Chapter- III

Labour Downsizing in India: An Exit Policy Approach

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Chapter - III

LABOUR DOWNSIZING IN INDIA: AN EXIT POLICY APPROACH

INTRODUCTION

The expression ‘Exit Policy’ has gained much currency in India since the second half of 1991. Exit Policy is an important element of structural adjustment programme for Indian economy. To some it has meant that title of policy yet to be formulated to others, a sanction to demand legislative changes in employment security provisions; to yet others, it meant creation of safety nets and mobilization of resources to fund separation costs as a price for mitigating potential social upheaval. The conflict for the government between the economic logic of restructuring initiatives and the human dimensions of social issues is understandable. Its motives, however, are less understood. Does the Government only want to settle a price, in exchange for a reduced level of noise from institutions, like unions, which exercise collective countervailing power during industrial restructuring? Does the Government only want to address the human and social dimensions of the problem of unemployment (and likely additional unemployment) for a number at least five times the strength of unionized employees?

There has been very little discussion on the exit routes presently available to employers and hardly any attempt to assess the status of employment security in the real world of employees and employers before crying hoarse for reform. Recommendations have been made to dismantle the employment security provisions

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without understanding their reach and roots. Employers complain about the response of employees and unions and allege that there is too much employment security, and that the high cost of such security impedes industrial restructuring required as part of the large process of restructuring the Indian economy. Employees and unions consider the scope of employment security to be limited and point to employment security being compromised or sacrificed at the altar of economic logic in different industries, with varying degrees of associated pain and anguish. In some cases, unions allege that employers have mismanaged enterprises and rendered employment vulnerable for little fault of labour.

This chapter is an attempt to analyze the status of Labour and the problems associated with developing a viable Exit Policy consistent with economic logic and sensitive to the human and social dimensions of change. In this background the objectives of this chapter are to examine the evolution of Exit Policy, to analyze the various components of Exit Policy, to understand the real obstacles to Exit Policy, to discuss the Labour restructuring in Exit policy and to examine the scope of employment security and its impact and to understand the contours of developing a viable Exit Policy. These objectives serve as a foundation for working out the objectives and the hypotheses formulated in the first chapter.

A Prelude to labour downsizing

The introduction of reforms in India and the consequent liberalization of the economy have exposed the entrepreneurs to an ever increasing competition. Since then, several policy measures have been undertaken by the Government in order to enhance the global competitiveness of the Indian companies. One of the important
sets of policy measures relates to reforms in the labour sector. But the most contentious issue in this sector which still remains unaddressed is that of the EXIT policy. This is because the companies have been arguing for a flexible EXIT policy while the labour unions have been against such a step because of their fear of loss of job security. But a liberal policy towards the entry and expansion of firms would be beneficial only if it is accompanied with a rational policy towards the exit of unviable firms. It is a necessary condition for inducing competition and enhancing the efficiency of resource use\textsuperscript{42}.

The term 'exit' is the obverse of the term 'entry' into industry. It refers to the right or ability of an industrial unit to withdraw from or leave an industry or in other words to close down. The proposal to introduce an exit policy was first mooted in 1991 when it was felt that without labour market flexibility, efficient industrialization would be difficult to achieve. The need for such a policy arises as a result of modernization, technology upgradation, restructuring as well as closure of industrial units. Such a policy will allow employers to shift workers from one unit to another and also retrench excess labour. In India, the \textbf{Industrial Disputes Act, 1947} puts restrictions on employers in the matter of reducing excess staff by retrenchment, by closure of establishments and the retrenchment process involved lot of legalities and complex procedures. Also, any plans of retrenchment and reduction of staff and workforce are subjected to strong opposition by trade unions.

The key consideration in evolving a practical industrial exit policy is the protection of the legitimate interests of workers, both in the public and the private sector. Hence, the Government policy has been that if a unit can be made

economically viable by restructuring it and retraining/redeploying the labour, no efforts should be spared to do this. Only in the case of units where even restructuring would not render it economically viable should the option of closure of the unit be allowed. Even here, to minimize the adverse effects of closure of a unit on labour, several options like social security nets, insurance schemes and other employee benefit schemes as well as creation of a fund to pay retrenchment benefits to employees have been in place.

