CHAPTER – 6
ECONOMIC REFORMS AND ITS EFFECT ON TRADE UNIONS

In the year 1980 the world economy was hit by sky rocketing oil prices, record high level interest rates and collapse of many primary commodity prices. In this hostile environment, many developing countries experienced acute balance of payment problems which were generally accompanied by high government budget deficits and inflation. This led them rely on assistance from the International Monetary Fund (IMF) and the World Bank in the forms of loans\(^1\). Some of these loans carry certain conditionalities in respect of trade and price policies, the size and structure of the government expenditure and the extent of government controls on productions. Hence the structural adjustment programmes (SAP) in most of the developing countries raised as a result of economic crisis in the late 1970 and early 1980.

India after independence adopted the philosophy of welfare state. This resulted in enacting a series of labour legislations in order to provide protection and justice to the working class which was weak and defenseless. Hence the state assumed an interventionist role in industrial relations and it continues to hold the same position even after many changes have taken place in the industrial system\(^2\).

But in recent times several changes took place particularly with regard to world trade and industrial relations and Indian economy had been in a bad shape. It has been witnessing a high rate of inflation, decelerated industrial production, fiscal indiscipline, a very high ratio of (internal and

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1 Ginneken W.V. Wabar Adjustment in the public sector policy issues for developing countries in international labour review, Vol.129, No.4, 1990.
2 Samuel Masilamani, Economic Reforms and Trade Unions in India, Friedrich Ebert Stiftung, 1995, Page 35
external) borrowing to the GNP and a dismally low level of foreign exchange reserves.³

The first phase of economic liberalization in India in 1980 with SDR 5 billion loan from the international monetary fund. The loan was conditional on an adjustment programme that militated against the growth of the public sector and increased the leverage of the foreign sector.⁴ As a result of these conditions the government liberalized import regulated price controls, deregulated industrial production oriented industrialization towards export markets and toned down budgetary support for the public sector.

The package of economic reforms includes both stabilization and structural adjustment while the stabilization policy is intended to establish internal and external balances by compressing domestic demand through reduction in public expenditure and subsidies and indirectly through devaluation of currency, monitoring policy etc. Structural adjustment policy aims promoting market led growth through privatization, trade liberalization, deregulation, disinvestment of public sector undertaking and soon. The main objectives are to promote economic efficiency and to make India to fit in the global economy.

The responses and effect on the structural adjustment programme vary from country to country depending upon socio-economic structures, political – administrative aspects, in most African and Latin American countries, policy changes occurred due to continued economic crisis because of weaknesses in the early policy on management and pressure exerted by creditor countries, commercial banks, international financial

⁴ Samuel Masilamani, Economic Reforms and Trade Unions in India; Fried Rick Ebert Stif Tung.
agencies and transnational corporations while on the 1980s the South East Asian countries were among the first to adopt these changes Sri Lanka had even a late entrant to the policies of structural perhaps the external and internal factors have made them realize that while isolation might be an attractive cause, integration into global economy is necessary\(^5\). Important elements that are involved in economic reforms are (1) liberalization (2) privatization and (3) globalization.

### 6.1 Liberalization

The word liberalization is ill defined and unfortunately prone to multiple interpretations. The most common connotation of the term, when used in the context of economic policy is that of reducing government regulation of economic activity and the space of state intervention (except in all important matters of quarter in private property rights) and allowing for unfettered operation of market forces in determining economic process\(^6\).

Beginning from mid-eighties it was being realized that the country needs to open up its industrial sector not only internally but also to the outside world. A process of liberalization was initiated from 1985 onwards, culminating into the formulation of two industrial policies. One in 1980 and then in 1991. The 1991 industrial policy opened many more avenues for private sector by removing regulations, scrapping Monopolies Restrictive Trade Practices Act (MRTP) limits and decreasing the role of public sector by allowing part equity sale along with curtaining the industries in their exclusive domain.

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\(^5\) Samuel Maslamani Economic Reforms and Trade Unions in India, 1995, p. 35.

Liberalization includes new fiscal and trade policies which would enable easier and less costly because of the reduction of the customers duties, import of technology and other components. Liberalisation also includes easing of trade restrictions which would result in attracting multinationals to invert and setup industries in India.

The process of liberalization, which was initiated in the early nineties of the last century, was not wilfully accepted course for the country. The decision to introduce this economic liberalization brought when the country was witnessing a worst economic crisis in its history. One of the features of liberalization is the entry of foreign direct investment in several sectors of economy.

Important feature of liberalization is removal of ‘License Raj’ which did not permit the private sector to establish industries of their own choice. Now there is no need to visit ministers and departments for licenses. Another feature of liberalization is the easing of import restrictions. Many among the private sector, may think of upgrading technology at a reduced cost. Another feature is the removal of MRTP which would enable private sector to grow in size in the place of public sector.

6.2 Privatization

In a narrow sense, privatization implies the intention of private ownership in publicly owned enterprise but in a broader sense, it connotes besides private ownership (or even without change of ownership) the induction of private management and control in the public sector enterprises.

Privatization is one of the major elements of the structural adjustment process gaining on in most parts of the world. As many 50
countries both developed and developing, opted for privatization of state owned enterprises between 1980 and 1987. Argentina, for example, launched a major privatization programme that included the sale of its telephone monopoly, national airline, and petrochemical company for more than $2.1 billion.

Private sector is considered to be a perfect amalgamation of all virtues and public sector as an example of inefficiency and corruption. However public sector does have its advantages as well – it stabilizes employment and reduces economic dependency on foreign capital. Public sector contributes to social equity as it provides to social services to the poor, through the role it plays in the labour market. For instance Andhra Pradesh State Road Corporation serves fourteen million people a day and provides concessions to many sections of the society even though the organization sustains in loss.

Each country may have its own rationale behind adopting privatization as a national goal. The privatization actually originated in the U.K in 1979 and spread to other developed and developing economies during 1980s while declining growth rates, raising unemployment, increasing inflation and decline in investments lead to privatization in most of the industrial countries, the acute debt crisis in most of the developing countries forced them to resort to the structural adjustment programme including privatization. In most of the developing countries it amounted discouragement among trade unions due to loss of jobs in the name of technology upgradation and flexible wage policy.

