced a system of partial decontrol in the year 1982. A levy quota of 66.6 percent for sales to Government and small house builders was imposed on existing units, while for new and sick units a lower quota at 50 percent was established. The balance of 33.4 percent could he sold in the free open market to general consumers. A ceiling price was set up for sales in the open market in order to protect consumers from being exploited with unreasonable pricing, of cement. Under the system of partial decontrol, freight pooling has no longer covered non-levy cement. Furthermore, specific mini units were completely freed from price and distribution controls. Although overall profitability has increased substantially after the introduction of partial decontrol, profits obtained through non-levy sales has decreased with greater availability of cement in the market and rising in input costs.

To sustain an accelerating course in cement industry, the Government has subsequently introduced changes in levy obligations and retention prices regularly. As a result, in the year 1988, the levy quota was as low as 30 percent for units established prior to the year 1982 and the retention price had increased substantially. In the year 1987, the Cement Manufacturers Association and the Government have decided that there was no further necessity for a maximum price ceiling.

Total Decontrol (1989 onwards)

Finally, in the year 1989, the cement industry was considered to be ready for free market competition. All price and distribution controls on sale of cement were withdrawn. The system of freight pooling was abolished and a subsidy scheme to ensure availability of cement at reasonable prices in remote and hilly regions of the country was worked out. The industry was then de-licensed in July 1991 under the policy of economic liberalization. By removing all controls on the cement sector, the Government has hoped to accelerate the growth and induce further in vestments in modernization and expansion. It was after this decontrol, the Indian cement industry has moved towards globalization with increasing, emphasis on exports. The expansion of the industry was evident after the decontrol, where capacity, as well as, production have increased manifold. Growth was boosted in the Indian cement industry from 91 plants and 43 MT of production in the ear 1989-90 to 132 plants and 161.66 MT production in the year 2006-07 (CMA 2007). Total capacity utilization for the industry has also increased from 78 percent to 91 percent during the same period.

The evolution of the industry during the Five Year Plans could he seen from the following Table.

Table-1

Growth of Cement industry in India during five year plans

End of the Plan Period	Capacity (MT)	Production (MT)	Capacity Utilization
			(%)
Pre- Plan Period (1950-51)	3.28	2.20	67
Ist Plan (1955-56)	5.02	4.60	92
2nd Plan (1960-61)	9.30	7.97	86
3rd Plan (1965-66)	12.00	10.97	91
4th Plan (1973-74)	19.76	14.66	74
5th Plan (1978-79)	22.58	19.42	86
6th Plan (1984-85)	42.00	30.13	72
7th Plan (1989-90)	61.37	45.42	74
8th Plan (1996-97)	105.26	76.22	72
9th Plan (2001-02)	145.99	106.90	73
10th Plan (2006-07)	177.83	161.66	91

Source : Hand book on Cement and Concrete Roads. Government of India

Table 2 indicated that the capacity have risen from 3.28 MT to 177.83 MT from pre-plan period to tenth five year plan. The production has increased from 2.20

MT to 161.66 MT in the same period. The capacity utilization has increased from 67 percent in the pre-plan period to 91 percent in the tenth five year plan. This showed that the cement industry in India has been growing at a faster pace and there seems to be abundant growth opportunities in the industry in the years to come.

Performance of the Indian Cement Industry

In Indian cement industry, price and distribution controls were removed on 1st March 1989 and licensing was abolished since 25th July 1991. These measures have resulted in fresh impetus to the key infrastructure industry However. the performance of the industry has improved only after the year late 1990s guiding, the industry to a newer height. The process of improvement in key performance indicators of the industry could be analyzed during the changing policy regimes of the Government. All the indicators were grouped into primary and other indicators. These indicators have clearly reflected the growth in performance of cement industry during the period of control and decontrol.

Primary Indicators

In order to study the growth of primary indicators, Compound Annual Growth Rates (CAGR) was computed as per the semi-log method for 38 years from the years 1970-71 to 2007-08. The kinked exponential growth model (Boyce 1986) was also used to estimate the growth rates for the two sub-periods i.e. from the years 1970-71 to 1988-89 which reflects the control period and from the years 1989-90 to 2007-08 which represents the decontrol period.

Installed Capacity

The installed capacity of the Indian cement industry has continuously shown an increase over the period. The industry started with 0.0010 MT of installed capacity in the year 1914 and reached 3.28 MT. in the year 1950 and 9.30 MT in the year 1960. The growth in the capacity has been traced from the year 1970 onwards when the industry fell in the hands of Government control. In the period between the years 1970-71 and 1988-89, the installed capacity of the cement industry grew from 17.61 MT to 58.97 MT with the CAGR of 7.47 percent. The remarkable growth in the capacity of cement industry was due to producers' expectation of growing markets. But due to various Government controls and lack of adequate demand, the growth of the industry was not moved on the desired rates. This resulted in over-supply and low capacity utilizations. In the period after total decontrol till the year 2007-08, although the capacity increased at rates approximately equal to previous period at 7.09 percent annually, it could hardly match the pace. Even then, this scenario was considered good for capacity utilizations as production increased at greater rates. The CAGR in the total period of 1970-71 to 2007-08 was noticed at 7.28 percent.

Capacity Utilization

It was interested to analyse the trend in capacity utilization of the cement industry as there were many fluctuations all through the period. Starting with 10 percent in the beginning of the industry, the capacity utilization has peaked around 99 percent in the year 1937-38. But this could not be sustained and the capacity utilization fell sharply to 67 percent in the year 1950 and improving marginally in the following two decades. The period of controlled market, as mentioned before, was characterized by oversupply in the industry which got reflected in negative CAGR of 0.73 percent. The whole period from the year 1970-71 to 1988-89 saw fluctuations, moving utilization levels to, as low as, around 65 percent in some years. But after total decontrol, there was some sort of upturn in this trend due to increased production levels and the CAGR went up to positive as 0.93 percent. It may be mentioned here that the capacity utilizations have been at their highest only after the year 1999-2000 when it reached 85 percent and it was further increased after the year 2004-05. In January 2007, it even went up to 100 percent, highest ever, guiding it to the average of 94 percent for the financial year. This became possible. only because, the installed capacities did not increase as much as production did and finally, it led to bridge the gap between supply and demand. The overall period CAGR was just above the positive mark at 0.10 percent in the years 2008.

Table 2

Trend in Primary Performance Indicators of the Indian Cement Industry

Year	Installed Capacity (MT)	Production (MT)	Capacity Utilization %	Export (MT)	Per Capita Consumption (Kgs)
1970-71	17.61	14.40	81.77	1.78	26
1971-72	19.56	15.10	77.20	2.66	28
1972-73	19.76	15.60	78.95	2.08	28
1973-74	19.76	14.70	74.39	2.05	26
1974-75	20.06	14.80	73.78	1.32	24
1975-76	21.16	17.30	81.76	3.36	36
1976-77	21.46	18.80	87.60	7.25	29
1977-78	21-91	19.40	88.54	8.27	29
1978-79	22.56	19.42	86.08	0.66	32
1979-80	24.29	17.60	72.46	0.50	30
1980-81	27.92	18.66	66.83	0.74	30
19881-82	29.26	21.10	72.11	0.26	32
1982-83	34.39	23.30	67.75	0.05	32
1983-84	37.04	27.00	72.89	0.06	36
1984-85	42.00	30.13	71.74	0.29	44
1985-86	44.39	33.13	74.63	0.47	39
1986-87	54.40	36.40	66.91	0.48	44
1987-88	57.47	39.37	68.51	0.00	47
1988-89	58.97	44.08	74.75	0.31	51
1989-90	61.55	45.41	73.78	1.43	54
1990-91	63.96	48.76	76.24	2.54	57
1991-92	66.56	53.61	80.54	2.88	63
1992-93	70.09	53.72	76.64	6.65	61
1993-94	76.88	57.96	75.39	19.87	62

1994-95	82.69	62.35	75.40	16.95	65
1995-96	97.25	69.57	71.54	15.70	72
1996-97	105.25	76.22	72.42	19.70	78
1997-98	109.30	83.16	76.08	26.80	82
1998-99	118.97	87.91	73.89	20.60	85
1999-00	119.10	100.45	84.34	19.50	97
2000-01	130.40	97.61	74.85	31.50	99
2001-02	146.13	108.40	74.18	33.80	97
2002-03	151-17	116.35	76.97	34.70	106
2003-04	157.48	123.50	78.42	33.63	110
2004-05	164.69	133.57	81.10	40.71	115
2005-06	160.24	141.81	88.50	60.07	125
2006-07	165.22	155.31	94.00	58.70	136
2007-08	198.00	168.00	94.00	60.20	164

Exports

The export of Indian cement has increased over the years mostly after decontrol giving the much-required boost to the industry. The demand for cement is a derived demand, for it depends on industrial activity, real estate and construction activity. Since growth has been taking place all over the world in these sectors, export of cement from India has also been increased. India has an immense potential to tap the cement markets of countries in the Middle East and South East Asia due to its strengths of location advantage, large-scale limestone and coal deposits, adequate cement capacity and production of world-class quality of cement with the latest technology.

Hence, the companies in the cement industry has been cashing in on the opportunities provided by the Governmen, accompanied by favourable economic conditions. This was evident by the data which showed the negative Compound Annual Growth Rate of 5.52 percent in the control period because of highly protected markets. The average export volume in the control period was around only 1.7 MT of cement. As the industry was decontrolled and economy has opened up, cement exports started making rapid strides. The period has seen the annual compound exponential growth rate of 35.35 percent. In volume terms. the exports from Indian cement industry has increased from 1.43 MT in the year 1989-90 to 58.70 MT in the year 2006-07. During 2007-08, cement exports of large plants in India have accounted for 0.02 million tonnes".

Per Capita Consumption

The per capita consumption of cement in India was 164 kgs in the year 2007-08. This was very poor as compared to world average of over 250 kgs and per capita consumption of cement in China of 450 kgs per person. This showed that there seems to be room for growth of this industry in India. The process of catching up with international averages emphasizes the tremendous scope for growth in the Indian cement industry in the long term. Also, one of the reasons for strong interest shown by the foreign players in India was due to its lower per capita consumption of cement. The period of 1970-71 to 2006-07 has shown the Annual Compound Growth Rate of 5.15 percent. When seen under two periods of control and decontrol, it displayed much higher growth rates of 9.35 percent in the decontrol period as compared to 1.1.1 percent in the period from 1970-71 to 1988-89. The cement consumption projections by National Council of Applied Economic Research, on a conservative basis, have placed the cement demand of 225.14 MT by the year 2010-11. And if the Government goes ahead with infrastructure projects in a big way as planned, the consumption is pegged to be at much higher levels of 291 million tonnes. This will surely increase the current per capita consumption of cement in India.

Table 3

CAGR of Primary Performance Indicators

(In Percentage)

Indicators	Total Period (1970-71 to 2006-07)	Control Period (1970-71 to 1987-88)	Decontrol Period (1988-89 to 2007-08)
Installed Capacity	7.28	7.47	7.09
Production	7.39	6.69	8.09

Capacity Utilization	0.1()	- 0.73	0.93
Exports	13.10	- 5.52	35.38
Per Capita Consumption	5.15	1.11	9.35

It could be seen from the above analysis that the performance of primary indicators in the Indian cement industry has been very impressive during the years. The Compound Annual Growth Rate (CAGR) of the industry has been good in the overall period showing better performance in the decontrol period than in the control period. The only exception to this was that the installed capacity growth rate which was slightly higher in the control period leading to oversupply in the industry.

15.6 INDIAN ECONOMY AND CEMENT INDUSTRY - A CLOSE RELATIONSHIP

The Cement industry in India has been a major contributor to India's Economic Development. The demand in growth of cement has contributed significantly to the GDP growth of the country over the years. This was evident from the following table.

Table-4

Relationship between Indian Economy and Cement Industry

Source : Government of' India, Economic Survey. (2007-08), New Delhi, p.256.

Year	GDP Growth %	Cement Demand Growth %	Demand (million tonnes)
1994-95	7.3	7.1	56.67
1995-96	7.3	11.1	62.97
1996-97	7.8	8.3	68.17
1997-98	4.8	8.4	73.89
1998-99	6.5	7.9	79.77
1999-00	6.1	15.4	92.05
2000-01	4.4	–1.9	90.28

2001-02	5.8	9.7	99.01
2002-03	3.8	8.7	107.59
2003-04	8.5	5.8	113.86
20U4-05	7.5	8.1	123.08
2005-06	9.4	10.1	135.56
2006-07	9.6	10.2	149.36
2007-08	9.0	9.8	164.03

Region-wise Concentration of Cement Industry in India

The following table showed region-wise concentration of cement industry in India.

Table-5

Region-wise Cement Industry in India (as on 31-03-2008)

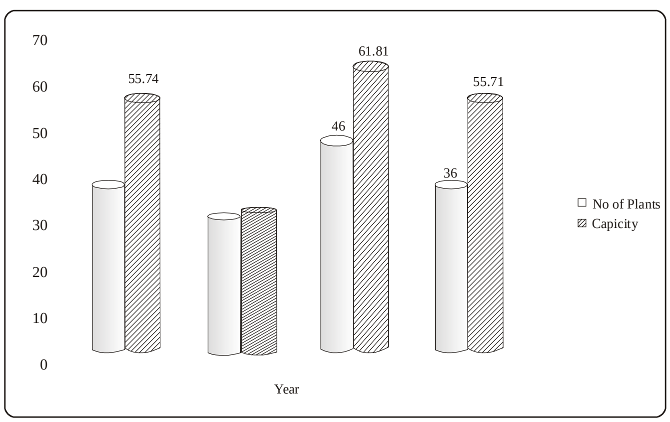
Region	State	No. of Plants	Capacity (million tonnes)
Northern	Rajasthan	16	32.35
	Uttar Pradesh	8	8.27
	Haryana	3	2.47
	Himachal Pradesh	3	6.20
	Punjab	3	4.75
	Delhi	1	0.50
	Jammu and Kashmir	1	0.20
	Uttarakhand	1	1.00
	Total	**36**	**55.74**
Eastern	Chhattisgarh	9	12.01
	West Bengal	6	5.33
	Jharkhand	5	5.14
	Meghalaya	4	1.55
	Orissa	3	3.76
	Bihar	1	1.00
	Assam	1	0.20

	Total	29	28.99
Western	Gujarat	11	18.74
	Madhya Pradesh	10	19.89
	Maharashtra	8	13.10
	Total	**29**	**51.73**
Southern	Andhra Pradesh	23	29.37
	Tamil Nadu	13	18.23
	Karnataka	8	13.62
	Kerala	2	0.62
	Total	**46**	**61.84**
	Grant Total	**140**	**198.30**

Source: Madhubala (2002). Cement Industry in India : Policy. Structure and Performance Commonwealth Publishers, New Delhi. p.37

From the table 5, it was observed that 32.86 percent of the total cement companies were situated in the southern region which accounted for 31.19 percent of the total capacity. The total cement companies situated in the northern region was 25.71 percent which accounted for 28.11 percent of the total capacity, followed by 20.71 percent of total cement companies in the western region which accounted for 26.09 percent and 20.71 percent of total cement companies in eastern region that accounted for 14.62 percent.

Chart



Region-wise Cement Industry in India

Government Initiatives to Strengthen the Indian Cement Industry

Government initiatives in the infrastructure sector, coupled with the housing sector boom and urban development, continue to be the main drivers of growth for the Indian cement industry. The measures taken by the Government in this regard has been summarised below :

- Increased infrastructure spending has been a key focus area over the last five years indicating good times ahead for cement manufactures.
- The Government has increased budgetary allocation for roads under National Highways Development Project (NHDP).

Appointing a coal regulator is looked upon as a positive move as it will facilitate timely and proper allocation of coal (a key raw material) blocks to the core sectors, cement being one of them.

Problems of Cement Industry in India

The cement industry in India has been experiencing the variety of problems, such as burden of high tariffs, poor quality of coal, shortage of power, transportation, demand constraints, underutilization of capacity and cement technology. These problems have been highlighted below.[11]

Burden of high tariffs

The cement industry has been facing high tariffs, high excise duty, sales tax. royalty on limestone and coal etc. The excise duty on cement has been steadily rising Cement has been a heavily taxed sector with both the central Government and the State Governments levying taxes. The major taxes levies comprise excise duty. sales tax levied by the respective State Goverments royaliy and cess on limestone and coal and duties on power tariff. these duties account (For around 30 percent of the sale price of cement or around 70 percent of the ex-factory price (excluding local transport and dealers. margin). The excise revenue collection from the cement industry has shown an increasing trend over the years. The duties in India (relative to the selling price of cement) have been the highest in the world.

Poor quality of coal

Coal has been considered as one of the imporiant input in the cement industry and accounts for 15 percent to 20 percent of cash expenses in the manufacture of cement. On an average, 250 kg of coal is being required to produce one tonne of cement. Coal in India has to be moved over to longer distances of 1,000 to 12.000 km to some plants in North, South and West regions of India. There has been a severe shortage of coal in the cement industry. The quality of coal supplied to cement units has also been highly unsatisfactory as only D; E and F grades of coal were being supplied to these units. The ash content in Indian coal has been very high and this restricts production. To meet the twin problems of shortage or coal and poor quality of coal (due to high ash content), the emphasis on import of coal is now being increased. However, this option, in addition to involving expenditure of foreign exchange reserves, has placed those cement plants located far from ports at a disadvantaged position as they have to incur extra freight and handling charges.

Power shortage

Power is another important requirement and forms 40 percent of the total cost, along with coal. Power cuts, erratic and inadequate power supply from State Electricity Boards have created serious problems for cement units. This is all the more so as the production of cement has been a continuous process requiring uninterrupted power supply to operate efficiently. To cope up with the problem of power shortage, cement companies have been obliged to make heavy investments in captive power generation plants and also auxiliary generation in wind farms, particularly in plants located in coastal areas.

Transportation Problem

Transportation costs make up around 20 percent. of the total cement price. the industry predominately depends on railways, but due to the shortag of wagons, cement dispatches by rail have declined over the years. The Indian Railways has introduced "Own Your Wagon (OYW) Scheme', wherein the cement companies have been allowed to purchase wagons. This has led to some marginal improvement and has enabled the cement companies to tide over distribution bottlenecks.

However, the increased distribution cost forces the cement companies to pass on costs to the customers.

Demand Constraints

Till the year 1990-91, the demand for cement was mainly dependent on Government spending as the Government with 40 percent intake was the single largest consumer of cement. However, due to financial constraints, the Government was forced to cut down the wide range of development activities. This resulted in a demand constraint. In recent years, the policy of liberalization and the opening up of the infrastructure to the private sector and the foreign sector, have given new hopes of substantial expansion in demand of cement (in the expectation that large-scale construction activity will be taken up on mega projects, such as irrigation, power houses, roads, railways, bridges. housing and commercial establishments). As a consequence, massive investments in the setting up of new units and expansion of existing units in the cement industry have taken place in recent years. pushing up the production capacity and actual production level of cement considerably. However. demand has grown much below the expectations during the last few years due to various factors like poor demand from Government departments due to resource crunch, poor state of real estate business, the reluctance of both private entrepreneurs and foreign investors to invest in infrastructual projects. political instability etc.

Underutilization of capacity

Underutilization of capacity has been a recurrent feature of cement industry. A study conducted by Economic Times Research Bureau on capacity utilization in cement industry in different regions showed that the capacity utilization of cement plants in the Northern region was 100 percent, in the Eastern region 82 percent, in the Western region 81 percent and in the Southern region 89 percent in the year 2007-18. This showed that under-utilization of capacity has been particularly noticed in the cement plants located in the Eastern region and Western region. One of the main factors accounting for low capacity utilization in these regions has been the demand constraint. Because of under-utilization of capacity, the cement plants have not been able to reap the benefits of economies of scale. Thus, they have not able to minimize costs at their prevailing levels of production. They also waste scarce resources like power, skills and so on which hurt the bottom line in the long run.

Cement Technology

In the year 1986, 56 percent of the cement plants were employing the uneconomical wet process. Due to the high labour and maintenance costs and smaller size, these plants were incurred high cost of production. Not only this, on the basis of the cement production of 33 MT achieved in the year 1985-86. the obsolete technology resulted in wastage of over 2.5 MT of coal and 800 million units of electricity. In recent years there has been a gradual shift from wet process to modern fuel efficient dry process plants. Most of the new plants have adopted the state-of the-art technology and have been implementing modernization to improve the performance of existing plants. This has resulted cement industry made strides in technological up-gradation and assimilation of latest technology.

15.7 AUTOMOBILE INDUSTRY IN INDIA

ln India there was no substantial growth of modern factory industry as the main motive of Britishers was to serve the interest of England. As a result, India inherited a weak industrial base, underdeveloped infrastructural facilities and a stagnant economy at the time of independence, but the railways system had developed by Britishers in India which paved the way, in the process of industrialization. Various inventions of industrial revolution Including steam engine provide a strong base for the development of automobile industry.

Automobile industry is the key driver of growing Indian economy. It facililater the improvements in infrastructure facilities like power, rail and road transport and has strong forward and backward linkage in almost every segment tit of the economy. The automobile structure has strong and positive multiplier effect and has opened wider market areas for business and commerce wee and also reduced the overall cost of transportation by using methods such as mass production, mass marketing and the globalization of production. The easier and faster transportation has enabled the rural to interact with each other, thereby increasing the trade.

In India the first car rolled on the streets of Mumbai in 1898. During the early stages of its development, Indian automobile industry depended heavily on foreign technologies. However, over the years, the manufacturers in India started using their own technologies. Embryonic automotive industry emerged in India in the 1940's. In 1945 a panel of experts was appointed by the government of India to examine the feasibility of automobile sector in India. The automobile industry was called a 'key industry' basic to the country's economic development.

Till 1948 the manufacturers of motor vehicles as distinct from assembly, was not undertaken in India. Mr. M. Visveswaraya the noted, engineer, made an Attempt to set up the automobile industry in India in the mid-thirties but it ended in failure.

With the realization of the need for developing an indigenous automobile in dustry, two pioneer concerns, the Hindustan Motors Limited and the premier automobile Limited were formed in 1942 and 1944 respectively for the specific purpose of automobile manufacture. These two concerns together laid the foundation of the indigenous automobile industry in India.

After Independence, the government of India and private sector launched numerous efforts to create a manufacturing automobile industry. However, growth was relatively slow in the 1950's and 1960's due to the nationalization and license raj which hampered the Indian private sector. After 1970, the automobile industry started to grow, but the growth was mainly driven by the tractors, commercial vehicles and scooters. In 1970's Japanese manufacturers entered the Indian market ultimately leading to the establishment of the Maruti udyog. After then a number of foreign firms initiated joint- venture with Indian companies. In the 1980's a number of Japanese firms launched joint-ventures for building two-wheelers (motorcycles) and light commercial vehicles. It was at this time that the Indian government chose Suzuki for its joint- venture to manufacture small cars. But the initiatives like joint venture did not succeed because India by and large followed a socialistic pattern. The government focused on development through heavy, long gestation, capital intensive projects like steel manufacturing. The quality of the finished goods and customer feedback were not given much priority. As a result the pace of development of the automobile industry did not accelerate at a faster rate.