The concept of Labour Downsizing

Contemporary terms such as reengineering, rightsizing, layoffs, reductions in force, organization decline, and reorganizing are regularly used as substitutes for downsizing. While they do denote to some extent a common meaning, each has its own connotation (Cameron, 1994a; de Meuse et al., 1994; Freeman, 1994). Downsizing is the systematic reduction of a workforce through an intentionally instituted set of activities by which organizations aim to improve efficiency and performance (Appelbaum et al., 1987b; Cameron, 1994a; Cascio, 1993). As a result, the firms’ costs, processes and workforce are affected. It is understood that downsizing efforts are undertaken for the improvement of the organization. However, that does not imply that only firms that are experiencing problems. Downsize quite to the contrary, firms that are growing are just as likely to downsize. Equally important to point out is that downsizing can be proactive and anticipatory or reactive and defensive (Cameron, 1994a). Finally, downsizing can refer to large permanent,
reactive layoffs, a streamlining of functions, a redesign of systems, a redefinition of policies aimed at cutting costs, and a proactive strategy (de Meuse et al., 1994)\textsuperscript{43}.

**The Rationale of Exit policy**

The rationale for a proper exit policy is based on the following considerations:

- In the liberalized regime, freedom to enter and exit will attract more investment. Higher investment implies more employment.
- If employer enjoys the right to streamline – technological and organizational – the enterprise productivity levels will improve.
- Low labour productivity and over manning are attributable factors for rampant industrial sickness. This can be overcome with a judicious exit policy.
- With exit policy government will be in a position to reduce the fiscal burden on its exchequer there by divert those funds create productive employment opportunities.

**A Review of Exit policy approach**

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 of employment opportunities and an overall rise in labour as well as total factor productivity.

To reduce the burden of the structural adjustment on labour, the Government has formulated the exit policy having different components, like voluntary retirement with golden handshake, safety net through worker bond scheme, Redeployment of Labour Fund (RDLF), National Renewal Fund (NRF) and Board for Industrial Finance and Reconstruction (BIFR).

According to Dr. Manmohan Singh, ‘an exit policy is that which seeks to capture the efficiency gains from structural reforms initiated in the economy’. But he qualifies: ‘it is imperative that workers should be protected from the adverse impact of the adjustment process to the maximum extent possible’. He repeatedly assured that the structural adjustment would be done with a human face, though it cannot meant for keeping loss making units intact. And also, the process of restructuring would be through consultations, tripartite, bipartite and co-operative. Even the Prime Minister has announced that his Government is committed to protect the interest of labour, enhancing the welfare and providing facilities for skill upgradation, so that, it would be easy to adjust to technological changes.

Components of Exit Policy

VRS and Golden Handshake

It is necessary to dispense with the excess manpower for improving the health of an organization. If this is not done, the excess labour causes industrial sickness. A popular method to trim the manpower is the voluntary retirement scheme (VRS). Under the VRS, employees who have attained forty years of age or ten years of service would seek voluntary retirement. The minimum benefits under this scheme would be forty five days emoluments for each completed year of service or the
monthly emoluments at the time of retirement multiplied by remaining months of service before normal date of retirement whichever is less. The benefits would be in addition to the money that has accrued to the Provident Fund as per the rules or to the Gratuity Fund whichever is applicable. It is the most humane technique to provide overall reduction in the existing strength of the employees. It is a technique used by companies for trimming the workforce employed in the industrial unit. It is now a common method used to dispense off the excess manpower and thus improve the performance of the organization. It is a generous, tax-free severance payment to persuade the employees to voluntarily retire from the company.