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7 Samuel Masilamani, Economic Reforms and Trade Unions in India, Friedrich Ebert Stiftung, 1995, p.49
8 Samuel Masilamani, Economic Reforms and Trade Unions in India, Friedrich Ebert Stiftung, 1995, p.49
In India, the concept of privatization is the recent development that came in July 1991. Privatization of public sector enterprises was initiated at the behest of the World Bank and international monetary fund. In order to lower India’s budget deficit to the level of required and to get financial support from the IMF, Indian government opted to dispose of 20 percent equity shares of selected PSE to mutual funds, financial institutions, workers and public.

There are various perspectives regarding the privatization issue. According to privatization supporters, this shift from public to private management is so profound that it will produce a monopoly of significant improvements boasting the efficiency and quality of remaining care to the indigent or extend education to poor or making disabled children to get educated.

According to third perspective, the issue is not simply whether ownership is private or public. Rather, the key question is under what conditions will managers be more likely to act in the public interest. Despite the criterions India went ahead with partial disinvestment of about 8 percent shares in 30 PSUs during January 1992 – March 1993 Divestiture of shares worth Rs.5000 crores during the 15 month period also establishes the governmental commitment to privatization.

In Andhra Pradesh the government identified 5 public sector undertakings as loss making units i.e., Andhra Pradesh Road Transport Corporation (APSRTC), AP Housing Corporation, A.P.State Electricity Boards (APSEB), Singareni Calories and Hyderabad Allwyn Ltd. The intention of government is to privatize the above large enterprises though there was no support from the public.

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9 Samuel Masilamani, “Economic Reforms and Trade unions in India”, 1995, p.50
As against it, the private sector has the image of exploitative efficiency. Very few firms in the private sector provide better working conditions, assure reasonable pay scales and retirement benefits. Obviously workers shudder at very idea of privatization. On the other hand it is equally true that work ethics in the public sector is at a low when compared to workers working in the private sector and workers take undue advantage of security of service enjoyed by them. The promotional policy only pays lip sympathy to merit-cum-seniority principle. While trade unions have been resisting privatization of the public sector, they are guilty of not permitting the use of a policy of incentives for the efficient workers and of disincentives for the recalcitrants.10

Critics of wide spread privatization contended that private ownership does not necessarily translate into improved efficiency. Moreover they agree that private sector managers may have no feeling of guilt about adopting profit making strategies or corporate practices that make essential services unaffordable or unavailable to large segments of population. A profit seeking operation may not, for example, choose to provide health resisted the privatization programme due to loss of employment decreased quality of working conditions, declining union power and collective bargaining.

a) Trade unions views on privatization and disinvestments

The following views have been expressed by trade union on privatization.11

Trade unions consider privatization will promote employers’ interests. The trade unions claim that private sector cannot guarantee that it

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10 Rudder Dutt, Indian Economy, S.Chand and Company Ltd., 2005, Page 245
11 Samuel Masilamani, Economic Reforms and Trade Unions in India, Friedrich Ebert Stiftung, 1995, p. 52
will be always productive and contribute positively to the economy of the country. Quoting reliable data, unions agree that there are 2.5 lakh sick private sector units which owed banks 7705 crores. Labour experts feel that trade unions are concerned about privatization due to fears about job loss and potential adverse effects on the dynamics of trade unions and their rights.

The All India Trade Union Congress (AITUC) opposes total privatization. They cite examples of banks and mills which are doing very well in the past nationalization phase as compared to pre-nationalisation period.

The destructive economic policies imposed under the pressure of multinational corporations, IMF, World Bank, WTO, Asian Development Bank and the domestic monopoly under the present policies apart from selling the Public Sector undertakings to the international monopolies at throwaway prices, not only the banks and insurance companies but even the very basis of our national security the defence production units are being privatized.

INTUC is unhappy about the emphasis given to privatization because that indicates that the public sector undertaking is inefficient and private sector is efficient. According to INTUC, the labour factor accounts only two percent for industrial sickness other factors being mismanagement, siphoning of funds, non-availability of raw materials, erratic power supply etc. it opposes exit policy and demands an employment policy. The INTUC feels that the government should come up with a clear cut policy on disinvestment.

The BMS does not categorize any kind of ownership – public, private, MNC, joint sector, workers cooperatives as ideal ownership. Any mode of ownership which could bring results is acceptable to the BMS.

The HMS opposed privatization because it would have an adverse effect on social investment such as in education, health and other public service areas.

The CITU opposes both privatization and disinvestment and it views both as two sides of the same coin. The trade union leaders of CITU are of the opinion these new tools of economic reforms liberalization, privatization and globalization would make the society as a capitalist society where the proletariat have nothing to do.

The TUCC that is against the privatization proves and feels that the government does not want to have any responsibility towards people and society. Privatization would neither lead to competitions nor would the prices be fixed by market forces. Infact it would only lead to joint forces of capitalists operating which would increase exploitation at the hands of capitalists.

b) **Privatization and its implications**

The BMS precisely listed the implications of privatization such as

(a) Increase in evasion of labour laws.
(b) No respect for trade union rights.
(c) Employment would shrink drastically
(d) Private sector would not enter into long term projects hence the absence of long term employment.
(e) Working conditions would be poor and exploitative.
(f) Work load of works would increase.
(g) Safety, health, training of employees and pollution control mechanisms would remain neglected dimensions.

All the national unions including AITUC, INTUC, CITU, TUCC feel that privatization of PSU would lead to loss of jobs in the organized sector with no new jobs being created. This can lead to social tensions.

However there is not enough evidence to suggest that privatization would destroy jobs. In India, experts have suggested that there might be reduction in employment in the short run but in the long run they have assured that more employment opportunities would be generated. Reducing employment to a small extent for the viability of a unit is better than closing down the unit after a little while. The experiments of privatization in Mexico show that through privatization did cause some decline in employment in the short run, employment levels rose very quickly in most companies.\(^{13}\)

The main reason for embarking on privatization is that old economic policies are not working any more and there are countries where adoption of privatization has led to economic growth.

