Working Paper No. 42

# PROTECTIVE NET FOR WORKERS IN AN EXIT POLICY

## A PROPOSAL

I. Z. Bhatty

NCAER has brought out two series of research papers in the past: Occasional Papers and Working Papers. The last serial numbers for these papers were 27 and 14. From now onwards, both the series are merged into Working Paper Series and accordingly, the present paper carries the cumulative serial number of the two series.

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## Foreword

THIS paper provides a discussion of some of the major issues relating to an exit for industry in the context of economic reforms which are now underway in the country. The paper has been prepared by Mr. I. Z. Bhatty, former Director General of National Council. We are bringing out this as a Working Paper for a wider discussion of the issues.

New Delhi
July 1993

S. L. Rao
*Director General*

# Abstract

*THE package of policy reforms initiated by government recently, of which an exit policy is a part, derives its legitimacy from the need to stablise and restructure the economy as a means for regenerating its capacity to sustain a higher rates of growth on a firmer basis. The process of restructuring involves a move away from a protective regime to a competitive environment where the pressure of market forces would help in ensuring the much needed efficiency in the use of resources. As in this environment entry into industry would have to be free, it only follows that exit must also be free. Not only that, efficiency in the use of resources would also require an adjustment in the work force wherever it is in excess.*

*Viewed in this context, an exit policy is an integral part of wider policy initiative aimed at achieving, over a period of time, a more effecient deployment of labour and other resources, a sustained expansion in employment opportunities and an overall rise in labour as well as total factor productivity. If this scenario is juxtaposed with one where industrial sickness is proliferating causing substantial resources to be wastefully locked up, employment of excess labour is common, costwise industry is not internationally competitive thereby restricting exports and, all together, restraining growth of industry and employment and depressing labour productivity as well as real wages, it would immediately appear that an exit policy, viewed in its wider context, is not against but in the interest of workers.*

*As the restructuring phase is expected to take a few years, employment would be disrupted in interim. It is imperative that the welfare cost of this disruption is minimised by providing a protective net for the workers who are affected. Indeed the availability of a protective net for workers should be extended beyond the restructuring phase because the release of competitive market forces is likely to increase rather than decrease closures. In countries where free competitive markets have been nurtured over the years protection to workers is available through unemployment benefits under an overall social security system. India does not have such a system and indeed cannot afford it for yet a while. It is this lacunae that constitutes the crux of the problem and must be addressed in any scheme for exit or excess labour shedding. In the absence of a full-fledged social security system, what is proposed here is a limited group based personalised security system net for workers in the organised sector. Government is currently aiming at providing a more general security net for workers which would include employment generation schemes and a more intensive public distribution system of food in rural areas. As*

*workers in urban areas tend to retain rural links and are mobile the security net for the organised sector proposed here must be seen in conjunction with these schemes.*

*The relevance of labour legislation to an exit policy is obvious, specially in India. Reforms in labour laws are currently under active consideration of the Government of India. In the context of the exit policy presented here no reference has been made to labour legislation but rather in the belief that an exit policy on the lines suggested could be initiated without waiting for the reforms in labour laws already on the anvil. And also in the belief that, in any case, there is a need for concretised scheme in support of an exit policy which could direct discussion to the real issues involved and thereby help in arriving at a consensus that could then form the basis for implementing an exit policy.*

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# I. INTRODUCTION

THE package of policy reforms initiated by government recently, of which an exit policy is a part, derives its legitimacy from the need to stabilise and restructure the economy as a means for regenerating its capacity to sustain a higher rate of growth on a firmer basis. The process of restructuring involves a move away from a protective regime to a competitive environment where the pressure of market forces would help in ensuring the much needed efficiency in the use of resources. As in this environment entry into industry would have to be free, it only follows that exit must also be free. Not only that, efficiency in the use of resources would also require an adjustment in the work force wherever it is in excess.

Viewed in this context, an exit policy is an integral part of a wider policy initiative aimed at achieving, over a period of time, a more efficient deployment of labour and other resources, a sustained expansion in employment opportunities and an overall rise in labour as well as total factor productivity. If this scenario is juxtaposed with one where industrial sickness is proliferating causing substantial resources to be wastefully locked up, employment of excess labour is common, costwise industry is not internationally competitive thereby restricting exports and, all together, restraining growth of industry and employment and depressing labour productivity as well as real wages, it would immediately appear that an exit policy, viewed in its wider context, is not against but in the interest of workers.

As the restructuring phase is expected to take two to three years, employment would be disrupted in the interim. It is imperative that the welfare cost of this disruption is minimised by providing a protective net for the workers who are affected. Indeed the availability of a protective net for workers should be extended beyond the restructuring phase because the release of competitive market forces is likely to increase rather than decrease closures. In countries where free competitive markets have been nurtured over the years protection to workers is available through unemployment benefits under an overall social security system. India does not have such a system

and indeed cannot afford it for yet a while. It is this lacuna that constitutes the crux of the problem and must be addressed in any scheme for exit or excess labour shedding. In the absence of a full-fledged social security system, what is proposed here is a limited group based personalised security net for workers in the organised sector. Government is currently aiming at providing a more general security net for workers which would include employment generation schemes and a more intensive public distribution system of food in rural areas. As workers in urban areas tend to retain rural links and are mobile the security net for the organised sector proposed here must be seen in conjunction with these schemes.

The main features of the proposed scheme for a limited group based personalised security net for workers in the organised sector are presented below. But before that the experience of BIFR is briefly examined.

## II. THE BIFR EXPERIENCE

THE Board for Industrial and Financial Reconstruction (BIFR) is constituted under the Sick Industries (Special Provisions) Act, 1985 to scrutinise sick industrial units in the private sector, close down the terminally sick and assist in the rehabilitation of others.

BIFR covers medium and large scale units and both partially and completely sick units. Medium and large scale units are defined as in Industrial Development Regulation (IDR) and partially and completely sick units as follows:

Partially sick units (weak units) :
- (i) The company should have been in existence for 5 years; and
- (ii) its net worth (equity and free reserves) should have eroded to the extent of 50% or more.

Completely sick units :
- (i) Company should have been in existence for 7 years;
- (ii) its net worth should have eroded by 100%; and
- (iii) it should have made losses in two consecutive years.

BIFR does not cover SSI units, i.e., units with an investment in plant and machinery not exceeding Rs. 60 lakhs or Rs. 75 lakhs ancillaries. It also does not cover units which do not qualify as industrial undertakings according to IDR, which defines an industrial

undertaking as a unit employing 50 workers if using power or 100 workers if not using power. Besides SSI units with investment exceeding Rs. 60/75 lakhs and employing less than 50 workers if using power or less than 100 workers if not using power are thus not covered by BIFR.

All medium and large scale industrial units in the private sector, which are sick according to the above definitions are obliged, under law, to make a reference to BIFR.

With information available to it, RBI periodically identifies sick units, their number and bank finance blocked in them. This data for December, 1988 is as follows:

| | *Number of sick units* | *Bank finance blocked (Outstandings) Rs. crores* | *Percent* |
|---|---|---|---|
| Medium and large scale | | | |
| - Partially sick units | 770 | 2177 | 28.2 |
| - Completely sick units | 1241 | 3387 | 44.0 |
| SSI | 240573 | 2141 | 27.8 |
| TOTAL | *242584* | *7705* | *100.0* |

More uptodate, October 1991, information on the number of sick units, but only medium and large scale, is available from BIFR.

| | *Reference received* | *Units registered* |
|---|---|---|
| Partially sick units* | 608 | — |
| Completely sick units | 1466 | 1082 |
| *Of which* | | |
| Cases dismissed | — | 191 |

*Partially sick units are not registered.

The number of sick units reported by RBI and BIFR, understandably, do not tally. In the case of completely sick units, the larger number (references) reported by BIFR is due, in the main, to the increase in the number of completely sick units between 1988 and 1991. Last year the increase was by about 150 units.

It will be observed that, while medium and large scale sick units reported by RBI account for less than 1% of all sick units, bank finance blocked by them exceeds 70% of the total. From the point of view of financial resources locked up, addressing the problem of industrial sickness in the large and medium scale units is far more important.

Units which fall in the category of partially sick or weak units are obliged under the Sick Industries Act to make a reference to BIFR.

In the case of these units BIFR currently has no power to order closure or to initiate a rehabilitation process. It can only ask the management to put the full facts before the shareholders for their consideration and for appropriate steps to rehabilitate the unit.

With regard to completely sick units BIFR has full authority either to close down a unit or to initiate procedures for its rehabilitation. In case BIFR decides to close down a unit the procedure is to first issue a show cause notice to the unit, then, if the response is not satisfactory, to pass an order for the unit's closure and convey it to the High Court. The High Court simply implements the order. It can neither alter it or entertain appeals against it. If there are any appeals these must be addressed to BIFR's Appellate Authority. Once the appeals are dealt with and the closure order sustained, assets of the unit have to be disposed of and distributed among various creditors including workers. It is at this stage that major problems are confronted. To these we shall return later.

On the other hand, if BIFR finds that a completely sick unit can be rehabilitated, it asks the promoter to devise and undertake a programme of rehabilitation under its supervision. This programme could include a merger, amalgamation or sale. But since it is not mandatory the promoter may not accept the responsibility of rehabilitating the unit. In which case, by issuing a notification, BIFR itself takes on the responsibility for rehabilitating the unit under its Sanction Scheme, which is mandatory. BIFR then asks one of the financial institutions or a bank to draw up, under its guidance, a rehabilitation scheme for the unit. This scheme must consider all technological, economic and financial aspects and establish the viability of the unit in respect of each, given the available concessions.

With respect to completely sick units, BIFR's record of closures, uptodate, is as follows:

| | | *No. of units* |
|---|---|---|
| 1. | Registered completely sick units considered | 877 |
| 2. | Order for closure sent to High Court | 147 |
| 3. | Show cause notice issued | 62 |

Out of the 147 closure orders sent to the High Court, there have been appeals against the order by over a third, all from the promoters/management; none from the workers.

The 209 closure decisions taken by BIFR are reported to represent a number of closures several times larger than approved by the government over the past 40 years.

Against the decision to close down 209 completely sick units, BIFR has undertaken steps to rehabilitate 392 units.

| | | No. of units |
|---|---|---|
| 1. | Units to be rehabilitated by the promoter | 127 |
| 2. | Units to be rehabilitated under BIFR's Sanction Scheme | 220 |
| 3. | Units notified under the Sanction Scheme | 45 |
| | | *392* |

Of the 877 registered completely sick units considered, 601 were either wound up or taken up for rehabilitation. Of the remaining, 237 units were under process and 39 were remanded/stayed by courts etc.