VRS allows employers including those in the government undertakings, to offer voluntary retirement schemes to off-load the surplus manpower and thus no pressure is put on any employee to exit. These schemes are also not subjected to vehement opposition by the Unions, because the very nature of its being voluntary and not using any compulsions. It was introduced in both the public and private sectors. Public sector undertakings, however, have to obtain prior approval of the government before offering and implementing the VRS.

A business firm may opt for a voluntary retirement scheme under the following circumstances:-

- Due to recession in the business.
- Due to intense competition, the establishment becomes unviable unless downsizing is resorted to.
- Due to joint-ventures with foreign collaborations.
- Due to takeovers and mergers.
- Due to obsolescence of Product/Technology.
Some companies offer very attractive package of benefits to the employees who would opt for VRS. Such schemes are often referred to as golden handshake scheme. While the golden handshake scheme offered by some companies in the past worked every well, the offers made by some companies recently, failed to elicit the required response from the workers. An important reason for this is said to be the higher expectations workers began to entertain as the concept of golden handshake has became popular.

One possible drawback of the VRS is that the efficient employees would leave the company while the inefficient may stay back; the efficient ones would be hopeful for alternatives outside while the inefficient may not be very optimistic. Further a number of companies have already reduced their workforce by VRS. But these VRSs have taken different forms and they lack uniformity. In fact, the process of getting rid of the excess labour started in several companies much before the economic reforms ushered in India. The VRS has taken numerous while in SRF Ltd. the VRS cost was a low Rs. 25000 to one lakh per head, in Hindustan Geigy it was about Rs. 4.4 lakh per head on an average when the absolute limit set by the government is Rs. 5 lakh.

**National Renewal Fund**

The above discussion shows that structural adjustment and industrial restructuring programme are bound to have serious implications for the labour class and result in large scale retrenchment. To tackle the problems relating to the retrenchment of employees, the Government of India set up a National Renewal Fund
(NRF) in February 1992 with Rs. 200 crore to ease the exit of workers from organized industry. The objectives of NRF were as under:

- To provide assistance to firms to cover the costs of retraining and redeployment of employees arising as a result of modernization and technological upgradation of existing capacities and from industrial restructuring.
- To provide funds for compensation to employees affected by restructuring or closure of industrial units both in the public and private sectors.
- To provide funds for employment generation schemes in the organized and unorganized sectors in order to provide a social safety net for labour.

Components of NRF

There are three components of NRF:

- The Employment Generation Fund (EGF),
- The National Renewal Grant Fund (NRGF) and
- The Insurance Fund for Employees (IFE).

EGF was meant to provide resources for employment generation schemes in both the organized and unorganized sectors. NRGF was meant to deal with payments under the Voluntary Retirement Scheme (VRS) and compensation to workers affected by closure/ rationalization resulting from approved rehabilitation schemes in both the public and private sector enterprises. IFE was expected to cater to the compensation needs of the employees in future.

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Employment Generation Fund (EGF) disbursed grants for approved employment generation schemes for both the organized and unorganized sectors. It included schemes such as:-

(a) Special programme designed to regenerate employment opportunities in areas affected by industrial restructuring.

(b) Employment generation schemes for the unorganized sectors in defined areas.

National Renewal Grant Fund (NRGF) dealt with the immediate requirements of labour arising from the revival or closure of sick units. The funds were disbursed in the form of grants for funding approved schemes relating to retraining, redeployment, counseling and placement services of employees affected by technology upgradation, modernization, restructuring and revival of industrial undertakings. These funds were also utilized for compensation payments to employees affected by rationalization in industrial undertakings and parts thereof.