However in several countries unions have raised gains, as in Indonesia and the former USSR where the rights to organize collective bargaining and rights to strike have been restricted / denied not only in public services but also in public utilities. But with privatization, the restraints have been generally removed. Trade unions, however maintain, that such improvement in workers rights notwithstanding in practice they find it more difficult to exercise these rights in private sector than in the public sector, particularly in the developing countries.

\(^{13}\) Samuel Masilamani, Economic Reforms and Trade Unions in India, Friedrich Ebert Stiftung, 1995, p. 55
The HMS, CITU and TUC are against privatization. The INTUC and AITUC say that in principle they are not against to privatization but they are against to blanket approach to privatization. The BMS views that it has no particular ideology about the ownership of the organization. Any form of ownership which can bring progress to the country is welcome.\textsuperscript{14}

6.3 Globalization

Globalization refers to a world in which cultures, politics and economies in some sense come closer together. The concept can be defined as the intensification of worldwide social relations which link distinct localities in such a way that local happenings are shaped by events occurring many miles away and vice-versa.\textsuperscript{15} Globalization can also be described in terms of growing economic interdependence and cross-border linkages that increasingly connect countries worldwide, rapid advances in transport, communication and information technologies have facilitated the globalization process. Shifts in economic thinking policy and the behavioural economic agents have also contributed to increase opening and globalization. Both trade liberalization and the role of transnational corporations and financial institutions in increasing pace of capital mobility have provided a further contribution to the globalization process. By removing administrative barriers to the international movement of goods and capital, domestic and international liberalizational policies alike have been essential to globalization.

After the globalization of Indian economy there has been reduction in employment generation in organized sector. Only in private sector the rates of employment generation has been increased, but the sector has only 31% volume of employment in the total employment in organized sector.

\textsuperscript{14} Ibid p.106
So the major part of employment (69%) related in public sector and the employment generation in this sector have been very low. Another feature of globalization is that it will reduce domestic production because, now have no compulsion to produce the things of our uses, we can get these without producing by importing which is comparatively cheaper than to produce domestic things and due to globalization we are becoming more consumers than producers, therefore small productive activities create small employment opportunities. Therefore the impact of globalization on employment generation in Indian organized sector particularly on public sector affected negatively with regard to employment generation in India.

Globalization, liberalization and privatization taken together is a package programme with the following features (a) lifting up restrictions on trade and finance, as much as possible (b) to ensure market as rational and fair allocation of goods and services (c) privatization of banks, insurance and other government undertakings as much as possible (d) International institutions playing the role of defacto government in new imperial age (e) Scraping up environmental regulations in developing countries of the world. (f) Globality as a part of planetary ecology (g) Globality upholding competition, economies and the role of the invisible hand. (h) Gradual state impotence in the face of the global economy. (i) Transitional culture flows and their effect on life style. Having such wide and diverse analysis of presentation it is quite obvious that the effects of globalization will also cover a broad area of social, ecological and economic conditions of the globalised nations.

In 1991 Indian Economy underwent a major breakthrough in terms of globalization through an economic reforms package. With regard to trade unions economic reforms in Indian economy is a controversial and

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16 IBID, p.215
well debated issue. There are strong arguments both in support and against it.

In India economic reforms were launched in 1991. The main tool of economic reforms are liberalization, privatization and globalization “if we reject the concept of India as a welfare state, then the two aspects of liberalization and privatization, may be justified. But the third word of economic reforms globalization is very unjustified for Indian Economy. Unemployment is major problem of Indian economy and it is the root cause of many problems like poverty, illness, illiteracy, high birth rate and high death rate. Downsizing the workforce is main object involved in the economic reforms. Hence economic reforms known as LPG (Liberalization, Privatization, Globalization) is a setback for the development of trade unions.

6.4 EXIT Policy

EXIT policy is another aspect associated with economic reforms. EXIT Policy includes attractive investment allowing exit of employees and evolving appropriate mechanisms to protect the interest of labour. Thus, to grow into vibrant economy it is necessary to have suitable provisions and mechanisms for closing down business and redeploying assets and man power. However it is equally true that such exit mechanisms have to include provisions for protection of the people affected by restructuring.

Foreign investment and Multinationals

The increasing size and power of multinational companies (MNCs) posses a greater and greater threat to trade unions and governments. The

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transfer of manufacturing to foreign locations (often exploiting workers in low wages in countries where rights to organize are denied) is recognized as a cause of economic instability and redundancy\textsuperscript{19}.

The MNC would prove threat to the Indian companies because they will have to compete with then in terms of quality and costs. Some of Indian industrial units may, therefore be forced to close down. These multinational corporations pressurising Indian government to amend the labour laws particularly Chapter V B of the Industrial Disputes Act 1947 about the provisions regarding closure and retrenchment which are beneficial to workers.

The rise of multinational trade unions was inevitable with the advent of multinational corporations. In the industrialized countries over a century, the trade union movement has built up a countervailing force with efficiency checks and balances the once arbitrary power of employer\textsuperscript{20}.

**Delicensing and the MRTP Act**

Delicensing of most the industries and amendments to remove the threshold limits of assets in respect of MRTP companies and dominant undertakings. Since the licensing policy of the government was considered to be one of the major obstacles to the growth of Indian industries as well as the entry of multinationals, the measure was welcomed by almost all trade unions, however, feel the licensing policy of the government helped in investing areas which were crucial for the country along with locating them the backward rural areas\textsuperscript{21}.

\textsuperscript{19} Trade Union Studies presented by Britain, Published by BBC, 1975, p.72.


In the above circumstances trade unions have to change their attitude redefining their role, be more productive by seriously pressing the cause of productivity with the labour and getting less politicized. The new economic scenario has also given the trade unions an opportunity to units, not to put the wheels of industry and the nation to a grinding halt, but to act in a more constructive manner.

6.5 New Economic Policy (NEP) & trade unions

The aspect of NEP came out during the second spell of Indira Gandhi in early eighties and the signs of NEP slowly visible in later part of eighties under Rajiv Gandhi. But a full-fledged NEP emerged soon after P.V.Narasimha Rao took over prime minister ship in 1991. The agenda of the two major political parties viz, the Congress and the Bharathiya Janatha Party have shown a very large consensus about economic reforms. Janata Dal, Communist Party of India (CPI), CPI(M), though indicated some shades of difference, have also accepted the reform package. Some of the regional parties like DMK, AIDMK, Samatha Party, Samajwadi Party, the Rashtriya Janata Dal also accepted who needs foreign capital to undertake investments in their respective states. In nutshell, it may be pointed out that a consensus has been achieved in the country to introduce and implement economic reforms so as to accelerate the process of development.