It is necessary to keep in mind that reference is not made to BIFR in respect of all completely sick units on account of the way these units are defined. Considering that sickness usually begins in the third year of a unit's existence, it is likely that there would be many units whose net worth is completely eroded and who have also made losses for two consecutive years, but have not been in existence for 7 years. Similarly there would be units that meet the other two conditions but have not made losses in two consecutive years.

**Causes for Sickness**

BIFR has attempted an analysis of the major causes that lead to a unit's sickness. These causes in order of their importance are listed as follows:

1. Corrupt practices of management.
2. Inappropriate project selection and evaluation.
3. Government policy and market conditions.
4. Procedural hassles.
5. Workers.

Considering that in two-thirds of the cases the dominant cause is found to be corrupt practices of management, it would appear that workers play a relatively minor role in causing industrial sickness.

**The Response of Workers to Closure and Rehabilitation**

Around three-fourth of the units wound up by BIFR were already not operating for a year or more. Workers in these units had dispersed and were not there to express their reaction to BIFR's closure order. With respect to the remaining units the following observations are noteworthy.

1. Whereas in several cases promoters have appealed against the closure order, in none have the workers appealed.
2. There was resistance from the workers which was particularly strong in West Bengal and Kerala in that order.
3. There was no resistance in Gujarat; in reality, workers wanted

the unit to be closed down. This was attributed to the fact

that an attractive scheme for a golden handshake was available.

In units which were taken up for rehabilitation BIFR found workers' role very positive and generally supportive of the rehabilitation scheme, even where it involved a cost to them. Thus in most cases workers agreed to

- rationalisation of labour, including retrenchment
- freezing of wages
- waiver or rescheduling of arrears
- acceptance of reduced bonus
- scaling down of other demands.

It is important to note here that workers' participation was sought and obtained at all stages of the process by which the scheme for rehabilitation was drawn up.

For rationalising labour, or reducing the number of workers, first a voluntary retirement scheme was offered. Where retrenchment was found necessary both the number to be retrenched and the conditions were negotiated and agreed upon.

The cost of the golden handshake in whichever form it was given was shared by the relevant financial institution, bank and promoter.

**Workers' Cooperatives**

Considering that the dominant cause for the sickness of a unit is attributed to the shortcomings of the promoter/management, it would be quite legitimate to consider handing over the unit to a workers' cooperative, if the workers are prepared to accept the challenge.

There are two major reasons why workers are generally unwilling to accept this challenge:

1. They do not reckon that they have the knowledge or experience to perform the functions of an entrepreneur.
2. They do not have the financial resources to make a sick unit turn around. The only resource they have is their cumulative provident fund. But since this is all the financial security they have it is natural that the risk of putting it at stake is perceived by them to be exceedingly high, specially in the context of their lack of confidence in undertaking the job at hand. It is on this account that, though the state is prepared to match the finances put forward by the workers and the IDBI is willing to make a contribution towards the workers' share, there are not many takers.

However, there are a few success stories of workers' cooperatives, where the workers have rehabilitated a unit and brought it back to health. This option cannot therefore be ignored.

**Major Conclusions from BIFR Experience**

From the experience of BIFR one can draw some conclusions which have relevance for an exit policy and for rationalising labour in units which have excess labour.

1. In view of BIFR finding that about three-fourths of the completely sick units ordered to be closed down were already closed except in name, it would appear that terminally sick units in the private sector cannot, in reality, operate beyond a time though legally they continue to exist.[1] Policy restraint on exit from industry is therefore only partially successful, and the actual number of terminally sick units that would close down in normal course, were there no legal impediments and financial support for sickness, is much less than the number on record. Workers, for whose benefit the present constraints on exit are designed, seeing the writing on the wall, seem to look for opportunities for employment elsewhere and progressively dissipate; or, while resisting a *de facto* closure are unable to persist indefinitely.

BIFR information on closures pertains only to medium and large scale units. According to RBI data the bulk of sick units are in the small scale sector. The *de facto* closures of terminally sick units in this sector are likely to be proportionately much more than in the medium or large scale sectors, simply because the resistance from workers, generally not organised, would be much less.

2. Provided workers are taken into confidence and associated at all stages in devising rehabilitation schemes for sick units or, by extension, for raising labour productivity to improve the profitability of a unit, their response is likely to be positive. Even where rationalisation of labour or retrenchment is found necessary, they are likely to be amenable to a negotiated settlement in the form of a compensation scheme or a golden handshake that gives them more than the legally prescribed retrenchment benefit.

3. In the case of terminally sick units, which are not already wound up for all practical purposes, workers are likely to resist the closure of the unit they are employed in. Worker resistance is, however, likely to vary between unions of different affiliations. BIFR experience suggests that resistance from CITU unions tends to be

1 Indeed, promoters are more than inclined to take advantage of the restraint on exit and thereby remain on the sick list, even when they are not operational, because it enables them to draw funds from the financial institutions and banks which they can easily divert to their own benefit.

stronger, particularly in units located in West Bengal and Kerala.

Though workers may resist, they are, in general, responsive to a reasonable compensatory scheme. In fact, in terminally sick units the knowledge that this option is available may cause the workers themselves to seek a closure of the unit. BIFR experience in Gujarat suggests this. A further advantage of this response of the workers, were it available, would be that, it would cut short the time over which a terminally sick unit persists to exist.

## III. A SCHEME FOR A PROTECTIVE NET FOR WORKERS FOR AN EXIT POLICY IN ITS WIDER CONTEXT

EXIT policy is the other side of the coin of an entry policy. If entry into industry is freed or liberalised in order to give competition an effective role in making industry more efficient, then the option to exit for those who cannot compete must also be freely available. But, while liberalising entry is comparatively simple, lifting restraints on exit, where no state social security system exists, is not. It would be correct to say that no viable modern social system can unleash market forces in the economy without providing some form of unemployment insurance to its workers. In India, since a full-fledged social security system is still not within reach, an acceptable personalised or group specific substitute for a social security system has to be found before an exit policy can be initiated.

Exit for a firm is the last resort. Before this, it has the option of managing its resources more efficiently to stay in the market. Among other things the exercise of this option would require a rationalization of the workforce employed in the firm including, if necessary, retrenchment of some workers. Essentially the problem vis-a-vis labour is the same here as in the case of exit, viz., the need to find a personalised substitute for unemployment insurance which is acceptable to the workers. Since the problem is the same the context of an exit policy should be extended to include re-adjustment of the work force within a firm to raise labour productivity and thereby to contribute to its competitive capability.

Strictly speaking an exit policy relates to the freedom of a firm or an industrial unit to close down if it has ceased to be financially viable and cannot be rehabilitated. In its wider context an exit policy should also relate to the freedom of a firm to trim its work force, if necessary, to a level consistent with the demand for efficiency in a competitive market. Not only is it more meaningful to deal with the issue of exit in its wider context, it is also necessary to devise a

consistent protective net for workers both for closures and for shedding of excess labour, because there is no ground for discriminating between workers who lose their job as a result of a unit's decision to close down or to trim its work force.

The phenomenon of sickness in industry has received fairly wide publicity. Sick units have been defined in the manner stated earlier and RBI regularly estimates and publishes their number. The bulk of the sick units are in the small scale sector, but the major part (70%) of the finance blocked in sick units is in medium and large scale units. In what follows we shall deal with the medium and large scale sectors.

Industrial sickness prevails both in the private and the public sector. Whereas the protective cover for workers in private and public sector units cannot be basically dissimilar, there are other differences for which a distinction will need to be made between the two sectors.

But first let us consider the options available for providing a protective net for the workers who, in the process of restructuring, lose their jobs.

1. If the owner/promoter of a unit is unable or not inclined to bring about a turn around in the financial status of a loss-making unit and consequently decides to close it down, an offer should first be made to the workers to form a cooperative and run the unit. If the workers accept the offer, then, towards the rehabilitation of the unit, the workers' cooperative should receive financial assistance as currently available, viz., a matching grant by the state and a contribution by a financial institution towards augmenting the workers' share.
2. If the workers do not agree to form a cooperative to run the unit, they will have to be compensated for the loss of their jobs to an extent exceeding the prescribed retrenchment benefit and in a manner that is acceptable to them, i.e., in the form of, what is called, a golden handshake. Essentially the compensation should be such as to,

   (a) provide sustenance to the worker and his family until he finds suitable employment, and
   (b) compensate the worker for the loss of time and income for the period until he is back in line with his original career expectations.

   Although precision in compensating each worker in respect of either of these components is non-attainable, notionally both components should be visibly discernible.
3. Once a worker is dislodged from his settled career, he must

be assisted in establishing himself in a comparable career. This would be particularly important during a restructuring phase, when more than the normal emphasis on modernisation of technology and management along with a change in product mix as well as quality of product would require a corresponding adjustment and upgrading of skills among workers. In order for the worker to regain his competitive strength in a labour market where the demand for skills is shifting, he must be offered opportunities for re-training. This would be particularly necessary for younger workers.

**Golden Handshake**

The golden handshake proposed here has three specific features, including two distinguishable components.

(i) The Flow Component:

The flow component ensures the worker a pre-determined monthly income for a specified period of time. This income would provide immediate means of sustenance to the worker and his family. It is expected that within a relatively short period of time the worker would be able to find a supplementary source of income through wage or self-employment. It is envisaged that the state of the labour market during the restructuring phase may be somewhat depressed making it difficult for a majority of laid off workers to find jobs similar in skill requirement or earnings to the ones they were removed from. Employment opportunities to which laid off workers may find access are therefore likely to pay them less than what they were earning before and hence such employment is viewed as supplementary.[1] It is also viewed as temporary, for it is assumed that as a result of restructuring, demand for labour will pick up significantly by 2-3 years and the expansion in employment opportunities at various skill levels thereafter would provide adequate scope not only for the absorption of new entrants to the labour force but also for those who were laid off earlier, and in jobs that, in terms of earnings, would be consistent with what they might have expected their earnings to be by this time, had their careers not been interrupted.

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1 It is quite conceivable that some laid off workers may secure employment that restores their erstwhile earnings from the job they lost. It would be legitimate to think that thereafter the subsequent benefits from the scehme of golden handshake proposed here should cease. This would, however, be impratical, for it would not be possible to track every worker to find out what he was doing. On the other hand, the possibility of augmenting earnings as a result of the golden handshake would act as a major incentive for accepting it.