The main criticism against the NRF is that it remained a fund for financing VRSs solely in the Central public sector undertakings. In other words, only the NRGF component of the NRF was operationalised and that too partially. This prompted the trade unions into labeling NRF as the National Retirement Fund. The crucial component of retraining workers (rendered unemployed due to industrial restructuring) was missing. Unless a proper retraining programme is undertaken, the ‘safety net’ is bound to disintegrate. The government seemed to have realized this and has accordingly paid attention to building up counseling, retraining and deployment facilities for workers. For this purpose, Employee Resource Centers (ERC)/ Employee Assistance Centers (EAC) were set up. However, progress on this
front is highly unsatisfactory. Though this fund was dissolved, but the Government has been continuously making efforts in this direction. Further other widespread criticism of the NRF has been that while the main objective of NRF was to help in retraining, counseling and redeployment of affected workers, and in employment generation, an overwhelming portion of the total expenditure incurred on NRF was utilized for compensation payments under VRS. The rate of redeployment of those workers who benefited from VRS was quite low. Out of the 98,327 VRS beneficiaries under the NRF surveyed, only 36,889 workers were retrained. The number of redeployed workers was still lower at 11,623. Even considering the fact that some of the workers might not have opted for retraining and redeployment these figures appear quite low; especially of those who got redeployed. Therefore, it is no surprise if the major Indian trade unions are extremely critical of the way VRS and NRF are being administered. The Government formally abolished the National Renewal Fund (NRF), bringing a premature end to the fund by eighteen months in mid 2000s. The fund, set up in February 1992, was initially intended to run a full course of 10-years. A notification, issued by the Department of Industrial Policy and Promotion (DIPP) bringing the scheme to a premature end, also says that from fiscal 2001-02, the administration of the funds for VRS and retraining and rehabilitation of public sector workers displaced would be centralized under the Department of Public Enterprises (DPE), instead of DIPP.
Table 3.1: Number of employees availing VRS covered by NRF and expenditure on VRS and NRF: 1992-93 to 1998-99[^5]

(Amount in Rs. billion)

<table>
<thead>
<tr>
<th>Year</th>
<th>Budgetary allocation</th>
<th>Amount transferred to public account</th>
<th>Expenditure incurred on VRS and NRF</th>
<th>No. of VRS availed covered by NRF</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>NRF</td>
<td>VRS</td>
</tr>
<tr>
<td>1993-94</td>
<td>#10.200</td>
<td>7.000</td>
<td>4.782</td>
<td>4.781</td>
</tr>
<tr>
<td>1994-95</td>
<td>2.000</td>
<td>1.000</td>
<td>2.519</td>
<td>2.508</td>
</tr>
<tr>
<td>1995-96</td>
<td>1.400</td>
<td>1.400</td>
<td>2.170</td>
<td>2.096</td>
</tr>
<tr>
<td>1996-97</td>
<td>1.500</td>
<td>1.500</td>
<td>1.956</td>
<td>1.880</td>
</tr>
<tr>
<td>Total</td>
<td>30.478</td>
<td>26.278</td>
<td>24.172</td>
<td>23.920</td>
</tr>
</tbody>
</table>

Source: Government of India, Ministry of Industry.

[^5]: Includes Rs. 5 billion received from IBRD/IDA.

# Includes Rs. 5 billion received from IDA.

The table 2.5 provides a snapshot of the budgetary allocation, the actual amounts transferred to public account and expenditure incurred on both NRF and VRS and also the number of VRS optees who were covered by NRF.

Table No. 3.2: VRS optees in Public sector industries in India

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of VRS optees</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total no. of VRS</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: The Ministry of Heavy and Public Enterprises, 2007

[^5]: The point to be noted here is that the data is till 1999 for the sole reason that NRF was abolished in mid 2000s thus the data is updated.
The table 3.2 depicts the number of VRS optees and the total number of persons who have been given VRS in reality. This data is available only till the year 2007 in the annual report 2007 of Ministry of Heavy Industries and Public sector enterprises. But only in the annual report of 2012-13 one can find as per the available information that about 6.18 lakh employees opted for Voluntary Retirement Scheme (VRS) during the period beginning with 1988 till 31.3.2012.