“Economic reforms are bound to bring in their wake modernization of industries through technology upgradation. Introduction of new technologies does, of course, entail description of employment structure. This may cause job losses in modernizing enterprise, through they may be expansion of job opportunities elsewhere because of growth of the economy and fresh investments. But fresh investments bring results only

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22 Ruddar Dutt, Indian Economy, S.Chand and Company Ltd., 2005, Page 249
with a time-lag\textsuperscript{23}. The period of transition to economic growth is indeed a harsh period.

Introduction of new economic reforms bring severe effect with regard to employment opportunities apart from job losses which results in reduction in membership of trade unions. Other economic consequences that followed are sharp devolution linked to the dollar, export orientation, imports liberalization, Foreign Exchange Regulation Act, 1973 (FERA) made ineffective, near full abolition of industrial licensing, virtual cancellation of MRTP Act opening to Foreign Direct Investments (FDI) upto 49\% and even upto 100\% in certain export corporations allowed to invest in small scale industries, revision of definition of SSIs. No budgetary support for public sector units, disinvestment of PSUs, opening up the core sector hither to reserved for public sector to the private sector. Privatization of existing PSUs in power, telecom etc, Exit policy and NR Fund; dependence on Foreign loans and investments”. These are the main components of NEP\textsuperscript{24}. Among all the above components privatization of PSUs and Exit policy has a greater effect on trade unions which are already feeble unions. The above characteristics of NEP changed the very role of trade unions and nature of trade unions which are known as political trade unions.

The general vision of economical reforms are as follows\textsuperscript{25}

1. A higher rate of growth
2. An enlargement of employment potential leading to full employment.
3. Reduction of population living below the poverty line.

\textsuperscript{23} P.A.Sangma Minister for labour Government of India, National Tripartite Workshop on Economic Reforms Employment and Poverty in India, New Delhi 1-2 Sept 1994 – pp.43-120
\textsuperscript{24} AITUC Education Series – 1, Evolution of wage structure, New Economic Policy AITUC Pub. P.2
\textsuperscript{25} Ruddar Datt, Indian Economy, S.Chand Company Ltd., 2005. p.249
4. Promotion of equity leading to a better deal for the poor and less well-off sections of our society and

5. Reduction of regional disparities between the rich and the poor states of India.

The package of economic reforms includes both (1) stabilization policy and (2) structural adjustment policy. While stabilization policy is intended to establish internal and external balances by compressing domestic demand through reduction in public expenditure and subsidies and indirectly through devaluation of monetary policy etc. Structural adjustment policy aims at promoting market led growth through privatization, trade liberalisation, deregularisation disinvestment of public sector undertaking and so on. The main objectives are to promote economic efficiency through decregulation and integration of the Indian economy with the global economy\textsuperscript{26}.

The above passage makes clear that the stabilization and structural adjustment programme aims at integration of Indian economy with global economy, the immediate consequences and reflections are much adverse to the trade unions particularly a country like India. Privatization and introduction of multinational corporation in one way or other way suppress the freedom because they reduce work force and replace technology in the workers. But the views of the government either in developing countries or in developed countries are for the economic prosperity of the community at a large or development of all sections of the society is more important than the welfare of the workers who comprises small section of the society. Besides there is a pressure from International financial organizations such as World Bank and International Monetary Fund to implement economic

\textsuperscript{26} T.Haque, D.P..A Naidu, Impact of economic liberalization on Rural Workers in India, ILO Pub. 1999 p.5.
reforms even though economic reforms are disadvantageous to trade unions.

The response and effect on structural adjustment programme vary from country to country depending upon Socio-Economic structures, political administrative aspects, the severity of crisis, the intensity of foreign resources and the interplay of the contending groups. In most African and Latin American countries, policy changes occurred due to continued economic crisis because of the weaknesses in the early policy on management and pressure extended by creditor countries, commercial banks international financial agencies and transnational corporation\(^{27}\).

As a consequence of all these factors and as a reaction to the inefficient working of the state owned enterprise, the wave of privatization spread not only in India but all over the world.

Privatization is one of the major elements of the structural adjustment process going on in most parts of the world. As many 50 countries both developed and developing, voted for privatization of the important elements that involved in economic reforms are (1) privatization (2) liberalization (3) globalization. Privatization is general process of involving the private sector in the ownership or operation of state owned enterprise. Thus the term refers to private purchase of all or part of PSEs. The major problems faced by public sector -

1. In socialist economies working under a command system of management, little initiative was left with the managers of public enterprises. In developing countries like India with a large public sector, freedom for decision making by the managing directors was

extremely limited. They had to depend on ministers, ministries in other words the political masters, consequently, inordinate delays resulting in inefficiencies.

2. Pricing policies in public sector enterprise are not guided by rational economic consideration. Social and political constraints compel public enterprises to charge uneconomic prices resulting in loses. This is the position specially in PSEs covering to infrastructure like power, irrigation, public transport, supply of milk etc.

State owned enterprises between 1980 to 1987 in Argentina, for example, launched a major privatization programme that included the sale of its telephone monopoly, national airline and petro chemical company for more than 2.1 billion28.

6.6 Structural Adjustment Programme (SAP) and its implications for labour in India

The structural adjustment programme is defined as an adoption to change in the environment. The term structural relates to any that is not short-term structural adjustment refers to changes in macroeconomic policies appropriate to enable the enterprises to compete in an internationally competitive environment29. Therefore every country has to adopt this structural re-organization failing which there will be no economic development in the country and the country will go back in the competition along with others in the global World. Therefore every country even though it faces some agitations by workers and left parties has to adopt this structural methods for the maximum happiness of the maximum people.