The automobile industry in India got momentum in 1991 after the announcement of the New Economic Policy. The NEP announced in 1991, besides liberalization of economy and globalization also aimed at building upon the gains achieved, to correct the distortions, maintained a sustained growth in productivity and gainful employment and attain the international competitiveness. The government of India undertook a series of initiatives such as— abolition of industrial licensing, diluting the role of public sector, scrapping of MRTP limit, free entry to foreign investment and technology, abolition of phased manufacturing programmes for new projects, liberalization of industrial location policy and removal of mandatory convertibility clause.

Various initiatives and the liberalization measures taken by the government of India resulted in sustained growth of automobile industry in India. Due to increased competitiveness, relaxed restrictions and gradual weakening of license raj, a number of Indian and multinational companies launched operations. Since then, automobile component and automobile manufacturing growth has accelerated to meet the domestic and export demands. With the liberalization of Indian economy, the automobile industry has achieved a tremendous growth.

Automobile industry was delicensed in July 1991; but the passenger car industry was, delicensed in 1993. With the liberalization of the economy the Indian automobile industry has demonstrated sustained growth as a result of increased competitiveness and relaxed restrictions.

After the delicensing the competition in this industry has increased and in order face stiff competition more focus is required on the new innovation and on more research and development, so that the capacity and speed of the industry to innovate is increased. Along with abundant labour, low cost, favourable exchange rate Indian manufacturers should emphasize on innovations through research and development for sustaining competition on a long term basis. As a result of healthy competition and large market size many international manufacturers will shift their production facilities from high cost regions such as north America and European union to lower cost legions such as India and china. In India due to low cost and high demand factor the automobile industry has large potential for growth. All these factors have contributed to the strong and sustainable growth of automobile industry, which plays an important role in the economic development of India.

In India automobile industry is one of the largest industries which has shown an impressive growth over the years and is significantly contributing to rapid econoomic and industrial development. In wake of changing business scenario this sector has shown great achievements in terms of development, Innovation, new technologies and flexibility. The automobile industry has marked a remarkable improvement in the industrial productivity. It is one of the highest in Indian manufacturing sector and has emerged as a sunrise sector of the economy.

The automobile industry in India is one of the largest in the world and one of the fastest growing globally. In recent years the automobile industry has assumed a special position in the industrial landscape of India. It has demonstrated a vigour and vitality worthy of any engineering industry in the most developed countries. The Indian automobile industry has a well established name globally being the second largest two wheeler market in the world, fourth largest commercial vehicle market in the world, and eleventh largest passenger car market in the world and expected to become the third largest automobile market in the world only behind USA and China. The Indian automobile industry bagged the position of being the ninth largest in the world. India have well-developed, globally competitive auto ancillary Industry, established automobile testing and R&D centers and is among one of the lowest cost producers of steel in the world, manufacturing large number of tractors in the world. The automobile sector has been aptly described as the sunrise sector of the Indian economy as this sector has lincessed tremendous growth.

Staring in 2000, several landmark policy changes like removal of quantitative restriction and 100 percent FDI through automatic route were introduced. Indigenously developed (made in India) vehicles were introduced in the domestic market and exports were given a thrust. Auto companies started collaboration with financial firms to provide auto financing and insurance services to customers. The policies of Indian govt. over the recent past have a significant encouraging impact on the automobile industry. The various policies adopted by the Indian govt. for the growth and development of automobile sector have led to a large no. of foreign investment.

Following a temporary set back on account of global economic recession in 2008 the Indian automobile market has once again picked up. Today the country emerged as 4th largest exporter of passenger cars in Asia. It is second largest manufacturer of two wheelers, world's largest manufacturer of tractors and 5th largest manufacturer of commercial vehicles. The automobile industry has been growing at a rate of 18 percent per year as a result global automobile giants like Volvo, general motors and ford have started looking at India as a prospective hot destination to establish and expand their questions. The increasing opportunities of Indian market on one hand and the stagnation in auto sector in markets of USA, EU and Japan on the other to the auto industry of India. The increasing competition in auto companies has not only resulted in variety of choices for Indian consumes at competitive cists, it has also ensured an improvement in productivity by almost 20 pereent a year in auto industry, which is one of the highest in Indian manufacturing sector.

Recently Ratan Tata, created history by launching the world's cheapest car NANO. The price of the car is around I lakh. It gained instant recognition in the automobile industry across the globe. It's now a well- accepted fact that amongst the rising economies of the world, India became one of the manufacturing hubs in world. The list of manufacturers willing to set up base in India to take the advantage of the relatively lower costs of manufacturing shows that the advantage is viable and the interest is serious. The 11th Auto which took place in India in 2012 marked the entry of many global manufactures in Indian automobile industry.

With the liberalization of the economy, the Indian automobile industry has demonstrated sustained growth as a result of increased competitiveness and relaxed restrictions. The Indian automobile industry after the reforms of 1991 has achieved a tremendous growth. Increased competition in this industry requires special focus on manufacturing more user friendly and low cost vehicles with advanced technology. Automobile manufacturers have designed vehicles which satisfy the needs of domestic as well as international consumer in both existing and emerging markets. Various factors are responsible for the sustainable growth of automobile industry.

1. **Increasing Per Capita Income -** The increasing affluence and per capita of Indian middle class and arrival of better quality cars has led to the strong

growth of automobile industry. With the rising purchasing power the demand for automobiles is rising not only from urban areas but also from semi urban Ind rural areas.

2. **Availability of Low Cost Labour -** Through the availability of the low cost technical manpower and increased focus on quality the Indian automobile industry has emerged as export hub especially in the compact car segment the size of Indian automobile market has grown larger and there is strong with in the production capacities.

   Infrastructural facilities- The development of India's manufacture has contributed significantly to the development of automobile industry. Improvement in road infrastructure has increased the movement of goods through roadways. About 65 percent of the goods are transported in India by road. Recently, the Indian state bank of India and Australian Maequarie group has launched an infrastructure fund raising $3 billion for infrastructure improvement. This has increased the demand for automobiles.

   Easy credit and finance- Low interest rates have further added to the development and growth of Indian automobile industry. About 80 percent of the new cars being purchased in India are financed through financial institutions. The easy credit and availability of loans futher gave a flip to automobile industry in India. Due to the low interest rates, rising income levels and demonstration effect new motor vehicles are now in more demand. Further besides increased FDI has further fueled the competition in the domestic market, which means better vehicles are now available at affordable prices.

3. **R&D facilities-**Fifth product innovation and research and development in the domestic market have made it globally competitive encouraging the manufacturing of environment friendly green cars. With the changing consumer preferences the demand for small and more fuel efficient vehicles has increased which led to the launch of TATA MOTORS NANO one of the world's cheapest and smallest car.

4. **Availability of low cost vehicles-**With increased competition, various manufactures produced low cost vehicles to capture the largest share of market. With the availability of low cost vehicle, the Indian consumers have more opportunities of acquiring a vehicle which provides a boost to the growth of Automobile industry in India.

5. **Increase in competition-** Over the past few years, the exports of automobile industry has increased particularly the exports of passenger car segment show an impressive growth. This increase in exports acts as an incentive for the rapid growth and development of automobile industry on national as well as on international fronts.

6. **Manufactures strategy-** In order to face the stiff competition, the domestic as well as global manufacturers adopted several cost reduction and product & process innovation strategies. Cost reduction strategies (like mass production, bulk buying etc) and Product & Process Innovation strategies (like use of upgraded technology) have helped the manufacturers in producing low cost and fuel efficient vehicles. Besides this manufacturers also adopted several sales promotion measurers like advertisement, insurance Iacilities, free service packages and attractive festival offers to increase the sales of their product.

The impact of all the above given factors has led to the emergence of a vibrant automobile industry in India.

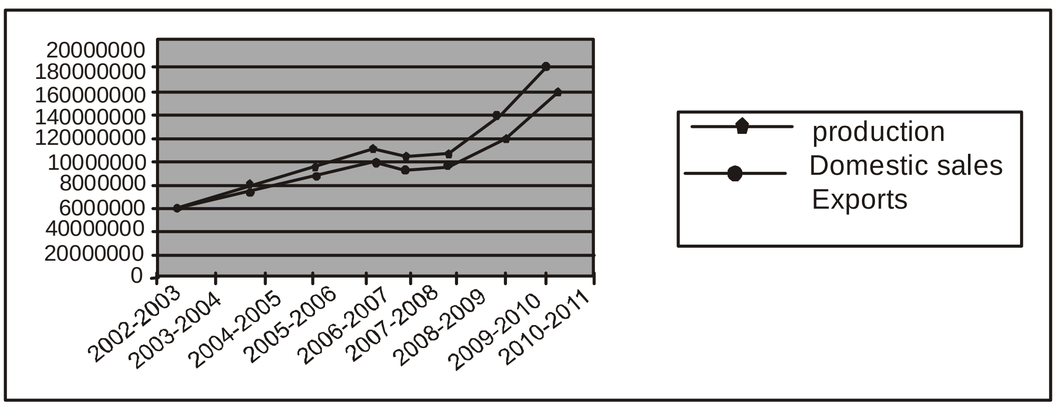
Growth, trends in Production, Exports, & Domestic sales of Automobile Industry

Automobile industry is one of the manufacturing industries that have moved from strength to strength after the economic reforms of 1991-1992. It has grown at a spectacular rate of 18 percent over the last few years. The segments that have shown particular buoyancy are passenger vehicles, two wheelers and three wheelers which have raised four fold, six fold and ten fold respectively. The CAGR of automobile industry is 6.40 percent from 1997-2002, 12.58 percent in 2002-2007 and 17.5 percent in 2007-2011.Theindustry provides direct and indirect employment to 10.5 million people.

Year	Growth rate (%)	Production (in no)	Growth rate (%)	Domestic sales (in no)	Exports (in no)	Growth rate (%)
2003-2004	15.1	7229443	14.6	6810537	479350	55.9
2004-2005	17.0	8460648	16.9	7897629	629544	31.3
2005-2006	15.1	9743503	12.77	8906428	806222	28.06
2006-2007	14.1	11087997	13.6	10123988	1011529	25.5
2007-2008	-2.1	10853930	-4.6	9654435	1238333	22.4
2008-2009	2.9	11172275	0.72	9724243	1530594	23.6
2009-2010	25.8	14057064	26.4	12295397	1804426	17.8
2010-2011	27.5	17916035	26.7	15513156	2339333	29.64

Source- Society of Indian Manufacturers and Ministry of Heavy Industries (2011)

Graph : Trends in Automobile industry



There has been an increasing trend in the production of automobile industry. During the period of 2001-02 to 2010-11 except in 2007-08. The production of automobiles increased from 5316302 to 17916035 million in absolute number and registered a growth of 28.97 percent in 2010-11 as compared to 14.6 percent in 2002-03, and crossed the 10 million mark in 2006-07 Domestic sales and Exports registered a growth of 26.2 percent and 29.7 percent during the same period. Increasing growth of these three parameters viz. - production, exports and domestic sales shows the growing capacity of the Indian automobile industry.

Impact of Financial meltdown on Indian Automobile industry

The Financial crisis of 2007-08 has casted a shadow over the Indian economy as in its output and trade was shrinked. During the global meltdown in 2007-08, the automobile industry of India faced several challenges. The automobile industry which has exhibited a strong growth and dynamism also declined substantially in 2007-08. The automobile industry has been hit hard by less liquidity, reduced demand in domestic as well as in international markets, rising inflation, less credit creation and high interest rates. There may be a number of other factors which can be attributed to the poor performance of automobile industry in 2007-09. in the present study the impact of global meltdown on automobile industry has been captured, through change in production, domestic sales and exports of automobile industry in India are :

1. Impact in Production : Prior to the financial meltdown, the production of automobile industry was very high. But in 2007-08 there has been a decline in the production of vehicles because of less liquidity and low credit creation. The 2007-08 period was sluggish due to high inflation.

Table : Impact of financial meltdown on Automobile production,

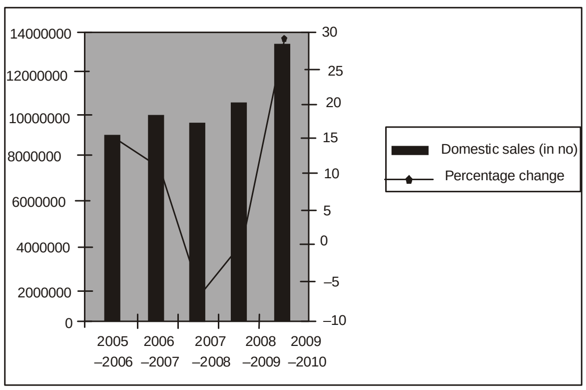
Domestic sales and Exports

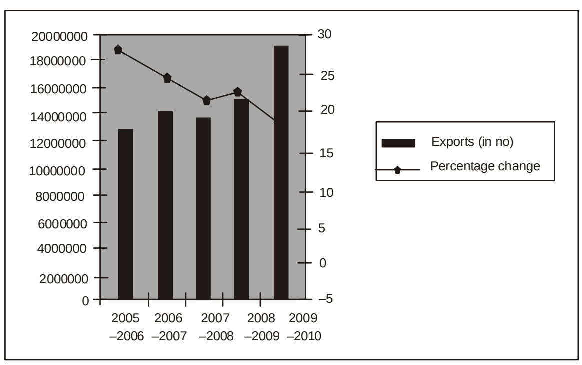
Year	Production (in no)	Percentage change	Domestic sales (in no.)	Percentage change	Exports (in no.)	Percent change
2005-2006	9743503	15.1	8906428	12.7	806222	28.06
2006-2007	11087997	12	10123988	13.6	1011529	25.5

2007-2008	10853930	–2.3	9654435	–4.6	1238333	22.4
2008-2009	11172275	2.9	9724243	0.72	1530594	23.6
2009-2010	14057064	25.8	12295397	26.4	1804426	17.8

Source: Society of Indian Automobile Manufactures and Automotive Component Manufactures Association

Graph : Impact of financial meltdown on Automobile production, Domestic sales and Exports





The production of automobile industry in absolute terms declined from 11087997 units (2006-07) to 10853930 units (2007-08). In 2007 -08 the growth rate in production declines from 12percent (2006-07) to 62.3 percent in 2007-08. In absolute terms the domestic sales of automobile industry has declined from

10123988 in 2006-07 to 9654435 in 2007-08, indicated a declined in growth percentage from 13.6 percent in 2006-07 to -4.6 percent in 2007-08. Like the production and domestic sales, the exports of automobile industry also faced recessionary trend in 2007 — 08. The exports of automobile industry has increased from 1011529(2006-07) to 1238333 (2007-08) in absolute terms but there was a decline of 3percent in total exports (25% in 2006 — 07, 22% in 2007 — 08).

Year	Production (in no.)	Percentage change	Domestic sales (in no.)	Percentage change	Exports (in no.)	Percentage change
2005-2006	1309300	8.21	1143076	7.8	175573	5.5
2006-2007	1545223	18.01	1379979	20.7	198452	13.03
2007-2008	1777583	15.03	1549882	12.3	218401	10.0
2008-2009	1838593	3.43	1552703	0.18	335729	53.7
2009-2010	2357411	28.2	1951333	25.6	453479	32.8

Source: Society of Indian Automobile Manufactures and Automotive Component

Manufactures Association

Challenges facing Automobile Industry

The following challenges are faced by the Indian Automobile Industry.

1. Spiralling cost of fuel is the basic problem. International price of crude oil has crossed us $ 10 per barrel and is rising at an alarming rate. The rise in oil prices will impact the growth of Indian Automative Industry.

2. The second challange is the creation of highly skilled human resources required for the auto Industry. Severe shortage of skilled technical as well as managerial manupower is the major bottleneck in the Automobile Industry.

3. The third area that needs to be addressed immediately is the shortage of human resources in auto design. The govt. as well as professional have

realised that creative people in India need to be given training by which they can come into the mainstream and design contemporary products in general and autos in particular.

15.8 ELECTRONICS INDUSTRY

Electronics is one of the most dynamic industries in the advanced countries. Indeed the progress and efficiency of an economy depends to a large extent on the application of electronics.

Indian electronics Industry dates back to the early 1960s. Electronics was one industry initially restricted to the development and maintenance of fundamental communication systems including radio broadcasting, telephonic and telegraphic commucation and augmentation pace and defence capabilities. Until 1984, the electronics industry was primarily government owned and then in 1980s withersed a rapid growth of the electronics industry due to sweeping economic changes, resulting in the liberalization the globalization of the economy. The period 1984 and 1990 was the golden period for Electronics during which the industry withnessed continuous and rapid growth. Recently, the information technology including software and hardware are the major components of Electronics Industry.

Production : Indian Electronics hardware production increased from Rs. 50,0800 crore in 2004-05 to Rs. 97,260 crors in 2008-09, with a cumulative annual growth rate of 17.3%. The production of electronics hardware in the country is estimated to have grown from Rs. 97,260 crore in 2008-09 to Rs. 109,940 crore in 2009-10 a growth rate of 13%. The slower rate of growth of production during 2009-10 in altributed to the global economic slowdown. Communication and broadcasting eruipment took the largest share (29%) in India's electronics production in the year 2009-10, followed by consumer electronics (27.4%), computers (13.1%), industrial electronics (12.4%) components (12.2%) and strategic electronics (6.3%). In 2010 output of the Indian electronics grown by 13.6% and in the medium to long term India will continous to show strong growth driven by a large, fast growing domestic market, significant foregn investment and an improving regulating environment.

Market capitalization : The Indian electronics market was at US $ 11.5 billion in 2004. Indian electronic industry is expected to grow at a compound annual growth of 23% to reach US $ 40 billion provides a dire at employment to around 2.60 lakh persons and indirect employment to 5.20 lakes persons.

Top Leading companies

The top leading companies are Onida, BPL, HCL, iball, intex, micromax, wipro, voltas. A number of public sector organisation like electronics corporation of India Ltd., BHEL, Bharat Electronics Ltd. etc. have been playing an important role in the development of industry.

Exports & Iports : India has been largely an importor of electronic goods rather than an exporter of the same. Electronic goods were one of the most important items o iports in India. However, India's export of electronic goods has been positions even in the year 2008-09, in which most of the sectors have withnessed slow down in exports. During the year 2008-09 the exports of electronic goods were valued at US $ 6.8 fill on, which constituted 3.7% of the total expoerts from India in the total exports to could have more or lacs remained around 2% to 4% over the years. During April-Sept. 2010-11 the expoerts of electronic goods were US $ 3469.5 million withering a growth of 10% over the corresponding period in the previous year.

Though its total output will be far behind china electronic market, worth US $ 271.97 billion on 2009, India promised a better market with the bears watering.

Total contribution to the economy/sales

Indian electronics industry toay stands at US $ 25 billion and is ranked 28th in the world in terms of sales and 29th in the world in terms of production. It is growing at over 25% CAGR and is expected to be worth US $ 158 billion by 2015. Electronic industry is one of the fastest growing industries in the country and is driven by growth in key sectors such as IT, consumer Electronics and Telecom.

The demand for electronics is expected to be fuelled by the growth of

Telecommunication, PCs and notebook Broadband connectivity reaching rural areas.

Employment opportunities : According to a report presented by trust & young, the Indian domestic demand for electronics products is expected to reach $ 125 billion by 2015 from $ 45 billion annually. The primary demand drivers in for the Indian Electronic industry are sectors like Telecom, defence, IT and e-goverance, consumer electronic and energy. The industry is employent oriented and Imports during the same period amounted to US $ 10110.58 million, a decline of 54%. Ones the corresponding period in the previous year. During the April sept. 2010-11 the imports were valued at US $ 10.11 billion a decline of 5.4% over the corresponding period in the previous year. Major export destinations for Indian electronic goods are USA (14.8%), Singapore (8.2%), UAE (8.2%), Germany (6.7%), Hongkong (58%) and Netherlands (4.9%). In the case of import for Asin countries (74%) were the largest import sources for India, in the year 2009-10, followed by European Union (13%), America (8%) and Middle East (2%).

The electronics Industry is growing at a brisk pace in recent years. It contitutes 1% of the global electronic Industry. The growth has attracted global players to India and leaders like Nokia, Samsung, LG and many more have made large investment to access to Indian Market.

With the delicensing of consumer electronics Industries, Liberalisation in foreign investment and Export-import policies, all renowed global gaints have either established production facilities in the country as are at Present in the market through technical/financial collaboration thus giving the consumers a wider choice in terms of product features, technology quality and competition price.

Electronic Production

S.No.	Item	1998-99	2000-01	2-003-04
1.	Consumer electronics	9200	11950	15200
2.	Industrial electronics	3300	4000	6100
3.	Computers	2300	2400	6700

4.	Communication and broadcasting eruipment	4400	4500	5200
5.	Strategic electronics	1300	1750	2700
6.	Components	4750	5500	7900
	Sub. total	25250	31100	43800

Problems : Electronics Industry in India face the following problems

1. The size and scale of operation of majority of electronic manufacturing units in India are small compared to global satandards.
2. It has low level of component base.
3. Inadequate infrastructural facilities (roads, ports, power etc.) hinders the competitive strength of the Indian Electronic Industry in the International market.
4. It has high import intensity and high cost of production.
5. Low level of Technology absorption in another obstacle in the development of Electronic Industry in India.
6. India is heavily dependent on imports of electronic goods and spending less on reasearch and development.
7. Shortage of skilled, trained and professional manpower is a series problem.

15.9 CONCLUSION

India is growing up to be one of the biggest markets for electronics instruents. The main factor pertaining to the sucess of the Indian electronics and Hardware industry is the growth in the market demand. The advantages pertaining to the taxes and dutie, the access to technical and engineering exportise, propers manufacturing facilities and lucrative investment offers.

Keywords : furnace, obsolescence, decentralisation, handloo, dismantling, underutilisation.

15.10 SHORT ANSWER TYPE QUESTIONS

Q.1. What are the problems faced by Iron & steel Industry in India ?

(a) Rise in input costs

(b) Shortage of coal & power

(c) Inefficient management

(d) Technological obsolescence.

Q.2. What was the objective of New Textile Policy. The govt. announced new Textile Policy in June 1985. The main objective of this policy was to enable the industry to increase production of cloth of goods quality at reasonable prices for the vast population of the country as well as for export purposes.

15.11 EXAMINATION ORIENTED QUESTIONS

Q.1. Discuss in details the problems of Iron & steel industry in India.

Q.2. Explain cotton Textile Industry in India.

Q.3. Briefly explain the Automobile Industry in India.

Q.4. What are the problems faced by Indian cement Industry.

Q.5. Discuss the Electronic Industry in India.

Suggested Readings

Q.1. Misra & Puri, Indian Economy, Himalaya Publishing House, Delhi.