Miscellaneous efforts by government which complemented the exit policy are discussed further. Main effort of the Government has set up Inter Ministerial Working Group headed by J.L. Bajaj, Advisor in the Planning Commission, to review the structural adjustment scenario. The committee members were drawn from Ministries of Labour, Industry, Company Law Affairs and Finance and Economists. It recommended sweeping changes in the Companies Act of 1956, Industrial Disputes Act, 1947, and Sickness Industrial Companies Act (Special Provisions) 1985. Based on the review and recommendations of the group, the Government has formulated the exit policy to facilitate adjustment by industrial firms and initiate steps to this end taking into account the need for adequate safeguards for workers programmes for redeployment and retraining and appropriate compensation wherever necessary. This exit policy tops the list of Industry Associations and Chambers of Commerce. But they object to the use of the term ‘exit’ which has negative implications for labour. However, they support that it should be rephrased as ‘Redeployment Policy’ or ‘Industrial restructuring’.

The New Industrial Policy announced in July 1991 also seeks to strengthen forces of technological change and modernization with the objective of making Indian industry efficient and internationally competitive. The new technologies being adopted will have two effects:
• The Displacement Effect.
• The Diversion Effect.

The first refers to the reduction in the labour unit required and the second refers to the alteration in the character of skills required for the job. With the change-over to the new technologies meant for higher productivity, exit policy will become operational directly or indirectly. In a restricted sense exit policy implies streamlining of industrial enterprise which does not yield adequate return to the capital employed. It is feared that this streamlining is bound to result in large-scale retrenchment of surplus labour.

The main objection that can be raised against labour adjustment policy is large-scale retrenchment and impoverishment. Therefore, certain suggestions can be made to ease transition. They can be on the following lines:

• When there is fall in labour productivity and capital efficiency in the large scale sector, investment incentives and retraining programme will help smooth transition.

• The devaluation measure initiated by the Government of India will keep up exports from Indian industry constantly maintaining demand for labour.

• Identification of areas of industry with high cost of production, under utilization of capacity, etc., to make necessary adjustments.

• Increasing Research and Development and training support.

• Further the various incentives given by the NTC and KSRTC to ease the burden of this transition can be emulated. NTC has offered looms at subsidized rates to the workers under the VRS package. They are also offered
sheds for housing the looms and marketing facilities to sell their productions.

Similarly Road transport firms- KSRTC have offered buses to the employees under the VRS.

With the financial crisis hitting the Indian economy, government was fast enough to take concrete steps (fiscal reforms) to deal with the economy. Government along with monetary help designed to stimulate the economy. In the first place, it has increased their planned expenditure; secondly it decreased the ad valorum Central VAT rate to encourage spending; thirdly government took measures to boost housing sector which is an important source of employment; fourthly government facilitated refinance facility of 7000 crore for SIDBI which provide funding facility to MSME’s and fifthly government took measures with regard to textiles and infrastructural projects. All these were meant, not only to restructure the economy but also to create jobs to offset the job losses in the public sector.

Sick Industries Companies Act (SICA) was amended to make mandatory the referral of sick Public enterprises to BIFR, NRF provided safety to workers who were affected by restructuring of industries.

India’s productivity growth is likely to slow even more substantially in 2013 to 2.9 percent, down from 3.7 percent in 2012, as output growth drops below 5 percent. Critical macroeconomic constraints, notably persistent high inflation despite hikes in interest rates, reduce the prospect for a rapid recovery in demand. With slow demand and abundant labor supply, businesses find it more difficult to achieve productivity gains through investment and greater efficiency.

The over manning has two dimensions, viz., the surplus even with the existing technology employed by the enterprises and the surplus that will emerge if the
existing technology is replaced by modern technology. Business today has estimated that 1.8 million of the total of over 10 million government staff, including administrative staff and workers in departmental undertakings (like railways, telecom, etc.) is excess. A study by the Textile Ministry (1995) had estimated that there were 80,000 surplus workers in the National Textile Corporation (44 percent of total employment). According to R.C. Datta (1996) use of obsolete technology causes very high labour costs. For example, if the textile industry uses modern technology, about 15 million employees in this industry would be rendered excess. The Economic survey (2012) by Pranab Mukherji on “Less jobs on offer”, shows that Labour growth has slowed down in both public and private organized sectors, the Economic Survey has revealed. Just 15% of the total labour force has regular salaried jobs. While employment in the public sector grew at just 0.4% between 2010 and 2009 as compared to 0.7% between 2009-2008, private sector employment grew at 4.5% as compared to 5.1%. Job creation remains a massive problem.