28 Samuel Masilamani, Economic Reforms and Trade Unions in India, Friedrich Ebert Stiftung, 1995, p.49
Structural adjustment programme consists of

(a) Privatization of PSUs
(b) Automatic devaluation of rupee.
(c) Opening of the Economy fully to extend trade for foreign investments even in services and elitists consumer items.
(d) Tax concessions Tariff reductions cut in subsidies.
(e) Opening up even SSI to foreign entry.
(f) Giving up state intervention to welfare measures and minimizing the role of state in health and education etc.

An ILO document describes structural adjustment as not a development objective in itself, like meeting basic needs or alleviating poverty. It is a means by which those development goals can be reached in an environment which keeps changing all the time.

In India, SAP has two aims. One to reduce twin deficits on balance payment and on the state budget and two for the structural change of the economy in the area of trade, Industry, foreign investments, public sector and other financial sectors among others. So as to transform into a market friendly system and to accelerate the globalization process. Amongst the financial reforms the World Bank proposed that India should go in for reforms regarding dt regulation, import liberalization and incentives to foreign capital exit policy etc. meet to be implemented.

Effects on poverty and unemployment

Poverty and unemployment go hand in hand because poverty is associated with unemployment. With implementation of economic reforms serious consequences would arise. Therefore serious efforts need to be made to promote job oriented plans. Serious adverse repercussions will be

faced by labour unless social security measures like unemployment, insurance based on tripartite contributions are also introduced.

The above development in relation to economic reforms leads to increase in poverty, unemployment and flexible employment particularly during the short term workforce, reduction drives in both public and private sectors, which results in reduction in the size of labour force in the already thin organized sector where about 26 million or less than 9% of the total work force in the country. In the former East Germany on the eve of unification and the transition that followed, one out of every three jobs was reportedly lost. In some of the major industries which got restructured or privatized in the U.K during Margaret Thatcher’s period jobs were lost, such industries included coal and steel, among others, when Japanese National Railways was privatized, nearly 3 lakh workers were declared surplus.

A Bombay based trade union research group estimated an average decline in full-time, permanent employment in 34 firms in Bombay at about 20.5% between 1980 and 1990.

Another study (Sarat 1992) of six industries – Tea (West Bengal) Textiles (West Bengal) Power (Andhra Pradesh) Ports (All ports) Engineering (West Bengal and Andhra Pradesh) and Chemicals and Pharmaceuticals (Maharashtra) pointed to a decline in full time employment and unionization rates during the 1980s. The study also pointed to a rise in the incidence of casual and contract Employment.¹³

Trade unions are very much effected not only by rise in unemployment but also with current restructuring process. Labour

displacement due to structural adjustment programme will result in a shift in employment and most of the workers working in formal sector were displaced into informal sector where there is little protection and labour laws cannot be implemented properly against those working in informal sector besides there will be no union activities to fight for wages and working conditions.

Economic reorganization or structural adjustment programme resulted in enhancement of poverty, unemployment and flexible employment in which regular employment or permanent employment would be deteriorated year by year. The percentage of regular employment will be reduced and flexible employment such as outsourcing contractual workers, part time workers, casual worker and home workers would be increased. Figure-1 summarizes the new employment relations not only in developed countries but also in developing countries. Therefore we may conclude that flexible employment relations are the order of the day which has a greater impact on the strength of the trade unions.

Figure 1: New Employment Relations in the developed and developing countries
At the center are the regular employees whose number is dwindling as a consequence of adjustment measures. These are the legally adequately protected employees. The second level consist of employees covered by triangular or trilateral arrangements. Compared to the regular employees, these types of workers generally do not enjoy security of tenure. And at the third or outer most levels are the other types of bilateral employment relations. These consists of home workers, workers in a boundary system, part-time workers, commission-paid workers, contractual workers, casual employees and other similar employee groups. Compared to the regular work force and those in a triangular or trilateral arrangement, they are the most legally inadequately protected employees.

A study of labour markets and structural adjustment in 12 developing countries (Horton et.al., 1951) drew there major conclusions.
(a) Firstly real wages are more flexible than is generally supposed, which suggests that labour markets are not a source of rigidity impending adjustment.
(b) Secondly, in response to structural adjustment, labour has moved in the direction opposite to that usually associated with economic development, it has shifted back into agriculture, out of manufacturing and out of public sector.
(c) Thirdly, recession plus adjustment have also resulted in an increase in informalisation, greater use of casual labour, decreased worker benefits, and decline in wages differentials for skill and possibility for education\(^{32}\).

If we examine above conclusions labour in some countries welcomed structural adjustment programme and become part and parcel of economic reforms.

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In some countries, labour because of increase in unemployment they shifted from manufacturing sector to agricultural sector where there will be no participation to the labour.

In some countries there was an adverse effect on jobs and increase in unemployment which gave rise to casual and contract labour.

**Approaches to SAP and its implications to labour**

The various views regarding approaches to SAP that structural adjustment is an essential part of the process of economic growth. In development countries it has even subsumed in the broader concept of structural change. It primarily implies the changing importance and role of different elements and sectors of the economy in the process of development. There are two approaches to SAP. According to one approach, the SAP takes place due to the interplay of market forces of demand and supply. The second approach views that SAP is brought on the basis of conscious and deliberate policy measures adopted mainly on the macro-economic front.

**6.13 SAP and its implications for labour**

The new economic policy and structural adjustment programme greatly affects the interests of labour and trade unions issues such as (a) changes in labour policy (b) employment implications (c) technology upgradation and modernization (d) closure of unviable sick units (e) labour adjustment and (f) privatization.

**33. Changes in Labour Policy**

Independent India adopted the philosophy of welfare state and safeguard the interests of the weaker sections of the society. The labour

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33 Samuel Masilamani, Economic Reforms and Trade Unions in India, Friedrich Ebert Stiftung, 1995, Page 6
was being considered as one of the weaker sections of the society. The Government enacted series of labour legislations to protect the labour from exploitation by the employers. Therefore the state made intervention role for implementation of labour legislations.

As “Johari points out” Industrial Policy in India has moved towards strike regulation while industrial relations policy has become increasingly soft. Softer industrial relations mean there shall not rigid legal framework which obstructs the normal growth and functioning of the industry.

(b) Employment implications

The outcome of reforms and industrial restructuring is retrenchment or loss of employment. “An estimated 4.17 lakh workers are employed in 58 chronically sick units in the central public sector which were initially identified for closure.”