Q.2. Wikipedia (www.Indianmirror.com)

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M.A. ECONOMICS

COURSE NO. 566 **LESSON No. 16**
SEMESTER-IV **UNIT-IV**

INDUSTRIAL DEVELOPMENT OF BACKWARD AREAS

Chapter Outlines

16.1 INTRODUCTION

Industrialisation process generally initiated in the Urban areas and leads to unbalanced growth In the present chapter, the will discuss the Industrialisation of backward areas, challenges, opportunties & suggested measures.

16.2 OBJECTIVES

The objective of this lesson's to make the students aware obout the need and importance of Industrial development of backward areas for balanced growth of Industries.

16.3 INDUSTRALISATION IN POST INDEPENDENCE ERA

Sine the process of industrialisation commenced in independent India, and especially after 1956; the pattern of industrialisation that has emerged shows two main features from the locational point of view.

The first feature is that there has been a heavy concentration of industries in certain areas of the country, especially in the metropolitan areas like Bombay, Calcutta, Delhi, Ahmedabad and Kanpur.

Even as this concentration of industries has been taking place, there are 286 districts in the country which have remained industrially backward, and are 87 districts-which are 'No Industry Districts' in the country.

Such unbalanced pattern of industrialisation has two undesirable consequences. Extreme concentration of in metropolitan areas like Bombay and Calcutta has resulted in various undesirable and dangerous consequences such as extreme concentration of people in small areas, a large number of people from rural areas rushing to these centres seeking employment, tremendous pressure on accommodation, making it very scarce and extreme pressure on facilities like water, electricity; transport and other socio-economic services and overheads, proliferation of slums environmental pollution and tremendoug social and political tensions, resulting frequently in violence and disturbances which hamper economic development in the country. These areas are also extremely vulnerable from the defence point of view. Thus, in Bombay and Calcutta, nearly half the population live in wretched slums and on pavements without any or adequate facilities on necessities like speak of education, medical and recreational, facilities. Bombay has the dubious distinction of having the biggest slum concentration in Asia at Dharavi. The same is true to a greater or lesser extent in the case of other metropolitan cities.

If this is the condition in metropolitan areas, there are about 286 districts which are industrially and of these 87 districts have no modern industries at all. The consequence of this sort of concentration of industries is that vast human and natural resources in backward areas or regions have been lying unutilised for all these years. There are hardly any employment opportunities for the people in those areas; their per capita income is very low and conditions of living wretched.

This is the industrial pattern which has developed since independence, in spite of the Industries (Development and Regulation) Act, 1951, and the Industrial Licensing Policy adopted during the last three and a half decades of economic planning.

16.4 INDUSTRIALLY BACKWARD DISTRICTS AND THEIR STATE-WISE DISTRIBUTION

Table No.1 gives the following instructive figures and details. (i) Area of the backward districts as a percentage of the total area of the respective States; and (ii) Population residing in those backward districts as a percentage of the total population of the respective States.

Table 1

Industrially Backward Districts and Their State-Wise Distribution

	Backward Districts as Percentage of the Total for the State	
	Area	*Population (1971)*
Andhra Pradesh	72.4	59.3
Assam	77.4	76.6
Bihar	47.2	55.0
Gujarat	62.2	49.1
Haryana	50.0	39.0
Himachal Pradesh	88.0	73.0
Jammu & Kashmir	100.0	100.0
Karnataka	66.7	62.5
Kerala	42.3	50.0
Madhya Pradesh	87.0	83.0

Maharashtra	54.7	41.7
Manipur	100.0	100.0
Meghalaya	100.0	100.0
Nagaland	100.0	100.0
Orissa	61.0	48.0
Punjab	38.9	35.0
Rajasthan	61.9	54.2
Tamil Nadu	64.4	60.1
Tripura	100.0	100.0
Uttar Pradesh	68.4.	61.9
West Bengal	82.5	68.4
All India	71.3	59.0

As regards the area covered by backward districts in various States, the following observations can be made from Table 1.

1. In the case of Jammu & Kashmir, Manipur, Meghalaya, Nagaland, Tripura and Union Territories (excluding Delhi and Chandigarh), the entire area (i.e. 100.0 per cent) is characterised as industrially backward.

2. The lowest percentage of backward area (38) happens to be in the case of Punjab.

3. It is observed that the area in practically every State characterised as industrially backward is substantial.

   Even in the case of industrially advanced States, the percentage of industrially backward area is substantial, as becomes clear from the following figures: Maharashtra (54.7), Tamil Nadu (64.4), and West Bengal (82.5). This means that in the case of relatively industrially advanced States in India, there has been a substantial concentration of industries only in certain parts of the States while rural areas or even semi-urban areas even in industrially advanced

States have remained industrially backward.

4. With all the rapid industrialisation it appears that there has been a high degree of industrial concentration. From Table 1 it becomes clear that if we consider India as a whole, the percentage of industrially backward area is 71.3. This shows both industrial concentration (area-wise) and the enormous efforts still required to bring about industrial development of backward regions in the country.

5. It is observed that it we consider the percentage of people living in industrially backward districts (as a percentage of total population cf the respective States), it is noticed that the lowest percentage (35) is in the case of Punjab, while in the case of Jammu and Kashmir, Manipur, Meghalaya, Nagaland, Tripura and Union Territories (except Delhi and Chandigarh), that percentage is 100. For India as a whole, the percentage is 59.

16.5 GOVERNMENT'S POLICIES AND PROGRAMMES FOR THE DEVELOPMENT OF BACKWARD DISTRICTS

The industrial pattern as described above has been the pattern which has developed since independence, in spite of the Industries (Development and Regulation) Act, 1951, and the Industrial Licensing Policy adopted during the last three and a half decades of the economic planning era. The inescapable fact that stands out strikingly is that all the policies and programmes followed so far have failed to bring about rational industrial dispersal and a very large number of districts and vast area and a substantial percentage of the total population have so far be deprived of the various benefits that follow from development of industries in a region. industrial development in the area would be impossible. The provide loans to the State Development Corporations for this purpose up to a maximum of Rs. 5 crores.

As stated already, State Governments have been playing a crucial role for the development of small-scale and medium-scale industries by negative and positive measures (by way of subsidy, concessional finance, tax reduction or tax holiday, etc.)

16.6 CRITICAL ASSESSMENT

A number of schemes are being promoted and adopted for the establishment and development of industries in industrially backward regions in the country. These schemes are being promoted by both the Central Government and State Governments.

With the experience of the operation of these various schemes, the following points of criticism are brought against such schemes while admitting their useful role in bringing industries to backward regions in the country.

With substantial financial and managerial resources at their disposal, it is comparatively easy for non-MRTP large companies to establish industrial units in industrially backward regions of the country. But for entrepreneurs belonging to the lower categories or coming from middle and lower classes, estableshing and running successfully industrial establishments in 'No Indutry Districts' or even in other industrially backward districts is proving very difficult. In the face of total or partial absence of necessary infrasture facilities (like roads, water, electricity, communication facilities like rost and telegraph, etc.), these entrepreneurs find it very difficult to race the various problems arising out of establishing industrial units in such regions. It is observed that with all the asristlice from the Goverment, such investments especially in 'No industry Districts' become unconomic and unprofitable and soon the industrial units become sick.

Very often local places in backward regions for establishing an industrial unit are slected non taking into account economic and such other technical factors into account but are selected on political considerations. Such selected places totally lack infrastructural facilities; they are often totally devoid or support facilities; the level of education and of various industrial skills is very low; nor are there any training facilities people in such regions lesvo never before been exposed to industrial culture which discipline, hard and sustained work cooperative eitorts, regitkrity, recognising the value of time and so en Which are totally lacking in the people in some of these selected backward regions.

There is much criticism of the role of the State Development orporations in the respect. Initially, they promise to create and provide adequate infrastructural facilities in backward areas with a view to induce entrepreneurs to move into those areas and establish industrial units there. But once the entrepreneurs move into the industrially backward regions, the SIDCs either fail to fulfil their promise or do that only partially and inadequately, thinking that now the entrepreneurs have established industrial units there, they will be compelled to create infrastructural facilities themselves, as they would have no other alternative. But this is no easy task and does not happen frequently, the industrial units either reporting sick or closing down. The SIDCs have lost their credibility by playing this dubious role.

It is observed that there is lack of planning at the State level for the development of industrially backward regions. Often State Governments with limited resources for industrial developments of backward regions spread their limited financial resources thinly over a wide area with little favourable impact on the area, instead of concentrating their attention on a few selected regions and providing fairly adequate infrastructural facilities there. Also, often State Governments are very tardy in implementing their part of the programme. Though coordination committees have been set up by State Governments to coordinate the activities of State Electricity Boards and other departments concerned with industrial development of backward regions, very little work of coordination is done or accomplished by these bcties. Grant of promised subsidy.to entrepreneurs is often delayed, thoroughly discouraging the otherwise enthusiastic entrepreneurs intent on moving into backward regions.

It must be mentioned that not all State Governments have shown the above weaknesses or defects. Some State Governments have been quite active in this sphere and have aciiieved satisfactory results in bringing about industrial development of some backward regions in their States as is evidenced by the examples of Tarapur, Roba, Gaziabad and Ranipet.

16.7 CHALLENGES AND OPPORTUNITIES

It must be admitted that in spite of the various incentives and concessions provided by the Central and State Governments, industrialisation of backward regions in the country has not at all taken root. A few public sector industrial establishments like Bokaro, Bhilai and Rourkela have proved to be more of show pieces and industrial islands without much favourable impact on background regions surroundirnsr those projects. Ever, the TISCO at Jamshedpur with its long and commendable history of more than 80 years has failed to become a central focus from where industries would spread to neighbouring backward regions.

All the Five Year Plans have stressed the importance of balanced regional development and industrial dispersal in the country as a desirable objective from the socio-economic and political points of view and; as will be seen,certain steps are being taken to bring about industrial dispersal and development of industrially backward regions.

In its recent report, the National Committee for Development of Backward Areas (NCDBA) has made certain observations concerning industrial development of backward areas or regions in the country. According to the report, the Central Governments investment subsidy and scheme of concessional finance have benefited only a small number of backward districts which are in close proximity to the already developed industrial centres, and the scheme of Industrial Estates has not been very helpful in real locating industries from industrially developed areas. The report hag rightly maintained that Industrial Licensing Policy [adopted to give effect to the Industries (Development and Regulation Act, 1951] is at hest 'a negative instrument` that might prevent further industrial concentration in already industrially developed areas, but the licensing policy by itself cannot, being about industrial development of backward regions. At the same time, the report has pointed out that the - various concessions offered such as subsidy and concessional finance did motivate entrepreneurs to move into industrially backward regions and try to establish industrial units there.

The NCDBA has recommended the establishment of Industrial Development Authority (IDA) in related centres with the responsibility of building up and providing infrastructural facilities needed for the industrial development of backward regions and to channel developmental funds for the backward regions allotted by the Central and State Governments.

With a view to bring about effective implementation of special programmes for backward regions, the NCDBA has also made the following sugestions.

With a view to guarantee that proper staff is available for developmental work in backward regions, the NCDBA has observed that there is un‘willingness on the part of the staff to go to backward areas as housing, educational, recreational and such other modern frcilities and amenities are generally not available in the backward regions and this results in unwillingness of the staff to move into such backward regions. The NCDBA has recommended that a policy combining positive incentives with penalties should be evolved and implemented to see that the necessary. staff moves into industrially backward regions. It should also ensured that.funds allocated for the development of backward regions should not be directed to industrially more developed areas, on one retext nr another. The NCDBA has also recommended that a project Authority should be created for every two or three blocks with powers to coordinate work of development of blocks in his charge.

Within the framework of the Industrial Policy Statement of 1980, 286 districts have been declared as industrially backward districts.

The 286 industrially backward districts have been classified into A, B and C categories.

Category A consists of 118 districts (including 87 ‘No Industry Districts’); Category B consists of 55 districts; and Category consists of 113 districts.

Though the State Governments have to play a major role in the industrial development of the 286 industrially backward districts, the Central Government gives substantial assistance through various schemes Such as seed or margin money scheme, schemes of concessional finance, central subsidy, tax concessions and so on.

In the case of districts in category A; the Central Government subsidy is 25 per cent of investment, subject to the maximum of Rs. 25 lakhs. Districts in category B get Central Government subsidy of 15 per cent, subject to a maximum of Rs.

15 lakhs; and districts in category C are entitled to an investment subsidy of Rs. 10 lakhs.

In 1983, the IFCI, the IDBI and ICICI formulated a scheme of incentives of setting up industries in 87 ‘No industry Districts’ in category A. Under this scheme, interest free loans wore to be given for project specific infrastructural facilities to industrial projects during the construction period. In the case of industrial projects sponsored by non-MRTP companies and involving capital expenditure of Rs. 25 crores, the promoter's contribution is further reduced to 10 percent of the capital for new projects.

The various public sector financial institutions are also adopting a more liberal attitude in regard to debt-equity ratio in the case of projects in category A districts.

The financial institutions are also willing to participate in equity capital in the case of projects in category A distrk ts, if promoters are prepared to contribute their full matching contribution.

Also, in the case of projects in distructs in category A, no commitment charge: would be levied on term loans.

The IDBI is also ready to provide 100 per cent refinance to State Financial Corporations and State Industrial Development Corporations, against their loans to industrial projects iit districts in category A. The IDBI is willing to provide finance for area specific projects in ‘No industry Districts for creating infrastructural facilities.

Keywords : unfulfilised, wratch, inescapable, dispersal, licensing, subridy

16.8 SUMMARY

1. Since the process of industrialisation commenced in independent India, and especially after 1956.
2. In case of Jammu and Kashmir, Manipur, Meghalaya, Nagaland, Tripura and UT’s (excluding Delhi & Chandigarh), the entire area (100.0 percent) is characterised as industrially backward.

The lowest percentage of backward area (38) happens to be in case of Punjab.

3. A number of schemes are being promoted and adopted for the development of industries in industrially backward regions in the country. These schemes are being promoted by both Central and State Governments.

4. Inspite of the varions incentives and concessions provided by the Central and State Governments, industrialisation of backward region in the country has not at all taken root.

5. Within the framework of the Industrial Policy Statement of 1980, 286 districts have been declared as industrially backward districts.

16.9 SHORT ANSWER TYPE QUESTIONS

Q.1. What do you mean by Industrial Backwardness.

Ans. There is heavy concentration of Idustries in certain areas. If the country especially in the metropolitan cities whereas some areas remain backward industrially. This unbalanced pattern of Industrialisation causes Industrial Backwardness.

16.10 EXAMINATION ORIENTED QUESTIONS

Q.1. Critically explain the Idustrial development of backward areas.

Q.2. What are the challenges, opportuities and suggested measures for Industrial development of backward area ?

Suggested Readings

Q.1. Misra & Puri, Indian Economy, Himalaya Publishing House, Delhi.

Q.2. Wikipedia (www.Indianmirror.com)

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M.A. ECONOMICS

COURSE NO. 566 **LESSON No. 17**
SEMESTER-IV **UNIT-IV**

INDUSTRIAL SICKNESS

CHAPTER OUTLINES

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17.2 Objectives

17.3 Definition According to SICA, 1985

17.4 Definition According to companies (Second Amendment) Act, 2002.

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17.6 Causes of Industrial Sickness.

17.7 Consequences of Industrial Sickness

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17.10 Summary

17.11 Short Answer Type Questions

17.12 Examination Oriented Questions

17.1 INTRODUCTION

The problem of sickness in Industries has become very actue in India. It has adversely affected the health of the economy. In this lesson, we propose to discuss this problem in detail and its remedial measures.

17.2 OBJECTIVES

The objective of this lesson's is to make the students aware about this burning issue of industrial ricksaw and the govt. policy with regard to Industrial sickness in India.

The problem of sickness in industries has become very acute in India. It has adversely effected the 'health' of the industrial sector in particular and the economy in general in present Chapter, we propose, to discuss this problem in detail and its remedial measures. The discussion married out under the following headings :

17.3 DEFINITION ACCORDING TO SICA, 1985

- Definition and magnitude of industrial sickness in India
- Causes ef industrial sickness
- Consequences of industrial sickness
- Steps taken by the government to tackle the problem of industrial sickness
- Companies (Second Amendment) Act, 2002, which has taken the plece of Sick Industrial Companies (Special Provisions) Act, 1985.

Prior to are enactment of the Sick Industrial Companies Special Provisions) Act, 1985, there was no unanimity regarding the definition of industrial sickness. Reserve Bank of India, term lending institutions and State Bank of India all defined sick industries in diffesent ways. However, enactment of the Sick Industrial Companies (Special provisions) Act, 1985, settled the issue. According to this act a sick unit was defined as "an industrial company (being a company registered for not less than seven years) which bas at the end of any financial year accumulated loses equal to or exceeding its entire net worth andhas also suffered cash losses in such financial year and the financial year immediately preceding such financial year." In December 1991, public sector companies were also brought under the purview of the Act. The 1992 amendment (introduced in February 1994) altered the criterion somewhat: firms only need to be registered for five years, and the certion of cash losses for two successive years was eliminated.

As far as small-scale sector is concerned, that small-scale, industrial unit was considered to be sick that had : (a) incurred a cash loss in the previous accounting year and was likely to continue with losses in the current accounting year and erosions on account of cumulative cash losses to the extent of 50 percent, or more of its peak net worth during the last five years and/or (b) continuously defaulted in meeting four consecutive installments of interest or two-half yearly installments of principal on term loan and there were persistent irregularities in the operation of its credit limits with the bank. While both (a) and (b) were required to be satisfied in the case of larger small-scale units, it was to suffice if either alternative (a) or (b) was satisfied in the case of tiny and decentralised sector units.

17.4 DEFINITION ACCORDING TO COMPANIES (SECOND AMENDMENT) ACT, 2002

The definition of a sick industrial company was changed by the Companies (Second Amendment) Act, 2002. Aecerding to this Act, "sick industrial company" means an industrial company which has (i) accumulated losses in any financial year which are equal to 50 per cent or more of its average networth during four years immediately preceding such financial year; or (ii) failed to repay its debts within any three consecutive quarters on demand made in writing for its repayment by a creditor or creditors of such company.

This shows that the definition of a sick industrial company has been considerably modified. Now (1) requirement of 5 years existence is not required, which was required earlier, (2) accumulated losses exceeding 50 per cent of average net worth during last four years is sufficient to classify a company as sick, (3) alternative criteria of 'failing to repay its debts to the creditor within 9 months of the demand made by him' has been added. Any one of the criterion (2) or (3) mentioned here is sufficient to classify an industrial company as sick.

17.5 MAGNITUDE OF SICKNESS

The problem of industrial sickness has grown over the years and a large number of industrial units in the small-scale sector and non-small-scale sector are affected by it. As shown in Table 33.1, the total number of sick/weak units in June 1988 was 2,19,351 with outstanding bank credit of Rs. 6,927 crore. By March 1990, the total number of sick/weak units had risen to 2,21,097 with, outstanding bank credit of Rs. 9,353 crore. Of these sick/weak units, as many as 2,18,828 units belonged to the small-scale sector with outstanding bank credit of Rs. 2,427 crore. The number of large and medium sick/weak units was only 2,269 but outstanding bank credit in their case was as high as Rs. 6,926 crore. The number of sick/weak units as at end-March 2000 stood at 3,07,399 which fell considerably to 89,641 at end-March 2008. However, the amount outstanding rose from Rs. 23,656 crore to Rs. 35,366 crore over the period. Though the small-scale sector accounted for 95.0 per cent of sick/weak units as at end-March 2008, its share in total bank credit outstanding was only 8.7 per cent.

In addition to the problem of widespread industrial sickness, another serious problem is that a large number of sick units are non-viable. For instance, of the 1,71,376 sick units as at end-March 2003, the commercial, banks found only 4,011 to be potentially viable while as many as 1,64,727 (i.e., 96.0 per cent) were found to be non-viable (viability of the balance 2,638 units was not decided). Bank credit of Rs. 14,771 crore was stuck up in the non-viable units as at end-March 2003 (data for later period are not available.

17.6 CAUSES OF INDUSTRIAL SICKNESS

Causes of industrial sickness are usually divided into two categories : (i) external and (ii) internal. The former include factors which originate outside the unit and therefore, are not under the control of the unit such as power cuts, demand (or market recession, erratic-availability of inputs, government policies, etc. The latter include factors which originate within the unit and can, therefore, be said to be under the control of the unit such as production, management, finance, etc.

External Causes

1. **Power cuts.** A large number-of industrial units face power cuts from time to time. These power cuts are imposed by the State governments as the grieration, of power is considerably below its actual requirements. Drought situation during some years in a number of States further aggravated the

problem and acute power shortage resulted in frequent power cuts.

2. **Erratic supply of inputs.** Some units depend on scarce raw-materials whose supply is erratic. This results in disturbing the production schedule causing losses to the unit. This often happers in the case of units depending upon the supply of imported inputs. Insufficient availability of transport facilities can also upset the supply schedule of inputs.

3. **Demand and credit restraints.** At times, recession in the market causes a steep decline in the demand resulting in unsold stocks and losses to individual units. Products with high prices for example tractors, trucks, buses, cars etc. depend for their sustained demand on easy availability of credit to purchasers. If credit restraints are imposed so that the purchasers are not able to arrange finance, the demand for these products is bound to suffer. This is likely to leave the manufacturers with unsold stocks inflicting losses on them. If this situation persists for quite some time, the producing units are prone to turn sick.

   This problem can emerge in a serious way for ancillary units. If the demand of the principal buyer of the output of ancillary units falls due to any reason whatsoever, these onits are put in a precarious position. They are bound to turn sick and may even face closure.

4. **Government policy.** Sudden changes in the government policy relating to imports, exports, industrial licensing, taxation etc. can make viable units sick overnight. For instance, liberal import policy for a particular product can inflict set' aus damage on the domestic unit(s) producing similar/ substitute products. The very existence of these domestic units is likely to be threatened particularly if the imported proauct is cheaper and is of a bettc; qbality as compared to their products. In a similar way, granting of liberal licences to big industrial houses in the production lines reserved exclusively for the small-scale sector is bound/ to affect the prospects of the units in the latter sector adversely. The opening up of the internal market to foreign competition in recent years in line with India’s

commitments to the World Trade Organisation (WTO) is making it difficult for many industrial units to survive. The most difficult problems are being faced by the small-scale industries who are now facing tough competition form cheap imports (particularly from China) on the one hand, and from larger.cale industries (due to dereservation) on the other hand.

Internal Causes

1. **Faults at the planning and construction stage.** Faults can occur at the planning and construction stage itself. The first fault can be the wrong location of an industrial unit. If the place where the unit has been set up lacks infrastructural facilities, the unit is likely to face difficulties. The second fault can be the absence of market analysis. Some small-scale entrepreneurs plunge into production without bothering to find out the market potential of their product and this pushes them into difficulties later. At times, these small units do not 'plan' production properly. Some units start with an unbalanced capital structure, some underestimate the project cost while some spend recklessly on unproductive assets. In all these cases, either the implementation of the small-scale project is delayed or production is started under severe handicaps. A slight disturbance in the normal functioning of these units is sufficient to disturb their 'balance' and turn them into sick units.