The specific suggestions for making adjustment at industry level include:

- Identification of redundancy skill-wise.

To ease adjustment and strengthen NRF, the following may be considered.

- Large scale enterprises should be made to contribute to NRF. So that adequate funds are available whenever restructuring is contemplated.

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47 opcit., Rao AVVSK
• For immediate restructuring, large enterprises should (a) float equity in the capital market, and (b) use NRF for labour restructuring. The units should reimburse the Fund after a stipulated period.

• In case of sick units, which are referred to BIFR, NRF can be partly utilized to upgrade the skills of workers.

The Federation of Industry can play a vital role in making the exit policy smooth by initiating certain measures that will have far-reaching effect. They include establishment of –

- Employees Rehabilitation Centers;
- Industrial Councils for Retraining Workers for Specific Skills;
- Retraining Centers for Workers in SSI sector.

Scheme of Counseling, Retraining and Redeployment (CRR) at Central Public Sector Undertakings (CPSUs)

The objective and scope of the scheme is to provide opportunities of counseling, retraining and redeployment to the rationalized employees of Central Public Sector Enterprises (CPSEs) rendered redundant as a result of modernization, technology upgradation and manpower restructuring in the Central PSEs. It consists of three main elements:-

• Counseling: is the basic pre-requisite of the rehabilitation programme of the displaced employees. The displaced employees need psychological counseling to absorb the trauma suffered by them due loss of job and the resulting challenges both for himself and for the members of his family. He needs to be made aware of
the new market opportunities so that he may, depending upon his aptitude and expertise, take up suitable economic activities.

- **Retraining:** is to help the rationalized employees in rehabilitation. The trainees will be helped to acquire necessary skills/expertise/orientation to start new activities and re-enter the productive process after loss of their jobs.

- **Redeployment:** of such rationalized employees in the production process through the counseling and retraining efforts. At the end of the programme they should be able to engage themselves in alternate vocations of self-employment. Whereas there cannot be any guarantee that the rationalized employee will be assured of alternate employment, yet possible help from the identified nodal training agencies as well as from the concerned Central Public Sector Undertakings (CPSUs) would be extended to them for starting new avocations.

The scheme was introduced by the Department of Public Enterprises (DPEs) and has been assigned the responsibility of implementing the scheme through its CRR Cell. For carrying out various activities for implementation of the CRR Scheme, many Nodal Training Agencies have been set up which have several Employees Assistance Centers located all over the country to meet the training needs under the Scheme.
Table No 3.3: Number of persons trained under CRR scheme

<table>
<thead>
<tr>
<th>Year</th>
<th>No of persons trained</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>8064</td>
</tr>
<tr>
<td>2002-03</td>
<td>12066</td>
</tr>
<tr>
<td>2003-04</td>
<td>12134</td>
</tr>
<tr>
<td>2004-05</td>
<td>28003</td>
</tr>
<tr>
<td>2005-06</td>
<td>32158</td>
</tr>
<tr>
<td>2006-07</td>
<td>34398</td>
</tr>
<tr>
<td>2007-08</td>
<td>9728</td>
</tr>
<tr>
<td>2008-09</td>
<td>9772</td>
</tr>
<tr>
<td>2009-10</td>
<td>7400</td>
</tr>
<tr>
<td>2010-11</td>
<td>9265</td>
</tr>
<tr>
<td>2011-12</td>
<td>9400</td>
</tr>
<tr>
<td>Total</td>
<td>172388</td>
</tr>
</tbody>
</table>

Source: Annual Report of Ministry of Public Sector Enterprises 2012-13

In the year 2011-12, a plan fund of Rs 890 crore was allocated for CRR scheme. As per the above table no 3.3, a total of 1, 72,388 numbers of persons have been trained under the scheme since 2001-02 till 2011-12.