(c) Technology upgradation and competition:

In the past, when new technologies have replaced workers in a given sector, new sectors have always emerged to absorb the displaced laborers. Today, all three of the traditional sectors of the economy agriculture, manufacturing and service are experiencing technological displacements, forcing millions onto the unemployment rolls.

With the introduction of technical upgradation trade unions feel instead of benefits, trade unions receive messages of retrenchment, reductions in tenured employment and worsening contractual conditions.

This of course means that even the trusted bonds with their own constituencies have suffered\(^\text{36}\).

(d) **Closure of unviable sick units**

In order to give effect to Exit policy one of the aspects of economic reforms, the government announced that the chronically sick public sector units would be referred to board for industrial and financial reconstruction (BIFR). On its recommendation many such units would be closed down and a social security package would be created to protect the interests of retrenched workers. Accordingly government identified perennially sick public sector undertakings.

“The economic survey data has been highlighting that about 100 public sector units have been incurring loses and 58 of them have been perennially sick. According to the reliable estimates about 3.5 lakh workers will be retrenched if the perennially sick public sector units are closed down” The trade unions are against this closure and retrenchment\(^\text{37}\).

(e) **Privatization**

Privatization is one of the major elements of the structural adjustment process gaining on in most parts of the world. In India, the concept of privatization is the recent development that came in the nineties. The trade unions oppose the privatization on the ground that the implications of privatization would effect the working conditions of workers, such as there will be increase in hours of work and there will be no job security.


(f) **Labour Adjustment Programme**

ILO defines work force adjustment as dismissal or long-term lay-off of one or more workers for reasons of an economic, structural or technical characters, intended to reduce the number of workers employed in an undertaking or to alter composition of the workforce\(^{38}\). Privatization is an integral part of the SAP which leads to erosion of wages and employment security. All the above factors are adverse to the interests of the labour which ultimately weaken the trade unions.

### 6.7 SAP and Constitution of India

Many people including trade unions criticize that the structural adjustment programme is unconstitutional.

The preamble to our constitution as amended envisages India to be “a Sovereign Socialist Secular democratic Republic” the reforms call for a transition that gives primary to market economy principles\(^{39}\).

We inserted the word socialist in the preamble to our Constitution by 42 amendment Act1976 and accepted the ideals of socialism and social Justice such as (a) to remove economic unequal irises (b) to provide a decent standard of living to the working people (c) to protect the interests of the weaker sections of the society. Article 39 (b) and (c) direct the state to secure “ that the ownership and control of the material resources of the community are so distributed as best to sub serve the common good and “ that the operation of economic system does not result in the concentration of wealth and means of production to the common detriment”. Now the Questions to be asked are whether the changes that are brought by SAP sub serve the common good and whether the resulting concentration of wealth

\(^{38}\) Samuel Masilamani, Economic Reforms and Trade Unions in India, Friedrich Ebert Stiftung, 1995, Page 87

and means of production would result in common detriment? For above questions we would not get adequate answers.

The effects of economic reforms on labour
1. In coming years, as the labour market gets flooded with 10 million more unemployed, the trade unions would find it difficult to mitigate the adverse consequences of the structural changes.
2. Workers on a large scale will be retrenched and no trade union action will enable them to find new jobs. The unions would lose their credibility to some extent.
3. Trade unions would hardly able to pinpoint the spare resources for job creation as they would go into profit making production.
4. Unions would continuously fail in preventing the control of industries by a handful of industrial groups.
5. Trade unions would be forced to cooperate with the managements to tide over various crisis.
6. While some big trade unions would fight with their backs to the wall, the smaller unions would fadeout in the long run.
7. The employment perspective will be for the trade unions, the foremost point in their actions.
8. Trade unions find it most difficult to organize unions in nearly established industries, their hands been full with problems.
9. Private industries with imported would prefer to have company unions passing a challenge to the trade union movement.
10. More unions will be freed from political dominance.
11. The big trade unions in their efforts to survive will seek more efficient interdependent system of functioning.
12. Keeping in view the emphasis on work culture, the trade unions will be modifying their internal working order more and more services of the outsiders will be incorporated in their day to day functioning.
13. Trade unions will be seeking protection more through contractual obligations than from industrial disputes act.

14. The grand idea of participation in management will die its natural death. The managements of new modern industries would keep the workers organizations at an arms length.

15. The workers in general would turn a deaf ear to the voice of the trade unions.

16. Trade unions will have no alternative but to have one center of labour, thus ending, all the multiplicity of unions.

6.8 New Trends in collecting Bargaining

The emerging field situation disturbs the existing equilibrium in the power relations between unions and management. Employer militancy in the place of workers militancy disturbed and also the balance between trade unions and management. Privalisation and restructuring affect the collective bargaining structures, union membership base and consequently the representative character of the union⁴⁰. Venkata Ratnam argues that the focus on the survival and competitiveness of enterprises before the demands of employees and union will be a characteristic of all firms both private and public, which are serious about bringing the adjustment process⁴¹. Therefore all the firms give priority to the company survival instead of the workers legitimate demands. In this new situation unions would have to fight with mightier opponents like the MNCs who are experts in bargaining and negotiation. This indicates that the unions might lose bargaining power.

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⁴¹ Ibid, p.56
Major changes seen in the collective bargaining process as a result of privatization are loss of collective bargaining power, in some cases individual contracts in place of union management contract.

As a result of privatization there will be greater decentralization of collective bargaining, resulting from the break-up of huge public corporations in several companies. It has been observed that trade unions agree that collective bargaining would require a different shape in te course of privatization.

6.9 Responses of trade unions to NEP/SAP

It is found that except the INTUC which does not openly oppose the NEP, all the other trade unions have shown their opposition to NEP. Venkat Ratnam opines that early indications about the response of the trade unions in India are along expected line. Trade unions belonging to all colours and federations have been one in voicing their opposition to the proposed changes. Bakshi analyzing the trends of trade unions responses in 1991, predicted that the next few months would witness acid tests for the government which will have to come to terms with the labour force all over the country following decisions of major unions to launch nation-wide strike in protest against the budget and particularly the Central Government move to liberalize the industrial policy.42

It was the general trend of the all trade unions in India to oppose economic reforms such as liberalization, privatization and globalization because of retrenchments, unemployment problems even though trade unions know economic reforms are inevitable not in India but also in the entire world. The strategy of trade union may be postponement of economic reforms so they can stand for some time.