2. **Defective plant and machinery.** Many entrepreneurs in the small-scale sector do not seek professional and technical guidance from competent authorities in choosing correct machinery. If the plant and machinery finally selected and installed by them turns out to be defective, their units are bound to suffer losses and will, in all probability, turn sick.

   Not only this. At times, the technology adopted by the entrepreneur is obsolete and inappropriate. Production with the help of such technology is bound to be inferior in quality as compared to the production using modern and appropriate technology. employing obsolete and inappropriate technology are also likely to suffer a cost and price disadvantage vis-a-vis units employing modern technology.

3. **Financial problems.** A number of units face acute financial problems right from the stage of planning and construction to the stage of implementation and beyond. The equity base of many small-scale units is very weak and slight disturbances in the market put them under acute financial strain. Often small-scale units borrow from banks and financial institutions but are unable to meet the repayment schedules. The burden of unpaid debt accumulates and they turn sick. In same cases, lack of support from banks causes a failure of small-scale units as the banks insist on `proven performance' either to restore working capital limits or to enhance existing limits.

4. **Entrepreneurial incompetence.** Many persons setting up small-scale units are 'incompetent entrepreneurs' in the sense that they do not possess basic technical knowledge of the product they intend manufacturing, lack basic business acumen, do not know the costing of their products, have no knowledge of business accounts, marketing etc. No wonder then that units set up by such people turn sick.

5. **Management problems.** The most important internal cause of sickness is management problems. Faulty managerial decisions in the fields of production, marketing, finance, personnel management etc. can ruin a business. For instance, lack of inventory and materials management, Inadequate attention towards maintenance management (leading to frequent breakdowns and consequent lower capacity utilisation), absence of quality control systems etc. are some examples of mismanagement in the sphere of production. insufficient sales promotion activities and improper pricing policies can create problems in the field of marketing. Inefficient use of working capital can cause financial mismanagement. Faults in personnel management include improper wage, increment and promotion policies, lack of manpower planning and bad industrial relations.

6. **Labour problems.** In some cases, acute labour problems have resulted in strikes, lockouts and even closure of industrial units. These problems may emanate from differences with management over the issue of wages, bonus,

suspensions and retrenchment, inter-union rivalry, etc. If not tackled in time satisfactorily, such problems can cause sickness.

17.7 CONSEQUENCES OF INDUSTRIAL SICKNESS

In a planned and underdeveloped labour surplus economy like India, industrial sickness can have serious consequences as would be clear from the discussion below:

1. **Set-back to employment prospects.** India is a labour surplus economy where avenues of employment are very much restricted in relation to the number of people seeking employment. Accordingly,. closure of an industrial unit is likely to render workers unemployed. The implications are likely to be particularly serious if the sick industrial unit is a large one employing a large number of people (say, for instance, a huge cotton textile mill).

2. **Fear of industrial unrest.** Closure of a sick industrial unit (particularly if it is a large one) not only causes substantial unemployment, it also causes widespread labour unrest. Trade unions of other industries are likely to oppose retrenchment of labour of the closed unit and resort to widespread industrial strikes. The peace and tranquility of the industrial environment will be threatened resulting in industrial losses and setback to production in a number of units.

3. **Wastage of resources.** Resources are scarce in an underdeveloped economy and if an industrial unit turns sick and is closed down on this account, resources invested in that unit are wasted. This problem is particularly serious for large-scale sick units where substantial investments have been made in plant and machinery. Stoppage of production in these units not only results in a decline in production of the industry as a whole, it also implies the blocking up of valuable savings and capital equipment.

4. **Adverse impact on related units.** Frequently an industrial unit is linked up with a number of other industrial units through backward and forward linkages. Therefore, sickness in one unit is likely to affect adversely a number of other units. For instance, iron and steel industry is linked up

with a number of other industries via backward and forward linkages. Accordingly, sickness in a large unit manufacturing iron and steel is likely to have adverse repercussions on a number of other units.

5. **Adverse effect on investors and entrepreneurs.** Closure or liquidation of a large sick unit creates: psychology of despair amongst investors. The share price of that unit will tumble down and the prevalence of gloomy market conditions can adversely affect the entire stock market. Not only this. Failure of a unit acts as a disincentive to other entrepreneurs who were planning to launch production in the same lines. Such industrial climate is not conducive for industrial development.

6. **Losses to banks and financial institutions.** Closure of industrial units causes substantial financial losses to banks and financial institutions which had granted loans to these units to set up their plant and machinery and commence production. Locking up of funds in the sick units also affects adversely the future lending programmes of banks and financial institutions as shortage of resources emerges. Data given earlier show that the amount of bank credit outstanding against the large and medium sick industrial units amounted to a staggering Rs. 32,283 crore at end-March 2008 while the amount of bank credit outstanding against the small-scale sick industrial units touched Rs. 3,033 crore. While banks and financial institutions do initiate legal proceedings against defaulters after giving them reasonable time for repayment, the recovery of overdues takes a very long time and, in some cases; the recovered, amount fails short of actual overdues.

7. **Loss of revenue to government.** The Central State and local governments raise substantial revenue from industrial units by way of various levies. Therefore, sickness in industrial units results in loss of revenue to these levels of government.

17.8 REMEDIAL MEASURES

On account of the above consequences of industrial sickness, it was for long regarded as a 'social problem' our country. Accordingly, various concessions and incentives were offered to sick units to help them regain their healthy and stand on their feet once again. Some of the measures undertaken for the revival and rehabilitation of sick industdat units were as follows :

1. **Steps taken by banks.** The commercial banks granted various concessions to sick industrial units like : (i) grant of additional working capital facilities to overcome the shortage of working capital faced by such units; (ii) recovery of interest at reduced rates, (iii) suitable on payment of interest, (iv) freezing a portion of the outstanding in the accounts, etc. A number of steps were also undertaken on the organisational front like : (i) setting up a sick industrial undei akings cell in Reserve Bank of India to function as a clearing house for information relating to sick units and to act as a coordinating agency between the government, banks, financial institutions and other agencies for tackling the various related issues; (ii) setting up of State level inter-institutional committees at all the regional offices of the Department of Banking Operations and Development of the Reserve Bank of India for ensuring better coordination between the banks, State governments, Central and State level financial institutions and other agencies; (iii) constitution of a standing coordination committee by Reserve Bank to consider the issues relating to coordination between commercial banks and term-lending institutions on an ongoing basis and (iv) setting up of a special cell within the rehabilitation finance division of Industrial Development Bank of India for attending to references from banks in respect of their sick and problem areas. As regards the small-scale industries, Reserve Bank issued guidelines to the banks with a view to ensuring that the potentially viable sick units in small-scale industries sector receive due attention and timely support.

2. **Policy framework of the government.** The policy framework in respect of measures to deal with the problem of industrialsickness was laid down in the guidelines issued in October 1981 (which were subsequently modified in February 1982) for guidance of administrative ministries of the Central government, State governments, and financial institutions. Under these

guidelines, the administrative ministries in the government were given specific responsibility for prevention and remedial action in relation to sickness in industrial sector within their respective charge. They were required to monitor sickness and coordinate action for revival and rehabilitation of sick units. The financial institutions were asked to strengthen the monitoring system so that timely corrective action could be taken to prevent incipient sickness. To restore the sick unit to 'health,' the financial institutions could even consider assuming managerial responsibility. However, where the banks and financial institutions felt that a sick unit cannot be revived, they could deal with their outstanding dues to the unit in. accordance with the normal banking procedures. Before doing so, they were required to report the matter to the government who was then to decide whether some measures (like nationalisation or workers participation in management) could revive the unit. If the government decided to nationalise the unit its management could be taken over under the. provisions of the Industries (Development and Regulation) Act 1951, for a period of six months to enable government to take necessary steps for nationalisation the (The government could also consider steps such as restructuring merger with healthy units etc. to rehabilitate the sick unit.) Where revival did not seem possible, the government could denotify the unit resulting in its closure.

3. **Concessions by government.** Certain concessions were also provided by the government to assist revival of sick units without intervention. For instance, the Income Tax Act was amended in 1977 by addition of Section 72 A which provided for the grant of tax benefit to healthy units when they took over the sick units by amalgamation with a view to reviving them. On January 1, 1982, a scheme for provision of margin money to sick units in the small-scale sector at soft terms was introduced to enable them to obtain necessary funds from banks and financial institutions to implement their revival scheme. This was followed by the introduction of a liberalised margin money scheme in June 1987 to supplement the efforts of the State

governments in reducing sickness in the small-scale sector. In October 1989, the goverment announced a scheme for the grant of excise loan to sick/weak industrial urits. Under this scheme, selected sick units were eligible for excise loan not exceeding 50 per cent of the excise duty actually paid for 5 years.

4. **Steps for detecting sickness early.** Importance of detecting sickness in incipient stage is crucial as corrective steps can then be taken early and well in time. With this end in view, the Reserve Bank advised banks to take necessary remedial steps in respect of industrial units which do not come under the purview of Sick Industrial Companies (Special Provisions) Act, 1985, at the stage of 50 per cent erosion of their net worth. The Reserve Bank has also closely monitored certain specific industries where sickness is more widespread.

5. **The Industrial Investment Bank of India.** The government established the Industrial Reconstruction Corporation of India (IRCI) with a view to reviving and rehabilitating sick units. The authorised capital and paid-up capital of IRCI were Rs. 25 crore and Rs. 2.5 crore, respectively. Its share capital was subscribed by IDBI, IFCI, ICICI, LIC, State Bank of India and commercial banks. It also received a Rs. 10 crore interest free loan from the Government of India. Functions assigned to IRCI were as follows : (i) to provide financial assistance to sick industrial units; (ii) to provide managerial and technical assistance to sick industrial units; (iii) to secure assistance of other financial institutions and the government agencies for ensuring the revival and rehabilitation of sick industrial units; (iv) to provide merchant banking services for amalgamation, merger etc.; and (v) to provide consultancy services to banks in matters relating to sick industrial units.

   By a notification issued on March 20, 1985, the government converted the IRCI (which was a company registered under the Companies Act) into a statutory corporation and it was given the name Industrial Reconstruction Bank of India (IRBI) with a view to overcoming the inherent difficulties which had been faced by the IRCI in its efforts to rehabilitate sick industrial units. IRBI was reconstituted into a full-fledged all purpose development financial institution with effect from March 27, 1997 and its new name is Industrial Investment Bank of India Ltd. (IIBI).

6. **Board for Industrial and Financial Reconstruction.** In terms of the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA), the Government of India set up the Board for Industrial and Financial Reconstruction (BIFR) in January 1987 (which became operational on May 15, 1987) for determining the preventive, ameliorative, remedial and other measures which were required to be taken in respect of sick industrial companies and for expeditious enforcement of the measures determined. Industrial companies whose net worth had been eroded completely and those which had net worth eroded by 50 per cent or more were required to make a reference to the BIFR under Sections 15 and 23 of the Act, respectively. While references received under Section 15 were required to be enquired into, there was no such requirement in respect of references received under Section 23. Public sector enterprises were brought within the purview of BIFR through an amendment of the Sick Industrial Companies (Special Provisions) Act in December 1991.

The Board could, if it deemed necessary, require by order, an operating agency to enquire into and make a report with respect to such matters as may be specified in the order. In case where sickness was confirmed, BIFR was asked to determine the course of action to be followed with regard to the company. This course of action could be : (a) allowing the company time on its own, i.e., as per the scheme already initiated by the banks/institutions to make its net worth positive within a reasonable period; (b) having a scheme prepared through the operating agency in respect of the company; or (c) deciding on the winding up of the company.

The subject matters that could be covered were wide ranging and the powers of the Board extended to the framing of the scheme of amalgamation and reconstruction, financial and otherwise. Where the scheme related to preventive, remedial and other measures with respect to any sick industrial company, the scheme could provide for financial assistance by way of loans, advance; guarantees, reliefs or concessions from official agencies. Where the Board after making enquiry and after consideration of all the relevant facts felt that it was just and equitable for the sick industrial company to wind up its operations it could record and forward its opinion to the concerna High Court.

Since its inception in May 1987 till the end.of December 2007, BIFR had received 7,158 references under SICA 1985. These references included 297 references from Central and State Public Sector Undertakings. Out of the total references received, 5,471 were registered under Section 15 of SICA. While 1,857 references were dismissed as non-maintainable under the Act, 825 rehabilitation schemes were sanctioned; and 1,337 companies were recommended to be wound up.

The working of BIFR has been a subject of much debate and criticism. This is due to the reason. that there are considerable delays in the BLFR process. in many cases; the delay can extend to two years or even more Such inordinate delays make it very difficult for a sick company (which already reports negative net worth on the current definition of SICA) to turnaround successfully and rehabilitate itself. The Committee on Industrial Sickness and Corporate. Restructuring which submitted its Report in July 1993 stated that the quasi-judicial nature of BIFR proceedings, further compounded the problems as it depends on consensus at almost all stages. "Consensus gives any claimant the right to veto, and implies, that the BIFR process can be only as fast as the slowest party." The Committee also, noted the absence of 'credible threats' to expedite negotiations and criticised BIFR for its clear preference for rehabilitation over winding up.

17.9 COMPANIES (SECOND AMENDMENT) ACT, 2002

This Act was passed by Parliament in December 2002 and is to take the place of Sick Industrial Companies (Special Provisions) Act, 1985 (SICA). Important provision of Companies (Second Amendment) Act, 2002, are as follows :

Definition of Sick Industrial Company

As stated earlier, Companies (Second Amendment) Act, 2002 changed the definition of sick industrial company stands considerably changed. According to the

Companies (Second Amendment) Act:.2002, “sick industrial company” means an industrial company which has-(i) the accumulated losses in any financial year which are equal to 50 per cent or more of its average net worth during four years immediately preceding such financial year; or (ii) trailed to repay its debts within any three consecutive characters on demand made in writing for its repayment by a creditor of such company

National Company Law Tribunal

The Act provides for the constitution of a National Company Law Tribunal (NCLT). The functions that are essently being handled by the Company Law Board (CLB) (dispire resolution and compliance with certain provisions of the Companies Act, 1956), BIFR (revival and rehabilitation of sick companies) and High Court (winding tap of companies) will now be handled by NCLT. Thus, NCLT will now be the single forum for companies replacing the existing three formos. BIFR will be wound up.

NCLT shall consist of a President and such number of Judicial and Technical Members not exceeding 62, to be appointed by the government. Powers of the Tribunal will be exercised by Benches, constituted by the President of the Tribunal.

National Company Law Appellate Tribunal

Appeal against order of Tribunal (NCLT) will be with National Company Law Appellate Tribunal (NCLAT). Appeal has to be filed within 45 days from date or receipt of order. On receipt of an appeal, the Appellete Tribunal shall, after giving parties to the appeal, an opportunity of being heard, pass such orders theron as it thinks fit, confirming, modifying or seling aside the order appealed against. Appeal should be neard expeditiously and endeavour hall be made by it to dispose of the appeal finally within six months.

Referenee NCLT by Sick Company

Where an industrial company has become a sick industrial company, the Board of Directors of such company shall make a reference to the Tribunal (NCLT) and prepare a scheme for its revival and rehabilitation. The Central government or the

Reserve Bank of India or a state government or a public financial institution or a State level instiftition or a scheduled bank can also make a reference in respect of a company which has become a sick company to the Tribunal for determination of the measures which may be adopted with respect to such company.

If the Tribunal is satisfied that a company has become a sick industrial company after considering all the relevant facts and circumstances, it may allow the company to make its net worth exceed the accumulated losses within a reasonable time or make repayment of its debt. lf the Tribunal decides that it is not practicable for a company to make its networth exceed the accumulated losses or make the repayment of its debts within such reasonable time, it may direct an operating agency to prepare a scheme providing for such measures in relation to such company. If the Tribunal is of the opinion that the sick industrial company is not likely to become viable, it may record its findings and order winding up of the company. The winding up of the company shall, as far as may be, conclude within one year from the date of the order of winding up. Under SICA, BIFR could only 'recommend' winding up while now the Tribunal can directly 'order' winding up.

SICA vs. Companies (Amendment) Act, 2002

In the new atmosphere of liberalisation and openness that has emerged during the last decade (after the adoption of the New Economic Policy in 1991), there is a clear preference in favour of liquidation of sick industrial conmanies rather than rehabilitation. Accordingly, laws are being modified to make this easier. As is clear from the discussion above, in line with this effort, the definition of a sick industrial company has been changed and provision has been made for the setting up of a National Company Law Tribunal in place of BIFR. Some important changes in the new Act are as follows :

1. The definition of a sick industrial company has been considerable changed. Now, if a company has accumulated losses exceeding 50 per cent of its net worth during last four years or if it fails to repay its debts to the creditor(s) within a period of 9 months of the demand made by the latter, it will be classified as sick. Either of these criteria is sufficient to classify a company as sick.

2. Under Section 424A(1) of the amended Act, when an industrial company falls sick, the Board of Directors of the company is required to make a reference to NCLT and submit a scheme of revival and rehabilitation. Earlier, under Section 15(1) of SICA, the company was required to make reference but war not required to submit a scheme for revival. It was the responsibility of bank/financial institution to nurse the 'sick baby'.

3. After receiving reference under Section 424(1), the Tribunal may pass an order as to whether a company in respect of which a reference has been made has become a sick industrial company and such an order will be final. The Tribunal can accept or reject the reference at that stage itself, on prima facie basis. Such order can be passed without making equiry. Earlier, under Section 16(1) of SICA, such order could be passed only after making enquiry.

4. Under SICA, BIFR could only 'recommend' the winding up of the company whereas NCLT can directly 'order' winding up. Moreover, NCLT will be the single forum for companies replacing the existing three forums (presently dispute resolution and compliance with certain provisions of the Companies Act, 1956 is looked after by Company Law Board, revival and rehabilitation of sick companies by BIFR and winding up of companies by High Courts).

5. The entire focus of NCLT is expected to be on speeding up the process of liquidation of sick companies rather than rehabilitation. Under SICA, the process of winding up of a sick industrial company could extend over years together as the powers of winding up were with the High Court, assisted by Official Liquidator There were deiays in finalising the winding up. Now. the work of, winding up is transferred to NCLT. Section 424G (1) states that the winding up of a company shall, as far as possible, be concluded within one year from, the date of winding up order.

17.10 SUMMARY

1. The problem of sickness in industries has become very acute in India. It has adversely effected the "health" of the industrial sectors in particular and the economy in general.

2. The problem of Industrial sickness has grown over the years and a large number of industrial units in the small-scale sector and non-small-scale sector are affected by it.

3. In planned and underdeveloped labour surplus economy like India, industrial sickness can be have serious consequences.

4. Closure of a sick industrial unit not only causes substantial unemployment, it also causes widespread labour unrest.

5. Various concessions and incentives were offered to sick units to halp them regain their healthy and stand on their feet once again.

NOTES

1. Government of India, Economic survey, 2007-08, Delhi, 2008 Table 7.20, p. 204.

2. Report of the Committee on Industrial Sickness and corporate Restructuring, 1993, p. 20

Keywords : sickness, viable units, restraints, incompetence, obsolete, luridation, rehabilitation

17.11 SHORT ANSWER TYPE QUESTIONS

Q.1. Define sickness according to SICA 1985.

Ans. According to this Act, a sick unit was defined as “an industrial company (being a company registered for not less than reman years) which has at the end of any financial year accumulated lores erual to or exceeding its entire net worth and has also suffered cash losses in such financial year and the financial year imediately preceeding such financial year”.

Q.2. What are the causes. If industrial sickness ?

The causes of Industrial sickness can be divided into :

(a) External	(b) Internal
– Power cuts	– Faults at the planning

–	Electric supply of Inputs	–	Defective plant and Machinery
–	Demand & credit restraints	–	Management problems
–	Govt. Policy	–	Financial Problems

17.12 EXAMINATION ORIENTED QUESTIONS

Q.1. Define industrial sickness ? What are the causes responsible for sickness ?

Q.2. Explain the causes and consequences of Industrial sickness.

Q.3. What are remedial measures adopted by the govt. to reduce sickness ?

Suggested Readings

1. Misra & Puri, Indian Economy, Himalaya Publishing House, Delhi

M.A. ECONOMICS

COURSE NO. 566 **LESSON No. 18**
SEMESTER-IV **UNIT-IV**

COTTAGE AND SMALL-SCALE INDUSTRIES IN INDIA

CHAPTER OUTLINES

18.1 INTRODUCTION

The small scale and cottage Industry is a vital constitutent of India's Industrial sector. It contributes to GDP and exports significants and providing employment to millions of people across the country. In this lesson we will discuss, definitions, Role and Performance, Govt policy and problems of small and Cottage Industries in India.

18.2 OBJECTIVES

The objective of this lesson's is to appraise the students about the growing cottage and small scale Industries in India.

The small-scale industrial (SSI) sector is a vital constitutent of India’s industrial sector. It contributes significantly to India's Gross Domestic Product and export earnings besides meeting the social objectives including that of providing employment opportunities to millions of people across the country. The SSI sector covers a wide spectrum of industries categorised under (a) small-scale industrial undertakings, (b) ancillary industrial undertakings (ANC), (c) export-oriented units (EOUs), (d) tiny enterprises (TINY), (e) small-sale service enterprises (SSSEs), (f) small-scale service business (Industry Related) enterprises (SSBEs), (g) artisans, village and cottage industries, and (h) women enterpreneurs enterprises, i.e., a small-scale unit where one or more women entrepreneurs have not less than 51 per cent financial holding. In this chepter, we propose to discus :

- Definition of small-scale industries sector
- Role and performance of cottage and small-scale industries in Indian economy
- Government's policy towards small-scale and cottage industries
- Problems of small-scale and cottage industries.

In 1977, units having investment of less than Rs. 10 lakh were defined as small-scale industrial undertakings, while for ancillary units, the investment limit was Rs. 15 lakh. Units with investment of less than Rs.1 lakh were defined as tiny enterprises. In 1991 (the year in which economic reforms were initiated); the investment limit for small-scale industries was Rs. 60, lakh, for ancillary units Rs. 75 lakh, and for tiny enterprise Rs. 5 lakh. In 2000, the investment limit for SSI (small-male industry) was Rs. 1 crore, for ancillary unit Rs. 1 crore if for tiny enterprise Rs. 25 lakh. Consequent to the enacts of Micro, Small and Tedium Enterprises devspectment (MSMED) Act, 2006, the small and medium relation defined as micro, small and medium end to ges with effect from October 2, 2006 (the Actor medium enterprises for the first time). Further, investment limits have been prescibed for manufacturing and service enterprises. The new definition is as follows :

A : Manufacturing Enterprises

(i) A micro enterprise, where the investment in plant - and machinery does not exceed 25 lakh;

(ii) A small enterprise, where the investment in plant and machinery is more than Rs. 2S lakh but does not exceed Rs. 5 crore; and

(iii) A medium enterprise, where the investment in plant and machinery is mare than Rs. 5 crore but does not exceed Rs.10 crore.