(ii) The Lumpsum Component:

Whereas the expected future monthly earnings of all workers would be restored to them as the restructuring phase enters an expansionary phase, there would have to be an additional compensation in lieu of lost time and earnings in the interim. This would be in a lumpsum form, but not made available at the time a worker is laid off, but at the expiry of the period over which the worker is provided a monthly income. This procedure is preferred on two counts: (a) past experience shows that lumpsum received as golden handshake at the time of lay off tends to be frittered away and (b) availability of a substantial sum of money dampens the initiative for seeking employment or retraining. Holding the lumpsum component of the golden handshake back would sustain the workers' initiative to look for opportunities for supplementary employment in the interim period as well as give an edge to his need to retrain himself.

Furthermore, receipt of a lumpsum when the workers' monthly earnings are already restored is likely to result in its more prudent and constructive use.

In addition, the lumpsum payment is also meant to compensate for the rise in prices over the 2 or 3 years that the monthly income remains fixed. Ideally the monthly income should be indexed, but this may prove difficult to handle in practice. However, were it possible to devise a workable mechanism which was also free of bureaucratic indecisions and delays it should be implemented. In which case amounts paid to compensate for inflation should be deducted from the lumpsum payment.

(iii) Age Classification of Workers:

The laid off workers are not treated as a single group, but classified in five age-group categories. This classification is preferred because it provides a basis for distinguishing categories of workers in terms of their relative potential for future, interim as well as subsequent, employment. In general, future employability of a worker will move inversely with age. Length of service criterion for classification is not used because workers change jobs and the length of service in the last job may not be consistent with their age category, or any other characteristic, and thus would make the criterion arbitrary. The five age-group categories in which workers are classified are:

(i) Age upto 30 years
(ii) Between 30 and 40 years

(iii) Between 40 and 50 years
(iv) Between 50 and 55 years
(v) Above 55 years.

As the employability potential is seen to decline, in general, with age, compensation for being laid off would need to rise with age. This can also be seen as consistent with a positive relationship between length of service and compensation.

*Financing of Golden Handshake*

To close down units government has three sources for financing a golden handshake: sale of land, building, etc. of units closed down, national renewal fund and government's budgetary resources.

Where a public sector unit is to be wound up land, buildings and other saleable assets must be disposed of. All attempts at retaining the land and building for any other purpose, unless there are exceptionally pressing reasons, must be ruthlessly resisted. Several terminally sick public sector units are known to be located on prime land, which would fetch substantial sums of money. It is conjectured that in many cases sale of land and building might more than suffice to finance the Workers' Bonds required to lay off workers. But liquidation procedures currently prevailing in India tend to be long drawn and workers cannot be made to wait. Thus, even in these cases, it may be necessary, in the interim, to take recourse to the national renewal fund and/or to government's budgetary resources.

For the creation of a renewal fund the World Bank has made a commitment of $ 500 million (over Rs.1400 crores). This fund is to be used for providing a protective net for workers dislodged from their jobs in the process of restructuring the public sector. The World Bank commitment only initiates the renewal fund. It would need to be expended substantially by contributions from domestic resources.[1]

While the exit of a sick public sector unit benefits the exchequer to the extent losses of the sick unit were being subsidised, shedding of surplus labour will not only prevent public sector units from going sick, it will act, by raising labour productivity and general efficiency, as a major factor in improving the capacity of public sector enterprises to generate surpluses for the exchequer. It is argued therefore that while terminally sick units should be closed down, equal if not greater importance should be given to shedding excess labour where it is needed.

For financing the shedding of excess labour in public sector units government will have access to the renewal fund and/or budgetary

1 Since this paper was written Central Government has added Rs.2200 crores to the renewal fund through a provision in its 1992-93 budget.

resources, but not to receipts from the sale of land and building. In its place it is proposed that, public sector enterprises trimming their work force should make a contribution towards investment in Workers' Bonds out of the gains accruing to them on account of laying off workers as a part of the rationalisation process. Directly there would be a saving of expenses equal to the emoluments of workers laid off and indirectly there would be gains resulting from higher labour productivity and improved efficiency of operations. While the benefit of rationalising the work force should go to the enterprise, it seems only fair that the enterprise too should make some initial contribution towards financing the scheme for providing a protective net for laid off workers. It is therefore suggested that an enterprise should contribute 50 per cent of the expenses saved directly as a result of laying off workers in the first year and 25 per cent of the value of Workers' Bonds required to support the laying off exercise.

Restructuring of the economy requires adjustments to correct prevailing macro-economic imbalances. Trade deficit has to be narrowed within manageable limits and in the fiscal area revenue and fiscal deficits have to be reduced. These have been the major objectives of public policy since the present government initiated a series of economic reforms. In the last two annual budgets of the Central Government one has seen the imposition of restraint on expenditure to achieve significant reduction in the fiscal deficit. Although what was required was a scaling down of revenue expenditure to correct the more serious imbalance in the revenue account, for practical reasons as well as political difficulties, a considerable part of the restraint on expenditure fell on government investment. To counter this, recourse was taken to the capital market by allowing public sector enterprises to borrow or disinvest. But still the rate of increase in public investment dropped with detrimental effects on growth.

While, in the absence of unemployment insurance, it is necessary for the implementation of an exit policy to have a protective net for workers who lose employment, it is equally necessary to protect growth. Without this the economy may not be able to absorb the new entrants to the labour force leave alone the workers dislodged in the restructuring process. For creating a protective net for workers additional financial burden on the exchequer must therefore be minimal, so that there is no further encroachment on funds for investment. This objective is considered of primary importance in the scheme proposed here.

*Workers' Bond*

To meet this objective, it is proposed that the mode of financing should rely principally on the instrument of a Workers' Bond. Profit making public sector enterprises on infrastructure undertakings, in-

cluding welfare oriented organisations, such as, HUDCO, National Housing Bank, etc., would issue special bonds to be called Workers' Bonds. Where a public sector unit is to be wound up or the work force in it trimmed down, government would invest in the Workers' Bonds. In the case of the private sector the firm closing down or pruning its work force would purchase the required Workers' Bonds. These Bonds would carry an interest rate marginally lower than the common prevailing rate in order to widen the range of public sector enterprises that may participate in issuing them. Interest payments on the Bonds would finance the flow component (monthly income) of the golden handshake and a part of the value of the Bonds, the lumpsum component.

Workers' Bonds would have the following characteristics:

1. There will be two kinds of Bonds: a 3-Year Bond and a 4-Year Bond.
2. Workers' Bonds will be non-redeemable and non-transferable by workers.
3. No Workers' Bond will be allowed to be pledged for taking a loan of any kind.
4. Workers' Bonds will be non-convertible with no secondary market.

In order to minimise the burden of investments in Workers' Bonds on the available budgetary resources, it is stressed that the amount so invested must, in principle, be within the normal budgetary allocation of investment to public sector. Thus Workers' Bonds would only convert grants out of budgetary resources to the public sector into borrowing from government. As the Bonds will be issued by profit-making public sector enterprises it is expected in the context of the drive to revitalise the public sector that they will find a way to absorb the normal cost of capital as enterprises in the private sector do.

World Bank and other multinational contributions to the national renewal fund would also be utilised for investment in Workers' Bond. However, these contributions are now, and will continue to be, far from adequate to address the problem simply because the problem is much larger. The major responsibility of providing a protective net for the workers will therefore fall on the government. Furthermore the problem must not be seen as limited to the immediate adjustment process for it will persist so long as a full fledged social security system is not put in place. What is proposed here, therefore, is a personalised or group specific substitute for a social security system which, besides catering to the immediate need, has a longer time horizon. In devising a mechanism for financing this limited social

security scheme the proposal relies on the Workers' Bond as a means for minimising the burden on the exchequer and providing a continuity in the availability of funds.

In the private sector, as in the case of government, sale value of land, buildings and other assets when a unit is closed down is available for financing a golden handshake. But, while the law provides that, the first charge on moneys realised from sale of assets is payment of workers' dues including in this case, besides current dues, purchase of Workers' Bonds, liquidation of assets and disposal of the sale value realized entails a prolonged process. This is a problem to which we shall return later.

For trimming its work force a private firm would have two sources of finance: own funds and a term loan from a financial institution. Because a leaner work force would enhance efficiency, gains from it would justify the cost of investment in trimming labour. However, to the extent the problem of excess labour in industrial units is a general one, the burden of providing a security net for the workers, limited in this case to industrial workers, must be jointly shared by private industry as a whole. A not inconsiderable benefit of this would be a diminished cost of trimming the work force which will enable more firms to go through with the process. What would be required, in other words, is a fund for the private sector, similar to the one available to the public sector. A suggestion in this regard is made subsequently.

### A. Monthly Income

The following scheme for providing a regular monthly income to laid off workers is proposed.

| | *Class of worker* | *Per cent of last drawn wage/salary (Basic + D.A.)* | *Number of years for which monthly income is assured* |
|---|---|---|---|
| 1. | Upto 30 years of age | 60 | 3 |
| 2. | 30 - 40 years of age | 50 | 4 |
| 3. | 40 - 50 years of age | 50 | 4 |
| 4. | 50 - 55 years of age | 50 | 3 |
| 5. | Above 55 years of age | | Voluntary retirement |

As mentioned earlier employability potential is seen as greater for younger than for older workers and hence the duration for assured monthly income is less for younger workers. For workers above the age of 50 and approaching retirement it is deemed better to shift towards a fuller settlement at the time of lay off.

Thus workers between the ages of 50 and 55 years would receive the prescribed retrenchment benefit, i.e., half a month's salary

for every completed year's service at the time of lay off and no lumpsum payment later.

All workers would be eligible for their gratuity along with prodivent fund at the time they are laid off. Workers in the age group 55 years and above would receive voluntary retirement benefit, worked out by negotiation, but no retrenchment benefit.

To disburse the monthly income to the worker the following steps would be followed by the concerned unit:

1. The value of Workers' Bond(s) will be worked out for each worker, such that, the interest accruing would be equal to the monthly payments to the worker.
2. Each worker will be asked to indicate the bank and branch from which he/she would like to draw his/her monthly income.
3. The Bond(s) for worker will be deposited with the designated bank along with an identity document containing a photograph of the worker.
4. A list of workers for whom Bond(s) have been deposited along with the value of the Bond(s) and the date from which the worker's first monthly income will be due, will be furnished to the public sector enterprise whose Bonds have been deposited for the workers.
5. Banks/branches will be asked to maintain a separate file for each worker for whom Bond(s) are deposited, along with a card with the worker's photograph for easy identification and the monthly amount due to him/her. Banks would also designate a specific window for disbursement of payments against Workers' Bonds.
6. Each month, the worker would present himself, get identified and collect his dues.