But real challenge before the government is to provide alternative job opportunities to the workers rendered unemployed due to industrial restructuring. Redeployment of retrained workers would be a very difficult proposition in the face of the acute unemployment problem in the country. A large number of skilled, semi-skilled and unskilled persons are already moving about in search of jobs. Under these
circumstances, how can displaced workers be sure of finding an alternative job? In this context, it would be relevant to quote from a study of VRS conducted in Durgapur (2000)\textsuperscript{48}, a relatively new industrial area in West Bengal dominated by the leftist trade unions. The study observes that “the workers in the organized sector have largely been coerced to accept the early separation scheme (i.e., the voluntary retirement scheme). The compensation that the workers received has been poor. Again, a sizeable section of the retired workers had specific commitments in the areas of non-productive expenditure that they had to honor out of the meager fund that they received after retirement. The residual has been inadequate for starting a self-employment venture in the informal sector. There is no sign of new jobs being created following the unemployed, thus enhancing the social cost of the structural adjustment programme in India”.

ARGUMENTS AGAINST EXIT POLICY AND APPREHENSIONS

Integration with world markets implies competitiveness at international standards. The Indian manufacturing industry has grown by using more capital and more labour with hardly any increase in productivity. Ahluwalia (1990) has shown that the labour productivity increase of about 2.2 percent per annum is at the cost of 5 per cent per annum increase in the capital-labour ratio. Structural reforms have to aim at reducing capital and labour cost per unit value of goods and services. The emphasis on reduction in unit labour costs invariably involves rationalization of employment and employees. This figure is likely to be between four million and eight million jobs-largely in the public sector. Roy estimates additional

unemployment of about forty-two million persons by 1995 that would add to the existing number (Roy, 1991, pp: 5).

Various reports in the media quoting responsible authorities have indicated that a sum of U.S. $500 million is available from the World Bank on soft terms to provide a safety net for displaced employees. If the terms on which profit-making private enterprises are considered have negotiated separations as the norm, this amount can at best provide relief to about 60,000 employees. The surplus number in the public sector (managers and workers) on the basis of efficiency norms of competitiveness of unit employee costs are more than ten times this. So unless this figure is floating only for 50 of the 98 chronically sick public sector units there is something wrong either with the arithmetic or the logic of surplus identification on economic criteria in sick and healthy units. The resistance to employment restructuring in public enterprises is not from unionized employees only. Sustaining the bogey that unionized employees resist employment restructuring, public sector managers are refusing to look at managerial surpluses, work norms and work flow and productivity of human resource.

The application of a uniform, widely respected set of rules and procedures is probably neither feasible nor desirable in India because the differences across industries, regions and forms of organization and employment result in arrangements that have the sanction of motivational and financial expediency reinforced by convenience and clout. There are no established linkages between economic and non-economic factors to blend the notion of social justice with the justifiability, if not the imperative, of market forces as an instrument for better growth and distributive impulses in the economy. The disparities between employment security for the huge unorganized work force and the tiny organized one are glaring. Society as a whole is
disadvantaged by protection designed to benefit the economy. Limitations on hiring and firing have limited both (Mathur, 1989). On the basis of a study of 35 industries, Fallon and Lucas (1991) have asserted that employment security regulations have caused a 17.5 percent reduction in employment in India.

There is growing apprehension that the Exit Policy will aggravate the unemployment situation in the country and social unrest and poverty will move up beyond manageable levels. Logically, this apprehension is totally unfounded. It is true that the job needs in a particular sector may be few. However, the spin-off effect of such a capital intensive as opposed to labour intensive production system is that it unfolds endless job opportunities in upstream and downstream activities. More jobs will be tracing the labour force in the ancillary and service sectors. The aggregate labour demand will be far in excess of that experienced under the traditional production system. The apprehension of large-scale job cuts is therefore unwarranted and illusory. The Exit Policy, thus, merits a fair trial in the Indian context.