B: Service Enterprises

(i) A micro enterprise, where the investment in equipment does, not exceed Rs. 10 lakh;

(ii) A small enterprise, where the investment in equipment is more than Rs. 10 lakh but does not exceed Rs. 2 crore; and

(iii) A medium enterprise, where the investment in equipment is more then Rs. 2 crore but does not exceed Rs. 5 crore.

Registered and Unregistered SSI Units

Registration in the SI sector is voluntary. The registration is done with the District Industries Centres (DICs), firstly on a temporary basis and subsequently on the request of the concerned enterpreneurs, on a permanent basis. However, as far as manufacturing units are concerned, their registration is mandatory under Sections 2m (i), and 2m (ii) of the Factories Act. Section 2m (i) refers to units engaging 10 or more wokers and using power whereas Section 2m (ii) refers to units engaging 20 or more workers and not using power. Besides, some State governments notify certain industrial activities for mandatory registration, although they do not conform to the criteria laid down under Sections 2 m (i) and 2m (ii). Such registrations are done under Sections 85 (i) or 85 (ii) by the concerned State governments. Section 85 (i) refers to units engaging less than 10 workers and using power and Section 85 (ii) refers to units engaging less than 20 workers and not using power.

To obtain knowledge regarding the activities of the SSI sector and improve the information-base of this sector, the Office of the Development Cominissioner (Small-scale Industries) of the Government of India conducted the First Census in 1973-74 in respect of 2.58 lakh SSI units registered upto 30.11.1973. The Second Census was conducted during 1990-91 in respect of 9.87 lakh SSI units registered upto 31.3.1988. The Third Census was conducted during 2002-03 (reference year being 2001-02). In addition to 13.75 lakh registered SSI units, this Census also covered 91.46 lakh unregistered units making up a total of 105.21 lakh SS1 units. The Fourth Census was conducted in 2006-07. This Census covered medium enterprises also (in addition to small and micro enterprises) for the first time.

18.3 THE ROLE AND PERFORMANCE OF COTTAGE AND SMALL-SCALE INDUSTRIES IN INDIAN ECONOMY

As is clear from the discussion in the above section, the definition of small-scale industries has changed considerably over the period of planning. Moreover, from 2006-07 onwards, data for this sector also includes information on medium enterprises. On account of these reasons, it is not possible to attempt a comparative study of the performance of the small-scale sector during the entire period of planning. However, some idea of the role of small-scale and cottage industries in India's industrial and economic development can be obtained from the discussion below :

1. **Expansion of SSI sector and its share in industrial production.** The number of units in the SSI sector stood at 109.5 lakh in 2002-03 (of this, 16.0 lakh were registered and 93.5 lakh unregistered). This number rose to 133.68 lakh in 2007-08. Output of the SSI sector in 2002-03 was Rs. 3,06,771 crore and this rose to Rs. 5,32,979 crore in 2007-08 (at 2001-02 prices). The rate of growth of output exceeded 12 per cent in 2005-06, 2006-07 and 2007-08.

   According to the Fourth Census of SSI units conducted in 2006-07 (which also included information on medium enterprises), there are about 260 lakh MSMEs (medium, small and micro enterprises) in the country and they contribute about 8 per cent of GDP and about 45 percent of manufactured output.

2. **Employment generation.** The SSI sector employed 263.7 lakh people in 2002-03 and this number rose to 322.28 lakh people in 2007-08. If persons employed in the medium enterprises are also included, the number of people employed in the MSME sector presently stands at around 600 lakh.

   Within the manufacturing sector itself, Small and decentralised sector contributes about four-fifths of manufacturing employment in India. Given the acute unemployment problem in India, creation of employment opportunities will depend crucially on the development of small-scale and cottage industries. This would be clear from the fart that while employment in the factory sector as a whole (large-scale, medium scale and small-scale, increased by only 2.21 per cent per annum over the period 1972 to 1987-88, employment in small scale sector grew the rate of 5.45 per cent per annurm. As far as future prospects are concerned, the rural non-farm sector accounting for about 22 per cent of rural employment can play a crucial role in the further expansion of employment opportunities in the rural areas. An important constituent of this sector in the manufacturing activity consisting mainly of textile-based and agro-based products and units producing construction materials. In the urban areas employment potential seems to be the largest in the non-household, tiny sector segment of the manufacturing sector. Overall, it has been estimated that labour intensity in the micro and small enterprises sector is almost 4 times higher than the large enterprises.

3. **Efficiency of small-scale industries.** A controversy has raged in this country over the issue of efficiency in the small scale industries.Vis-a-large scale industries. While some studies have pointed out that small-scale industries are more efficient, others point out that large-scale industries are more efficient. One of the earliest studies on the relation effciency of small-scale industries in India was undertaking by Dhar and Lydall. They concluded that modern small scale industry is fairly capital-intensive; that is, these units do not generate more employment par unit

of capital than large-scale industry. Similar conclusions were reached. Sandesara in a study conducted for me period 1953-58 Sandesara used CMI data for 28 industries and found that for a given volume of investment, small-scale units neither generated more employment nor produced more ontput compared to large-scale units. In his pape published in 1988, Bishwanath Goldar, compared for 37 industries the three-digit level the technical efficiency of small scale and large-scale industries for the year 1976-77. He that the SSIs (compared to the large-scale industries) general have low labour productivity, high capital productivity. He capital intensity (measured as capital per employes) and other 1 factor productivity. He inferred that the modern scale sector is inefficient relative to the large sector in number of industries. He also found that the relative offer of the SSIs varies directly with capital intensity, so that SSIs cannot be relied upon as source of other employment generation.

The above analysis suggests that large-scale units are more efficient than the small-scale units. However, there are some studies which prove the opposite and show that small-scale units are more efficient. For example, using the data presented in Annual Survey of Industries for 1960, 1963, 1964 and 1965, Ramsinh K. Asher' showed that the joall-scale. sector is more efficient. Table 9.6 of his study showed that the small-scale factory combined the largest number of workers with a rupee's worth of fixed capital; that a rupee worth of fixed assets produced almost seven tunes an output in small as compared to large industries and that the value added by a rupee worth of fixed investment in small factories was at least three times as large as that for a large factory. Another important study on this issue was conducted in 1999 by the SIDBI (Small Industries Development Bank of India) Team in association with National Council of Applied Economic Research. The study covers the period 1980-94. It reveals that the small-scale industries by investing only 7 percent to 15 per cent of the manufacturing sector's capital contribute to nearly one-fifth of the total industrial output and 35 to 40 percent total employment in the industrial sector. An analysis of productivity shows that while labour productivity was slightly in large-scale industries, capital productivity was slightly higher in small-scale industries over the period 1980-81 to 1994-95. What is more important however, is a comparison of total factor productivity. Table 2.16 of the study presents estimates of relative total factor productivity. The index of relative efficiency calculated in the table defines total factor productivity of the small-scale industries reiative to the large-scale industrics. it is based on a translog production function characterised by constant returns to scale variable elasticity of substitution. The estimated total factor productivity of small-scale industries aitingthe period 1980-81 to 1994-95 is greater than one all years excepting 1987-88 when it was 0.53 suggesting that at the all India level, the small-scale sector is more efficient than the large-scale sector.

With discussing the issue of efficiency, it in also to keep the employment potential in view in a power-supply economy like India. This is precisely what the Third All India Census of Small-scale Industries, 2001-02 does. Comparison of the SSI sector with large manutacturing sector made for the year 2001-02 by the Census Report shows that the SSI sector is a better employment generating sector. This would be clear from the fact that the employment generated by the SSI sector per Rs. one lakh investment was 1.39, as against only 0.20 in respect of the large manufacturing sector. This means that the organised sector requires an investment of Rs. 5 lakh to generate employment to one person whereas the SSI sector generates employment for 7 persons was the same investment. With regard to investment-output ratio also, the SSI sector fared almost on par with the organised sector — an investment of about Rs. 43,000 was required in the organised sector to generate an output worth one lakh, whereas in the SSI sector, a marginally higher investment of Rs. 48,000 was required to generate the same amount of output.

4. **Equitable distribution of national income.** One of the main arguments put forward in support of the small-scale and cottage industries is that they ensure a more equitable distribution of national income and wealth. This is accomplished because of the following two considerations: (i) the

ownership of small-scale industries is more widespread than the ownership of large-scale industries, and (ii) they possess a much larger employment potential as compared to the large industries.

Dhar and Lydall have pointed out that this argument is wrong. According-to-them, workers in small-scale and village industries are unorganised and cannot fight for their rights. As such, wages paid to them are much less than the wages paid to workers in large industries (for instance, wages in small-scale industries in India are just about half the wages paid in large-scale industries). In all countries including England, USA, West Germany, Japan and India, small industries have failed to achieve the objective of equitable distribution of income and decentralisation of economic power,

This argument cannot be defended since it misses point (ii) made above. We must not forget that the small-scale industries have a high employment potential and consequently they enable a vast majority of people to share the fruits of economic development. In their absence, the only option before these people would be to remain unemployed or seek still less remunerative jobs.

5. **Mobilisation of capital and entrepreneurial skill.** The small-scale industries are at a distinct advantage as far as the mobilisation of capital and entrepreneurial skill is concerned. A number of entrepreneurs are spread over small towns and villages of the country. Obviously, large-scale industries cannot utilise them as effectively as the small-scale and village industries distributed over the entire length and breadth of the country. Similarly, large-scale industries cannot mobilise the savings done by people in areas far flung from the urban centres. But this task can be effectively accomplished by setting up a network of small-scale and cottage industries. In addition, a large number of other resources spread over the country), can be put to an effective use by the small-scale and cottage industries. The rapid development of small-scale industries in the post-Independence period is a proof that given the necessary credit, power and

technical knowledge, a large quantity of latent resources of the economy can be mobilised for purposes of industrial development.

6. **Regional dispersal of industries.** In our discussion on industrial licensing policy in the chapter on 'Industrial Policy', we shall point towards the tendency of massive concentration of large-scale industries in the States of Maharashtra, West Bengal, Gujarat and Tamil Nadu. Thus, disparities in industrial development have increased. Even within these industrialised States, industries have tended to get concentrated in a few large cities like Mumbai, Kolkata and Chennai. People migrate in large numbers from villages and lower order urban centres to these centres of industrial development. This swells the population of slums and creates various social and personal problems. The whole urban environment gets polluted. As against this, the small-scale industries are mostly set up to satisfy local demand and they can be dispersed over all the State very easily. They can also effect a qualitative change in the economy of a State. The most glaring example of this phenomenon is the economy of Punjab which has more small-scale industrial units than even the industrially developed State of Maharashtra.

7. **Less industrial disputes.** Supporters of small-scale industries frequently argue that large-scale industries are ridden with more industrial disputes than the small-scale industries. Because of the 'tensions' in the elations between workers of large-scale industries and the mill-owners, such industries frequently face strikes and lockouts. Against this, the small-scale industries are free from such hazards and there is consequently less loss of output. However, this viewpoint is not totally correct—In capitalistic form of production whether the unit is small or large, the mill-owner does exploit the workers. This does lead, to tensions and conflicts. However, whereas the labourers working in large-scale industries are organised and resort to collective action (in the form of strike), workers in small-scale industries are not organised and have no way of expressing their resentment. Any-worker who gives a vocal expression to his resentment is immediately

thrown out. Therefore, apparently the relations between the employers and employees in a small-scale unit seem to be harmonious while actually they are not.

In the case of cottage industries, the question of disputes does not arise at all since the main form of labour in these industries is family labour.

8. **Contribution to exports.** With the establishment of a large number of modern small-scale industries in the post-Independence period, the, contribution of the small-scale sector in export earnings has increased by leaps and bounds. What is heartening to observe is that the bulk of the exports of the small-scale industries (in fact, around 93 per cent) consists of such non-traditional items like readymaie garments, sports-goods, finished leather, leather products, woollen garments and knitwear, processed foods, chemicals and allied products, and a large number of engineering goods. The total exports of the small-sector industry products increased, from Rs. 155 crore during 1971-72 to Rs. 1,81426 crore in 206o-07. This meant an increase in the share of the small-scale industries in the total exports of the country from 9.6 per cent in 1971-72 to around 28 percent in 2006-07 MSME sector, as a whole, contributes about 40 percent of export earnings presently.

18.4 SMALL-SCALE AND COTTAGE INDUSTRIES DURING THE PLANS — THE GOVERNMENT POLICY

It has been argued by some economists that small scale industries are hampered in their growth by imperfections in factor markets (particularly distortions in capital markets as small-scale industries are discriminated against in these markets). Therefore, special support policies are needed for small-scale enterprises. The policy of the Government of India towards the small scale sector has been guided by this considertion. Infact, as noted by Rakesh Mohan, amongst developing countries India was the first to display special concern for small scale enterprises, before it became fashionable to do so. In the section, we propose to discuss the policy of the Government of india towards the small-scale and cottage industries. This discussion is divided into the following sub-sections :

1. Policy prior to 1991
2. New Small Enterprise Policy 1991
3. Comprehensive policy package 2000 and recent policy measures
4. Critical evaluation of the policy for small-scale and cottage industries.

Policy Prior to 1991

A large number of steps were initiated by the Goverment of India after Independence for the development of small-scale and cottage industries. These included of building up of organisational structure, increase in the output for the development of small-scale and cottage industries reservations for production, credit and marketing facilities concessions, exemptions etc.

1. Organisational Structure. (i) A Cottage Industries Board was set up in 1947 itself. This was split into the following three boards during the First Five Year Plan. India Handloom Board. All India Handicrafts Board and India Khadi and Village Industries Board. In addition the more boards were set up. These were the .... industries Board, Coir Board Industries Board, Coir Board and Central Silk Board. Thus of the end of the First Five Year Plan, there were a total of six boards covering the entire field of small-scale and cottage industries. Together, they constituted the organisational structure through which the promotional and development efforts of the State were to be carried out.

(ii) National Small Industries Corporation Ltd. (NSIC) was set-up in 1955 to provide machinery to small-scale units on hire-purchase basis and to assist these units in procuring orders from government departments and offices.

(iii) Four REgional Small Industries Service Institutes, with a number of branches, were set up to provide technical a ?? to the small-scale industries.

(iv) Small Industries Develop Organisation SDO was set up in 1954. It functions as an apex, body in the formulation of policies and coordination of institutional activities for sustained and organised growth of small-scale industries. It has a large netwrok of small industries service institutes, branch institutes, toolrooms etc. SIDO has now been renamed as the Mircro, Small and Medium Enterprises Development Organisation.

(v) The programme of Industrial Estates was initiated in 1955.The programme aims at providing factory accommodation and a number of common facilities like power, water, transport etc. at one place.

(vi) The programme of District industries Centre (DICs) was introduced in May 1979. The idea was to establish one agency in each district called the District industries Centre to rpovide and arrange a package of assistance and facilities for credit guidance, raw materials, training keting etc. including the necessary help to unemployed educated young enterprenurs in general and custom services. At the present, there are 422 DICs operating in the country covering 431 districts (except Mumbai, Kolkoata, Delhi and Chennai).

2. **Plan Expenditure** Expenditure on small-scale and cottage industries has increased considerably over the plans It was 42 crores in the First Plan, 187 crore in the Second Plan, 1,945 crore in the Sixth Plan (1980-90) and 7,226 were in the Eighth Plan (1922-97). Expenditure on small scale and cottage industries in the Ninth Plan (1997-2002) is estimated at 8,384 corore.

3. **Reservation for SSIs.** To protect small-scale units from competition from large number of items for the small-scale sector. The list of reservation items was expanded from 77 to 124in the Fourth Plan to 500 in 1977 and further to 873 items on October 18, 1984 (on July 31, 989 the number of reserved items stood at 836).

4. **Financial assistance for SSIs.** Several scienes were introduced to provide financial assistance to small-scale industries. These include — the Small Industries Development_ Fund (SIDF), in 1986, National Equity, Fund

(NEF in 1987 and the Single Window Scheme (SWS) in 1988. SIDF provides refinance assistance for development, expansion, diversification and rehabilitation of small-scale, cottage and village industries and tiny sector in rural areas. NEF provides equity type support to small entrepreneurs for setting up new projects in tiny small-scale sector and also assistance for rehabilitation of viable sick units in the small-scale sector. SWS provides working capital loans alongwith term loans for fixed capital to new tiny and small-scale units.

In addition, commercial banks were asked to provide priority to small-scale and cottage industries in granting credit facilities. For this purpose, procedures and conditions of financial assistance from commercial banks and other institutions have been liberalised.

5. **Setting up of SIDBI.** For meeting the long standing demand of small-scale industries for a separate Apex Bank to provide financial assistance to them, the government setup the Small Industries Development Bank of India (SIDBI) in 1989.

   With a View to ensuring larger flow of assistance to the small-scale units, the immediate thrust of SIDBI was on : (i) initirrifiating steps for technological upgradation and modernisation of existing units; (ii),expanding the channels for marketing the products of the small-scale sector; and (iii) promotion of employment-oriented industries especially in semi-urban areas to create more employment opportunities. SIDBI provides assistance to the small-scale units through the existing credit delivery system comprising State Financial Corporations, State Industrial Development Corporations, Commercial Banks, Cooperative Banks and Regional Rural Banks. The major activities of SIDBI are : (i) refinance.of loans and advances; (ii) discounting and rediscounting of bills; (iii) extension of seed capital/soft loans; (iv) granting direct assistance and refinancing of loans; (v) providing services like factoring, leasing etc; and (vi) extending financial support to State Small Industrial Development Corporations.

6. **Other measures.** A number of other measures were introduced from time

to time to promote the growth of small-scale and cottage industries. Some of these measures were as follows :

(i) A Council for Advancement of Rural Technology (CART) was set up in October 1982 to provide the necessary technical input to the rural industries.

(ii) Price and purchase preference was granted to products manufactured in the small-scale sector in government purchase programme.

(iii) Excise concessions were granted to both registered and unregistered units on a graded scale depending on turnover upto Rs. 300 lakh.

(iv) Full exemption was granted upto a turnover of Rs. 30 lakh and concessional rate of excise duty was levied for a turnover exceeding Rs. 30 lakh but not exceeding Rs. 75 lakh.

New Small Enterprise Policy, 1991

The government announced a policy package for small, tiny and village industries in August 1991 with the primary objective of imparting more vitality and growth impetus to this sector Important measures announced in this policy were as under :

1. The investment limit for tiny units was raised from Rs. 2 lakh to Rs. 5 lakh. Moreover, the locational restrictions were done away with. This opened up the way for tiny units within the new investment limit and located in bigger towns (population of more than 50,000) to become a part of the 'tiny' group. In addition, while earlier on 'industry' meant, by and large, manufacturing, the new policy widened the scope to include industry-related service and business enterprises. This, according to Sandesara, is more realistic. Like in many other countries, now our country has a 'small business policy' and not a 'small industry policy.'

2. The 1991 policy proposed a separate package for the promotion of tiny enterprises. While these enterprises were to receive various types of support on a continuing basis, other (non-tiny) small enterprises were to be mainly entitled to one-time benefits (like preference in land allocation/power

connections, access to facilities for skill/technology upgradation). The philosophy underlying this seemed to be to help the tiny units to grow faster upto a certain limit (with assistance), after which they were expected to generate their own momentum of growth, so that less frequent assistance would then suffice.

3. **The third major change related to equity participation.** The 1.991 policy provided for equity participation by other industrial units in the small-scale units not exceeding 24 per cent of the total shareholding. This is expected to prove mutually beneficial both to large units and the small, especially ancillary units, and further cement the economic bonds between the two sectors. This provision not only relieves the small units of the burden of full equity funding, but also builds up the stakes of large units in the survival and growth of small units.

4. The fourth important feature was the introduction of a new legal form of organisation of business, namely, restricted or limited partnership. In this form, the liability of at least one partner is unlimited, whereas other partners have their liability limited to invested capital. This is a welcome provision. It will attract equity capita, from friends and relatives of the small-scale entrepreneurs who may like to help their kith and kin but who were earlier reluctant due to unlimited liability in the partnership form.

5. **Some other features of the policy were :**

   (i) The policy proposed to meet the entire credit, demand of the small and tiny units. The emphasis was shifted from ‘cheapness of credit’ to ‘adequacy of credit’.

   (ii) The scope of the National Equity Fund (NEF) scheme and Single Window Scheme (SWS) was enlarged.

   (iii) The policy provided for according priority to the tiny sector in the government purchase programme.

   (iv) The small and tiny sector was to be accorded priority in allocation of indigenous raw materials.

(v) The policy envisaged market promotion of & small and tiny sectors products to be undertaken by cooperatives public sector institutions and other professions agencies.

(vi) The policy proposed a scheme of integrated infrastructure development for small industries to facilitate location of industries in rural and backward areas and to promote stronger coordination between industry and agriculture. The scheme was formally launched in March 1994 and Integrated Infrastructure. Development Centres (IIDCs) set up.

The Ninth Plan emphasised dereservation as it argued that dereservation would help a number of SSI units to upgrade their technology, improve the quality of their products, expand their scale of operations, and boost their exports. However, cereservation is to be done in sach a way that it does not cause any “sudden dislocation and problems for the weak small scale units." The Plan recognised that the biggest problem facing the small-scale sectork. inadequate availability of credit and proposed a number of initiatives in this regard. These included: (i) strengthenii.a the financial and management base of State Financial Corporations and Small Industries Development Organisation to enable them to provide better services to the small-Scales sector; (ii) setting up specialised oranches by banks for financing small-scale industries; (iii) setting up of Local Area Banks (LABs) by financially strong and better manage SSI associations; (iv) encouraging non-banking Finance companies (NBFCs) through suitable financial incentives to provider more loans to the SSI units, etc.

Comprehensive Policy Package 2000 and Recent Policy Measures

A comprehensive policy package for the small scale sector was announced by the Prime Minister on 2000. The main elements of this package were : (1) Conducting the third census of small-scale industries; (2) raising the exemption for excise duty limit from Rs. 50 lakh to Rs.1 crore to improve the competitiveness of small-scale sector; (3) providing credit linked capital subsidy of 12 per cent against loans for technology upgradation in specified industries; (4) raising the limit of investment in industry related service and business enterprises from Rs. 5 lakh to 10 lakh; (5) raising the limit of composite loans from Rs. 10 lakh to Rs. 25 lakh; (6) encouraging SSI associations to -develop and operate testing laboratories; (7) constitution of group under the Cabinet Secretary to suggest/recommend streamlining of inspection and repeal of redundant laws and regulations applicable to the sector; (8) increasing the coverage of Integrated Infrastructure Development (IID) scheme to progressively cover all areas in the country with 50 percent reservation for rural areas and 50 per cent of plots earmarked for tiny sector, etc.

As stated earlier, the Third. Census of the small scale sector (covering both registered and unregistered units) was conducted during the year 2001-02. This has provided valuable information regarding the SSI sector. Other important steps undertaken in recent years are as follows :

1. **Raising of investment limit.** The investment limit for the SSI sector which was Rs. 1 crore prior to 2006 has been raised to Rs. 5 crore in-MSMED Act. 2006. This has been done to facilitate technological upgradation of this as for so that it is able to compete effectively in the new local competitive industrial environment.