At the end of 3 or 4 years, as the case may be, monthly payments to a worker will automatically cease. These payments will also cease in the event of the worker's prior death. The Bond(s) will then revert to the government/firm — the original purchasers of the Bond(s).

*Revolving Fund for Investment in Workers' Bonds*

Once exit out of industry is freed and competitive forces are encouraged to come into full play, closures and rationalising of labour in operating units as well as market induced temporary adjustments in the work-force will continue and so will the need for a protective cover for workers. This, in the present context, means that the proposed limited personalised or group specific social security net

must be sustainable and accessible both to the public and private sector. The mechanism for financing the scheme outlined above provides the basis for creating a revolving fund which can sustain the system.

In the public sector all 3-year Bonds issued to workers laid off in the first year of the scheme will revert to the government in the fourth year (for 4 year Bonds in the fifth year). The redeemed value of the Bonds, after adjusting for liabilities, should then go into constituting a corpus — a specifically designated revolving fund — to be utilised for reinvestment in Workers' Bonds. To the retained value of the Bonds would be added, (a) the sale value of land, building and other assets in the case of units that are closed down and (b) the contribution from units which undertake a programme of pruning their work force. While the reverse flow of Bonds will start in the fourth year of the scheme and will continue, the inflow from (a) and (b) will commence earlier. Together these sources of funds will continually replenish the revolving fund to sustain the proposed limited social security net for workers.

Except for large industrial houses with multiple interests and production units most individual companies in the private sector having once invested in Workers' Bond may not be in a position to, nor may they need to, utilise the redeemed value of Bonds for setting up a revolving fund of their own for future protection of their workers. Nevertheless private industry as a whole would find it to its advantage to have a smooth workable system for the redeployment of labour in industry on a continuing basis. Considering that private industry would be one of the principal beneficiaries of the freedom to exit and redeployment of labour and that, the proposed scheme is group specific to industrial workers, private industry would have a stake in the creation of a revolving fund for investment in Workers' Bonds. Were it to accept this and the associated responsibility it should be possible to set up a revolving fund for investment in Workers' Bonds in the private sector as well. Towards this end a suggestion is offered here which may deserve consideration.

A fund, to be called Redeployment of Labour Fund (RLF), could be constituted on the basis of a modest cess to be levied on medium and large scale industrial establishments/firms. The manner in which the cess is to be levied could be determined by the Ministry of Finance so long as the collection from a firm reflects the size of its turnover. The RLF should be lodged with one of the financial institutions[1]. A firm needing to draw on it, would make an application

1 In case financial institutions exhibit reluctance to become the custodians and operators of the RLF, the possibility of adding a wing to the BIFR for this purpose may be considered.

stating its case and the amount required. The financial institution, after ascertaining the validity of the case, would make the amount requested for available to the firm in the form of Workers' Bonds with a modest charge (to cover cost). The firm would furnish the financial institution with a list of the workers, the name and address of their bank branch where the Bonds would be deposited and the amount of the Workers' Bonds to be deposited for each worker. This information would be transmitted by the financial institution to the public sector enterprise whose Workers' Bonds have been given to the firm.

The RLF should be treated as a revolving fund. Amounts retained out of the value of redeemed Workers' Bonds should revert to RLF and be used for further investment in Workers' Bonds. To this should be added contributions from units pruning their work force in a manner similar to what is proposed for the public sector. While the entire private industry (large and medium) will be paying a cess, it is only fair that actual beneficiaries in a particular year should make an additional contribution to the RLF. In the public sector it is suggested that 50 per cent of the direct saving resulting from lay off of workers in the first year, 25 per cent each in the second and third year should be paid as contribution to the revolving fund. In the case of private industry, because all firms will be subject to a cess, these proportions may be suitably lowered.

It is important that the use of RLF should only be through Workers' Bonds, for that would foreclose the possibility of any misuse of the funds. Although, the possibility of using Workers' Bonds issued by private firms may be considered later, initially only public sector Workers' Bonds should be used. It is also important that, as a rule, the use of RLF be confined to the requirements for trimming the work force in a firm and not for winding up a unit.[1] For one, units closed down will yield substantial revenue from sale of land and building; and for another, on the grounds that the dominant cause for terminal sickness in an industrial unit is attributed to the faults of promoters or management, nothing should be done which has the appearance of condoning these faults, or has the effect of acting as yet another incentive for perpetrating those very faults.

**B. Lumpsum Payment**

Lumpsum payment to a laid off worker would consist of 25 per cent of the value of the Workers' Bond(s) deposited in his name as compensation in lieu of lost time and earning. As the monthly pay-

1 In time, when free exit has been available for some time and competitive forces have become more active causing the need for exit to rise, this restraint may be removed.

ment to the worker is not indexed to price rise after the first year, a part of the lumpsum payment would also compensate for that.

Lumpsum payment will be made to the first 3 categories of workers, i.e., to workers below 50 years of age. To workers between the ages of 50 and 55 years, normal retrenchment benefit will be paid. Workers above the age of 55 will only get the negotiated voluntary retirement benefit.

It is important that workers receive their lumpsum payment without delay after their monthly income ceases to be available at the end of 3 or 4 years. Profit making public sector enterprises will have a list of workers for whom their Workers' Bonds have been deposited with a bank along with the amount and the name of the bank and branch. In each case the public sector enterprise will remit 25 per cent of the value of the Bond standing against the name of a worker to the relevant bank branch, a month in advance of the date when the worker ceases to get his monthly payment. This should enable the worker to receive his lumpsum payment along with his last monthly payment.

After the lumpsum payment has been made, the public sector enterprise will remit the balance 75 per cent value of the Workers' Bond to government/financial institution, as the case may be, except when any of them have already put in a request for reinvestment in a new issue of Workers' Bonds.

Reference was made earlier to liabilities that might have to be cleared before the redeemed value of the Workers' Bond can be ploughed back into the revolving fund for sustaining a protective net for workers. The liability referred to is the lumpsum payment to the worker. Of the redeemed value of the Workers' Bond what would go into the revolving fund would be 75 per cent.

**C. Retraining Programme**

Retaining of workers has to be an integral part of any restructuring of industry which includes rationalisation of labour. On the one hand, modernisation or installing of competitive technology and production management systems would require an adjustment in the structure and levels of skills as well as an upgradation in the quality of skills and acquisition of some new skills. On the other hand, workers shed in the restructuring phase must adjust to the changing pattern of labour demand through retraining courses in order to find suitable employment for themselves as opportunities progressively expand.

To cope with retraining needs of the workers, training facilities in the country would have to be not only expanded but, what is

perhaps more important, improved to cope with the higher quality and changing pattern of skills. The latter calls for attention as much for new entrants into the labour market as for those laid off in the course of restructuring.

For the laid off workers, who already have some skills and experience it may be necessary to organise special retraining courses. It should also be recognised that some unskilled or semi-skilled laid off workers might take this opportunity to acquire skills. Retraining of workers as a part of operationalising an exit policy in its wider context, must get a priority to ensure that laid off workers desirous of retraining will be given an opportunity to do so. To safeguard the interest of those who are aiming to enter the labour force for the first time, early steps would need to be taken to expand the training capacity of technical training institutions across the country. It requires to be pointed out that access to training facilities should be available to laid off workers in the vicinity of the place of their last residence, for otherwise many workers may not be able to take advantage of training facilities even if these were made available. Spreading out of the expansion of training facilities would also be more convenient, for it will distribute the burden over a larger number of institutions.

There would be a question as to whether the retraining of laid off workers should be at no cost to them. To make it free would not be wise. If it is important that workers should retrain themselves then workers should give expression to it by the willingness to pay for it. It is feared that, if retraining courses are offered free of cost, workers may not attach much value to them and thereby underestimate the relevance of these courses to their future employment and advancement. Of course, an element of subsidy may well be appreciated. It may also be suggested that if there was a constraint on retraining capacity, which cannot be ruled out, a preference should be given to younger workers. Access to retraining facilities must be treated as a part of the compensatory packet constituting the protective net for laid off workers and the preference to younger workers for retraining should be regarded as an additional benefit to them relative to others, in part, to set off the shorter duration for which they would receive a monthly income.

So far we have only considered institutional training facilities for retraining programmes. In the short run expansion of training capacity, spread across the country, to cope with retraining requirements would surely be a difficult task. Besides bottlenecks in securing space and equipment, inadequacies in the supply of trainers is likely to be confronted. In most developed countries, specially Europe,

industries themselves play a major role in training/retraining of workers in different skills.[1] In-plant training thus provided is also believed to be more efficient. At the present juncture, industry is not only deeply involved in the process of restructuring, but is its prime beneficiary. It therefore seems but reasonable that it should participate directly in speeding the process. Participation of industry in building up a Redeployment of Labour Fund has already been suggested. It is now suggested that industry should also participate in a big way in the programme for retraining workers. On account of the superiority of in-plant training in this area, industry is already placed in a relatively advantageous position. In addition, it will also need to organise in-house training/retraining for its own workers in order to cope with the changing level and pattern of skill requirements arising out of the technological adjustments it must undertake. Investment to meet the latter need is to be emphasised, for industry is likely to find institutional facilities for training in skills, as available now, inadequate for its purpose. Retraining of laid off workers would therefore constitute only an additional load that industry might have to carry in its existing training programme.

Whereas, industry should volunteer itself to participate in the programme of retraining laid off workers because ultimately these workers would be available to industry itself, experience suggests that the response of industry may not be as spontaneous as one might expect. Indeed it is feared that industry's need for retraining its own workers, which is crucial, may not receive the kind of attention it deserves. It is, therefore, suggested that an incentive be offered to industry in the form of a suitable tax concession to invest in and organise in-plant training/retraining programmes where, besides their own workers, laid off workers would also be admitted. The specific form in which a tax concession is offered would have to be worked out by the concerned authorities but it would need to be related to the type of training/retraining programme provided and the number of trainees admitted with a weight attached to the number of laid off workers taken in as trainees.

In the retraining effort, while the private sector may be induced to participate by a tax incentive the public sector should also participate by a decision to include a high priority investment allocation for establishing appropriate in-house training facilities in those public sector enterprises which need skill upgradation and are operationally viable.