42 Economic Reforms and Trade Unions in India. Page 15 Samuel Masilama
The early response of the trade unions to the NEP was that of absolute rejection.

Although in 1991 it was found that all the trade unions opposed the NEP, a report published in 1993 talks of the changing attitudes and responses of trade unions. One notices in recent months some change in trade attitudes. Although some scholars feel trade unions in India are weak, the unity which emerged after the reforms initiated changes in the situation.

It is understood because of weak trade unions, the economic reforms initiated by the government have been accepted though they have opposed the reforms. This had enough awareness among all trade unions which led the formation of national campaign committee (NCC). The NCC strived to bring all trade unions at national and state levels. The BMS and INTUC choose to keep out of this joint action committee.

During 1991 the following actions were taken by the sponsoring committee of central trade unions to oppose new economic policy (NEP).
(a) Joint observance of a day of protest on September 6, 1991 against the economic and industrial policies of the government throughout India under the auspices of the NCC.
(b) Convention of public sector trade unions and other federations on September 16, 1991. This convention was held in New Delhi and for the first time some officers organizations also participated in it. The convention gave a call for a country wide campaign top workers and employees public sector undertakings against privatization disinvestment in public sector, lifting of base on wage negotiations and finalization of DA committee report etc. The All India convention of Trade Unions was held in New Delhi on September 17, 1991.
(c) The central strike of November 29, 1991 all the constituents of the sponsoring committee, AITUC, CITU, HMS, UTUC, UTUC(LS), TUCC besides a number of federations in the banking and insurance led the strike.

(d) National protest day on April 2, 1992 to protest against anti-working class policies of government organized by the sponsoring committee of Trade Unions

(e) National convention of public sector textile workers in Indore March 31 to April 2, 1992.

(f) National convention of trade unions on May 10, 1992 in New Delhi to review and discuss the NEP.

(g) All India general strike on June 16, 1992 ‘Road Transport Workers’ All India convention on June 28, 1992 in Pune. Trade Unions national convention in New Delhi on September 13, 1992 organised by the sponsoring committee of trade unions in public sector organizations.

(h) March to parliament on November 25, 1992, the CPSTUS National level two-day seminar in New Delhi on the impact of NEP on the public sector on July 15-16, 1993.

(i) National wide count arrest (Jail Bhavan) on August 19, 1993 organized by the sponsoring committee of trade unions and CPSTU. All India strike Bharat Bandh on September 9, 1993.

(j) All India strike on September 7, 1993 organized by the joint council of trade unions in the steel sector to protest against the proposed privatization of 11 SCO.

(k) National protest week against Dunkel proposals from December 3 to 9, 1993.

(l) All India convention of Textile sector Trade unions at Indore on February 7-8, 1994.
The CITU comments that when the struggles against the economic policies of the government of India took a new turn after the IMF dictated policies, the BMS was not prepared to join the movement against these policies of government as a result of which the functioning of the NCC received a set back\textsuperscript{44}.

The BMS independently organized some protest programmes, these include study classes held in Punjab and Campaign against the MNCs and NEP during July 17-19, 1991, on September 25, 1991, the BMS observed Boycott MNC products Day. Protest rallies held in public places against MNCs, NEP Free market economy etc. Like the BMS INTUC organized campaigns against the NEP on its own but they do not use industrial actions such as strike, dharna etc.

On October 1991, the INTUC sent a letter to the prime minister regarding the setting up a standing tripartite committee to study and assess the impact of the NEP on October 28, 1991, the INTUC led Central Railway Mazdoor Sangh (CRMS) had an agitation against privatization of certain units of Railways and Contractual labour”.

CITU feels that reform measures were not essential. These could have been avoided. There is an alternative to NEP for example India could have managed without loan from the IMF and World Bank. Foreign Exchange is being used for importing consumer goods, luxury items etc. which do not benefit the poor.

6.10 Emerging Challenges before Trade Unions

The combined effect of the harsh macro economic realities external pressures, technological changes and imperatives of enterprises restructuring to restore competitive edge sums to further weaken the

\textsuperscript{44} CITU Report on organization P,2,1993
already weak trade union movement. The declining employment in organized sector further erodes it own narrow base\textsuperscript{45}.

Throughout the 1980s and into the 1990s in most developed economies union membership has declined massively and union leaders and their members have lost their former prominence and place in the policy. Taken together, this amounts to a massive reversal of union fortunes and raises questions about the role, and indeed the future of unions\textsuperscript{46}.

Employer policies to meet challenges emphasise flexibility. The adjustment pressures and strategies for flexibility led to an ascending in managerial rights and created new trends in collective bargaining.

**Strategies for flexibility**

The implications of strategies for flexibility created new trends as follows

a) The ability to reduce or increase employment or wage levels with ease.

b) The ability to increase mobility.

c) The ability to make more elastic use of skills for greater occupational flexibility.

d) The ability to introduce non conventional working arrangements such as part time work, self employment etc.

In order to meet the strategies for flexibility employers seek freedom to retrench employees and they are arguing to remove the clauses concerning notice for lay-offs, closures, retrenchments, etc. with industrial


disputes Act 1947. Some public sector managements are worried, additionally, about the implications of considering public sector as the state (12-A of the constitution) Employers and enterprise managers view flexibility in development of human resources as an effective way to cope with the competitive pressures of technological and other changes.

**Development of low work culture**

This will be another major challenge for trade unions in modern and competitive industrial setup. In order to survive and excel in the changing economic environment the management require introduction and operationalisation of a group philosophy which would on the one hand, lay down the broad parameters of seeking efficiencies and higher productivity for earning satisfactory financial returns and development of leadership and pursuit of knowledge.

Operationalising policies mean introducing performance appraisal for the employees who meet the targets of the company will be encouraged by back up salary increases and promotions. The concept implies entrusting an activity to another person, giving him the right to act, decide and direct with the necessary support.