2. **Enhancing the excise exemption limit.** As announced in the Budget 2005-06, the turnover eligibility limit under the general SSI Excise Exemption Scheme has been raised from Rs. 3 crore to Rs. 4 crore.

3. **Credit Guarantee Fund Scheme for micro and small enterprises.** The government launched the Credit Guarantee Fund Scheme for Small Industries (now renamed as Credit Guarantee Fund Scheme for micro and Small enterprises) in August 2000 with the objective of making available credit to SSI units, particularly tiny units, for loans up to Rs. 100 lakh without collateral thid party guarantees.

   The scheme covers collateral free credit facility (term loan and /or working capital) extended by eligible lending situtittioris to new and existing micro and small enterprises up to Rs. 100 lakh perborrowing unit. The guarantee cover provied is up to 75 per cent of the credit facility up to Rs. 50 lakh with an incremental guarantee of 50 percent of the credit facility above Rs. 50 lakh and up to Rs. 100 lakh. The scheme is being operated by the Credit Guarantee Fund Trust of Micro and Small Enterprises (CGTMSE) set up jointly by the Government of India and SIDBI. As on November 30, 2C10, cumulatively 4.50 lakh proposal save been approved for guarantee cover for a total sanctioned loan amount of Rs. 18,946 crore.

4. **Scheme for technology upgradation.** To encourage technology upgradation, a Credit Linked Capital Subsidy Scheme for technology upgradation has been launched. Under this scheme, 15 per cent capital subsidy is admissible on loans upto Rs. 1 crore, advanced by scheduled commercial banks/State Finance Corporations/National Small Industris Corporation to small-scale industries for technology upgradation.

5. **Extension of IIID** The Integrated Infrastructure Development (IID) scheme has been extended to cover the entire country with 50 per cent reservation for rural areas.

6. **Market Development Assistance.** A flexible growth stimulating and artisan-centric scheme named Market Development Assistance (MDA) to promote production and sales of khadi and polyvastra has been introduced from 2010-11. The scheme provides for assistance up to 20 per cent of the value of production to be shared among artisans, producing institutions, and selling institutions in the ratio 25 : 30 : 45.

7. **Dereservation.** In recent years, the government has been following the policy of dereservation as it believes that this will help the SIs units to upgrade their technology and improve the quality of their products. As a result of this policy, the number of items reserved for the SSI sector came, down from 836 in July1989 to 114 in March 2007. At present, only 14 items are reserved for the small-scale sector.

8. **Credit delivery to SSI Sector.** To ensure credit delivery to the SSI sector, a number of steps have been undertaken in recent years : (i) the composite loan limit has been raised from Rs 50 lakh to Rs. 1 crore; (ii) the limit of collateral

free loans has been raised from 15 lakh to Rs. 25 lakh in case of SSI units with a good track record; (iii) Laghu Udyami Credit Card (LUCC) scheme has been liberalised by enhancing the credit limit from Rs. 2 lakh to Rs. 10 lakh, for borrowers having a satisfactory track record; (iv) the Small and Medium Enterprises (SME) Fund of 10,000 crore was operationalised by the SIDBI (Small Industries Development Bank of India) since April 2004. Eighty per cent of the lending from this Fund will be for SSI units, at interest rate of 2 per cent below the prevailing PLR (prime lending rate) of the SIDBI. The government has also announced a policy for doubling of credit flow to the small and medium enterprises sector in a period of five years.

As a result of all these efforts, there has been a considerable expansion of bank credit to the small-scale sector in recent years. As at the end of March 2010, the amount of bank credit outstanding against micro and small-scale industries stood at Rs. 3,73,530 crore which was 12.3 per cent of non-food gross bank credit and 34.2 percent of total priority sector advances by banks.

9. **Enactment of MSMED Act, 2006.** Micro, Small and Medium Enterprises Development (MSMED) Act was enacted in 2006. It provides the first-ever legal framework for recognition of the concept of "enterprises" (comprising both manufacturing and services) and integrating the three tiers of these enterprises, viz., micro, small and medium. It also provides for a statutory consultative mechanism at the national level with wide representation of all sections of stakeholders, particularly the three classes of enterprises. Other important provisions of the Act are: (i) establishment of specific funds for the promotion, development and enhancement of competitiveness of these enterprises; (ii) notification of schemes/programmes `or the purpose; (iii) progressive credit policies and practices; (iv) preference in Government procurements to products and services of the micro and small enterprises; (v) more effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises; and (vi) simplification of the process of closure of business by all three categories of enterprises.

10. **National Manufacturing Competitiveness Programme (NMCP).** The Government has launched National Manufaturing Competitiveness Programme (NMCP) for MSMEs, which has specific components that are aimed at enhancing the competitiveness and productivity of the enterprises in this sector so as to withstand global and organised competition and to thrive through better technologies and skills. The ten components of the NMCP seek to introduce the best elements of.industrial competitiveriess in the MSME sector, which has been often unable to afford such practices and techniques. These ten components are the following : (i) Building Awareness on Intellectual Property Rights for MSMEs; (ii) Scheme for providing Support for Entrepreneurial and Managerial Development of SMEs through Incubators; (iii) Enabling the Manufacturing Sector to be Competitive through Quality Management Standards and Quality Technology Tools (QMS/QTT); (iv) Mini Tool Rooms under PPP mode; (v) Marketing Assistance Support to MSEs (Bar Code); (vi) Lean Manufacturing Competitiveness Programme for MSMEs; (vii) Promotion of Information and Communication Tools (ICT) in the Indian MSME Sector; (viii) Design Clinics Scheme for MSMEs; (ix) Marketing Assistance and Technology Upgradation Scheme for MSMEs; and (x) Technology Quality Upgradation Support to MSMEs.

11. **MSE — Cluster Development Programme.** The Ministry of Micro, Small and Medium Enterprises (MSMEs) initiated selected interventions in industrial clusters first in 1998. through its scheme 'Integrated Technology Upgradation and Management Programme' (UPTECH). In August 2003 the scheme was renamed as Small Industry Clusters. Development Programme (SICDP) and was broad-based for holistio and integrated development of micro and small enterprises through interventions such as capacity building marketing development, export promotion, skill development; technology upgradation, exposure visits, etc. and setting up of common facilities. The scheme was renamed as Micro and Small Enterprises — Cluster, Development Programme (MSE — CDP) and the Integrated Infrastructurat Development (IID) Scheme of the Ministry was subsumed under MSE — CDP with its existing funding

pattern in August 2007. The guidelines of the MSE Cluster Development Programme were comprehensively modified in 2010 to provide higher support to the MSEs During 2010-11 new clusters were taken up for diagnostic study, 11 new clusters for soft interventions, and 6 clusters approved for setting up of common facility centres (CFCs). With this, a total of 471 clusters spread over 28 States and seven Union Territoriet nave so far been taken up for diagnostic study soft interventions, and setting up of CFCs and efforts and under way to cover more and more clusters from all the States/UTs.

12. **Prime Minister's Employment Generation Programme (PMEGP).** The Government introduced a new employment generation credit link subsidy scheme tilted Prime Minister's Employment Generation Programme (PMEGP) in August 2008, for setting up micro enterprises in rural and urban areas by merging two existing employment generation programmes of the Ministry namely Prime Minister's Rozgar Yojana (PMRY) and Rural Employment Generation Programme (REGP). Up to November 2010, 2.65 lakh applications have been received by various implementing agencies under PMEGP, of which 1.13 lakh have been selected by District Level Task Force concerned for assistance. Financial assistance for 30,881 projects has been sanctioned by banks and loans were disburses in 23,059 cases which will give employment to about 2.31 lakh persons.

The Task force and Presented in Box 28.1

They pertain to six major thematic areas, namely credit, marketing, labour, rehabilitation and exit policy, infrastructure, technology and skill development and taxation as also special measures for the north-eastern region and Jammu and Kashmir. The implementation of these recommendations is being monitored periodically by the steering Group constituted under the chairmanship of Principal Secretary to the Prime Minister.

Eleventh Five year Plan prould an outlay of Rs. 11,500 crore for MSME (Micro, small and Medium enterprises) sector. The production of micro and small enterprises (MSE) sector is targeted to increase from Rs. 6,82,163 crore in

2007-08 to Rs. 13,98,803 crore in 2011-12 at current prices (compound annual growth rate being 15.4 per count.) while employment is targeted to increase from 322.28 lakh persons to 391.73 lakh persons over this period (compound annual growth rate being per cent)[13]

Critical Evaluation of the Policy for Small-scale Industries

Massive growth has taken place in the small-scale sector during the period of planning. As stated earlier, MSMEs now contribute about 8 percent of GDP, about 45 percent of manufacturing-output and about 40 percent of total exports. The government claims that a substantial part of the growth was due to its promotional comrts However, a number of scholars have challenged this view. Their main points of criticism are as follows :

1. While there has been a substantial growth in modern small-scale industries, falling within the purview of SIDO (Small Industries Development Organisation), this development has remained concentrated in main cities and large towns. Moreover, only a few units account for a substantial part of the output of this sector.

2. Institutional credit has generally gone to a small percentage of small-scale units.

3. There is considerable underutilisation of capacity and sickness in the small-scale sector.

4. According to Rakesh Mohan, inspite of the vast increase in the number of reserved items, much of the growth in the small-scale sector seems to be in product lines outside the reserved list. It is quite possible that the policy of reservation might actually be protecting inefficient units in stagnant-industries.

5. Rakesh Mohan has argued that SSI product reservations had a very adverse effect on the growth of exports. To substantiate his assertion, he divides the export commodity groups into five broad categories on the basis of skill and technology. Group I consists of primary

Box 28.1

Summary of Recommendations of Prime Minister's Task Force on Micro, Small and Medium Enterprises.

Measures that need immediate action

1. Strict adherence to the stipulated credit targets by the commercial banks for the micro enterprises.
2. A separate fund with SIDBI, using the shortfalls against the MSE credit targets, set for the commercial banks.
3. A Public Procurement Policy for MSMEs as envisaged in the Micro, Small and Medium Enterprises Development Act, 2006.
4. Offset policy of the government should give priority to MSMEs.
5. Additional public spending to the tune of Rs. 5,000-5,500 crore over the next 3-5 years to specifically target deficiencies in the existing infrastructure and institutional set-up.

Medium Term Institutional Measures

1. Improve the institutional set-up at the national level for the promotion and development of MSMEs.
2. A Standing Review Committee to monitor flow of credit to MSME sector.
3. Microfinance Institutions (MFIs) to finance micro enterprises.
4. The District Industries Centres (DICs) to be strengthered.

Legal and Regulatory Structure

1. The establishment of a SME Exchange.
2. Legal options. for the securitisation of trade credit receivables and for the promotion of factoring services.
3. Wide adoption of new formats like Limited Liability Partnerships and Single Person companies.
4. Labour laws should be simplified, especially those applicable to enterprises in the MSME sector.

Source: Government of India, Planning Commission. Mid-Term Appraisal of the Eleventh Five Year Plan, 2007-12 (New Delhi, 2010), P. 107

commodities including processed foods; Group II consists of labour-intensive and resource-based industries requiring low levels of technology (textiles, clothing and footwear, toys and sports equipment, wood and paper products, etc.); Group III consists of sectors that require low to medium levels of technology sophistication (iron and steel, transport equipment etc.); Group IV consists of industries with medium to high levels of technology sophistication (rubber and plastic products, non-electrical machinery and motor vehicles); and Group V consists of industries requiring highest level of technology sophistication (chemical and pharmaceutical products, computer and office equipment, scientific instruments etc). All key industrialising nations of Asia that started industrialisation alongwith India shifted rapidly .from Group Ito Group II and then to higher levels of technological sophistication so much so that they now export larger quantities of goods falling in Groups IV and V. This has helped them in increasing export earnings substantially. The key success stories here are Indonesia, Malaysia and Thailand. In all these countries, the 'initial kick' in export growth was provided by Group II industries. However, the Indian exports exhibit a relatively unchanging structure since the early 1980s and the country seems to be stuck up with Group II products. Thus, the export product composition exhibits a stagnant picture. Rakesh Mohan opines that since a very high proportion of items in Group II are reserved for small-scale industries in India, India's policies on small-scale reservation have had an adverse effect on Indian export performance.

6. Another significant observation made by Rakesh Mohan is that contrary to the belief that SSIs help in industrial dispersal and promote the development of backward areas, there has been spatial concentration of these industries in 'clusters' in particular product lines. For instance. more that (81/per cent of SSEs (small-scale enterprises) are concentrated in 204/districts, and more than 50 per cent of the districts do not have any significant number of small enterprises.

7. Though employment in the small-soale sector has been rising, it is totally inadequate to solve the problem of unemployment in the rural areas. Even in urban areas. the employment opportunities in the small-scale sector have arisen mainly in large metropolitan cities. Moreover, a comparison with other large Asian countries shows that Indian manufacturing employment growth has been the lowest over the past three or four decades. In a study released in 1992, Bhavani found that policies intended to favour small industries (reservation, financial incentives, etc.) are neither promoting employment nor 'improving the competitive base of small firms. Rather, they are working as strong disincentives for growth of small firms. The support measures give protected enterprises an incentive not to grow out of small-scale sector. Moreover, given the fact that substantial incentives have all along been given to the large firms and public sector undertakings as well (as would be clear from the fact that India's byzantine structure of import and export regulations, licensing procedure, quantitative restrictions, high tariff walls, etc., have all favoured these firms), Ira N. Gang argues that. “it is difficult to see what the general thrust of government policy has been to encourage the small or the large firms — even within any given industry.”

18.5 PROBLEMS OF SMALL-SCALE AND COTTAGE INDUSTRIES

The small-scale and cottage industries face a number of problems. As a result, many small-scale units turn sick and a large number have to close down. The magnitude or sickness among the small-sector units would clear from the fact that at the end of March 2008, as many as 85,187 of these units were sick and an amount of Rs. 3,083 crore was blocked in them. Let us now consider the main problems that the small-scale units have to face.

1. **Finance and credit.** The searcity of finance credit is the main obstacle in the development of small-scale units. The position of cottage and village industries in this regard is even worse. The capital base of the small industrial units is usually very weak since they generally have partnership or single ownership. The artisans or craftsmen running cottage industries either run their business

with whatever little capital they possess or take credit from the mahajans or the traders who supply raw mairunal to them. In many cases, such credit is obtained on a very high of interest and is thus exploitative in character. The small - scale industries are somewhat better placed. However, the profit earned by them is often not enough for investment purposes.

The government in India recognised the importance of credit flow for the development of the small-scale sector and this was a major motivation for bank nationalisation, setting up of SFCs (State Financial Corporations) and SIDB1 etc. Banks were mandated provide 40 per cent of their lending to the priority sector comprising of agriculture, small-scale industry, small road and water tranel operators, small business etc. Although banks have met the priority sector lending targets on paper, their reluctance to lend to SSI units continues .on account of, what they allege: (i) low recovery rates from the small firms and (ii) high cost of lending to the small firms. Moreover as hotel Sebastian Morris, banks mssion colleged organate the of Reserve Bank guidelines. The market value of collateral could be as high as five times the value of the outstanding loans or credit limit.

The position of the SSI units in the economic reform phase (i.e., the period since 1991) has grown worse as, in a bid to meet the conditionalities under the structural adjustment programme, the government tried to cut down expenditurs. This, in turn, brought about severe credit restrictions. This out the small firms in, what Sebastian Morris calls, a triple bind — (i) the first bind is the normal effects of a credit squeeze which all firms suffer; (ii) the second bind is the significant and large bias against lending to small firms (with the result that the, axe falls first and more severely on small firms); and (iii) the third bind. is that the large firms facing a credit squeeze and havig market links with small firms pass on part of their lifficulties the small firms by delaying payments to items or insisting on advance payment/shortening credit to them when they sell.

2. **Infrastructural constraints.** In their survey of 1,063 firms, Keshav Des and Sebastian Morris found that as Many, as 716 firms (or more than 67 per cent) said that they faced significant infrastructural problems. This is very large and

confirms the well recognised and popular conceptualisation that many productive activities are being constrairned by inadequate physical infrastructure, The most severe constraint is...power. Captive generation at reasonable cost is out of question for small firms. Therefore, they have to depend on State Electricity Boards for meeting their requirement which do not supply regular and adequate power. Moreover, because of rampant corruption, many small-scale industrialists are forced to make private deals with the electricity officials; otherwise they face a danger of tampering with their meters by the electricians. Transportation and communication infrastructures are also universal constraints. In many SSI units (particularly those relating to beverages, tobacco and related products, printing and publishing, basic chemicals, paints and varnishes,' and drugs and inedicines), water supply is fast emerging as an important infrastructural constraint.

3. **Inverted tariff structure and raw material availability.** As noted earlier, small-scale industries contribute significantly the export earnings of the country. Many of these.industries use imported raw material and intermediate goods. According to Sebastaini Morris, despite import liberalisation during 1990s, the tariffs on materials like steel, copper and many non-ferrous metals, plastics, many themicals; paper, etc. remain high in comparison to tariffs on manufactured goods (other than consumer goods). This has created the problem of a significant inversion in tariff structure, which specifically hurts small firms since they are more labour using and have high material-to-output ratios.

   Small-scale industries that use local raw material also face a number of problems. For instance, the handloom industry depends for its requirement of cotton on local traders. These traders often supply cotton on the condition that the weavers sell the cloth only to them when it is ready. Thus, the weavers are subjected to double exploitation at the hands of the traders. The traders sell cotton to them at high prices and purchase the ready cloth at low prices.

4. **Machines and other equipment.** Machinery and other equipment in many small industries has grown obsolescent. On account of this reason while their

costs of production are high, the quality is inferior as compared to the large-scale units. Moreover, the small-scale units often do not care about the changing tastes and fashions of the people. Accordingly, modernisation and rationalisation are urgently required in small-scale industries.

5. **Problems of marketing.** One of the main problems faced by the small-scale units is in the field of marketing. These units often do not possess any marketing organisation and consequently their products compare unfavourably with the quality of the products of the large-scale industries. Therefore, they suffer from a competitive disadvantage vis-a-vis large-scale units. Because of the shortage of capital and financial resources, these units do not have adequate ‘staying capacity' and are often forced to sell their products at unremunerative prices.

   To save small-scale units from competition' from large-scale units the government has reserved certain items for the small-scale sector. The Trade Development Authority and the State Trading Corporation help the small-scale industries in organising their sales. The National Small Industries Corporation set up in 1955 is also helping the small-scale units in obtaining government orders and locating export markets.

6. **Delayed payments.** Most of the small-scale industry associations complain about the hardships the small entrepreneurs .go through on account of delayed payments by large firms and government departments. Table 3 of Sebastian Morris's study shows that, on an average, the small firms provide 40 days credit to the buyers of their goods and services. But on their principal inputs they get only 14 days credit. In fact, the small firms have very little bargaining power in the markets they operate. On the purchase side, since they buy raw materials and components in small lots, they do not have much bargaining power vis-a-vis large oligopolistic and monopolistic firms producing materials like steel, plastics, glass, copper etc. At times, they even have to make advance payment to have on assurance of supply. On the other hand, these small firms, when they sell to wholesalers and other firms, are often forced to offer extended credit periods. Especially in their dealings with other large firms as

subcontractors, this is a major problem.

As far as delays in payments from government departments against good supplied to them under the government's purchase programme is concerned, these delays are on account of the cumbersome and complex procedure nd rampant corruption'-in these departments.

7. **Problem of sickness.** There are two main issues in respect of sick SSIs: -(i) existence of a large number of sick units whibh are non-viable; and (ii) rehabilitation of potentially viable units. As far as the former is concerned, there were 85,187 sick SSI units as on March 31, 2008. These units were those that had obtained loans from banks. An amount of Rs. 3,083 crore was blocked in these units. As far as the issue of viability is concerned, data are available only upto March 31, 2003. As on March 31, 2003 of the sick 1,67,980 SSI units, only 3,626 units with outstanding bank credit of Rs. 625 crore were found to be potentially viable by the banks. However, rehabilitation of sick units is a costly proposition. It involves rescheduling of past overdues with concessions on interest amount due, additional credit for modernisation and technological upgradation and provision for fresh working capital.

8. **Poor database.** Another weak link in the chain is the inadequate database for the small-scale sector. There are two major sources of information .on the small-scale sector, viz., Small Industries Development Organisation (SIDO) and Central Statistical Organisation (CSO). Complete information for the small-scale sector as a whole is not available from any of these sources. The Industrial Census data, as available from SIDO, pertain to the reference years 1972, 1987-88 and 2001-02 which could be used as benchmarks; however, to arrive at current estiamtes, necessary adjustments are required to be made. The estimates worked out by SIDO every year on the small-scale sector, i.e., number of units, employment and production, are subject to limitations, being based on partial returns. CSO data provide coverage of the VSI sector through various surveys. These surveys, however, do not distinguish small-scale units on the basis of investment in plant and machinery (conducted by NSSO) and provide data for establishments operating with less than 10 workers, i.e., non-factory sector units which are not covered in the Annual Survey of Industries

(ASI) by CSO. It is not possible to segregate information from these surveys for the small scale industries (sub-sector) from the total VSI sector. Moreover, these surveys are conducted at an interval of 5 years and, as such, the estimates for other years (i.e., the years other than the survey year) are essentially extrapolations. Information through such surveys is available for the years 1978-79, 1984-85, 1989-90 and 1994-95. As correctly pointed out in the SIDBI Report, "There is an urgent need for evolving a regular system for the upgradation and collection of data on the SSI (small-scale industries) sector in view of the rapid growth and substainial contribution of the SSI sector. New units come up every year for different lines of production while existing units either diversify or expand or in certain cases close down upkeep of the latest information is critical for policy decisions"

9. **Other problems.** In addition to the problems enumerated above, the small-scale industries face a number of either problems like inefficient management, unchanging and unresponsive production pattern burden of local taxes, competition from large-scale industries etc.

According to the Seventh Five Year Plan, growth of the small-scale and village industries has been cons-trained by a number of factors "including technological obsolescence, inadequate and irregular supply of raw materials, lack of organised market channels, imperfect knowledge of market conditions, unorganised nature of operations, inadequate avaiability of credit, constraint of infrastructure facilities including power etc. and deficient managerial and technical. skills. There has been lack of effective coordination among the various support organisations set up over the period for the promotion and development of these industries. Quality consciousness has not been generated to the desired level despite various measures taken in this regard. Some of the fiscal policies pursued have resulted in unintended splitting up of these capacities into uneconomic operations and have inhibited their smooth transfer to the medium sector. All these constraints have resulted in a skewed cost structure placing this sector at a disadvantage vis-a-vis the large industries both in the domestic and export markets."