A not inconsiderable advantage of in-plant training/retraining in

1 It is reported that in the restructuring of industry in East Germany, the entire responsibility of retraining is being shouldered by industry itself.

industrial units would be tie-up arrangements for retraining of laid off workers. First of all, if units shedding off labour have retraining facilities they could themselves take the responsibility of retraining all or some of the laid off workers. Secondly, mutual arrangements could be made between firms for retraining each other's laid off workers. This, in the public sector, should be much easier to organise and indeed a full scale plan to establish in-house training/retraining facilities in most viable public sector units should be drawn up for training own workers as well as laid off workers.

Finally, if training and retraining capacity has to be expanded there will be a substantial demand for trainers qualified for imparting the kind of training which is consistent with the changing skill requirements in industry. This will require a specific programme for training the trainers in which government will have a major role to play in the institutional component of the training and industry in providing the in-plant component.

**Shedding Labour in Public Sector Enterprises**

While the private sector also harbours excess labour the problem is much more acute in the public sector. For that reason shedding of labour in the public sector deserves special attention. It may be pertinent to mention here that several public sector undertakings would cease to be loss-making were their work force rationalised to an efficient level. A possible methodology for shedding labour in the public sector is suggested below.

The first and the least painful way of reducing the work force is to allow the vacancies caused by attrition in the normal course to lapse. It is estimated that any reasonably large work force is reduced each year by about 3 per cent due to retirements and natural deaths. Were replacements for them not recruited the work force would reduce by 3 per cent each year. What has happened, not uncommonly, in the past is that vacancies caused by attrition have not only been filled but exceeded.

However, it is not practical to allow vacancies arising in the normal course not to be filled at all. First, vacancies due to retirement or even deaths (occurring usually at an older age) are filled through promotions which, in turn lead to a chain of upward movements for a number of workers. Much of the recruitment that is needed therefore is at the lower end of the scale in terms of seniority, and if this need is not met at all, there may arise a maladjustment in the structure of the work force. Second, each year the labour force increases by about 2 per cent. If no recruitment against attrition takes place the burden of labour shedding will fall mainly on the

new entrants to the labour force. This segment of the labour force, lacking any experience is more vulnerable, and being young more volatile. It would therefore be both unfair and unwise to concentrate unemployment in this group. Indeed, as a matter of principle, the burden of adjusting the work force through the restructuring phase must be deflected, to the maximum extent possible, away from the new entrants to the labour force.

It is suggested therefore that reduction in the work force due to normal attrition must be made good, but mainly through recruitment at the lower end of the seniority scale and not to the full extent of attrition. Thus against an annual attrition rate of 3 per cent replacement recruitment may be of the order of 2 per cent or roughly at the same rate as the annual increase in the labour force.

The reduction in the work force at the rate of 1 per cent a year due to under-replacement of workers lost through attrition will not be adequate in most cases. It may therefore be necessary to take some further steps.

To begin with there ought to be a fairly rigorous estimation of excess labour in each unit/undertaking. The excess should be classified by skills at the three digit level of the standard classification. In other words, excess labour should not only be quantified in numbers but also profiled in detail. Simultaneously, another list should also be prepared containing vacancies or needs, if any, of skills at 3 digit level categories and their numbers. Both lists, of excess and shortages, should be lodged by each unit/enterprise with a central organisation to be called Employment Information Centre (EIC). EIC should computerise the information and store it in an easily retrievable form.

Second, labour required for new units (projects) or expansion of existing ones, should be rigorously estimated and profiled in detail by skill types and levels. This information should normally be available in the project report. Once the project is approved and allocation of funds made, detailed information on labour required along with an approximate data when recruitment would commence should be transmitted to EIC for storage. EIC will thus have full information, on the one hand, on numbers by skill description of excess labour in the public sector and, on the other, similar information on labour required in existing public sector units as well as new projects.

Each public sector unit, having an excess of labour, besides recruiting at a less than the attrition rate, will have two options for reducing its work force: (a) transfer and (b) lay off — the former taking precedence over the latter. Upto a point a worker in excess will also have the same options.

The third step should therefore be for each unit to determine how many workers, out of the excess labour employed, it can transfer and how many it needs to lay off. In order to do this it must first determine the extent to which it intends to reduce its excess labour in a year. (It is assumed that getting rid of the entire excess at one stroke would not be practical for most units.) This number along with a break-up by skills, it should transmit to EIC with a request that as many as possible may be transferred to other public sector units. As EIC would receive similar requests from several public sector unit, it would need to carry out a supply-demand adjustment exercise with the help of information on requirement/vacancies already stored with it to determine the number of workers, by skill specification, that can be transferred from each of those public sector units who have asked for a transfer of workers. While conveying this number to a public sector unit, EIC will not only provide a skill-wise break-up, but also the unit and the place in which transfer is to be made.

It is more than likely that the number of workers that can be transferred would be less than the number a unit wants to reduce out of its labour surplus. If this is the case, the balance would have to be laid off. The number that would need to be laid off would, of course, be known to EIC also not only for one, but for all units. It would thus have the total number of workers that all public sector units together would want to lay off and by a simple calculation it would be able to estimate the magnitude of investment that government would need to make in Workers Bonds to provide the laid off workers with a golden handshake. Given this information government can take a decision whether it can support the lay off programme proposed by the public sector units to the full or not. If it cannot, an appropriate reduction would be suggested which EIC would communicate to each public sector unit requesting them to modify their lay off programme accordingly.

Once the total number of workers to be reduced is finally fixed by a unit along with the number to be transferred and laid off, it should offer the relevant groups of workers an option between transfer and lay off. If the number opting for transfer is less than the opportunities available, the number of lay offs will go up. In determining the overall number of lay offs for the public sector as a whole, government should make an allowance for some variation, so that no fine tuning is required later.

Whereas EIC will be principally concerned with the public sector, it is proposed here that it should also invite private sector firms to file in information on their requirement of skilled and semi-skilled workers and thereby have direct access to surplus workers relieved by public sector units. Normally this would be the function of Em-

ployment Exchanges, but it is well known that these institutions are not able to discharge this function with any great efficiency. It is therefore more than likely that private sector units would appreciate the involvement of EIC in providing this service. Were they to do so, it would increase the number of workers who would be transferred out of the list of surplus workers in public sector enterprises, thereby, either reducing the number to be laid off, or speeding the process of eliminating the surplus. Of the two options, other things being equal, the latter would be preferable.

It will be observed that EIC would have a pivotal role in facilitating the shedding of excess labour in public sector enterprises. Although, labour laid off from public sector units that may close down has been kept out of the purview of EIC, but this need not be so. It will be logical for EIC to help in arranging transfers for workers from this category too. Furthermore, EIC should have another important role. It should set up a cell which, working in close collaboration with the Ministry of Finance, should lay out a broad dimensional plan for shedding labour for each ensuing year. This would be useful for the Ministry of Finance in making an appropriate allocation for investment in Workers Bonds and for public sector enterprises who would be expected to issue the Bonds.

**The Role of BIFR**

Large and medium scale industrial units in the private sector, which come within the definition of partially or completely sick units, have to be referred to the BIFR. With respect to partially sick units BIFR has only a limited role of prodding the promoters and making sure that the shareholders are apprised of the financial state of the company. It is in the case of completely sick units that BIFR really has a role. Those that are terminally sick it has the power to wind up, while the others, it assists in rehabilitation.

Now if the restrictions on exit were removed it would be expected that all terminally sick units and even some that were approaching that state would be wound up by promoters in the normal course and only those that had the potential for revival would be referred to BIFR. This may not necessarily happen as the evidence of appeals against closures by promoters currently suggests. There are two reasons for this. Firstly, it is possible for a certain kind of promoter to enter into industry with minimal commitment of capital on his part (the more unscrupulous among them cover even this with, say, over invoicing of imports) and substantial reliance on financial institutions. Such promoters are not genuine entrepreneurs for their interest lies not in making a success of the venture but rather in mulcting the company to the extent possible. They would therefore allow the unit to go sick and keep it so for as long as

possible if funds in the name of rehabilitation continue to be available from financial institutions or banks. Second, with restrictions on exit as now, financial institutions and banks are more or less obliged to give succour to units even when they are terminally sick, which is a boon to the unscrupulous promoters. This is the real reason for promoter's appeal against BIFR order for closure. Now, if exit is made free, such promoters would still avoid closure, even if terminally sick, so long as financial institutions and banks continue to offer financial assistance to them.

It would seem that the manner in which it is possible for promoters to set up production units with minimal capital participation and substantial contribution from financial institutions is, in itself, an invitation to industrial sickness and an incentive for allowing sickness to persist. Simply by making exit free, the environment that causes and supports sickness will not change. Early weeding out of units that cannot sustain themselves in a competitive market is essential if resources are not to be wasted in unproductive or persistently inefficient enterprises. For this it is necessary to ensure that (a) promoters of industry, who do not devote adequate care in project selection and evaluation and are devoid of proper entrepreneurial motivation should not find it easy to get support for their venture or benefit from it; and (b) clear and early signals of impending sickness are given by financial institutions of banks, and, if sickness still occurs and tends to persist, no soft options are made available, instead, pressure is mounted to force the promoter to consider merger, amalgamation, sale or, alternatively, closure.

The former, i.e., (a) above relates, to entry into industry and not to exit and, has wider implications which we may not go into here.[1] But clearly (a) and (b) are not independent, for it can be readily seen that, were entry into industry to be more demanding there would be a lower incidence of sickness caused by indifferent or spurious promoters, and equally, were the financial institutions and banks to be more rigorous in their approach to industrial sickness, raising thereby the risk of failure and what it implies, it would act as an effective deterrent to the entry of indifferent or spurious promoters into industry.

Free exit from industry, with which we are concerned here, would thus require much greater vigilance on the part of financial institutions and banks and a more purposive intervention to ensure that wasteful or inefficient use of resources is minimised. Towards this end there would have to be a sharper monitoring apparatus,

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1 For instance, it is argued and with good reason that, the private sector in India is so heavily dependent on public sector financial institutions and banks that it cannot be regarded as private sector in the true sencs.

more sensitive management capable of transmitting appropriate signals at the right time and a forthrightness in decision-making which eschews soft options. All of this would require reorganisation of procedures, etc., but more importantly, a realignment of attitudes in management which may take some time.

In the meanwhile BIFR should continue to have the role it currently has. Insofar as completely sick units are concerned reference, as now, should be made to BIFR. There would, of course, be a difference in that, some completely sick units might have closed down voluntarily, others might have been sold or gone in for amalgamation or merger in a bid for revival. The remaining units BIFR would scrutinise to determine which need to be closed down and which could be rehabilitated.