**6.11 Role of Trade Unions in the present Economic Reforms**

Defining the role of the trade unions in an era of structural adjustment depends on how they perceive their role. Whether they worry about the problem or think about solution. If it is seen as a problem, their tendency could be protest, oppose, impede and resort to industrial actions. If they begin to think about the solution to the problem, they would see for themselves opportunities in the threats that the environment has presented to them.
The role of the union should be clearly defined, and the management and union should constantly interact and prioritise areas of human resource development for workers. This can enhance mutual understanding trust and synergy between them. The focus should be on humanizing the organization and creating a win-win situation for both parties\(^\text{47}\).

The possible role that trade unions could play in the following key areas. Influencing adjustment programmes with human face (b) Proactively responding to technical changes. (c) productivity improvement (d) participation and (e) introspect their role in the changing situation.

Influencing adjustment programmes trade unions have a positive role in influencing the decision making and implementation with respect to each of the major components of the industry, “Trade Unions need to develop database and analytical skill to influence the government and employers in the formulation of effective sectorial policies aimed at restructuring with in the productive sector to strengthen employment and income generating activities and raise productivity of low income activities, focusing in particular on small farmers and informal sector producers in industry and services\(^\text{48}\).”

Recent events and changes in the world economic order portend in that traditional institutions of labour have become somewhat inadequate, if not irrelevant, to deal with the emerging complex issues, perhaps they need to beginning with a neo-institutional orientation to understand and develop new approaches to industry. The role of government, unions and employers in industrial relations have changed significantly\(^\text{49}\).


Trade unions must be in a position to analyse and determine “The impact of the policies towards taxation, government expenditure, foreign exchange and credit (among others) on the distribution of income and resources with a view to secure the priority use of resources to fulfil the needs of weaker sections of the society. Trade unions keep their traditional approach away and have to come with pragmatic action plans to improve their efficiency and make themselves to suit the present atmosphere.

Trade unions should draw up implementable compensatory programmes in areas such as the following for limited periods, with prime consideration for the resources that can be generated or much mode available to minimize the hardship to the affected persons and to vulnerable groups with respect to education, retraining, health, nutrition etc. adjustment policies should from an integral part of a longer term vision and development strategy and as such take into account economic, human, sociological and ecological contexts such national policies require the popular support of all social action including the trade unions. Trade unions should influence and be willing to be influenced to put in place decision and feasible policies.

**Pro-actively respond to technological changes**

Modernisation, productivity improvement and quality improvement become important issues especially with changed economic environment. There is a feeling in India that all unions are against modernization, technology upgradation etc. The reality is entirely different. Except TUCC all unions consider there is a need for continuous technology upgradation and modernization with a condition that it should not lead to loss of employment⁵⁰.

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⁵⁰Samuel Masilamani, Economic Reforms and Trade Unions in India, Friedrich Ebert Stiftung, 1995, p.107
Present reforms compel the modernization and technology upgradation irrespective of unions inclination. The situation demands modernization and technology upgradation in order to meet the competition in the global economy. First five year plan have been directed at maximizing employment and welfare of workers. The seventh five year plan made a subtle shift from the government prime concern for labour when it stated that while maximizing employment generation, requisite attention has to be directed at improvement of labour productivity through the adoption of up-to-date technology in productivity processes in major sectors and corrective measures of industrial sickness (section 5.5 – seventh five year plan)⁵¹. Therefore Trade unions have to change their militant ideology and should become part and parcel of technological world.

**Productivity improvement**

Productivity improvement is a major concern. The question is not about labour productivity but of productivity of all resources including capital productivity, managerial productivity etc. when India became an independent nation in 1947 it was among two most industrialized nations in Asia. Today it is at the bottom of the top ten⁵².

Some lessons from the international experience are relevant for the trade unions in view of the new economic policies in India.

The evidence of workers disinterest in the union activities has to be taken as a sure sign of the beginning of de-unionusation. The unions should become homogeneous and convince workers of their utility, through their activities⁵³.

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⁵² Ibid, p.120
⁵³ Ibid, p.176
The trade unions are not able to attract workers because of inter union rivalry and intra union rivalry. The union in our country have become centres for disputes and battles. They are not fighting for bread and butter but they are interested in attributing their political ideologies on the workers. That is why some neutral workers who do not like politics keep themselves away from the trade union.

Trade unions cannot afford to deviate from being democratic organizations. Leaders at all levels must be democratically elected and workers (members) must have a say in the decision making process.

Trade unions are not in a position to follow democratic principles because the key decision such as declaring strike, staging protests are being taken by the officers of the trade union besides that the influence of outsiders will be too much rather than the workers who actually engaged in the industries. In the new environment the economic compulsions will be all the more important. The law should, on the one hand, make strike and lock out more difficult and on the other, ensure justified action against the erring party. There is also an impression that strikes do not represent the consent of workers, if that is so, a strike should only be allowed legally after seeking their consent. The experience of democratic policy should serve us and each strike should be preceded by a ballot and only with the consent of half of the workforce54.

In the changing environment the need for consultation and cooperation is more than industrial actions such as strike and lock out etc. Present reforms demand that the management philosophy and principles are based on consent and consensus to share management philosophy and principle in order to suit the present situation.

The unions should form a confederation such as in Australia, Japan, Sweden etc. In Australia there is an Australian trade union congress (ACTU). In Japan there is a Japan Trade union congress (RENGO), In Sweden there is a Swedish Trade Union confederation (L.O) are more effective, since they strive always for the welfare of the worker in all aspects.

Trade unions should keep links with political parties but they should not adopt their ideology. Even though keeping links with political parties and keeping away with their ideology is a difficult task but in order to maintain the existence, the trade union have to deal with the things in a careful way.

With regard to outsiders the present economic policies would require the leadership of the unions to gain an in-depth knowledge of their units and outside leaders may not able to find time to gather such knowledge. Now the trade unions require a law which puts restrictions on outsiders.

Unions can play a major development role by focusing on communication, motivation, counselling, education, training, welfare, research, family and vocational guidance. This can enable them to evolve beyond their traditional roles of bargainers, negotiators, agitators, blackmailers and crises-dealers.

Trade unions will have to give up their negative agitational and confrontational approach vis-à-vis managements and engage in more constructive and participatory dialogue with both the government and employers.\(^{55}\)

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