The Indian Textile industry was typically labour intensive and the technology outmoded. It has to accommodate a large number of redundant labors. Consequently, the performance of the industry was not on desirable lines. It was forced to modernize and survive. It was also forced to induct high-tech operational system to come out of isolation. The need for Exit Policy was felt for the first time in this sector. It also visualized the need for rehabilitation of the unskilled workers in the event of modernization of textile units.

The Textile Policy 1985 provided the basic framework for the setting up of the “Textile Workers’ Rehabilitation Fund”. More than Rs.75 crore has been disbursed to the textile workers from this fund. Taking clue from the successful operation of
this fund, the government has set up the National Renewal Fund. The Budget proposals for 1992-93 have earmarked a sum of Rs. 1, 000 crore to facilitate effective rehabilitation of the replaced workers through various re-training/re-deployment schemes. It is reiterated here that the scope of this fund be enhanced largely to make the rehabilitation programme a success and through that to provide the Exit Policy a meaningful content.

Unfortunately, many State Governments have adopted a lukewarm policy as regards Section 25 (0) of the Industrial Regulation Act 1956. Some State Governments, have, however, moved in the right direction. The Exit Policy affects the workers, industrialists, the government and the society\(^{49}\). An ongoing dialogue among these participants is initiated in order to evolve a consensus that provides a meaningful existence to this policy and maintains industrial harmony.

TOWARDS A VIABLE EXIT POLICY

The contours of a viable National policy on labour exit must involve:

- That ‘exit policy’ be viewed in the larger context of economic restructuring with special reference to industrial restructuring. This may imply exit of capital or exit of labour or both. For this, the concept of ‘industry’ merits fresh definition, so that the scope and coverage of employment security is unambiguous, yet not universal to embrace any and every activity as at present.

- That the impact of restructuring on those yet to be employed or working in vulnerable forms of paid work must be assessed and the question of ‘safety

net’ not be restricted to the visible and vocal minority constituting organized labour. This would also involve the strengthening of basic needs programmes, investments in infrastructure and investments that increase the scope of access to the monetized economy for those at the fringes or outside it.

- That in specific industries where a number of firms face a common set of adverse circumstances, marginal firms be eliminated and capacity downscaled. Since this involves explicit and implicit bargains among interest groups, there is need to establish norms and cost and time frames associated with restructuring, to liberate capital and labour in a satisfying way acceptable to the parties.

- That the management of enterprises be left to enterprises (private and public) with a floor minimum of statutory separation benefits, predetermined. There is a good case for trebling the floor minimum statutory separation benefit straightaway (i.e. to 45 day’s wages for every year of service). At the revised level, the figure would be at the lower end of the current bargaining range and so does not necessarily mean any real increase in cost to the employer in actual practice. Yet it would smoothen the process by raising the floor to within the bargaining zone where employers and employees do reach agreements 50.

There need be no government subsidy in separation payments by profit-making firms reducing their demand for labour, because the payback period of typical separation payments is less than two years and represents a higher rate of return to

such firms than many other forms of business investment. The funding of separating payments would be best left to individual firms. In the case of public enterprise, withdrawal of government funding can create the impetus to rationalize employment requirements commensurate with business far more easily than sweeteners from outside the firm - the incidence of which has to be borne by the general public in one form or the other. If the government chooses to increase the exit purse in public enterprises under social security assumptions typical of developed nations, the price may also have to be paid in the private sector with adverse effects on investment and employment growth.

SUMMARY

This chapter has attempted to examine the various contours of labour Downsizing in the context of Structural adjustment and economic reforms in the country. The very process of creating labour market flexibility, has taken the form of Labour Exit policy. The concept rationale and the mechanisms of Exit Policy like VRS and NRF are considered to understand the entire structure of Labour downsizing. The impact of economic as well as industrial restructuring on employment has been traced. The apprehensions and the limitations of Exit Policy are highlighted. Based on all these analyses, a few policy measures towards a more viable exit policy are suggested. In brief, this chapter has laid the foundations for reasonable understanding of Labour downsizing in Karnataka.