Whether a unit is closed down voluntarily by the promoters or BIFR orders it to be wound up the procedure with regard to the workers would be the same. First the workers would be offered an opportunity to form a cooperative and take over the unit. Failing which a golden handshake through Workers Bonds would be given. The first option for financing Workers Bonds would be the sale proceeds from the disposal of land, building and other assets of the wound up unit. Currently the liquidation procedure in operation is very time consuming, so that years can go by before the sale proceeds can be distributed to the various claimants. This would be a major hurdle in the way of using Workers Bonds as a means for protecting laid off workers. In order to overcome this hurdle the following procedure is suggested.

To begin with the first charge on the sale proceeds from the disposal of a liquidated unit's assets must be the settlement of workers' dues including the requisite investment in Workers Bonds. This is already in the prevailing procedures, except that investment in Workers Bonds for a golden handshake must be regarded as a part of workers' dues.

Secondly, under the existing legal framework BIFR, on deciding to wind up a unit, can appoint a State Financial Corporation (SFC) or IDBI or any financial institution to take possession of the unit's assets and to dispose these of. However, none of the institutions are currently inclined to take on this responsibility. If financial institutions are to have a role in preventing industrial sickness and in facilitating exit then they would be required to change their attitude and accept the responsibility that they have so far shunned.

It is expected here that financial institutions hereafter will, when appointed by BIFR, take possession of the assets of liquidated industrial units for the purpose of their disposal. Once the assets are disposed of, the financial institution would promptly make the necessary funds available for settling workers' current dues as well as

for investing in Workers Bonds. This done, the balance from the sale proceeds would be available for other claimants and would be distributed, as now, through the courts. It is pertinent to point out that a prior settlement of workers' dues as suggested here will not in any way encroach on the rights of other claimants as it is already provided that the dues of workers must be settled first. What is aimed at simply is to separate workers' claim from others and to settle it expeditiously.

Thirdly, where the BIFR orders a unit to be wound up, it is found that promoters, either in anticipation of a closure order or while their appeal against the order is pending, tend to strip the unit of its movable assets in a bid to reduce, as much as possible, the sum of assets before liquidation proceedings commence. As a check against this practice it is suggested that a financial institution should take over possession of a completely sick unit's assets at an appropriate time indicated by BIFR even before a formal order for closure is issued.

In this context it is further suggested that BIFR, being a quasi-judicial body should itself execute closure orders instead of transmitting them to the High Court for execution. This will facilitate coordination between BIFR and financial institutions in the liquidation procedures and also in expediting the settlement of workers' dues. Thereafter the distribution of the balance proceeds from sale of assets among claimants could be handed over to the courts.

BIFR's jurisdiction is no longer confined to the private sector. Through a Bill passed in the current session of the Parliament sick units in the public sector have also been brought under the purview of BIFR. Accordingly some 58 public sector units are to be referred to BIFR. Although it is not clear whether these units conform to BIFR's definition of completely sick units, it may be assumed that they do.

In the context of the scheme advocated here completely sick public sector units should be treated in the same manner as similar private sector units. There may, however, be some differences in approach. First, the possibility of rehabilitation within the public sector would be circumscribed, partly because, under the new policy dispensation, it would be the object to limit the public sector, and partly due to the non-availability of options for mergers or amalgamations. Rehabilitation within the public sector would therefore receive low priority. Second, if the possibility of rehabilitation is revealed, then, given a low priority to rehabilitation within the public sector, it would follow that a high periority should be given to handing over the unit to a workers cooperative or sale to a private party, the former taking precedence over the latter. Only if neither of these options are available should the possibility of rehabilitation within the public sector be considered. However, unless the unit, on scrutiny, suggests a strong

possibility of rehabilitation within the public sector, BIFR should not hesitate to close it down with IDBI handling the liquidation of assets as described earlier.

At present industrial sickness is defined in terms of erosion of net worth and sustained losses. A unit is partially sick if its net worth is run down to less than half, though it may or may not be sustaining losses. A unit is completely sick if its net worth has eroded completely and in addition it has sustained losses in two consecutive years. The role of BIFR in respect of partially sick units is simply to prod the promoters to disclose the financial status of the unit to the shareholders. This suggests that promoters of units that go sick do not necessarily take the shareholders into confidence, either out of negligance or, what is more likely, out of deliberate design. However, even this role BIFR can play only after a unit has been in existence for 5 years. In the present scheme of things it appears to be assumed that even after shareholders have been made aware of the financial state of the unit, it may still continue to go downhill. Only after the lapse of another 2 years, when its net worth is reduced to zero or less and it has made losses in successive years, that it is treated as a completely sick unit and BIFR can take positive action.

In the event of exit being made free, it has been suggested earlier that, financial institutions and banks would need to play a major role in anticipating and preventing sickness, and, if sickness persists in precipitating exit. Were this role discharged by financial institutions and banks with reasonable efficiency, BIFR's intervention in respect of partially sick units would become redundant. In which case, it may not be necessary to retain the category of partially sick units. However, for the present, or until such time as the financial institutions and banks can gear up to perform the role described effectively, it may be desirable to modify the definition of partially sick units. Considering that symptoms of sickness are usually observable in the third year of a unit's existence and also taking into account the fact that the prime reason for sickness is corrupt practices of promoters/management followed by inappropriate project selection and evaluation, there seems no reason why a unit should not be identified as partially sick after the third year of its existence. It is therefore suggested that a unit may be deemed as partially sick after 3 years of its existence instead of 5 years and not when its net worth has declined to less than half but exhibits a persistent trend to decline.

Even more important than redefining partially sick units is the need to redefine completely sick units. Referring again to the known causes for sickness it simply is not rational to allow sickness in a unit to persist without any positive action till the seventh year of its existence. Consistent with the redefinition of partial sickness it is

therefore suggested that a completely sick unit be identified in its fifth and not seventh year of existence. Accordingly the financial criteria for identifying a completely sick unit must also be modified. As against total erosion of networth and two consecutive years of loss the criteria could be changed to a decline in networth by more than half and loss in two of the three preceding years. However, these financial criteria as well as the one suggested for partial sickness may be further modified if found necessary. What is important is that the time dimension in both definitions be reduced.

It is envisaged here that the implementation of an exit policy would greatly enhance the role of financial institutions and banks in monitoring and guiding industrial units in the management of their finances and in being rigorous in not permitting sickness to persist. This would be fully consistent with the thrust in the reforms for the financial sector recommended by the Narasimhan Committee.

## IV. NUMERICAL EXERCISES

### Golden Handshake

The golden handshake is to consist of a monthly payment for 3 or 4 years and a lumpsum payment at the end of 3 or 4 years. In lieu of the latter, workers older than 50 years would either get a retrenchment benefit or a negotiated voluntary retirement benefit.

In order to estimate the monthly payment to workers, information on per worker emoluments in *Public Enterprises Survey, 1989-90, Vol. 3* has been used. As per worker emoluments in sick units tend to be lower and also because these units constitute a distinct class, two separate estimates for monthly payment have been worked out —one for sick public sector units and the other for public sector units in general.

For sick public sector units average per worker emoluments for 84 — sick (67) or nearly sick (17) — were calculated. This came to Rs.3,100 per month for all workers except causal workers. As no break-up of workers' emoluments between basic wages, D.A., etc. is available, it is assumed that basic wages plus D.A. would be a little less than 80 per cent of the total emoluments or, say, Rs. 2400 per month. In the case of all public sector units the average per worker emoluments amount to Rs. 3640 per month and, on the assumption that in this case the average per worker basic wage and D.A. would be somewhat higher than 80 per cent,[1] is taken at Rs. 3000 per month.

1 The difference is simply based on the presumption that welfare related matter benefits to the workers would be higher as a proportion where the emoluments are lower.

Per worker wage (basic + D.A.) varies over the five age group categories of workers into which we have divided the work force. However, no information is available to determine category-wise variation in average wage. We have therefore assumed somewhat arbitrarily that the per worker wage in the case of sick units varies from Rs. 2000 per month for workers below the age of 30 years to Rs. 3200 for workers above the age of 55 years. The corresponding range for all public sector units is assumed between Rs. 2700 to Rs. 3700 per month. In both cases the weighted average of per worker wage for all workers is consistent with the average assumed for all workers earlier (i.e., Rs. 2400 + Rs. 3000 p.m.).

Monthly payment to all categories of workers between 30 and 50 years of age will be 50 per cent of current wages (basic + D.A.). For workers below 30 years of age this proportion will be 60 percent in the case of sick units and 55 per cent in the case of all units.

For estimating the value of Workers Bonds to support monthly payments to laid off workers an interest rate of 13 per cent is assumed.

Retrenchment benefit is currently worked out at 50 per cent of monthly wages times the number of years of service. It is assumed that a worker has been in service from age 20, so that, at the mid point in the age range 50 to 55 years, he would have served for 32.5 years. This is clearly the maximum.

Above the age of 55 years, voluntary retirement benefit is expected to be around the remaining months wages.

In Tables 1 and 2 total payment (monthly plus lumpsum) for a golden handshake, on an average, in each of the five worker categories is presented along with the requisite investment in Workers Bonds, separately for sick public sector units and public sector units in general.

In Tables 3 and 4 per worker investment in Workers' Bonds and per worker monthly, lumpsum and total payment for a golden handshake are presented in the bottom row. These are weighted averages for the work force. For calculating weights for worker categories Census (1991) data on population by age-groups has been used. The weights are worked out for the population between the age of 20 and 59 years. Population weights may not be the same as work force weights, but are likely to approximate closely.

Table 1

**Payment as Golden Handshake for Sick Public Sector Units by Worker Category - Components and Total**

| Worker category | *Current monthly salary (approx)* (Rs.) | *Period for paying half salary* | *Percent of current salary paid* | *Total salary payment* (Rs.) | *Value of Workers' Bonds deposited*[1] (Rs.) | *Lumpsum payment as per-cent of Workers' Bond value* | *Lumpsum payment* (Rs.) | *Retrenchment benefits*[2] (Rs.) | *Total payment* (Rs.) |
|---|---|---|---|---|---|---|---|---|---|
| 1. Upto 30 years | 2000 | 3 | 60 | 43200 | 110770 | 25 | 27693 | - | 70893 |
| 2. 30 - 40 years | 2400 | 4 | 50 | 57600 | 110770 | 25 | 27693 | - | 85293 |
| 3. 40 - 50 years | 2700 | 4 | 50 | 64800 | 124600 | 25 | 31150 | - | 95950 |
| 4. 50 - 55 years | 3000 | 3 | 50 | 54000 | 138500 | - | - | 48750 | 102750 |
| 5. Above 55 years | 3200 | - | - | - | - | - | - | - | 57600 |

[1] Interest rate on Workers Bonds is assumed at 13%.
[2] Retrenchment benefit is for a service of 32.5 years.