10. Adverse effects of economic reforms and globalisation. The decade of 1990s was marked by considerable deregulation of industrial economy through delicensing and dereservations, 'opening up' the industrial sector to both internal and external competition, lowering of tariffs, removal of quantitative restrictions etc. These reforms have had an adverse effect on the small-scale sector. Cheaper and better quality imported .... units to close down. For example, since the imports of toys started in 1999-2000, the Indian toy industry has been through a torrid time. More than half of the toy manufacturers have already downed their shutters. In fact, the share of Chinese players in the Indian toy market (worth Rs. 6,000 crore) is now as much as Rs. 3,500 crore. In the case of ceramic tile industry, the overall share of tile imports crom China increased from 39 per cent in 2003-04 to as high as 81 per cent in 2005-06. As far as the 'gifts segment' of the ceramic industry is concerned, almost 80 per cent of the domestic ceramic industry has been wiped out by Chinese imports. These examples can be multiplied. While the costs of production in China are indeed very less as compared to India (because of large economies of scale), it is no doubt true that China is resorting to 'dumping' to wipe out competitors in other markets.

18.6 SUMMARY

1. The small-scale industrial sector is a vital component of India’s industrial sector.
2. A large number of steps were initiated by the GOI after independence for the development of small-scale and cottage industries.
3. Commercial banks were asked to provide priority to Small Scale and Cottage industries in granting credit facilities.
4. These industries are suffered from various weakness.

Keywords : Ancillary, micro, tiny, registered, imperfections, equity, upgradation.

18.7 SHORT ANSWER TYPE QUESTIONS

Q.1. Define Micro, Small and Medium Enterprises (manufacturing) as per MSMED Act 2006.

(a) A micro enterprise, where the investment in plant and machinery doss not exceed Rs. 25 lakh.

(b) A small enterprise where the investment in plant and machinery is more than Rs. 25 lakh but does not exceed Rs. 5 crore.

(c) A medium enterprise where the investment in plant and machinery is more than Rs. 5 crore but does not exceed Rs. 10 crore.

Q.2. When does SIBDI set up ?

Ans. Small Industries and Development Bank of India was set up in 1989.

Q.3. What are the problems of cottage and small scale industries.

(a) Finance and Credit

(b) Infrastructural constraint

(c) Machinery & other equipment

(d) Problem of Marketing

18.8 EXAMINATION ORIENTED QUESTIONS

Q.1. Discuss the role and performance of Cottage and Small scale Industries.

Q.2. Explain the govt. policy regarding small scale and cottage industries in India.

Q.3. What are the problems faced by Cottage and Small Scale industries in India.

Suggested Readings

1. Misra & Puri, Indian Economy, Himalaya Publishing House, Delhi.

M.A. ECONOMICS

COURSE NO. 566 | **LESSON No. 19**
SEMESTER-IV | **UNIT-IV**

IMPLICATIONS OF THE GLOBAL CHANGE ON INDUSTRIAL DEVELOPMENT

CHAPTER OUTLINES

19.1 INTRODUCTION

Globalisation is the most important topic in the present scenario. It refers to the integration of a nation's economy to the world economy. In this lesson we will focus on the meaning and importance of globalisation and the implications of the global change on industrial development, the challenges facing India.

19.2 OBJECTIVES

The objective of this lesson's is to make the students completely aware about the positive and negative impact of globalisation on Indias Industry. As the students of Indian Industry, they must know minute aspects of globalisation.

19.3 MEANING AND LEVELS OF GLOBALISATION

Globalisation means different things to different people. According to Deepak Nayyar, "It (globalisation) can be defined, simply, as the expansion of economic activities across political boundaries of nation States. More importantly, perhaps, it refers to a process of deepening economic integration, increasing economic openness and growing economic interdependence between countries in the world economy. It is associated not only with a phenomenal spread and volume of cross-border economic transactions, but also with an organisation of economic activities which straddles national boundaries".' The important characteristics of globalisation are as follows: (i) Rapid growth in international financial transactions; (it) Fast growth in trade, especially among multinational corporations (MNCs); (iii) Surge in foreign direct investment, largely contributed by MNCs; (iv) The emergence of global markets; and (v) The diffusion of technologies and ideas through rapid extension of a globalised transportation and communication system.

Depending upon the 'level' we choose to focus on, globalisation can be discussed under the following headings:

1. Globalisation at the world level.
2. Globalisation at the level of a specific country.
3. Globalisation at the level of a specific industry.
4. Globalisation at the level of a specific company.

Globalisation at the World Level

At a worldwide level, globalisation refers to the growing economic interdependence among countries as reflected in increasing cross-border flows of goods, services, capital and knowledge. For instance, world trade has increased considerably over the recent years. World exports which stood at $ 61 billion in 1950 rose to $ 315 billion in 1970, $ 3,447 billion in 1990 and further to $ 16,130 billion in 2008. During this entire period, the growth in world trade was significantly higher than the growth in world output. As a result, an increasing proportion of world output entered into world trade. The share of world trade in world GDP touched 32.5 per cent in 1990 and this rose further to 51.0 per cent in 2007.

There has been substantial increase in foreign direct investment (FDI) as well. FDI increased from $ 2,02,547 million in 1990 to $ 3,28,496 million in 1995 and further to $ 18,23,282 million in 2008.

Private capital flows to low and middle income economies more than quadrupled from $ 200 billion in 2000 to over $ 900 billion in 2007, reaching 6.6 per cent of the economies' collective GDP. Foreign direct investment accounted for most of these flows, as MNCs (multinational corporations) established footholds in new markets, shifted production sites to take advantage of lower costs, or sought access to supplies of natural resources. Portfolio investment in bond and equity markets also grew. Foreign investors were drawn to emerging equity markets as the prospects for these economies improved substantially and the returns outpaced those in more developed markets. Net inflows from bonds and commercial bank lending grew from $12 billion in 2000 to $ 269 billion in 2007 as globalisation of the banking industry, continued.'

As is clear from the above, globalisation at the world level consists of two distinct phenomena — the globalisation of production and globalisation of finance. Globalisation of production took place at a rapid speed during the 1980s and 1990s. The driving force behind this was the multinational corporations (MNCs). Because of stagnant demand and rising production costs in home countries : MNCs have been shifting their production bases to the developing countries: where the domestic markets for goods and services are expanding and the production costs are much lower, as raw materials and labour are very cheap. Since the developing countries are also rapidly opening up their economies under pressure from international agencies and MNCs and under various international commitments, the 'penetration' of MNCs in the developing countries is growing more and more widespread and deep. As noted by Todaro and Smith, MNCs, in effect, have become global factories searching for opportunities anywhere in the world.' In fact, the sales of 200 top corporations was as high as 28.3 per cent of world GDP in 1998. Thus, these 200 colossal corporations of the world control more than a quarter of the world's economic activity. The combined sales of these 200 top corporations was as high as $ 7.1 trillion in 1998 — higher than the S 6.9 trillion combined GDP of 182 countries. Considering the fact that there are now some 40,000 MNCs operating in the world, the extent of the control exercised by the MNCs over world production and trade can be well imagined. The massive control of MNCs on world production is a clear indication of globalisation of production.

As emphasised by Kavaljit Singh, much more faster and much more influential than globalisation of trade in recent years has been the globalisation of finance. Historically, most trading in foreign exchange was the result of international trade as buyers and sellers of foreign goods required foreign currency for settlement of payments. Things live now changed drastically as only 2 per cent of global currency movements are on account of international trade. Financial flows are now rarely associated with the flow of real resources and long-term productive investments. They have acquired a 'life' of their own and are guided mainly by short-term speculative gains. The emergence of many new financial instruments like bonds, mutual funds, GDRs (Global Depository Receipts) and derivatives has contributed significantly to the globalisation of finance. According to an estimate made by the Bank for International Settlements (BIS) which monitors the transactions in the world's foreign exchange markets, $ 1.49 trillion ($ 1490,000,000,000) is traded on an average on a single day.'

Globalisation at the Level of a Specific Country

At the level of a specific country, globalisation refers to the extent of interlinkages between a country's economy and the rest of the world. Some key indicators to measure the global integration of any country's economy are foreign trade (exports and imports) as a ratio of GDP, foreign direct investment, external debt, migration of people, international communication network etc. Table 1 compares the global integration of China and India with respect to some of the indicators of global integration. As is clear from this table, China's economy has globalised much faster during this period than India's.

Table 1 Global Integration of China vs. India

Indicator	China		India	
	1995	2008	1995	2008
Trade in goods as % of GDP	-	59.2	-	40.6
Foreign direct investment ($ million)	35,849	1,47,791	2,144	41,169
Foreign direct investment (as % of GDP)	-	3.4	-	3.6
External debt ($ million)	1,18,090	3,78,245	95,174	2,30,611
Movement of people (net migration in thousands)*	-	-2,058	-	-1,540
Communication (international internet bandwidth bits per second per capita)	-	483	-	32

*Data on net migration are for the period 2000-05.

Source: World Bank, World Development Indicators 2010 (Washington, 2010), Table 6.1, pp. 354-6; Table 6.10, pp. 386-388 and Table 6.12, pp. 394-396.

Globalisation at the Level of a Specific Industry

At the level of specific industry, globalisation refers to the degree to which a company's competitive position within that industry in one country is interdependent with that in another country. According to Vijay Govindrajan and Anil Gupta, "the more global an industry, the greater is the advantage that a company can derive from leveraging technology, manufacturing prowess, brand names and/or capital across countries"! Globalised industries tend to be dominated in every market by the same set of global companies, which coordinate their strategies across countries. For example the athletic footwear industry is dominated by Nike, Adidas and Reebok. "Key indicators of the globalisation of an industry are the extent of cross-border trade within the industry as a ratio of total worldwide production, the extent of cross-border investment as a ratio of total capital invested in the industry, and the proportion of industry revenue accounted for by companies that compete in all major regions".

Globalisation at the Level of a Specific Company

At the level of a specific company, globalisation refers to the extent to which a company has expanded its revenue and asset base across countries and engages in cross-border flows of capital, goods and know-how across subsidiaries. "Key indicators of the globalisation of a company are international dispersion of sales revenues and asset base, intra-firm trade in intermediate and finished goods, and intra-firm flows o f technology". Vijay Govindrajan and Anil Gupta present Toyota as a good example of a highly globalised company. This is due to the reason that at the end of 1995, one-third of Toyota's global output came from wholly or partially owned affiliates in 25 foreign countries spread over the Americas, Europe and Asia. Moreover, Toyota exported 38 per cent of its domestic production from Japan to foreign markets and engaged in significant intra-firm flows among its affiliates. For example, within its South-east Asian regional network, Toyota exported diesel engines from Thailand, transmissions from the Philippines, steering gears from Malaysia and engines from Indonesia.

As is clear from the discussion on the levels of globalisation above, it is possible to talk of globalisation from a 'macro' point of view and from a 'micro' point of view. From the macro point of view, globalisation is the growing interdependence among countries of the world and the interlinkages between a country's economy and the rest of the world. Thus the first two 'levels' of globalisation discussed above fall in the category of 'macro' globalisation. Economists mostly concern themselves with this type of globalisation as they are more interested in macro parameters of the economy like growth in GDP of different countries, growth in world output and trade, growth in national employment levels, growth in trade and investment flows among countries, the balance of payments deficits and surpluses of different countries, growth in foreign exchange reserves, etc. As against this, the management experts mostly concern themselves with micro aspects of globalisation as they are more interested in studying the global strategies of specific firms and industries, global competitiveness among firms and industries, challenges before the 'global' manager, etc. However, these are not watertight compartments but only convenient separation of the aspects of globalisation that weigh the mindsets of economists on the one hand and the management experts on the other.

In fact, the economist would be as much interested in studying the behaviour of a Multinational Corporation as a management expert would be interested in studying the global economic environment in which a business operates.

19.4 FACTORS INFLUENCING GLOBALISATION

A farge number of factors have influenced the process of globalisation. Prominent among them are as follows :

1. Dismantling of barriers to international economic transactions. The first step in the direction of dismantling of barriers to international economic transactions was 'trade liberalisation' which led to an unprecedented expansion of international trade between 1950 to 1970. This was followed by the liberalisation of regimes for foreign investment leading to a surge in international investment which began in the late 1960s. Financial liberalisation came last, starting in the early 1980s. This had two dimensions : (i) the deregulation of the domestic financial sector in the industrialised countries, and (ii) the introduction of convertibility on capital account in the balance of payments. Domestic financial liberalisation has encouraged market forces by reducing the role of the State in the financial sector. The demarcation lines between banks, insurance companies and finance companies have been considerably diluted, bond markets and equity markets have been liberalised, controls and regulations on both the inflows and the outflows of capital have been removed, and the growing institutionalisation of savings in the developed countries has given rise to institutional investors who are both willing and able to invest in global markets.

Winds of liberalisation are sweeping the developing countries as well. In order to meet the conditionalities of the economic stabilisation and structural adjustment programmes of.the IMF (International Monetary Fund) and the World Bank, a large number of developing countries have 'opened up' their economies in recent years by deregulating the industrial and financial sectors, dismantling controls on imports and exports of goods and services, full or extensive liberalisation of exchange restrictions, easing controls on portfolio inflows and outflows, etc.

2. Overcapacity and overproduction. From the beginning of 1980s, the economies of the developed countries are suffering from overcapacity and overproduction in manufacturing. As no major expansion is taking place in the world's market, capital is looking for profitable alternative opportunities. Such alternatives are provided by global financial markets where quick buck can be made. As a result, capital is shifting fast from investment in production to investment in financial markets and speculative financial instruments. Moreover, the interest rates in the developed countries are very low and this is prompting investors in these countries to park their funds in developing countries where rates of interest are substantially higher.

3. Technological advances. Technological revolution in the field of transport, communications and information has played a crucial part in the progress of globalisation. The advent of computers and satellites leading to massive expansion in the field of information technology has revolutionised the entire communication system. The development and expansion of fax, e-mail, mobile telephones, the personal computer industry, etc., has made communication across the world just a matter of minutes. The new information technology allows companies to run their business in ways that were impossible earlier and at a fraction of the price. The internet has added to the speed of transactions. Virtual stock exchanges are no longer a dream and twenty-fourhour trading has become a reality. The 'electronic money' has added momentum to capital mobility as funds worth billions of dollars can be transferred globally with much ease and speed with the help of globally linked electronic monitors. However, as noted by Kavaljit, "technological advances have also increased the speed at which market shocks are transmitted nationally and globally. Earlier, market shocks used to take days and weeks to spread from one country to another, now they can be transmitted instantly.

4. Emerging forms of industrial organisation. New emerging forms of industrial organisation have also helped the processes of globalisation. According to Nayyar, "The emerging flexible production system, shaped by the nature of technical progress, the changing output mix and the organisational characteristics (based on Japanese management systems) is forcing firms to constantly choose between trade and investment in their drive to expand activities across borders. The declining share of wages in production cost, the increasing importance of proximity between producers and consumers and the growing externalisation of services are exercising a strong influence on the strategies and the behaviour of firms in the process of globalisation".

5. Political factors. The political realities of recent times have helped globalisation. The process of globalisation beginning in the early 1970s has coincided with the political dominance of the United States as a superpower. The downfall of communism and the disintegration of the Soviet Union has enabled the United States of America to become a super boss in the field of political decision-making and economic influence. Globalisation requires a dominant economic power with a national currency which is accepted as the equivalent of international money: as a unit of account, a medium of exchange and a store of value. This role is being performed by the US dollar. Its unchallenged supremacy in the economic and political fields has emboldened the USA to bully and pressurise the developing countries into towing its lines (if need be through the international bodies, like the UNO, IMF, World Bank and the WTO which it has come to control).

This unchallenged power of the USA and its control over the new emerging international economic order which is taking shape under the WTO, has become a serious threat to the sovereignty of nation-States. Large global financial flows (running into trillions of dollars everyday) moving in the world's financial markets in search of profit making opportunities from speculative investments, have also reduced the 'economic space' of the developing countries considerably. These flows are largely liquid and are attracted by short-term speculative gains, and can leave the country as quickly as they come. Such short-term speculative flows of money are termed hot money and have the potential of seriously jeopardising the economic policies of developing countries. This was very much evident through the currency crises in Mexico in 1994, and in the South-east Asian countries in 1997. Thus, the power of global finance has 'undermined' the nation-States.

6. The intellectual rationale. Economic theorising frequently follows in the steps of political reality. Accordingly it should not be surprising to find a large number of economists engaged in the task of formulating an intellectual rationale for globalisation. The essence of their arguments can be summed up as follows : (i) the government should reduce its interference as much as possible so that it conforms to the ideal of a 'minimalist State'; (ii) the market is not only a substitute for the State but is a better alternative because it performs better; (iii) resource allocation and resource utilisation must be based on market prices which should conform as closely as possible to international prices; and (iv) national political objectives, domestic economic concerns or even national boundaries should not act as constraints. "It is suggested that such policy regime would provide the foundation for a global economic system characterised by free trade, unrestricted capital mobility, open markets and harmonised institutions. And the ideologues believe that such globalisation promises economic prosperity for countries that join the system and economic deprivation for countries that do not.

Thus, benefits of globalisation have been much less than what its advocates claim, the price paid has been higher, as the environment has been destroyed, as political processors have been corrupted, and as the rapid pace of change has not allowed countries time for cultural adaptation. Moreover, as emphasised by Stiglitz, "The crises that have brought in their wake massive unemployment have, in turn, been followed by longer-term problems of social dissolution — from urban violence in Latin America to ethnic conflicts in other parts of the world, such as Indonesia"

Globalisation in India is gene rally taken to mean integrating the economy of the country with the world economy. This, in turn, implies opening up the economy to foreign direct investment by providing facilities to foreign companies to invest in different fields of economic activity in India; removing constraints and obstacles to the entry of MNCs in India (through dilutions and ultimate scrapping of restrictive laws like FERA); allowing Indian companies to enter into foreign collaborations in India and also encouraging them to set up joint ventures abroad; carrying out massive import liberalisation programmes by switching over from quantitative restrictions to tariffs in the first place (so that there is more 'transparency' in import policy), and then bringing down the level of import duties considerably; and instead of a plethora of export incentives (like duty drawbacks, cash compensatory support, replenishment licences and other fiscal incentives, etc.) opting for exchange rate adjustments for promoting exports. As our discussion in the chapters on 'Industrial Policy', `Industries (Development and Regulation) Act, 1951 and Industrial Licensing', 'Export Import Policy and Trade Liberalisation', `FERA and FEMA' and 'Foreign Investment, Technology and MNCs' will amply bring out, seeds of this globalisation process were sown in the early 1980s itself as many concessions were granted to foreign capital, MNCs were allowed to enter a number of crucial sectors to which their entry was previously restricted or banned, provisions of FERA were not strictly enforced, import liberalisation process was accelerated considerably, and downward adjustment in the exchange rate of the rupee was resorted to. However, the real thrust to the globalisation process was provided by the new economic policy introduced by the Government of India in July 1991 at the behest of the IMF and the World Bank. In all recent discussion, therefore, globalisation has been identified with the policy reforms of 1991 and the subsequent extension of these reforms carried out in later years.

The 'Push' Towards Globalisation

The period after 1980-81 in India was marked by severe balance of payments difficulties. The second oil shock in 1979-80 which was the result of a steep hike in oil prices by OPEC countries (from around $ 13.00 per barrel in late 1978 to around $ 35.00 per barrel in 1979) pushed up India's import bill substantially while exports lagged considerably behind. Thus trade deficit rose to astronomical heights. During Seventh Plan private remittances also showed a tendency of flattening out. As a result, net invisibles could finance only 24 per cent of trade deficit in the Seventh Plan. The problems were compounded by the Gulf War in 1990-91. Trade deficit in this year soared to Rs. 16,934 crore and invisibles also recorded negative earnings. As a result, current account deficit was as large as Rs. 17,369 crore in 1990-91. The problem got further accentuated by India's increased reliance on high cost external commercial borrowings and non-resident deposits all through the 1980s as the flow of concessional assistance was considerably less than the requirements. Much of this borrowing on commercial terms was in the form of relatively short-term and potentially volatile instruments increasing the vulnerability of Indian economy to changes in investors' confidence and expectations. With the downgrading of India's credit rating by some international agencies consequent upon the large deficit in India's balance of payments in 1990-

91 and the political uncertainties at home, the investors' confidence in the Indian economy was shaken suddenly and there was a substantial capital outfight. For example, over the period October 1990 to the second quarter of 1991, over $ 300 million per month were withdrawn from the NRI deposits. Despite drawing $ 1.8 billion from the Contingency Compensatory Financing Facility (CCFF) in January 1991, adopting import compression measures, and pledging gold abroad, the crisis could not be stemmed. Foreign exchange reserves dwindled to $ 1.1 billion in June 1991— less than sufficient for two weeks of import requirements. Default on debt servicing appeared imminent and the Government of India was pushed to the wall. Default could be avoided only if credit was made available from the IMF or the World Bank. Assistance was indeed made available by these institutions but on their own terms and conditions. These terms and conditions entailed the adoption of a 'stabilisation and structural adjustment programme' by India.

The stabilisation and structural adjustment programme of the IMF-World Bank had the following three components: "(a) stabilisation which basically implies cutting down fiscal deficit and the rate of growth of money supply (b) domestic liberalisation which consists of relaxing restrictions on production, investment, prices and increasing the role of market signals in guiding resource allocation, and (c) external sector liberalisation or relaxing restrictions on international flows of goods, services, technology and capital". Globalisation is identified with (c), i.e., external sector liberalisation. However, it needs to be emphasized that success on (a) and (b) fronts is crucial for the success of (c). For instance, stabilisation in the sense of cutting down fiscal deficit and the rate of growth of money supply are essential for keeping inflation and balance of payments under control as both these problems arise from a mismatch between aggregate demand and aggregate supply. (Foreign investment is attracted only when inflation and balance of payments are under control). Domestic liberalisation involving relaxation of restrictions on production and investment leads not only to a reduction in bureaucratic interference and controls which have since long outlived their utility but also sends 'definite positive signals' to the foreign investors about the 'genuineness' of the reform process.

The above discussion shows that the conditions that prevailed in 1990 and 1991 'pushed' India into adopting the structural adjustment programme of the IMF and World Bank. Since globalisation is a part of the structural adjustment programme, it is rightly said that it were the desperate conditions of 1990 and 1991 that 'pushed' India towards globalisation.

19.5 STEPS TOWARDS GLOBALISATION

The main policy measures initiated towards globalisation by the Government of India can be discussed under the following headings:

Exchange Rate Adjustment and Rupee Convertibility

The most important measure of integrating the economy of a country with the global economy is to make its currency fully convertible, i.e., allow it to determine its own exchange rate in the international market without official intervention. This measure has to be accompanied by the lifting of exchange control measures in a phased manner. As a first step towards this measure, the IMF insisted on devaluation of the Indian. Accordingly the Government of India make a two-step downward adjustment of 18-19 per cent in the exchange rate of the rupee on July 1, and 3, 1991. Therefore, the first important condition laid down by the IMF for the grant of assistance was met.