Table 2

**Payment as Golden Handshake for Public Sector Units in General by Worker Category - Components and Total**

| Worker category | *Current monthly salary (approx)* (Rs.) | *Period for paying half salary* | *Percent of current salary paid* | *Total salary payment* (Rs.) | *Value of Workers' Bonds needed* (Rs.) | *Lumpsum payment as per-cent of Workers' Bond Value* | *Lumpsum payment* (Rs.) | *Retrenchment benefits* (Rs.) | *Total payment* (Rs.) |
|---|---|---|---|---|---|---|---|---|---|
| 1. Upto 30 years | 2700 | 3 | 55 | 53460 | 137070 | 25 | 34270 | - | 87730 |
| 2. 30 - 40 years | 3000 | 4 | 50 | 72000 | 138500 | 25 | 34625 | - | 106625 |
| 3. 40 - 50 years | 3300 | 4 | 50 | 79200 | 152300 | 25 | 38076 | - | 117275 |
| 4. 50 - 55 years | 3500 | 3 | 50 | 63000 | 161530 | - | - | 56875 | 119875 |
| 5. Above 55 years | 3700 | - | - | - | - | - | - | - | 66600 |

Table 3

**Weighted Average Per Worker Cost of Golden Handshake for Sick Public Sector Units - Components and Total**

| Worker category | Weights (percent) | Total salary payment needed (Rs.) | Value of Workers' Bonds (Rs.) | Lumpsum payment (Rs.) | Retrenchment benefit (Rs.) | Voluntary retirement benefit (Rs.) | Total payment (Rs.) |
|---|---|---|---|---|---|---|---|
| 1. Upto 30 years | 36.7 | 43200 | 110770 | 27693 | - | - | 70900 |
| 2. 30 - 39 years | 27.6 | 57600 | 110770 | 27693 | - | - | 85300 |
| 3. 40 - 49 years | 21.5 | 64800 | 124600 | 31150 | - | - | 95850 |
| 4. 50 - 55 years | 7.6 | 54000 | 138500 | - | 48750 | - | 102750 |
| 5. 50 - 59 years | 6.6 | - | - | - | - | 57600 | 57600 |
| Weighted average per worker of the work force | | 49,785 | 108540 | 24500 | 3706 | 3800 | 81785 |

Table 4

**Weighted Average Per Worker Cost of Golden Handshake in General for Public Sector Units - Components and Total**

| Worker category | Weights (percent) | Total salary payment needed (Rs.) | Value of Workers' Bonds (Rs.) | Lumpsum payment (Rs.) | Retrenchment benefit (Rs.) | Voluntary retirement benefit (Rs.) | Total payment (Rs.) |
|---|---|---|---|---|---|---|---|
| 1. Upto 30 years | 36.7 | 43200 | 110770 | 27693 | - | - | 70900 |
| 2. 30 - 39 years | 27.6 | 57600 | 110770 | 27693 | - | - | 85300 |
| 3. 40 - 49 years | 21.5 | 64800 | 124600 | 31150 | - | - | 95850 |
| 4. 50 - 55 years | 7.6 | 54000 | 138500 | - | 48750 | - | 102750 |
| 5. 50 - 59 years | 6.6 | - | - | - | - | 57600 | 57600 |
| Weighted average per worker of the work force | | 49,785 | 108540 | 24500 | 3706 | 3800 | 81785 |

## A Five Year Programme for Reducing Employment in Public Sector Enterprises — An Illustrative Exercise

The starting point of this exercise is the assumption that Government invest Rs.1500 crores annually in Workers Bonds. For financing this investment extra budgetary sources will be available, but still a part will have to be financed from budgetary resources. It is proposed here that this part be incorporated into the normal budgetary support to public sector enterprises, only its form to the extent of the investment in Workers Bonds is specified.

As the number of workers in public sector enterprises and their

monthly emoluments are available upto 1989-90, prices have been held constant at the level in that year. Because the exercise is illustrative no attempt was made to adjust for increase in prices or to project inflation. If the scheme proposed here were to be found acceptable a more elaborate exercise allowing for price rise in the future could be carried out.

From the Public Enterprises Survey Vol. 3, 1989-90, we have identified 67 public sector units to be designated as sick units. These units have completely eroded their net worth and had made losses in 1987-88, 1988-89 and 1989-90. Employment in these units totalled 4,38,768 and the average employment per unit was 6,549. It is assumed here that a third of the units would be either sold to the private sector or handed over to workers cooperatives. Workers that would need to be laid off by closing the remaining units would therefore be 2.94 lakhs. In terms of investment in Workers Bonds this would require Rs. 3200 crores or about Rs. 642 crores a year for 5 years.

As stated earlier, shedding of excess labour in viable pubic sector units should receive as much, if not more, importance than closure of sick units. Following this preferential bias the balance out of Rs. 1500 crores, i.e., Rs. 858 crores per year and Rs. 4290 crores for 5 years has been allocated for shedding labour. This will allow some 3.2 lakh workers to be shed.

For financing the investment in Workers Bonds, five sources are identified:

a. Renewal Fund made available by World Bank amounting to Rs. 1300 crores (current exchange rate). This is to be used over the first 3 years.
b. Public sector units shedding labour would contribute half the salary saved on account of labour shed in the first year, 25% each in the second and third years.
c. Workers Bonds will be redeemed after 3 or 4 years as the case may be and the amounts received will be available for investment in Workers Bonds in the fourth and fifth years.

d & e. Land, building and other assets of public sector units closed down will yield fairly substantial sums. The support hitherto given to units closed down will also cease yielding a saving. It is difficult to estimate either of these sources of finance. However, for illustration, an arbitrary figure has been used.

Thus through closure and shedding of excess labour a little over 6 lakhs workers would be reduced from public sector units. If we deduct the workers laid off due to closure of units from the total employment in public sector enterprises (22.36 lakhs), then of the remaining (19.4 lakhs) about 16 per cent will be shed.

In Table 5 Government investment and sources of finance are presented for a 5 year period. In Table 6, expenditure that will have to be incurred by units shedding labour is presented.

Table 5

**Expenditure on Reducing Employment in Public Sector Enterprises - Closure and Shedding Excess**

(Rs. crores)

| *Investment and sources of finance* | *Expenditure* Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Total |
|---|---|---|---|---|---|---|
| A. Investment in Workers' Bonds | 1500 | 1500 | 1500 | 1500 | 1500 | 7500 |
| *Of which* | | | | | | |
| On closures | 642 | 642 | 642 | 642 | 642 | 3210 |
| On shedding labour | 858 | 858 | 858 | 858 | 858 | 4290 |
| B. Financing of Government Expenditure | | | | | | |
| a. Renewal Fund (W.B.) | 433 | 433 | 433 | - | - | 1299 |
| b. Contribution of PSUs | 66 | 99 | 132 | 132 | 132 | 561 |
| c. Redeemed value of Workers' Bonds | - | - | - | 529 | 1125 | 1654 |
| d. Recovery from sale of land, buildings, etc.) | 300[1] | 300 | 300 | 300 | 300 | 1500 |
| e. Saving from Closures) | | | | | | |
| Net Budgetary Support | 701 | 668 | 635 | 539 | -57 | 2486 |
| Or say | 700-750 | 650-700 | 600-650 | 500-550 | -50-0 | 2400-2600 |

NOTE : It is not possible to estimate either (d) or (e). A purely arbitrary figure is used, which may be an underestimate.

Table 6

**Cost of Shedding Excess Labour to Public Sector Enterprises**

(Rs. crores)

| Items | Cost of shedding labour | | | | | |
|---|---|---|---|---|---|---|
| | *Year 1* | *Year 2* | *Year 3* | *Year 4* | *Year 5* | *Total* |
| A. Investment by Government | 858 | 858 | 858 | 858 | 858 | 4290 |
| B. Expenditure by Public Sector Enterprises | | | | | | |
| a. Gratuity | 182.0 | 182.0 | 182.0 | 182.0 | 182.0 | 910 |
| b. Contribution to Government | 66.0 | 99.0 | 132.0 | 132.0 | 132.0 | 561 |
| c. Retrenchment Benefit | 31.4 | 31.4 | 31.4 | 31.4 | 31.4 | 157 |
| d. Retirement Benefit | 28.2 | 28.2 | 28.2 | 28.2 | 28.2 | 141 |
| TOTAL | *307.6* | *340.6* | *373.6* | *373.6* | *373.6* | *1769* |

## Payments to Laid Off Workers from Sick Public Sector Units

Public sector units which are sick, i.e., have completely run down their networth and made losses in three consecutive years upto 1989-90, number 67. Total employment in these units in 1989-90 was 4,38,768 and the per unit employment was 6,549.

In Table 7 different components of payments to workers who

would have to be laid off if all sick-units were closed down is presented along with per unit payments.

Table 7

**Payments to Laid Off Workers on Winding Up 67 Public Sector Sick Units**

| *Payments to workers* | *Total for 67 sick units*[1] (Rs. crores) | *Per sick unit*[2] |
|---|---|---|
| Monthly Payment | 2185 | 32.6 |
| Lumpsum Payment | 1075 | 16.0 |
| Retrenchment Benefit | 162 | 2.4 |
| Voluntary Retirement Benefit | 167 | 2.5 |
| TOTAL | *3589* | *53.5* |

[1] Total employment in 67 sick units in 1989-90 = 4,38,768
[2] Per unit employment in 67 sick units in 1989-90 = 6,549

## Shedding Labour

Earlier it has been suggested that surplus labour from public sector units can be shed in three ways: attrition, transfer and lay off. In order to illustrate how this might work an imaginary example is presented below in Table 8.

It needs to be pointed out that in the procedure for shedding labour care has been taken to allow room for jobs to new entrants to the labour force. Thus out of the attrition rate of 3 per cent, it is proposed that 2 per cent is replaced.

Let us assume that in a viable (not sick) public sector unit,

| | | |
|---|---|---|
| Total employment | = | 5000 |
| Estimated surplus labour | = | 1000 |
| Net attrition rate | | |
| (i.e. total attrition — replacement) | = | 1% |
| Annual targeted reduction in labour surplus | = | 300 |
| *of which* | | |
| transfers | = | 100 |
| lay off | = | 200 |
| Average monthly emoluments per worker | | |
| 1st year | = | Rs. 3,200 |
| 2nd year | = | Rs. 3,300 |
| 3rd year | = | Rs. 3,400 |

Based on these assumptions surplus labour in the unit can be

eliminated in 3 years in the manner presented in Table 8.

Table 8

**Reduction in Employment in a Public Sector Unit by Eliminating Surplus Labour - An Illustration**

| *Year* | *Attrition* | *Replacement* | *Reduction in employment due to attrition* | *Transfers* | *Lay off* | *Total reduction in employment* | *Employment* | *Percent work force reduced* | *Percent labour surplus reduced* |
|---|---|---|---|---|---|---|---|---|---|
| End of first year | -150 | 100 | - 50 | -100 | -200 | -350 | 4650 | 7.0 | 35.0 |
| End of second year | -140 | 93 | - 47 | -100 | -200 | -347 | 4304 | 7.5 | 34.7 |
| End of third year | -129 | 86 | - 43 | -100 | -200 | -343 | 3960 | 8.0 | 34.3 |
| TOTAL | *-419* | *279* | *-140* | *-300* | *-600* | *-1040* | | | |
| Percent of Work Force | -8.4 | 5.6 | -2.8 | -6.0 | -12.0 | -20.8 | | | |

As surplus labour is reduced, gains to the public sector unit will accrue through a reduction in the wage bill in the manner described in Table 9. It is assumed that there will be no negative affect on output as a result of a reduction in the work force and also that readjustment in the deployment of the remaining labour force as well as such improvements in the production system (as may be brought about as a result of shedding surplus labour) will not have a positive effect on output. If the latter happens, as is likely there will be gains in addition to the saving from the wage bill.

Table 9

**Reduction in the Wage Bill of a Public Sector Unit by Eliminating Surplus Labour - An Illustration**

(Rs. lakhs)

| *Year* | *Reduction due to net attrition* | *Reduction due to transfers & lay off* | *Total reduction in the wage bill* | *Contribution to government out of wages of laid off workers saved** | *Net reduction in wage bill* |
|---|---|---|---|---|---|
| End of first year | 19.2 | 115.2 | 134.4 | - 38.4 | 96.0 |
| End of second year | 18.4 | 118.8 | 137.4 | -19.8 | 117.6 |
| End of third year | 17.5 | 122.5 | 140.0 | -20.4 | 119.6 |

*At 50% of wage in the first and 25% each in the second and third years.

**Changes in Employment in Public Sector Enterprises Over a Five Year Period**

An attempt is made to estimate the change in employment in public sector enterprises resulting from the scheme for exit proposed here. The estimate is illustrative as the objective is to capture the direction and magnitude of change rather than accuracy in predicted numbers.

The initial employment in public sector enterprises is taken at 22.36 lakhs, which according to the Public Enterprises Survey was the level of employment in 1989-90. Since then the number of persons employed in public sector enterprises is likely to have changed, but no firm information of the extent of it is available. However, on account of a policy decision to restrict the increase in public sector employment in the past few years, the current level of employment in public sector enterprises may not be significantly different from the level in 1989-90.

As discussed earlier normal attrition rate is taken at 3 per cent of which two-third is proposed to be replaced. Number of laid off workers due to shedding of excess labour as well as closures is derived from Table 5. Additional employment refers to employment in new projects or in expansion of existing establishments which is over and above the number of persons employed through transfers from within the public sector or recruited from workers laid off in the private sector. As it is not possible to make a reasonable estimate of this additional employment, it has been taken arbitrarily at 1.5 per cent of the total employment in public sector enterprises. Change in employment caused by each of these elements as well as total change is presented in Table 10.

It will be observed from Table 10 that employment in public sector enterprises declines by 5.63 lakhs, or, 25.2 per cent over 5 years, (compound rate of 4.6% per year). Towards this per centage decline, net attrition contributes 4.36 per cent, shedding of excess labour 14.37 per cent and closures 13.23 per cent, adding up to a decline of 31.95 per cent which is offset to the extent of 6.75 per cent by additional employment in new projects, etc.

As argued earlier, it is important that room be provided for the absorption of new entrants to the labour force. This would be a major requirement for sustaining a degree of stability in the labour market. In the context of reducing the work force in the public sector, a provision for some turn over will be called for. Thus it will be seen from Table 10 that while 40.7 per cent of the workers in public sector enterprises go out of the original work force, 15.5 per

Table 10

**Changes in Employment in Public Sector Enterprises Over a Five Year Period - An Illustration**

| | Employment | | | | | |
|---|---|---|---|---|---|---|
| | *Year 1* | *Year 2* | *Year 3* | *Year 4* | *Year 5* | *Total* |
| A. Employment in public sector enterprises | 2236000 | 2124376 | 2012429 | 1899686 | 1786379 | |
| B. Change in employment due to | | | | | | |
| a. Attrition | -65305 | -61957 | -58598 | -55216 | -51817 | -292893 |
| b. Shedding of excess labour | -64246 | -64246 | -64246 | -64246 | -64246 | -321230 |
| c. Closures | -59150 | -59150 | -59150 | -59150 | -59150 | -295750 |
| SUB-TOTAL | *-188701* | *-185353* | *-181994* | *-178612* | *-175213* | *-909873* |
| d. Replacement of labour lost through attrition | *+43537* | *+41511* | *+39065* | *+36810* | *+34544* | *+195467* |
| SUB-TOTAL | ***-145164*** | ***-143842*** | ***-142929*** | ***-141802*** | ***-140669*** | ***-714406*** |
| e. Additional employment in new projects or expansions | **+33540** | **+31895** | **+30186** | **+28495** | **+26796** | **+150912** |
| C. **Net change in employment** | *-111624* | *-111947* | *-112743* | *-113307* | *-113873* | *-563494* |

NOTES :
1. a, is taken at 3% of the employed work force.
2. b & c, estimates derived from Table 5.
3. d, is at 2% of the employed work force.
4. e, is at 1.5% of the work force employed in public sector enterprises at the beginning of the year.

cent new workers come in. Of these 8.7 per cent would be for replacing workers lost through attrition, and since replacement would occur at the lower and of the seniority scale, most of the new workers would belong to the group that has freshly entered the labour force. The remaining 6.8 per cent would be accounted for by additional employment in new projects and expansion of existing ones. This would not be the total employment in these projects, but the balance after workers laid off elsewhere have been accommodated. The laid off workers are likely to be older with experience and would be placed appropriately in the work force. Of the remaining workers a majority would be from the younger age group. It should be stressed that in distributing additional employment between transferees and new workers, special care would be needed to make sure that a majority of workers employed are from the new or recent entrants to the labour force. It will be seen from Table 10 that new workers taken in by public sector enterprises

from the labour market constitute 3.5 per cent of the existing work force. If around 2.5 per cent of these are from the new or recent entrants to the labour force, public sector enterprises would not, by themselves, add to unemployment in this group of workers. In fact, if labour force is taken to increase at the rate of about 2 per cent per year, public sector enterprises would be absorbing a little more than their share of the new entrants. However, it should immediately be pointed out that this conclusion rests on the arbitrary assumption that additional employment in new projects and expansion of existing ones would amount to 1.5 per cent of the work force in the public sector enterprises. But even if this additional employment was half of what has been assumed, the proportion of fresh entrants to the labour force absorbed would be a little over 2 per cent.

Total number of workers laid off on account of closures over 5 years in Table 10 is 2.96 lakhs, which amounts to about two-third of the number (4.39 lakhs) employed in 1989-90 in the 67 sick public sector units referred to earlier. It has been suggested that an attempt should be made to sell sick units to the private sector as well as to encourage workers cooperatives to take them over. It is assumed here that a third of the sick units (actually a number of units that accounts for a third of the employment in sick units in 1989-90) would either be sold or taken over by workers' cooperatives over a period of 5 years.

In Table 10 3.21 lakh surplus workers are shed over 5 years. This amounts to 14.4 per cent of the total work force in public sector enterprises in 1989-90. If we exclude the sick units which may be closed down or sold or handed over to workers cooperatives, then of the employment in the remaining public sector enterprises nearly 17.9 per cent will be shed. Including net attrition 23.3 per cent of the workers would be reduced. Whether this would account for all the surplus labour or be in excess of it, cannot be determined until a firm estimate of the surplus labour is available from the public sector enterprises. In case it does not account for all surplus labour, the process described in Table 10 would need to continue beyond 5 years or, after considering all relevant factors, the level of annual shedding increased. However, if it is in excess, either the programme may be compressed or annual shedding reduced.

So far we have considered reduction in employment in public sector enterprises in the context of total employment in public sector enterprises. Employment in public sector as a whole (excluding administration and defence) in 1989 was 185.16 lakhs. If employment in the public sector, excluding public sector enterprises,

was frozen, there would be a reduction of 3.0 per cent in public sector employment in 5 years. It would rise to 7.35 per cent if a net attrition of 1 per cent per year was programmed for public sector employment. If further reduction in public sector employment was desired the extension of the scheme proposed here to other segments of the public sector, besides public sector enterprises, would be needed. It is in this context that the revolving fund to which reference has been made earlier would be particularly useful.

Finally, the impact of a contraction in employment in public sector enterprises due to the proposed scheme at the macro level would be to increase the number of job seekers. If the labour force is taken at about 350 million in 1990 and it increases by 2 per cent to 357 million in 1991, then over the year there will be 7 million new job seekers in the labour force. On account of the reduction in employment in public sector enterprises the number would rise to 7.11 million or by 1.6 per cent. This proportion would be reduced to 0.55 per cent if to the new job seekers are added those in the labour force who have been seeking jobs but are unemployed and whose number in 1991 is estimated at a little over 13 million (NSS, 1987-88, usual status unemployment rate of 3.77 per cent). The impact of a contraction in employment in public sector enterprises would thus be quite modest at the macro level, but the absorption of the increase in the number of job seekers, though modest, will depend on the overall increase in the demand for labour in the economy and specially in the industry sector. This raises questions but, for the present, it is sufficient to say that the process of restructuring would eventually raise the labour absorptive capacity of the economy, though in the meanwhile some decelaration in the rate of increase in the demand for labour may be experienced.

For several reasons no numerical exercise is attempted for the private sector. First, reliable information is not available. In most cases, information pertaining to sick units referred to BIFR does not include data on employment. Second, BIFR experience has revealed that many of the completely sick units closed down were practically non-operational and most of their work force had already dissipated. Thirdly, even the official factory employment data for the recent past is believed to be suspect. While a plea is entered here for the removal of defficiencies in employment data, it should be pointed out that to the increase in the number of job seekers caused by lay offs in the public sector those from the private sector would be added.