In the subsequent years, the Government of India has progressively moved forward towards full convertibility. As we shall discuss in the chapter on 'Export-Import Policy and Trade Liberalisation' the 1992-93 Budget introduced a dual exchange rate system implying partial convertibility of rupee. The 1993-94 Budget introduced full convertibility of the rupee on trade account and switched over to a unified exchange rate system. India achieved full convertibility on current account on August 19, 1994. Current account convertibility has been defined as the freedom to buy or sell foreign exchange for the following international transactions: all payments due in connection with foreign trade, current business, including services, and normal short-term banking and credit facilities; (if) payments due as interest on loans and as net income from other investments; (iii) payments of moderate amount of amortisation of loans or for depreciation of direct investments; and (iv) moderate remittances for family living expenses. The Reserve Bank accepted obligations under Article VIII of the IMF, under which India is committed to forsake the use of exchange restrictions on current international transactions as an instrument in managing the balance of payments. Many other relaxations of restrictions were announced in subsequent years.

Import Liberalisation

In its Report India: Strategy for Made Reform released in 1990, the World Bank had advocated redesigning of the import policy so that there is only one negative (restricted) list and imports of all items not explicitly on the restricted list are allowed, lowering of import tariffs on all goods, and freer entry to capital goods, intermediate goods, raw materials and consumer goods into the Indian economy. In line with these proposals, the 1992-97 export-import policy allowed the free import of all items including capital goods, except a negative list. The supplementary trade policy announced on August 13, 1991 decanalised the import of 20 items. In addition, import duties on a wide range of commodities were drastically cut down. For instance, customs duties on 35 items were slashed from 255 per cent ad valorem to 150 per cent ad valorem on February 9, 1993. This was followed by substantial reduction of import duties in the 1993-94 Budget. For example, the Budget reduced the import duty on a number of capital goods by 20 to 30 percentage points. Duties on a host of other commodities were also reduced. In fact, the maximum rate of duty on all goods was reduced from 110 per cent to 85 per cent except for a few items including passenger luggage and alcoholic beverages. The maximum rate of import duty has been reduced in successive Budgets in stages. The peak import duty on non-agricultural goods is now only 10 per cent.

In addition to the phased reduction of import duties, India, as a member of World Trade Organisation (WTO), had also committed itself to the phasing out of quantitative restrictions over a six-year period beginning 1997. This period was further reduced following the ruling of the Disputes Settlement Body of the WTO against India on an appeal made by the USA. In terms of the agreement arrived at with USA, the quantitative restrictions have now been totally removed. Moreover, as a part of the Agreement on Trade Related Intellectual Property Rights (TRIPs), the Patents (Amendment) Act, 1999 was passed in March 1999 to provide for

Exclusive Marketing Rights (EMRs). This was followed by the adoption of Patents (Amendment) Act, 2002, in May 2002 and Patents (Amendment) Act, 2005.

The stock argument in favour of import liberalisation is that competition from imports would improve efficiency, quality and technology besides making international quality capital goods and inputs available to our export industries (hence increasing their competitive strength in the international markets).

Opening up to Foreign Capital

In a bid to attract foreign capital and integrate the Indian economy with the global economy, the Government of India has thrown open the doors to foreign investors. Various incentives and facilities have been offered to the foreign investors and non-resident Indians in the new economic policy. In 1991, the government announced a specified list of high technology and high-investment priority industries (listed in Annexure III) wherein automatic permission was granted for direct foreign investment upto 51 per cent foreign equity. This limit was raised from 51 per cent to 74 per cent and subsequently to 100 per cent for many of these industries. Presently FDI is permitted upto 100 per cent on the automatic route in most sectors subject to sectoral rules/regulations, applicable. FDI is prohibited only in the following sectors: (1) retail trading (except single brand product retailing), (2) atomic energy, (3) lottery business, and (4) gambling and betting.

Many other measures have been announced from time to time. For instance, foreign companies have been allowed to use their trademarks in India and carry on any activity of a trading, commercial or industrial nature; repatriation of profits by foreign companies has been allowed; foreign companies (other than banking companies) wanting to borrow money or accept deposits are not now required to obtain permission from the Reserve Bank; foreign companies can now deal in immovable property in India; restrictions on transfers of shares by a non-resident to another non-resident have been removed; disinvestment of equity by foreign investors no longer needs to be at prices determined by the Reserve Bank (disinvestment has now been allowed at market rates on stock exchanges with permission to repatriate the proceeds of such disinvestment); 100 per cent foreign equity participation has been allowed for setting up power plants in the country (this allows free repatriation of profits and other incentives); NRIs and overseas corporate bodies (OCBs) predominantly owned by them have been allowed to invest upto 100 per cent equity in high priority industries with repatriability of capital and income; NRI investment upto 100 per cent of equity has been allowed in export houses, trading houses, star trading houses, hospitals, EOUs, sick industries, hotels, etc.; reputed Foreign Institutional Investors (FlIs) have been allowed to invest in Indian capital market subject to registration with the Securities and Exchange Board of India and approval of RBI; foreign direct investment under the automatic route has been permitted up to 100 per cent for all manufacturing activities (with certain exceptions) in Special Economic Zones (SEZs); 100 per cent foreign direct investment has been allowed in telecom sector for certain activities; 100 per cent foreign direct investment has been allowed in phanna sector, airports, hotel and tourism industry, township development, courier services and Mass Rapid Transport System (MRTS); FDI limit in private airlines has been hiked to 49 per cent; FDI limit in private sector banks has been raised to 74 per cent, etc.

19.6 EFFECTS OF GLOBALISATION

Effects on the External Sector

The process of globalisation initiated in 1991 and the far-reaching changes in industrial and other policies have led to considerable changes on the external sector front. The Finance Minister in his Budget Speeches in 1994 and 1995 claimed the following achievements on the external front: (1) Our foreign currency reserves which had fallen to barely one billion dollars in June 1991 rose substantially to over 20 billion dollars on March 10, 1995; (2) Exporters are responding well to sweeping reforms of exchange rate and trade policies. This would be clear from the fact that as against a fall in the

In this context, please also refer to Chapter 20, Section 'Economic Slowdown in 2008-09 and Subsequent Recovery.' This section discusses the impact of global recession on the Indian economy.

dollar value of exports by 1.5 per cent in 1991-92, the exports grew by over 17 per cent in the first 10 months of 199495. This follows a 20 per cent increase in

1993-94. Though imports also grew in line with the revival of the economy yet the balance of payments situation is comfortable; (3) The fears expressed in some quarters that our trade policy would generate a disruptive flood of imports and weaken our economy have been shown to be completely unfounded. Liberalisation and openness have actually increased our self-reliance. Exports now finance over 90 per cent of imports, compared to only 60 per cent in the latter half of the 1980s; (4) The current account deficit was over 3 per cent of GDP in 1990-91. It is expected to be less than 0.5 per cent in 1994-95.25 (5) At the time of crisis, our external debt was rising at the rate of $ 8 billion a year. In 1993-94, the increase in external debt was reduced to leas than $ 1 billion. In the first half of 199495, our external debt stock actually declined by almost $ 300 million; (6) Contrary to what many feared, the exchange rate for the rupee has remained remarkably steady despite the introduction of full convertibility first on trade account and then on current account. Foreign exchange is flowing through legal channels in ample quantities instead of through illegal (hawala) channels as earlier; and (7) International confidence in India has been restored. As a result, foreign direct and portfolio investment has increased rapidly in the last 3-4 years."

However, in 1995-96, the current account deficit, as a proportion of GDP, rose to 1.7 per cent from the level of 1.0 per cent in 1994-95. Yet, as noted by the Economic Survey 1996-97, there was no cause of alarm as the increased deficit was easily financed by a higher level of capital inflows and a reduction in foreign exchange reserves of US S 2.9 billion. Despite the reserve drawdown, the level of foreign currency assets at the end of 1995-96 was $ 17.0 billion, which was quite comfortable. During 1996-97, the current account deficit was .1.2 per cent of GDP. The balance of payments situation improved considerably and there was a reserve build-up of $ 5.8 billion. This was significantly higher than the average accumulation of S 3.4 billion during 1991-92 to 1996-97. The balance of payments position in 1997-98 and 199899 also remained comfortable as the surplus in the capital account exceeded the deficit in the current account by a substantial margin, resulting in large accretion to foreign exchange reserves amounting to $ 3.9 billion in 1997-98 and S 3.8 billion in 1998-99. The situation improved further in 1999-2000 and subsequent years. For example, reserve accumulation was $ 6.14 billion in 1999-2000 and $ 5.84 billion in 2000-01. Things were still better in 2001-02, 2002-03 and 2003-04 as there was a current account surplus in these years because of strong positive earnings from invisibles (it was after a long gap of 24 years that a current account surplus was recorded, the last current account surplus having been registered in 1977-78). There was a substantial surplus on capital account also in these years. As a result of these two tendencies - surplus on current account and substantial inflows of capital - there was a large accretion to foreign exchange reserves of $ 11.76 billion in 2001-02, $ 16.98 billion in 2002-03 and S 31.42 billion in 2003-04. After registering surplus for three consecutive years, the current account again saw a deficit in 2004-05. This deficit was of S 2.5 billion. However, there was a substantial surplus of $ 28.6 billion in the capital account with the result that there was an accretion of $ 26.1 billion to foreign exchange reserves in 2004-05. Accretion to reserves in 2005-06 was S 15 billion. During 200607, the current account deficit stood at $ 9.8 billion while surplus on capital account was as high as $ 46.3 billion with the result that accretion to foreign exchange reserves was $ 36.6 billion. During 2007-08, current account deficit rose to $17.4 billion because of a massive trade deficit of $ 90.0 billion. However, there was a surplus of as much as S 109.6 billion in the capital account with the result that the accretion to foreign exchange reserves was as high as $ 92.2 billion (highest in any year during the entire period of planning). Things turned adverse in 2008-09 because of global recession. As a result of this recession, capital inflows declined steeply from the level of S 107.9 billion in 2007-08 to only $ 8.6 billion in 2008-09. With a current account deficit of S 28.7 billion in 2008-09, there was a reserve drawdown of $ 20.1 billion in this year. As the Indian economy recovered faster from economic slowdown vis-a-vis many developed countries, capital inflows again surged in 2009-10 to a level of S 51.8 billion. Reserve accumulation in 2009-10 was S 13.44 billion. In 2010-11, it was S 13.05 billion.

As a result of substantial accretion to foreign exchange reserves for most of the post-reform period, the stock of foreign exchange reserves rose from only S 1.1 billion in June 1991 to as high as S 309.7 billion as at end-March 2008 (although it fell to S 252 billion as at end-March 2009 and stood at S 304.8 billton as at end-March 2011).

Effect on the Indian Enterprises

The process of globalisation in India had led to an 'unequal competition'- a competition between 'giant IINCs' and 'dwarf Indian enterprises.' Even the large Indian enterprises are just pygmies compared to the multinational corporations and while some of them have already been gobbled up by the latter, some others are awaiting their turn with bated breath. As once noted by an MP from West Bengal, the globalisation of the Indian economy is like integrating a mouse into a herd of elephants."

In the early euphoria of liberalisation, the private sector welcomed the measures of the government but it soon came to realise that opening up the Indian economy to foreign competition meant more and cheaper imports, more foreign investment, opportunities to the MNCs to raid and takeover their enterprises, and worse, their inability to meet the

challenge from MNCs due to their weak economic strength vis-a-vis the MNCs. The first serious omens of discontent appeared when several top industrialists met under the initiative of Rahul Bajaj (the owner of the scooter manufactunng giant Bajaj Auto) in 1993 in Mumbai to voice their concern at the hasty exposure of Indian enterprises to the stormy gales of foreign competition. This particular group of businessmen came to be dubbed as the 'Bombay Club'. Even the Confederation of Indian Industry (CII) which had all along been supportive of MNC initiatives started feeling uneasy. Its Director General, Tarn Dass, sharply attacked the behaviour of foreign multinationals in India, particularly referring to their 'cowboy' approach toward their local partners. Addressing a CII national conference, EID Parry's managing director M.V. Subbiah complained, "The multinationals have a strong financial power. They are buying Indian brands and gradually killing them. There should be some sort of regulatory mechanism to prevent this. The idea of inviting multinationals into India is to promote competition and not to build up monopolies by killing the Indian brands". Another noted industrialist S.K. Birla argued that "Multinationals should not be allowed unfettered freedom in India. If the multinationals are allowed to hold a majority stake in Indian joint ventures in a unfettered way, Indians would be second class citizens in their own country".

Assocham president H. Somany stated, "We would like to caution (against) the predatory nature of foreign capital, sometimes manifesting in the form of hostile takeovers".28

In the new globalisation scenario that has emerged in the post-1991 reform phase, the Indian businessmen are thus facing unequal competition from MNCs. According to Baldev Raj Nayyar, this unequal competition stems from the following reasons:

1. As already pointed out, the Indian enterprises suffer from 'size disadvantages' as they are just minuscules as compared to the MNCs.

2. The Indian corporate sector for four decades prior to 1991 operated in a protectionist environment. The quantitative restrictions and steep customs duties ensured a captive market. In the absence of any feu of competition, the Indian firms became accustomed to producing poor quality goods as everything was bound to sell. The industrial licensing policy of the government, in a bid to prevent the growth of monopolies. resorted to fragmentation of capacity among many producers. This led to a diversification and branching off into unrelated fields by business houses as they were interested in capturing licences to corner the market. Thus, the resources of the business houses were spread thinly over a number of products and markets instead of intensive development of select industries. "The result was an insufficient and flabby industrial structure of agglomerative firms under family control, with fragmented capacities and without economies of scale, largely stagnant technology, dependent on the State for finance and protected market, hemmed in by the straitjacket of controls in literally every aspect of the economy, with little experience of real competition, and with a vested interest in an economy of scarcity and shortages which the system of controls had provided".29 How could such a sector be expected to compete with MNCs?

3. The cost of capital for Indian business is much higher than MNCs. This is due to the reason that real interest rates within the country have been much higher than those prevailing outside India.

4. Because of the immense financial strength of NINCs, they are not only in a position to bear losses in any line of business for a considerably more time

than the Indian capitalists, they have enough 'muscle power' to force out the Indian partners from joint ventures and grab control of their companies. In fact, they can just buy out any Indian firm they like.

5. Indian firms continue to suffer from handicaps developed under the earlier regime of controls. For example, restructuring and downsizing of Indian companies is not easy as labour laws do not allow easy retrenchment of labour. As against this, MNCs start their new enterprises with modem technology and reduced requirement of labour.

6. High, multiple and cascading indirect taxes — especially at the local level, where they are not applicable to foreign imports — result in making Indian goods uncompetitive. FICCI president K.K. Modi called this aspect the 'subsidisation of imports'. In addition, Nayar points out that the tariff structure has at times contained some serious anomalies, such as when finished goods attract lower tariffs than raw materials and components. Then, again, State has allowed imports from MNCs in areas that are reserved for the small-scale sector whereas Indian business is not allowed to produce in those areas. "From the perspective of domestic manufacturers", concludes Nayar, "the State has thus not been sufficiently vigilant about their interests, for it has allowed profit margins of domestic firms to be squeezed by cheaper imports".'

7. In some areas, the. State has pursued policies that have clearly discriminated in favour of MNCs. For example, in the power sector the State has offered counter-guarantees only to MNCs for fast-track projects without providing similar concessions to Indian firms. Then, the taxation of capital gains has favoured foreign firms with far lower rates, which could further be avoided totally if foreign firms come through Mauritius. Not only this, MNCs are allowed i 00 per cent subsidiaries whereas the takeover code allows only restricted share buyback options to the Indian promoters.

On account of all these reasons, the process of globalisation unleashed in 1991 has 'created' a new world—a world in which not only there has been an inflow of substantial foreign capital, but the domestic corporate sector for the first time saw itself as the 'target' rather than the 'beneficiary' of the heightened activities of foreign investors. The swiftness, vigour and aggressiveness with which the foreign investors sought to penetrate and capture the domestic market has caused serious worry to the Indian corporate sector. Particularly, in the case of joint ventures, the MNCs have shown alarming speed in pushing over their Indian partners and gaining full control on the enterprise. Nayyar points out three strategies adopted by the MNCs to penetrate the Indian economy through FDI (foreign direcrinvestment)31 . One, some foreign investors have bought off existing local brands alongwith their braided products with the aim of replacing such products with their own internationally known products, eliminating in the process the possibility of competition from the local products. Two, some foreign investors initially opted for joint ventures with Indian partners to gain easy foothold in the domestic industry but, once having consolidated their position, reduced the Indian partner to a subordinate position or simply ousted him. Thus many Indian businessmen felt that MNCs simply use theni as a 'doormat' for entry and spread risk at the beginning only to be dumped later. Three, some foreign investors, even as they started out with local partners in a joint venture, then went on to set up parallel 100 per cent subsidiaries of their own in the same field, which were then favoured with greater resources and more modern technology, rendering the joint venture uncompetitive and useless.

Many cases can be cited to illustrate the use of the above strategies by MNCs. For instance, Coca-Cola bought out all the popular Parle brands (like Thums up, Limca, etc.) belonging to Ramesh Chauhan for some S 40 million in 1993. To many, this was a meek surrender by Ramesh Chauhan who failed to adequately appreciate the resilience of the house he had built up over the years. Perhaps the predictions appearing in the financial press that Coke would run over Parle's brands frightened Chauhan into throwing in the towel a bit too early. In any case, up against competition from two Cola giants, Coca-Cola and Pepsi, Chauhan thought he had no chance of survival. The questions that arise at the present juncture are: did the country gain in terms of technology? Did the country benefit in any way in terms of competition? Did the buy-out create more choices for Indian consumers— The answer to all these questions is a big 'No'. What actually happened was that a foreign multinational company had extinguished a local company. Another important example is that of the FMCG giant Hindustan Lever Limited (HLL) which has been on a buying spree since 1992. It acquired Kothari Foods in 1992, Dollops ice cream from Cadbury and Kissan from the UB group in 1993, Milkbod and Lakme in 1995, and Pond's (India) in 1998. In 1993, HLL merged Brooke Bond and Lipton (BBLIL). This year also saw the merger of

Tata's TOMCO with HLL. Through these swift moves at acquisitions, mergers and amalgamations, HLL climbed rapidly to the top of the corporate rankings and it had the highest market capitalisation in September 1999. Some of these mergers and acquisitions were initially in the form of 'alliances' and 'joint ventures'. For instance, HLL had initially entered into an alliance with Lakme in 1995 when a 50:50 joint venture called Lakme-Lever was set up. However, in February 1998, Lakme sold its stake in the joint venture and all its brands to HLL for a price of t 2 billion. Similar has been the fate of Pond's (India) as well. In fact, the gobbling up of several local companies like Kothari General Foods, Dollops, Kissan, Kwality, Milk Food, TOMCO (the 75-year old Tata Company which was at one time a close second to HLL), Lakme, Pond's (India) etc, by HLL is a clear example of the 'hunger' of MNCs to devour domestic enterprise and steer clear of any existing or potential market competition.

The way how domestic enterprise is 'used' by MNCs to gain foothold in the country only to be dumped later is fully illustrated by the strategy followed by foreign automobile manufacturers in India. Some of the important joint ventures that were set up in recent years in the automobile industry were those between Daewoo Motors and DCM, between Honda and Siel, between Ford and Mahindra, and between General Motors and Hindustan Motors. The joint venture between Daewoo Motors and DCM was born in 1994 with the former holding 51 per cent and the latter 49 per cent stake. By 1997, Daewoo Motors had increased its stake to 94.5 per cent while DCM's stake was reduced to a meagre 5.5 per cent. Mahindra Ford' was initially a 50:50 joint venture between Ford Motor. Company and Mahindra & Mahindra. The equity pattern in the company was later changed following FIPB clearance which allowed Ford to increase its stake to 92.5 per cent. Naturally Mahindra & Mahindra were marginalised with their share reduced to just 7.5 per cent. The Globalisation and its impact on Indian Economy

`Honda Siel Cars India' was initially set up as a joint venture between Honda Motor Company of Japan and Siddharth Shriram Group of India. Although it started off as a 60:40 joint venture, Honda raised its stake to 90 per cent in 1998 pushing down Siel's holding to just 10 per cent. The GM-HM joint venture between General Motors and C.K. Birla group's Hindustan Motors was originally a 50:50 partnership. However, in early February 1999, this turned 100 per cent subsidiary of General Motors with Hindustan Motors selling its entire 50 per cent stake to the former. This discussion shows that in all cases the story has been more or less the same. In all the cases, the MNC partner brought teclmology, money muscle and brand equity while the Indian partner brought government and market knowledge, distribution strength and sometimes assembling facilities. The latter helped the MNC to achieve its objective. For instance, Ford could never have been able to roll out the Escort model in "10 months flat" without support from Mahindra & Mahindra and the use of its Nasik facility.32 However, once having got a clue to the working of the Indian market, the MNC had no use for the Indian partner and thus conveniently dumped him. This has happened in all the car joint ventures mentioned here - clear cases of MNCs gobbling up the Indian enterprises.

Foreign shareholders have increased their holding in Indian companies considerably. They now own almost a third of corporate India with their holding in Indian companies being as high as 30 per cent as on September 30, 2005. I focus is only on the private sector, foreign stakes in the Indian corporate sector go up substantially to 38.93 percent.

19.7 SUMMARY

1. Globalisation refers to the integration of a nation’s to the world economy.
2. From the macro point of view, globalisation is the growing interdependence among countries of the world and the interlinkages between a country’s economy and rest of world.
3. The process of globalisation initiated in 1991 and the far reaching changes in industrial and other policies have led to considereble change on the external sector front.

4. The process of globalisation in India had led to an ‘unequal competition’— a competition between giant MNC’s and dwarf Indian enterprises.

5. The cost of capital for Indian business is much higher than MNC’s.

6. In some areas, the state has pursued policies that have clearly discriminated in forms of MNC’s

19.8 SHORT ANSWER TYPE QUESTIONS

Q.1. Define Globalisation

Globalisation refers to the growing economic interdependence among countries as reflected in increasing cross border flows of goods, servival capital and knowledge.

It refers to teh process of deepening economic integration, increasing economic openners and growing economic interdependence between countries in the world economy.

Q.2. Explain the impact of Globalisation in Indian Industry.

It can be classified into two broad categories.

(a) Positive Impact :

(i) Inflow of FDI or capital

(ii) Reduction in unemployment

(iii) Increase in Mergers and Acquistony

(iv) Tecnological upgradation and Intersification of competition

(v) Increase of information technology enabled services and business process outsourcing

(vi) Reduction in poverty

(vii) Transmission of knowledge and Technology.

(b) Negative Impact

(i) Cut throat competition

(ii) Idian enterprises suffer from size disadvantage as compared to the MNCs.

(iii) Cost of capital for Indian business is much higher than MNCs.

(iv) High, multiple and cascading indirect taxes make Indian good uncompetitions.

19.9 EXAMINATION ORIENTED QUESTIONS

Q.1. Discuss the implication of global change on industrial development, the challenges facing India.

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14. This point is discussed in detail in the chapter "WTO and India" under the section `WTO-Trespassing the Sovereignty of Nation States.'

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